Excellence in Financial Reporting

Illustrative Guide to Presentation and Disclosures

Research Committee
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Foreword

Business is important organ of society that helps in its overall development. A typical business has a variety of stakeholder that include its employees, owners, banks, trade associations, government, general public and so on. These stakeholders, particularly investors are keenly interested in knowing about the financial well being of business organisations.

Financial reporting is an important means of communication for entities to disseminate information of its operations to various stakeholders. With the increased focus on governance the significance of financial reporting has exponentially increased. Today, there are a number requirements mandated by the regulators. It has now become imperative for entities to keep pace with the fast evolving requirements in the area of financial reporting.

In the emerging scenario, it was felt that a publication which brings out best practices in financial reporting could be of great use to the preparers of financial statements. It is heartening that the Research Committee has compiled the second edition of the publication 'Excellence in Financial Reporting: Illustrative Guide to Presentation and Disclosures', which enumerates some of the practices currently being followed in financial reporting as noted during review of the financial reports received for the competition and sets out suggested 'best practice' to enhance the quality of financial reporting.

I would like to compliment CA. Subodh K. Agrawal, Chairman, CA. Sanjiv K. Chaudhary, Vice-Chairman, and other members of the Research Committee for their efforts.

I hope that this endeavor of the Committee will go a long way in achieving sound accounting practices in relation to presentation and disclosures and provide guidance to the members as well as others concerned with the financial reporting.

New Delhi
February 10, 2016

CA. Manoj Fadnis
President

Preface

The importance of robust financial reporting cannot be emphasized enough. As India and Indian enterprises move ahead in the growth path at much faster pace and exposure of Indian entities to global environment expands, ever increasing complexities of transactions throws up newer challenges in financial reporting and related guidance. Presentation and disclosures, in this context, are assuming greater significance as enterprises aim to achieve excellence in financial reporting.

A large number of entities participate in the competition for 'ICAI Awards for Excellence in Financial Reporting' and show case the best practices adopted by them. The annual financial reports received for this competition are reviewed with a fine comb and very detailed analysis of various aspects is carried out. Considering the significance of these observations and with a view to assist entities in understanding the areas where they could adopt better practices, the Committee decided to collate key observations made during the review of the annual reports for past two competitions viz 2012-13 & 2013-14 and publish them. This publication endeavors to list the best practices in various aspects of financial reporting to enable preparers of financial statements in benchmarking their own practices.

I would like to take place on record my sincere appreciation for the contribution made by CA. Harinderjit Singh, one of the past Chairmen of Research Committee as well as member of a Shield Panel, which is entrusted for the conduct of this competition and CA. Madhuri Shahapure, in preparing the draft of this publication. The Shield Panel is a sub-committee of the Research Committee and is an important tier for the conduct of this annual competition. I would also like to place on record the contribution made in this initiative by CA Sanjiv K. Chaudhary, the Vice Chairman of the Committee, other members of the Committee and the technical team of the Research Committee.

This publication could not have been possible but for the support and encouragement of CA. Manoj Fadnis, President and CA M. Devaraja Reddy, Vice President of ICAI and the Committee and I would like to place our sincere appreciation for their guidance during the course of this work.

I trust this publication acts as an aid to the preparers of financial statements and others and will assist in enhancing the quality of financial reporting.

New Delhi
February 10, 2016

CA. Subodh K. Agrawal
Chairman,
Research Committee

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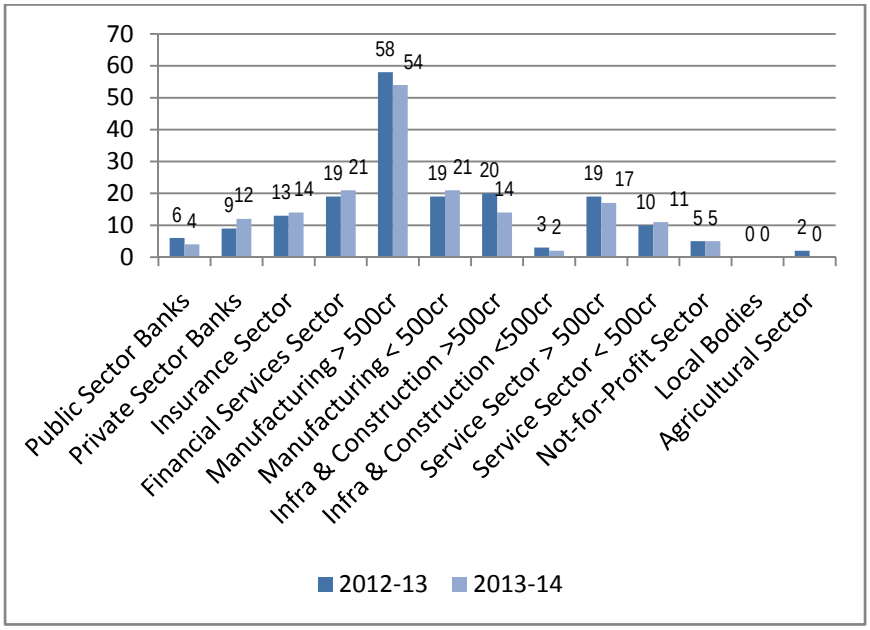
Introduction

Financial statements contained in annual reports provide a comprehensive overview of the financial position of the company or group and its performance. It is one of the most important means of communication between the company and the outside world and therefore it is imperative that these financial statements contain information which is relevant, reliable and understandable. Members, both as preparers of financial statements and as auditors contribute significantly in improving the quality of these disclosures.

In order to recognise excellence in financial reporting, the Institute of Chartered Accountants of India (ICAI) has instituted awards for excellence in financial reporting which honour the contribution of entities in enhancing quality of information both, financial and non-financial, contained in their annual reports.

This publication is the result of review of annual reports of 183 and 175 listed and unlisted entities across various sectors for the years 2012-13 and 2013-14 respectively, received by the ICAI for these awards, the sectoral break-up of which is as under:



These annual reports were assessed for best practices relating to:

- Compliance with Accounting Standards[1],
- Disclosure requirements of the Companies Act, 1956 and other laws and regulations applicable to those entities, for e.g., Securities Exchange Board of India
- ICAI Pronouncements (Authoritative and Non-Authoritative)
    - Guidance Notes
    - Expert Advisory Committee Opinions.

The financial statements referred above, were prepared and presented in accordance with the Revised Schedule VI to the Companies Act, 1956 ('Revised Schedule VI') which was effective from April 1, 2011 (Notification No SO 447(E) dated 28-2-2011). The Companies Act, 2013, which is being implemented in phases, include Schedule III which correspond with the requirements of Revised Schedule VI. It is of relevance to note that the requirements of Schedule III, to the extent they relate to the standalone financial statements, are largely similar to that of Revised Schedule VI (additional disclosure requirement is with respect to expenses incurred towards corporate social responsibilities). Consequently, the observations with respect to compliance with Revised Schedule VI in the last 2 reviews, have been presented in this publication with reference to Schedule III to the Companies Act, 2013 ('Schedule III'). It is also of relevance to note that Schedule III now includes the presentation and disclosure requirements with respect to consolidated financial statements in addition to the requirements relating to standalone financial statements.

Each section of this publication lists common observations / findings relating to a particular area, provides related requirements of the relevant statute, guidance or other literature, leading to suggestions regarding best practices.

This publication is divided in four main sections and observations/findings are organized based on the relevant section of the financial statements which it affects:

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[1] *All references (including paragraph references) in this Guide are to the Accounting Standards notified under Companies (Accounting Standards) Rules, 2006, as amended, in case of companies and to the Accounting Standards issued by the ICAI, in all other cases.*

- Section I: Balance Sheet
- Section II: Statement of Profit and Loss
- Section III: Other Disclosures
- Section IV: Banks, Financial Services and Insurance Companies
- Section V: Subsidiaries, Associates and Joint Ventures

Under each of these sections, the observations have been categorized into chapters which are based on the financial statement classification, viz., Fixed Assets, Intangible Assets, Investments, etc. where presentation or disclosures were found to be inadequate or unclear or not understandable. While the intention of this publication is to highlight observations with respect to presentation and disclosures, there are instances where the observations indicate issues which are potentially relating to appropriateness of the accounting treatment.

Limitation

This Guide is intended to be a ready referencer, to be used by both preparers and auditors and is an attempt to supplement and aid the preparers and reviewers of the financial statements in avoiding such common errors or omissions. This Guide is not meant to be used as a substitute for the accounting and regulatory guidance. It should be noted that it is mandatory to refer to the relevant authoritative pronouncements in all cases. This Guide is not a comprehensive guidance on the subject and there could be instances of non-compliances or errors, other than those identified and included herein.

Abbreviations

Accounting Standards / notified accounting standards	Accounting standards notified under the Companies (Accounting Standards) Rule, 2006 under section 211(3C) of the Companies Act, 1956
Revised Schedule VI	Revised Schedule VI to the Companies Act, 1956 [Notification No SO.447(E) dated February 28, 2011]
AS 1	Disclosure of Accounting Policies
AS 2	Valuation of Inventories
AS 3	Cash Flow Statements

AS 4	Contingencies and Events Occurring After the Balance Sheet Date
AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS 6	Depreciation Accounting
AS 7	Construction Contracts (revised 2002)
AS 9	Revenue Recognition
AS 10	Accounting for Fixed Assets
AS 11	The Effects of Changes in Foreign Exchange Rates (revised 2003)
AS 12	Accounting for Government Grants
AS 13	Accounting for Investments
AS 14	Accounting for Amalgamations
AS 15	Employee Benefits (revised 2005)
AS 16	Borrowing Costs
AS 17	Segment Reporting
AS 18	Related Party Disclosures
AS 19	Leases
AS 20	Earnings Per Share
AS 21	Consolidated Financial Statements
AS 22	Accounting for Taxes on Income
AS 23	Accounting for Investments in Associates in Consolidated Financial Statements
AS 24	Discontinuing Operations
AS 25	Interim Financial Reporting
AS 26	Intangible Assets
AS 27	Financial Reporting of Interests in Joint Ventures
AS 28	Impairment of Assets
AS 29	Provisions, Contingent Liabilities and Contingent Assets

Section I
Balance Sheet

The format and content of the financial statements for companies is required to be in accordance with Schedule III to the Companies Act, 2013 (Schedule III), which is largely similar to the Revised Schedule VI to the Companies Act, 1956 (Revised Schedule VI). Unlike the pre-revised Schedule VI, the Revised Schedule VI/ Schedule III prescribes format for both the balance sheet and the statement of profit and loss (earlier termed as profit and loss account under pre-revised Schedule VI). Further, there are several additional disclosure requirements both with respect to the balance sheet and statement of profit and loss. Certain industries have formats specified by their industry regulators, which need to be followed by them. This fact has also been recognised in the Companies Act, 2013 in the proviso to Section 129(1) which implies that the format set out in Schedule III will not be applicable to insurance companies, banking companies and companies engaged in the generation or supply of electricity. The formats for these companies are prescribed by specific regulators.

A few significant changes in Schedule III in comparison with pre-revised Schedule VI include:

One of the significant changes in Schedule III is that all assets and liabilities are now required to be classified into current and non-current portions based on the operating cycle determined by the entity, which is one of the criteria to determine current and non- current classification for assets and liabilities. Schedule III defines what would be considered as ‘current’ and ‘non-current’ with respect to assets and liabilities.

In terms of format, Schedule III only prescribes the vertical format of balance sheet and does not provide the alternative of using the horizontal format as in the pre-revised Schedule VI.

Further, Schedule III sets out the minimum requirements for disclosure on the face of the balance sheet and the statement of profit and loss. It allows line items, sub-line items and sub-totals to 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 to cater to industry/sector-specific disclosure requirements or when required for compliance with the amendments to the Companies Act or under the Accounting Standards.

Schedule III now requires all disclosures to be made as a part of the notes as against schedules prescribed under the pre-revised Schedule VI.

Apart from granting an overriding status to the Accounting Standards, cognizance has also been given to the requirements of Accounting Standards in the format of the balance sheet and accordingly elements such as deferred tax assets and intangible assets have been included in the balance sheet, which were not included in the pre-revised Schedule VI. Also, it has been clearly stated that the disclosure requirements specified in Part I and Part II of the Schedule III are in addition to and not in substitution of the disclosure requirements specified in the notified Accounting Standards. The terms used in Schedule III are to be considered as per the notified Accounting Standards

The format of balance sheet as per Schedule III is as follows:

Part I

Balance Sheet

Name of the Company…….

Balance Sheet as at ……..

(Rupees in…..)

Particulars	Note No.	Figures as at the end of the current reporting period	Figures as at the end of the previous reporting period
1	2	3	4
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds:			
(a) Share capital			
(b) Reserves and surplus			
(c) Money received against share warrants			
(2) Share application money pending allotment			
(3) Non-current liabilities			
(a) Long-term borrowings			

(b) Deferred tax liabilities (Net)			
(c) Other long-term liabilities			
(d) Long-term provisions			
(4) Current liabilities			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
TOTAL			
II. ASSETS			
Non-current assets:			
(1) (a) Fixed Assets:			
i. Tangible assets			
ii. Intangible assets			
iii. Capital work-in-progress			
iv. Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets (net)			
(d) Long-term loans and advances			
(e) Other non-current assets			
(2) Current assets			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(e) Short-term Loans and advances			
(f) Other current assets			
TOTAL			

General observations

One of the pertinent aspect which needs to be considered in the preparation of financial statements with regard to Schedule III is that it does not prescribe the accounting treatment to be adopted by the entity; it only prescribes the format and content. Consequently, the fact that a particular item has been included in the format of the balance sheet in Schedule III does not imply that the particular item can be recognized in the balance sheet. Schedule III prescribes only presentation and not treatment which is a subject matter of Accounting Standards, which has also been specifically acknowledged in Schedule III.

Schedule III disclosures

Observation(s)	What should one remember?
It was noticed that cross references to the notes to accounts were not given in some cases which makes it difficult to understand whether the related disclosures are made. Schedule III permits giving the additional information, if any, in notes to the accounts.	Against each item, give the appropriate cross reference to the respective note in the financial statements, if any

Corresponding amounts for immediately preceding reporting period

Observation(s)	What should one remember?
It was observed that, at times, the amounts for the previous reporting period were not presented, particularly in footnotes / notes to accounts, which is not in compliance with the requirements of Schedule III	Instruction 5 in the 'general instructions for preparation of balance sheet and statement of profit and loss of a company' in Schedule III, states *'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.'*

	For all the numbers disclosed in the financial statements including those in the notes, disclose the corresponding previous period numbers as well.

Rounding off

Observation(s)	What should one remember?
• In some cases, it was observed that the financial statements did not include any reference regarding 'rounding off' adopted by the company (For example, Rs. in '00s, '000s, etc) • Further, in some cases, it was observed that different rounding off was adopted in different places (For example, the figures were rounded off to millions in balance sheet and statement of profit and loss, but there was no rounding off at all in the notes)	The specific rule for rounding off as per Schedule III based on 'turnover' is: • *Less than Rs.100 crore: to the nearest hundreds, thousands, lakhs or millions, or decimals thereof* • *Rs.100 crore or more: to the nearest lakhs, millions or crores, or decimals thereof* • Mention the rounding off convention adopted – at the beginning or on each page of the balance sheet, statement of profit and loss, cash flow statement and other notes (For example, Rs. in hundreds, Rs.'000s, etc). It could be placed at the top right hand corner of the page.

	• Ensure consistency across the financial statements • Where the numbers to be disclosed are smaller than the rounding off adopted by the company, the best practice may be to lower the level of rounding off to that of material items.

Other aspects to be considered include:

- Ensuring appropriate reference to the Accounting Standards - the 'basis of preparation' given at the beginning in the notes to accounts normally include a reference to the Accounting Standards used by the entity in preparation of the financial statements. In case of companies, reference should be made to Accounting Standards as notified under Section 133 of the Companies Act, 2013, read with Rule 7 of the Companies (Accounts) Rules, 2014 and not to Standards issued by the Institute of Chartered Accountants of India (ICAI). Other entities, which are not covered by the Companies Act, 2013, which use the Accounting Standards as issued by the ICAI should disclose accordingly. Further, where reference is made to the Standards issued by the ICAI, it should be remembered that ICAI 'issues' Accounting Standards and does not 'notify' them. The terms used should be appropriate. In some cases, it has even been observed that there is no reference to the framework being used (i.e., no reference to the Accounting Standards)
- Ensuring appropriate reference to use of guidance notes issued by ICAI in preparation of financial statements. The ICAI has issued guidance notes specifically applicable to certain industries such as such as dotcom companies, oil and natural gas producing companies, real estate developers, etc. Where a company complies with such a pronouncement, it would be relevant to include such fact in the 'basis of preparation' paragraph of the notes to accounts.
- Ensuring correct note references.
- Ensuring that the total in the notes tie up with the balance in the balance sheet or statement of profit or loss.

- Avoiding retention of accounting policies while the transactions to which they relate are no longer entered into by the company for a considerable number of years.
- Ensuring that accounting policies are given for all significant items.
- Ensuring that there are no vague or ambiguous notes, with no further information or explanation which may lead to misinterpretation of information. For example, a note stated "Land not registered in the name of the company has been given for the use of group companies" but 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 fixed assets 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." Another example is 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.
- Ensuring that accounting policies and other notes in the notes to accounts are worded in simple and understandable language and in compliance with the Accounting Standards / other relevant pronouncements. The accounting policy should be drafted considering the relevance of the terminology used in the accounting standard. For example, it would not be appropriate to term 'other than temporary diminution' as 'permanent diminution' in case of investments in line with the requirements of Accounting Standard (AS) 13,Accounting for Investments, or use of the term 'remaining maturity' instead of 'original maturity' while describing cash and cash equivalents.
- 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 Rs.5000 was specified in the note on fixed assets, rather than in the accounting policy for fixed assets.
- Ensuring consistency of disclosures across the financial statements. For example, in one case, it was observed that there were loans given to a subsidiary company which was disclosed as a part of disclosures made

in compliance with Clause 32 of the equity listing agreement. However, there was no disclosure of the same loans under related party disclosures.

- Providing a detailed note explaining both the nature of transaction and the accounting treatment thereof in respect of certain transactions/ events that are unique to a specific industry. This aspect should be given due consideration in drafting the accounting policies. For example, in case of extractive industry the treatment of exploratory wells, overburden removal costs, etc.
- Ensuring that negative numbers are consistently disclosed either within brackets or with a minus ('-') sign preceding the number.

Shareholders' funds

Share Capital

Authorized, issued, subscribed, called up and paid-up share capital

Observation(s)	What should one remember?
• In one of the cases, it was observed that the subscribed, called and paid up capital was greater than issued capital • Similarly, in another case, paid up capital was found to be greater than the authorized capital	• The disclosures are in line with changes, if any, made to the authorized/issued share capital

Share application money received pending allotment / calls received in advance

Observation(s)	What should one remember?
It was observed that share application money received pending allotment was included in paid up capital disclosed on the face of the balance sheet. The note on share capital disclosed the share application money separately as being added to the share capital	Schedule III now has a specific requirement for disclosure of share application money pending allotment on the face of the balance sheet. It also additionally provides that application money received for allotment of securities and due for refund should be disclosed under other current liabilities.

Options outstanding

Observation(s)	What should one remember?
In a few cases, where the company had outstanding employee stock options, no disclosure was made regarding outstanding options in terms of the erstwhile applicable Revised Schedule VI in the note on share capital.	The requirement of the erstwhile Revised Schedule VI as well as the current Schedule III is to disclose: *'shares reserved for issue under options and contracts / commitments for sale of shares / disinvestment, including the terms and amounts'* Where a company has options such as employee stock options or options under a shareholders agreement, disclose such options in the note relating to share capital.

Reserves and surplus:

Movement in reserves

Observation(s)	What should one remember?
It was observed, in some cases, that the balances for current and previous year were different for certain reserves, however movement of the reserves was not given	The requirement of Schedule III is: *'Additions and deductions since last balance sheet to be shown under each of the specified heads'* When there has been a change in the balance of any reserve as compared to the last year, disclose the movement in reserve

Adjustments in securities premium / other reserves

Observation(s)	What should one remember?
Where certain amounts were adjusted directly in securities premium or other reserves, it was	In an announcement, titled 'Tax effect of expenses/income adjusted directly against the reserves and/or

observed that there was no reference to the treatment of tax impact on account of the same	Securities Premium Account'[2], the ICAI has recommended that *'any expense charged directly to reserves and/or Securities Premium Account should be net of tax benefits expected to arise from the admissibility of such expenses for tax purposes'*. Similarly, any income credited directly to a reserve account or a similar account should be net of its tax effect.

Adjustments in general reserves on account of amalgamations

Observation(s)	What should one remember?
In certain court approved schemes of amalgamation (in the nature of merger), where pooling of interest method of accounting was used, the difference between share capital and consideration paid was recognized in the general reserves as against capital reserve.	In this regard, paragraph 35 of AS 14 states*: "The difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of the transferor company should be adjusted in reserves."* Further, an opinion of the Expert Advisory Committee titled, "Treatment of reserves arising on amalgamation in the nature of merger", clarifies that the difference between the issued share capital of the transferee company and the share capital of the transferor companies should be treated as capital reserve for the purpose of paragraph 35 of AS 14. EAC Volume XXIII, Query 1.18 finalised on October 28, 2003

[2] Published in 'The Chartered Accountant', September 2005 (pp. 495-496)

Adjustments on account of amalgamations

Observation(s)	What should one remember?
It has been observed in some cases, that in certain court approved schemes of amalgamation, the adjustments required to be made were not in accordance with the requirements of the Accounting Standards. For example: • Depreciation and amortization expenses for the year was adjusted in general reserves • An amount equal to amortisation of brands was transferred from a reserve to the statement of profit and loss	It is noted that schemes are subject to approval by the court and once approved, they need to be given cognizance to and disclosures are required to be given in accordance with paragraph 42 of AS 14. However, it would be more appropriate that the accounting treatment proposed in the scheme should be in accordance with the requirements of the notified accounting standards and the Framework for the Preparation and Presentation of Financial Statements issued by the ICAI. While the requirement for certification of the accounting treatment proposed in the scheme is already applicable to the listed entities on account of the requirements specified by Securities and Exchange Board of India, the Companies Act, 2013 also includes such requirements in case of all restructuring schemes, which is yet to be notified.

Long term borrowings

Debentures: Terms of redemption / conversion

Observation(s)	What should one remember?
It has been observed in a few cases that the disclosures are incomplete – either terms of redemption/ conversion or the dates of redemption / conversion were not disclosed in descending order	The requirement of Schedule III is: '*Bonds/Debentures (along with the rate of interest and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be'*

Nature of security

Observation(s)	What should one remember?
In some cases, it was noted that the nature of security was not disclosed for all loans, particularly where there were a large number of loans from various sources or were disclosed as an aggregated disclosure	The requirement of Schedule III is: '*The nature of security shall be specified separately in each case'* The nature of security should be disclosed in case of each loan from every source

Interest accrued and due

Observation(s)	What should one remember?
It was observed in some cases, that no distinction was made between interest accrued and due and interest accrued but not due, which is necessary in order to ensure appropriate disclosure under current liabilities	Schedule III requirement in this case is to disclose two sub heads under other current liabilities: Interest accrued and due on borrowings and interest accrued but not due on borrowings

Tax related assets / liabilities

Tax related assets / liabilities: Presentation

Presenting advance for tax and provision for tax

Observation(s)	What should one remember?
In many cases, it was observed that advance taxes were presented under the head 'loans and advances' and provision for tax under the head 'provisions' without offsetting the two amounts	AS 22 has a specific requirement with respect to offsetting. As per paragraph 27, *an enterprise should offset assets and liabilities representing current tax if the enterprise:* *(a) has a legally enforceable right to set off the recognised amounts; and* *(b) intends to settle the asset and the liability on a net basis*. • Where the enterprise can infact fulfill the criteria set out in paragraph 27 of AS 22, disclose the advance tax / provision for tax on a net basis. • Do remember to mention the adjusted amount as well. For example (without the corresponding previous period figures): Where advance tax is greater than provision for tax: Loans and Advances (in Rs.) Advance tax (net of provision for tax: Rs. XX) XXX

	OR Where provision for tax is greater than for advance tax: Provisions (in Rs.) Provision for taxes (net of advance tax: Rs. XX) XXX

Presentation of deferred tax liability / asset in the balance sheet

Observation(s)	What should one remember?
In some cases, it was observed that deferred tax liability and deferred tax asset were shown separately in the standalone financial statements of a company located in India with no branches outside India. In certain other cases, it was observed that deferred tax liability and deferred tax asset were presented on a net basis, despite the company being subject to taxes under various jurisdictions.	AS 22 has a specific requirement with respect to offsetting. As per paragraph 29 of AS 22, *an enterprise should offset deferred tax assets and deferred tax liabilities if*: *(a) the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and* *(b) the deferred tax assets and the deferred tax liabilities relate to taxes on income levied by the same governing taxation laws.* Where the conditions of paragraph 29 of AS 22 are fulfilled, deferred tax asset and deferred tax liability should be offset and disclosed net in the financial statements to the extent they are in the same jurisdiction

Tax related assets / liabilities: Accounting Policy

Reference to temporary difference

Observation(s)	What should one remember?
In some cases, it was observed that the accounting policies included reference to 'temporary' differences rather than 'timing' differences as defined in AS 22. For example the policy stated that: • *'The tax effects of significant **temporary differences** that resulted in deferred tax assets and liabilities are…'* *OR* • *'….will have **profits against which the temporary differences** will be utilized'*	AS 22 does not give cognizance to the concept of 'temporary difference'. Rather it defines the phrase 'timing difference' and deferred tax assets and liabilities are recognized on the basis of such timing differences. The words / phrases used in describing the accounting policy should be as per the respective accounting standard – in case of deferred taxes, the term to be used is 'timing difference' and not 'temporary difference'

Virtual or reasonable certainty

Observation(s)	What should one remember?
• It was observed in some cases, that where the company no longer had unabsorbed depreciation / brought forward business losses, the policy for deferred tax continued to state 'virtual certainty' rather than referring to reasonable certainty • In certain other cases, it was observed that the company did have a situation of either unabsorbed depreciation or brought forward business losses or both, and yet the accounting policy had no reference to virtual certainty	The standard clearly set outs that in situations where unabsorbed depreciation / business losses exists, deferred tax assets need to be tested against the principle of virtual certainty supported by convincing evidence. In all other cases, reasonable certainty would suffice The accounting policies should be reviewed each year to evaluate whether it remains relevant and represents the current assessment of the company. The accounting policy should reflect the actual principle used by it –virtual certainty or reasonable certainty.

Virtual or reasonable certainty

Observation(s)	What should one remember?
It was observed that, in certain cases, the accounting policy relating to deferred taxes indicated that only deferred tax assets arising from brought forward loss or unabsorbed depreciation were tested against the virtual certainty principle, while deferred tax assets arising on account of other components were tested only against the reasonable certainty principle. For example, the accounting policy stated as under: *"Deferred tax assets are recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. However, deferred tax assets arising from brought forward losses and depreciation are recognised only when there is virtual certainty supported by convincing evidence that such assets will be realised in foreseeable future."*	The requirement of AS 22 when the company has either brought business losses or unabsorbed depreciation, or both, is that all deferred tax assets need to be tested against the principle of virtual certainty supported by convincing evidence and not just the deferred tax asset pertaining to brought business losses or unabsorbed depreciation, or both. Reference should be made to paragraph 17 and 18 of AS 22 in this regard

Tax related assets / liabilities: Other Disclosures

Break-up of components

Observation(s)	What should one remember?
It was noticed in some cases that although the total deferred tax asset / liability was disclosed, the break-up into the various components was not disclosed and the amount involved was material.	Paragraph 31 of AS 22 states: '*The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.'* Ensure that the components of deferred tax asset / liability are disclosed separately

What is the convincing evidence?

Observation(s)	What should one remember?
In certain cases, it was observed that the notes to accounts included a note that deferred tax assets have been recognized on unabsorbed depreciation / carried forward business losses using the principle of virtual certainty. However no disclosures were made as to what is the convincing evidence supporting the virtual certainty test as required by AS 22	Paragraph 32 of AS 22 has a specific disclosure requirement relating to convincing evidence which reads as follows: *'The nature of the evidence supporting the recognition of deferred tax assets should be disclosed, if an enterprise has unabsorbed depreciation or carry forward of losses under tax laws'* Ensure that the nature of convincing evidence is also disclosed in this regard.

Provisions, contingent liabilities and contingent assets

General Comments: Accounting Standard (AS) 29, Provisions, Contingent Liabilities and Contingent Assets covers provisions, contingent liabilities and contingent assets. Further, certain specific standards such as Accounting Standard (AS) 15, Employee Benefits and Accounting Standard (AS) 22, Accounting for Taxes on Income, prescribe the principles for areas covered in these Standards.

Warranty provision

Observation(s)	What should one remember?
In certain cases, it was observed that the note on provisions disclosed provision towards warranty expenses, but there were no further disclosures made in the financial statements in line with the requirements of AS 29	With respect to provisions, AS 29 requires disclosures as contained in paragraph 66 and 67 which state: *"66. For each class of provision, an enterprise should disclose:* *(a) the carrying amount at the beginning and end of the period;* *(b) additional provisions made in the period, including increases to existing provisions;*

	(c) amounts used (i.e. incurred and charged against the provision) during the period; and *(d) unused amounts reversed during the period.* *67. An enterprise should disclose the following for each class of provision:* *(a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;* *(b) an indication of the uncertainties about those outflows. Where necessary to provide adequate information, an enterprise should disclose the major assumptions made concerning future events, as addressed in paragraph 41; and* *(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement"*

Provision for warranty

Observation(s)	What should one remember?
In a few cases, it was observed that expenditure was being incurred towards providing warranties, however, there was no provision made towards the same, as warranty was given on the products of the company for a period of one year. Consequently warranty expenses were recognized in the statement of profit and loss as and when incurred	The requirements with respect to recognizing a provision as per paragraph 14 of AS 29 should be complied with even in cases where the warranty period is for a period of one year.

Recognition of reserves

Observation(s)	What should one remember?
In certain cases, reserves for various purposes (for example, self-insurance reserve) were recognized by entities not by way of appropriation but as a charge to the statement of profit and loss.	Recognition of any reserve should be made only by appropriation of profit and not by a charge to the statement of profit and loss. In the instant case, the reserve was created as a charge to the statement of profit and loss, like a provision. However, in accordance with paragraph 14 of AS 29, *A provision should be recognised when:* *(a) an enterprise has a present obligation as a result of a past event;* *(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and* *(c) a reliable estimate can be made of the amount of the obligation.* *If these conditions are not met, no provision should be recognised.* Accordingly, since the above conditions are not met, 'self insurance reserve' cannot be created like a 'provision' as a charge to the statement of profit and loss. The recognition of any provision should be done only in compliance with the requirements of AS 29

Contingent liabilities

Contingent liability disclosure

Observation(s)	What should one remember?
In most cases, while companies provide the list of contingent liabilities along with the amount, some of them do not give a description of the nature of the liability – they are merely stated as 'sales related obligations' or 'claims against the company not acknowledged as debt' with no further explanation.	Paragraph 68 of AS 29, requires the disclosure of *'a brief description of the nature of the contingent liability'* For example, the nature of the contingent liability can be disclosed as Guarantees given by the Entity, Unexpired Letters of Credit.

Fixed assets

General Comments: Assets – both tangible and intangible, require significant disclosures and there are multiple pronouncements governing such disclosures. In terms of Accounting Standards, while tangible assets are covered by Accounting Standard (AS) 10, *Accounting for Fixed Assets* and Accounting Standard (AS) 6, *Depreciation Accounting*, intangible assets are covered under Accounting Standard (AS) 26, *Intangible Assets*. Further Accounting Standard (AS) 16, *Borrowing costs*, Accounting Standard (AS) 19, *Leases* and Accounting Standard (AS) 28, *Impairment of Assets* are also applicable.

Fixed Assets: Presentation

Note on fixed assets

Observation(s)	What should one remember?
The note on fixed assets, in certain cases, did not include all the columns required to present the information specified by both Schedule III and AS 6 and AS 10. For example, the column for opening balance accumulated depreciation was not disclosed	The requirement of both - Schedule III and the Accounting Standards is to disclose the gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements **Refer Appendix 1 for illustration*

Tangible and intangible assets

Observation(s)	What should one remember?
In certain cases, it was observed that there was no distinction made between tangible and intangible assets in the note on fixed assets. Further, there was no bifurcation of intangible assets into acquired intangible assets and internally generated intangible assets.	The requirement of Schedule III is to disclose tangible assets and intangible asset separately. Also paragraph 90 of AS 26 states: *"The financial statements should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible* *assets:* *(a) the useful lives or the amortisation rates used;* *(b) the amortisation methods used……."* '#' *Refer Appendix 1 for illustration*

Intangible assets

Observation(s)	What should one remember?
In certain cases, it was observed that the nature of the assets being recognized as intangible assets did not appear to meet the definition of an 'intangible asset' as envisaged under AS 26. Such cases did not include further explanation as to the reason for classifying such assets as intangible assets. For example, preference shares held in a subsidiary was disclosed as an intangible asset in one case and lease premium paid for acquiring right to hold and use land and building was also disclosed as an intangible asset in another case.	It should be noted that only those assets which meet the definition (paragraphs 6-18) and recognition criteria (paragraphs 20-54) specified in AS 26 should be recognized as intangible assets.

Depreciation for the period

Observation(s)	What should one remember?
In case of banks, it was observed that accumulated depreciation was disclosed in accordance with the Third Schedule to the Banking Regulations Act, 1949. However, disclosure of depreciation for the period was not made.	Paragraph 28 (ii) of AS 6 requires disclosure of *"total depreciation for the period for each class of assets".* In case of regulated industries, compliance needs to be ensured with the requirements specified in the specific regulations as well as accounting standards should be complied with, to the extent feasible. @ *Refer Appendix 1 for illustration*

Impairment

Observation(s)	What should one remember?
In certain instances, it was noticed, that the column of depreciation was presented as 'depreciation / impairment' implying that the figures disclosed in that column are an aggregation of both depreciation and impairment loss.	AS 28 requires disclosures of information as required under paragraph 117 to be made for each 'class of assets'. Impairment loss should be presented separately in Fixed Assets Schedule as per requirement of AS 28. $ *Refer Appendix 1 for illustration*

Revaluation

Observation(s)	What should one remember?
In some cases where certain assets had been revalued, the disclosures regarding such revaluation were not complete – although the fact of revaluation having been done was mentioned and revised numbers were used in place of the original cost, the disclosures as required by the erstwhile Schedule VI were not made.	The requirement of erstwhile Revised Schedule VI to the Companies Act, 1956, as well as current Schedule III to the Companies Act, 2013 is: "Where sums have been written off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase."

Revaluation

Observation(s)	What should one remember?
In some cases, where revaluation was done, it was observed, that the	In case of revaluation, the method used for revaluation, for example,

disclosure of the manner in which valuation was done was not mentioned	external valuers used, should be specified as required per paragraph 39 of AS 10: *'iii. revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.'* The method of valuation should be specifically mentioned (For example, by registered valuers using the current reinstatement cost / the market price, etc)

Assets held for disposal

Observation(s)	What should one remember?
In cases, where the entity had assets held for disposal which were retired from active use, such assets were not separately presented in the financial statements. Further they were presented at net book value.	Paragraph 14.2 of AS 10 specifically deals with assets held for disposal and states: 'Items of fixed assets that have been retired from active use and are held for disposal are stated at the lower of their net book value and net realisable value and are shown separately in the financial statements. Any expected loss is recognised immediately in the profit and loss statement.' Ensure that assets held for disposal are separately presented at values specified per above paragraph.

Fixed Assets: Accounting Policies

Leased assets / Leasehold assets

Observation(s)	What should one remember?
In certain cases, it was observed that the accounting policy stated that the leased assets are amortised over the period of lease with no reference to the useful life of the asset. For example: • 'Leased assets are amortised over the period of lease' • 'Leasehold assets viz. land and vehicles are amortised over the period of lease.'	In case of leased assets, paragraph 18 of AS 19 specifically states *'The depreciation policy for a leased asset should be consistent with that for depreciable assets which are owned, and the depreciation recognised should be calculated on the basis set out in Accounting Standard (AS) 6, Depreciation Accounting. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the lease term or its useful life, whichever is shorter.'* Similar treatment is also applicable in case of leasehold assets which commonly comprise leasehold improvements.

Leasehold assets

Observation(s)	What should one remember?
In certain cases, it was observed that there was no amortization recognized with respect to leasehold assets	An asset acquired on lease indicates a finite useful life of the asset. Accordingly, there should be an amortization charge pertaining to such leased asset over the period of the lease. The amortization policy used for leasehold assets should be disclosed.

Expenditure during construction period

Observation(s)	What should one remember?
In certain cases, the accounting policy stated that certain expenses such as indirect costs / other incidental expenses / advertising and publicity expenses which were incurred during construction period, were included in the amounts capitalized	Reference in this regard is made to the requirements of paragraph 20 of AS 10, which states: *"The cost of a fixed asset should comprise its purchase price and any attributable cost of bringing the asset to its working condition for its intended use."* Consequently, it needs to be elaborated in the accounting policy as to whether the indirect costs / indirect expenses were infact directly attributable to construction of the asset. Expenses incurred towards advertising / publicity, should not be considered in the cost of the fixed assets.

Capitalisation of assets not controlled by the company

Observation(s)	What should one remember?
In certain cases, it was observed that enabling assets or assets which were not controlled by the company were recognized as fixed assets. For example: • Expenditure incurred towards development of road on land not owned by the company • Expenditure towards sub-stations and power lines which are owned by the state electricity boards	In this case, reference is made to paragraphs 49 and 88 of the 'Framework for the Preparation and Presentation of Financial Statements', issued by the ICAI, which give respectively, the following definition of and recognition criteria for, an asset: "An *asset* is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise." "An asset is recognised in the balance sheet when it is probable

	that the future economic benefits associated with it will flow to the enterprise and the asset has a cost or value that can be measured reliably." Based on the above, expenditure incurred towards developing assets which are not controlled by the company should be recognised in the statement of profit and loss of the period in which these are incurred. This view has also been taken by the EAC in an opinion titled treatment of capital expenditure on assets not controlled by the company. [EAC Volume XXX, Query 11 finalised on March 18, 2010]

Non-charging of depreciation

Observation(s)	What should one remember?
In case of a company engaged in port activities, it was observed that depreciation was being provided on 'dredging' assets beyond the concession period.	Usually where the life of an asset is limited on account of legal or contractual terms, the same needs to be factored in, while estimating the useful life of the asset. Reference should be made to paragraph 22 of AS 6 which lists *"legal or other limits on the use of the asset"* as one of the factors. Consequently, where there is a limit on the dredging assets on account of the concession period, it would appear inappropriate to consider a longer estimated useful life. However, where there are other reasons for such estimation, the accounting policy should specifically state such reasons.

Depreciation rates used as per statutes other than the Companies Act, 2013

Observation(s)	What should one remember?
In few cases of non-company entities the accounting policy stated that depreciation was computed based on rates specified under the Income Tax Act, 1961. In other cases, it was observed that the useful life considered for assets put to use before September 30, was different and the useful life of assets put to use after September 30 was different.	In case of general purpose financial statements, the entities other than companies, need to comply with the requirements of Accounting Standards issued by the ICAI. Paragraph 20 of AS 6 provides that "*The depreciable amount of a depreciable asset should be allocated on a systematic basis to each accounting period during the useful life of the asset.*" Consequently, it would not be appropriate to state that the depreciation rates are based on the rates specified under the Income Tax Act, 1961, since these are generally not based on the concept of 'useful life' as envisaged under AS 6. Also, cognizance needs to be given to the factors which could lead to different useful lives of assets as specified in paragraph 7 of AS 6. The companies need to comply with the requirements of Schedule II to the Companies Act, 2013, which prescribes for depreciation to be provided on 'pro-rata' basis.

Intangible assets – Useful life beyond ten years

Observation(s)	What should one remember?
In certain cases, it was observed, that there was no explanation regarding the rationale behind amortising a specific intangible asset beyond the rebuttable assumption of ten years as required by AS 26.	Paragraph 94(a) of AS 26 requires the following to be disclosed: *"if an intangible asset is amortised over more than ten years, the reasons why it is presumed that the useful life of an intangible*

	asset will exceed ten years from the date when the asset is available for use. In giving these reasons, the enterprise should describe the factor(s) that played a significant role in determining the useful life of the asset"

Intangible assets – Assets with indefinite life

Observation(s)	What should one remember?
In certain cases, it was noticed, that the entities disclosed certain intangible assets – particularly, right of use, as perpetual assets with no amortisation being provided on the same.	Paragraph 63 of AS 26 requires *"The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortisation should commence when the asset is available for use."* Accordingly, AS 26 provides that amortisation is to be provided based on 'best estimate of useful life'. The Standard also prescribes a rebuttable presumption that useful life of an intangible asset will not exceed ten years.

Amortization of intangible assets

Observation(s)	What should one remember?
In certain companies, it was noted that the accounting policy stated that software purchased is charged to the statement of profit and loss as and when incurred.	The policy of charging software purchased to statement of profit and loss does not appear to be in accordance with the 'best estimate of useful life' as given in paragraph 63

	of AS 26, unless the amount involved is not material.

Observation(s)	What should one remember?
In relation to intangibles, in some cases, it was noticed that the accounting policy states the 'depreciation' rates rather than specifying the same as 'amortization' rates.	In case of intangible assets, the term to be used is 'amortization' and not 'depreciation' in line with AS 26.

Borrowing costs- Qualifying Assets

Observation(s)	What should one remember?
In certain cases, it was observed that the accounting policy disclosed with respect to borrowing costs states: *"Finance costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready for intended use"*. Such accounting policy gives an impression that finance costs on acquisition of all fixed assets are capitalized rather than just qualifying assets.	AS 16 permits capitalization of borrowing costs only when they relate to qualifying assets as specified in paragraph 6: *"Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset...."*

Borrowing costs

Observation(s)	What should one remember?
In certain cases, it was observed that the accounting policy with respect to borrowing costs, specified that borrowing costs attributable to qualifying fixed assets were capitalized up to the date of 'commissioning' of the assets	The requirement of AS 16 is to ensure that borrowing costs are capitalized only till the time substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete (paragraph 19). Consequently the reference to

Observation(s)	What should one remember?
	'commissioning' of assets may not be an appropriate indicator and may lead the reader to infer that the above critieria specified in AS 16 could have been met prior to such commissioning.

Research and Development Expenses

Observation(s)	What should one remember?
It was also noticed that no distinction was made between "research" and "development" phases in drafting the related accounting policies leading to inappropriate accounting policies: For example, policies read as under: • "Capital expenditure on research and development is shown as an addition to fixed assets and depreciated accordingly." • "Capital expenditure relating to Research and Development amounting to Rs. XX (previous year Rs. XX) has been included in fixed assets" Such accounting policies convey an impression that expenses pertaining to the 'research phase' are also considered for capitalization.	Paragraph 41 of AS 26 very clearly states: *'No intangible asset arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred.'* The words / phrases used in describing the accounting policy should be as per the respective accounting standards

Fixed Assets: Disclosures

Borrowing costs

Observation(s)	What should one remember?
In most cases, it was observed that borrowing costs on qualifying assets were capitalized and an accounting policy for the same was also	Paragraph 23 of AS 16 requires the disclosure of *'the amount of borrowing costs capitalized during the period'*

disclosed. However the amount of borrowing costs during the year was not disclosed	

Discount rate used in computing value in use

Observation(s)	What should one remember?
In a few cases, where the company had recognized impairment loss and had computed value in use, the disclosure made with regard to discount rate was "….based on an appropriate discounting factor" rather than specifically stating the discount rate used.	The disclosure requirement in this regard as per paragraph 121 of AS 28 is: *"(g) if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use..."* Thus, AS 28 requires the disclosure of discount rate used for computing value in use.

Capital Work in Progress

Components of Capital Work in Progress

Observation(s)	What should one remember?
In some cases, the entity had not disclosed the components of capital work in progress.	As a best practice, the components of capital work in progress should be disclosed especially in case of significant capitalisation projects.

Presentation of Capital Advances

Observation(s)	What should one remember?
In few cases, capital advances were disclosed as part of capital work-in-progress.	Schedule III requires capital advances to be disclosed under 'Long-term loans and advances' Ensure that capital advances are disclosed under Long –term loans and advances separately presented at values specified per above paragraph.

Investments

Apart from the disclosure requirements of Schedule III, investments are covered under Accounting Standard (AS) 13, Accounting for Investments.

Investments: Presentation

Categorization of investments

Observation(s)	What should one remember?
In certain cases, it was observed that in the note on investments: • In case of few non-corporate entities, the investments were not classified as current or long term. • Also segregation between quoted and unquoted investments was not made.	AS 13 has two requirements in case of categorization of investments: Paragraph 26: *An enterprise should disclose current investments and long-term investments distinctly in its financial statements* Paragraph 27: *Further classification of current and long-term investments should be as specified in the statute governing the enterprise. In the absence of a statutory requirement, such further classification should disclose, where applicable, investments in:* *(a) Government or Trust securities* *(b) Shares, debentures or bonds* *(c) Investment properties* *(d) Others—specifying nature.* AS 13 requirement with regard to quoted/unquoted investments is: Paragraph 35 (e) – *'the aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments'* Additionally, the disclosure requirement of quoted/unquoted investments as per Schedule III is

	as given below: • Aggregate amount of quoted investments and market value thereof • Aggregate amount of unquoted investments • Aggregate provision for diminution in value of investments
In another case, it was noticed that same figures in both, the current and previous years was shown as market value of quoted investments giving an impression that the values were not updated.	Also, Schedule III requires classification of investments as 'trade' and 'other investments'.

Investment property

Observation(s)	What should one remember?
In certain cases, where the company had investment property, the accounting policy stated that the investment property was stated at fair value	Paragraph 30 of AS 13 states: *30. An enterprise holding investment properties should account for them as long term investments.* However, in this regard, attention is also drawn to Circular issued by the Ministry of Corporate Affairs [Circular Letter No. 10(1) C1-VI/61, dated May 21, 1962], which requires that depreciation should be provided with respect to investment property.

Diminution in the value of investments

Observation(s)	What should one remember?
In some cases, it was observed that the provision for diminution in the value of investments was disclosed under the sub-head 'provisions'	As per paragraph 17 of AS 13, "However, when there is a decline, other than temporary, in the value of a long term investment, the carrying

rather than reducing the same from the carrying value of investments.	amount is reduced to recognise the decline"

Investments: Accounting Policies

Diminution in the value of investment

Observation(s)	What should one remember?
It was observed that the accounting policy in relation to diminution in the value of investment referred to 'permanent diminution' rather than 'other than temporary decline'. For example, the policy read as under: • Long-term investments are valued at cost except in the case of a ***permanent diminution*** in their value, in which case the necessary provision is made. • 'Provision for diminution in value of investments is made if management perceives that there is significant ***permanent diminution*** in value of investments or in accordance with the ……Accounting Standard 13 issued by the Institute of Chartered Accountants of India'	There is no reference to the phrase ***'permanent diminution'*** in AS 13. The standard states: "*However, when there is a decline, other than temporary, in the value of a long term investment, the carrying amount is reduced to recognise the decline."* Accordingly, a provision can be recognized in case of 'other than temporary decline' There is a difference between what is 'permanent' and what is 'other than temporary'. The words / phrases used in describing the accounting policy should be as per the respective accounting standard

Current Assets

General Comments: Current assets comprise various sub-heads as mentioned in the format of balance sheet. While some items are covered by specific Accounting Standards such as inventories covered by Accounting Standard (AS) 2, Valuation of Inventories and provisions for bad and doubtful debts covered by Accounting Standard (AS) 4, Contingencies and Events Occurring after the Balance Sheet Date, other components do not have a specific standard governing them. Consequently, the disclosures under those components are primarily driven by the requirements of Schedule III.

Inventories

Disclosure in the balance sheet

Observation(s)	What should one remember?
It was observed, that the note for inventories, in many cases, included the following statement immediately below the heading inventories: "(As taken, valued and certified by the Management)"	A clarification has been inserted in the Guidance Note on Audit of Inventories, issued by ICAI, relating to this aspect, whereby it has been clarified that such an expression may lead the users of the financial statements to believe that the auditor merely relies on the management's certificate without carrying out any other appropriate audit procedures to satisfy himself about the existence and valuation of inventories. Further, the clarification also suggests that the auditor may advise clients to omit the words "as valued and certified by the management", when describing inventories in the financial statements.

Provision for slow moving inventory

Observation(s)	What should one remember?
It was observed, that in some cases, companies were recognizing provisions for slow moving inventory. Further, the same was being disclosed as a reduction from the value of inventory.	AS 2 requires inventories to be valued at lower of cost and net realizable value. There are various factors considered for arriving at net realizable value, such as physical damage, partial or full obsolescence or decrease in selling price. Consequently, where certain inventory is determined to be slow moving, this factor needs to be adjusted in arriving at the net realizable value rather than just disclosing the provision as a deduction from the value of the

	inventory raising a doubt in the mind of the reader that other factors have not been considered at arriving the net realizable value.

Machinery spares and maintenance materials

Observation(s)	What should one remember?
It has been observed, in some cases, that machinery spares and maintenance materials were recognized in the statement of profit and loss on purchase	AS 2 deals with machinery spares other than those used only in connection with an item of fixed asset and whose use is expected to be irregular. Such machinery spares which are within the scope of AS 2 and maintenance material should be recognized in statement of profit and loss only on consumption of such material in the production process, rather than on purchase.

Valuation of inventories

Observation(s)	What should one remember?
It has been observed, in some cases, that the accounting policy relating to valuation of inventories specified that certain categories of inventories, usually raw materials stores and spares or work in progress, were valued only at cost with no reference to net realizable value. In certain other cases, it was observed that the accounting policy refers to lower of cost or market value rather than net realizable value.	With regard to measurement, AS 2 requires that *"Inventories should be valued at the lower of cost and net realisable value."* Inventories refer to all categories of inventories and requirements apply to all categories of inventories including raw materials, stores and spares, etc.

Cost formula

Observation(s)	What should one remember?
It was observed that most companies did not disclose the cost formula as required by AS 2	Paragraph 26 of AS 2 specifically requires disclosure of *"The accounting policies adopted in measuring inventories, including the cost formula used."* The cost formula used should be included in the accounting policy of inventories (For example, FIFO, weighted average method, specific identification, etc)

Cash and Bank balances

Overdrafts

Observation(s)	What should one remember?
It was observed in some cases that, the bank overdrafts were disclosed as a reduction from fixed deposits or from balances with banks rather than disclosing them separately under current liabilities.	An overdraft is not ordinarily offset with the bank balance, unless there is a legal right with the company to do so.

Loans and advances

Distinction between considered good and considered doubtful

Observation(s)	What should one remember?
In some cases, it was noticed that short term loans and advances were not bifurcated based on whether they are considered good or considered doubtful	Schedule III requires the following disclosures relating to short term loans and advances as: • Secured, considered good • Unsecured, considered good • Doubtful Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.

Miscellaneous expenditure/ Deferred Revenue Expenditure

General Comments: Miscellaneous expenditure primarily refers to those expenses which are not immediately recognised in the statement of profit and loss, but it is charged to the statement of profit and loss over a period of time. Such expenses are categorised as miscellaneous expenditure since they cannot be capitalised as an 'asset' in accordance with the definition of ásset' given in paragraph 49 of the *Framework*.

After introduction of Accounting Standard (AS) 26, Accounting for Intangible Assets and withdrawal of the Guidance Note on Treatment of Expenditure during Construction Period (in August 2008), there are no expenses which can be treated as miscellaneous expenditure.

However, it has been observed that in some cases, companies continue to disclose pre-operative expenses and other deferred expenses (eg., dry dock expenses, store opening expenses) as miscellaneous expenditure to be written off over a period of time.

Further, it is pertinent to note that while pre-revised Schedule VI included miscellaneous expenditure as an item in the balance sheet, Schedule III does not include the same.

Section II
Statement of Profit and Loss

As mentioned earlier, Schedule III prescribes both the form and content of the statement of profit and loss. This is a significant departure from the pre-revised Schedule VI, which did not prescribe a format and further only required that the profit and loss account (as termed in pre-revised Schedule VI) should be made in a manner which clearly discloses the result of the working of the company during the period and discloses all material features including credits or receipts and debits and expenses in respect of non-recurring transactions or transactions of an exceptional nature.

The format of statement of profit and loss prescribed in Schedule III is as under:

PART II — STATEMENT OF PROFIT AND LOSS

Name of the company ……

Profit and Loss statement for the year ended ……

(Rupees in….)

	Particulars	Note No.	Figures as at the current reporting period	Figures as at the previous reporting period
	1	*2*	*3*	*4*
I	Revenue from operations			
II	Other income			
III	Total Revenue (I + II)			
IV	Expenses:			
	Cost of materials consumed			
	Purchases of stock-in-trade			
	Changes in inventories of finished goods, work in progress and stock-in-trade			
	Employee benefits expense			

	Particulars	Note No.	Figures as at the current reporting period	Figures as at the previous reporting period
	Finance costs			
	Depreciation and amortisation expense			
	Other expenses			
	Total Expenses			
V	Profit before exceptional and extraordinary items and tax (III – IV)			
VI	Exceptional items			
VII	Profit before extraordinary items and tax (V – VI)			
VIII	Extraordinary items			
IX	Profit before tax (VII – VIII)			
X	Tax expense: (1) Current tax (2) Deferred tax			
XI	Profit (Loss) for the period from continuing operations (VII – VIII)			
XII	Profit / (Loss) from discontinuing operations			
XIII	Tax expense of discontinuing operations			
XIV	Profit / (Loss) from discontinuing operations (after tax) (XII – XIII)			
XV	Profit / (loss) for the period (XI + XIV)			
XVI	Earnings per equity share: (1) Basic (2) Diluted			

General Observations

Revenue Recognition

General Comments: Revenue is one of the extremely crucial areas which require considerable attention and is covered by Accounting Standard (AS) 7 *Construction Contracts* and Accounting Standard (AS) 9 *Revenue Recognition*, apart from the requirements of Schedule III.

Revenue Recognition: Presentation

Captive consumption / Inter unit sale

Observation(s)	What should one remember?
It was observed in some cases, that captive consumption of internally generated product was added to sales	Captive consumption of any product by a company does not fall under the definition of revenue as envisaged by AS 9 which states: *'Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.'* The above position has also been clarified in an Announcement of the

Observation(s)	What should one remember?
	Council on 'Treatment of Inter-divisional Transfers' published in the May 2005 issue of Journal of the Institute 'The Chartered Accountant'.

Income disclosed net of expenses

Observation(s)	What should one remember?
It was noticed in some cases that the revenue from sale of goods was disclosed net of the related expenses. For example, in one case, sale of goods was disclosed after reducing expenses relating to ocean freight.	The definition of 'revenue' as per AS 9 as stated above refers to 'gross inflows' Revenue should be disclosed as the gross inflows rather than reducing related expenses such as ocean freight, etc from such gross inflows

Gain/loss from foreign currency transactions

Observation(s)	What should one remember?
It was noticed in some cases that the revenue included gain/loss from foreign currency transactions	Schedule III specifically requires net gain or loss on foreign currency transaction and translation to be disclosed as additional information (other than that disclosed as finance cost) and not under revenue.

Excise duty

Observation(s)	What should one remember?
In certain cases, it was observed that the disclosures as per requirements of AS 9 were not fully complied with. For example, • Excise duty was disclosed as an expense and not reduced from sales	Explanation to paragraph 10 of AS – 9 states: *The amount of revenue from sales transactions (turnover) should be disclosed in the following manner on the face of the statement of profit and loss:* *Turnover (Gross) XX* *Less: Excise Duty XX*

	Turnover (Net) XX *The amount of excise duty to be deducted from the turnover should be the total excise duty for the year except the excise duty related to the difference between the closing stock and opening stock. The excise duty related to the difference between the closing stock and opening stock should be recognised separately in the statement of profit and loss, with an explanatory note in the notes to accounts to explain the nature of the two amounts of excise duty.*

Revenue Recognition: Accounting Policies

Extent of risks and rewards transfer

Observation(s)	What should one remember?
It has been observed that the terminology used in the accounting policy for revenue recognition with respect to transfer of risks and rewards is not in line with that of AS 9. For example, the accounting policies state that revenue is recognized on transfer of 'sufficient' or 'substantial' risks and rewards.	Paragraph 11 of AS 9 interalia states: *"In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:* *(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and...."* As seen from the above, the requirement is to make an assessment of whether 'significant' risks and rewards have been transferred.

Extent of crystallizing the timing of revenue recognition and transfer of risks and rewards

Observation(s)	What should one remember?
It has been observed that the accounting policy with respect to timing of revenue recognition is inadequate as it does not mention either the manner in which the transfer of significant risks and rewards occurs or it mentions a particular event but does not mention whether the occurrence of that event indicates a transfer of the significant risks and rewards. A few examples include: • Revenue is recognized on transfer of goods to customers • Revenue is recognized on dispatch of goods • Revenue from resale of software is recognized on delivery of products • Salle is recognized on completion of sale of goods	As required by paragraph 11 of AS 9, the requirement is to make an assessment of whether 'significant' risks and rewards have been transferred. The accounting policy of the company needs to elaborate on this assessment and specify that the occurrence of the specific event indicates that significant risks and rewards have been transferred and hence revenue is recognized on occurrence of such event. Few examples could be : Revenue is recognised at the time of transfer of significant risks and rewards which occurs at the time of dispatch of goods in the instant case. Revenue from resale of software is recognised at the time of transfer of significant risks and rewards which in the instant case oocurs at the time of delivery of products.

Service revenue – Method of accounting

Observation(s)	What should one remember?
The accounting policy in case of service revenue, in some cases, did not specify the method used for recognizing revenue – either proportionate completion method or completed service contract method	AS 9 provides for accounting for service revenue either by the proportionate completion method or by the completed service contract method [Paragraph 7 of AS 9].

	In order to get an understanding of how revenue has been recognized, it would be appropriate to specify the method of revenue recognition used by the company Example: 'Revenue from fixed price contracts is recognised as per the proportionate completion method with contract cost determining the degree of completion.'

Discounts / VAT

Observation(s)	What should one remember?
It was noted that in certain cases, the accounting policy disclosed that the sales were net of discounts, without specifying the nature of discount as to whether they were cash discounts or trade discounts. For example, a policy read as under: "Gross sales are inclusive of excise duty and are net of discounts /sales returns/VAT." Where the accounting policy specifies the reduction as only 'discount', it becomes ambiguous in terms of whether it is trade discount or not and whether the accounting policy is appropriate Similarly, where the company is a manufacturing company, there is no mention of accounting treatment of VAT in the accounting policy relating to revenue recognition	In line with Schedule III, discount on sale is required to be disclosed separately as an expense, except in the case of trade discounts which can be reduced from gross sales. Similarly, in case of VAT, it would be appropriate for the company to disclose the manner of dealing with VAT in order to provide the readers of the financial statements, a better understanding of the revenue recognition policy.

Other Income

General Comments: Disclosure of other income requires careful assessment of the facts and circumstances in each individual case rather than applying generalizations. A source of income which can be considered as the main revenue generating activity for one enterprise, may only be a peripheral or ancillary source for another enterprise.

Other Income

Observation(s)	What should one remember?
In certain cases, where claims were received on account of litigation settlement of earlier years, such claims were adjusted against expenses of the current year	Where claims of earlier years have been received in the current period, it would be more appropriate to disclose the same as 'other income' since the same is in the nature of inflows not relating to the expenditure incurred for the current period.

Government Grants

General Comments: Governments grants are of varied nature and accordingly, there are different accounting treatments prescribed by AS 12 based on the nature of such grants.

Presentation of subsidy

Observation(s)	What should one remember?
It was observed in a few cases, that subsidy received from Government of India was disclosed as 'revenue' instead of 'other income'	Reference is made to the definition of revenue in AS 9, which *inter alia* states: *"Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.* Since grants received from the government are not consideration

	towards sale of goods, rendering of services or use of the resources of the company, it would not be appropriate to classify the same as revenue. Rather such grants should be classified as 'other income'.

Nature of Government Grant

Observation(s)	What should one remember?
In certain cases, it was noticed that the accounting policy for government grants was generic without specifying the nature of the grants leading to ambiguity in terms of appropriateness of the accounting treatment. For example, a policy read as under: "Government grants are recognized in the profit and loss account in accordance with the related scheme and in the period in which these are accrued."	The requirement of AS 12 is to account for grants based on their nature, viz., grants related to assets, grants related to revenue or grants in the nature of promoter's contribution. Accordingly, both the nature of grant as well as the consequent accounting treatment will need to be provided in the accounting policy in order to give a complete understanding

Specific assets

Observation(s)	What should one remember?
Where grants were received for specific assets, it was observed, that no disclosures were made regarding the amount of grant received, the manner of adjustments, etc	Paragraph 23(ii) of AS 12 requires the disclosure of *"the nature and extent of government grants recognised in the financial statements, including grants of non-monetary assets given at a concessional rate or free of cost"*

Assets received free of cost

Observation(s)	What should one remember?
In certain cases, it was observed that the accounting policy on government grants mentioned that assets received free of cost from the Government were valued at "cost to	Reference in this regard is made to paragraph 17 of AS 12 which states: *"Government grants in the form of non-monetary assets, given at a concessional rate, should be*

the Government" or in other cases at "notional value"	*accounted for on the basis of their acquisition cost. In case a non-monetary asset is given free of cost, it should be recorded at a nominal value."* Consequently, the accounting policy needs to be worded appropriately.

Conditions to be fulfilled

Observation(s)	What should one remember?
In most cases, government grants are received by entities subject to fulfillment of certain conditions. It was observed, that while some entities disclosed the existence of such conditions, they did not disclose whether and to what extent the entity had complied with those conditions and implications thereof	Paragraph 23(i) of AS 12 requires disclosure of *"the accounting policy adopted for government grants, including the methods of presentation in the financial statements"* Where any conditions are attached to a government grant, the disclosure of such conditions is relevant in order to understand the accounting treatment of such grants.

Employee Benefits

General Comments: The requirement of Part II of Schedule III with regard to employee benefits expense to be disclosed under the following heads:

(i) Salaries and wages

(ii) Contribution to provident and other funds

(iii) Expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP)

The Accounting Standard on employee benefits, AS 15, prescribes extensive and detailed disclosures, particularly with respect to defined benefit plans. AS 15 is applicable to all employee benefits other than employee share-based payments, which are covered by Guidance Note on Accounting for Employee Share-based Payments.

Actuarial gains and losses

Observation(s)	What should one remember?
In many cases, it was observed that there was no accounting policy disclosed regarding treatment of actuarial gains and losses	Paragraph 120 (a) of AS 15 requires disclosure of accounting policy for recognising actuarial gains and losses

Defined contribution plans

Observation(s)	What should one remember?
Where a company had defined contribution schemes in the form of provident fund or superannuation fund, it was noticed that, it did not make a separate disclosure of what was the amount recognized in this regard in the statement of profit and loss during the year.	Paragraph 47 of AS 15 states: *"An enterprise should disclose the amount recognised as an expense for defined contribution plans"*

Classification between defined contribution and defined benefit plans – Provident Fund administered through Trusts

Observation(s)	What should one remember?
In a few cases, it was observed that, where provident fund was administered through a Trust set up for the purpose, entities had bifurcated a single provident fund plan into two: (a) amount pertaining to contributions (employer and employee) made to provident fund as 'Defined Contribution Plan' and (b) amount pertaining to interest on the above contributions as 'Defined Benefit Plan'.	With regard to classification, reference should be made to paragraphs 25 to 27 of AS 15. Where an entity sets up a Trust to administer the provident fund plan, it undertakes the actuarial and investment risk for the entire amount, i.e., the principal and the interest and not just the interest element alone. Accordingly, the plan falls under the classification of a 'defined benefit plan' Further, the treatment of the plans administered through Trusts has been clarified in the Guidance on Implementing AS 15, (Revised

Observation(s)	What should one remember?
	2005), issued by the Accounting Standards Board ('ASB') of the ICAI. Where a provident fund plan is administered through Trust, the classification criteria should be evaluated for the entire plan and not separately for principal and interest portions. Accordingly, if the investment and actuarial risk fall on the employer as per the terms of setting up the Trust, it should be classified and presented entirely as a defined benefit plan.

Defined benefit plans – Provident Fund administered through Trusts

Observation(s)	What should one remember?
It has been observed in a few cases that where the company had set up a Trust to manage provident fund, it classified the same correctly as a defined benefit plan. However, the measurement and disclosure requirements as applicable to defined benefit plans were not followed. Further, in such cases, the disclosures stated "*Pending the issuance of guidance note from the Actuarial Society of India, the Company's actuary has expressed an inability to reliably measure the provident fund liabilities and hence the company is unable to provide the necessary disclosures*"	There are no exemptions with regard to the requirements of the standard as applicable to provident fund trusts which are classified as defined benefit plans. The recognition, measurement and disclosure requirements of AS 15 should be followed even where the company has set up a trust to manage the provident fund benefit.

Defined benefit plans – inappropriate classification

Observation(s)	What should one remember?
In some cases, it was observed that the classification of employment benefits were not in accordance with the requirements of AS 15. For example, in some cases, employee benefit in the nature of gratuity (which is in the nature of defined benefit plan) was classified as a 'short term employee benefit' with no explanation as to the reason for such classification.	Appropriate recognition and measurement of employee benefits is dependent on the accurate classification of the employee benefit in accordance with the guidance in AS 15. Inappropriate classification of employee benefits could potentially lead to inappropriate recognition of expenses, related provision as well as incorrect disclosures. Reference should be made to the definitions of the various categories of employee benefits and each employee benefit needs to be carefully analyzed to identify appropriate classification.

Details of provisions for employee benefits

Observation(s)	What should one remember?
In a few cases, it was observed that the details of provisions recognized towards employee benefits such as liability towards earned leave, medical leave, post retirement benefit plans, etc, were disclosed as a part of the disclosures made for compliance with the requirements of AS 29.	Reference is made to paragraph 5 of AS 29, which interalia states: "Where another Accounting Standard deals with a specific type of provision, contingent liability or contingent asset, an enterprise applies that Standard instead of this Standard. For example, certain types of provisions are also addressed in Accounting Standards on: ……. (d) retirement benefits (see AS 15, Accounting for Retirement Benefits in the Financial Statements of Employers). Consequently, the provisions recognized as per the requirements

	of AS 15 are not covered under AS 29 and should not be disclosed as such.

Defined benefit plans - Disclosures

Observation(s)	What should one remember?
In several, it was observed that the various disclosures mandated under paragraph 120 of AS 15 were not made. For example: • the estimates of future contribution to be made were not disclosed [paragraph 120(o) of AS 15] • category of plan assets [paragraph 120(h) of AS 15] • experience adjustments [paragraph 120(n) of AS 15]	With respect to defined benefit plans, paragraph 120 of AS 15 mandates several disclosures. It needs to be ensured that the disclosure requirements of the said paragraph are complied with.

Distinction between wholly unfunded plans and wholly or partly funded plans

Observation(s)	What should one remember?
In some cases, the disclosures stated that the plans for certain groups of employees were funded and other groups were unfunded. However the analysis of defined benefit obligation was presented on an aggregate basis	Paragraph 120 (a) of AS 15 requires an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded. Where the entity has multiple plans with some being funded and others unfunded, the disclosures should be made separately based on the funding status of the plan

Employee share-based payments - disclosures

Observation(s)	What should one remember?
It was observed in some cases that either one or a combination of the	Disclosure requirements for employee stock option plans are

following disclosures were found to be lacking: ▪ weighted average share price for stock options exercised during the period ▪ the range of exercise prices and weighted average remaining contractual life for outstanding stock options ▪ effect of employee share based plans on the profit or loss for the period and on its financial position	specified under paragraphs 48 to 52 of the Guidance Note which need to be complied with in its entirety

Foreign currency transactions

Monetary assets and liabilities

Observation(s)	What should one remember?
It was observed that the accounting policy in relation to foreign currency transactions stated that "current assets and current liabilities" denominated in foreign currencies as at the balance sheet date are translated at the rate of exchange prevailing at the year-end" rather than referring to "monetary assets and monetary liabilities"	The requirement of translation by AS 11 is with regard to monetary assets and liabilities and not with respect to current assets and current liabilities

Transactions covered under AS 11

Observation(s)	What should one remember?
It was observed in a few cases, that the loans denominated in foreign currency, which are covered under AS 11, were recognised on the basis of AS 30. Further, in certain cases, it was observed that gains or losses on	It should be noted that a loan denominated in foreign currency would be covered under the definition of monetary item as per AS 11 and consequently would be covered within the scope of AS 11. AS 30, should only apply to

derivatives were adjusted with the carrying cost of fixed assets which is not in accordance with the announcement of ICAI with respect to Accounting for Derivatives * Also, in some cases, the gain on account of mark to market of a derivative (not covered under AS 11) has been offset against the loss on translation of a loan denominated in foreign currency, with only the net impact being recognized in the statement of profit and loss * issued on March 29, 2008	transactions / financial instruments which are not covered by AS 11 (as stated in the footnote to the standard – for example, firm commitments and highly probable forecast transactions). Further, it should be noted that AS 30, AS 31 and AS 32 have not been notified under the Companies (Accounting Standards) Rules, 2006. Consequently, companies can use the principles enunciated in these standards only to the extent that they do not conflict notified accounting standards. This position has also been clarified in an Announcement of ICAI published in April 2011 issue of 'The Chartered Accountant' pp 1575

Foreign currency translation reserve

Observation(s)	What should one remember?
It was observed in some cases that, where the company had foreign currency translation reserve, it had not disclosed the movement in such reserve as required by AS 11 as well as Schedule III.	Apart from the requirement of Schedule III to disclose movement in reserves, paragraph 40(b) of AS 11 requires *"net exchange differences accumulated in foreign currency translation reserve as a separate component of shareholders' funds, and a reconciliation of the amount of such exchange differences at the beginning and end of the period"* to be disclosed

Exceptional items

Observation(s)	What should one remember?
In certain cases, the statement of profit and loss included a specific line item titled 'exceptional item'.	AS 5 does not define the term 'exceptional item'. However, paragraph 12 of AS 5 states: *"When*

However, no details were given in the statement of profit and loss or in the notes with respect to the nature of the exceptional item. In other cases, it was observed that while the exceptional item was specified, there was no further explanation as to the reason for considering it as exceptional, particularly in cases, where they appeared to be in the nature of expense or income from ordinary activities, for example: • Dividend received from subsidiary • Actuarial gains or losses On the other hand, there were certain cases, where the company had failed to disclose certain items as exceptional, although the nature and amounts involved indicated that they could have been classified as exceptional (For example, reversal of accumulated amortization relating to intangible assets on account of a change in accounting policy)	*items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately."* Based on the above, it is clear that apart from separate disclosure of such items, the nature of the item and the reason for considering it as exceptional should also be disclosed in order to provide relevant information to the reader of the financial statements.

Prior period expenses

Observation(s)	What should one remember?
In certain cases, where the profit and loss account included a prior period expense, it was observed that, there was no disclosure regarding the nature of expense either in the profit and loss account or in the notes to accounts	In case of prior period expenses, as per Paragraph 15 of AS 5,*"the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived."*

Change in accounting policy

Observation(s)	What should one remember?
In certain cases, it was observed that notes to the financial statements mentioned that a change in accounting policy e.g. change in valuation of plan assets from book value to fair value was made. However, there were no further disclosures regarding the impact of change.	In case of change in accounting policy, as per Paragraph 32 of AS 5, *"Any change in an accounting policy which has a material effect should be disclosed. The impact of, and the adjustments resulting from, such change, if material, should be shown in the financial statements of the period in which such change is made, to reflect the effect of such change. Where the effect of such change is not ascertainable, wholly or in part, the fact should be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted."*

Section III
Other Disclosures

Apart from the disclosure requirements discussed earlier, there are certain standards which deal exclusively with disclosures. These standards include:

AS 1: Disclosure of accounting policies
AS 3: Cash flow statement
AS 17: Segment reporting
AS 18: Related party disclosures
AS 20: Earnings per share
AS 24: Discontinuing operations

Further, Part II of Schedule III also requires certain disclosures other than the items which have been dealt with earlier. These include the aspects such as the following:

- Quantitative information under broad heads
- Fee paid to Auditors
- CIF Value of imports
- Earnings and expenditure in foreign currency
- Amounts remitted as dividends in foreign currencies

Additionally, the listing agreement entered into between the stock exchanges and listed companies also require certain information to be disclosed in the financial statements of the listed company.

Accounting Standard (AS) 1, *Disclosure of Accounting Policies*

It should be remembered that Accounting Standard (AS) 1 *Disclosure of Accounting Policies*, requires all significant accounting policies adopted in the preparation and presentation of financial statements to be disclosed. [*Paragraph 24 of AS 1*].

It has been observed that at times, the entity may have certain transactions/events with regard to which accounting policies were not

disclosed even though amounts involved appeared to be material . A few examples are:

- Accounting for 'clean development mechanism' as intangible asset, but no reference to the accounting policy for intangible assets.
- scrap sales or conversion income, despite the amounts recognized being significant.
- certain significant expenses such as 'business origination outsourcing costs'.
- securitization / assignment which appeared to be a key activity of the company.
- use of rental premises / leased vehicles.
- recognition of deferred taxes.
- a company had foreign branches, but no reference to manner of translating foreign operations or classification of such operations in integral and non integral operations.
- customer loyalty programme.

Further, in certain cases, it was observed that rather than stating the accounting policy used, the policy only referred to the Accounting Standard being applied. For example, in one case, the accounting policy merely stated: "lease income is recognised in accordance with AS 19".

Cash Flow Statement

General Comments: Schedule III does not specify either the content or form of the cash flow statement. AS 3 specifies the content and the different methods of presenting the cash flow statement.

Components of cash and cash equivalents

Observation(s)	What should one remember?
Cash and cash equivalents, in a few cases, included deposits with maturity over twelve months. In other cases, it additionally included earmarked balanaces	In explaining the definition of cash equivalents, paragraph 6 of AS 3 states: "Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an

	investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition." Consequently, where deposits with maturity over 12 months are included in cash equivalents, it would be appropriate to explain why these were considered as cash equivalents.

Reconciliation of cash and cash equivalents

Observation(s)	What should one remember?
In some cases, it was observed that the aggregate cash and cash equivalents, considered in the cash flow statement were not reconciled with the cash and cash equivalents disclosed under the head 'cash and bank balances' in the balance sheet	The requirement of paragraph 42 of AS 3 needs to be complied with, which states: *"An enterprise should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet."*

Non-cash adjustments

Observation(s)	What should one remember?
In certain cases, it was noted that export incentives accrued were disclosed as a non-cash adjustment in arriving at the operating profit before working capital changes. In another case, it was observed that	The requirement of AS 3 with regard to non-cash adjustments is as prescribed in paragraph 20, which states: "Under the indirect method, the net cash flow from operating activities is determined by adjusting

foreign currency translation reserve, which is clearly a non-cash transaction, was disclosed under investing activities.	net profit or loss for the effects of: (a) changes during the period in inventories and operating receivables and payables; (b) non-cash items such as depreciation, provisions, deferred taxes, and unrealised foreign exchange gains and losses; and (c) all other items for which the cash effects are investing or financing cash flows". Export incentives are cash transactions, as cash will be received in future and accordingly, it would have to be disclosed as a change in operating receivable rather than as a non-cash transaction. Also non cash transactions should not be disclosed under investing and financing activities in Cash Flow Statement.

Dividend distribution tax

Observation(s)	What should one remember?
In certain cases, it was observed that, there was no specific mention of dividend distribution tax although the cash flows from financing activities included dividend paid	Dividends paid are to be disclosed as cash flows from financing activities. It follows that tax on dividend should also be disclosed along with the dividends paid.

Reporting cash flows on a net basis

Observation(s)	What should one remember?
It was observed that in several cases, proceeds and repayment of term loans, etc. were disclosed on a net basis in the cash flow statement.	AS -3 has specific conditions to be fulfilled in order to report cash flows on a net basis which have been specified in paragraph 22 as: "*Cash*

Similarly, in certain cases, purchase / sale of investments in subsidiaries were disclosed on a net basis.	*flows arising from the following operating, investing or financing activities may be reported on a net basis:* *(a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise; and* *(b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short".* Unless the above conditions are fulfilled, ensure that disclosures are made on a gross basis rather than net basis.

Extraordinary Items

Observation(s)	What should one remember?
It was observed that in some cases, the statement of profit and loss included disclosure of an extraordinary item with a note which indicated that it would have led to cash flows. However, the cash flow statement did not include a separate disclosure of cash flows from such extraordinary item.	Paragraph 28 of AS 3 requires the disclosure of the following in order to understand nature and effect of extraordinary items on the current and future cash flows of the entity: *"The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed."*

Segment Reporting

Segment disclosures made in consolidated financial statements

Observation(s)	What should one remember?
Where companies opted to present segment disclosures only in the	While AS 17, paragraph 4, allows enterprises to present segment

consolidated financial statements, it was observed that no reference to this fact was made in the standalone financial statements	disclosures only in consolidated financial statements , it would be appropriate to disclose the fact in the standalone financial statements that the disclosures are being made, in the consolidated financial statements where both, stand alone and consolidated financial statements are part of a single financial report.

Single primary and secondary segment

Observation(s)	What should one remember?
Where an entity has a single primary and secondary segment, it was observed that there was no disclosure with respect to such fact.	Explanation to paragraph 38 of AS 17 clarifies that, the fact that there is only one 'business segment' and 'geographical segment' should be disclosed by way of a note.

Segment assets

Observation(s)	What should one remember?
It was observed that, in some cases, where the entity had secondary segment (geographical segment), the related segment assets and additions to segment assets were not disclosed.	The disclosure requirement of AS 17 for a geographical segment, where it is the secondary segment requires the following disclosures as per paragraph 48 among other disclosures: *"(b) the total carrying amount of segment assets by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all geographical segments; and* *(c) the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets) by geographical location of assets, for each geographical segment whose segment assets*

	are 10 per cent or more of the total assets of all segments."

Disclosure of non-cash expenses

Observation(s)	What should one remember?
It was observed that while non-cash expenditure such as depreciation and amortisation were disclosed separately in the segment disclosures, in case of a bank, there was no disclosure of significant non-cash expenses other than depreciation and amortisation such as provision for loans and advances, adjustments on account of revaluation of investments etc. which were disclosed in the cash flow statement.	The disclosures mandated by paragraph 40 of AS 17 inter alia include the following, which need to be ensured: *"....(f) total amount of expense included in the segment result for depreciation and amortisation in respect of segment assets for the period; and* *(g) total amount of significant non-cash expenses, other than depreciation and amortisation in respect of segment assets, that were included in segment expense and, therefore, deducted in measuring segment result."*

Related Party Disclosures

Disclosures relating to key managerial personnel

Observation(s)	What should one remember?
It was observed in a few cases, that the volume of transaction (either as amount or as a proportion) was not made. This was particularly in case of key managerial personnel, where the disclosure of remuneration / dividend paid to them was either not made in entirety or where made, it was done as a single aggregate amount of remuneration / dividend.	Reference is drawn to the requirement of paragraph 23 of AS 18 (iii) and (iv) which requires disclosure of the following: *"(iii) a description of the nature of transactions;* *(iv) volume of the transactions either as an amount or as an appropriate proportion;"* Further, where disclosure is made on the basis of aggregation of similar transactions, cognizance needs to be

	given to the requirements of paragraph 27 including the explanation thereto.

Disclosure of non-executive directors as key managerial personnel

Observation(s)	What should one remember?
It was observed in a few cases, that non-executive directors were being considered as key managerial personnel and disclosed accordingly.	Owing to the explanation to paragraph 14 of AS 18, non-executive directors are not generally considered as key managerial personnel. "A non-executive director of a company is not considered as a key management person under this Standard by virtue of merely his being a director unless he has the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. The requirements of this Standard are not applied in respect of a non-executive director even enterprise, unless he falls in any of the categories in paragraph 3 of this Standard." Accordingly, in cases where non-executive directors are considered as key management personnel and disclosed as such, the fact that they have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise should be disclosed.

Leases

Amortization of operating leases

Observation(s)	What should one remember?
In a few cases, it was observed that the accounting policy with respect to	The accounting treatment specified in case of operating leases in the

operating leases stated that the operating lease obligations were 'amortised as per terms of the lease'	books of the lessee in paragraph 23 of AS 19 is as follows: *"Lease payments under an operating lease should be recognised as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit."* Consequently, the accounting policy needs to refer to 'straight line basis', else if some other basis is being used by the company, such basis and the reason for using such basis needs to be elaborated in the accounting policy.

Operating leases: Disclosures

Observation(s)	What should one remember?
In a few cases, it was observed that the company had operating leases, as disclosed in the accounting policies and statement of profit and loss. However, there were no disclosures made in accordance with AS 19 with respect to the future minimum lease payments.	Compliance with the following disclosure requirements of AS 19 needs to be ensured in case of operating leases: *"25. The lessee should make the following disclosures for operating leases:* *(a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:* *(i) not later than one year;* *(ii) later than one year and not later than five years;* *(iii) later than five years;……"*

Cancelable operating leases in the books of the lessee

Observation(s)	What should one remember?
In some cases where the company had specifically mentioned that the operating leases were cancelable leases, it was observed that, there were no further disclosures as required by AS 19	While certain disclosure requirements under paragraph 25 of AS 19 are specifically mandated for non-cancelable leases, certain disclosures are mandated without any distinction between cancelable or non-cancelable leases, which include: *'……(c) lease payments recognised in the statement of profit and loss for the period,* *with separate amounts for minimum lease payments and contingent rents;* *(d) sub-lease payments received (or receivable) recognised in the statement of profit* *and loss for the period;* *(e) a general description of the lessee's significant leasing arrangements including,* *but not limited to, the following:* *……'* Accordingly, for cancelable operating leases also, disclosure of the amounts recognized in the profit and loss account and a general description of the leasing arrangements is required as per AS 19

Earnings per share

Nominal Value of shares

Observation(s)	What should one remember?
• In several instances, it was observed that the nominal value of the shares was not disclosed along with the basic and diluted earnings per share on the face of the statement of profit and loss, although the same was mentioned in the relevant note on earnings per share in the notes to the financial statements • In certain cases, it was observed that, the nominal value of shares was not disclosed either on the face of the statement of profit and loss or in the relevant note	The requirement of paragraph 48 of AS 20 is to disclose *"the nominal value of shares along with the earnings per share figures."* As per paragraph 8 of AS 20, the earnings per share figures are to be disclosed on the face of the profit and loss account *"An enterprise should present basic and diluted earnings per share on the face of the statement of profit and loss for each class of equity shares that has a different right to share in the net profit for the period."* In order to appreciate the earnings per share figure, it is also essential to know what the nominal value of the shares are, and hence it is necessary to disclose the nominal value of the share along with the basic and diluted earnings per share disclosures on the face of the profit and loss account

Weighted average number of shares

Observation(s)	What should one remember?
In certain cases, it was observed that the disclosure of reconciliation of number of weighted average number of equity shares used as denominator in calculating the basic and diluted earnings per share was not made	The specific requirement of paragraph 48(ii)(b) of AS 20 is to state: *"the weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other;"*

Dividend on cumulative preference shares

Observation(s)	What should one remember?
In certain cases, it was observed that the dividend on cumulative preference shares was not adjusted while determining earnings for the period	Paragraph 13 of AS 20 specifically requires that the full amount of the required preference dividends for cumulative preference shares should be deducted from the net profit for the period, whether or not the dividends have been provided for. Where the company has cumulative preference shares, adjustment of dividend on such preference shares should be ensured while determining earnings for the period.

Schedule III disclosures

Quantitative disclosures

Observation(s)	What should one remember?
It is observed from some of the financial statements, that the company had earned revenue from trading activities apart from the manufacturing activities, but there were no quantitative disclosures regarding trading activities	Schedule III (Part II) requirement: "*In the case of trading companies, purchases in respect of goods traded in by the company under broad heads".* Further, Schedule III also requires: "*In the case of a company, which falls under more than one of the categories mentioned in (a), (b) and (c) above, it shall be sufficient compliance with the requirements herein if purchases, sales and consumption of raw material and the gross income from services rendered is shown under broad heads."*

Disclosures in terms of Micro, Small and Medium Enterprises Development Act, 2006

Details of dues to micro and small enterprises

Observation(s)	What should one remember?
In certain cases, it was observed that, the disclosures mandated by the Micro, Small and Medium Enterprises Development Act, 2006 were not made	It should be noted that while Schedule III does not specifically mandate disclosures relating to micro and small companies to be made, these disclosures need to be made in order to comply with the Micro, Small and Medium Enterprises Development Act, 2006 As per section 22 of the Micro, Small and Medium Enterprises Act, 2006, the specified disclosures are mandated to be included in the "annual accounts audited under any law for the time being in force". Consequently such disclosures will need to be included in the financial statements prepared in compliance with the Companies Act, 2013.

Disclosures in terms of the listing agreement

Clause 32 disclosures

Observation(s)	What should one remember?
In some cases, it was observed that, although there were transactions of loans / advances or investments between the parent, subsidiary company, associates, and others as evident from the schedules to the balance sheet, there were no separate disclosure in compliance with Clause 32	Clause 32 mandates the disclosure of amounts at the year end and the maximum amount of loans/ advances/ investments outstanding during the year *Refer to Note below for the details of the disclosures to be made*

Note: Extracts from listing agreement

32. ..... (iv) The following disclosure requirements are prescribed for the listed companies in the annual accounts of the company.

S. No	In the accounts of	Disclosures of amounts at the year end and the maximum amount of loans/ advances/ investments outstanding during the year.
1.	Parent	• Loans and advances in the nature of loans to subsidiaries by name and amount. • Loans and advances in the nature of loans to associates by name and amount • Loans and advances in the nature of loans where there is (i) no repayment schedule or repayment beyond seven years or (ii) no interest or interest below section 372A of Companies Act by name and amount. • Loans and advances in the nature of loans to firms/companies in which directors are interested by name and amount
2	Subsidiary	Same disclosures as applicable to the parent company in the accounts of subsidiary company.
3	Parent	Investments by the loabnee in the shares of parent company and subsidiary company, when the company has made a loan or advance in the nature of loan.

Section IV

Banks, Financial Services and Insurance Companies

Tax related assets / liabilities: Accounting Policy

Non-recognition of deferred tax liability – Banks and financial service companies

Observation(s)	What should one remember?
In case of banks and financial services companies, it was observed that they did not recognise deferred tax liability on the Special reserve recognised by them in accordance with the requirements of section 36(1)(viii) of the Income-tax Act, 1961.	In case of banks, RBI has issued a circular DBOD. No. BP.BC.77/ 21.04.018/2013-14 that Deferred Tax Liability on Special Reserve created under section 36(1)(viii) of the Income Tax Act, 1961 shall be created. Similar view has been taken by the EAC, which would be relevant for financial services entities other than banks. [EAC Volume XXVI, Query 18 finalised on May 15, 2006]

Defined benefit plans – amortisation of expenditure

Observation(s)	What should one remember?
In case of public sector banks and few private banks, it was observed that additional liability on account of enhancement in gratuity limit as well as liability on account of pension option given to employees who had not opted for the pension scheme earlier was amortised over a period of five years beginning from the year ended March 31, 2011.	Although this treatment has been permitted by the Reserve Bank of India (RBI) by providing an option to the public sector banks to amortise the expenses by deferring over a period of time vide their Circular No. DBOD. BP.BC.80/21.04.018/2010-11 dated February 9, 2011, this accounting treatment is not in accordance with the requirements of AS 15 issued by

	ICAI which requires the expenses to be charged off to the statement of profit and loss in the first year itself. Accordingly, it would have been appropriate to charge off the expenses in accordance with requirements of AS 15.

Disclosures relevant for banks and financial services

It has been observed that in case of banks and financial services certain disclosures are mandated by the laws applicable to them including specific disclosure requirements mandated by Reserve Bank of India (RBI) have not been complied with. A few examples include:

- Secured borrowings not disclosed as required by Third Schedule of the Banking Regulation Act, 1949
- Disclosure of income from 'bancassurance' not made as per RBI Circular [Master Circular No.DBOD.BP.BC.NO.22/21.04.018/2009-10 dated July 1, 2009]
- Risk category wise exposures given country wide but no disclosures given for restricted and off credit exposure as required to be disclosed by the RBI Master Circular

Disclosures relevant for insurance companies

It has been observed in case of insurance companies certain items were not accounted for and certain disclosures as mandated by the Insurance Regulatory and Development Authority of India (IRDAI) were not complied with. A few examples include:

- Share Capital was wrongly disclosed after adjusting 'value charge'. Value charge should form part of reserves
- Following disclosures were not made:
    - Ageing of Outstanding Average Claims Count
    - 'Other deposits' were not disclosed in cash flow statement as a separate line item as per IRDA Format
    - Contributions to Terrorism Pool, Solatium Fund etc

- o Ratios as per IRDA Formats
- o In Receipts and Payments Accounts, Investment in Money Market Instruments and Liquid Funds and Effects of Foreign Exchange Rates on Cash and Cash equivalents were not shown as a separate line item
- o Disclosure of Premium income recognised on varying risk pattern details
- o Disclosures of Contingent Liabilities on the face of the Balance Sheet
- o Elements of Provision for Linked Liabilities (with changes in fair values) required to be shown on the face of the Balance Sheet
- o Disclosures of names, descriptions and directorship held by persons-in-charge of the management of business, as required under section 11(2) of the Insurance Act, 1938

- There was negative renewal commission in the financial statements, which was not explained in detail.
- Negative numbers in Premium on Reinsurance in the Public/Product Liability accepted were not explained.
- Non-compliances not mentioned for penalty levied by IRDAI, in the Directors' Report
- Claims outstanding shown net of reinsurance receivables rather than on gross basis
- Justification of the reclassification of previous year with line items details and amounts not provided as per IRDAI regulations

Section V
Subsidiaries, Associates and Joint Ventures

Schedule III has certain disclosure requirements with regard to dues to/from and certain other transactions with related parties, which have been dealt with in Sections I and II. The Accounting Standards not dealt with abovementioned sections and relevant in this regard are:

- AS 21: Consolidated Financial Statements
- AS 23: Accounting for Investments in Associates in Consolidted Financial Statements
- AS 27: Financial Reporting of Interests in Joint Ventures

It needs to be noted that while AS 21 and AS 23 do not include any disclosures to be made in the standalone financial statements, AS 27 does have accounting as well as disclosure requirements which are required to be included in the standalone financial statements of the reporting entity.

General

Disclosures made in standalone financial statements, but no corresponding disclosures in consolidated financial statements

Observation(s)	What should one remember?
In some cases, it was observed that for certain items there were no disclosures made in the consolidated financial statements while the disclosures were made in the standalone financial statements. For example, while the disclosures relating to employee benefits were made as per AS 15 in the standalone	Compliance with the requirements of Accounting Standards (including disclosure requirements) should be ensured for all items in the consolidated financial statements.

financial statements, there were no corresponding disclosures in the consolidated financial statements. Similarly, in some cases, there were no accounting policies specified in the consolidated financial statements, with only a reference to the accounting policies included in the standalone financial statements.	

Subsidiaries

Presentation of goodwill

Observation(s)	What should one remember?
In certain cases, it was observed that goodwill and capital reserve arising on separate acquisitions were disclosed net.	Companies should not net off the goodwill and capital reserve arising on separate acquisitions but disclose goodwill and capital reserve arising on all acquisitions separately as a note in the financial statements.

Presentation of deferred tax liability / asset in the balance sheet

Observation(s)	What should one remember?
In some cases, it was observed that deferred tax liability/deferred tax asset were presented net in the consolidated financial statements of a company.	AS 22 has a specific requirement with respect to offsetting. As per paragraph 29 of AS 22, *'An enterprise should offset deferred tax assets and deferred tax liabilities if:* *(a) the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and* *(b) the deferred tax assets and the deferred tax liabilities relate to taxes on income levied by the same governing taxation laws.'* Consequently, in case of consolidated financial statements, it

	would be appropriate to offset the deferred tax assets and deferred tax liabilities of the parent and the subsidiaries, only in cases where the abovementioned conditions are satisfied.

Different accounting policies

Observation(s)	What should one remember?
In certain cases, it was observed that the actuarial gains/ losses in respect of employee benefits relating to the subsidiary/(ies) of the parent, were recognised directly in the reserves and were not recognised in the statement of profit and loss in line with the requirements of AS 15.	Reference is drawn to paragraph 3 of AS 21, which states: "In the preparation of consolidated financial statements, other Accounting Standards also apply in the same manner as they apply to the separate statements." Consequently, the accounting policy pertaining to recognition of actuarial gain/loss should be aligned across the group and recognised in the statement of profit and loss as mandated under AS 15.

Intragroup transactions

Observation(s)	What should one remember?
In certain infrastructure entities, it was observed that Build-Operate-Transfer (BOT) contracts were entered into by one of the group companies (holding company or fellow subsidiary) and the contract was further subcontracted to other entities within the group. The profits / losses on such subcontracted work within the group were considered as 'realised' and were not eliminated in accordance with AS 21.	Reference is drawn to paragraph 16 of AS 21 which states: "*Intragroup balances and intragroup transactions and resulting unrealised profits should be eliminated in full. Unrealised losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered."* Consequently, it needs to be ensured that the accounting policies and disclosures made by companies are in accordance with the consolidation procedures specified in AS 21.

Consolidation disclosure

Observation(s)	What should one remember?
In some cases, where subsidiaries had not been consolidated, the reason for the same was stated as "on account of impairment of the investment".	Paragraph 9 of AS 21 requires *a parent which presents consolidated financial statements should consolidate all subsidiaries, domestic as well as foreign, other than those referred to in paragraph 11.* Further paragrah 11 provides that *a subsidiary should be excluded from consolidation when* *(a) control is intended to be temoporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future ;or* *(b) it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.* Accordingly, ensure that all the subsidiaries are consolidated in accordance with the above requirements of AS 21.

Associates

Goodwill / Capital reserve

Observation(s)	What should one remember?
While the accounting policy had disclosed that the goodwill /capital reserve arising on acquisition of an associate is adjusted in the carrying amount of the investment, there was	Paragraph 12 of AS 23 states, *"Goodwill/capital reserve arising on the acquisition of an associate by an investor should be included in the carrying amount of*

no separate disclosure of the amount of goodwill / capital reserve	*investment in the associate but should be disclosed separately"* Non-disclosure of goodwill / capital reserve separately does not convey the status of the investment appropriately

Joint Ventures

Jointly Controlled Entities: Disclosures in separate financial statements

Observation(s)	What should one remember?
In most cases, it was observed that while detailed disclosures were given in the consolidated financial statements with regard to jointly controlled entities, such disclosure were not made in the standalone financial statements	It needs to be noted that as per paragraph 49 of AS 27, a venturer should disclose the information required by paragraphs 50, 51 and 52 in both the standalone and consolidated financial statements
In disclosing the information as per paragraph 52 of AS – 27, in a number of cases, it was observed that, the country of incorporation or residence was not disclosed	Paragraph 52 states *"A venturer should disclose a list of all joint ventures and description of interests in significant joint ventures. In respect of jointly controlled entities, the venturer should also disclose the proportion of ownership interest, name and country of incorporation or residence".*

Jointly Controlled Entities: Proportionate Consolidation in consolidated financial statements

Observation(s)	What should one remember?
Separate financial statements included disclosure of investments in joint venture entities. However, in the consolidated financial statements, there was no reference either in the accounting policy relating to	Paragraph 28 of AS 27 requires a venturer to report its interest in jointly controlled entity using proportionate consolidation with only two specific exemptions. Consequently, where the investment in the jointly

consolidation procedures or disclosures as share of joint ventures in the respective account heads in the balance sheet and statement of profit and loss.	controlled entity does not satisfy the two conditions, it should be accounted for on proportionate consolidation basis
In a few instances, it was noted that while the fact that a jointly controlled entity existed was disclosed, there was no separate disclosure regarding the share of assets, liabilities, expenses and income of the joint venture as required to be done by AS 27	Paragraph 32 of AS 27, specifically requires the share in joint venture to be disclosed separately with each line item: *'Under proportionate consolidation, the venturer includes separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its consolidated financial statements. For example, it shows its share of the inventory of the jointly controlled entity separately as part of the inventory of the consolidated group; it shows its share of the fixed assets of the jointly controlled entity separately as part of the same items of the consolidated group.'*

Appendix 1: Illustration of fixed assets disclosure:

Class of Assets	Original Cost					Depreciation and amortization				Net Book Value	
	As at April 1, 2016	Additions / Adjustments for the year**	Disposals/ Retirement during the year	Impair ment loss/(rever sal) during the year $	As at March 31, 2017	As at April 1, 2016*	Addition s for the year	Disposals/ Retirement during the year	As at March 31, 2017	As at March 31, 2016	As at March 31, 2017
#Tangible Assets											
Land: Freehold @											
Land: Leasehold @											
Plant and Machinery											
Furniture and Fixtures											
Vehicles											

#Intangible Assets											
Internally Developed Computer Software											
Purchased Computer Software											
Patents											
Copyrights											
TOTAL											

*Column depicting opening balance accumulated depreciation.

**Include relevant note providing an explanation for the adjustments made, for example, foreign exchange fluctuation differences

@Distinction between own assets and leased assets should be clearly disclosed in the Schedule

Distinction between internally generated computer software and purchased software

$ Impairment for each class of asset to be shown separately from depreciation charged for each class of asset.

Note: Previous year numbers should be presented for all items of the Schedule of Fixed Assets in line with the requirements of Schedule III to the Companies Act, 2013