Educational Material on Indian Accounting Standard (Ind AS) 1 Presentation of Financial Statements (Revised 2016)

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

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This Educational Material has been formulated in accordance with the Ind AS notified by the Ministry of Corporate Affairs (MCA) as Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 and other amendments finalised subsequent to the notification.

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Foreword

Pursuant to the announcement of the Finance Minister in July 2014 to adopt the IFRS-converged Indian Accounting Standards (Ind AS) from the financial year 2015-16 on voluntary basis and from the financial year 2016-17 on mandatory basis, various steps were taken to facilitate the implementation of Ind AS. The Institute of Chartered Accountants of India (ICAI) updated Ind AS corresponding to latest version of IFRS. The Ministry of Corporate Affairs (MCA) has notified these Ind AS as Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 and also the roadmap for the applicability of Ind AS for companies. The move would enhance the international comparability of financial statements of Indian companies and make the Indian capital markets more attractive. The MCA has also issued a Press Release on January 18, 2016, announcing the Ind AS roadmap for Scheduled Commercial Banks (excluding RRBs), Insurers/Insurance companies and Non-banking Financial Companies (NBFCs) from the financial year 2018-19.

In order to ensure implementation of the Ind AS in the same spirit in which these have been formulated and to provide appropriate guidance to members and other stakeholders, the Ind AS (IFRS) Implementation Committee of the ICAI formulates Educational Material on Ind AS.

As a step in this direction, the Committee has revised its earlier issued Educational Material on Ind AS 1, Presentation of Financial Statements, addressing all the relevant aspects envisaged in the Standard by way of brief summary of the Standard and Frequently Asked Questions (FAQs).

I would like to place on record my deep appreciation to CA. S. B. Zaware, Chairman, CA. Vijay Kumar Gupta, Vice Chairman and other members of the Committee including co-opted members and special invitees for their valuable inputs and support.

I am of the firm belief that this revised Educational Material would be of great help for the entities in preparing and presenting its Financial Statements in accordance with Ind AS.

New Delhi
February 9, 2016

CA. Manoj Fadnis
President, ICAI

Preface

Considering the global developments and expected benefits of convergence with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which are widely recognised as global financial reporting standards, India has decided to converge with IFRS. The initial attempt to implement Ind AS was made in 2011 when 35 Ind AS were notified by Ministry of Corporate Affairs (MCA), however, the same were not implemented due to certain tax and other issues.

Pursuant to the budget speech made by Hon'ble Finance Minister in July 2014, various steps were taken with the support of MCA in order to bring Ind AS in place and these Standards have been notified by MCA as Companies (Indian Accounting Standards) Rules, 2015. The ICAI updated Ind AS corresponding to the latest version of IFRS, since after notification Ind AS in the year 2011, not only significant amendments had been made in IFRS, but various new IFRS had also been issued by the IASB.

While formulating Ind AS, it was realised that in order to ensure that these Standards are implemented in the same spirit in which these had been formulated, some kind of guidance on these Standards would be required. This task of providing guidance has been entrusted to Ind AS (IFRS) Implementation Committee. Working in this direction, the Committee had earlier issued Educational Materials on certain Ind AS.

During the Council Year 2015-16, the Committee decided to revise certain Educational Materials already issued since there are substantial changes in certain Ind AS notified in 2015 compared to the Ind AS notified in 2011. Working in this direction, the Committee has brought this revised Educational Material on Ind AS 1, Presentation of Financial Statements.

Ind AS 1 prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

This revised Educational Material contains summary of Ind AS 1 discussing the key requirements of the Standard in brief and the Frequently Asked

Questions (FAQs) covering the issues, which are expected to be encountered frequently while implementing this Standard.

I may mention that the views expressed in this publication are the views of the Ind AS (IFRS) Implementation Committee and are not necessarily the views of the Council of the Institute. The purpose of this publication is to provide guidance for implementing this Ind AS effectively by explaining the principles enunciated in the Standard with the help of examples. However, while applying Ind ASs in a practical situation, reference should be made to the text of the Standards.

I would like to convey my sincere gratitude to our Honourable President CA. Manoj Fadnis and Vice-President CA. M. Devaraja Reddy for providing me this opportunity of bringing out implementation guidance on Ind ASs in the form of Educational Materials. I wish to place on record my sincere appreciation of CA. Vijay Kumar Gupta, Vice-Chairman, CA. Sanjeev Singhal, Principal Resource Person, CA. Pravin Tulsyan, CA Sandeep Agarwal, CA Anil Jobanputra and other members of the Study Group, for preparing the revised draft of this Educational Material. I would also like to thank all members, co-opted members, special invitees of the Ind AS (IFRS) Implementation Committee for their invaluable suggestions and contributions for finalising this publication.

I sincerely believe that this revised Educational Material will be of great help in understanding the provisions of Ind AS 1 and in implementation of the same.

New Delhi
February 9, 2016

CA. S. B. Zaware
Chairman
Ind AS (IFRS) Implementation Committee

Foreword to the First Edition

In the present era of globalisation and liberalisation, where companies are establishing their businesses in various countries and cross border movements of capital is increasing, the users of the financial statements of an entity are no longer limited to single country. Therefore, it is necessary that as far as possible, the accounting principles for reporting financial information should be identical in all the countries. All this has necessitated the establishment of a single set of globally accepted financial reporting system. The International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) are increasingly being recognised as global financial reporting standards. Substantial benefits have been proposed by the adoption of IFRS, including a decreased cost of capital, greater mobility of capital, greater efficiency in the allocation of resources, improved and more comparable financial reporting. Considering all these global developments, convergence with IFRS in India was decided. The ICAI had formulated IFRS-converged Indian Accounting Standards corresponding to IFRS, which were considered relevant as on 1st April, 2011. The same had been placed by the MCA on its website after the recommendation of the NACAS.

Considering these major developments in India with regard to convergence with IFRS and global developments with regard to IFRS, immense need is being felt to get the members and other stakeholders ready for proper implementation of IFRS-converged Indian Accounting Standards. For this purpose, a new Committee, namely, Ind AS (IFRS) Implementation Committee has been constituted this year. One of the primary objectives of the Committee is to support the members and other stakeholders in proper implementation of IFRS-converged Indian Accounting Standards (Ind ASs) by providing guidance on the same.

In this direction, the Ind AS (IFRS) Implementation Committee of ICAI has formulated Educational Material on Ind AS 1, *Presentation of Financial Statements*. The purpose of this Educational Material is to provide guidance by way of Frequently Asked Questions (FAQs) explaining the principles enunciated in the Standard.

I am confident that this Educational Material will be very useful not only to

the members of the profession but also to other concerned stakeholders in proper understanding and implementation of the Standard.

New Delhi
January 2, 2012

G. Ramaswamy
President

Preface to the First Edition

In view of global developments and expected benefits of convergence with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which are widely recognised as global financial reporting standards, India decided to converge with IFRSs. For this purpose, IFRS-converged Indian Accounting Standards corresponding to IFRS considered relevant for Indian entities as on 1st April, 2011, had been formulated.

While formulating IFRS-converged Indian Accounting Standards, it was realised that in order to ensure that these Standards are implemented in the same spirit in which these had been formulated, some kind of guidance on these Standards should be issued. This task of providing guidance was entrusted to Ind AS (IFRS) Implementation Committee. Working in this direction, the Committee has come out with Educational Material on Indian Accounting Standard (Ind AS) 1, *Presentation of Financial Statements*.

Ind AS 1 is a basic Standard, which prescribes the overall requirements for the presentation of financial statements and guidelines for their structure, i.e., components of financial statements, viz., balance sheet, statement of profit and loss, statement of cash flows and notes comprising significant accounting policies, etc. Further, the Standard prescribes the minimum disclosures that are to be made in the financial statements and explains the general features of the financial statements. The presentation requirements prescribed in the Standard are supplemented by the recognition, measurement and disclosure requirements set out in other Ind ASs for specific transactions and other events.

This Educational Material contains summary of Ind AS 1 discussing the key requirements of the Standard in brief and the Frequently Asked Questions (FAQs) covering the issues, which are expected to be encountered frequently while implementing this Standard. The text of Ind AS 1 has been included as an Appendix to make this publication comprehensive.

I may bring to the kind attention of the readers that the views expressed in this publication are the views of the Ind AS (IFRS) Implementation Committee and are not necessarily the views of the Council of the Institute. The purpose of this publication is to provide guidance for implementing this Ind AS effectively by explaining the principles enunciated in the Standard

with the help of examples. However, while applying Ind ASs in a practical situation, reference should be made to the text of the Standards.

I wish to place on record my sincere appreciation of CA. Samir R. Shah, CA. Sampada S. Narvankar and their team, for preparing the draft of this Educational Material. I would also like to thank CA. Sanjeev Kumar Singhal, CA. Jag Mohan Seth, CA Archana Bhutani and all other members of the Ind AS (IFRS) Implementation Committee for their valuable inputs for finalising this publication.

I would like to thank Dr. Avinash Chander, Technical Director, CA. Parminder Kaur, Secretary, Ind AS (IFRS) Implementation Committee for their efforts and support for finalising this publication.

I hope this Educational Material will be of immense use in understanding the provisions of Ind AS 1 and in implementation of the same.

New Delhi
January 13, 2012

CA. Amarjit Chopra
Chairman
Ind AS (IFRS) Implementation Committee

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Educational Material on Indian Accounting Standard (Ind AS) 1 Presentation of Financial Statements

I Ind AS 1 - Summary

Objective of Ind AS 1

Indian Accounting Standard (Ind AS) 1, *Presentation of Financial Statements,* prescribes the basis for presentation of general purpose financial statements. The basic purpose of this Standard is to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Scope

Every entity preparing and presenting general purpose financial statements in accordance with Ind AS should apply this Standard.

Other Indian Accounting Standards (Ind ASs) supplement the requirements of Ind AS 1 by setting out the recognition, measurement and disclosure requirements for specific transactions and other events.

Purpose of Financial Statements

The objective of general purpose financial statements is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making economic decisions. To meet the objective, financial statements provide information about an entity's:

- assets;
- liabilities;
- equity;
- income and expenses, including gains and losses;
- contributions by and distributions to owners in their capacity as owners; and
- cash flows.

That information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Complete set of Financial Statements

A complete set of financial statements comprises:

- a balance sheet as at the end of the period;
- a statement of profit and loss for the period;
- statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising significant accounting policies and other explanatory information;
- comparative information in respect of the preceding period;
- a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatements of items in its financial statements, or when it reclassifies items in its financial statements.

An entity shall present a single statement of profit and loss, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.

Many entities present reports and statements such as financial reviews by management, environmental reports, and value added statements that are outside the financial statements. Such reports and statements that are outside the financial statements are outside the scope of Ind ASs.

General Features

Presentation of true and fair view and compliance with Ind ASs

The financial statements must present a true and fair view of the financial position, financial performance and cash flows of an entity. Presentation of true and fair view requires the faithful representation of the 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.* The application of Ind ASs, with additional disclosure when necessary, is presumed to result in financial statements that present a true and fair view.

An entity whose financial statements comply with Ind AS is required to make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with Ind AS unless they comply with all the requirements of Ind ASs.

It is not permissible for an entity to rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

Following exception has been given in the Standard where an entity can depart from requirement of an Ind AS:

In extremely rare circumstances, management may conclude that compliance with an Ind AS requirement would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*. In such circumstances, the entity should depart from the Ind AS, if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure. In that case disclosures as required by the Standard should be made.

The Standard further provides that in the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by making certain disclosures.

Going Concern

Financial statements prepared under Ind AS should be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. If management has significant doubt of the entity's ability to continue as a going concern, the uncertainties should be disclosed. In case the financial statements are not prepared on a going concern basis, the entity should disclose the basis of preparation of financial statements and also the reason why the entity is not regarded as a going concern.

Accrual Basis of Accounting

An entity is required to prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

Materiality and Aggregation

An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial except when required by law.

When applying Ind ASs an entity shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

Some Ind ASs specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by an Ind AS if the information resulting from that disclosure is not material except when required by law. This is the case even if the Ind AS contains a list of specific requirements or disclosures them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in Ind AS is insufficient to enable users to understand the impact of the particular transactions, other events and conditions on the entity's financial position and financial performance.

Offsetting

Assets and liabilities, and income and expenses, may not be offset unless required or permitted by an Ind AS.

Frequency of Reporting

An entity should present a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than one year, an entity should disclose, in addition to the period covered by the financial statements, the reason for using a longer or shorter period, and the fact that amounts presented in the financial statements are not entirely comparable.

Comparative Information

Minimum comparative information

An entity should present comparative information in respect of the preceeding period for all amounts reported in the current period's financial

statements except when Ind ASs permit or require otherwise. Comparative information for narrative and descriptive information should be included if it is relevant to understand the current period's financial statements.

An entity should present, as a minimum, two balance sheets, two statements of profit and loss, two statements of cash flows and two statements of changes in equity, and related notes.

Additional comparative information

An entity may present comparative information in addition to the minimum comparative financial statements required by Ind ASs, as long as that information is prepared in accordance with Ind ASs. This comparative information may consist of one or more statements referred in 'Complete set of financial statements' but need not comprise a complete set of financial statements.

Changes in accounting policy, retrospective restatement or reclassification

Paragraph 40A of Ind AS 1 requires that an entity should present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if:

(a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and

(b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the balance sheet at the beginning of the preceding period.

If an entity changes the presentation or classification of items in its financial statements, it should reclassify comparative amounts unless reclassification is impracticable. When an entity reclassifies comparative amounts, it should disclose (including as at the beginning of the preceding period):

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification

Consistency of Presentation

Ind AS 1 requires that presentation and classification of items in the financial statements shall be retained from one period to the next unless a change is justified either by a change in situations or a requirement of another Ind AS.

Structure and Content

An entity should clearly identify the financial statements and distinguish them from other information in the same published document.

Balance Sheet

Ind AS 1 does not prescribe the order or format for presentation of balance sheet. However, Ind AS 1 requires the following line items to be included in the balance sheet:

(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 within the scope of Ind AS 41, *Agriculture*;

(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;

(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.

It is permissible to present additional line items (including by disaggregating the line items listed above), headings and sub totals, as relevant, to understand the entity's financial position.

Current/non-current distinction

Ind AS 1 provides that an entity should present current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet except when a presentation based on liquidity provides information that is reliable and more relevant.

Whichever method of presentation is adopted, an entity should disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) no more than twelve months after the reporting period, and

(b) more than twelve months after the reporting period.

Ind AS 1 provides that an entity should classify an asset as current when:

(a) it expects to realise 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 realise 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.

An entity should classify all other assets as non-current.

Ind AS 1 provides that an entity should classify a liability as current when:

(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. 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.

An entity should classify all other liabilities as non-current.

If an entity expects, and has the discretion, to refinance or roll over an existing loan obligation for at least twelve months after the reporting period, the debt is classified as non-current, even if it would otherwise be due within 12 months.

Where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

The liability is classified as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least 12 months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

With regard to share capital, an entity shall disclose the following, either in the balance sheet or the statement of changes in equity, or in the notes:

(a) for each class of share capital:

   (i) the number of shares authorised;

   (ii) the number of shares issued and fully paid, and issued but not fully paid;

   (iii) par value per share, or that the shares have no par value;

   (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

   (v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;

   (vi) shares in the entity held by the entity or by its subsidiaries or associates; and

   (vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and

(b) a description of the nature and purpose of each reserve within equity.

Statement of Profit and Loss

The statement of profit and loss shall present, in addition to the profit or loss and other comprehensive income sections:

(a) profit or loss;

(b) total other comprehensive income;

(c) comprehensive income for the period, being the total of profit or loss and other comprehensive income.

An entity should present the following items, in addition to the profit or loss and other comprehensive income sections, as allocation of profit or loss and other comprehensive income for the period:

(a) profit or loss for the period attributable to:

  (i) non-controlling interests, and

  (ii) owners of the parent.

(b) comprehensive income for the period attributable to:

  (i) non-controlling interests, and

  (ii) owners of the parent.

Information to be presented in the profit or loss section of the statement of profit and loss

In addition to items required by other Ind ASs, the profit or loss section of the statement of profit and loss should include line items that present the following amounts for the period:

(a) revenue, presenting separately interest revenue calculated using the effective interest method;

(b) gains and losses arising from the derecognition of financial assets measured at amortised cost

(c) finance costs;

(d) impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of Ind AS 109

(e) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(f) if financial asset is reclassified out of the amortised cost measurement category so that it is measured at fair value through profit or loss, any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value at the reclassification date;

(g) if a financial asset is reclassified out of the fair value through other comprehensive income measurement category so that it is measured at fair value through profit or loss, any cumulative gain or loss previously recognized in other comprehensive income that is reclassified to profit or loss

(h) tax expense;

(i) a single amount for the total discontinued operations

Information to be presented in the other comprehensive income section

The other comprehensive income section should present line items for the amounts for the period of:

(a) items of other comprehensive income (excluding amounts in paragraph (b)), classified by nature and grouped into those that, in accordance with other Ind ASs:

  (i) will not be reclassified subsequently to profit or loss; and

  (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

(b) the share of the other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that, in accordance with other Ind ASs:

  (i) will not be reclassified subsequently to profit or loss; and

  (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

Additional line items (including by disaggregating the specified line items), headings and sub totals as may be relevant for an understanding of the entity's results of operations should be presented.

No items may be presented in the statement of profit and loss or in the notes as 'extraordinary items'.

With regard to profit or loss for the period, the Standard requires the recognition of all items of income and expense in a period in profit or loss unless an Ind AS requires or permits otherwise.

With regard to other comprehensive income for the period, the Standard requires to disclose the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments, either in the statement of profit and loss or in the notes.

The Standard further prescribes that an entity should disclose reclassification adjustments relating to components of other comprehensive income.

Information to be presented in the statement of profit and loss or in the notes

When items of income or expense are material, the same should be disclosed separately. Circumstances that may require separate disclosure of items of income and expense may include the following:

- 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; and
- other reversals of provisions.

The Standard requires an entity to present an analysis of expenses recognised in profit or loss using a classification based on the nature of expense method. Entities are encouraged to present this analysis in the statement of profit and loss.

Statement of Changes in Equity

Ind AS 1 requires an entity to present a statement of changes in equity. The statement includes the following information:

(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;

(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with Ind AS 8;

(c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing each changes resulting from:

  (i) profit or loss;

  (ii) other comprehensive income;

  (iii) 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

  (iv) any item recognised directly in equity such as amount recognised directly in equity as capital reserve in accordance with Ind AS 103.

Statement of Cash Flows

An entity should present a statement of cash flows in accordance with Ind AS 7, *Statement of Cash Flows*.

Notes

The notes should:

- 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 information that is not presented elsewhere in the financial statements but is relevant to an understanding of them.

An entity shall present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity should cross-reference each item in the financial statements to the related information in the relevant note.

Disclosure of accounting policies

An entity shall disclose its significant accounting policies comprising:

(a) the measurement basis (or bases) used in preparing the financial statements; and

(b) the other accounting policies used that are relevant to an understanding of the financial statements.

An entity must disclose along with its significant accounting policies or other notes, the judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

An entity must disclose, in the notes, information about the assumptions made concerning the future, and other important 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. Disclosures about nature of such assets and their carrying amount as at the end of the reporting period should also be made.

Capital Disclosures

An entity should disclose information about its objectives, policies and processes for managing capital.

Puttable Financial Instruments classified as equity

The following additional disclosures should be made, if not already disclosed elsewhere in the financial statements, if an entity has a puttable financial instrument classified as an equity instrument:

- summary quantitative data about the amount classified as equity;
- the entity's objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;
- the expected cash outflow on redemption or repurchase of that class of financial instruments; and
- information about how the expected cash outflow on redemption or repurchase was determined.

Other Disclosures

An entity must disclose the amount of dividends proposed or declared before

the financial statements were approved for issue but not recognised as a distribution to owners during the period, and the related amount per share and the amount of any cumulative preference dividends not recognised.

Ind AS 1 requires certain other disclosures, if not disclosed elsewhere in information published with the financial statements, such as, the domicile and legal form of the entity, its country of incorporation and the address of its registered office, a description of the nature of the entity's operations and its principal activities, the name of the parent and the ultimate parent of the group, if it is a limited life entity, information regarding the length of its life.

II Frequently Asked Questions

Objective and Scope

Question 1

Does Ind AS 1 prescribe any format for the presentation of the general purpose financial statements? [Ind AS 1 Paragraph 2]

Response

No, Ind AS 1 does not prescribe any format for presentation of general purpose financial statements but prescribes the information required to be presented.

In addition to the above, it may be noted that if formats for presentation are issued under any applicable law and regulations, the same should also be complied with.

Financial Statements

Question 2

Is it acceptable to disclose information required by Ind AS 1 in management/directors' report forming part of annual report without making such disclosures in the financial statements? [Ind AS 1 Paragraphs 13 and 14]

Response

No. Paragraphs 13 and 14 of Ind AS 1 give examples of various reports that entities present outside the financial statements, e.g., financial review by management, environmental reports, value added statements, etc. Paragraph 14 of Ind AS 1 states "reports and statements presented outside the financial statements are outside the scope of Ind AS". Information appearing in reports presented outside the financial statements may repeat information given in the financial statements or draw reference to the same. However, financial statements cannot omit any disclosures required by Ind ASs because it is included in other reports outside the financial statements. Even drawing reference to the information given in the reports outside the financial statements would not be sufficient unless permitted by an Ind AS.

Question 3

Can an entity claim compliance with Ind ASs if it has not complied with one or more Ind ASs and its financial statements state the fact that the entity

complies with Ind ASs, except for compliance with one or more Standards? [Ind AS 1 Paragraph 16]

Response

Paragraph 16 of Ind AS 1 states that an entity whose financial statements comply with Ind ASs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with Ind ASs unless they comply *with all the requirements of Ind ASs.* Therefore, unless all the requirements of Ind ASs are complied with, the entity cannot claim compliance with the Ind ASs.

Question 4

An entity prepares its financial statements that contain an explicit and unreserved statement of compliance with Ind ASs. However, the auditor's report on those financial statements contains a qualification because of disagreement on application of one Accounting Standard.

In such case, is it acceptable for the entity to make an explicit and unreserved statement of compliance with Ind ASs?

Response

Yes, it is possible for an entity to make an unreserved and explicit statement of compliance with Ind ASs, even though the auditor's report contains a qualification because of disagreement on application of accounting standard(s), as the preparation of financial statements is the prerogative of the management.

Question 5

Is offsetting of revenue against expenses, permissible in case of a company acting as an agent and having sub agents, where commission is paid to sub agents from the commission received as an agent? [Ind AS 1 Paragraphs 32, 33 and 35]

Response

Para 32, 33 and 35 of Ind AS 1 state as follows with respect to offsetting:

"**32 An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.**

33 An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statements of profit and loss or balance sheet, except when offsetting reflects the substance of the transaction or other

event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.

35 In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, an entity presents such gains and losses separately if they are material."

On the basis of the above, net presentation in the given case would not be appropriate, as it would not reflect substance of the transaction and would detract from the ability of users to understand the transaction. Therefore, commission paid to sub agent should not be offset against commission earned by the company.

Question 6

Is offsetting permitted under the following circumstances?

(a) Expenses incurred by a holding company on behalf of subsidiary, which is reimbursed by the subsidiary- whether in the separate books of the holding company, the expenditure and related reimbursement of expenses can be offset?

(b) Whether profit on sale of an asset against loss on sale of other asset can be offset?

(c) When services are rendered in a transaction with an entity and services are received from the same entity in two different arrangements, can the receivable and payable be off-set?

[Ind AS 1 Paragraphs 33 and 35]

Response

(a) As per Paragraph 33 of Ind AS 1, offsetting is permitted only when the offsetting reflects the substance of the transaction.

In this case, the agreement/arrangement, if any, between the holding and subsidiary company needs to be considered. Only if the arrangement is to reimburse the cost incurred by the holding company on behalf of the subsidiary company, the same may be presented net. It should be ensured that the substance of the arrangement is that the payments are actually in the nature of reimbursement.

(b) Paragraph 35 of Ind AS 1 requires an entity to present on a net basis gains and losses arising from a group of similar transactions. Accordingly, gains or losses arising on disposal of various items of property, plant and equipment shall be presented on net basis. However, gains or losses should be presented separately if they are material.

(c) Ind AS 1 prescribes that assets and liabilities, and income and expenses should be reported separately, unless offsetting reflects the substance of the transaction. In addition to this, as per paragraph 42 of Ind AS 32, a financial asset and a financial liability should be offset if the entity has legally enforceable right to set off and the entity intends either to settle on net basis or to realise the asset and settle the liability simultaneously.

In accordance with the above, the receivable and payable should be offset against each other and net amount is presented in the balance sheet if that the entity has a legal right to set off and the entity intends to do so. Otherwise, the receivable and payable should be reported separately.

Question 7

Is it appropriate to conclude that restatement of comparative amounts is impracticable on the basis that it would involve undue cost? [Ind AS 1 Paragraphs 7 and 41]

Response

No, it is not appropriate to conclude that restatement is impracticable merely because of the cost involved.

As per paragraph 7 of Ind AS 1 applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. What are reasonable efforts to conclude that it is impracticable to restate the comparative amounts depend on the facts and circumstances of each case.

Structure and Content: Financial Statements

Question 8

Paragraph 53 of Ind AS 1 states "An entity often makes financial statements more understandable by presenting information in thousands, lakhs, millions or crores of units of the presentation currency". Can an entity adopt different levels of rounding for different disclosures that are made in the financial statements? [Ind AS 1 Paragraph 53]

Response

Paragraph 53 of Ind AS 1 permits the use of rounding off provided an entity discloses the level of rounding and does not omit material information. To maintain consistency within the financial statements, the same unit of measurement should be used throughout the financial statements. Moreover, the Schedule III to the Companies Act, 2013, contains an explicit requirement to use the same unit of measurement consistently for presentation of financial statements. Consequently, an entity should use a uniform unit of measurement.

Structure and Content : Balance Sheet

Question 9

Does cash and cash equivalent under Ind AS 1 have the same meaning as cash and cash equivalent as per Ind AS 7, *Statement of Cash Flows*?

[Ind AS 1 Paragraph 54]

Response

Generally, there should not be a difference in the amount of cash and cash equivalent as per Ind AS 1 and as per Ind AS 7. However, as per paragraph 8 of Ind AS 7 "where bank overdrafts which are repayable on demand form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn." Although Ind AS 7 permits bank overdrafts to be included as cash and cash equivalent, for the purpose of presentation in the balance sheet, it would not be appropriate to include bank overdraft in the line item cash and cash equivalents unless the netting off conditions as given in paragraph 42 of Ind AS 32, *Financial Instruments: Presentation,* are complied with. Bank overdraft, in the balance sheet, will be included within financial liabilities. Just because the bank overdraft is included in cash and cash equivalents for the purpose of Ind AS 7, does not mean that the same should be netted off against the cash and cash equivalent balance in the balance sheet. Instead Paragraph 45 of Ind AS 7 requires a disclosure of the components of cash and cash equivalent and a reconciliation of amounts presented in the cash flow statements with the equivalent items reported in the balance sheet.

Another element on account of which there could be difference between the cash and cash equivalents presented in the balance sheet and the statement

of cash flows is unrealised gains or losses arising from changes in foreign currency exchange rates, which are not considered to be cash flows. For example, an entity has bank balance in foreign currency aggregating to USD 100 (equivalent to INR 6500). Presuming no other transaction taking place, the entity reported a profit before tax of Rs. 100 on account of exchange gain on the bank balance in foreign currency. As such, the closing cash and cash equivalents as per the balance sheet should be INR 6600 (i.e. USD 100 × 66)

For the purpose of statement of cash flows, the entity shall present the following:

Profit before tax	100
Less: unrealised exchange gain	(100)
Cash flow from operating activities	0
Cash flow from investing activities	0
Cash flow from financing activities	0
Net increase in cash and cash equivalents during the year	0
Add: Opening balance of cash and cash equivalents	6,500
Cash and cash equivalents as at the year end	6,500
Reconciliation of cash and cash equivalents	
Cash and cash equivalents as per statement of cash flows	6,500
Add: Unrealised gain on cash and cash equivalents	100
Cash and cash equivalents as per the balance sheet	6,600

Question 10

Is it mandatory for an entity to present current and non-current assets, and current and non-current liabilities, as separate classification in its balance sheet even if such classification is difficult? [Ind AS 1 Paragraph 60]

Response

Yes, it is mandatory for entities to present the current/non-current classification of assets and liabilities as required by paragraph 60 of Ind AS

1, except when a presentation based on liquidity provides information that is relevant and reliable. Non-classification of assets and liabilities as current/non-current on grounds of difficulty is not permissible.

Question 11

What is the basis for classification of assets as current or non current? [Ind AS 1 Paragraph 66]

Response

Paragraph 66 of Ind AS 1 lists the criteria for classification of an asset as current. Accordingly, an asset will be classified as current when:

(a) an entity expects to realise the asset or intends to sell or consume it in the normal operating cycle;

(b) the entity holds the asset primarily for the purpose of trading;

(c) the entity expects to realise the asset within twelve months after the reporting period; or

(d) the asset is a cash or 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.

For this purpose, operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. In case the normal operating cycle cannot be identified, it is assumed to be twelve months.

Thus, for the purpose of classification, each asset as at the reporting date has to be assessed as current or non current on the basis of the relevant criteria as mentioned above, e.g.:

Balance Sheet Item	Basis for Classification of an asset as current or non current
Inventory, Receivables	Normal operating cycle (Assuming these will be realised in the normal operating cycle)
Loans recoverable on demand	Expectation of the entity to realise the same within twelve months after the reporting period.
Securities	Intention of the entity as to whether held for trading or not. If not, the expectation of the entity to realise the same within twelve months after the reporting period.

Question 12

An entity manufactures passenger vehicles. The time between purchasing of underlying raw materials to manufacture the passenger vehicles and the date the entity completes the production and delivers to its customers is 11 months. Customers settle the dues after a period of 8 months from the date of sale.

(a) Will the inventory and the trade receivables be current in nature?

(b) Assuming that the production time was say 15 months and the time lag between the date of sale and collection from customers is 13 months, will the answer be different?

[Ind AS 1 Paragraph 66]

Response

Inventory and debtors need to be classified in accordance with the requirement of paragraph 66(a) of Ind AS 1, which provides that an asset shall be classified as current if an entity expects to realise the same, or intends to sell or consume it in its normal operating cycle.

(a) In this case, time lag between the purchase of inventory and its realisation into cash is 19 months [11 months + 8 months]. Both inventory and the debtors would be classified as current if the entity expects to realise these assets in its normal operating cycle.

(b) No, the answer will be the same as the classification of debtors and inventory depends on the expectation of the entity to realise the same in the normal operating cycle. In this case, time lag between the purchase of inventory and its realisation into cash is 28 months [15 months + 13 months]. Both inventory and debtors would be classified as current if the entity expects to realise these assets in the normal operating cycle.

Additional information as required by paragraph 61 of Ind AS 1 will be required to be made by the entity, which provides "Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) No more than twelve months after the reporting period, and

(b) More than twelve months after the reporting period."

Question 13

An entity is in the real estate business. As per the industry under which it operates, the entity constructs residential apartments for customers and the construction normally takes three to four years.

How should the entity classify its construction work in progress - current/ non-current? [Ind AS 1 Paragraph 68]

Response

As per paragraph 68 of Ind AS 1, where an entity's normal operating cycle is such that its assets, such as, inventory/trade receivables are not realised in cash within a period of twelve months, these assets would still be current in nature.

Since the entity expects to realise the construction work in progress through sale to its customers, in its normal operating cycle, the construction work in progress will be current in nature. Additional information as required by paragraph 61 of Ind AS 1 will be required to be made by the entity, which provides "Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) No more than twelve months after the reporting period, and

(b) More than twelve months after the reporting period."

Question 14

Entity A has two different businesses, real estate and manufacture of passenger vehicles. With respect to the real estate business, the entity constructs residential apartments for customers and the normal operating cycle is three to four years.

With respect to the business of manufacture of passenger vehicles, normal operating cycle is 19 months.

Under such circumstance where an entity has different operating cycles for different types of businesses, how classification into current and non current be made?

Response

As per paragraph 66(a) of Ind AS 1, an asset shall be classified as current if an entity expects to realise the same, or intends to sell or consume it in its

normal operating cycle. Similarly, as per paragraph 69(a) of Ind AS 1, a liability shall be classified as current if an entity expects to settle the liability in its normal operating cycle.

In this situation, where businesses have different operating cycles, classification of asset/liability as current/non-current would be in relation to the normal operating cycle that is relevant to that particular asset/ liability.

It is advisable to disclose the normal operating cycles relevant to different types of businesses for better understanding.

Question 15

As per paragraph 68 of Ind AS 1, where an entity's normal operating cycle is such that its assets, such as, inventory/trade receivables are not realised in cash within a period of twelve months, these assets would still be current in nature.

An entity has in its balance sheet line item of trade receivables, combination of assets that are expected to be realised before twelve months and after twelve months from the end of the reporting period. Under such situation, what are the disclosure requirements? [Ind AS 1 Paragraphs 61, 66 and 68]

Response

Assuming that the trade receivables are expected to be realised in the normal operating cycle, the entire trade receivables will be disclosed as current in the balance sheet. However, in the notes, the entity will be required to give additional disclosure of amounts expected to be recovered no more than twelve months after the reporting period and in more than twelve months after the reporting period. This is in accordance with paragraph 61 of Ind AS 1, which provides that an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) No more than twelve months after the reporting period, and

(b) More than twelve months after the reporting period.

Question 16

A holding company [being the entity under consideration] gives a loan/ inter-corporate deposit to a subsidiary that is recoverable on demand, at a rate of interest at 10%.

(a) Should such loan be disclosed as a current/non-current asset in the books of the holding company?

How relevant would the commercial reality of the transaction be in comparison to the legal terms of the transaction? [Ind AS 1 Paragraph 66 (c)]

(b) How this loan/inter-corporate deposit that is repayable on demand would be classified in the books of the subsidiary? [Ind AS 1 Paragraph 69 (c)]

Response

(a) Paragraph 66 (c) of Ind AS 1 provides that an asset shall be classified as current when an entity expects to realise the asset within a period of twelve months after the reporting period. To determine the expectation of the entity, the commercial reality of the transaction should also be considered. If the loans have been given with an understanding that these loans would not be called for repayment even though a clause may have been added that these are recoverable on demand, it should be classified as a non-current asset.

(b) Paragraph 69(c) of Ind AS 1 provides that a liability should be classified as current if the liability is due to be settled within twelve months after the reporting period. Since the loan/inter- corporate deposit would become due immediately as and when demanded and presuming that the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, it should be classified as current liability.

Question 17

An entity has placed certain deposits with various parties. How the following deposits should be classified, i.e., current or non-current?

(a) Electricity Deposit

(b) Tender Deposit/Earnest Money Deposit [EMD]

(c) Sales Tax/Excise Deposit paid under dispute

[Ind AS 1 Paragraph 66]

Response

(a) An entity pays electricity deposit for the purposes of receiving an electricity connection. At all points of time, such deposit is recoverable on demand, when the connection is not required. However, practically, such electric connection is required as long as the entity exists. Hence

from a commercial reality perspective, an entity does not expect to realise the asset within twelve months from the end of the reporting period. Further, this has no relation to the operating cycle and is not held for the purpose of trading. Hence, electricity deposit should be classified as a non-current asset.

(b) Generally, tender deposit/EMD are paid for participation in various bids. They normally become recoverable if the entity does not win the bid. Bid dates are known at the time of tendering the deposit. But until the date of the actual bid, one is not in a position to know if the entity is winning the bid or otherwise. Accordingly, depending on the terms of the deposit if entity expects to realise the deposit within a period of twelve months, it should be classified as current otherwise non-current.

(c) Classification of sales tax/excise deposits paid to the Government authorities in the event of any legal dispute, which is under protest would depend on the facts of the case and the expectation of the entity to realise the same within a period of twelve months.

Question 18

An entity has the following trial balance line items. How should these items be classified, i.e., current or non-current?

(a) Receivables (viz., receivable under a contract of sale goods in which an entity deals)

(b) Advance to suppliers

(c) Income tax receivables [other than deferred tax]

(d) Insurance spares

[Ind AS 1 Paragraph 66]

Response

(a) As per paragraph 66(a) of Ind AS 1, an entity shall classify an asset as current when it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle.

Paragraph 68 provides the guidance that current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period.

In accordance with above, the receivables that are considered a part of the normal operating cycle will be classified as current asset.

If the operating cycle exceeds twelve months, then additional disclosure as required by paragraph 61 of Ind AS 1 is required to be given in the notes.

(b) As discussed in point (a) above, advances to suppliers for goods and services would be classified in accordance with normal operating cycle if it is given in relation to the goods or services in which the entity normally deals. If the advances are considered a part the normal operating cycle, it would be classified as a current asset. If the operating cycle exceeds twelve months, then additional disclosure as required by paragraph 61 of Ind AS 1 is required to be given in the notes.

(c) Classification of income tax receivables [other than deferred tax] will be driven by paragraph 66 (c) of Ind AS 1, i.e., based on the expectation of the entity to realise the asset. If the receivable is expected to be realised within twelve months after the reporting period, then it will be classified as current else non-current.

(d) Insurance spares: paragraph 8 of Ind AS 16 provides "Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Ind AS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory"

In accordance with the above, if insurance spares meet the definition of property, plant and equipment, these should be treated as an item of property, plant and equipment, otherwise inventory. Accordingly, the insurance spares that are treated as an item of property, plant and equipment would normally be classified as non-current asset whereas insurance spares that are treated as inventory will be classified s current asset if the entity expects to consume it in its normal operating cycle.

Question 19

How should an entity classify derivative assets/liabilities? [Ind AS 1 Paragraphs 66 and 68]

Response

Derivative assets/ liabilities should be presented as current or non-current based on the contractual maturity/date of settlement of related derivatives

and in accordance with guidance given in Para 66 of Ind AS 1 (refer question 11 above for this guidance).

Question 20

Paragraph 69(d) of Ind AS 1 states "An entity shall classify a liability as current when it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. 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."

A Gas Agency requires an amount to be deposited as security deposit, which is refundable when the gas connection is surrendered. How should the Gas Agency classify such deposits received, i.e., current or non- current? [Ind AS 1 Paragraph 69]

Response

Although it is expected that most of the customers will not surrender their connection and the deposit will need not to be refunded, but surrendering of gas connection by the customer is a condition that is not within the control of the entity. Hence the Gas Agency does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Accordingly, the deposit will have to be classified as current liability.

Question 21

Paragraph 69 (a) of Ind AS 1 states "An entity shall classify a liability as current when it expects to settle the liability in its normal operating cycle". An entity develops tools for customers and this normally takes a period of around 2 years for completion. The material is supplied by the customer and hence the entity only renders a service. For this, the entity receives payments upfront and credits the amount so received to "Income Received in Advance". How should this "Income Received in Advance" be classified, i.e. current or non-current? [Ind AS 1 Paragraphs 69 and 70]

Response

Paragraph 70 of Ind AS 1 provides "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. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period."

In accordance with the above, income received in advance would be

classified as current liability since it is a part of the working capital, which the entity expects to earn in its normal operating cycle.

Question 22

How should sales tax deferrals be classified? [Ind AS 1 Paragraph 69]

Response

Sales tax deferrals are in the nature of interest free/very low rate of interest sales tax loan from the Government. Classification into current or non-current is driven by the terms of repayment, as agreed with the Government. For example, in a sales tax deferment scheme, an entity is entitled to defer the payment of sales tax collected for a period of 10 years. In the 11th year, the entity is required to pay the outstanding amount equally over a period of three years. If the balance deferred at the beginning of the 11th year is Rs. 30 millions, then as at the end of year 11, an amount of Rs. 10 millions will be disclosed as current which is due to be settled within twelve months after the reporting period and remaining Rs. 10 millions will be disclosed as non-current.

Question 23

An entity manufactures batteries for the automobile industry. Based on terms of warranty, a provision is made by the entity. How should the warranty provision be presented in the balance sheet, i.e., current or non-current? [Ind AS 1 Paragraph 69]

Response

Terms of the warranty will determine its classification i.e., current or non-current. Warranties that are due for more than twelve months from the reporting date, should be classified as non-current. However, in accordance with paragraph 61 of Ind AS 1, the entity shall disclose separately the warranty provision expected to be settled/expired no more than twelve months, and more than twelve months after the reporting period.

Question 24

An entity has taken a loan facility from a bank that is to be repaid within a period of 9 months from the end of the reporting period. Prior to the end of the reporting period, the entity and the bank enter into an arrangement, whereby the existing outstanding loan will, unconditionally, roll into the new facility which expires after a period of 5 years.

(a) How should such loan be classified in the balance sheet of the entity?

(b) Will the answer be different if the new facility is agreed upon after the end of the reporting period?

(c) Will the answer to (a) be different if the existing facility is from one bank and the new facility is from another bank?

(d) Will the answer to (a) be different if the new facility is not yet tied up with the existing bank, but the entity has the potential to refinance the obligation?

[Ind AS 1 Paragraphs 72-76]

Response

(a) The loan is not due for payment at the end of the reporting period. The entity and the bank have agreed for the said roll over prior to the end of the reporting period for a period of 5 years. Since the entity has an unconditional right to defer the settlement of the liability for at least twelve months after the reporting period, the loan should be classified as non-current.

(b) Yes, the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period because as per paragraph 72 of Ind AS 1, "an entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if: (a) the original term was for a period longer than twelve months, and (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are approved for issue." As at the end of the reporting period, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Hence the loan is to be classified as current.

(c) Yes, loan facility arranged with new bank cannot be treated as refinancing, as the loan with the earlier bank would have to be settled which may coincide with loan facility arranged with a new bank. In this case, loan has to be repaid within a period of 9 months from the end of the reporting period, therefore, it will be classified as current liability.

(d) Yes, the answer will be different and the loan should be classified as current. This is because, as per paragraph 73 of Ind AS 1, when refinancing or rolling over the obligation is not at the discretion of the

entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

Question 25

An entity enters into a loan arrangement with a banker and is subject to compliance with various covenants — some are financial and some are non-financial covenants. The entity commits a breach of covenant prior to the end of the reporting period. As a result of such breach, as per terms of the arrangement, the loan becomes payable on demand. Assuming that as per the original terms, the loan is payable after a period of 24 months from the reporting date —

(a) How should the liability be classified in the balance sheet — current/non-current, if subsequent to the end of the reporting period but before the approval of financial statements, the banker has agreed not to demand payment?

(b) Will the answer be different, if the banker has condoned the breach prior to the reporting period and provided a time period of more than twelve months after the reporting period to rectify the breach?

(c) What will be the classification, if the banker has condoned the breach prior to the reporting period but provided a time period of only less than twelve months after the reporting period to rectify the breach?

[Ind AS 1 Paragraphs 72-75]

Response

(a) The loan should be classified as non-current by virtue of paragraph 74 of Ind AS 1, which states "where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach. The guidance in paragraph 74 is a mandatory carve out from International Accounting Standard (IAS) 1. ."

(b) No, the loan can retain its classification as non-current by virtue of paragraph 75 of Ind AS 1, which, inter alia, states, "An entity classifies the liability as non-current if the lender agreed by the end of the

reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment."

(c) The loan will require a reclassification to current by virtue of paragraph 75 of Ind AS 1 as stated above, since the period of grace is less than twelve months after the reporting period.

Question 26

An entity has a long term loan facility with a bank. As per the loan facility, certain financial ratios are required to be maintained on a quarterly basis failing which the loan becomes repayable on demand. Information regarding such compliance is required to be submitted to the bankers after a period of 1 month from the end of every quarter. Determination of such ratios requires the drawing up of the financial statements of the entity. The entity did not have any breach until the 3rd quarter. With respect to the 4th quarter, the entity realised that there was a breach, only after the financials were drawn up after the end of the reporting period and the bank has not condoned the breach before the financial statements are approved for issue. Reporting of the compliance is required to be made after a period of 1 month from the end of the 4th quarter.

(a) How should the loan be classified, current or non-current, consequent to the breach of the loan covenant?

(b) If there is a cross default clause, whereby breach emanating from one loan gets linked to other borrowings, how should the underlying loans be presented?

(c) If there is a cross default clause by a group company which impacts the reporting entity's loan and there has been a default, how should the same be classified, current or non-current?

(d) How should the loan be classified assuming that the financial covenants have not been temporarily met with [since the testing date did not fall due during such temporary period], but the same have been met on the testing date? For example, on quarterly basis the Company does not meet the required ratios but the bank requires it to meet the same on annual basis. In such a scenario, how the loan should be classified in the interim financial statements.

[Ind AS 1 Paragraphs 72-75]

Response

(a) The loan should be classified as current. Circumstances will always arise when a loan covenant can be assessed only after the end of the reporting period, which are based on financial information as at the end of the reporting period. In this case, even though the breach has been identified after the reporting period, the loan should be classified as current since the conditions resulting into breach existed at the reporting date.

(b) There can be cross default clause attached to some borrowings. Under such circumstances, compliance with the loan covenants of the other borrowings is also considered for assessment. Breach of a loan covenant would immediately have an effect on those borrowings that have a cross default clause attached to it. Accordingly, all the borrowings that are linked through the said clause will be repayable immediately and hence require a current classification.

(c) Same as point (b) above.

(d) Trigger for breach of covenant arises only on a breach that occurs on the testing date. The entity can perform its test for purposes of monitoring compliances, which will be purely an internal matter. If on the testing date, there is no breach of covenant, then there is no requirement for reclassification to current.

In the present case, the bank requires financial ratios to be maintained on annual basis. If the financial ratios are met on annual basis but do not meet on quarterly basis, the liability should be classified as non-current in the annual as well as quarterly financial Statements as on the testing date i.e., at the end of the year, there is no breach.

Question 27

In December 2X14 an entity entered into a loan agreement with a bank. The loan is repayable in three equal annual instalments starting from December 2X19. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by promoters by March 24 2X15, failing which the loan becomes payable on demand. As on March 24, 2X15, the entity has not been able to get the promoter's contribution. On March 25, 2X15, the entity approached the bank and obtained a grace period upto June 30, 2X15 to get the promoter's contribution.

The bank cannot demand immediate repayment during the grace period. The annual reporting period of the entity ends on March 31, 2X15.

(a) As on March 31, 2X15, how should the entity classify the loan?

(b) Assume that in anticipation that it may not be able to get the promoter's contribution by due date, in February 2X15, the entity approached the bank and got the compliance date extended upto June 30, 2X15 for getting promoter's contribution. In this case will the loan classification as on March 31, 2X15 be different from (a) above?

[Ind AS 1 Paragraphs 72-75]

Response

(a) Paragraph 75 of Ind AS 1, inter alia, provides, "An entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment." In the present case, following the default, grace period within which an entity can rectify the breach is less than twelve months after the reporting period. Hence, as on March 31, 2X15, the loan will be classified as current.

(b) Ind AS 1 deals with classification of liability as current or non- current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach. In this case, whether actual breach has taken place or not is to be assessed on June 30, 2X15, i.e., after the reporting date. Consequently, in the absence of actual breach of the loan covenant as on March 31, 2X15, the loan will retain its classification as non-current.

Question 28

An entity has taken a long term loan which has numerous covenants associated for compliance. Although as at the end of reporting period, there has been no default, the entity does not expect to meet the financial covenants in next twelve months after reporting period. Should the loan be classified as current on reporting date? [Ind AS 1 Paragraphs 72-75]

Response

Ind AS 1 deals with classification of liability as current or non-current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach. In this case, actual breach has not taken place at the end of the reporting period. Therefore, in the absence of actual breach of the loan covenant as at the end of the reporting period, the loan will retain its classification as non-current.

If there is a breach that occurs between the end of the reporting period and the date of approval of the financial statements, it will be a non- adjusting post balance sheet event requiring disclosure in accordance with Ind AS 10, *Events After the Reporting Period.*

Paragraph 21 of Ind AS 10 states as follows:

"If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

(a) the nature of the event; and

(b) an estimate of its financial effect or a statement that such an estimate cannot be made."

Question 29

Paragraph 79 (a) (vi) of Ind AS 1 requires an entity to disclose shares in the entity held by the entity or by its subsidiaries or associates. What is the disclosure requirement — number of shares or the amount to be deducted from equity consequent to such holdings? [Ind AS 1 Paragraph 79]

Response

The Standard is not very clear on what is required to be disclosed. From a plain reading of paragraph 79(a) (vi) of Ind AS 1, it appears that the number of shares is to be disclosed, for shares in the entity held by the entity or by its subsidiaries or associates.

Structure and Content: Statement of Profit and Loss

Question 30

Is it required to disclose the share of the profit or loss of associates and joint ventures accounted for using the equity method above the tax expense in the Consolidated Statement of Profit and Loss? [Ind AS 1 Paragraph 82]

Response

Paragraph 82 of Ind AS 1 lists the items that should be presented in the Statement of Profit and Loss. However, the Standard does not prescribe any order for their presentation.

However, keeping in view the nature of the item, it should be disclosed before tax expense in the Consolidated Statement of Profit and Loss.

Question 31

How investment income should be presented in the Statement of Profit and Loss in case of entities whose principal activity is not investment? [Ind AS 1 Paragraph 85]

Response

Income from investment may be in the form of interest and/or dividend. Paragraph 30(a) of Ind AS 18, requires that interest shall be recognised using the effective interest method as set out in Ind AS 109.

With regard to dividend, the recognition and measurement of same is given in Ind AS 109, *Financial Instruments.* As per paragraph 5.7.1A of Ind AS 109, *Dividends* are recognised in profit or loss only when:

(a) the entity's right to receive payment of the dividend is established;

(b) it is probable that the economic benefits associated with the dividend will flow to the entity; and

(c) the amount of the dividend can be measured reliably.

With regard to presentation, it may be noted that paragraph 85 of Ind AS 1 requires that an entity shall present additional line items (including by disaggregating the specified items), headings and subtotals in the statement of profit and loss, when such presentation is relevant to an understanding of the entity's financial performance.

Considering the above requirement, in case of entities, whose principal activity is not investment, income from investments can be shown as a separate line item to describe the entity's financial performance.

Question 32

As per the statutory requirements, exceptional items are required to be disclosed whereas Ind AS 1 requires separate disclosures of material items and how these are to be presented in the financial statements. Does that imply that 'exceptional' means 'material'? Give examples. How should these be presented in the financial statements?

Response:

Exceptional items have not been defined in Indian Accounting Standards (Ind AS. However, paragraph 97 of Ind AS 1 requires that when items of income or expense are ***material***, an entity shall disclose their nature and amount separately.

As per Ind AS 1, materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

As per paragraph 12 of existing Accounting Standard (AS) 5, *Net profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies* when 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.

Generally, items of income or expense fulfilling the above mentioned criteria are classified as exceptional items and are disclosed separately.

From the above, it appears that all material items are not exceptional items. In other words, exceptional items are those items which meet the test of 'materiality' (size and nature) and the test of 'incidence'.

Following are the some examples which may give rise to a separate disclosure of items as an 'exceptional item' in financial statements if they meet the test of 'materiality' and 'incidence':

(a) 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;

(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.