

Chapter 1

Companies (Ind AS) Rules, 2015

I. Companies (Ind AS) Rules, 2015

1.1 Definition of Terms

Term	Definition & Meaning
Accounting Stds	Standards of Accounting, or any addendum thereto for Companies or class of Companies u/r 3
Act	Companies Act, 2013
Annexure	Annexure containing Ind AS appended to these Rules.
Entity	Company incorporated under COA 2013 or under any previous Company law. [Sec.2(20)]
Financial Statements	<p>"Financial Statement" in relation to a Company, includes – [Sec.2(40) COA 2013]</p> <p>(a) a Balance Sheet as at the end of the financial year, (b) a Profit and Loss Account, or in the case of a Company carrying on any activity not for profit, an Income and Expenditure Account for the financial year, (c) Cash Flow Statement for the financial year, (d) a Statement of Changes in Equity, if applicable, and (e) any Explanatory Note annexed to, or forming part of, any document referred to above.</p> <p>Note: The Financial Statement, with respect to One Person Company, Small Company and Dormant Company, may not include the Cash Flow Statement.</p>
Net Worth	<ul style="list-style-type: none"> • "Net Worth" means the aggregate value of the Paid-Up Share Capital and all Reserves created out of the profits and Securities Premium Account, after deducting the aggregate value of the Accumulated Losses, Deferred Expenditure and Miscellaneous Expenditure not written off, as per the audited Balance Sheet. • Net Worth does not include Reserves created out of revaluation of assets, write-back of depreciation and amalgamation. [Sec.2(57) COA 2013]
Comparatives	Comparative Figures for the preceding Accounting Period.
Non-Banking Financial Company	Non-Banking Financial Company u/s 45-I(f) of RBI Act, 1934 and includes Housing Finance Companies, Merchant Banking Companies, Micro Finance Companies, Mutual Benefit Companies, Venture Capital Fund Companies, Stock Broker or Sub-Broker Companies, Nidhi Companies, Chit Companies, Securitisation and Reconstruction Companies, Mortgage Guarantee Companies, Pension Fund Companies, Asset Management Companies and Core Investment Companies.

1.2 Applicability of Companies (Ind AS) Rules, 2015

1. Voluntary Compliance:

- (a) **Option:** Any Company (and its Holding / Subsidiary / JV / Associate Company) may comply with Ind AS for Accounting Periods beginning on or after 01.04.2015.
- (b) **Effect of Voluntary Compliance:**
- **Consistency:** Such Company shall prepare its Financial Statements as per Ind AS **consistently**.
 - **Irrevocable:** Such decision to apply Ind AS voluntarily shall be **irrevocable**.
 - **No need for Existing AS:** Such Cos. need **not** prepare another set of Financial Statements as per existing AS.

2. Mandatory Compliance:

	Companies required to comply	w.e.f
A	(i) Companies whose Equity / Debt Securities are listed or are in the process of being listed on any Stock Exchange in India or outside India, and having Net Worth \geq ₹500 Crores, (ii) Any other Companies having Net Worth \geq ₹500 Crores, (iii) Holding, Subsidiary, Joint Venture or Associate Companies of above.	Accounting Period starting on 01.04.2016
B	(i) Companies whose Equity / Debt Securities are listed or are in the process of being listed on any Stock Exchange in India or outside India, and having Net Worth $<$ ₹500 Crores, (ii) Unlisted Companies having Net Worth \geq ₹250 Crores but $<$ ₹500 Crores. (iii) Holding, Subsidiary, Joint Venture or Associate Companies of above.	01.04.2017

	Companies required to comply	w.e.f
C	(i) NBFCs having Net Worth \geq ₹500 Crore, and its Holding, Subsidiary, Joint Venture or Associate Companies (ii) Holding, Subsidiary, Joint Venture or Associate Companies of Scheduled Commercial Banks (excluding RRBs)	01.04.2018
D	(i) NBFCs whose Equity / Debt Securities are listed or in the process of listing on any Stock Exchange in India or outside India, and having Net Worth $<$ ₹500 Crore, (ii) Unlisted NBFCs, having Net Worth \geq ₹250 Crore but $<$ ₹500 Crore, (iii) Holding, Subsidiary, Joint Venture Or Associate Companies of above.	01.04.2019

3. **Period of Applicability:** Company which satisfies the above conditions for the first time at the end of an Accounting Year shall apply Ind AS from the immediate next Accounting Year. **Example:** A Company which satisfies the above conditions on 31.03.2018 shall apply Ind AS for Financial Year 2018–2019 onwards.

4. **Non–Applicability:**

- (a) Companies other than above shall comply with Existing AS specified in **Annexure** to the Companies (AS) Rules, 2006.
- (b) Mandatory Compliance **not** applicable to Companies whose Securities are listed or are in the process of being listed on –
 - SME Exchange as referred to in Chapter XB, or
 - Institutional Trading Platform without IPO as per Chapter XC
 of SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009
- (c) **Banking Companies and Insurance Companies** shall apply the Ind ASs as notified by RBI and IRDA respectively. An Insurer or Insurance Company shall however, provide Ind AS compliant Financial Statement Data for the purposes of preparation of Consolidated Financial Statements by its Parent or Investor or Venturer, as required by the Parent or Investor or Venturer to comply with the AS Rules.

5. **Net Worth:**

Company	Net Worth means Net Worth as per
Companies which are in existence on 31.03.2014, or NBFCs which are in existence on 31.03.2016	<ul style="list-style-type: none"> • Stand–alone Fin. Statements as on 31.03.2014/2016, or • First Audited Financial Statements for Accounting Period which ends after that date.
Companies which are not in existence on 31.03.2014 or NBFCs which are in existence on 31.03.2016 or an Existing Company falling under above conditions for the first time after such date	First Audited Financial Statements ending after that date in respect of which it satisfies the condition.

6. **Stand–alone and Consolidated FS:** Standards once required to be complied with, shall apply to **both** Stand Alone and Consolidated Financial Statements.

7. **Consistency:** Once a Company starts following Ind AS, it shall be required to follow Ind AS for all the subsequent Financial Statements, even if does not satisfy any of the above conditions subsequently.

8. **Overseas Entities:**

Overseas Subsidiary, Associate, Joint Venture of an Indian Company	(a) It may prepare its Standalone Financial Statements as per the requirements of the specific jurisdiction. (b) The Indian Company shall prepare its Consolidated Financial Statements as per Ind–AS, if it satisfies the applicability conditions.
Indian Subsidiary, Associate, Joint Venture of Foreign Company	If it satisfies the applicability conditions, it shall prepare its Financial Statements as per Ind–AS.

9. **Consolidation in certain cases:** If in a Group of Companies, some Entities apply existing AS and others apply Ind–AS, in such cases, for the purpose of individual Financial Statements, the Entities should apply respective standards applicable to them. For Consolidated Financial Statements (CFS), the following conditions are to be followed –

Situation	Duties
(a) NBFC is a Parent (at ultimate level or at intermediate level), and prepares CFS as per existing AS, and (b) Its Subsidiaries, Associates and JVs, are covered by Category (A)/(B) of Point 2, or voluntarily apply Ind–AS	Subsidiaries, Associates and JVs, have to provide relevant Financial Statement data as per the accounting policies followed by the Parent Company for consolidation purposes (until the NBFC itself is required to apply Ind–AS).
(a) Parent is covered by Category (A)/(B) of Point 2, or voluntarily apply Ind–AS, and (b) Parent has a NBFC Subsidiary, Associate or Joint Venture	Parent has to prepare Ind AS–compliant CFS. The NBFC Subsidiary/ Associate / JV has to provide the relevant Financial Statement data as per the accounting policies followed by the Parent Company for consolidation purposes (until the NBFC itself is required to apply Ind–AS)

Question:

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List out the entities which were covered under Phase I & II under the Companies (Indian Accounting Standards) Rules 2015 as notified by the MCA along with the specific date of coverage with its exclusions, if any

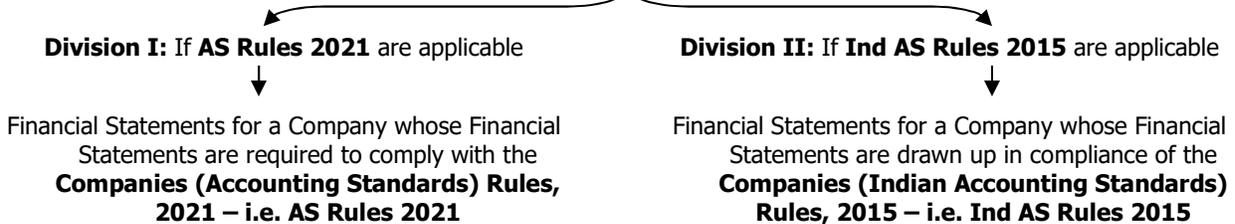
Hint Answer:

Refer Principles in 1.1

2. Format of Financial Statements under Schedule III

2.1 General Instructions under Schedule III

1. **AS and Ind AS:** Schedule III has two divisions, as under –



Note: References herein to AS /Ind AS, are to be understood as – **AS** for Division I, and **Ind AS** for Division II.

Division II: Every Company to which Ind AS apply, shall prepare its Financial Statements in accordance with Schedule III or with such modification as may be required under certain circumstances.

2. **AS/Ind AS vs Schedule III:**

Where compliance with the requirements of the Act including AS / Ind AS as applicable to the Companies, require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head/sub-head or any changes inter se, in the Financial Statements or Statements forming part thereof, the same shall be made and the requirements of the Schedule III shall stand modified accordingly.

3. **Schedule III to supplement AS:**

- The Disclosure Requirements specified in Schedule III are in addition to and not in substitution of the Disclosure Requirements specified in the AS / Ind AS.
- Additional Disclosures specified in the AS / Ind AS shall be made in the Notes to Accounts or by way of Additional Statement, unless required to be disclosed on the face of the Financial Statements.
- Similarly, all other disclosures as required by the Companies Act shall be made in the Notes to Accounts in addition to the requirements set out in this Schedule.

4. **Notes to Accounts:** Notes to Accounts shall contain information in addition to that presented in the Financial Statements and shall provide where required –

- narrative descriptions or dis-aggregations of items recognized in those Statements, and
- information about items that do not qualify for recognition in those Statements.

Each item on the face of the Balance Sheet and Statement of P&L (and Statement of Changes in Equity for Division II Cos.) shall be cross-referenced to any related information in the Notes to Accounts. In preparing the Financial Statements including the Notes to Accounts, a balance shall be maintained between providing excessive detail that may not assist users of Financial Statements and not providing important information as a result of too much aggregation.

5. **Rounding-Off:**

Depending upon the Turnover of the Company, the figures appearing in the Financial Statements (FS) shall be rounded off as below. Once a unit of measurement is used, it should be used uniformly in the FS.

Turnover	Rounding off
< ₹100 Crores	To the nearest Hundreds, Thousands, Lakhs or Millions, or Decimals thereof
≥ ₹100 Crores	To the nearest, Lakhs, Millions or Crores, or Decimals thereof

6. **Comparatives:**

Except in the case of the first Financial Statements laid before the Company (after its incorporation), the Corresponding Amounts (Comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including Notes shall also be given.

7. **Definition of Terms:**

Terms	Description
Current & Non-Current Assets	<p>Current Assets: An Asset shall classified as Current when it satisfies any of the following criteria –</p> <ul style="list-style-type: none"> (a) It is expected to be realized in, or is intended for sale or consumption in the Company's normal Operating Cycle, (b) It is held primarily for the purpose of being traded, (c) It is expected to be realized within 12 months after the Reporting Date / Period, (d) It is Cash or Cash Equivalent unless it is restricted from being exchanged or used to settle a Liability for atleast 12 months after the Reporting Date. <p>Non-Current Assets: All other Assets shall be classified as Non-Current.</p>
Current Liability & Non-Current Liabilities	<p>Current Liabilities: A Liability shall classified as Current when it satisfies any of the following –</p> <ul style="list-style-type: none"> (a) It is expected to be settled in the Company's normal Operating Cycle, (b) It is held primarily for the purpose of being traded, (c) It is due to be settled within 12 months after the Reporting Date / Period, or (d) The Company does not have an unconditional right to defer settlement of the Liability for atleast 12 months after the reporting date (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.) <p>Non-Current Liabilities: All other Liabilities shall be classified as Non-Current.</p>
Operating Cycle (OC)	An Operating Cycle is the time between the Acquisition of Assets for processing & their realization in Cash or Cash Equivalents. Where the Normal Operating Cycle cannot be identified, it is assumed to have duration of 12 months.
Trade Receivable / Payable (TR / TP)	<ul style="list-style-type: none"> • A Receivable shall be classified as a Trade Receivable, if it is in respect of the amount due on account of Goods Sold or Services Rendered in the normal course of Business. • A Payable shall be classified as a Trade Payable, if it is in respect of the amount due on account of Goods Purchased or Services Received in the Normal Course of Business.
Other Terms	For the purpose of this Schedule, the terms used herein shall be as per the applicable AS / Ind AS.

8. **Nature of Disclosure Requirements:**

- (a) Schedule III sets out the **minimum requirements** for disclosure on the face of the Balance Sheet, the Statement of Profit and Loss, and Notes.
- (b) **Line Items, Sub-Line Items and Sub-Totals** shall be presented as an addition or substitution on the face of the Financial Statements, when such presentation is relevant to –
 - an understanding of the Company's Financial Position or Performance, or
 - cater to Industry/sector-specific disclosure requirements, or
 - when required for compliance with the amendments to Companies Act or under AS / Ind AS.
- (c) **Additional Points for Division II (Ind AS) Companies:**
 - Scope of Point (a) above **includes** Statement of Changes in Equity (in addition to B/s, P/L, Notes).
 - Division II Companies shall prepare Cash Flow Statement where applicable, as per the relevant Ind AS.

2.2 Form of Balance Sheet – Division II, Part I – (For Ind AS Cos.)

Name of the Company : Balance Sheet as at : (Rupees in.....)

	Particulars	Note	As at the end of Current Reporting Period	As at the end of the Previous Reporting Period
	1	2	3	4
	ASSETS			
(1)	Non-Current Assets (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			
(2)	Current Assets (a) Inventories (b) Financial Assets (i) Investments (ii) Trade Receivables (iii) Cash & Cash Equivalents (iv) Bank Balances other than (iii) above (v) Loans (v) Others (to be specified) (c) Current Tax Assets (Net) (d) Other Current Assets			
	TOTAL ASSETS			
	EQUITY AND LIABILITIES			
	EQUITY (a) Equity Share Capital (b) Other Equity			
(1)	LIABILITIES Non-Current Liabilities (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)	Current Liabilities (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			

Statement of Changes in Equity (for Ind AS Companies only)

Name of the Company : **Statement of Changes in Equity for the period ended** (Rupees in.....)

A. Equity Share Capital

Balance at the beginning of the Reporting Period	Changes in Equity Share Capital during the year	Balance at the end of the Reporting Period

B. Other Equity:

Particulars	Information to be provided in 14 Columns, see Note 2 below.														
Balance at the beginning of the Reporting Period															
Add/Less: Changes in Accounting Policy or Prior Period Errors															
Restated Balance at the beginning of the Reporting Period															
Add/Less: Total Comprehensive Income for the year															
Dividends															
Transfer to Retained Earnings															
Any other Change (to be specified)															
Balance at the End of the Reporting Period															

Note 1: Re-measurement of Defined Benefit Plans and Fair Value Changes relating to Own Credit Risk of Financial Liabilities designated at Fair Value through Profit or Loss shall be recognised as a part of Retained Earnings with separate disclosure of such items along with the relevant amounts in the Notes.

Note 2: Information / Amounts to be presented for the following items separately in 14 Columns –

1. Share Application Money Pending Allotment
2. Equity Component of Compound Financial Instruments
3. Capital Reserve
4. Securities Premium Reserve
5. Other Reserves (specify nature)
6. Retained Earnings
7. Debt Instruments through Other Comprehensive Income
8. Equity Instruments through Other Comprehensive Income
9. Effective Portion of Cash Flow Hedges
10. Revaluation Surplus
11. Exchange Differences on translating the Financial Statements of a Foreign Operation
12. Other Items of Other Comprehensive Income (specify nature)
13. Money received against Share Warrants
14. Total

2.3 Form of Statement of Profit & Loss–Division II, Part II (For Ind AS Cos.)

Name of the Company :

Statement of Profit and Loss for the year ended : (Rupees in.....)

	Particulars	Note No.	Figs for Current Reporting Period	Figs for Previous Reporting Period
I	Revenue from Operations		XXX	XXX
II	Other Income		XXX	XXX
III	Total Revenue (I + II)		XXX	XXX
IV	Expenses:			
	Cost of Materials Consumed		XXX	XXX
	Purchases of Stock–In–Trade		XXX	XXX
	Changes in Inventories of Finished Goods, Stock–In–Trade&WIP		XXX	XXX
	Employee Benefits Expense			
	Finance Costs			
	Depreciation and Amortization Expense			
	Other Expenses			
	Total Expenses		XXX	XXX

	Particulars	Note No.	Figs for Current Reporting Period	Figs for Previous Reporting Period
V	Profit/(Loss) before Exceptional Items & Tax (III–IV)		XXX	XXX
VI	Exceptional Items		XXX	XXX
VII	Profit/(Loss) before Tax (V –VI)		XXX	XXX
VIII	Tax Expense: (1) Current Tax (2) Deferred Tax		XXX XXX	XXX XXX
IX	Profit/(Loss) for the period from Continuing Operations (VII–VIII)		XXX	XXX
X	Profit / (Loss) from Discontinued Operations		XXX	XXX
XI	Tax Expense of Discontinued Operations		XXX	XXX
XII	Profit/(Loss) from Discontinued Operations (After Tax) (X–XI)		XXX	XXX
XIII	Profit / (Loss) for the period (IX + XII)		XXX	XXX
XIV	Other Comprehensive Income: A (i) Items that will not be re-classified to Profit or Loss (ii) Income Tax relating to Items that will not be re-classified to Profit or Loss B (i) Items that will be re-classified to Profit or Loss (ii) Income Tax relating to Items that will be re-classified to Profit or Loss		XXX XXX XXX XXX	XXX XXX XXX XXX
XV	Total Comprehensive Income for the period (XIII + XIV) (comprising Profit (Loss) & Other Comprehensive Income)		XXX	XXX
XVI	Earnings per Equity Share (for Continuing Operation): (1) Basic (2) Diluted		XXX XXX	XXX XXX
XVI	Earnings per Equity Share (for Discontinued Operation): (1) Basic (2) Diluted		XXX XXX	XXX XXX
XVI	Earnings per Equity Share (for Discontinued & Continuing Operations) (1) Basic (2) Diluted		XXX XXX	XXX XXX

3. Characteristics of Good Financial Statements

In the Indian scenario, the ICAI has been the recognized accounting body issuing generally accepted accounting policies and has made the standards mandatory for enterprises operating within India. Besides Accounting Standards, ICAI has also issued the converged set of Ind AS that is adopted and notified by MCA, and many large entities have already implemented it or are in the transition phase for adoption (depending on the net worth or other specified criteria). The key features to any set of financial statements are:

1. True and fair view	This is the most important feature of any set of financial statements. The user of the financial statements depends fully on the same and hence the reliability factor is supreme.
2. Relevance	The financial statements should provide the relevant information for the period it is presented. There is no point in presenting historical data of past several years that are redundant as of date. The key here is that the user of the financial statements should be in a position to take independent decision after reading the financial statements. This decision can be different for different users – for an investor the decision whether to hold the shares of the enterprise will stem from the set of statements, for a senior employee of the company it can be the future growth prospects of the company etc. But what is important is that the users should be empowered to make decisions through the financial statements.
3. Understand-ability	For the user to make sense, the financial statements should be readable and content lucid to digest. Even a layman should be able to read the same, and understand the basic information, if not the accounting policies and procedures.
4. Consistency	The users of the financial statements will be benefitted only if the statements are released in periodic intervals and in standard formats. Else, the entire purpose of furnishing financials will be defeated. That is the reason that laws are prescribed for presentation formats and periodicity.
5. Regulatory Compliance	Needless to say, the tax authorities, market regulators etc. rely hugely on financial statements to understand and gauge the compliances met by the enterprise.

6. Universality	Financial Statements should be comparable both within the industry and outside. So financial statements by two different companies should look in similar lines if both are engaged in, say, manufacturing steel. Likewise, the financials of a company manufacturing steel in India should be comparable to the set of financial statements of a company based out of US engaged in the similar line of business. The need to have the above key characteristics have brought the accounting bodies world over to come together to have a set of common standards for better integration and harmonization of A/c principles and practices.
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Best Practices – Applicable to All Companies

Following are some of the practices, if followed by the preparers of the financial statements, it would lead to better presentation and disclosure and will also serve the meaningful purpose for various stakeholders in understanding the functioning, financial position and financial performance of the entity and in appropriate decision making:

1. Compliance	Financial reporting is a regulated activity and compliance with the requirements is a must. Comply with the standards and regulations but also ensure the financial statements are an effective part of the wider communication with the stakeholders. It should be simple and understandable without any change in the interpretation.
2. Complete	The information disclosed in the financial statements should be complete and should not lead to any further cross questioning in the mind of the users. Ensure consistency of disclosures across the financial statements. Example: Where the accounting policy states that "Balances of debtors, creditors and loans and advances are subject to reconciliations and confirmations". This indicates that these balances may or may not be appropriately stated as well as raising questions regarding the appropriateness of the audit process.
3. Simple and specific	<ul style="list-style-type: none"> (a) Draft the notes, accounting policies, commentary on more complex areas in simple and plain English. Ensuring that there are no vague or ambiguous notes. (b) Make the policies clear and specific. (c) Ensure that there should not be any vague or ambiguous notes, with no further information or explanation which may lead to misinterpretation of information. (d) Reduce generic disclosures and focus on company specific disclosures that explain how the company applies the policies. [See Example 1 & 2 below]
4. Transparency	In preparation of financial statements many a times certain assumptions, or other bases are taken. Disclose those assumptions and bases transparently, so that they users are not misled. Rather such transparency shall provide useful additional information and substantiate the decision/ judgement.
5. Materiality	<ul style="list-style-type: none"> (a) The lack of clarity in how to apply the concept of materiality is perceived to be one of the main drivers for overloaded financial statements. Make effective use of materiality to enhance the clarity and conciseness of the financial statements. (b) Information should only be disclosed if it is material. It is material if it could influence users' decisions which are based on the financial statements. (c) The materiality assessment is the 'filter' in deciding what information to disclose & what to omit. (d) Once it is determined which specific line items require disclosure, it should be assessed what to disclose about these items, including how much detail to provide and how best to organise the information. [See Example 3 & 4 below]
6. Integration of Notes	<ul style="list-style-type: none"> (a) Notes cover the largest portion of the financial statements. They are an effective tool of communication and have the greatest impact on the effectiveness of the financial statements. (b) Group notes into categories, place the most critical information more prominently or a combination of both. (c) Integrate the main note of a line item with its accounting policy and any relevant key estimates and judgements. (d) Ensuring that the accounting policies are disclosed in one place and not scattered across various notes. For example, in one case it was observed that the policy of recognizing 100% depreciation on assets costing less than 5,000 was specified in the note on fixed assets, rather than in the accounting policy for fixed assets.

7. Disclosure of Material Accounting Policies	<p>(a) The financial statements should disclose material accounting policies. Disclose only material accounting policies – remove non-material disclosures that do not add any value.</p> <p>(b) Disclosures should be relevant, specific to the company and explain how they apply the policies.</p> <p>(c) The aim of accounting policy disclosures is to help the investors and other stakeholders to properly understand the financial statements.</p> <p>(d) Use judgement to determine whether the accounting policies are material, considering not only the materiality of the balances or transactions affected by the policy but also other factors including the nature of the company's operations.</p> <p>(e) Example: Taxable temporary differences arise on certain brands and licenses that were acquired in past business combinations. Management considers that these assets have an indefinite life and are expected to be consumed by use in the business. For these assets deferred tax is recognised using the capital gains tax applicable on sale.</p>
8. Disclosures of Key Estimates and Judgements	<p>(a) Effective disclosures about the most important estimates and judgements enable investors to understand the financial statements.</p> <p>(b) Focus on the most difficult, subjective and complex estimates.</p> <p>(c) Include details of how the estimate was derived, key assumptions involved, the process for reviewing and an analysis of its sensitiveness.</p> <p>(d) Provide sufficient background information on the judgement, explain how the judgement was made and the conclusion reached.</p>
9. Integrated Approach	<p>(a) Financial statements are just one part of the communication with the stakeholders. An annual report typically includes financial statements, a management commentary and information about governance, strategy and business developments, CSR Reporting, Business Responsibility Reporting etc. There is also a growing trend towards integrated reporting.</p> <p>(b) To ensure overall effective communication, consider the annual report as a whole and deliver a consistent and coherent message throughout.</p> <p>(c) Ind AS 1 also acknowledges that one may present, outside the financial statements, a financial review that describes and explains the main features of the company's financial performance and financial position, and the principal uncertainties it faces.</p> <p>(d) Many companies also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant & when employees are regarded as important user group.</p> <p>(e) Even though the reports and statements presented outside financial statements are outside the scope of AS / Ind AS, they are not out of the scope of regulation. Example: CSR disclosures, as required by the Companies Act, 2013 in section 134 and Schedule VII.</p>

Example:

1. Definition of a derivative and a hedged item and how the company uses such items: "A derivative is a type of financial instrument the company uses to manage risk. It is something that derives its value based on an underlying asset. It's generally in the form of a contract between two parties entered into for a fixed period. Underlying variables, such as exchange rates, will cause its value to change over time. A hedge is where the company uses a derivative to manage its underlying exposure. The company's main exposure is to fluctuation in foreign exchange risk. We manage this risk by hedging forex movements, in effecting the boundaries of exchange rate changes to manageable, affordable amounts."
2. A note stated "Land not registered in the name of the company has been given for the use of group companies". However, there are no disclosures regarding such lease elsewhere in the financial statements. This leads to ambiguity regarding whether the land has been capitalized in the books of account or not. A better disclosure would be to include this note in the note relating to 'Property, plant and Equipment' with an asterix against land and a note which states "Land includes area measuring XX acres, towards which the registration process is still in progress. This land has been given on lease to group companies."
3. **Capital Commitments:** A Company has committed to purchase several items of property, plant and equipment. Individually each purchase is immaterial. However, the total amounts to a material commitment for the company and therefore some disclosure should be made regarding this commitment.
4. A Company in the software sector has communicated to its stakeholders a strategic intention to focus its new development efforts in cloud-based solutions. In a particular financial year cloud-based revenues are less than 5% of the total but have grown rapidly. The company therefore decides to provide separate disclosure about this revenue stream in accordance with Ind AS 108 'Operating Segments' even though other revenue streams of similar size are typically combined into 'Other Revenue.'

- Accounting Policy:** Inventories are stated at the lower of cost and Net Realisable Value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. NRV is the estimated selling price in the ordinary course of business less any applicable selling expenses.
- Significant Estimation of Uncertainty:** Management estimates the Net Realisable Values of Inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

4. Practical Illustrations

- D started a New Company S Pvt Ltd with I Ltd, wherein investment of 55% is done by I Ltd and rest by D. Voting powers are to be given as per the proportionate share of capital contribution. The New Company formed was the Subsidiary of I Ltd with two directors, and Deepak eventually becomes one of the directors of the Company. A Consultant was hired and he charged ₹ 30,000 for the incorporation of Company and to do other necessary Statutory Registrations. ₹ 30,000 is to be charged as an Expense in the books after incorporation of Company. The Company, S Pvt Ltd was incorporated on 1st April. The Financials of I Ltd are prepared as per Ind AS. An accountant who was hired at the time of Company's Incorporation, has prepared the draft Financials of S Pvt Ltd For the year ending 31st March –

Statement of Profit and Loss		Balance Sheet		
Particulars	₹	Shareholders Fund		
Revenue from Operations	10,00,000	Share Capital		1,00,000
Other Income	1,00,000	Reserves & Surplus		2,27,500
Total Revenue (A)	11,00,000	Non Current Liabilities	Long Term Provisions	25,000
Expenses:		Current Liabilities	Deferred Tax Liabilities	6,000
Purchase of stock in trade	5,00,000	Trade Payables		11,000
Changes in stock in trade	(50,000)	Other Current Liabilities		45,000
Employee Benefits Expense	1,75,000	Short Term Provisions		1,06,500
Depreciation	30,000	Total		5,21,000
Other expenses	90,000	Non Current Assets	PPE	1,00,000
Total Expenses (B)	7,45,000	Long Term Loans & Adv.		40,000
Profit before tax (C) = (A) – (B)	3,55,000	Other Non Current Assets		50,000
Current tax	1,06,500	Current Assets	Current Investment	30,000
Deferred tax	6,000	Inventories		80,000
Total Tax Expense (D)	1,12,500	Trade Receivables		55,000
Profit for the year (E) = (C) – (D)	2,42,500	Cash and Bank Balances		1,15,000
		Other Current Assets		51,000
		Total		5,21,000

Additional Information of S Pvt Ltd:

- Deferred Tax Liability of ₹ 6,000 is created due to following Difference in Depreciation amount as per Income Tax and Accounting Profit.
- There is only one PPE in the Company, whose closing balance as per – (a) Books – ₹ 1,00,000 & (b) Income Tax – ₹ 80,000.
- Pre Incorporation Expenses are deductible on straight line basis over the period of five years as per Income Tax. However, the same are immediately expensed off in the books.
- Current Tax is calculated at 30% on PBT – ₹ 3,55,000 without doing any adjustments related to Income Tax. The correct Current Tax after doing necessary adjustments of Allowances / Disallowances comes to ₹ 1,25,700.
- After the reporting period, the Directors have recommended Dividend of ₹ 15,000 for the year which has been deducted from Reserves and Surplus. Dividend payable of ₹ 15,000 has been grouped under 'Other Current Liabilities' along with other Financial Liabilities.
- There are 'Government Statutory Dues' amounting to ₹ 15,000 which are grouped under 'Other Current Liabilities'.
- The Capital Advances amounting to ₹ 50,000 are grouped under 'Other Non-Current Assets'.
- Other Current Assets of ₹ 51,000 comprise Interest Receivable from Trade Receivables.
- Current Investment of ₹ 30,000 is in Shares of a Company which was done with the purpose of Trading. Current Investment has been carried at Cost in Financial Statements. Fair Value of Current Investment in this case is ₹ 50,000 as at 31st March.
- Actuarial Gain on Employee Benefit Measurements of ₹ 1,000 has been omitted in the Financials of S Pvt Ltd
- The Financial Statements for Financial Year have not been yet approved.

You are required to ascertain that whether the Financial Statements of S Pvt Ltd are correctly presented as per the applicable Financial Reporting Framework. If not, prepare the Revised Financial Statements of S Pvt Ltd after the careful analysis of facts.

1. Working Notes

Item	Treatment				
1. Ind AS Applicability	(a) If Ind AS is applicable to a Company, then Ind AS shall automatically be made applicable to all the Subsidiaries, Holding Companies, Associated Companies, and Joint Ventures of that Company, irrespective of individual qualification of set of standards on such companies. (b) In this case, since the Financials of I Ltd are prepared as per Ind AS, the results of its Subsidiary S Pvt Ltd should also have been prepared as per Ind AS. However, the Financials of S Pvt Ltd have been presented as per Accounting Standards (AS). (c) Hence, it is necessary to revise the Financial Statements of S Pvt Ltd as per Ind AS after the incorporation of necessary adjustments.				
2. Current Investment	(a) They are held for the purpose of trading. Hence, it is a Financial Asset classified as FVTPL. Any Gain in its Fair Value will be recognised through Profit or Loss. (b) Hence, increase in Fair Value ₹ 20,000 (i.e. 50,000 – 30,000) will be recognised in P&L. However, it will attract Deferred Tax Liability on increased value.				
3. Financial Assets / Liabilities	(a) Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive Cash or another Financial Asset, are not Financial Assets. (b) Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another Entity, are not financial liabilities.				
4. Proposed Dividend	(a) As per Ind AS 10, if dividends are declared after the reporting period but before the Financial Statements are approved for issue, the Dividends are not recognized as a Liability at the end of the Reporting Period because no obligation exists at that time. (b) Such Dividends are disclosed in the Notes in accordance with Ind AS 1.				
5. Other Current Financial Liabilities	Other Current Liabilities as per Financial Statements				45,000
	Less: Dividend declared for the Year				(15,000)
	Less: Reclassification of Government Dues payable to 'Other Current Liabilities'				(15,000)
	Revised Balance of Other Current Liabilities				15,000
6. Deferred Tax on Temporary Differences	Item	Carrying Amount	Tax Base	Difference	DTA / DTL @ 30%
	PPE	1,00,000	80,000	20,000	6,000 – DTL
	Pre-Incorporation Exp	Nil	24,000	24,000	7,200 – DTA
	Current Investment	50,000	30,000	20,000	6,000 – DTL
	Net DTL				4,800 – DTL

2. Statement of Profit & Loss for the Year ended 31st March

Particulars	Note	Current Year	Last Year
Revenue from Operations		10,00,000	
Other Income (1,00,000 + 20,000) WN 2		1,20,000	
Total Income		11,20,000	
Expenses:			
Purchases of Stock-In-Trade		5,00,000	
Changes in Inventories of Finished Goods, Stock-In-Trade & WIP		(50,000)	
Employee Benefits Expense		1,75,000	
Depreciation and Amortization Expense		30,000	
Other Expenses		90,000	
Total Expenses		7,45,000	
Profit/(Loss) before Tax		3,75,000	
Tax Expense:			
(1) Current Tax		1,25,700	
(2) Deferred Tax		4,800	
Profit / (Loss) for the period		2,44,500	
Other Comprehensive Income:			
(i) Items that will not be re-classified to Profit or Loss			
Remeasurements of Net Defined Benefit Plans		1,000	
(ii) Income Tax relating to Items that will not be re-classified to P&L		(300)	
Other Comprehensive Income for the period		700	
Total Comprehensive Income for the period		2,45,200	

3. Balance Sheet as at 31st March

Particulars	₹
ASSETS	
Non Current Assets	
Property, Plant and Equipment	1,00,000
Financial Assets – Other Financial Assets (Long Term Loans and Advances)	40,000
Other Non Current Assets (Capital Advances) (Note 2)	50,000
Current Assets	
Inventories	80,000
Financial Assets	
Investments (30,000 + 20,000) (Note 1)	50,000
Trade Receivables	55,000
Cash and Cash Equivalents / Bank	1,15,000
Other Financial Assets (Interest Receivable from Trade Receivables)	51,000
TOTAL ASSETS	5,41,000
EQUITY AND LIABILITIES	
Equity	
Equity Share Capital	1,00,000
Other Equity	2,45,200
Non Current Liabilities	
Provision (25,000 – 1,000)	24,000
Deferred Tax Liabilities (4800 + 300)	5,100
Current Liabilities	
Financial Liabilities	
Trade Payables	11,000
Other Financial Liabilities (Note 5)	15,000
Other Current Liabilities (Govt. Statuary Dues) (Note 3)	15,000
Current Tax Liabilities	1,25,700
TOTAL EQUITY AND LIABILITIES	5,41,000

4. Statement of changes in Equity for the Year ended 31st March
A. Equity Share Capital

Balance at the beginning of the Reporting Period	Changes in Equity Share Capital during the year	Balance at the end of the Reporting Period
–	1,00,000	1,00,000

B. Other Equity

Particulars	Reserves & Surplus	Retained Earnings
As at 31 st March		–
Add: Profit for the year		2,44,500
Add: Other Comprehensive Income for the Year		700
Total Comprehensive Income for the Year		2,45,200
Less: Dividend on Equity Shares		–
As at 31st March		2,45,200

Disclosure forming part of Financial Statements:

Proposed Dividend on Equity Shares is subject to the approval of the Shareholders of the Company at the Annual General Meeting and not recognized as Liability as at the Balance Sheet Date.

2. M Ltd (a subsidiary of Listed Company) is an Indian Company to whom Ind AS are applicable. Following draft Balance Sheet is prepared by the accountant for year – Balance Sheet of M Ltd

Assets		₹	Equity and Liabilities		₹
1. Non Current Assets			1. Equity Share Capital		10,00,000
(a) Property, Plant and Equipment	85,37,500		2. Other Equity		25,00,150
(b) Financial Assets			3. Non Current Liabilities		
(c) Other Financial Assets (Security Deposits)	4,62,500		(a) Deferred Tax Liability	4,74,850	
(d) Other Non Current Assets (Capital Advances)	17,33,480		(b) Borrowings	64,00,000	
(e) Deferred Tax Assets	2,54,150		(c) Long Term Provisions	5,24,436	
2. Current Assets			4. Current Liabilities		
(a) Trade Receivables	7,25,000		(a) Financial Liabilities		
(b) Inventories	5,98,050		(b) Other Financial Liabilities	2,00,564	
(c) Financial Assets			(c) Trade Payables	6,69,180	
(d) Investments	55,000		(d) Current Tax Liabilities	9,30,820	
(e) Other Financial Assets	2,17,370				
(f) Cash and Cash Equivalents	1,16,950				
Total Assets	1,27,00,000		Total Equity and Liabilities		1,27,00,000

Additional Information:

- On 1st April, 8% Convertible Loan with a Nominal Value of ₹ 64,00,000 was issued by the Entity (Term = 4 Years). It may be converted into Equity Shares on the basis of 100 New Shares for each ₹ 200 worth of Loan. An equivalent Loan without the conversion option have carried interest at 10%. Interest paid ₹ 5,12,000 has already been included as a Finance Cost.
- After the reporting period, the board of directors have recommended dividend of ₹ 50,000 for the Previous Year. However, the same has not been yet accounted by the Company in its financials.
- Other Current Financial Liabilities consists of – (a) Wages payable – ₹ 21,890, (b) Salary payable – ₹ 61,845, (c) TDS payable – ₹ 81,265, and (d) Interest accrued on Trade Payables – ₹ 35,564.
- Property, Plant and Equipment consists following items:

PPE	₹	Remarks
Building	37,50,250	It is held for Administration Purposes
Land	15,48,150	It is held for Capital Appreciation
Vehicles	12,37,500	These are used as the conveyance for employees
Factory Premises	20,01,600	Construction was started at the end of the Year and consequently no depreciation has been charged on it. Construction will continue to happen. It will take 2 years to complete and be available for use.

- Composition of 'Other Current Financial Assets' is – (a) Interest accrued on Bank Deposits – ₹ 57,720, (b) Prepaid Expenses – ₹ 90,000, (c) Royalty Receivable from Dealers – ₹ 69,650.
- Current Investments consist of Securities held for trading which are carried at FVTPL. Investments were purchased on 1st January at ₹ 55,000 and accordingly are shown at Cost as at 31st March. Fair Value of said Investments is ₹ 60,000.
- Trade Payables and Trade Receivables are due within 12 months. There has been no changes in Equity Share Capital.
- Entity has the intention to set off DTA against DTL as they relate to Income Taxes levied by the same taxation authority and the Entity has a legally enforceable right to set off taxes.
- Other Equity consists Retained Earnings only. Opening Balance of Retained Earnings ₹ 21,25,975 as at 1st April.
- No Dividend has been actually paid by Company during the year.
- Assume that the deferred tax impact, if any on account of above adjustments is correctly calculated in financials.

Being Finance & Accounts Manager, you are required to identify the errors and misstatements if any in the Balance Sheet of M Ltd and prepare corrected Balance Sheet with details on the face of the Balance Sheet i.e. no need to prepare Notes to accounts, after considering the additional information. Provide necessary explanations for the treated items.

ASSETS	Note	₹
1. Non Current Assets		
(a) Property, Plant and Equipment	1	49,87,750
(b) Capital Work in Progress	2	20,01,600
(c) Investment Property	3	15,48,150
(d) Financial Assets		
(e) Other Financial Assets (Security Deposits)		4,62,500
(f) Other Non Current Assets (Capital Advances)	4	17,33,480
2. Current Assets		
(a) Inventories		

ASSETS	Note	₹
(b) Financial Assets	5	
(i) Investments		60,000
(ii) Trade Receivables		7,25,000
(iii) Cash and Cash Equivalents		1,16,950
(iv) Other Financial Assets		1,27,370
(c) Other Current Assets (Prepaid Expenses)	6	90,000
TOTAL ASSETS		1,24,50,850
EQUITY AND LIABILITIES		
1. Equity Share Capital	A	10,00,000
2. Other Equity	B	28,44,606
3. Non Current Liabilities		
(a) Financial Liabilities – Borrowings (8% Convertible Loan)	7	60,60,544
(b) Long Term Provisions		5,24,436
(c) Deferred Tax Liability	8	2,20,700
4. Current Liabilities		
(a) Financial Liabilities	9	
(i) Trade Payables		6,69,180
(ii) Other Financial Liabilities		1,19,299
(b) Other Current Liabilities (TDS Payable)	10	81,265
(c) Current Tax Liabilities		9,30,820
TOTAL EQUITY AND LIABILITIES		1,24,50,850

Statement of Changes in Equity for Year ended 31st March

A. Equity Share Capital

As at the beginning	Changes in Equity Share Capital during the year	As at the end
₹ 10,00,000	–	₹ 10,00,000

B. Other Equity

	Retained Earnings	Equity Component of Compound Financial Instrument	Total
As at the beginning	21,25,975	–	21,25,975
Total Comprehensive Income for the Year = 25,00,150 + 5,000 – 85,504 – 21,25,975	2,93,671	–	2,93,671
Issue of Compound Financial Instrument		4,24,960	4,24,960
As at the Year End	24,19,646	4,24,960	28,44,606

Disclosure forming part of Financial Statements

Proposed Dividend on Equity Shares is subject to the approval of the Shareholders of the company at the Annual General Meeting and not recognized as Liability as at the Balance Sheet date. (Note 9)

Note: As per Ind AS 10, if Dividends are declared after the reporting period but before the Financial Statements are approved for issue, the dividends are not recognized as a Liability at the end of the reporting period because no obligation exists at that time. Such Dividends are disclosed in the Notes as per Ind AS 1, Presentation of Financial Statements.

Notes/ Workings: (for Adjustments / Explanations)

Note	Description
1. PPE	(a) PPE are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period. (b) Therefore, the items of PPE are Buildings and Vehicles, since those assets are held for administrative purposes. (i.e. ₹ 37,50,250 + ₹ 12,37,500 = ₹ 49,87,750)
2. Capital WIP	PPE which are not ready for intended use as on the date of Balance Sheet are disclosed as "Capital Work In Progress". It would be classified from PPE to Capital work-in-progress.
3. Investment property	Investment Property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as ROU asset) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business. Therefore, Land held for capital appreciation should be classified as Investment property rather than PPE.

Note	Description								
4. Other NCA	Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.								
5. Financial Asset	A contractual right to receive cash or another financial asset from another Entity is a Financial Asset. In this case, the following are Financial Assets and hence should be reclassified – (a) Current Investments are held for the purpose of trading. Hence, it is a Financial Asset classified as FVTPL. Hence, increase in Fair Value of Financial Asset ₹ 5,000 will be recognised in Profit and Loss. (b) Trade Receivables (c) Cash and Cash Equivalents (d) Other Current Financial Assets Interest accrued on Bank Deposits ₹ 57,720 + Royalty receivable from Dealers ₹ 69,650 = ₹ 1,27,370								
6. Other Current	Prepaid Expenses does not result into receipt of any cash or financial asset. However, it results into future goods or services. Hence, it is not a Financial Asset.								
7. Other Equity	(a) Other Equity cannot be shown under Non Current Liabilities. Hence, it is reclassified under 'Equity'. (b) There are both 'equity' and 'debt' features in the instrument. An obligation to pay cash i.e. interest at 8% and a redemption amount will be treated as 'Financial Liability' while option to convert the Loan into Equity Shares is the equity element in the instrument. Hence, it is compound financial instrument. <ul style="list-style-type: none"> • Liability = (5,12,000 × PVAF @ 10% for 4 Years) + (64,00,000 × PVF for 4th Year) = ₹ 59,75,040 • Equity Component = ₹ 64,00,000 – ₹ 59,75,040 = ₹ 4,24,960. • Closing Liability = 59,75,040 + Interest @ 10% 5,97,504 – Payment 5,12,000 = ₹ 60,60,544 • Additional Finance Charge required to be recognised in P&L = Interest @ 10% on ₹ 59,75,040 i.e. ₹ 5,97,504 – Already recognized ₹ 5,12,000 = ₹ 85,504 								
8. DTL	Since Entity has the intention to set off DTA against DTL and the Entity has a legally enforceable right to set off taxes, hence their balance on net basis should be shown as: <table border="1" style="width: 100%; margin-top: 5px;"> <thead> <tr> <th>Particulars</th> <th>₹</th> </tr> </thead> <tbody> <tr> <td>Deferred Tax Liability</td> <td style="text-align: right;">4,74,850</td> </tr> <tr> <td>Deferred Tax Asset</td> <td style="text-align: right;">(2,54,150)</td> </tr> <tr> <td>Deferred Tax Liability (Net)</td> <td style="text-align: right;">2,20,700</td> </tr> </tbody> </table>	Particulars	₹	Deferred Tax Liability	4,74,850	Deferred Tax Asset	(2,54,150)	Deferred Tax Liability (Net)	2,20,700
Particulars	₹								
Deferred Tax Liability	4,74,850								
Deferred Tax Asset	(2,54,150)								
Deferred Tax Liability (Net)	2,20,700								
9. Financial Liability	A liability that is a contractual obligation to deliver cash or another financial asset to another Entity is a financial liability. In this case, the following are financial liabilities – (a) Trade Payables (b) Other Current Financial Liabilities = Wages Payable ₹ 21,890 + Salary payable ₹ 61,845 + Interest accrued on trade payables ₹ 35,564 = ₹ 1,19,299								
10. Other Current	Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another Entity, are not Financial Liabilities. Hence, TDS payable should be reclassified from 'Other Current Financial Liabilities' to 'Other Current Liabilities' since it is not a contractual obligation.								

3. Following are the Financial Statements of JSP Ltd as at March 2018 (₹ in Lakh) –

Balance Sheet						Statement of Profit & Loss	
Equity & Liabilities	Note	Amt	Assets	Note	Amt	Year ended March 2018	
Shareholders' Funds:			Non-Current Assets:			Revenue from Operations	7,500
Share Capital			Fixed Assets		5,600	Expenses:	
(Share of ₹ 10 each)		2,000	Deferred Tax Assets	3	300	Employee Benefit Expenses	1,750
Reserves and Surplus	1	2,500	Current Assets:			Operating Costs	2,860
Non-Current Liabilities			Inventories		1,520	Depreciation	800
Long-Term Borrowings	2	4,860	Trade Receivables	5	1,800	Total Expenses	5,410
Deferred Tax Liabilities	3	100	Cash & Bank Balance		1,200	Profit Before Tax	2,090
Current Liabilities:						Tax Expense	(510)
Trade Payables		400				Profit After Tax	1,580
Short Term Provisions		310					
Other Current Liabilities	4	250					
Total		10,420	Total		10,420		

Notes to Accounts:

(₹ in Lakh)

Note 1:	Reserves and Surplus:	Capital Reserve	400	
		Profit & Loss: Opening Balance 225 Additions 1,580	1,805	
		Reserves for Foreseeable Loss	295	2,500

Note 2:	Long Term Borrowings:	Term Loan from Bank	4,860	4,860
Note 3:	Deferred Tax:	Deferred Tax Asset	300	
		Deferred Tax Liability	(100)	200
Note 4:	Other Current Liabilities:	Unclaimed Dividends	10	
		Billing in Advance	240	250
Note 5:	Trade Receivables:	Considered Good (Outstanding within 6 Months)	1,565	
		Considered Doubtful (due from past 1 year)	253	
		Provision for Doubtful Debts	(18)	1,800

Additional Information:

- Share Capital comprises of 200 Lakh Shares of ₹ 10 each.
- Term Loan from Bank for ₹ 4,860 Lakh also includes Interest accrued and due of ₹ 860 Lakh as on the Reporting Date.
- Reserves for Foreseeable Loss is created against a Service Contract due within 3 months.

You are required to:

- Identify and report the errors and mis-statements in the above extract, wherever applicable.
- Prepare the corrected Balance Sheet and Statement of Profit and Loss.

1. Analysis of Financial Statements

- Reserve for Foreseeable Loss for ₹ 295 Lakhs, relates to a Service Contract due within 3 months, and should be a part of "Provisions". Hence, it should be regrouped. Also, if it was a part of Previous Year's Comparatives, a Note should be added in the Notes to Account on the regrouping done this year.
- Interest accrued and due of ₹ 860 Lakhs on Term Loan will be a part of "Current Liabilities". Hence, it should be shown under the heading "Other Current Liabilities".
- It can be inferred from the Note (3), that the Deferred Tax Liabilities and Assets relate to Taxes on Income levied by the same Governing Taxation Laws, hence these shall be set off, in accordance with Ind AS 12. Net DTA of ₹ 200 Lakhs will be shown in the Balance Sheet.
- The Notes to Trade Receivables is incorrectly presented. The Recommended Notes would be as below:

Particulars	₹ in Lakhs	₹ in Lakhs
Trade Receivables (Unsecured) consist of the following –		
(a) Over 6 Months from the date they were due for payment		
i. Considered Good	Nil	
ii. Considered Doubtful	253	
Less: Provision for Doubtful Receivables	(18)	235
(b) Others		
i. Considered Good	1,565	
ii. Considered Doubtful	0	
Less: Provision for Doubtful Receivables	0	1,565
Total		1,800

- The Statement of Profit & Loss should also contain disclosure of Earnings Per Share, to be compliant with Ind AS 33.

**2. Revised Extracts of the Financial Statements
Balance Sheet as at 31.03.2018**

I. ASSETS			
1. Non Current Assets	(a) Property, Plant & Equipment		5,600
	(b) Deferred Tax Assets	1	200
2. Current Assets	(a) Inventories		1,520
	(b) Trade Receivables	2	1,800
	(c) Cash and Cash Equivalents		1,200
II. EQUITY AND LIABILITIES		Note	₹ in Lakhs
1. Shareholders' Funds	(a) Equity Share Capital		2,000
	(b) Other Equity	3	2,205
2. Non Current Liabilities	Long Term Borrowings	4	4,000

3. Current Liabilities	(a) Trade Payables		
	(i) MSME		
	(ii) Others		400
	(b) Short Term Provisions (295 + 310)		605
	(c) Other Current Liabilities	5	1,110
	TOTAL		10,320
	TOTAL		10,320

Statement of Profit and Loss for the Year ended 31.03.2018

Particulars	Note	₹ in Lakhs
A. Revenue from Operations		7,500
B. Expenses		
Employee Benefit Expense		1,750
Operating Costs		2,860
Depreciation		800
C. Total Expenses		5,410
D. Profit Before Tax		2,090
E. Tax Expense		(510)
F. Profit After Tax		1,580
G. Earnings Per Equity Share		
(a) Basic		₹ 7.90
(b) Diluted		₹ 7.90
H. Number of Equity Shares (Face Value of ₹ 10 each)		200 Lakhs

3. Revised Notes (wherever applicable)**Note on Reserves and Surplus**

Particulars	₹ in Lakhs	₹ in Lakhs
(a) Capital Reserve		400
(b) Surplus from P & L		
Opening Balance	225	
Additions	1,580	1,805
Total		2,205

Note on Long Term Borrowings

Particulars	₹ in Lakhs
Term Loan from Bank (4,860 – 860)	4,000
Total	4,000

Note on Other Current Liabilities

Particulars	₹ in Lakhs
(a) Unclaimed Dividends	10
(b) Interest Accrued on Term Loan	860
(c) Billing in Advance	240
Total	1,110

STUDENTS' NOTES

Chapter 2

Framework for the Preparation and Presentation of Financial Statements in accordance with Ind AS

1. General Purpose Financial Reporting (GPFR)

1.1 General Purpose Financial Reporting (GPFR)

Objective of GPFR	Objective of General Purpose Financial Reporting (GPFR) is to provide financial information about the Reporting Entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the Entity. Those decisions involve decisions about: <ol style="list-style-type: none"> (a) buying, selling or holding Equity and debt instruments, (b) providing or settling loans and other forms of credit, or (c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the Entity's economic resources.
Decision making process	<p style="text-align: center;">Correlation between General Purpose Financial Reports and decision making process</p> <p>Stage 1: Financial information about the economic resources of the Entity, claims against the Entity and changes in those resources and claims</p> <p>Stage 2: Assessment of the amount, timing and uncertainty of future net cash inflows to the Entity and management's stewardship of the Entity's economic resources</p> <p>Stage 3: Expectation of returns, i.e. dividends, principal, interest repayments, market price increases, etc.</p> <p>Stage 4: Decisions of investor, lenders and other creditors</p>
Limitations [M 25]	<ol style="list-style-type: none"> 1. General Purpose Financial Reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks. 2. They are not designed to show the value of a Reporting Entity, but they provide information to help existing & potential investors, lenders and other creditors to estimate the value of the Reporting Entity. 3. They are not primarily directed to other parties, such as regulators and members of the public other than investors, lenders and other creditors.

1.2 Information Provided by GPFR

Information Provided by GPFR	<ol style="list-style-type: none"> 1. Financial Position: Economic resources (i.e. Assets) and claims (i.e. Liabilities) of the Entity 2. Effects of transactions and other events that change Entity's economic resources & claims <ol style="list-style-type: none"> (a) Financial performance: Comprehensive Income (b) Cash Flows (c) Changes not resulting from financial performance such as issuing debt or Equity instruments
Financial Position	Information about the nature and amounts of economic resources and claims can help users to identify the Reporting Entity's financial strengths & weaknesses. That information can help users to: <ol style="list-style-type: none"> (a) assess the Reporting Entity's: <ul style="list-style-type: none"> • liquidity and solvency, • its needs for additional financing and • how successful it is likely to be in obtaining that financing (b) assess management's stewardship of the Entity's economic resources (c) predict how future cash flows will be distributed among those with a claim against the Reporting Entity
Financial performance reflected by Accrual Accounting	Accrual accounting depicts the effects of transactions and other events and circumstances on a Reporting Entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period. Such information is useful in: <ol style="list-style-type: none"> (a) assessing the Entity's past and future ability to generate net cash inflows, (b) indicating the extent to which the Reporting Entity has increased its available economic resources, and thus its capacity for generating net cash inflows through its operations, (c) helping users to assess management's stewardship of the Entity's economic resources, and (d) indicating the extent to which events such as changes in market prices or interest rates have increased or decreased the Entity's economic resources and claims, thereby affecting the Entity's ability to generate net cash inflows.

Financial performance reflected by Past Cash Flows	Information about a Reporting Entity's cash flows during a period helps in assessment of: (a) Entity's ability to generate future net cash inflows, by helping users: <ul style="list-style-type: none"> • understand reporting of Entity's operations, • evaluate its financing and investing activities, • assess its liquidity or solvency and • interpret other information about financial performance (b) management's stewardship of the Entity's economic resources.
Other Changes	A Reporting Entity's economic resources and claims may also change for reasons other than financial performance, such as issuing debt or Equity instruments. Information about this type of change is necessary to give users a complete understanding of why the Reporting Entity's economic resources and claims changed and the implications of those changes for its future financial performance.

1.3 Qualitative Characteristics of GPFR

Qualitative Characters	If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.
Relevant Financial Information	<ol style="list-style-type: none"> 1. Financial information has Predictive Value if it can be used as an input to processes employed by users to predict future outcomes. Financial information has Confirmatory Value if it provides feedback about (confirms or changes) previous evaluations. 2. Financial information need not be a prediction or forecast to have predictive value. Financial information with predictive value is employed by users in making their own predictions. 3. The predictive value and confirmatory value of financial information are interrelated. Information that has predictive value often also has confirmatory value. 4. Example: Revenue information for the current year, which can be used as the basis for predicting revenues in future years, can also be compared with revenue predictions for the current year that were made in past years. The results of those comparisons can help a user to correct and improve the processes that were used to make those previous predictions.
Materiality	<ol style="list-style-type: none"> 1. The characteristic of 'relevance' also includes the concept of materiality. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific Reporting Entity. 2. In other words, materiality is an Entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual Entity's financial report. Consequently, the ICAI cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.
Faithful re-presentation	To be useful, financial information must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon.

1.4 Characters of Faithful re-presentation

Characters of Faithful re-presentation	To be a perfectly faithful representation, a depiction would have following three characteristics: (a) Complete: A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations. (b) Neutral: A neutral depiction is without bias in the selection or presentation of financial information. A neutral depiction is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users. (c) Free from error: Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process.
Completeness	A complete depiction of a group of Assets would include, at a minimum, – (a) a description of the nature of the Assets in the group, (b) a numerical depiction of all of the Assets in the group, (c) a description of what the numerical depiction represents (for example, historical cost or fair value). (d) significant facts about the quality and nature of the items, factors and (e) circumstances that might affect their quality and nature, and (f) the process used to determine the numerical depiction (e.g. facts such as encumbrance / hypothecation / mortgage of items of Property, Plant and Equipment against secured borrowings, disclosure of fair value of Investment Property etc.).

Neutrality	Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that Assets and Income are not overstated and Liabilities and Expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of Assets or Income or the overstatement of Liabilities or Expenses.
Free from error ≠ Accurate	<ol style="list-style-type: none"> Free from error does not mean perfectly accurate in all respects. For example, an estimate of an unobservable price or value cannot be determined to be accurate or inaccurate. A representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate. The use of reasonable estimates is an essential part of the preparation of Financial Statements. As long as the estimates are fair, the Financial Statements will be concluded to be free from error, even though the actual outcome may be different from the original estimate.
Application	<p>The most efficient and effective process for applying the fundamental qualitative characteristics is to –</p> <ol style="list-style-type: none"> Identify an economic phenomenon, information about which is capable of being useful to users of the Reporting Entity's financial information, Identify the type of information about the phenomenon that would be most relevant, Determine whether that information is available and whether it can provide a faithful representation of the economic phenomenon. <p>If faithful representation is achieved, the process of satisfying the fundamental qualitative characteristics ends at that point. If not, the process is repeated with the next most relevant type of information.</p>

1.5 Trade-off between the fundamental qualitative characters

- In some cases, a trade-off between the fundamental qualitative characteristics may need to be made in order to meet the objective of financial reporting, which is to provide useful information about economic phenomena.
- For example, the most relevant information about a phenomenon may be a highly uncertain estimate. In some cases, the level of measurement uncertainty involved in making that estimate may be so high that it may be questionable whether the estimate would provide a sufficiently faithful representation of that phenomenon.
- In some such cases, the most useful information may be the highly uncertain estimate, accompanied by a description of the estimate and an explanation of the uncertainties that affect it.
- In other such cases, if that information would not provide a sufficiently faithful representation of that phenomenon, the most useful information may include an estimate of another type that is slightly less relevant but is subject to lower measurement uncertainty.
- In limited circumstances, there may be no estimate that provides useful information. In those limited circumstances, it may be necessary to provide information that does not rely on an estimate.

1.6 Enhancing Qualitative Characteristics [N 24]

Enhancing Qualitative Characteristics are Comparability, Verifiability, Timeliness and Understandability.

Comparability	Information is more useful if it can be compared with similar information about other entities and with similar information about the same Entity for another period or another date. Comparability is neither same as consistency, nor as uniformity. Comparability is the goal, consistency helps to achieve that goal. Comparability refers to the use of the same methods for the same items, and uniformity implies that like things must look alike and different things must look different.
Verifiability	Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Verification can be direct or indirect. Direct verification means verifying an amount or other representation through direct observation, for example, by counting cash. Indirect verification means checking the inputs to a model, formula or other technique and recalculating the outputs using the same methodology.
Timeliness	Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.
Understandability	Classifying, characterising and presenting information clearly and concisely makes it understandable. Some phenomena are inherently complex and cannot be made easy to understand. Excluding information about those phenomena from financial reports might make the information in those financial reports easier to understand. However, those reports would be incomplete and therefore possibly misleading. Financial reports 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.