



## Common Error Found in Ind AS Financial Statement

### Ind AS 1 – Presentation Of Financial Statement

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### Newsletter No 2

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# Summary of key Observations in Ind AS

## IND AS 1: PRESENTATION OF FINANCIAL STATEMENTS



### Matters Contained in the Financial Statements

Various expenses were shown which were capitalized as CWIP and all of them were taken to "Intangible assets under development" Further, company had disclosed leasehold land under Tangible Assets.



### Observations

The policy related to the leasehold land was not disclosed by the Company in FS.

In FS it was stated that Total CWIP is —Total intangible assets under development.

No policy was disclosed or explanation was given regarding capitalization of such internally generated intangible assets.

# Summary of key Observations in Ind AS

## IND AS 1: PRESENTATION OF FINANCIAL STATEMENTS



### Matters Contained in the Financial Statements

From the notes to the financial statements on Related Party Disclosures and Exceptions items, it was noted that an **investment in the equity shares** of a company was disclosed as —subsidiary company. **However, in the Form MGT - 9 given under Director's Report the same investment was disclosed as "Associate".**



### Observations

It was observed that there was **contradiction** in information disclosed regarding nature of relationship in respect of investment.

It was further noted that the same entity, under Related party disclosure was disclosed as **fellow subsidiary** as well as **jointly controlled entity**, both. Hence it was viewed that either an entity can either be a jointly controlled entity or fellow subsidiary therefore, disclosure of one entity as both is incorrect.

It was further noted that under **Related party disclosure**, this investment was disclosed as **fellow subsidiary** and under note on **Exceptional items**, the same investment was mentioned as **wholly owned subsidiary** which is ambiguous. Accordingly, it was viewed that disclosure was ambiguous and incorrect disclosures should be avoided.

# Summary of key Observations in Ind AS

## IND AS 1: PRESENTATION OF FINANCIAL STATEMENTS



### Matters Contained in the Financial Statements

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



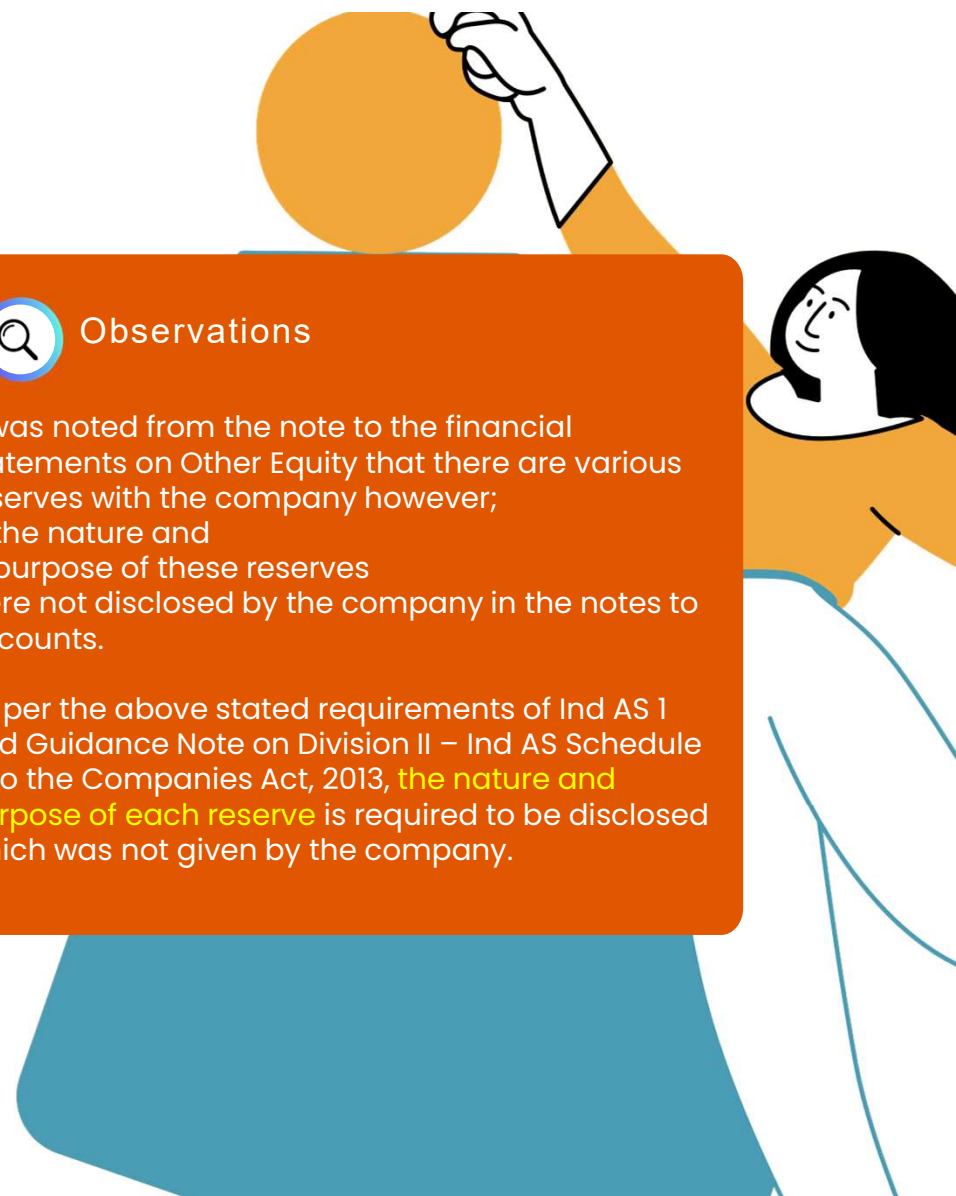
### Observations

It was noted from the note to the financial statements on Other Equity that there are various reserves with the company however;

- the nature and
- purpose of these reserves

were not disclosed by the company in the notes to accounts.

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



# Summary of key Observations in Ind AS

## IND AS 1: PRESENTATION OF FINANCIAL STATEMENTS



### Matters Contained in the Financial Statements

In the note to the financial statements of a company on Non-Current Borrowings, **Loans from related parties were classified as non-current.**

These loans from related parties were interest free and **repayment terms were not stipulated.**

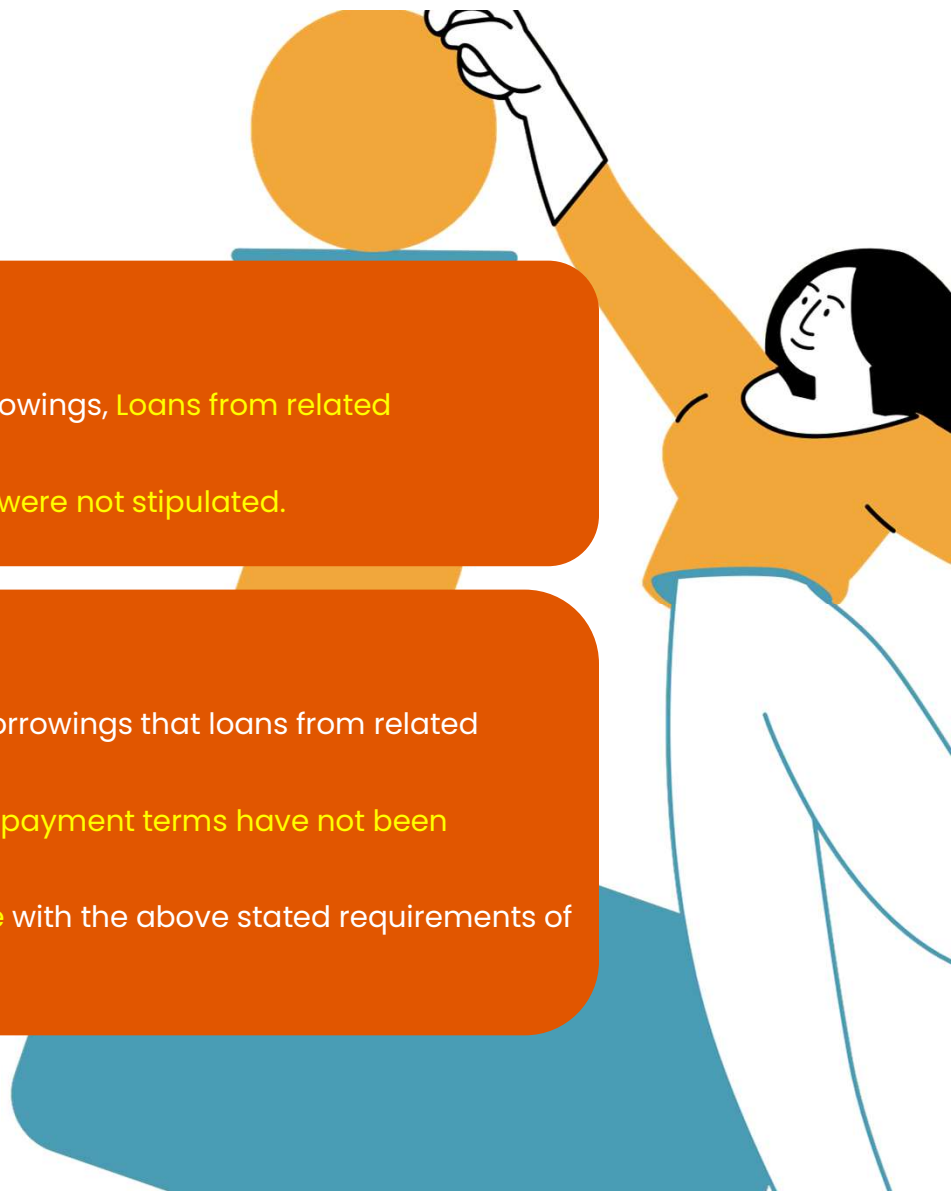


### Observations

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

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

Accordingly, the classification of such loans as non-current **was not in line** with the above stated requirements of Ind AS 1



# Summary of key Observations in Ind AS

## IND AS 1: PRESENTATION OF FINANCIAL STATEMENTS



### Matters Contained in the Financial Statements

The Abstract of an accounting policy on the basis of preparation of the financial statements read as follows:

i) The Financial Statements have been prepared on a historical cost basis, except the following:

Certain financial liabilities that are measured at fair value

Defined benefits plans- plant assets measured at fair value



### Observations

It was noted from the disclosure given under basis of preparation that in exception to historical cost basis, it was stated that certain financial liabilities are measured at fair value.

However, it was noted from the disclosure regarding financial instruments by category, that **all financial liabilities have been measured at amortised cost.**

It was further noted that **certain financial assets** viz. equity instruments and mutual funds have been measured **at fair value.**

# Summary of key Observations in Ind AS

## IND AS 1: PRESENTATION OF FINANCIAL STATEMENTS



### Matters Contained in the Financial Statements

Abstract of note to the financial statements on Investments reads:

—The Company with a view to consolidate the business model, appointed reputed firm of consultants to advise on future business model and restructuring of domestic and overseas subsidiaries. Based on the recommendations, as part of restructuring of overseas subsidiaries, the Holding company has plans of disinvestment in equity share of three of the foreign subsidiaries to its another overseas wholly owned subsidiary namely ABC Ltd. As part consideration for restructuring, **the company had received an advance in earlier year from ABC Ltd. The Company has not yet completed the restructuring process.** The company is reconsidering the proposed restructuring which may include refunding the advance received.”



### Observations

It was noted from the above stated note that the company received **advance in earlier year from ABC Limited as part of consideration for restructuring.** However, the company did not specify under which heading the said amount has been reported.

To enhance the readability and understanding of financial statements, it was viewed that the company should have disclosed that under which note the said amount has been disclosed.

# Summary of key Observations in Ind AS

## IND AS 1: PRESENTATION OF FINANCIAL STATEMENTS



### Matters Contained in the Financial Statements

In the financial statements, under the Statement of Profit and Loss, the company has disclosed a separate line-item as extraordinary items. The relevant abstract of the Statement of Profit and Loss is reproduced below:

(Amount in Rs.)

Particulars	As at 31.03.20XX	As at 31.03.20YY
Profit / (loss) before extraordinary items and tax	XXX	XXX
Extraordinary Items	XXX	XXX
Profit before tax	XXX	XXX

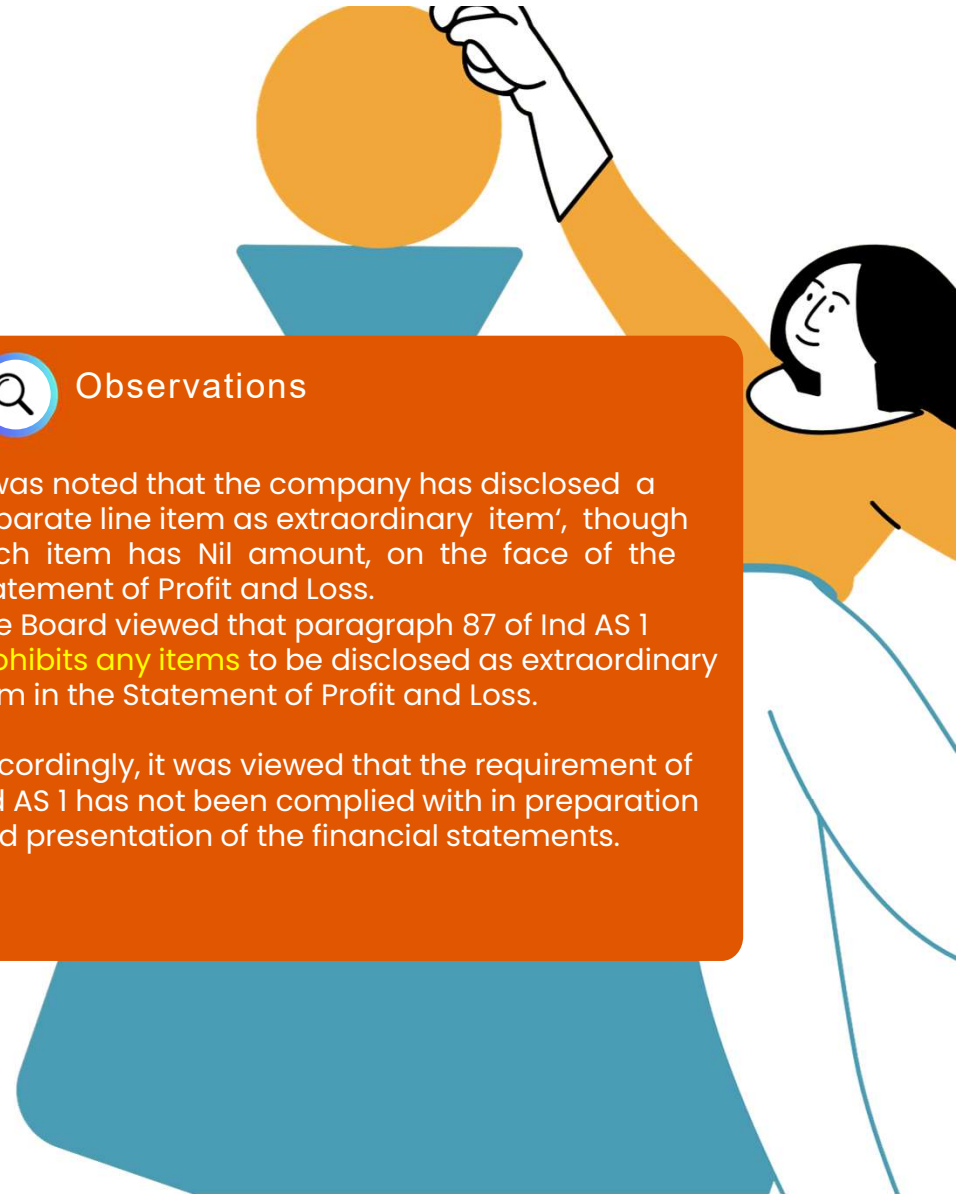


### Observations

It was noted that the company has disclosed a separate line item as 'extraordinary item', though such item has Nil amount, on the face of the Statement of Profit and Loss.

The Board viewed that paragraph 87 of Ind AS 1 **prohibits any items** to be disclosed as extraordinary item in the Statement of Profit and Loss.

Accordingly, it was viewed that the requirement of Ind AS 1 has not been complied with in preparation and presentation of the financial statements.



# Summary of key Observations in Ind AS

## IND AS 1: PRESENTATION OF FINANCIAL STATEMENTS



### Matters Contained in the Financial Statements

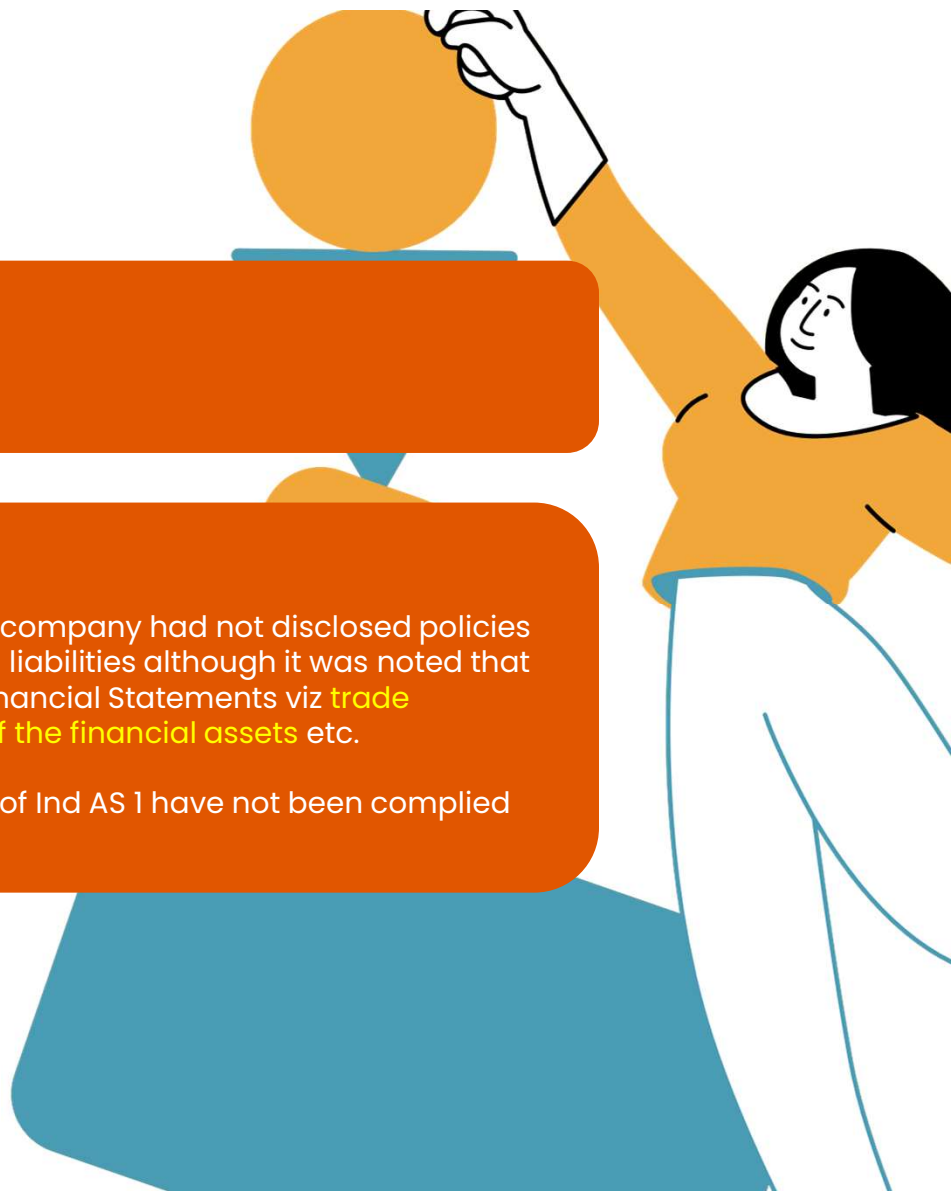
Non-disclosure of accounting policy on financial assets and financial liabilities.



### Observations

The Board noted from the note on Significant Accounting Policies that the company had not disclosed policies relating to recognition and measurement of financial assets and financial liabilities although it was noted that the company has disclosed certain Financial Assets and Liabilities in its Financial Statements viz **trade receivables, investment in equity, borrowings, deposits, and impairment of the financial assets** etc.

Accordingly, it was viewed that the requirements of paragraph 117 and 119 of Ind AS 1 have not been complied with.



# Summary of key Observations in Ind AS

## IND AS 1: PRESENTATION OF FINANCIAL STATEMENTS



### Matters Contained in the Financial Statements

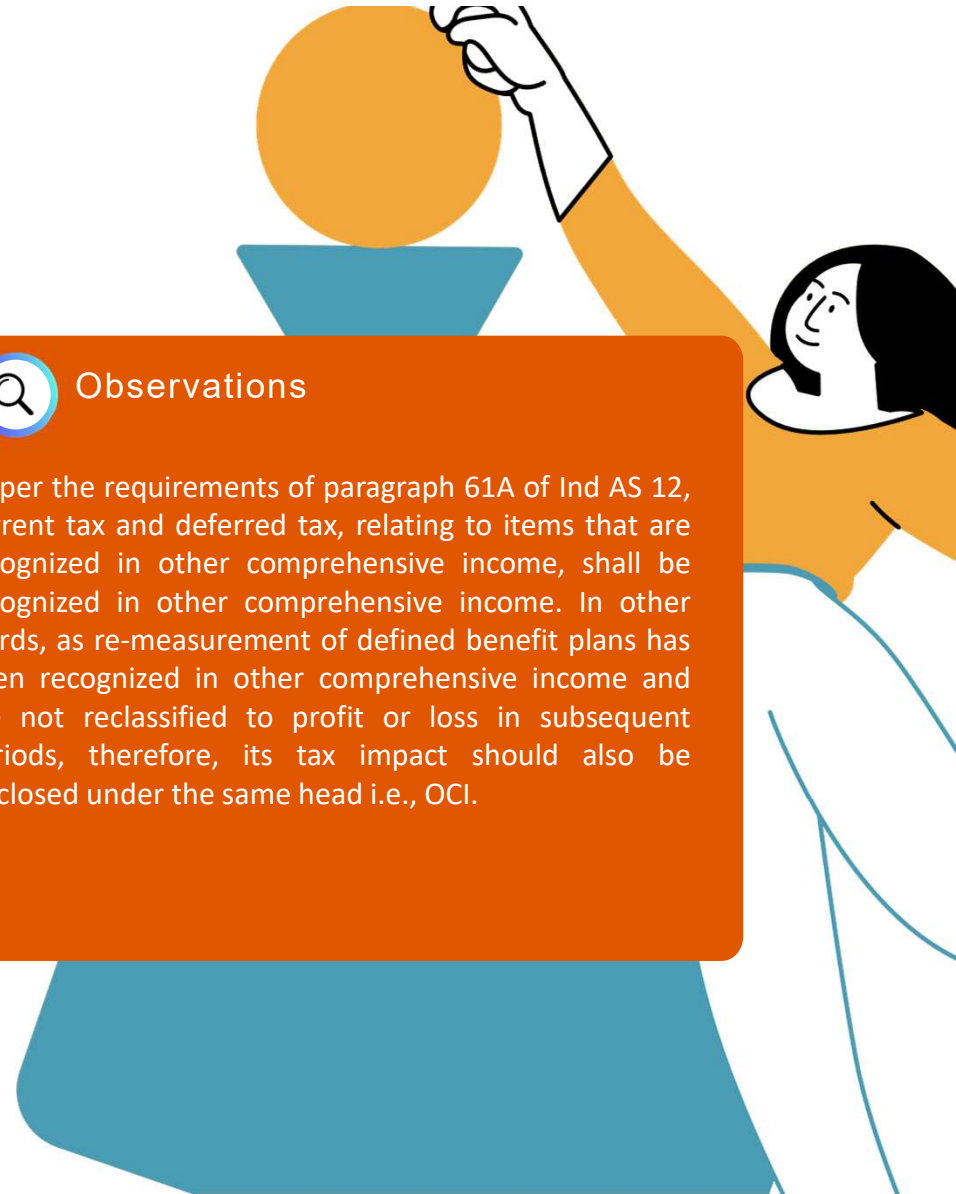
In the Statement of Profit and Loss of a company —re-measurement of defined benefits plans not reclassified to profit or loss in subsequent periods, was shown under Other Comprehensive Income (OCI).

However, no tax impact was shown in the statement of profit and loss in respect of such re-measurement of defined benefits plans under OCI.



### Observations

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



# Summary of key Observations in Ind AS

## IND AS 1: PRESENTATION OF FINANCIAL STATEMENTS



### Matters Contained in the Financial Statements

The accounting policy of Income Tax, inter alia, states that the deferred tax assets have been recognized and carried forward only to the extent of reasonable or virtual certainty, as the case may be, that the assets will be realized in future. The relevant abstract of Accounting Policy on Income Tax reads as under:

#### Income Tax:

1. Provision for Current Tax is made as per the provisions of the Income Tax Act, 1961.
2. Deferred Tax resulting from "timing differences that are temporary in nature" between accounting and taxable profit is accounted for, using the tax rates and laws that have been enacted as on the Balance Sheet date. The deferred tax assets are recognized and carried forward only to the extent that there is a reasonable or virtual certainty, as the case may be, that the assets will be realized in future.



### Observations

The word reasonable and virtual certainty' has been derived from AS 22 on —Accounting for taxes on Income under Indian GAAP. However, financial statements are prepared by the company under Ind AS framework and paragraph 24 of Ind AS 12 uses the term probable' and not the terms reasonable or virtual certainty'.

Accordingly, it is viewed that the adopted policy on Income Taxes is not in line with the Ind AS 12.





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