

Ind AS Certification Course – Day 1

Presentation of Financial Statements

Ind AS Implementation Committee of ICAI

Learning Objective



- To understand how the financial statements are to be presented under Ind AS w.r.t. Ind AS 1, 7, 8 and 10
 - To highlight the key differences between Indian GAAP, Ind AS and IFRS in relation to presentation of financial statements
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Standards to be Covered

- Ind AS 1: *Presentation of Financial Statements*
 - Ind AS 7 : *Statement of Cash Flows*
 - Ind AS 8 : *Accounting Policies, Changes in Accounting Estimates and Errors*
 - Ind AS 10 : *Events After the Reporting Period*
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Background and Introduction

Ind AS 1 – Presentation of financial statements

- General purpose financial not specific to any industry
 - Terminology suited to profit oriented entities
 - Applies equally to all entities including those prepare consolidated FS and also present separate FS
 - Except for provision relating to fair presentation, compliance with IFRS and fundamental accounting principles, it does not apply to condensed interim FS, Ind As 34.
 - Departure from the compliance of Ind ASs when misleading / conflict with the objective of financial statement, only if law allows and with appropriate disclosures.
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Purpose and Composition

Components of financial statements

A complete set of financial statements includes:

- a balance sheet at the end of the period
 - a statement of profit and loss for the period
 - a statement of changes in equity for the period
 - a statement of cash flows for the period
 - notes, comprising significant accounting policies and other explanatory notes
 - comparative information prescribed by the standard including balance sheet as the beginning of preceding period in case of restatement.
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Purpose and Composition of FS (cont.)

Components of financial statements (cont.)

Indian GAAP

- (a) balance sheet, (b) statement of profit and loss, (c) cash flow statement and (d) explanatory notes including summary of accounting policies, as per Sch III of Companies Act, 2013 or Sch III of BRA, 1949 (banks) or regulation of IRDA (insurance), SEBI guidelines (mutual funds), etc. as the case may be.

IFRS

- a statement of financial position instead of balance sheet
 - a statement of profit or loss and other comprehensive income for the period (presented as a single or separate with different terms)
 - a statement of changes in equity to be presented separately, not as a part of balance sheet like Ind AS
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Structure of Financial Statements

Under Ind AS

Ind AS-compliant Schedule III (Division II) to the Companies Act, notified on 6 April 2016.

Under IFRS

IAS 1 does not prescribe the format of the statement of financial statement rather illustrative formats for presentation is given with some minimum prescribed line items.

Under Indian GAAP

Schedule III (Division I) prescribes mandatory formats for balance sheet and statement of profit and loss.

Structure of Financial Statements (cont.)

Structure and content of financial statements in general

Ind AS 1 requires an entity to clearly identify:

- the financial statements, which must be distinguished from other information in a published document
- each financial statement and the notes to the financial statements.

In addition, the following information must be displayed prominently, and repeated as necessary:

- the name of the reporting entity and any change in the name
 - whether the financial statements are a group of entities or an individual entity
 - information about the reporting period
 - the presentation currency
 - the level of rounding used (e.g. thousands, millions).
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Structure of Financial Statements (cont.)

Statement of balance sheet

- *Current and non-current classification of Assets*
 - *Current and non-current classification of Liabilities*
 - *Equity*
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Structure of Financial Statements (cont.)

Statement of balance sheet

Current and non-current classification - Current assets are assets that are:

- expected to be realised in the entity's normal operating cycle
- held primarily for the purpose of trading
- expected to be realised within 12 months after the reporting period
- cash and cash equivalents (unless restricted).

All other assets are non-current.

Structure of Financial Statements (cont.)

Statement of balance sheet

Current liabilities are those:

- expected to be settled within the entity's normal operating cycle
- held for purpose of trading
- due to be settled within 12 months
- for which the entity does not have an unconditional right to defer settlement beyond 12 months (settlement by the issue of equity instruments does not impact classification).

Other liabilities are non-current.

Structure of Financial Statements (cont.)

Classification of financial liabilities in case of refinancing or breach of covenants:

- When a long-term debt is expected to be refinanced under an existing loan facility, and the entity has the discretion to do so, the debt is classified as non-current, even if the liability would otherwise be due within 12 months.
 - If a liability has become payable on demand because an entity has breached an undertaking under a long-term loan agreement on or before the reporting date, further under Ind AS the liability is non-current, if the lender has agreed, after the reporting date and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach. However, the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least 12 months after the end of the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.
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Structure of Financial Statements (cont.)

Classification of financial liabilities in case of refinancing or breach of covenants:

- **Indian GAAP:** No guidance in the existing standard rather Schedule III has similar definition of current liabilities.
 - **IFRS :** Financial liability is current even if the agreement to refinance or reschedule payments on long-term basis is completed after the end of the reporting period and before the financial is authorized for issue.
 - **Ind AS:** Need not be classified as current on account of breach of a material provision, for which the lender has agreed to waive before the approval of financial statements for issue.
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Structure of Financial Statements (cont.)

Statement of balance sheet - Equity

Regarding issued share capital and reserves, the following disclosures are required:

- numbers of shares authorised, issued and fully paid, and issued but not fully paid
- par value (or that shares do not have a par value)
- a reconciliation of the number of shares outstanding at the beginning and the end of the period
- description of rights, preferences, and restrictions
- treasury shares, including shares held by subsidiaries and associates
- shares reserved for issuance under options and contracts
- a description of the nature and purpose of each reserve within equity.

Note: Unlike Ind AS & IFRS, AS 1 does not require an entity to disclose information that enables users of its financial statements to evaluate the entity's objective, policies and process of managing capital.

Structure of Financial Statements (cont.)

Equity - Illustrative disclosure on capital management :

- *For the purpose of the Company's capital management, capital includes issued share capital, security premium and all other equity reserves attributable to the equity holders of the parent.*
- *The primary objective of the Capital's capital management is to maximise the shareholder value.*
- *The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants.*
- *To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.*
- *The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's policy is to keep the gearing ratio between 25% and 35%.*

Structure of Financial Statements (cont.)

Statement of profit and loss

Concepts of profit and loss and other comprehensive income:

Profit or loss is defined as "the total of income less expenses, excluding the components of other comprehensive income".

Other comprehensive income is defined as comprising "items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs".

Total comprehensive income is defined as "the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners".

Total comprehensive income for the period	=	Profit and loss for the period	+	Other comprehensive income for the period
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Structure of Financial Statements (cont.)

Statement of profit and loss (cont.)

Examples of items recognised outside of profit or loss i.e. part of other comprehensive income:

- Changes in revaluation surplus where the revaluation method is used under [Ind AS 16](#) and [Ind AS 38](#)
 - Remeasurements of a net defined benefit liability or asset recognised in accordance with [Ind AS 19](#)
 - Exchange differences from translating functional currencies into presentation currency in accordance with [Ind AS 21](#)
 - gains and losses on financial assets or from investments in equity instruments designated at fair value through other comprehensive income in accordance with [Ind AS 109](#)
 - The effective portion of gains and losses on hedging instruments in a cash flow hedge under [Ind AS 109](#)
 - The effects of changes in the credit risk of a financial liability designated as at fair value through profit and loss under [Ind AS 109](#).
 - Changes in the value of certain options and forward contracts as per [Ind AS 109](#).
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Structure of Financial Statements (cont.)

Statement of profit and loss (cont.)

The statement(s) must present:

- profit or loss
 - total other comprehensive income
 - comprehensive income for the period
 - an allocation of profit or loss and comprehensive income for the period between non-controlling interests and owners of the parent.
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Structure of Financial Statements (cont.)

Statement of profit and loss (cont.)

Profit or loss section:

The following line items must be presented in the profit or loss section (or separate statement of profit or loss, if presented):

- revenue
- gains & losses from the derecognition of financial assets measured at amortised cost
- finance costs
- share of the profit or loss of associates and joint ventures accounted for using the equity method
- certain gains or losses associated with the reclassification of financial assets
- tax expense
- a single amount for the total of discontinued items

Expenses recognised in profit or loss should be analysed by nature (raw materials, staffing costs, depreciation, etc.)

Structure of Financial Statements (cont.)

Statement of profit and loss (cont.)

Other comprehensive income section:

- The other comprehensive income section is required to present line items which are classified by their nature, and grouped between those items that:
 - will be reclassified to profit and loss in subsequent periods.
 - will not be reclassified to profit and loss in subsequent periods.
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Structure of Financial Statements (cont.)

Statement of profit and loss (cont.)

Other requirements

- Additional line items may be needed to fairly present the entity's results of operations.
 - Items cannot be presented as 'extraordinary items' in the financial statements or in the notes.
 - Certain items must be disclosed separately either in the statement of profit and loss or in the notes, if material, including:
 - write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs
 - restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring
 - disposals of items of property, plant and equipment
 - disposals of investments
 - discontinuing operations
 - litigation settlements
 - other reversals of provisions
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Structure of Financial Statements (cont.)

Statement of profit and loss (cont.)

Under Indian GAAP

- Schedule III requires an analysis of expense by nature. Any item of income or expenditure which exceeds 1% of the revenue from operations or Rs 100,000 whichever is higher, needs to be disclosed.
- Only statement of profit or loss and other items like revaluation reserve are recognised directly in equity.
- Concept of extra-ordinary items exists.

Under IFRS

- An entity has a choice of presenting: a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections, or as two separate statements.
 - An entity has a choice to present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function.
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Structure of Financial Statements (cont.)

Statement of Changes in Equity

Ind AS 1 requires an entity to present a separate statement of changes in equity. The statement must show:

- total comprehensive income for the period, showing separately amounts attributable to owners of the parent and to non-controlling interests
- the effects of any retrospective application of accounting policies or restatements made in accordance with [Ind AS 8](#), separately for each component of other comprehensive income
- reconciliations between the carrying amounts at the beginning and the end of the period for each component of equity, separately disclosing:
 - profit or loss
 - other comprehensive income*
 - transactions with 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
 - Any item directly recognised under equity such as capital reserve may arise as per Ind AS 103

* An analysis of other comprehensive income by item is required to be presented either in the statement or in the notes.

Structure of Financial Statements (cont.)

Statement of Changes in Equity (cont.)

The following amounts may also be presented on the face of the statement of changes in equity, or they may be presented in the notes:

- amount of dividends recognised as distributions
 - the related amount per share.
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Structure of Financial Statements (cont.)

Statement of Cash flows

- **Cash** comprises cash on hand and demand deposits.
- **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- **Cash flows** are inflows and outflows of cash and cash equivalents.
- **Operating activities** are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
- **Investing activities** are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- **Financing activities** are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Structure of Financial Statements (cont.)

Statement of Cash flows

The procedure of presenting the cash flow statement is more or less same with the following exception:

Items	Indian GAAP	Ind AS	IFRS
Bank overdraft	Considered as financing activities	Included in cash & cash equivalent as they are integral part of entity's cash's management	Similar to Ind AS
Extraordinary items	To be disclosed separately as operating, investing and financing activities	Not permitted	Similar to Ind AS
Acquisition & disposal of PPE held for rental to others	No specific guidance	Entities might routinely sell items of PPE that they have previously held for rental to others. Cash payment / receipt in respect of acquisition/disposal of such assets are classified as operating activities.	Similar to Ind AS

Structure of Financial Statements (cont.)

Statement of Cash flows (cont.)

Items	Indian GAAP	Ind AS	IFRS
Interest and Dividend	For financing entity: Interest paid and interest received are to be classified as operating activities. Dividend paid as financing activity For other enterprises: Interest and dividends received are required to be classified as investing activities ; interest and dividends paid as financing activities.	Similar to Indian GAAP	Can be classified as operating, investing or financing activities in a manner consistent from period to period
Changes in ownership interest	No specific guidance	Change in ownership interest in a subsidiary without loss of control are treated as financing activities	Similar to Ind AS

Structure of Financial Statements (cont.)

Notes to the financial statements

The notes shall:

- present information about the basis of preparation of the financial statements and the specific accounting policies used
- disclose any information required by Ind ASs that is not presented elsewhere in the financial statements and
- provide additional information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them
- Notes are presented in a systematic manner and cross-referenced from the face of the financial statements to the relevant note. [Ind AS 1.113]

Structure of Financial Statements (cont.)

Notes to the financial statements (cont.)

Ind AS 1.114 suggests example of systematic manner of notes include:

- a statement of compliance with Ind ASs
 - significant accounting policies applied, including: [Ind AS 1.117]
 - the measurement basis (or bases) used in preparing the financial statements
 - the other accounting policies used that are relevant to an understanding of the financial statements
 - supporting information for items presented on the face of the balance sheet, statement of profit and loss, statement of changes in equity and statement of cash flows, in the order in which each statement and each line item is presented.
 - other disclosures, including:
 - contingent liabilities (see Ind AS 37) & unrecognised contractual commitments
 - non-financial disclosures, such as the entity's financial risk management objectives and policies (see Ind AS 107)
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Structure of Financial Statements (cont.)

Other disclosures

Judgements and estimation uncertainty with key assumptions

The entity is required to disclose critical *judgements made by the management in applying accounting policies* and *key sources of estimation uncertainty* at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. [Ind AS 1.125] These disclosures do not involve disclosing budgets or forecasts. [Ind AS 1.130]

Judgements - e.g.

- whether control, joint control or significant influence.

Estimation uncertainty – e.g.

- Impairment of goodwill
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Ind AS – 8 Accounting Policies, Changes in Estimates and Error

Objective

The objective of this Standard is:

- to prescribe the criteria for selecting and changing accounting policies,
- together with the accounting treatment and
- disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

Key Definition

- **Accounting policies** are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
- **A change in accounting estimate** is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

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Key Definition

- **Prior period errors** are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:
 - (a) was available when financial statements for those periods were approved for issue; and
 - (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

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Key Definition

- **Retrospective application** is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.
- **Retrospective restatement** is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.
- **Prospective application** of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:
 - (a) applying the new accounting policy to transactions, other events & conditions occurring after the date as at which the policy is changed; and
 - (b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

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Accounting Policies

General Principles relating to accounting policies:

- Fair presentation and compliance with accounting standards;
- Going concern;
- The accrual basis of accounting;
- Materiality and aggregation;
- Offsetting;
- Frequency of reporting;
- Comparative information; and
- Consistency.

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Accounting Policies

Selection and application of accounting policies

- Applying the Ind AS and considering any relevant Implementation Guidance forming part of Ind AS.
- In the absence of a Standard that specifically applies to a transaction, management must use its judgement.
- In making that judgement, management must refer to, and consider the applicability of, the following sources in descending order:
 - the requirements in Ind AS dealing with similar and related issues; and
 - the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.

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Accounting Policies

Consistency of accounting policies

An entity shall change an accounting policy only if the change:

- An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an Ind AS specifically requires or permits categorisation of items for which different policies may be appropriate.
- If an Ind AS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

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Accounting Policies

Change in accounting policies

An entity shall change an accounting policy only if the change:

- is required by a standard or interpretation; or
- For better presentation (voluntary change).

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Accounting Policies

Change in accounting policies

Disclosures relating to changes in accounting policy caused by a new standard or interpretation include:

- the title of the standard or interpretation causing the change
- the nature of the change in accounting policy
- a description of the transitional provisions, including those that might have an effect on future periods
- for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
 - for each financial statement line item affected, and
 - for basic and diluted earnings per share (only if the entity is applying Ind AS 33)
- the amount of the adjustment relating to periods before those presented, to the extent practicable

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Accounting Policies

Change in accounting policies

Disclosures relating to changes in accounting policy caused by a new standard or interpretation include(..continued):

- if retrospective application is impracticable, an explanation and description of how the change in accounting policy was applied.

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Accounting Estimates

Changes in accounting estimates

The effect of a change in an accounting estimate shall be recognised prospectively by including it in profit or loss in:

- the period of the change, if the change affects that period only, or
- the period of the change and future periods, if the change affects both.

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Accounting Estimates

Changes in accounting estimates

Disclose:

- the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods.
- if the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

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Errors

The general principle in Ind AS 8 is that an entity must correct all material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:

- restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

There are relaxation in case of impracticability which require an explanation and description of how the error has been corrected.

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Errors

Disclosures relating to prior period errors include:

- the nature of the prior period error
 - for each prior period presented, to the extent practicable, the amount of the correction:
 - for each financial statement line item affected, and
 - for basic and diluted earnings per share (only if the entity is applying Ind AS 33)
 - the amount of the correction at the beginning of the earliest prior period presented
 - if retrospective restatement is impracticable, an explanation and description of how the error has been corrected.
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Presentation

Whenever an entity:

- a) applies an accounting policy retrospectively; or
- b) makes a retrospective restatement; or
- c) reclassifies items in its financial statement.

an additional balance sheet and related notes is required as at the beginning of the earliest prior period presented.

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Ind AS 10 – Events After the Reporting Period

Events After the Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period (*adjusting events after the reporting period*); and
 - those that are indicative of conditions that arose after the reporting period (*non-adjusting events after the reporting period*).
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Events After the Reporting Period

Under Ind AS & IFRS

- Liability for dividends declared to holders of equity instruments are recognised in the period when declared. It is a non-adjusting event.

Under Indian GAAP

- Schedule III – proposed dividend to be disclosed in the notes to accounts
- AS 4 – dividend declared or proposed after balance sheet date but before approval of financial statements will have to be recorded as liability.

As per revised AS 4 effective 1 Apr 2016, now the treatment of proposed dividend is in line with Ind AS and IFRS

Distribution of Non-Cash Assets to Owners

It applies when non-cash assets are distributed to owners or when the owner is given a choice of taking cash in lieu of the non-cash assets.

Appendix A to Ind AS 10 clarifies that:

- a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity
 - an entity should measure the dividend payable at the fair value of the net assets to be distributed
 - an entity should remeasure the liability at each reporting date and at settlement, with changes recognised directly in equity
 - an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss, and should disclose it separately
 - an entity should provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation
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Recap

Ind AS 1

- Overall framework for presenting general purpose financial statements, including guidelines for their structure and the minimum contents.

Ind AS 7

- Presentation of information about historical changes in an entity's cash and cash equivalents by means of a statement of cash flows that classifies cash flow during the period according to operating, investing and financing activities.

Ind AS 8

- Prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in estimates, and errors.
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Recap

Ind AS 10

- When an entity should adjust its financial statements for events after the end of the reporting period.
 - Disclosures about the date when the financial statements were authorised for issue and about events after the end of the reporting period.
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Questions?
Feedback!

Thank You!

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Ind AS Implementation Committee of ICAI