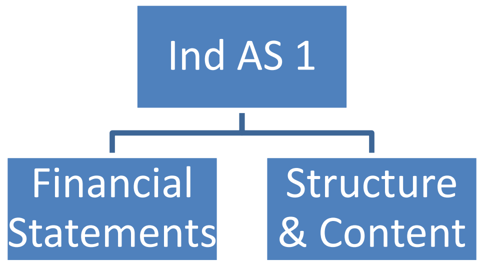
Ind AS 1: Presentation of Financial Statements

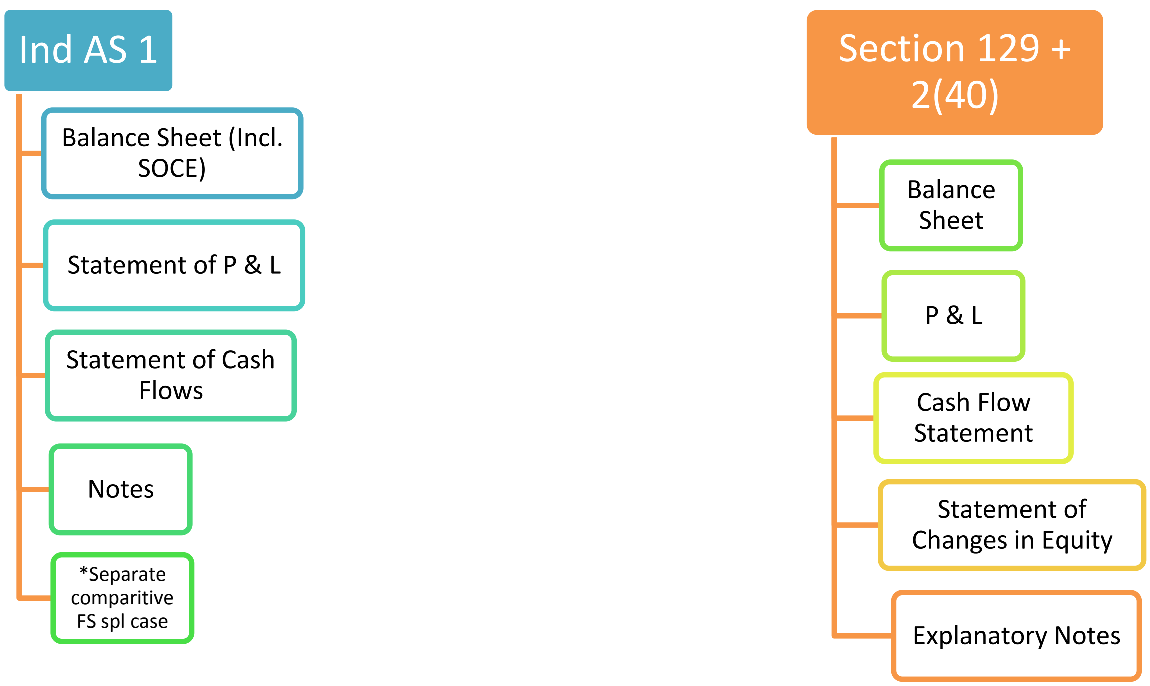
Important Components in Structure of Ind AS 1:



Financial Statements – Purpose:

- Structured representation of financial information about an entity.
- Provide useful information the users making economic decisions.

Complete Set of Financial Statements:



<u>Statement of P& L & Other Comprehensive Income shall have 2 components:</u>

1. Profit and Loss
2. Other Comprehensive Income

Reports and Statements presented out of financial statement are out of scope of Ind AS 1.

True and Fair View:

- Faithful representation of effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.
- Achieved by compliance with Ind AS 1 and additional disclosures.
- Also required to :
    a. Select and apply accounting policies as per Ind AS 8.
    b. Present information in reliable, comparable understandable manner
    c. Provide additional disclosures as per Ind ASs

Explicit and Unreserved Statement:

- Make unreserved statement of compliance in the Notes.

Departure from requirement of Ind AS:

Circumstances when a company can depart:	Relevant Disclosures:
• Conflict the objective of financial statements. • Relevant regulatory framework requires/does not prohibit.	• FS presented T & F view. • Complied with applicable Ind AS except departed. • Title of Ind AS departed; nature and reasons of departure. • Financial effect of such departure.

Going Concern:

- Management should make an assessment of entity's ability to continue as going concern
- Intends to liquidate or cease trading or does not have no realistic alternative than to do so.
- If material uncertainties are aware to the management, then disclose
- If not prepared on going concern basis, disclose that fact and the reasons.

Accrual Basis of Accounting

- Prepare FS in accrual system

Materiality and Aggregation

- Present separately each material class of similar items
- Present separately items of dissimilar nature unless they are immaterial

Offsetting

Should not offset assets and liabilities unless permitted by Ind AS or Law.

Frequency of Reporting:

• At least annually	• For a period longer or shorter than one year, then disclose: a. Reason for using longer/shorter period b. Fact that amounts represented are not totally comparable

Comparative Information:

❖ Should have comparatives with all the amounts reported in current period financial statements	❖ When • Accounting policy retrospectively • Retrospective restatement • Reclassifies items ➢ Present 3 balance sheets and two statements • Current period end • Previous period end • Beginning of earliest comparative period end

❖ When the entity changes the presentation or classification of items in its financial statements, the entity shall reclassify comparative amounts unless reclassification is impracticable.	❖ Disclosures when reclassification made: • Nature of the reclassification; • The amount of items reclassified • Reason for the reclassification ❖ When impossible to reclassify, disclose: • Reason for not reclassifying the amounts • Nature of the adjustments that would have been made if the amounts had been reclassified.

Consistency of Presentation:

- Retain presentation and classification from one period to next unless:
  a. More appropriate as per Ind AS 8
  b. Ind AS requires a change in presentation
- When changing presentation or reclassifying the amounts, reclassify comparative information.

Identification of Financial Statements:

- Identify clearly FS from other information published in the same document
- Distinguish financial statement and notes

- Display the following pieces of information prominently for each financial statement:
    a. Name of reporting entity
    b. Individual or consolidated financial statements
    c. Date of end of reporting period
    d. Presentation currency
    e. Level of rounding off

Minimum Line items in Balance Sheet:

- Following are the minimum items paid:
    a. Property, plant and equipment;
    b. Investment property;
    c. Intangible assets;
    d. Financial assets (excluding amounts shown under (e),(h) and (i));
    e. Investments accounted for using the equity method;
    f. Biological assets;
    g. Inventories;
    h. Trade and other receivables;
    i. Cash and cash equivalents;
    j. The total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with Ind AS 105 Non-current Assets Held for Sale and Discontinued Operations;
    k. Trade and other payables;
    l. Provisions;
    m. Financial liabilities (excluding amounts shown under (k) and (l));
    n. Liabilities and assets for current tax, as defined in Ind AS 12 Income Taxes;
    o. Deferred tax liabilities and deferred tax assets, as defined in Ind AS 12;
    p. Liabilities included in disposal groups classified as held for sale in accordance with Ind AS 105;
    q. Non-controlling interests, presented within equity; and
    r. Issued capital and reserves attributable to owners of the parent.
- Shall present additional line items if relevant.
- If current and non-current classification exists, deferred tax assets/liabilities should not be shown under Current.
- Order or format is not mentioned.
- An entity makes the judgment about whether to present additional items separately based on:
    a. The nature and liquidity of assets;
    b. The function of assets within the entity; and
    c. The amounts, nature and timing of liabilities.

Current/Non-Current Classification:

- An entity shall classify the assets and liabilities into Current/Non-Current.

- Can also present based on liquidity.
- Whichever classification adopted, the entity should disclose separately for each asset/liability :
    - Amount to be settled in not more than 12 months
    - Settled more than 12 months after reporting period.
- Classification of current and non-current is useful when the company has a identified operating cycle. For entities like financial institutions, presentation in the order of liquidity is useful.
- Information about expected dates of realization of assets and liabilities is useful in assessing the liquidity and solvency of an entity.

How to classify as Current Assets?

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

All other assets are non-current assets. Any other name also can be used if it indicates Long-Term.

Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realized as part of the normal operating cycle even when they are not expected to be realized within twelve months after the reporting period. Assets held in course of trading and current portion of non-current financial assets. Generally, operating cycle presumed as 12 months.

How to classify as Current Liabilities?

a) It expects to settle the liability in its normal operating cycle;
b) It holds the liability primarily for the purpose of trading;
c) The liability is due to be settled within twelve months after the reporting period; or
d) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are non-current liabilities.

Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Even if they are settled after more than 12 months, they are classified as current.

Items to be segregated into in Balance Sheet or Notes:

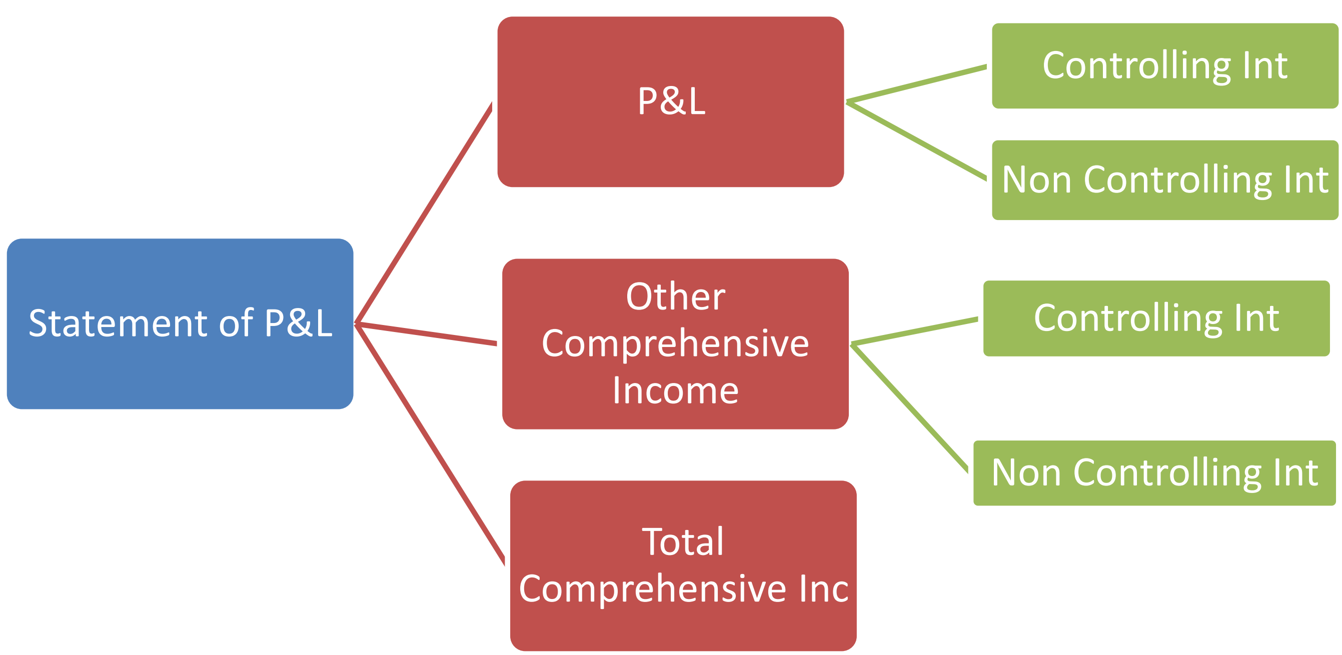
a. Items of property, plant and equipment are disaggregated into classes in accordance with Ind AS 16;
b. Receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;

c. Inventories are disaggregated, in accordance with Ind AS 2 Inventories, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;
d. Provisions are disaggregated into provisions for employee benefits and other items; and
e. Equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.

Disclosures for Share Capital & Reserves:

- For each class of share capital:
    - the number of shares authorized;
    - the number of shares issued and fully paid, and issued but not fully paid;
    - par value per share, or that the shares have no par value;
    - a reconciliation of the number of shares outstanding at the beginning and at the end of the period;
    - the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
    - shares in the entity held by the entity or by its subsidiaries or associates; and
    - shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and
- A description of the nature and purpose of each reserve.

Statement of Profit and Loss:



In addition to other line items, P& L Section should contain:

- Revenue;
- Finance costs;

- Share of the profit or loss of associates and joint ventures accounted for using the equity method;
- Tax expense
- A single amount for the total of discontinued operations

Information to be presented in OCI Section:

- OCI including share of the other comprehensive income of associates and joint ventures accounted for using the equity method)
    a. Will not be reclassified subsequently to profit or loss; and
    b. Will be reclassified subsequently to profit or loss when specific conditions are met.
- An entity should not show any items as extraordinary.
- All items of income or expense should be routed through P & L unless an Ind AS permits otherwise.
- Disclose the tax effect of each component of OCI in notes or P & L.
- Each item can be disclosed
    a. Net off tax effects.
    b. Before aggregating the tax effects
- Disclose the reclassification adjustments relating to tax adjustments.

Few instances of OCI:

- Fair value changes on revaluation of property, plant and equipment and intangible assets as per IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets.
- Re-measurements of employee defined benefit plans, e.g., actuarial gains and losses, as per IAS 19, Employee Benefits.
- Gains and losses arising from translating the financial statements of a foreign operation as per IAS 21, Effects of Changes in Foreign Exchange Rates.
- Gains and losses from investments in equity instruments designated at fair value through other comprehensive income as per IFRS 9, Financial Instruments.
- Gains and losses of financial assets having specified payment of principal and interest held to collect contractual cash flows and to sell as per IFRS 9, Financial Instruments.
- The effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income as per IFRS 9, Financial Instruments.
- For particular liabilities, designated at fair value through profit or loss, the amount of the change in fair value attributable to changes in the liability's credit risk as per IFRS 9, Financial Instruments.
- Changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value as per IFRS 9, Financial Instruments.
- Changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as a hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument as per IFRS 9, Financial Instruments.

Reclassification adjustments:

Can be recycled to P&L	Cannot be recycled to P&L
• Disposal of a foreign operation (see Ind AS 21), • De-recognition of available-for-sale financial assets (see Ind AS 39) • Hedged forecast transaction affects profit or loss (see paragraph 100 of Ind AS 39 in relation to cash flow hedges).	• Surplus recognized in accordance with Ind AS 16 Ind AS 38 (Intangible Assets) or • Actuarial gains and losses on defined benefit plans recognized in accordance with paragraphs 92 and 129A of Ind AS 19 • Gains and losses from investments in equity instruments designated at fair value through other comprehensive income as per Ind AS 109, Financial Instruments. • For financial liabilities designated at fair value through profit or loss, the amount of the change in fair value attributable to changes in the entity's own credit risk as per Ind AS 109, Financial Instruments

Information to be presented in P & L:

- When items of income or expense are material, an entity shall disclose their nature and amount separately.
- Circumstances that would give rise to the separate disclosure of items of income and expense include:
    a. Write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
    b. Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
    c. Disposals of items of property, plant and equipment;
    d. Disposals of investments;
    e. Discontinued operations;
    f. Litigation settlements; and
    g. Other reversals of provisions.
- An entity shall present an analysis of expenses recognized in profit or loss using a classification based on the nature of expense method.

Statement of Changes in Equity:

- Total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
- For each component of equity, the effects of retrospective application or retrospective restatement recognized in accordance with Ind AS 8;
- For each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each changes resulting from:
    a. Profit or Loss;
    b. Each item of other comprehensive income;

c. Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control; and
d. Any item recognized directly in equity such as amount recognized directly in equity as capital reserve with paragraph 36A of Ind AS 103.

Notes to Financial Statements:

Generally presented in the following order:

- statement of compliance with Ind ASs
- summary of significant accounting policies applied
- supporting information for items presented in the BS, SOCE, P&L in order of presentation and appearance in line item order
- Other disclosures, including:
  a. Contingent liabilities (Ind AS 37) and unrecognized contractual commitments, and
  b. Non-financial disclosures, e.g. the entity's financial risk management objectives and policies (see Ind AS 107).

Disclosure of Significant accounting policies:

An entity shall disclose in the summary of significant accounting policies:

- The measurement basis (or bases) used in preparing the financial statements, and
- The other accounting policies used that are relevant to an understanding of the financial statements.

Sources of estimation uncertainty:

An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- Their nature, and
- Their carrying amount as at the end of the reporting period.

Capital:

An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

The disclosures include the following:

- Qualitative information about its objectives, policies and processes for managing capital, including:
  a. A description of what it manages as capital;

b. When an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
c. How it is meeting its objectives for managing capital.

- Summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (e. g. some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e. g. components arising from cash flow hedges).
- Any changes in (a) and (b) from the previous period.
- Whether during the period it complied with any externally imposed capital requirements to which it is subject.
- When the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

Other Disclosures:

- The amount of dividends proposed or declared before the financial statements were approved for issue but not recognized as a distribution to owners during the period, and the related amount per share
- The amount of any cumulative preference dividends not recognized.

Comparison with IAS -1:

1. IAS 1 has the option either to follow the single statement approach or to follow the two statement approach. Ind AS 1 allows only the single statement approach.
2. IAS 1 requires preparation of a Statement of Changes in Equity as a separate statement. Ind AS 1 requires the statement of changes in equity to be shown as a part of the balance sheet.
3. 3 Different terminologies are used in Ind AS 1 e.g., the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of Profit and Loss' is used instead of 'Statement of profit and loss and other comprehensive income'. The words 'approval of the financial statements for issue' have been used instead of 'authorization of the financial statements for issue' in the context of financial statements considered for the purpose of events after the reporting period.
4. Paragraph 8 of IAS 1 gives the option to individual entities to follow different terminology for the titles of financial statements. Ind AS 1 is changed to remove alternatives by giving one terminology to be used by all entities.
5. Paragraph 37 of IAS 1 permits the periodicity, for example, of 52 weeks for preparation of financial statements. As Ind AS 1 does not permit it, the same is deleted.
6. IAS 1 requires an entity to present an analysis of expenses recognized in profit or loss using a classification based on either their nature or their function within the equity. Ind AS 1 requires only nature-wise classification of expenses.
7. IAS 1 contains Implementation Guidance. Ind AS 1 does not include the same because various enactments have prescribed formats, e.g., Schedule VI to the Companies Act, 1956.