For CA FINAL

FINANCIAL REPORTING

Supplementary Material

(Edition 6 to Edition 7)

This PDF is to be referred along-with Edition 6

This File Included Additions Made in New Syllabus by ICAI with Reference to our FR Digest Book

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INTRODUCTION & ROADMAP TO IND AS

Concepts

Ind AS Roadmap for Mutual Funds (Addition in Concepts)

SEBI vide a notification issued, FS of MF schemes will be prepared in accordance with Ind AS. And also issued certain guidelines with respect to Ind AS for MFs.

The circular also provides specific formats of FS for MF schemes under Ind AS. The requirements of the circular will become applicable from 1 Apr'23

Questions (All Are Additional Questions)

Illustration 1

Following is a snapshot of audited balance sheet of company A as on 31st March 2014. Company A's equity shares are listed on Bombay Stock Exchange since 2010.

Liabilities	₹ in crores	Assets	₹ in crores
Equity Share Capital	160	Fixed Assets	455
Securities Premium	200	Investments	200
General Reserve	150	Current Assets	50
Revaluation Reserve	40	Miscellaneous Expenditure not w/off	80
Profit and Loss A/c	75		
Liabilities	160		
Total	**785**	**Total**	**785**

- As per roadmap, which Phase company A fall into?
- Will your answer change if Company A is an unlisted company?

Solution

Calculation of Net Worth:

Particulars	₹ in crores
Equity Share Capital	160
Securities Premium	200
General Reserve	150
Profit and Loss A/c	75
Miscellaneous Expenditure not written off	(80)
Net Worth as per Section 2(57) of The Companies Act, 2013	**505**

Note – Revaluation Reserve would not be included in the calculation of net worth as per definition mentioned in section 2(57) of The Companies Act, 2013

The company is a listed company and it does meet the net worth threshold of ₹ 500 Crores. Hence it would be covered under phase I. Hence Ind AS would be applicable to the company for accounting periods beginning on or after 1st April 2016.

Even if Company A is an unlisted company as company A's net worth is more than 500 Crores, it would be covered under Phase I of the road map and hence Ind AS would be applicable for the accounting periods beginning on or after 1st April 2016.

Illustration 2

Let's say in Illustration 1, the balance of profit and loss account is negative ₹ 375 crores. When Ind AS should be applicable to Company A? Will you answer change if Company A is an unlisted company?

Solution

If the balance of Profit and Loss A/c is negative 375 Crores, the net worth as per section 2(57) of The Companies Act, 2013 would be ₹ 55 Crores (Equity share capital ₹ 160 Cr + Securities Premium ₹ 200 Cr + General Reserve ₹ 150 Cr – Debit balance of P&L ₹375 Cr – Miscellaneous expenditure not written off ₹ 80 Cr). Hence, it does not meet the criteria as mentioned in Phase I i.e. Listed company or Net worth of ₹ 500 Cr or more.

However, as Company A is a listed company, it will irrespective be covered under Phase II as the first criteria of phase II states "companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore". Hence, Ind AS would be applicable to Company A for the accounting periods beginning on or after 1st April 2017.

If Company A is an unlisted company, Ind AS would not be applicable until it breaches the net worth criteria mentioned in the roadmap.

Illustration 3

The net worth of Company B (an unlisted company) was ₹ 600 crores as on 31st March 2014. However due to losses incurred in FY 14-15, the net worth of the company was ₹ 400 Crores as on 31st March 2015. From when company B shall apply Ind AS?

Solution

Here the company's net worth as on cut-off date was greater than ₹ 500 crores, which suggests that it should be covered under phase I of the roadmap. A question may however arise in mind that since, the net worth as on immediately preceding year-end was ₹ 400 crores, would the company be covered under phase II of the roadmap?

"It may be noted that the net worth shall be calculated in accordance with the stand-alone financial statements of the company as on 31st March, 2014. Accordingly, if the net worth threshold criteria for a company are once met, then it shall be required to comply with Ind AS, irrespective of the fact that as on later date its net worth falls below the criteria specified."

In view of the above, the Company B will be required to follow Ind AS for accounting periods beginning on or after 1st April 2016.

Illustration 4

The net worth of Company C (an unlisted company) was ₹ 400 crores as on 31st March 2014. However, the net worth of the company was ₹ 600 Crores as on 31st March 2015. From when company B shall apply Ind AS?

Solution

Similar issue has been encountered in ITFG Bulletin 1, Issue 1 which gives reference to clause 2b of the notification wherein it is stated that:

"For companies which are not in existence on 31st March, 2014 or an existing company falling under any of thresholds specified in sub-rule (1) for the first time after 31st March, 2014, the net worth shall be calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds specified in sub-rule (1)"

Hence, any company that meets the thresholds as specified in the Companies (Indian Accounting Standards) Rules, 2015 in a particular financial year, Ind AS will become applicable to such company in immediately next financial year. Hence, in the present case, Company C is covered by Phase I of the roadmap and accordingly, Ind AS will be applicable to Company C for accounting periods beginning on or after 1st April 2016

Illustration 5

Company D is the parent company of group A. Company A is an unlisted company having net worth of 60 crores as on 31st March 2014. Following are the other companies of the group.

Name of the company	Relationship	Net worth as on 31st March 2014
Company B (Unlisted)	Subsidiary of Company A	600 Crore
Company C (Unlisted)	Subsidiary of Company B	150 Crore

Whether Ind AS be applicable to companies A, B and C?

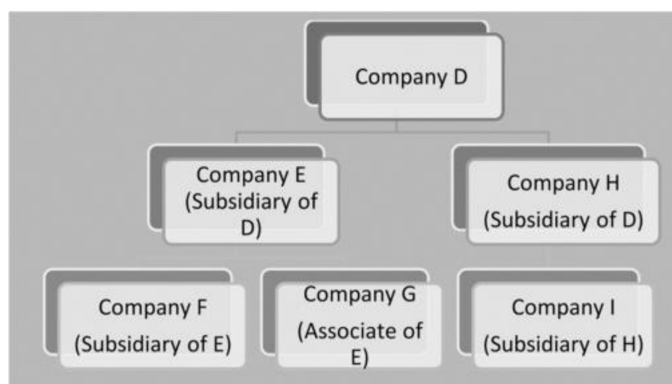
Solution

Company A and C are unlisted and do not exceed the net worth criteria. However, the net worth of Company B exceeds ₹ 500 Crore hence it would be covered under Phase I of the roadmap.

As Ind AS be applicable to Company B, the parent company of Company B i.e. Company A and subsidiary of Company B i.e. Company C would also get covered under Ind AS irrespective of net worth criteria. Hence Ind AS would be applicable to all three companies i.e. Company A, B and C

Illustration 6

Following is the structure of Company D



All the companies in above structure are unlisted companies and the net worth of company E is ₹ 300 Crores and net worth of all the other companies is below ₹ 250 crores. To which company would Ind AS be applicable?

Solution

As mentioned in the Companies (Indian Accounting Standards) Rules, 2015, if Ind AS is applicable to a company, it would also be applicable to its Holding Company, subsidiary company, associate company and Joint Venture.

As the turnover of company E is above ₹ 250 crores, it would be covered under Phase II of the roadmap. Hence, its subsidiary (Company F), associate (Company G) and Holding (Company D) would also be covered under Ind AS with effect from 1st April 2017.

With respect to other companies of the group, following guidance is given in ITFG clarification bulletin 15, Issue 10: "It may be noted that Ind AS applies to holding, subsidiary, joint venture and associate companies of the companies which meet the net worth/listing criteria. This requirement does not extend to another fellow subsidiary of a holding company which is required to adopt Ind AS because of its holding company relationship with a subsidiary meeting the net worth/listing criteria. Holding company will be required to prepare separate and consolidated financial statements mandatorily under Ind AS, if one of its subsidiaries meets the specified criteria and therefore, such subsidiaries may be required by the holding company to furnish financial statements as per Ind AS for the purpose of preparing Holding company's consolidated Ind AS financial statements. Such fellow subsidiaries may, however, voluntarily opt to prepare their financial statements as per Ind AS."

Hence the other companies of the group i.e. Company H and Company I would not be covered under Ind AS. However, as mentioned in ITFG, Company H and I would be required to prepare its financial statements under Ind AS so as to facilitate Company D for preparation of its consolidated financial

statements. Hence, though statutorily Company H and I may continue to prepare its financial statements under AS, but it will also have to converge to Ind AS. Moreover, they may also opt to voluntarily adopt Ind AS and prepare its statutory accounts under Ind AS too.

Illustration 7

ABC Inc., incorporated in a foreign country has a net worth of ₹ 700 Crores. It has two subsidiaries Company X whose net worth as on 31st March 2014 is ₹ 600 Crores and Company Y whose net worth is ₹ 150 Crores. Whether Company X and Y would be required to follow Ind AS from accounting periods commencing on or after 1st April 2016 on the basis of their own net worth or on the basis of the net worth of ABC Inc.?

Solution

Similar issue has been dealt in ITFG Clarification Bulletin 2, Issue 2. ITFG noted that as per Rule 4(1)(ii)(a) of the Companies (Indian Accounting Standards) Rules, 2015, Company X having net worth of ₹ 600 crores at the end of the financial year 2015-16, would be required to prepare its financial statements for the accounting periods commencing from 1st April, 2016, as per the Companies (Indian Accounting Standards) Rules, 2015. While Company Y Ltd. having net worth of ₹ 150 crores in the year 2015-16, would be required to prepare its financial statements as per the Companies (Accounting Standards) Rules, 2006.

Since, the foreign company ABC Inc., is not a company incorporated under the Companies Act, 2013 or the earlier Companies Act, 1956, it is not required to prepare its financial statements as per the Companies (Indian Accounting Standards) Rules, 2015. As the foreign company is not required to prepare financial statements based on Ind AS, the net worth of foreign company ABC would not be the basis for deciding whether Indian Subsidiary Company X Ltd. and Company Y Ltd. are required to prepare financial statements based on Ind AS.

Illustration 8

As per the roadmap, Ind AS is applicable to Company X from the financial year 2017-18. Company X (non-finance company) is a subsidiary of Company Y (NBFC). Company Y is an unlisted NBFC company having net worth of ₹ 400 crores. What will be the date of applicability of Ind AS for company X and company Y? If Ind AS applicability date for parent NBFC is different from the applicability date of corporate subsidiary, then, how will the consolidated financial statements of parent NBFC be prepared?

Solution

In accordance with the roadmap, it may be noted that NBFCs having net worth of less than 500 crore shall apply Ind AS from 1 April, 2019 onwards. Further, the holding, subsidiary, joint venture or associate company of such an NBFC other than those covered by corporate roadmap shall also apply Ind AS from 1 April, 2019.

Accordingly, in the given case, Company Y (NBFC) shall apply Ind AS for the financial year beginning 1 April, 2019 with comparative for the period ended 31 March, 2019. Company X shall apply Ind AS in its statutory individual financial statements from financial year 2017-2018 (as per the corporate roadmap). However, for the purpose of Consolidation by Company Y for financial years 2017-2018 and 2018-2019, Company X shall also prepare its individual financial statements as per AS.

IND AS 7

Concepts

(Theory Clarified in Definition of CCE)

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. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. (Equity investments are excluded from cash equivalents.) – Highlighted part is added

Questions

(MTP/RTP/PP) Section

Question 1 - (MTP OCT'19) (Solution Rectified)

A Ltd., whose functional currency is Indian Rupee, had a balance of cash and cash equivalents of Rs. 2,00,000, but there are no trade receivables or trade payables balances as on 1st April, 20X1. During the year 20X1-20X2, the entity entered into the following foreign currency transactions:

- A Ltd. purchased goods for resale from Europe for €2,00,000 when the exchange rate was €1 = Rs. 50. This balance is still unpaid at 31st March, 20X2 when the exchange rate is €1 = Rs. 45. An exchange gain on retranslation of the trade payable of Rs. 5,00,000 is recorded in profit or loss.
- A Ltd. sold the goods to an American client for $ 1,50,000 when the exchange rate was $1 = Rs. 40. This amount was settled when the exchange rate was $1 = Rs. 42. A further exchange gain regarding the trade receivable is recorded in the statement of profit or loss.
- A Ltd. also borrowed €1,00,000 under a long-term loan agreement when the exchange rate was €1 = Rs. 50 and immediately converted it to Rs. 50,00,000. The loan was retranslated at 31st March, 20X2 @ Rs. 45, with a further exchange gain recorded in the statement of profit or loss.
- A Ltd. therefore records a cumulative exchange gain of Rs. 18,00,000 (10,00,000 + 3,00,000 + 5,00,000) in arriving at its profit for the year.
- In addition, A Ltd. records a gross profit of Rs. 10,00,000 (Rs. 60,00,000 – Rs. 50,00,000) on the sale of the goods.

Ignore taxation.

How cash flows arising from the above transactions would be reported in the statement of cash flows of A Ltd. under indirect method?

SOLUTION:

ICAI Solution (Which is incorrect)

Statement of cash flows

Particulars		**Amount (Rs.)**
Cash flows from operating activities		
Profit before taxation (10,00,000 + 18,00,000)	28,00,000	
Adjustment for unrealised exchange gains/losses:		
Foreign exchange gain on long term loan [€ 2,00,000 x Rs. (50 – 45)]	(10,00,000)	
Decrease in trade payables [1,00,000 x Rs. (50 – 45)]	(5,00,000)	
Operating Cash flow before working capital changes	13,00,000	

Changes in working capital (Due to increase in trade payables)	50,00,000	
Net cash inflow from operating activities		63,00,000
Cash inflow from financing activity		50,00,000
Net increase in cash and cash equivalents		1,13,00,000
Cash and cash equivalents at the beginning of the period		2,00,000
Cash and cash equivalents at the end of the period		1,15,00,000

Rectified Solution (By AK)

Statement of cash flows

Particulars		**Amount (Rs.)**
Cash flows from operating activities		
Profit before taxation (10,00,000 + 18,00,000)	28,00,000	
Adjustment for unrealised exchange gains/losses:		
Foreign exchange gain on long term loan [€ 1,00,000 x Rs. (50 – 45)]	(5,00,000)	
Decrease in trade payables [€2,00,000 x Rs. (50 – 45)]	(10,00,000)	
Operating Cash flow before working capital changes	13,00,000	
Changes in working capital (Due to increase in trade payables)	50,00,000	
Net cash inflow from operating activities		63,00,000
Cash inflow from financing activity		50,00,000
Net increase in cash and cash equivalents		1,13,00,000
Cash and cash equivalents at the beginning of the period		2,00,000
Cash and cash equivalents at the end of the period		1,15,00,000

IND AS 10

Questions

Illustration 12 (TYK 1 of ICAI Module) ICAI has replaced the old Ques with a new one

Illustration 1 (Newly Added)

The AGM of ABC Ltd for the year ended 31st March, 20X2 was held on 10th July, 20X2 and Board Meeting has been conducted on 15th May, 20X2. Meanwhile, the company had to disclose certain financial information pertaining to the year ended 31st March, 20X2 to SEBI as per SEBI regulations on 20th April, 20X2. Since, certain financial information pertaining to the year ended 31st March, 20X2 is submitted to SEBI before approval of financial statements by the Board, the management is suggesting that 20th April 20X2 shall be considered as 'after the reporting period'. Whether the management view is correct in accordance with the guidance given in Ind AS 10?

Solution:

As per Ind AS 10, even if partial information has already been published, the reporting period will be considered as the period between the end of the reporting period and the date of approval of financial statements. In the above case, the financial statements for the year 20X1-20X2 were approved on 15th

May, 20X2. Therefore, for the purposes of Ind AS 10, 'after the reporting period' would be the period between 31st March, 20X2 and 15th May, 20X2.

IND AS 12

Questions

Ilustration 20 A (Newly Added)

H Ltd. is a manufacturing company, wanting to calculate its taxable profit or loss for the year ended 31 March 20X8. The statement of profit and loss and other comprehensive income, the balance sheet and the notes are given below.

Tax rate for the financial year 20X7-20X8 is 30%, but the new tax rate of 32%, for the year 20X8-20X9 and beyond, has already been enacted before the year end.

Calculate taxable profit for the financial year 20X7-20X8 and the related current tax expense.

Balance Sheet as of 31 March 20X8

		₹
ASSETS		
Non-current assets		
Property, plant and equipment		4,20,00,000
Product development costs		21,00,000
Investment in subsidiary – S Ltd.		1,54,00,000
Current assets		
Trading investments		72,80,000
Trade receivables		2,19,10,000
Inventories		1,06,40,000
Cash and cash equivalents		63,00,000
	TOTAL ASSETS	10,56,30,000
EQUITY & LIABILITIES		
Equity		
Share capital		4,20,00,000
Accumulated profits		2,86,24,330
Revaluation surplus		30,80,000
Non-current liabilities		
Deferred income - government grants		14,00,000
Liability for product warranty costs		5,60,000
Deferred tax liability (from 20X6-20X7)		7,75,670
Current liabilities		
Trade payables		2,67,40,000
Medical benefits for employees		24,50,000
	TOTAL EQUITY & LIABILITIES	10,56,30,000

Extract of Statement of profit and loss for the year ended 31 March 20X8

Revenue	16,81,40,000
Cost of sales	(13,44,00,000)
Gross profit	3,37,40,000
Operating costs	(2,68,80,000)

Profit from operations	68,60,000
Finance costs	(9,10,000)
Profit before taxation	59,50,000

Notes:

1. Depreciation expense for the year financial year 20X7-20X8 allowable as per the Income Tax Rules is ₹ 72,10,000. Depreciation as allowed for the purposes of financial reporting included in operating costs is ₹ 59,50,000. Cost of PPE is ₹ 5,60,00,000 and H Ltd. deducted expenses of ₹ 1,45,60,000 in its tax returns prior to financial year 20X7-20X8. Further, as of 31 March 20X8, H Ltd. for the first time revalued its property, plant and equipment to market value of ₹ 4,20,00,000 (revaluation surplus =₹ 30,80,000).
2. In 20X4-20X5, H Ltd. incurred product development costs of ₹ 35,00,000. These costs were recognized as an asset and amortized over period of 10 years. For tax purposes, H Ltd. deducted full product development costs when they were in 20X4-20X5.
3. Trading investments were acquired in the preceding year at a cost of ₹ 80,50,000. These investments are classified as at fair value through profit or loss and thus recognized in their fair value. Fair value adjustments are not allowable by the tax authorities.
4. Bad debt provision amounts to ₹ 45,50,000 and relates to 2 debtors: debtor A – ₹ 28,00,000 (receivable originates in 20X5-20X6 and 100% provision was recognized in the preceding year) and debtor B – ₹ 17,50,000 (receivable originates in 20X6-20X7 and 100% provision was recognized in F.Y. 20X7-20X8). Tax law allows deduction of 20% of provision for debtors overdue for more than 1 year, another 30% for debtors overdue for more than 2 years and remaining 50% for debtors overdue for more than 3 years
5. H Ltd. created a provision for inventory obsolescence in accordance with Ind AS 2 requirements. New provision created in 20X7-20X8 was ₹ 3,78,000 (total provision: ₹ 6,30,000). Being a general provision, this provision is not tax deductible.
6. Government grants are not taxable. Full government grant received in 20X7-20X8 is included in the balance sheet.
7. In 20X7-20X8, H Ltd. increased a liability for product warranty costs by ₹ 1,75,000. Product warranty costs are not tax deductible until the company pays claims. Claims paid in 20X7-20X8 amounted to ₹ 2,17,000.
8. During the year, H Ltd. introduced health care benefits for employees. The expenses are allowable for tax purposes only when benefits are paid but in line with Ind AS 19, recognized in profit or loss when employees provide service.
9. Penalties towards violation of laws included in operating expenses amount to ₹ 63,000. These are not deductible for tax purposes.
10. Tax law allows to deduct expenses for petrol only up to ₹ 1,40,000 per vehicle per year. H Ltd. had 4 vehicles in 20X7-20X8 and its total petrol expenses amounted to 7,21,000.

Note: This illustration is prepared for the purposes of understanding the computation of current tax and is in no way based on the provisions of the Income Tax Act, 1961. For the purposes of Financial Reporting, the tax treatments will be given in the question.

Solution:

Calculation of current tax expense

Accounting profit		(A)	59,50,000
Add back:			
Accounting depreciation			59,50,000
Amortization of product development costs (W.N.1)			3,50,000
Revaluation of trading investments			7,70,000
Bad debt provisions - 20X7-20X8			17,50,000

Inventory obsolescence provision			3,78,000
Product warranty costs provision - 20X7-20X8			1,75,000
Provision for health care benefit costs			24,50,000
Fines and Penalties disallowed for tax purposes			63,000
Petrol over limit (W.N.3)			1,61,000
Total	(B)		120,47,000
Deduct:			
Tax depreciation			(72,10,000)
Tax allowance for bad debt provisions (W.N.2)			(11,90,000)
Product warranty costs provision - claims paid			(2,17,000)
Total		(C)	(86,17,000)
Taxable profit / loss:		(A+B-C)	93,80,000
Tax rate is 30%			
Current income tax (93,80,000 x 30%)			28,14,000

Journal Entry

Profit or loss - Current income tax expense Dr.	28,14,000	
To Credit Current income tax liabilities		28,14,000

Working Notes:

1. **Product development costs:**
   Annual amortization (35,00,000/ 10) 3,50,000
2. **Bad debt provisions:**
   Debtor A - 28,00,000 from 20X5-20X6
   > 2 years - 30% deductible in 20X7-20X8 8,40,000
   Debtor B - 17,50,000 from 20X6-20X7
   > 1 year - 20% deductible in 20X7-20X8 3,50,000
   Total - tax deductible in 20X7-20X8 11,90,000
3. **Petrol expenses**
   Actual expenses 7,21,000
   Tax deductible (4 x 140,000) 5,60,000
   Excess 1,61,000

Illustration 20B (in continuation to Illustration 20A): (Newly Added)

Based on the balance sheet and notes of H Ltd. from previous example, calculate tax base of its assets and liabilities as of 31 March 20X8. Note that balance sheet has been adjusted by current tax expense and liability.

Balance Sheet as of 31 March 20X8

Assets	₹
Non-Current Assets	
Property, Plant & Equipment	420,00,000
Product Development Costs	21,00,000
Investment in subsidiary – S Ltd.	154,00,000
Current Assets	
Trading Investments	72,80,000
Trade Receivables	219,10,000
Inventories	106,40,000
Cash & Cash Equivalent	63,00,000

Total Assets	**10,56,30,000**
Equity & Liabilities	
Equity	
Share Capital	420,00,000
Accumulated Profits	258,10,330
Revaluation Surplus	30,80,000
Long Term Liabilities	
Deferred Income – Government Grants	14,00,000
Liability for Product warranty costs	5,60,000
Deferred Tax Liability (from 20X6-20X7)	7,75,670
Current Liabilities	
Trade Payables	267,40,000
Medical Benefits for Employees	24,50,000
Current Tax Liability	28,14,000
Total Equity & Liabilities	**10,56,30,000**

Remaining information are same as per Illustration 1A.

Solution:

Determination of Tax Base

Item	Carrying amount	Tax base
Property, plant and equipment	420,00,000	342,30,000
Product development costs	21,00,000	0
Investment in subsidiary	154,00,000	154,00,000
Trading investments	72,80,000	80,50,000
Trade receivables	219,10,000	247,10,000
Inventories	106,40,000	112,70,000
Cash and cash equivalents	63,00,000	63,00,000
Deferred income - government grants	-14,00,000	0
Liability for product warranty costs	-5,60,000	0
Trade payables	-267,40,000	-267,40,000
Health care benefits for employees	-24,50,000	0

Working Notes:

1.	**Property, plant and equipment**		
	Cost	560,00,000	
	Less: current tax depreciation	(72,10,000)	
	Less: PY tax depreciation	(145,60,000)	
	Tax base	**3,42,30,000**	
2.	**Trade receivables - bad debt provisions:**		
I	**Calculation of cost**		
	Carrying amount	219,10,000	
	Add back: bad debt provision	45,50,000	
	Cost	**2,64,60,000**	**A**
II	**Debtor A - 28,00,000 from 20X5-20X6**		
	> 1 year - 20% deducted in 20X6-20X7	5,60,000	
	> 2 years - 30% deducted in 20X7-20X8	8,40,000	
	Already deducted for tax:	**14,00,000**	

III	**Debtor B - 17,50,000 from 20X6-20X7**		
	> 1 year - 20% deducted in 20X7-20X8	3,50,000	
	Total deducted for tax purposes	17,50,000	**B**
	Tax base of trade receivables:	**2,47,10,000**	**A-B**

Illustration 20C (in continuation to Illustration 20A): (Newly Added)

Based on the data from above illustration 1A of H Ltd., calculate temporary differences and deferred tax. Note from Illustration 1A: Tax rate for 20X7-20X8 is 30%, but the new tax rate of 32% for the year 20X8-20X9 and beyond has already been enacted before the year end.

Solution:

Calculation of Temporary Differences / Deferred Tax

Item	**Carrying amount**	**Tax base**	**Temporary difference**	**Taxable/ deductible**	**DTA / DTL at 32%**
Property, plant and equipment	4,20,00,000	3,42,30,000	77,70,000	taxable	(24,86,400)
Product development costs	21,00,000	0	21,00,000	taxable	(6,72,000)
Investment in subsidiary S Ltd.	1,54,00,000	1,54,00,000	0		0
Trading investments	72,80,000	80,50,000	(7,70,000)	deductible	2,46,400
Trade receivables	2,19,10,000	2,47,10,000	(28,00,000)	deductible	8,96,000
Inventories	1,06,40,000	1,12,70,000	(6,30,000)	deductible	2,01,600
Cash and cash equivalents	63,00,000	63,00,000	0		0
Deferred income - government grants	(14,00,000)	0	(14,00,000)	**excluded**	0
Liability for product warranty costs	(5,60,000)	0	(5,60,000)	deductible	1,79,200
Trade payables	(2,67,40,000)	(2,67,40,000)	0		0
Medical benefits for employees	(24,50,000)	0	(24,50,000)	deductible	7,84,000
Deferred tax asset - total					**23,07,200**
Deferred tax liability - total					**(31,58,400)**
Deferred tax total					**(8,51,200)**

SIGNIFICANT DIFFERENCES IN IND AS 12 VIS-À-VIS AS 22

Sr No	Particulars	IND AS 12	AS 22
1	Approach for Creating Deferred Tax	Ind AS 12 is based on balance sheet approach. It requires recognition of tax consequences of differences between carrying amounts of assets & liabilities and their tax base.	AS 22 is based on income statement approach. It requires recognition of tax consequences of differences between taxable income & accounting income. Differences are classified into permanent and timing differences.
2.	Limited Exceptions for Recognition of DTA	DTA is recognised if it is probable that taxable profit will be available. DTA is also created if there are carry forward of unused tax losses & tax (MAT) credits. Existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, in that case, recognises a DTA only to the extent there is a sufficient taxable temporary difference or there is convincing other evidence sufficient taxable profit will be available.	DTA are recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available. Where DTA is Recognised against unabsorbed depreciation or carry forward of losses under tax laws, recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available AS 22 explains what may be considered as virtual certainty supported by convincing evidence.
3.	Recognition of Current and Deferred Tax	Current & deferred tax are recognised as income or an expense and included in P&L, except if transaction is recognised, either in OCI or directly in equity, in those cases tax is also recognised in OCI or in equity, as appropriate	AS 22 does not deal with this aspect.
4.	Investments in subsidiaries, associates and joint ventures	As per Ind AS 12, DTL is recognised for all taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, if certain conditions are satisfied.	AS 22 does not deal with this aspect.
5.	Elimination of profit and losses resulting from the	As per Ind AS 12, deferred tax should be recognised on temporary differences that arise from the	As per AS 22, deferred tax in consolidated financials are a simple aggregation of the deferred tax

	intra- group transactions	elimination of URP resulting from the intra- group transactions.	recognised by the group entities
6.	DTA/DTL arising out of Revaluation of Assets	Ind AS 12 requires that DTA/DTL arising from revaluation of non-depreciable assets shall be measured at tax rate applicable on sale of asset rather than through use.	AS 22 does not deal with this aspect.
7.	Changes in Entities Tax Status or that of its Shareholders	Ind AS 12 provides guidance as to how an entity should account for the tax consequences of a change in its tax status or that of its shareholders.	AS 22 does not deal with this aspect.
8.	Guidance for Recognition of Deferred Tax in a Tax Holiday Period	Ind AS 12 does not deal with these situations.	AS 22 specifically provides guidance regarding recognition of deferred tax in situations of Tax Holiday under Sections 80-IA & 80-IB and Sections 10A and 10B of the Income Tax Act, 1961. Similarly, AS 22 provides guidance regarding recognition of deferred tax asset in case of loss under the head 'capital gains'
9.	In case of a company paying tax under section 115JB.	Ind AS 12 does not deal with this aspect.	AS 22 specifically provides guidance regarding tax rates to be applied in measuring DTA/DTL in a situation where a company pays tax under section 115JB.
10.	Guidance on Uncertainty Over Income Tax Treatment	Ind AS 12 gives special guidance on it.	AS 22 gives no such guidance.

IND AS 16

Questions

Illustration 10 (Clarification Added in Ques)

The below statement is added in the Question

Assume that the entity did not considered the construction period as substantial period of time as per Ind AS 23

IND AS 20

Questions

Illustration 2 (Solution Modified)

Continuing with the facts given in the Illustration 7 above, state how the same will be disclosed in the Statement of cash flows.

Solution

A Limited will show ₹1,00,00,000 being acquisition of solar panels as outflow in investing activities. The receipt of ₹50,00,000 from government will be shown as inflow under investing activities.

(The highlighted part was written as financing activities)

Illustration 12 (Clarification added in Ques)

The accounting done in previous years was not incorrect and was not an error as per Ind AS 8.
(This line is added at the end in the question)

Illustration 3 (Theory in Solution Modified)

MNC Ltd. has received grant in the nature of exemption of custom duty on capital goods with certain conditions related to export of goods under Export Promotion Capital Goods (EPCG) scheme of Government of India. Whether the same is a government grant under IND AS 20, Government Grants and Disclosure of Government Assistance? If yes, then how the same is to be accounted for if it is

(a) A Grant related to asset or

(b) A Grant related to income?

Solution

Paragraph 3 of IND AS 20, Government Grants and Disclosure of Government Assistance, states that Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.”

In accordance with the above, in the given case exemption of custom duty under EPCG scheme is a government grant and should be accounted for as per the provisions of IND AS 20.

IND AS 20 defines grant related to assets and grants related to income as follows:

“Grants related to asset are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held. Grants related to income are government grants other than those related to assets.”

Presentation

It is pertinent to note that the classification of the grant as related to asset or income will require exercise of judgement and careful examination of the facts, objective and conditions attached to the scheme of the government. Care is also required to ascertain the purpose of the grant and the costs for which the grant is intended to compensate. Based on the evaluation of facts, if it is ascertained that the grant is an asset related grant then the same shall be presented as per paragraphs 24 and 26 of Ind AS 20 which has been stated below

Presentation of grants related to assets

As per para 24, government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet by setting up the grant as deferred income.

As per para 26, the grant set up as deferred income is recognised in profit or loss on a systematic basis over the useful life of the asset.

If it is determined that the grant is related to income then the same shall be presented as follows:

Presentation of grants related to income

As per para 29, grants related to income are presented as part of profit or loss, either separately or under a general heading such as 'Other income'; alternatively, they are deducted in reporting the related expense.

It may be further noted that as per paragraph 12 of Ind AS 20, government grants shall be accounted as follows:

As per para 12, government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

In the given case, if based on the terms and conditions of the scheme, the grant received is to compensate the import cost of assets subject to an export obligation as prescribed in the EPCG Scheme; recognition of grant in the statement of profit and loss should be linked to fulfilment of associated export obligations.
However, if the grant received is to compensate the import cost of the asset and based on the examination of the terms and conditions of the grant, if it can be reasonably concluded that conditions relating to export of goods are subsidiary conditions, then it is appropriate to recognise such grant in profit or loss over the life of the underlying asset.

Illustration 18 – (RTP Nov'20, MTP Nov'21), (Past Exam May'22) – (Extra Part Added in Ques)

Note: This Question was Already there but ICAI Has added part a & b to it (Previously the question was solved only as per part b)

Entity A is awarded a government grant of ₹60,000 receivable over three years (₹40,000 in year 1 and ₹10,000 in each of years 2 and 3), contingent on creating 10 new jobs and maintaining them for three years. The employees are recruited at a total cost of ₹30,000, and the wage bill for the first year is ₹ 1,00,000, rising by ₹10,000 in each of the subsequent years. Calculate the grant income and deferred income to be accounted for in the books for the years 1, 2 and 3 under the following two situations:

a) There is reasonable assurance that the entity will comply with the conditions attaching to them and the grant will be received
b) There is no reasonable assurance that the grant will be received.

Solution:

a) **When there is reasonable assurance**

The grant of 60,000 should be recognised at the beginning of the first year as receivable and will be compensated for the related costs over three years.

The initial journal entry would be:

Grant Receivable Ac Dr. 60,000

To Deferred Income A/c 60,000

The income of ₹ 60,000 should be recognised over the three year period to compensate for the related costs.

Calculation of grant income and deferred income:

Year	Labour Cost	Grant Income	Computation of Grant Income	Deferred Income at the end of the year	Computation of deferred income at the end of the year
	₹	₹		₹	
1	1,30,000	21,667	60,000 x (130/360)	38,333	(60,000 – 21,667)
2	1,10,000	18,333	60,000 x (110/360)	20,000	(38,333 – 18,333)
3	1,20,000	20,000	60,000 x (120/360)	-	(20,000 – 20,000)
	3,60,000	60,000			

Therefore, grant income to be recognised in the Statement of Profit and Loss for the years 1, 2 and 3 would be ₹ 21,667, ₹ 18,333 and ₹ 20,000 respectively.

The amount of grant that has not yet been credited to the statement of profit and loss i.e. deferred income is to be shown in the balance sheet. Hence deferred income balance as at end of year 1, 2 and 3 are ₹ 38,333, ₹ 20,000 and Nil respectively

b) When reasonable assurance is not there

The grant of 60,000 should be recognised over three years to compensate for the related costs.

The journal entry on receipt of grant at year 1 would be:

Grant Receivable Ac Dr. 40,000

To Deferred Income A/c 40,000

Calculation of Grant Income and Deferred Income:

Year	Labour Cost	Grant Income	Computation of Grant Income	Deferred Income at end of year	Computation of deferred income at end of year
	₹	₹		₹	
1	1,30,000	21,667	60,000 x (130/360)	18,333	(40,000 – 21,667)
2	1,10,000	18,333	60,000 x (110/360)	10,000	(50,000 – 21,667 – 18,333)
3	1,20,000	20,000	60,000 x (120/360)	-	(60,000 – 21,667 – 18,333
					– 20,000)
	3,60,000	60,000			

Therefore, Grant income to be recognised in Profit & Loss for years 1, 2 and 3 are ₹ 21,667, ₹ 18,333 and ₹ 20,000 respectively.

Amount of grant that has not yet been credited to profit & loss i.e; deferred income is to be reflected in the balance sheet. Hence, deferred income balance as at year end 1, 2 and 3 are ₹ 18,333, ₹ 10,000 and Nil respectively.

IND AS 23

Questions

Illustration 18 (Newly Added)

Is interest on a finance lease of a qualifying asset capitalised as borrowing costs?

Solution:
Yes, interest incurred for a finance lease is specific to an asset. Interest is capitalised if the asset is a qualifying asset or is used solely for the construction of a qualifying asset. For example, a crane or a dockyard is leased for the purpose of constructing a ship. The ship is a qualifying asset. The interest on the finance lease of the crane or dockyard is capitalised as borrowing costs. Borrowing costs on the finance lease can only be capitalised up to the point when the construction of the qualifying asset is complete.

Illustration 19 (Newly Added)

A subsidiary (or jointly controlled entity or associate) finances the construction of a qualifying asset with an inter-company loan. Are borrowing costs incurred on the inter-company loan capitalised in the separate financial statements of the subsidiary (or jointly controlled entity or associate)?

Solution:

Yes. Borrowing costs are capitalised to the extent of the actual costs incurred by the subsidiary (or jointly controlled entity or associate).

IND AS 33

Questions

Illustration 4 (Clarification in Ques) Only Highlighted part is added in ques – No change in Solution

An entity has following preference shares in issue at the end of 20X4:

- **5% redeemable, non-cumulative preference shares:** These shares are classified as liabilities. During the year, an amount of Rs. 1,00,000 (computed using the coupon rate of 5% - Rs. 20,00,000 x 5%) was paid to the preference shareholders.

Illustration 5 (MTP Oct'20) – Solution Modified

Note: The Solution has been changed as now the ques is assuming that entity issuing the shares has the conversion option, so now principal amount of 20,00,000 will not form part of Financial Liability. Also highlighted part lines have been added for clarification purpose

An entity issues 2,000 convertible bonds at the beginning of Year 1. The bonds have a three -year term, and are issued at par with a face value of ₹1,000 per bond, giving total proceeds of ₹2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6 percent. Each bond is convertible at any time up to maturity into 250 ordinary shares. The **entity has an option** to settle the principal amount of the convertible bonds in ordinary shares or in cash.

When the bonds are issued, the prevailing market interest rate for similar debt without a conversion option is 9 percent. At the issue date, the market price of one ordinary share is ₹3. Income tax is ignored. Entity has accounted for the convertible instrument using the principles of Financial Instruments.

Interest @ 6% for the year has already been adjusted in the profit attributable to shareholders

Calculate basic and diluted EPS when

Profit attributable to ordinary equity holders of the parent entity Year 1	₹1,000,000
Ordinary shares outstanding	1,200,000
Convertible bonds outstanding	2,000

(5 Marks)

Solution

Allocation of proceeds of the bond issue:	
Liability component (Refer Note 1)	₹3,03,755
Equity component	₹16,96,245
	₹2,000,000

The liability and equity components would be determined in accordance with IND AS 32. These amounts are recognised as the initial carrying amounts of the liability and equity components. The amount assigned to the issuer conversion option equity element is an addition to equity and is not adjusted.

Basic earnings per share Year 1:

$$\frac{₹1,000,000}{1,200,000} = ₹0.83 \text{ per ordinary share}$$

Diluted earnings per share Year 1:

It is presumed that the issuer will settle the contract by the issue of ordinary shares. The dilutive effect is therefore calculated in accordance with the Standard.

$$\frac{₹1,000,000 + ₹27,338}{1,200,000 + 500,000} = ₹0.60 \text{ per ordinary share}$$

Notes:

1. This represents the present value of the interest discounted at 9% – 120,000 payable annually in arrears for three years. 2,000,000 assumed to be settled in equity since option is with the entity will not form part of liability
2. Profit is adjusted for the accretion of ₹ 27,338 (₹ 303,755 x 9%) of the liability because of the passage of time
3. 500,000 ordinary shares = 250 ordinary shares x 2,000 convertible bonds.

IND AS 34

Questions

Illustration 11 (Newly Added)

The entity's financial year ends on 31st March. What are the "reporting periods" for which financial statements (condensed or complete) in the interim financial report of the entity as on 30th September, 20X1 are required to be presented, if:

(i) Entity publishes interim financial reports quarterly

(ii) Entity publishes interim financial reports half-yearly.

Solution:

Paragraph 20 of Ind AS 34, Interim Financial Reporting states as follows:

"Interim reports shall include interim financial statements (condensed or complete) for periods as follows:

a) balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year.
b) statements of profit and loss for the current interim period and cumulatively for the current financial year to date, with comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year
c) statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.
d) statement of cash flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

Accordingly, periods for which interim financial statements are required to be presented are provided herein below

(i) Entity publishes interim financial reports quarterly

The entity will present the following financial statements (condensed or complete) in its interim financial report of 30th September, 20X1:

Balance sheet at	30th September 20X1	31st March 20X1	**-**	**-**
Statement of profit and loss for	3 months ended 30th September 20X1	3 months ended 30th September 20X0	6 months ended 30th September 20X1	6 months ended 30th September 20X0
Statement of changes in equity for	6 months ended 30th September 20X1	6 months ended 30th September 20X0		
Statement of cash flows for	6 months ended 30th September 20X1	6 months ended 30th September 20X0	-	-

(ii) Entity publishes interim financial reports half-yearly

The entity's financial year ends 31st March. The entity will present the following financial statements (condensed or complete) in its half-yearly interim financial report of 30th September, 20X1:

Balance sheet at	30th September, 20X1	31st March, 20X1

Statement of profit and loss for	6 months ending 30th September, 20X1	6 months ending 30th September, 20X0
Statement of changes in equity for	6 months ending 30th September 20X1	6 months ending 30th September 20X0
Statement of cash flows for	6 months ending 30th September 20X1	6 months ending 30th September 20X0

IND AS 37

Illustration 17 (Deleted from ICAI Study Material)

IND AS 38

Illustration 6 (Clarification in Ques)

Instead of 50% it is 100% (1st Line of the Ques) – No Change in Solution

IND AS 41

Questions

Illustration 10 (Newly Added)

Agro Foods Ltd. runs a poultry farm business. It has received a government grant from the government for setting up a new poultry unit in a backward area. Agro Foods Ltd used the amount of government grants to buy the first batch of broiler birds, incubators etc. The broiler birds are measured at fair value less costs to sell. However, the incubator machine is measured as per the cost model in Ind AS 16.

As such there are no conditions attached to the release of the government grants pertaining to purchase of poultry birds. However, as regards the investment in incubators and other related plant and machinery items, the government grant contains a condition that the plant and machinery item should be used for a minimum period of 3 years. The useful life of the incubator machine has also been determined to be 3 years in accordance with the management estimate of the time period over which the economic benefits embedded in the incubator machine shall be consumed.

Advise the accounting requirements prescribed in Ind AS 41 Agriculture and Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance in respect of both the government grants?

Solution:

Ind AS 41 requires an unconditional government grant related to a biological asset measured at its fair value less costs to sell to be recognised in profit or loss when, and only when, the government grant becomes receivable. Accordingly, the amount of government grant attributable to the broiler birds which qualify as a biological bird shall be recognized in profit or loss account when the grant becomes receivable.

If a government grant is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity should recognize the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met. This provision of Ind AS 41 is not applicable as we have been informed that there are no conditions attached to the release of the government grant pertaining to broiler birds. In the given case, the grant related to broiler birds has already been received for the purpose of providing immediate financial support to the entity with no future related conditions to be fulfilled. Accordingly, the grant relating to broiler birds is to be recognized in profit and loss in the period in which it is received.

If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses, the entity applies Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance. The incubator machine does not qualify as a biological asset as it is specifically covered by Ind AS 16 which states that plant and machinery items used to develop or maintain biological assets is covered by Ind AS 16. Therefore, the provisions relating to Government grants contained in Ind AS 41 will not apply to the incubator machine. Therefore, we have to apply directly the provisions contained in IAS 20. Ind AS 20 contains two methods of presentation in financial statements of grants (or the appropriate portions of grants) related to assets are regarded as acceptable alternatives:

- One method recognises the grant as deferred income that is recognized in profit or loss on a systematic basis over the useful life of the asset.
- The other method deducts the grant in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Therefore, the grant relating to incubator machine will have to be accounted as a deferred income that is recognized in Profit or loss on a systematic basis over a period of 3 years in line with the condition attached to the grant. Alternatively, the grant may be deducted in determining the carrying amount of the incubator. In such a case the grant is recognised in Profit or Loss over the 3-year useful life of the depreciable incubator machine as a reduced depreciation expense.

Question 3 (Past Exam Nov'22)

Note: This is not added in study material. Inserted as it is a question of Past Exam Nov'22

A herd of 15, 4 year old cows valued at ₹ 500 thousands per cow were held in 'M Dairy Farm' as at 1st April 2021. The following transactions took place on 1st October, 2021:

a) One cow aged 4.5 years was purchased for ₹ 520 thousands.
b) One calf was born.

No cow was sold or disposed off during the year.

The per cow/calf fair value less cost to sell was as follows: ₹ in thousands

4 year old cow on 1st April 2021	500
New born calf on 1st October 2021	400
4.5 year old cow on 1st October 2021	520
New born calf on 31st March, 2022	410
0.5 year old calf on 31st March, 2022	440
4 year old cow on 31st March, 2022	516
4.5 year old cow on 31st March, 2022	540
5 year old cow on 31st March, 2022	560

You are required to:

i. Calculate change in fair value less costs to sell showing:
   (a) The portion attributable to physical changes
   (b) The portion attributable to price changes
ii. Calculate the carrying cost of the herd as on 31st March, 2022.
iii. Prepare an extract of the livestock account for the year ended 31st March, 2022.

(6 Marks)

Solution

i) (a) Change in fair value less costs to sell, due to physical change and price change:

₹ in thousand

Fair value less costs to sell of herd at 1st April 2021 (15 × 500)			7,500
Purchase on 1st October 2021 (1 x 520)			520
(a)	**Increase in fair value less costs to sell due to price change:**		
	15 cows x (516 – 500)	240	
	1 cows x (540 – 520)	20	
	1 calf x (410 – 400)	10	270

(b)	**Increase in fair value less costs to sell due to physical change:**		
	15 cows x (560 – 516)	660	
	1 cows x (560 – 540)	20	
	1 calf x (440 – 410)	30	
	1 calf x 400 (Gain on initial recognition)	400	**1,110**
			9,400

(ii) Calculation of carrying cost of herd as on 31st March 2022 i.e.

Fair value less costs to sell of herd at 31st March 2022

16 × 560	8,960
1 × 440	440
	9,400

(iii) Extract of Livestock Account for the year 31st March 2022

Particulars	**Amount (₹ in 000)**	**Particulars**	**Amount (₹ in 000)**
To Opening Stock	7500	By Closing Balance	9,400
To Purchases (1x520)	520		
To Increase in fair value (Price Changes)	270		
To Increase in fair value (Physical Changes)	1,110		
Total	**9,400**	**Total**	**9,400**

IND AS 108

Questions

Illustration 12 (Solution Modified in my book)

Geographical Information **(₹ in lakhs)**

		India (₹)	Outside India (₹)	Total (₹)
	Revenue	2,55,000	62,000	3,17,000
	Segment assets	90,000	10,000	1,00,000
	Capital expenditure	7,000		7,000

Highlighted amounts are to be rectified in the solution

IND AS 113

Questions

Illustration 10 (Newly Added)

A Ltd. has invested in certain bonds. The fair value of these bonds in different markets to which A Ltd. has an access is as follows:

(i)	Principal market	₹ 500
(ii)	Highest and best use	₹ 600
(iii)	Net present value of expected cash flows	₹ 550
(iv)	Asset based valuation approach	₹ 450

What will be the fair value of bond as per Ind AS 113?

Solution:

As per para 24 of Ind AS 113, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

Further, para 72 of the standard inter alia states that the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

According to the above, the value of bond shall be ₹ 500 based on the principal market.

IND AS 115

Concepts

SIGNIFICANT DIFFERENCES IN IND AS 115 VIS-À-VIS AS 7 AND AS 9

S.No.	PARTICULARS	IND AS 115	AS 7 & AS 9
1.	Framework of Revenue Recognition	Ind AS 115 gives a framework of revenue recognition within a standard. It specifies the core principle for revenue recognition	AS 7 and AS 9 do not provide any such overarching principle.
2.	Guidance on Recognition & Measurement of Multiple Elements within a Contract	Ind AS 115 gives guidance on how to recognize &measure multiple elements within a contract with customer.	AS 7 and AS 9 do not provide guidance on this aspect.
3.	Coverage	Ind AS 115 comprehensively deals with all types of performance obligation contracts with customers. However, it does not deal with revenue from 'interest' and 'dividend' which are covered in financial instruments standard.	There is no emphasis on performance obligation under the contract with customer. AS 7 covers only revenue from construction contracts which is measured at consideration received / receivable. AS 9 deals only with recognition of revenue from sale of goods/services, interest, royalties & dividends.
4.	Measurement of Revenue	As per Ind AS 115, revenue is measured at transaction price	As per AS 9, Revenue is gross inflow of considerations arising in course of ordinary activities. Revenue is measured by charges made to customers for goods / services supplied. As per AS 7, revenue from construction contracts is measured at consideration received/receivable and recognized as revenue as construction progresses.
5.	Recognition of Revenue	As per Ind AS 115, revenue is	As per AS 9, revenue is recognized

		recognized when the control is transferred to the customer. It introduces a 5-step model for revenue recognition.	when significant risks and rewards of ownership is transferred to buyer. As per AS 7, contract revenue should be recognized by reference to the stage of completion
6.	Multiple elements of performance obligations	Ind AS 115 gives guidance on how to recognize & measure multiple elements of performance obligations within a contract.	AS 7 and AS 9 provide no specific guidance.
7.	Capitalisation of Costs	Ind AS 115 provides guidance on recognition of costs to obtain and fulfil a contract, as asset.	AS 7 and AS 9 do not deal with such capitalisation of costs.
8.	Guidance on combining contracts and variable & contingent consideration	Ind AS 115 provides guidance on combining contracts entered near same time with same customer, guidance on treatment of variable & contingent consideration.	AS 7 and AS 9 do not deal with such aspects.
9.	Guidance on Subsequent changes in transaction price	Ind AS 115 provides guidance on Subsequent changes in transaction price.	AS 7 and AS 9 do not deal with such aspects.
10.	Guidance on Service Concession Arrangements	Ind AS 115 gives guidance on service concession arrangements and disclosures thereof.	AS does not provide such guidance.
11.	Disclosure Requirements	Ind AS 115 contains detailed disclosure requirements.	Less disclosure requirements are prescribed in AS.

❖ Comparison Between IND AS 115 with AS 7 & AS 9 (Certain Points which has impact on certain questions)

1. Warranties

Ind AS 115 deals with warrantees in two specific ways. However, as per AS 9 only a general provision for warrantees is sufficient without revenue reversal or recognition of a contractual liability.

Illustration 35

Accounting point	Treatment under Ind AS 115	Treatment as per AS 9
How warranty is accounted	Expense and liability effect Created at the inception of	Provision is made on past experience based on a certain

	contract with customer	percentage of total revenue to give effect to subsequent warranty costs, say 5% of Revenue
Accounting Treatment	Total Cash Inflow - 36,000 Warranty Expense - 2,000 Accrued Warranty Cost - 2,000 Contract liability (for future service cost) - 4000 Actual revenue - 32,000	Total cash inflow - 36,000 Provision for warranty (at 5% of transaction price) - 1800 Contract liability – None Actual revenue - 34,200

2. **Significant financing component**

As per Ind AS 115, transaction price is adjusted for the effect of time value of money when a significant financing component exists. As per AS 9, revenue is not adjusted for time value of money.

After Illustration 38

Point of accounting	Treatment under Ind AS 115	Treatment under AS 9
Cash selling price 1,00,000 Promised selling price of 1,21,000	Transaction price will be bifurcated as 1,00,000 and 21,000 1,00,000 will be recognised as revenue and 21,000 shall be treated as interest income being a price difference due to financing arrangement involved in the transaction	Transaction price of 1,21,000 shall be treated as revenue once the risk and rewards are transferred to the customer. Here, there is no requirement to dissect the transaction price to look for multiple element arrangement like financing component.
Revenue recognized	1,00,000	1,21,000
Other income (interest)	21,000 over 2 years as per Ind AS 109	No interest income is recognized.

3. **Contract acquisition cost**

It is not specifically dealt with in either in AS 7 or AS 9.:

Example

A software company has agreed to pay a special commission of 1% of the contract value to a sales consultant who has agreed to work based on the successful bidding of the proposal to a customer. In case the contract is not signed by the company and the customer, for whatever reason, then there is no commission to be paid to the sales consultant.

The contract value is 1 crore over 3 years and the company has signed the contract with the customer after successful bidding with the help of the sales consultant.

In this context, the accounting differences will be as follows:

Particulars	Treatment under Ind AS 115	Treatment under AS 9
1st year of operations – Contract acquisition cost of 1 crore	• Amortization as expense of the year 33.33 lakhs • Contract asset 66.67 lakhs	Expense of 1 crore as sales commission
2nd year of operations – Contract acquisition cost of 1 crore	• Amortization as expense of the year 33.33 lakhs • Contract asset 33.34 lakhs	No accounting treatment
3rd year of operations – Contract acquisition cost of 1 crore	• Amortization as expense of the year 33.34 lakhs • Contract asset of nil	No accounting treatment

IND AS 116

Concepts

SIGNIFICANT DIFFERENCES BETWEEN IND AS 116 AND AS 19

Sr No	Particulars	Ind AS 116	AS 19
1	Lease definition	Under Ind AS 116, definition of lease is similar to that in AS 19. But, in Ind AS 116, there is substantial change. The changes primarily relate to concept of 'control' used in identifying whether a contract contains a lease or not. Ind AS 116 provides guidance on whether an arrangement contains a lease, identified asset, substantive substitution rights etc.	Guidance part in AS 19 given therein is different. AS 19, in general, considers right to use an identified asset. Also under AS 19 even if a lessor has substantial substitution right, contract may still be accounted for as a lease.
2.	Separation of lease & non-lease components	Ind AS 116 provides detailed guidance on whether there are non-lease / service components.	AS 19 does not contain any guidance. AS 19 requires accounting for entire contract without separating non-lease components.
3	Scope of Land	No such scope exclusion	Excludes leases of land from its scope
4	Definition	Makes a distinction between 'inception of lease' & 'commencement of lease'	No such distinction
5	Classification	Eliminates classification of leases into operating leases or finance leases for a lessee and introduces a single lessee accounting model which requires to recognise ROU & Lease Liability for all leases unless it applies recognition exemption (for leases of low value assets or short-term leases)	AS 19 requires a lessee to classify leases as either finance leases or operating leases
6	Sale & Leaseback transactions	In Ind AS 116, the approach for computation of gain/loss for a completed sale is different. The amount of gain/loss should reflect the	As per AS 19, if a sale & leaseback transaction results in a finance lease, excess, if any, of sale proceeds over

		amount that relates to the right transferred to the buyer-lessor.	carrying amount shall be deferred and amortised by seller- lessee over lease term in proportion to depreciation of leased asset.
		Also determine whether it is a sale as per IND AS 115. If not, then seller- lessee recognise a finance liability and buyer-lessor recognise a financial asset accounted as per Ind AS 109	AS 19 does not contain such specific requirement
7	Treatment of initial direct costs		
7A	Finance lease – Lessor accounting		
i)	Non-manufacturer/ non-dealer	Interest rate implicit in lease is defined in such a way that initial direct costs gets included automatically in finance lease receivable.	Either recognised as expense immediately or allocated against the finance income over lease term.
ii)	Manufacturer / dealer	Same as per AS 19	Recognised as expense immediately
7B	Operating Lease - Lessor accounting	Added to carrying amount of leased asset & recognised as expense over lease term on same basis as lease income.	Either deferred & allocated to income over lease term in proportion to recognition of rent income, or recognized as expense in the period in which incurred
8	Definition of Initial direct costs	Ind AS 116 define initial direct costs as 'Incremental costs' (eg: commissions, legal fees, incurred in negotiating & arranging a lease) that would not have been incurred if lease had not been obtained, except for such costs incurred by a manufacturer or dealer lessor in connection with a finance	Different guidance given

		lease.'	
9	Combining Contracts	IND AS 116 provides special guidance on combining contracts	AS 19 does not provide any guidance on combining contracts
10	Reassessment of Lease Term .	IND AS 116 provides special guidance on Reassessment of Lease term	AS 19 does not contain any guidance on re-assessment or changes to lease term
11	Lease Modification from point of view of lessor	IND AS 116 provides special guidance on Lease Modification from point of view of lessor	AS 19 does not provide guidance on lease modifications
12	Presentation	As a consequence of single lease model for lessees, there are many changes in presentation in financial statements.	Different guidance given
13	Disclosure	There are a number of changes in the disclosure relating to qualitative aspects of leasing transactions. For eg. Entities are required to disclose nature & risks arising from leasing transactions.	Different guidance given

Questions

Illustration 47 to 51 – Deleted (As they were relating to Covid which are not relevant now)

Question 6 (MTP Nov'22)

Note: This is not added in study material. Inserted as it is a question of MTP Nov'22

Feel Fresh Limited (the Company) is into manufacturing and retailing of FMCG products listed on stock exchanges in India. One of its products is bathing soap which the Company sells under the brand name 'Feel Fresh'. The Company does not have its own manufacturing facilities for soap and therefore it enters into arrangements with a third party to procure the soaps. The Company entered into a long term purchase contract of 10 years with M/s. Radhey. Following are the relevant terms of the contract with M/s. Radhey.

(i) M/s. Radhey has to purchase a machine costing ₹ 10,00,000 from the supplier as specified by the Company. The machine will be customized to produce the soaps as designed by the Company. This machine cannot be used by M/s. Radhey to produce the soaps for buyers other than the Company due to the design specifications. The machine has a useful life of 10 years and the straight line method of depreciation is best suited considering the use of the machine.

(ii) The Company will pay ₹ 4.75 per soap for the first year of contract. This is calculated based on the budgeted annual purchase of 7,00,000 soaps as follows:

Particulars	Per soap price
Variable cost of manufacturing	4.00

Cost of machine (₹ 1,74,015 / 7,00,000 soaps)	0.25
M/s. Radhey's margin	0.50
Per soap cost to the Company	4.75

In case the Company purchases more than 7,00,000 (i.e. budgeted number of soaps) soaps in the first year then the cost of the machine (i.e. 0.25 per soap) will not be paid for soaps procured in excess of 7,00,000 units. However, in case Company procures less than budgeted number of soaps, then the Company will pay the differential unabsorbed cost of the machine, at the end of the year. For example, if the Company purchases only 6,00,000 soaps in first year then the differential amount of ₹ 24,015 (1,74,015 - (6,00,000 x 0.25)) will be paid by the Company to M/s. Radhey at the end of the year. Variable cost will be actualized at the end of the year

(iii) The cost per soap will be calculated for each year in advance based on the budgeted number of soaps to be produced each year. An amount of ₹ 1,74,015 shall be considered each year for the cost of machine for year 1 to year 8 while calculating the cost per soap. Any differential under absorbed amount shall be paid by the Company to M/s. Radhey at the end of that year. A charge of ₹ 1,74,015 per annum for the machine is derived using borrowing cost of 8% p.a. For year 9 and year 10, only variable cost and margins will be paid.

(iv) M/s. Radhey does not have any right to terminate the contract but the Company has the right to terminate the contract at the end of each year. However, if the Company terminates the contract, it has to compensate M/s. Radhey for any unabsorbed cost of Machine. For example, if the Company terminates the contract at the end of second year then it has to pay ₹ 10,44,090 (i.e. 1,74,015 per year x 6 remaining years). If it terminates the contract after the 8th year then the Company does not have to pay the compensation since the cost of the machine would have been absorbed.

(v) In the first year, the Company purchases 5,50,000 soaps at ₹ 4.75 per soap.

Evaluate the contract of the Company with M/s. Radhey and provide necessary accounting entries for first year in accordance with Ind AS with working notes. Assume all cash flows occur at the end of the year.

(15 Marks)

Solution

Identification of the contract (by applying para 9 of Ind AS 116)

a) Identified asset

Feel Fresh Ltd. (a customer company) enters into a long-term purchase contract with M/s Radhey (a manufacturer) to purchase a particular type and quality of soaps for 10 year period.

Since for the purpose of the contract M/s Radhey has to buy a customized machine as per the directions of Feel Fresh Ltd. and also the machine cannot be used for any other type of soap, the machine is an identified asset.

b) Right to obtain substantially all of the economic benefits from use of the asset throughout the period of use

Since the machine cannot be used for manufacture of soap for any other buyer, Feel Fresh Ltd. will obtain substantially all the economic benefits from the use of the asset throughout the period of use.

c) Right to direct the use

Feel Fresh Ltd. controls the use of machine and directs the terms and conditions of the contract with respect to recovery of fixed expenses related to machine.

Hence the contract contains a lease.

Lease term

The lease term shall be 10 years assuming reasonable certainty. Though the lessee is not contractually bound till 10th year, i.e., the lessee can refuse to make payment anytime without lessor's permission but, it is assumed that the lessee is reasonably certain that it will not exercise this option to terminate.

Identification of lease payment

Lease payments are defined as payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following:

a) fixed payments (including in-substance fixed payments), less any lease incentives

b) variable lease payments that depend on an index or a rate
c) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
d) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease

Here in-substance fixed payments in the given lease contract are ₹ 1,74,015 p.a. The present value of lease payment which would be recovered in 8 years @ 8% would be ₹ 10,00,000 (approx.)

Variable lease payments that do not depend on an index or rate and are not, in substance, fixed are not included as lease payments. Instead, they are recognised in profit or loss in the period in which the event that triggers the payment occurs (unless they are included in the carrying amount of another asset in accordance with other Ind AS)

Hence, lease liability will be recognized by ₹ 10,00,000 in the books of Feel Fresh Ltd. Since there are no payments made to lessor before commencement date less lease incentives received from lessor or initial direct costs incurred by lessee or estimate of costs for restoration / dismantling of underlying asset, the right of use asset is equal to lease liability

Journal Entries

On initial recognition

Particulars	Dr.	Cr.
ROU Asset Dr.	10,00,000	
To Lease Liability		10,00,000
To initially recognise the Lease Liability and the corresponding ROU Asset		

At the end of the first year

Particulars		Dr.	Cr.
Interest Expense	Dr.	80,000	
To Lease Liability			80,000
To record interest expense and accrete the method (₹ 10,00,000 x 8%) lease Liability using the effective interest			
Depreciation Expense (10,00,000 / 10 years)	Dr.	1,00,000	
To ROU Asset			1,00,000
To record depreciation on ROU using the straight-line method (₹ 10,00,000 / 10 years)			
Lease Liability	Dr.	1,74,015	
To Bank / M/s. Radhey			1,74,015
To record lease payment			
Cost of soap	Dr.	24,75,000	
To Bank / M/s. Radhey {5,50,000 x (4 + 0.5)}			24,75,000
To record variable expenses paid as cost of the goods purchased			

IND AS 102

Illustration 16 (Deleted from IND AS 102 & is Shifted to IND AS 103)

IND AS 103

Questions

Illustration 40

Change in Notes to Accounts (Mistake rectified in ICAI Solution – Highlighted Part)

b) The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. Accordingly, 2.5 (5 x 2/4) is considered as a part of purchase consideration and is credited to Professional Ltd equity as this will be settled in its own equity. Since the fair value of the award on the acquisition date is 8 lakhs, the balance of 5.5 lakhs (8 – 2.5) will be recorded as employee expense in the books of Dynamic Ltd over the remaining life, which is 1 year in this scenario. (Para B59 of Ind AS 103)

Illustration 53

Replace the words Joint Venture with Joint Operation and Replace IND AS 28 with IND AS 111

(Basically, ICAI has rectified their mistake)

Illustration 54 (Newly Added) – Shifted from IND AS 102 to IND AS 103

IND AS 110

Questions

Illustration 7 - Different investors have ability to direct different relevant activities

<u>Old Illustration 3 is deleted and this new illustration is added</u>

A Ltd. and B Ltd. set up a new company C Ltd. to construct and operate a toll road. A Ltd. is responsible for the construction of the toll road, which is expected to take two years. Thereafter, B Ltd. has authority on all matters related to toll road operation.

Is it possible for B Ltd. to have power over C Ltd. during the construction phase, even though A Ltd. is responsible for construction and has authority to make decisions that need to be made during the construction phase?

Solution:

B Ltd. may power during the construction phase, even though it cannot yet exercise its decision- making rights during construction. The investor that has the ability to direct the activities that most significantly affect the returns of the investee has power over the investee. Consideration should be given to the factors that determine profit margin, revenue and valuation of C Ltd. For example, the construction of the road may be under the strict supervision and precise requirements of the regulator say State Road Transport Corporation (SRTC).

A Ltd. will recover its costs plus a fixed percentage of margin. That margin will be returned through adjustment of the amount of tolls that will flow to A Ltd., so that A Ltd. has first call on the cash flows generated by tolls. B Ltd. will manage the toll road operations, including maintenance, and will be able to

claim a management fee equivalent to any residual cash in the entity after all operating expenses have been paid, including payments to A Ltd.

Assume that B Ltd. has the ability to set tolls (and not SRTC). In this scenario, A Ltd. merely works like a contractor, earning a fixed margin, and probably a financing income for financing the construction. A Ltd. does not take much of a risk on the cash flows, because the residual risks and rewards belong to B Ltd. Consequently, B Ltd. controls C Ltd. from its inception.

Question 8 (MTP Nov'22)

This is not added in study material. Inserted as it is a question of MTP Nov'22

High Speed Ltd. has entered into a Share Purchase Agreement ("SPA") with the shareholders of Fast Move Limited to purchase 30% stake in Fast Move Limited as at 1st June, 20X1 at a price of ₹ 30 per share. As per the terms of SPA, High Speed Ltd. has an option to purchase additional 25% stake in Fast Move Limited on or before 15th June, 20X1 at a price of ₹ 30 per share. Similarly, the selling shareholder has an option to sell additional 25% stake in Fast Move Limited on or before 15.6.20X1 to High Speed Ltd. at a price of ₹ 30 per share. The decisions on relevant activities of Fast Move Limited are made in Annual General Meeting / Extraordinary General Meeting (AGM / EGM). A resolution in AGM / EGM is passed when more than 50% votes are casted in favor of the resolution. An AGM / EGM can be called by giving atleast 21 days advance notice to all shareholders.

With respect to the SPA entered by High Speed Ltd., you are required to determine whether High Speed Ltd. has control over Fast Move Limited as at 1st June, 20X1. **(5 Marks)**

Solution

Paragraph 10 of Ind AS 110 'Consolidated Financial Statements', states that an investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. As per the facts given in the question, High Speed Ltd. has 15 days to exercise the option to purchase 25% additional stake in Fast Move Ltd. which will give it majority voting rights of 55% (30% + 25%). This is a substantive potential voting rights which is currently exercisable. Further, the decisions on relevant activities of Fast Move Ltd. are made in AGM / EGM. An AGM/ EGM can be called by giving atleast 21 days advance notice. A resolution in AGM / EGM is passed when more than 50% votes are casted in favour of the resolution. Thus, the existing shareholders of Fast Move Ltd. are unable to change the existing policies over the relevant activities before the exercise of option by High Speed Ltd. High Speed Ltd. can exercise the option and get voting rights of more than 50% at the date of AGM/ EGM. Accordingly, the option contract gives High Speed Ltd. the current ability to direct the relevant activities even before the option contract is settled. Therefore, High Speed Ltd. controls Fast Move Ltd. as at 1st June, 20X1.

IND AS 111

Questions

Illustration 8 (Table Added in solution – Rest full ques & solution is same)

Entity R and entity S established a new entity RS Ltd. to construct a national highway and operate the same for a period of 30 years as per the contract given by government authorities.

As per the articles of association of RS Ltd, the construction of the highway will be done by entity R and all the decisions related to construction will be taken by entity R independently. After the construction is over, entity S will operate the highway for the period of 30 years and all the decisions related to operating of highway will be taken by entity S independently. However, decisions related to funding and capital structure of RS Ltd. will be taken by both the parties with unanimous consent.

Determine whether RS Ltd. is a joint arrangement between entity R and entity S?

Solution:

In this case, the investors should evaluate which of the decisions about relevant activities can most significantly affect the returns of RS Ltd. In the given case, construction of the national highway and operation of the same are both significant activities with control over the same being held unilaterally by R Ltd. and S Ltd. However, the decisions related to funding and capital structure of RS Ltd. are taken with unanimous consent.

The above structure is tabulated below:

Activity	Decision-making	Remarks
Construction of the highway	R Ltd., independently	All activities are significant for RS Ltd., but since funding and capital structure are essential without which construction and operation cannot commence, the same is highly significant.
Operation of the highway	S Ltd., independently	
Funding and Capital Structure	Joint decision-making by R Ltd. and S Ltd., both	

In view of the above, since the decision relating to Funding and Capital Structure are taken jointly by R Ltd. and S Ltd. both, we can conclude that RS Ltd. is a joint arrangement.

Illustration 9 – (Theory in solution elaborated, Rest everything is same)

Two entities have established a partnership firm with each party having 50% share in the net profits of the firm. Assuming that the arrangement meets the definition of a joint arrangement, determine whether the joint arrangement is a joint operation or a joint venture?

Solution:

A limited liability partnership is recognized as a body corporate with an existence distinct from that of its partners. Accordingly, the partners to the LLP would have a right to the net assets of the LLP as against a right to the assets and obligations to the liabilities of the same. Accordingly, such an arrangement would be a joint venture

In case the entity formed is a partnership firm, the Indian Partnership Act, 1932 does not distinguish the partners from the partnership firm, and therefore all the partners would be liable to the liabilities of the firm, as well as have interest in the assets of the firm (and not the net assets). accordingly, there would be no separation between the partners and the partnership firm. Hence, in such a case, the joint arrangement would be regarded as a joint operation.

Illustration 10 – (Instead of Bank Loan in Q it should be Bank Loan in PQ)

P and Q form a joint arrangement PQ using a separate vehicle. P and Q each own 50% of the Capital in PQ. However, the contractual terms of the joint arrangement state that P has the rights to all of Machinery and the obligation to pay Bank Loan in PQ.

IND AS 109

Questions

Illustration 65 & 66 – Deleted

Illustration 114 C – (Solution Rectified, refer highlighted part)

Continuing illustration 114A & 114B, Pass the necessary Journal Entry.

Solution

The journal entries passed by Entity C on the date of derecognition is as below:

Cash	Dr.	₹90 crores	
Loss on derecognition	Dr.	₹5 crores	
Continuing involvement asset	Dr.	₹5.5 crores	
To Receivables			₹95 crores
To Associated liability			₹5.5 crores

The guarantee liability of ₹0.5 crores shall be amortised in profit or loss over the underlying period.

Conceptual Framework

Questions

Question 3 (MTP Nov'22)

This is not added in study material. Inserted as it is a question of MTP Nov'22

What is Equity, Income and Expenses as per 'Framework for Financial Reporting under Ind AS'? How the information with respect to income and expenses helps the users in understanding of the financial statements? **(5 Marks)**

Solution:

Equity: Equity claims are claims on the residual interest in the assets of the entity after deducting all its liabilities. In other words, they are claims against the entity that do not meet the definition of a liability.

Income and Expenses: Income is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.

Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.

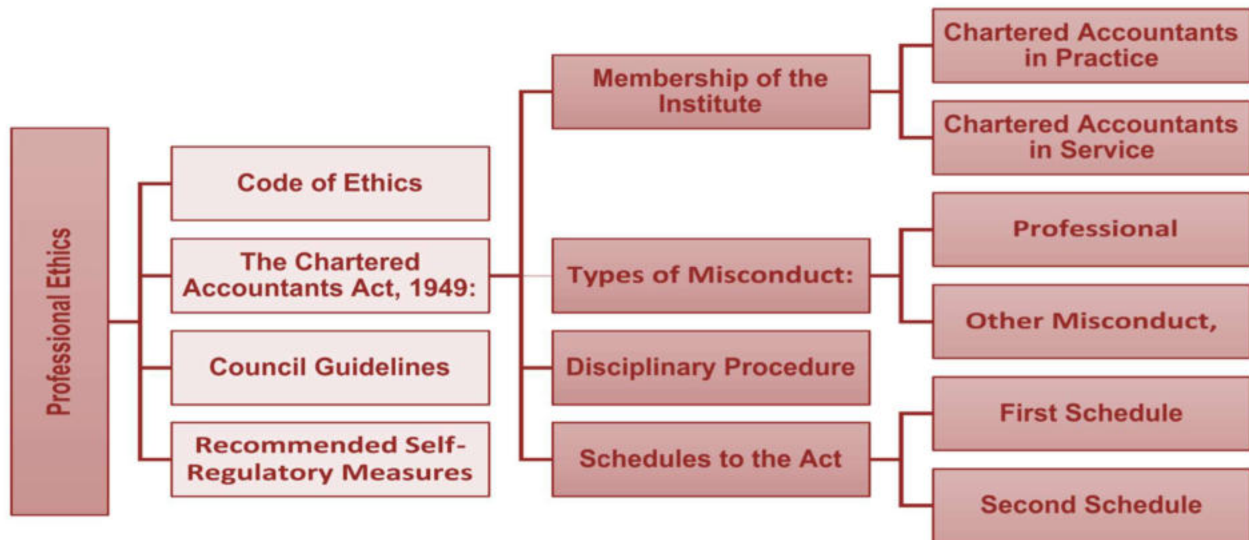
Income and expenses are the elements of financial statements that relate to an entity's financial performance. Users of financial statements need information about both an entity's financial position and its financial performance. Hence, although income and expenses are defined in terms of changes in assets and liabilities, information about income and expenses is just as important as information about assets and liabilities. Different transactions and other events generate income and expenses with different characteristics. Providing information separately about income and expenses with different characteristics can help users of financial statements to understand the entity's financial performance.

Example 1

<u>Add the below part in Part C (Physical Capital maintenance)</u>

Suppose that the price of the product at the end of year is 2.50 per unit. In other words, the specific price index applicable to the product is 125

PROFESSIONAL AND ETHICAL DUTY OF A CHARTERED ACCOUNTANT



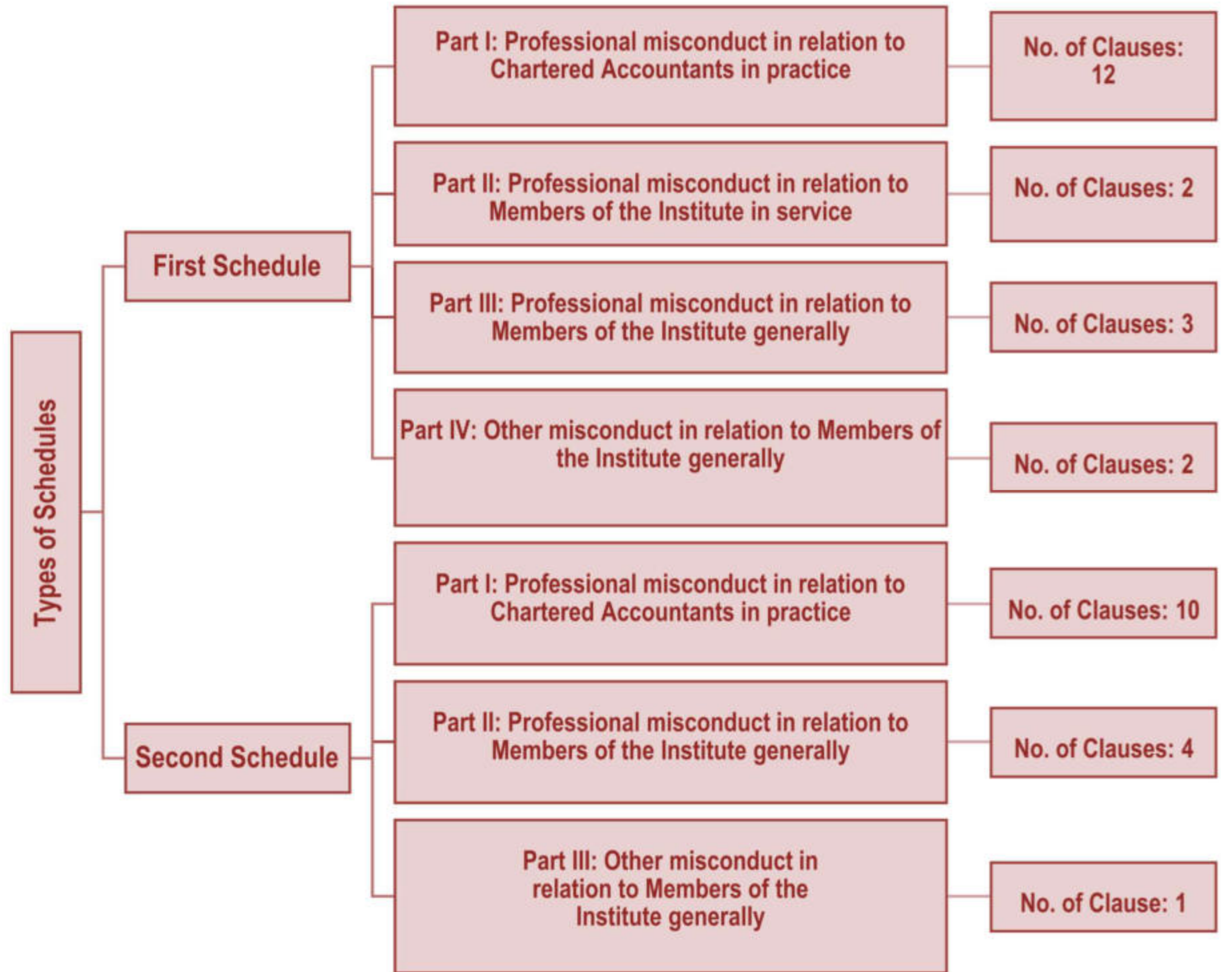
1. WHAT IS PROFESSIONAL OR OTHER MISCONDUCT FOR A CHARTERED ACCOUNTANT?

<u>Professional Misconduct</u>

- Professional misconduct has been defined in Part I, II and III of First Schedule; and Part I & II of Second Schedule.
- A member who is engaged in profession of accountancy whether in practice or service should conduct/restrict his actions in accordance with provisions contained in respective parts of schedules. If he is found guilty of any acts or omissions stated in any of the respective parts of Schedule, he/she shall be deemed to be guilty of professional misconduct.

<u>Other Misconduct</u>

- Other misconduct has been defined in part IV of First Schedule & part III of Second Schedule. These provisions empower Council to inquire into any misconduct of a member even if it does not arise out of his professional work.



The clauses covered in Part I, II & III of Second Schedule have been discussed below. However, for detail explanation, refer 'Professional Ethics' of CA Final Audit.

SECOND SCHEDULE TO THE CHARTERED ACCOUNTANTS ACT, 1949

Part I - Professional Misconduct in relation to Chartered Accountants in Practice

Clause 1

- Discloses Information acquired in the course of his professional engagement to any person other than his client so engaging him without the consent of his client or otherwise than as required by any law for the time being in force.

Clause 2

- Certifies or submits in his name or in the name of his firm, a report of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another chartered accountant in practice.

Clause 3

- Permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in manner which may lead to the belief that he vouches for the accuracy of the forecast.

Clause 4

- Expresses his opinion on financial statements of any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest.

Clause 5

- Fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity.

Clause 6

- Fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity

Clause 7

- Does not exercise due diligence or is grossly negligent in the conduct of his professional duties.

Clause 8

- Fails to obtain sufficient information which is necessary for expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion.

Clause 9

- Fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

Clause 10

- Fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time.

PART II – Professional misconduct in relation to members of the Institute generally

Clause 1

- Contravenes any of the provisions of this Act or the regulations made there under or any guidelines issued by the Council*.

Clause 2

- Being an employee of any company, firm or person, discloses confidential information acquired in the course of his employment except as and when required by any law for the time being in force or except as permitted by the employer.

Clause 3

- Includes in any information, statement, return or form to be submitted to the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline. Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false.

Clause 4

- Expresses his opinion on financial statements of any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest.

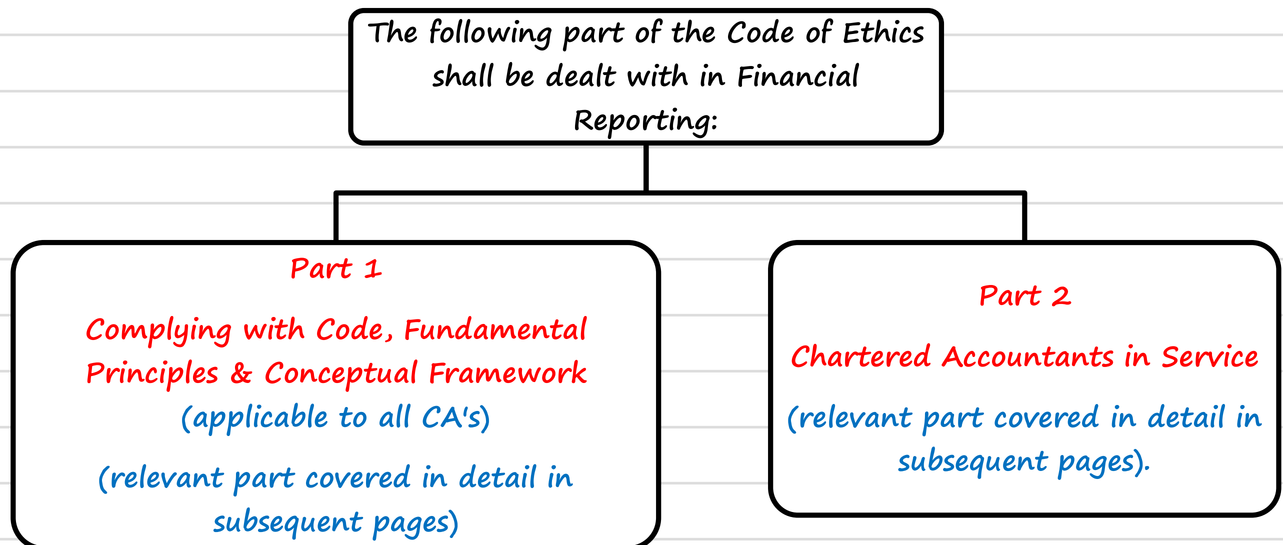
Part III – Other misconduct in relation to members of the Institute generally (1 clause)

Only 1 Clause

- A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term exceeding six months.

*Note : Council Guidelines

It states that a member of Institute who is an employee shall exercise due diligence & shall not be grossly negligent in conduct of his duties.



PART 1: COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

1. THE FUNDAMENTAL PRINCIPLES

1) Integrity:

- To be straightforward and honest in professional & business relationships
- Shall not knowingly be associated with information where he believes it:
  - (i) Contains a materially false or misleading statement
  - (ii) Contains statements or information provided negligently or
  - (iii) Omits required information.

2) Objectivity

- Not to compromise professional or business judgments because of bias, conflict of interest or undue influence of others.

3) Professional Competence and Due Care:

(i) Attain & maintain professional knowledge & skill to ensure that a client or employing organization receives competent professional service;

(ii) Act diligently and in accordance with applicable standards. Diligence encompasses responsibility to act in accordance with requirements of an assignment, carefully, thoroughly and on a timely basis.

(iii) Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments.

(iv) Take reasonable steps to ensure those working in a professional capacity in his authority have appropriate training & supervision.

4) Confidentiality

- To respect confidentiality of information acquired as a result of professional & business relationships.
- An accountant shall:
  - (a) Be alert to possibility of inadvertent disclosure, in social environment, close business associate or close family member;
  - (b) Maintain confidentiality of information
    - within firm or employing organization, (including prospective client);
  - (c) Not disclose confidential information acquired as a result of professional & employment relationships
    - outside the firm or employing organization, unless there is a legal or professional duty or right to disclose;
    - for personal advantage or for advantage of a third party;
    - after that relationship has ended;
- Circumstances where CA's are or might be required to disclose confidential information or when such disclosure might be appropriate:
  - (a) Disclosure is required by law,
  - (b) Disclosure is permitted by law and is authorized by client or employing organization; and
  - (c) There is a professional duty or right to disclose, when not prohibited by law:
    - ✓ To comply with the requirements of peer review or quality review of the Institute
    - ✓ To respond to an inquiry or investigation by a professional or regulatory body;
    - ✓ To protect the professional interests of a CA in legal proceedings; or
    - ✓ To comply with technical and professional standards, including ethics requirements.

5) Professional Behaviour

- Avoid any conduct that Chartered Accountant knows might discredit the profession.
- A Chartered Accountant shall be honest and truthful and shall not make:
  - ✓ Exaggerated claims for the services offered, qualifications or experience; or
  - ✓ Disparaging (derogatory) references or comparisons to work of others.

NOTE:

- A CA might face a situation in which complying with one fundamental principle conflicts with others. He should consult, with - Others within firm or employing organization., TCWG, Institute, Legal counsel.
- However, such consultation does not relieve CA from responsibility to exercise professional judgment to resolve conflict or, if necessary, and unless prohibited, disassociate from matter creating conflict.

THE CONCEPTUAL FRAMEWORK

- CA shall apply conceptual framework to
  - ✓ Identify threats to compliance with fundamental principles;
  - ✓ Evaluate threats identified; and
  - ✓ Address threats by eliminating or reducing them to an acceptable level.
- When applying the conceptual framework, the CA shall:
  - ✓ Exercise professional judgment;
  - ✓ Use Reasonable & informed third party test (It is a consideration whether the same conclusions would likely be reached by another party)

PART 2: CHARTERED ACCOUNTANTS IN SERVICE

A. CONFLICTS OF INTEREST

- A Chartered Accountant shall not allow a conflict of interest to compromise professional or business judgment.

1. Conflict Identification

Take reasonable steps to identify circumstances that might create a conflict of interest, and threat to compliance with fundamental principles. Such steps shall include identifying:

(a) Nature of relevant interests & relationships between parties involved; and

(b) Activity & its implication for relevant parties.

2. Threats created by Conflict of Interest

An action that might eliminate threats is withdrawing from decision-making process.

3. Disclosure and Consent

(a) Disclose nature of conflict and how threats were addressed to relevant parties; and

(b) Obtain consent from relevant parties to undertake professional activity when safeguards are applied to address threat.

B. PREPARATION AND PRESENTATION OF INFORMATION

(a) Prepare or present information in accordance with a relevant reporting framework

(b) Exercise professional judgment to:

- ✓ Represent the facts accurately and completely in all material respects;
- ✓ Describe clearly the true nature of business transactions; and
- ✓ Classify & record information in a timely and proper manner;

(c) Not omit anything with the intention of rendering the information misleading.

1. Use of Discretion in Preparing or Presenting Information

- Not exercise discretion with intention of misleading others.
- Examples: Determining estimates, accounting policies, timing of transactions, structuring transactions etc. to misrepresent profit or loss.

2. Relying on the Work of Others

- Exercise professional judgment and consider the following factors in determining whether reliance on others is reasonable:
  - ✓ Reputation, expertise and resources available to other individual or organization.

- ✓ Whether other individual is subject to applicable professional & ethics standards.

3. Addressing Information that Is or Might be Misleading

- Knows or has reason to believe that information is misleading, take appropriate actions to seek to resolve the matter.
- Actions include, discussing with superior, TCWG and requesting such individuals to take appropriate action to resolve the matter. Such action might include:
  - ✓ Having the information corrected.
  - ✓ If the information has already been disclosed to the intended users, informing them of the correct information.
- Consulting policies & procedures of employing organization (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally

  If information is still misleading:
  - Consult with Institute, Internal or external auditor, Legal counsel.
  - Determining whether any requirements exist to communicate to:
    - ✓ Third parties, including users of information.
    - ✓ Regulatory & oversight authorities.
- If, appropriate action has not been taken & information is still misleading, he shall refuse to remain associated with the information and it might be appropriate to resign.

C. ACTING WITH SUFFICIENT EXPERTISE

- Shall not intentionally mislead as to level of expertise or experience possessed.
- A self-interest threat to compliance with principle of professional competence and due care might be created if a Chartered Accountant has:
  - ✓ Insufficient time for performing or completing the relevant duties.
  - ✓ Incomplete, restricted or otherwise inadequate information for performing the duties.
  - ✓ Insufficient experience, training and/or education.
  - ✓ Inadequate resources for the performance of the duties.
- Examples of actions that might be safeguards to address such a self-interest threat include:
  - ✓ Obtaining assistance or training from someone with necessary expertise.
  - ✓ Ensuring that there is adequate time available for performing the relevant duties.
  - ✓ If a threat to compliance with principle of professional competence & due care cannot be addressed, he shall determine whether to decline to perform the duties. If he determines

that declining is appropriate, he shall communicate the reasons.

D. FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO FINANCIAL REPORTING AND DECISION MAKING

- Shall not manipulate information or use confidential information for personal gain or for the financial gain of others.

E. INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

- An inducement is an object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with intent to improperly influence that individual's behaviour.
- An inducement can take many different forms, for example: Gifts, Hospitality, Entertainment, Employment or other commercial opportunities etc.

1. Immediate or Close Family Members

- Remain alert to potential threats created by offering of an inducement:
  (a) By an immediate or close family member of the accountant to a counterparty with whom the accountant has a professional relationship; or
  (b) To an immediate or close family member of the accountant by a counterparty with whom the accountant has a professional relationship.
- If Inducement is being offered, and accountant concludes there is intent to influence behaviour, he shall advise immediate or close family member not to offer or accept the inducement.

F. RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS IN CASE OF EMPLOYMENT WITH LISTED ENTITIES

- When responding to non-compliance or suspected noncompliance, objectives of CA are:

(a) To comply with principles of integrity & professional behaviour;

(b) By alerting management, TCWG:

- ✓ Enable them to rectify or mitigate consequences of identified or suspected non-compliance; or
- ✓ Deter the non-compliance where it has not yet occurred; and
- ✓ Take further action in public interest.

1. Responsibilities of All Chartered Accountants

- If protocols & procedures exist address non-compliance, consider them in determining how to respond to such non-compliance.

2. Responsibilities of Senior Chartered Accountants in Service

- Senior Chartered Accountants are directors, officers or senior employees

a) Addressing the Matter

✓ Discuss with immediate superior, if any. If immediate superior appears to be involved, discuss with the next higher level of authority.

✓ Determine whether disclosure to external auditor, is needed, to enable him to perform the audit.

b) Determining Whether Further Action Is Needed

Further action includes:

✓ Informing management of parent entity (if any)

✓ Disclosing the matter to an appropriate authority as specified under respective law.

✓ Resigning

c) Seeking Advice

Consulting internally, Obtaining legal advice, Consulting on a confidential basis with Institute.

d) Determining Whether to Disclose the Matter to an Appropriate Authority

It would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to investigate & take action in public interest.

e) Responsibilities of Chartered Accountants Other than Senior Chartered Accountants

If a CA Identifies that noncompliance has occurred or might occur, he shall, inform an immediate superior. If immediate superior appears to be involved, he shall inform next higher level of authority.

If accountant determines that disclosure of the matter to an appropriate authority is an appropriate course of action, that disclosure is permitted.

G. PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

- A Chartered Accountant shall not:

✓ Allow pressure from others to result in a breach of compliance with fundamental

principles; or

- ✓ Place pressure on others that would result in other individuals breaching fundamental principles.

- ➢ Discussing circumstances creating the pressure and consulting with others might assist to evaluate the level of the threat. Such discussion & consultation include:
  - Discussing with individual who is exerting pressure to seek to resolve it.
  - Discussing with superior
  - Escalating to Higher levels of management, Internal or external auditors, TCWG.
  - Disclosing in line with policies, including ethics & whistleblowing policies.
  - Consulting with a colleague, superior, human resources personnel, another CA, Institute, industry associations, Legal counsel.
- ➢ An action that might eliminate threats created by pressure is request for a restructure / segregation of certain responsibilities & duties so that the accountant is no longer involved with individual or entity exerting pressure.

"Aim for the moon. If you miss, you may hit a star"

PROFESSIONAL & ETHICAL DUTY OF A CA

Illustration 1

Infostar Ltd. is a listed company engaged in the provision of IT services in India. The directors are paid a bonus based on the profits achieved by the company during the year as per the bonus table given below:

Range of Profit after tax	Bonus to Directors
Less than ₹ 1 crore	NIL
₹ 1 crore to < ₹ 5 crores	2% of Net Profit after tax
₹ 5 crores to < ₹ 10 crores	4% of Net Profit after tax
₹ 10 crores to < ₹ 20 crores	6% of Net Profit after tax
₹ 20 crores to < ₹ 30 crores	8% of Net Profit after tax
₹ 30 crores and above	10% of Net Profit after tax

The draft Statement of Profit and Loss for the year ended 31 March 20X2 currently shows a profit of ₹ 2 crores.

Issue:

On 25 March 20X2, Infostar Ltd. sold land located adjacent to its head office to a third party Zest Ltd. for a consideration of ₹ 40 crores, with an option to purchase the land back on 25 May 20X2 for ₹ 40 crores plus a premium of 6%. The amount received from the transaction eliminated the bank overdraft of Infostar Ltd. as on 31 March 20X2. On instructions of the Chief Financial Officer of the company, who is a chartered accountant, the transaction was treated as a sale, including the profit arising on disposal in the Statement of Profit and Loss for the year ending 31 March 20X2.

Required:

Discuss the ethical and accounting implications of the above issues with respect to a chartered accountant in service, referring to the relevant Ind AS wherever appropriate.

Solution

Accounting Treatment

The sale of land meets the conditions specified in Ind AS 115, Revenue from Contracts with Customers for qualifying as a repurchase agreement as Infostar Ltd. has an option to buy back the land from Zest Ltd. and therefore, control is not transferred as Zest Ltd.'s ability to use and gain benefit from the land is limited. Infostar Ltd. must treat the transaction as a financing arrangement and record both the asset (land) and the financial liability (the amount received which is repayable to Zest Ltd.).

Infostar Ltd. should not have derecognized the land from the financial statements because the risks and rewards of ownership are not transferred. Thus, the substance of the transaction is a loan of ₹ 40 crores, with the 6% 'premium' on repurchase effectively reflecting interest payment.

Recording the aforesaid transaction as a sale is an attempt to manipulate the financial statements in order to show an improved profit figure and a more favourable cash position. The sale must be reversed and the land should be reinstated at its carrying amount prior to the transaction.

Ethical Issues

Chartered Accountants are required to comply with the fundamental principles laid down in the Code of Ethics. This includes acting with integrity. It appears that the integrity of CFO is compromised in this situation as he had accounted the transaction as sale and not as a loan or financial arrangement. The effect of accounting it as sale just before the year end is merely to improve profits and eliminate the bank overdraft, thereby making the cash position seem better than it is. This effectively amounts to 'window dressing', which is not honest as it does not present the actual performance and position of Infostar Ltd.

Accountants must also act with objectivity, which means they must not allow bias, conflict or undue influence of others to override professional or business judgments. Therefore, the management must put the interests of the company and the shareholders before their own interests. The pressure to show profits

and achieve a bonus is in the self-interest of the directors and seems to have been partly driven the transaction and the subsequent accounting, which is clearly a conflict of interest.

It is further necessary for the accountants to comply with the principles of professional behaviour, which require compliance with relevant laws and regulations. In the instant case, the accounting treatment is not in conformity with Ind AS. The given facts do not make it clear whether CFO is aware of this or not. If he is aware but still applied the incorrect treatment, he has not complied with the principle of professional behaviour. It may be that he was under undue pressure from the directors to record the transaction in this manner. If, however, he is not aware that the treatment is incorrect, then he has not complied with the principle of professional competence as his knowledge and skills are not updated.

In such a case, he is subject to professional misconduct under Clause 1 of Part II of Second Schedule of the Chartered Accountants Act, 1949. Clause 1 states that a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council. As per the Guidelines issued by the Council, a member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

Illustration 2

Rustom Ltd., a company engaged in oil extraction, has a present obligation to dismantle the oil rig installed by it at the end of the useful life of 10 years. Rustom Ltd. cannot cancel this obligation or transfer it. Rustom Ltd. intends to carry out the dismantling work itself and estimates the cost of the work to be ₹ 100 crores at the end of 10 years.

The directors of Rustom Ltd. are aware of the requirements of Ind AS 37 ‘Provisions, Contingent Liabilities and Contingent Assets’, read with Ind AS 16 ‘Property, Plant and Equipment’. However, they propose to expense the costs of dismantling the oil rig as and when incurred, with no entries or disclosures in the latest financial statements. They argue that application of Ind AS involves judgment, and although prudence is mentioned in the Conceptual Framework, it is only one among the many ways of achieving faithful representation.

Required:

Discuss whether the directors are acting unethically in the above instance what should be the practising Chartered Accountant’s course of action in this regard.

Solution

The treatment proposed by the director is in contravention of Ind AS 37. As per Ind AS 16 and Ind AS 37, an entity, at the time of initial recognition of the asset, capitalises the present value of the cost of dismantling to be occurred at the end of the life of the asset, to the cost of the asset by simultaneously creating a provision for the same. In the given case, it appears to be a deliberate intention to contravene Ind AS 16 and Ind AS 37, and not an unintentional mistake.

Though the directors can exercise strong or undue influence over the chartered accountant, the chartered accountant is bound to act with integrity and remain unbiased, recommending to the directors that Ind AS 16 and Ind AS 37 must be complied with, and ensure appropriate entries are passed in the financial statements. The matter may be raised before the non-executive directors, explaining the issue to them and ensure the financial statements are true and fair and comply with the relevant Ind AS.

It is essential for the chartered accountant to inform those in governance (directors) about the necessary corrective measures in this case. By doing so, he uphold the fundamental principle of professional behaviour and demonstrate compliance with relevant laws and regulations. By communicating the corrective measures to those responsible for governance, the chartered accountant can ensure that the contravention of Ind AS 16 and Ind AS 37 is addressed and rectified.

However, if he does not communicate the corrective measures to the directors, the fundamental principle of **professional behaviour** will be breached. Members should comply with relevant laws and regulations and avoid any action that discredits the profession. By knowingly allowing the directors not to apply the requirements of an Ind AS, the Chartered Accountant would not be acting diligently in accordance with applicable guidance and would not be demonstrating professional competence and due care. In such a situation, he will be subject to professional misconduct under Clauses 5, 6 and 7 of Part I of Second Schedule of the Chartered Accountants Act, 1949.

Clause 5 states that a chartered accountant is guilty of professional misconduct when he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity.

Clause 6 states that a CA is guilty of professional misconduct when he fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity.

Clause 7 states that a Chartered Accountant is guilty of professional misconduct when he does not exercise due diligence or is grossly negligent in the conduct of his professional duties.

Illustration 3

Alaap Ltd.'s directors feel that the company needs a significant injection of capital in order to modernize plant and equipment as the company has been promised firm orders if it can produce goods of international standards. The current lending policies of the banks require prospective borrowers to demonstrate strong projected cash flows, coupled with a Debt Service Coverage Ratio exceeding 10. However, the current projected statement of cash flows does not satisfy the bank's criteria for lending. The directors have told the bank that the company is in an excellent financial position, the financial results and cash flow projections will meet the criteria and the chartered accountant will submit a report to this effect shortly. The chartered accountant has recently joined Alaap Ltd. and has openly stated that he cannot afford to lose his job because of financial commitments.

Required:

Discuss the potential ethical conflicts which may arise in the above scenario and the ethical principles which would guide how the chartered accountant should respond to the situation.

Solution

The given scenario presents a twofold conflict of interest:

(i) Pressure to obtain finance and chartered accountant's personal circumstances The chartered accountant is under pressure to provide the bank with a projected cash flow statement that will meet the bank's criteria when in fact the actual projections do not meet the criteria. The chartered accountant's financial circumstances mean that he cannot lose his job, thus the ethical and professional standards required of the accountant are at odds with the pressures of his personal circumstances.

(ii) Duty to shareholders, employees and bank

The directors have a duty to act in the best interests of the company's shareholders and employees, and a duty to present fairly any information the bank may rely on. The injection of capital to modernise plant and equipment appears to be for capacity expansion which will lead to greater profits, thus being in the interests of the shareholders and the employees. However, if such finance is obtained based on misleading information, it could actually be detrimental to the going concern status of the company.

It could be argued that there is a conflict between the short-term and medium-term interests of the company (the need to modernise the company) and its long-term interests (the detriment to the company's reputation if its directors do not conform to ethics).

Ethical principles guiding the chartered accountant's response

The chartered accountant's financial circumstances coupled with the pressure from the directors could end up in him knowingly disclosing incorrect information to the bank, thereby compromising the fundamental principles of objectivity, integrity and professional competence.

By exhibiting bias due to the risk of losing his job through reporting favourable cash flows to the bank, objectivity is compromised. Further, integrity is also compromised as by not acting in a straightforward and honest manner, incorrect information is knowingly disclosed. Forecasts, unlike financial statements, do not specify that they have been prepared in accordance with Ind AS. However, the principle of professional competence requires the accountant to prepare the cash flow projections to the best of his professional judgment which would not be the case if the projections showed a more positive position than what is actually anticipated.

Appropriate action

The chartered accountant faces an immediate ethical dilemma and must apply his moral and ethical judgment. As a professional, he is responsible for presenting the truth, and not to indulge in 'creative accounting' owing to pressure.

Thus, the chartered accountant should put the interests of the company and professional ethics first and insist that the report to the bank be an honest reflection of the company's current financial position. Being an advisor to the directors, he must prevent deliberate misrepresentation to the bank, no matter what the consequences to him are personally. The accountant should not allow any undue influence from the directors to override his professional judgment or integrity. This is in the long-term interests of the company and its survival.

It is suggested that the chartered accountant should communicate to the directors to submit the projected statement of cash flows to the bank, which reflects the current position of the company.

Knowingly providing incorrect information is considered as professional misconduct. To prevent such misconduct, a chartered accountant should not provide incorrect projected cash flows to the bank and colour the financial position of the entity. By adhering to the ethical principles, the chartered accountant will maintain his professional integrity and contribute to the trust and reliability placed in the work expected from him.

However, if he submits the incorrect projected statement of cash flows, he would be subject to professional misconduct under Clause 1 of Part II of Second Schedule of the Chartered Accountants Act, 1949. The Clause 1 states that a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council. As per the Guidelines issued by the Council, a member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

Illustration 4

Sunshine Ltd., a listed company in the cosmetics industry, has debt covenants attached to some of its borrowings which are included in Financial Liabilities in the Balance Sheet. These covenants mandate the company to repay the debt in full if Sunshine Ltd. fails to maintain a liquidity ratio and operating margin above the specified limit.

The directors alongwith the CFO of the Company who is a chartered accountant are considering entering into a fresh five-year leasing arrangement but are concerned about the negative impact any potential lease obligations may have on the above-mentioned covenants. Accordingly, the directors and CFO propose that the lease agreement be drafted in such a way that it is a series of six ten-month leases rather than a single five-year lease in order to utilize the short-term lease exemption available under Ind AS 116, Leases. This would then enable accounting for the leases in their legal form. The directors believe that this treatment will meet the requirements of the debt covenant, though such treatment may be contrary to the accounting standards.

Required:

Discuss the ethical and accounting implications of the above issue from the perspective of CFO.

Solution

Lease agreement substance presentation

Stakeholders make informed and accurate decisions based on the information presented in the financial statements and as such, ensuring the financial statements are reliable and of utmost importance. The directors of Sunshine Ltd. are ethically responsible to produce financial statements that comply with Ind AS and are transparent and free from material error. Lenders often attach covenants to the terms of the agreement in order to protect their interests in an entity. They would also be of crucial importance to potential debt and equity investors when assessing the risks and returns from any future investment in the entity.

The proposed action by Sunshine Ltd. appears to be a deliberate attempt to circumvent the terms of the covenants. The legal form would require treatment as a series of short-term leases which would be recorded in the profit or loss, without any right-of-use asset and lease liability being recognized as required by Ind AS 116, Leases. This would be a form of 'off-balance sheet finance' and would not report the true assets and obligations of Sunshine Ltd. As a result of this proposed action, the liquidity ratios would be adversely misrepresented. Further, the operating profit margins would also be adversely affected, as the

expenses associated with the lease are likely to be higher than the deprecation charge if a leased asset was recognized, hence the proposal may actually be detrimental to the operating profit covenant.

Sunshine Ltd. is aware that the proposed treatment may be contrary to Ind AS. Such manipulation would be a clear breach of the fundamental principles of objectivity and integrity as outlined in the Code of Ethics. It is important for a chartered accountants to exercise professional behaviour and due care all the time. The proposals by Sunshine Ltd. are likely to mislead the stakeholders in the entity. This could discredit the profession by creating a lack of confidence within the profession. The directors of Sunshine Ltd. must be reminded of their ethical responsibilities and persuaded that the accounting treatment must fully comply with the Ind AS and principles outlined within the framework should they proceed with the financing agreement.

However, if the CFO fails to comply with his professional duties, he will be subject to professional misconduct under Clause 1 of Part II of Second Schedule of the Chartered Accountants Act, 1949. The Clause 1 states that a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council. As per the Guidelines issued by the Council, a member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

Illustration 5:

Agastya Ltd. is a listed company engaged in the manufacturing of automotive spare parts. The company is preparing the financial statements for the year ended 31 March 20X3. The directors of Agastya Ltd. are entitled to an incentive based on the operating profit margin of the company. You have been appointed as a consultant to advise on the preparation of the financial statements, and you notice the following issue:

Issue:

On 1 April 20X2, Agastya Ltd.'s defined benefit pension scheme was amended to increase the pension entitlement from 12% of final salary to 18.5% of final salary. This amendment was made due to the salary cuts made on account of the pandemic. The chartered accountant has shown such increase in the pension entitlement (amounting to ₹ 85 crores) under the head 'Employee Benefits' forming part of the operating profit. The directors are unhappy with this presentation. They believe that the pension scheme is not integral to the operations of the company since it is paid post-retirement of the employees, and thus insist that such presentation would be misleading in computing the operating profit or loss. Accordingly, the directors propose a change in accounting policy so that all such gains or losses on pension scheme would be recognized under Other Comprehensive Income. The directors believe that this policy choice will make the financial statements more consistent, understandable thereby justifying the same on grounds of fair presentation as defined in the Framework. The pension scheme of Agastya Ltd. is currently in deficit.

Required:

Discuss the ethical and accounting implications of the above issues, referring to the relevant Ind AS wherever appropriate from the perspective of the consultant.

Solution

Ethical Implications of change in accounting policy

Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors only permits a change in accounting policy if the change is: (i) required by an Ind AS or (ii) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. A retrospective adjustment is required unless the change arises from a new accounting policy with transitional arrangements to account for the change. It is permissible to depart from the requirements of Ind AS but only in extremely rare circumstances where compliance would be so misleading that it would conflict with overall objectives of the financial statements. Practically, this override is rarely, if ever, invoked.

Ind AS 19, Employee Benefits requires all gains and losses on a defined benefit pension scheme to be recognised in profit or loss except for the remeasurement component relating to plan assets and defined benefit obligations, which must be recognized in Other Comprehensive Income. Accordingly, current service cost, past service cost and net interest cost on the net defined benefit obligation must all be recognized in profit or loss. Ind AS 19 does not offer any alternative treatment as an accounting policy choice in terms of Ind AS 8, and therefore the directors' proposals cannot be justified on the grounds of fair

presentation. The directors are ethically bound to prepare financial statements which reflect a true and fair view of the entity's performance and financial position and comply with all Ind AS.

It is the self-interest in the pension scheme that is making the directors consider a change in accounting policy in order to maximize profits for maximizing their bonus potential. The amendment to the pension scheme is a past service cost in terms of Ind AS 19 which should be expensed to the profit or loss during the period such plan amendment has occurred, i.e., immediately. This would impact the operating profits of Agastya Ltd. thereby reducing the potential bonus.

Additionally, it appears that the directors wish to manipulate aspects of the pension scheme such as current service cost and, since the pension scheme is given to be in deficit, the net finance cost. The directors are purposely manipulating the presentation of these items by recording them in equity instead of Profit or Loss. The financial statements would not be compliant with Ind AS and would not give a reliable picture of the true costs to the company of operating the pension scheme and this treatment would make the financial statements less comparable with other entities correctly applying Ind AS 19. Further, the explicit statement given in the financial statements stating that all compliance with Ind AS is achieved would be an incorrect statement to make in the event of the above non-compliance. Further, such treatment would be against the fundamental principles of objectivity, integrity and professional behaviour as stated in the Code of Ethics. The directors need to understand their ethical responsibilities and avoid implementing the proposed change in policy.

As a meaningful addition, the directors could use other tools/indicators within the financial statements to explain the company's results such as drawing attention of the users to the cash generated from operations which would exclude the non-cash pension expense. Alternative measures such as EBITDA could be disclosed where non-cash items are consistently eliminated for comparison purposes.

When a Chartered Accountant discovers that a company's financial position has been compromised through misstatement, they have two options. They can either report the non- compliance to the authorities or consider withdrawing from the engagement. Both the actions ensure integrity, transparency, and the interests of stakeholders at large.

In case the consultant-chartered accountant is influenced by the director's suggestions and report accordingly, he will be subject to professional misconduct under Clauses 5,7 and 8 of Part I of Second Schedule of the Chartered Accountants Act, 1949.

Clause 5 states that a Chartered Accountant is guilty of professional misconduct when he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity.

Clause 7 states that a Chartered Accountant is guilty of professional misconduct when he does not exercise due diligence or is grossly negligent in the conduct of his professional duties.

Clause 8 of Part I of the Second Schedule of the Chartered Accountants Act 1949 states that a CA is guilty of professional misconduct when he fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion.

Illustration 6:

The directors of Spinz Ltd. are eligible for an incentive computed as a percentage of 'Cash Generated from Operations' as defined in Ind AS 7, Statement of Cash Flows in accordance with the terms of their appointment. Due to the onset of the pandemic, the company has not performed well, and it has, in fact, lost Cash from Operations. In order to meet the cash requirements, the directors of Spinz Ltd. are planning to dispose off under-utilized equipment and investments (not subsidiaries or associates). The directors opine that since the cash generated from sale of such equipment and investments would be used for operations, the inflows on such sale would be presented in the Statement of Cash Flows under 'Cash from Operations'. The directors are concerned about meeting the targets in order to ensure security of their jobs and feel that this treatment would enhance the 'cash flow picture' of the business. The inflows on sale of such equipment and investments have the potential to make the 'Cash from Operations' figure positive.

Required:

Discuss the ethical responsibility of Spinz Ltd.'s Chartered Accountant who is an employee to ensure that the manipulation of the Statement of Cash Flows, as suggested by the directors, does not occur.

Solution

In order to meet targets, it is quite possible that management may want to present a company's results in a favourable manner. Such an objective could be achieved by employing creative accounting techniques such as window dressing, or as can be seen in the case, inaccurate classification.

As per para 16 of Ind AS 7, separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognized asset in the balance sheet are eligible for classification as investing activities. Example of cash flows arising from investing activities are cash receipts from sales of property, plant and equipment, intangibles and other long-term assets.

Presenting proceeds of sale of investments and under-utilized equipment as part of 'Cash from Operations' gives a misleading picture of the financial statements. Operating cash flows are crucial for the long-term survival of the company, and a negative cash from operations figure could be a possible indicator of cash shortage in the short-term, and possibly question the going concern assumption of the entity in the long-run. Further, operating cash flows are recurring, whereas investing and financing cash flows tend to be one-off.

In the given case, it may appear that to meet cash requirements for its operations, the company is selling its investments and equipment. Selling of equipment and investments is not usually a part of trading operations. Such sales generate short-term cash flow and cannot be repeated on a regular basis. The proposed misclassification could be regarded as a deliberate attempt to mislead stakeholders about the performance of Spinz Ltd. and its future performance, which is unethical.

Chartered Accountants have a duty, not only to the company they work for, but also to their professional body (i.e., ICAI), and to the stakeholders of the company. Proceeds received from sale of equipment and investment should be presented under 'Cash Flows from Investing Activities' (instead of 'Operating Activities') in accordance with Ind AS 7, Statement of Cash Flows. As per the Code of Ethics, a Chartered Accountant should follow the fundamental principle of professional competence and due care which includes preparing financial statements in compliance with Ind AS. In case the accountant permits the treatment of the matter as proposed by the management, it would result in a breach of the principle of professional competence and due care. This treatment may be permitted by the accountant under pressure from the management.

The chartered accountant should prevent the management not to proceed with the aforesaid accounting treatment which violates Ind AS 7. In case the management insists on continuing with their suggested treatment, then the chartered accountant must bring this to the attention of the auditors. Otherwise, the chartered accountant would be subject to professional misconduct under Clause 1 of Part II of Second Schedule of the Chartered Accountants Act, 1949. The Clause 1 states that a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council. As per the Guidelines issued by the Council, a member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

Illustration 7:

Infostar Ltd. is a listed company engaged in the provision of IT services in India. The directors are paid a bonus based on the profits achieved by the company during the year as per the bonus table given below:

Profit Range	**Bonus to Directors**
NIL < Profit < ₹ 1 crore	NIL
₹ 1 crore < Profit < ₹ 5 crores	2% of Net Profit
₹ 5 crores < Profit < ₹ 10 crores	4% of Net Profit
₹ 10 crores < Profit < ₹ 20 crores	6% of Net Profit
₹ 20 crores < Profit < ₹ 30 crores	8% of Net Profit
Profit > ₹ 30 crores	10% of Net Profit

The draft Statement of Profit and Loss for the year ended 31 March 20X2 currently shows a profit of ₹ 2 crores.

Issue:

The employees of Infostar Ltd. have historically been paid an individual-performance-based discretionary incentive for the last 15 years. Based on the past trends and performance, the bonus amount for the year 20X1-20X2 would be ₹ 3 crores. In view of the possibility of the directors not receiving the bonus on account of the company's poor performance, Infostar Ltd.'s Chief Financial Officer (CFO), who is a chartered accountant, has suggested that the discretionary incentive usually payable to the employees could be avoided in the current year, which would result in the company reporting profits. As a part of its annual report, Infostar Ltd. reports employee satisfaction scores, staff attrition rates, gender equality and employee absenteeism rates as nonfinancial performance measures. The CFO has also told the directors over mail that no stakeholder reads the non-financial information anyway, and thus his aforesaid suggestion of not paying the discretionary incentive would not impact the company greatly.

Required:

Discuss the ethical and accounting implications of the above issues, referring to the relevant Ind AS wherever appropriate from perspective of CA. Sushil Bhupathy.

Solution

Ethical Considerations

Long-term success of any organization strongly depends on the fair treatment of employees, which in turn is based on the ethical behaviour of the management as well as how the same is perceived by the stakeholders. In the given case, the CFO has suggested not paying the discretionary bonus, which the directors are considering as it will enable the company to record profits of ₹ 2 crores, thereby ensuring a bonus pay out to the directors. This suggestion is not illegal at all as the bonus is discretionary rather than statutory/contractual. In other words, the company has no legal obligation to pay the bonus to the employees. However, the reason behind non-payment of the bonus is what gives rise to ethical considerations. The suggestion by the CFO will have the aforesaid impact of reducing expenses and improving profits.

On a moral ground, the suggestion is likely to have negative consequences for the company. The employees would be dissatisfied that the bonus has been withdrawn, and further, when they would see the directors withdrawing bonuses out of the profits arising on a saving in bonus costs, it would have a negative impact on employee morale, which would result in low employee satisfaction scores and poor retention rates, which are reported as non-financial information in the financial statements. Companies are also under increasing pressure to reduce the wage gap between the management and its employees. By not paying a bonus, this metric will be adversely affected.

The CFO's statement that the above action will not negatively impact the company as the nonfinancial reporting indicators are not widely read by the users is misleading. The non-financial information is becoming increasingly important to the users of financial statements as they care about companies' treatment of their employees and view it as being important in the long-term success of the company.

A chartered accountant has a responsibility to exercise due diligence and clearly consider both financial and non-financial information while discharging his professional duty. It would be unethical for a chartered accountant to guide the management on matters which may result into any kind of disadvantage (it includes even non-financial matters) to the stakeholders.

Further, a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. A chartered accountant's responsibility is not exclusively to satisfy the needs of an individual client or employing organization. Therefore, the Code contains requirements and application material to enable chartered accountants to meet their responsibility to act in the public interest. (Refer Section 100.1 A1, Code of Ethics issued by ICAI)

Hence, it is essential for a chartered accountant to uphold the professional standards and act in accordance with the ethical principles by ensuring transparency and accuracy in financial reporting.

Illustration 8:

Agastya Ltd. is a listed company engaged in the manufacturing of automotive spare parts. The company is preparing the financial statements for the year ended 31 March 20X3. The directors of Agastya Ltd. are entitled to an incentive based on the operating profit margin of the company. You have been appointed as a consultant to advise on the preparation of the financial statements, and you notice the following issue:

Issue:

The draft financial statements include an amount of ₹ 75 lakhs given as loan to a director. The loan has no specific repayment terms; the same is repayable on demand. The directors have included such loan under the heading 'Cash and Cash Equivalents'. They have reasoned that since such loan, which is advanced to one of the directors, is repayable on demand, it is readily convertible to cash. Further the directors opine that such presentation should not be a problem even under the Ind AS Framework as financial statements are essentially prepared in accordance with accounting policies which is the choice of the company, and in this case, Agastya Ltd. has made a policy choice to show such loan as a cash equivalent.

Required:

Discuss the ethical and accounting implications of the above issues, referring to the relevant Ind AS wherever appropriate.

Solution

The directors have included a loan made to a director as a part of Cash and Cash Equivalents. It appears that the directors have misunderstood the definition of Cash and Cash Equivalents, believing the loan to be a cash equivalent. As per Ind AS 7, Statement of Cash Flows, cash equivalents are short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. However, the loan given to the directors is not in place to enable Agastya Ltd. to manage its short-term cash commitments, it has no fixed repayment date and the likelihood of the director defaulting is also not known. Thus, the classification as a cash equivalent is inappropriate.

Instead, the loan should be regarded as a financial asset under Ind AS 109, Financial Instruments. Further information would be required, for example is ₹ 75 lakhs fair value? It could be said that the loan will never be repaid, and accordingly could be regarded as a component of directors' remuneration, and if so, the same should be expensed and disclosed accordingly. Further, since the director is likely to fall into the category of key management personnel, related party disclosures under Ind AS 24, Related Party Disclosures are likely to be necessary.

The treatment of loan as a cash equivalent breached two fundamental qualitative characteristics prescribed in the Conceptual Framework for Financial Reporting, namely:

(i) Relevance: The information should be disclosed separately as it is relevant to users.

(ii) Faithful representation: Information must be complete, neutral and free from error. Clearly, this will not be the case if loan to a director is shown as Cash Equivalents.

The said treatment is also violative of the Conceptual Framework's key enhancing qualitative characteristics:

(i) **Understandability**: if the loan is shown as Cash Equivalents, it masks the true nature of company's practices, thereby reducing the understandability of the financial statements to the users.

(ii) **Verifiability**: Verifiability ensures that different knowledgeable and independent observers can reach consensus that a particular depiction of a transaction / account balance is a faithful representation. Verifiability gives assurance to the users that the information faithfully represents the economic phenomena it intends to represent. The treatment given by the directors of Agastya Ltd. does not meet this benchmark as it reflects the subjective bias of the directors.

(iii) **Comparability**: For financial statements to be comparable year-on-year and with other companies, transactions must be correctly classified and presented, which is not happening here. If the cash balance of one year includes a loan to a director and the next year it does not, then you are not comparing like with like.

There is a potential conflict of interest between that of the director and that of the company, which mandates a separate disclosure as a minimum. Further, issues with compliance of section 185 of the Companies Act, 2013 would arise, which is why probably the directors want to hide such loan balance under cash equivalents. Directors are responsible for the financial statements required by statute, and thus it is their responsibility to put right any errors that result in the financial statements not complying with Ind AS. The directors are also legally bound to maintain proper accounting records and recording a loan as cash equivalent clashes with this requirement.

By masking the nature of the transaction, it is possible that the directors are motivated by personal interest and are thus failing in their duty to act honestly and ethically. If one transaction is misleading, it casts doubt on the credibility of the financial statements as a whole.

As a consultant, it becomes his responsibility to get the financial statements rectified and guide the directors about the principles enunciated in Ind AS and the correct treatment in accordance with the

standards. Otherwise, he will be subject to professional misconduct under Clause 6 and 7 of Part I of Second Schedule of the Chartered Accountants Act, 1949.

Clause 6 of Part I of the Second Schedule of the Chartered Accountants Act 1949 states that a CA is guilty of professional misconduct when he fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity.

The Clause 7, states that a Chartered Accountant is guilty of professional misconduct when he does not exercise due diligence or is grossly negligent in the conduct of his professional duties.

Illustration 9:

As at 31 March 20X4, Mitra Ltd. had a plan to dispose off its 75% subsidiary Dosti Ltd. This plan had been approved by the board and was reported in the media as well as to the Stock Exchange where Mitra Ltd. was listed. It is expected that Jaya Ltd., the non-controlling shareholder in Dosti Ltd. holding 25% stake, will acquire the 75% equity interest as well. The sale is expected to be completed by October 20X4. Dosti Ltd. is expected to have substantial trading losses in the period up to the sale. Mr. X, a chartered accountant, who is an employee in the finance department of Mitra Ltd., wishes to show Dosti Ltd. as held for sale in the financial statements and to create a restructuring provision to include the expected costs of disposal and future trading losses. However, the Chief Operating Officer (COO) does not wish Dosti Ltd. to be categorized as held for sale nor to provide for the expected losses. The COO is concerned as to how this may affect the sales and would surely result in bonus targets not being met. He has argued that as the management, it is his duty to secure a high sales price to maximize the return for shareholders of Mitra Ltd. He has also hinted that Mr. X's job could be at stake if such a provision were to be made in the financial statements. The expected costs from the sale are as follows:

Future Trading Losses:	₹ 20 crores
Various legal costs of sale	₹ 1.5 crores
Redundancy costs for Dosti Ltd.'s employees	₹ 4 crores
Impairment losses on Property, Plant and Equipment	₹ 7 crores

Required:

(a) Discuss the accounting treatment which Mitra Ltd. should adopt to address the issue above for the financial statements.

(b) Discuss the ethical issues which may arise in the above scenario, including any actions which Mitra Ltd. and Mr. X should take.

Solution

(a) In terms of Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations, an entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except in specific cases as permitted by the Standard, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The probability of required approvals (as per the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable.

An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale when the criteria set out above are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

Based on the provisions highlighted above, the disposal of Dosti Ltd. appears to meet the criteria of held for sale. Jaya Ltd. is the probable acquirer, and the sale is highly probable, expected to be completed seven months after the year end, well within the 12-months criteria highlighted above. Accordingly, Dosti Ltd. should be treated as a disposal group, since a single equity transaction is the most likely form of disposal. In case Dosti Ltd. is deemed to be a separate major component of business or geographical area of the group, the losses of the group should be presented separately as a discontinued operation within the Financial Statements of Mitra Ltd.

In terms of Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations, an entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The carrying amount of Dosti Ltd. (i.e., the subsidiary of Mitra Ltd.) comprises of the net assets and goodwill less the non-controlling interest. The impairment loss recognised to reduce Dosti Ltd. to fair value less costs to sell should be allocated first to goodwill and then on a pro-rata basis across the other non-current assets of the Company.

The Chief Operating Officer (COO) is incorrect to exclude any form of restructuring provision in the Financial Statements. Since the disposal is communicated to the media as well as the Stock Exchange, a constructive obligation exists. However, ongoing costs of business should not be provided for, only directly attributable costs of restructuring should be provided. Future operating losses should be excluded as no obligating event has arisen, and no provision is required for impairment losses of Property, Plant and Equipment as it is already considered in the remeasurement to fair value less costs to sell. Thus, a provision is required for ₹ 5.5 crores (₹ 1.5 crores + ₹ 4 crores).

(b) **Ethics**

Accountants have a duty to ensure that the financial statements are fair, transparent and comply with the accounting standards. Mr. X have committed several mistakes. In particular, he was unaware of which costs should be included within a restructuring provision and has failed to recognise that there is no obligating event in relation to future operating losses. A chartered accountant is expected to carry his work with due care and attention for lending credibility to the financial statements. Accordingly, he must update his knowledge and ensure that work is carried out in accordance with relevant ethical and professional standards. Failure to do so would be a breach of professional competence. Accordingly, Mr. X must ensure that this issue is addressed, for example by attending regular training and professional development courses.

It appears that the chief operating officer is looking for means to manipulate the financial statements for meeting the bonus targets. Neither is he is willing to reduce the profits of the group by applying held for sale criteria in respect of Dosti Ltd. nor is he willing to create appropriate restructuring provisions. Both the adjustment which comply with the requirements of Ind AS will result in reduction of profits. His argument that the management has a duty to maximize the returns for the shareholders is true, but such maximization must not be achieved at the cost of objective and faithful representation of the performance of the Company. In the given case, it appears that the chief operating officer is motivated by bonus targets under the garb of maximizing returns for the shareholders, thereby resulting in misrepresentation of the results of the group.

Further, by threatening to dismiss Mr. X, the COO has acted unethically. Threatening and intimidating behaviour is unacceptable and against all ethical principles. This has given rise to an ethical dilemma for Mr. X. He has a duty to produce financial statements but doing so in a fair manner could result in a loss of job for him. The chartered accountant should approach the chief operating officer and remind him the basic ethical principles and communicate him to do the necessary adjustments in the accounts so that they are fair and objective.

In case Mr. X, falls under undue influence of COO and applies the incorrect accounting treatment, he will be subject to professional misconduct under Clause 1 of Part II of Second Schedule of the Chartered Accountants Act, 1949. The Clause 1 states that a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, for contravening the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council. As per the Guidelines issued by the Council, a member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

Illustration 10

Shastra Ltd. desires to upgrade its production process since the directors believe that technology-led production is the only way the company can remain competitive. On 1 April 20X5, the company entered into a property lease arrangement in order to obtain tax benefits. However, the draft financial statements do not show a lease asset or a lease liability as on date.

A new financial controller, CA. Sunil Raghavan, joined Shastra Ltd. before the financial year ending 31 March 20X6 and was engaged in the review of financial statements to prepare for the upcoming audit and to begin making a loan application to finance the new technology. CA. Sunil Raghavan believes that the lease arrangement should be recognized in the Balance Sheet. However, the Managing Director, Ms. Anusha Shrivastava, an MBA (Finance), strongly disagrees. She wishes to charge the lease rentals to the Statement of Profit or Loss. Her opinion is based on the understanding that the lease arrangement is merely a monthly rental payment, without any corresponding asset or obligation, since there is no 'invoice' for transfer of asset to Shastra Ltd. Her disagreement also stems from the fact that showing a lease obligation in the Financial Statements would impact the gearing ratio of the company, which could have an adverse impact on the upcoming loan application. Ms. Anusha has made it clear to CA. Sunil Raghavan that at stake is not only the loan application but also his future prospects at Shastra Ltd.

Required:

Discuss the potential ethical conflicts which may arise in the above scenario and the ethical principles which would guide how the financial controller should respond to the situation.

Solution:

As per Ind AS 116, Leases, at the inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In accordance with the above definition, Shastra Ltd. must recognise a right-of-use asset representing the property and a corresponding lease liability for the obligation to make lease payments. At the commencement date, the right-of-use asset so recognised would include:

- The amount of the initial measurement of lease liability;
- Any initial direct costs;
- Any costs to be incurred for dismantling or removing the underlying asset or restoring the site at the end of the lease term.

The liability for the lease obligation would be measured as the present value of future lease payments including payments that would be made towards any residual value guarantee, discounted using the rate implicit in the lease or the incremental rate of borrowing of the lessor, whichever is available.

The fact that there is no 'invoice' evidencing transfer of the asset cannot be a reason to avoid recognition of the right-of-use asset. In fact, what is being recognised is not an asset, since ownership rights are not transferred. What is sought to be recognised under Ind AS 116 is the right to use the asset in the manner required by the lessee Shastra Ltd. Further, since the lease represents an obligation to pay lease rentals in the future, a corresponding lease liability should be recognised. Not recognising the right-of-use asset or lease liability would not only be a violation of Ind AS 116, Leases, but would also be an incorrect presentation of the financial position, which is critical given that Shastra Ltd. is interested in taking a loan for its operations.

Ethical issues:

The managing director's threat to the financial controller results in an ethical dilemma for the financial controller. This pressure is greater because the financial controller is new.

Threats to fundamental principles

The fact that the position of the financial controller has been threatened if the treatment suggested by the managing director is not followed indicates that there is an intimidation threat to the fundamental principles of objectivity and integrity.

Further, as the manging director has flagged the risk that the company may not obtain loan financing if the lease obligation is recorded in the balance sheet, there is an advocacy threat because the financial controller may be compelled to follow an incorrect treatment to maximise the chances of obtaining the loan. This pressure again is greater because the financial controller is new.

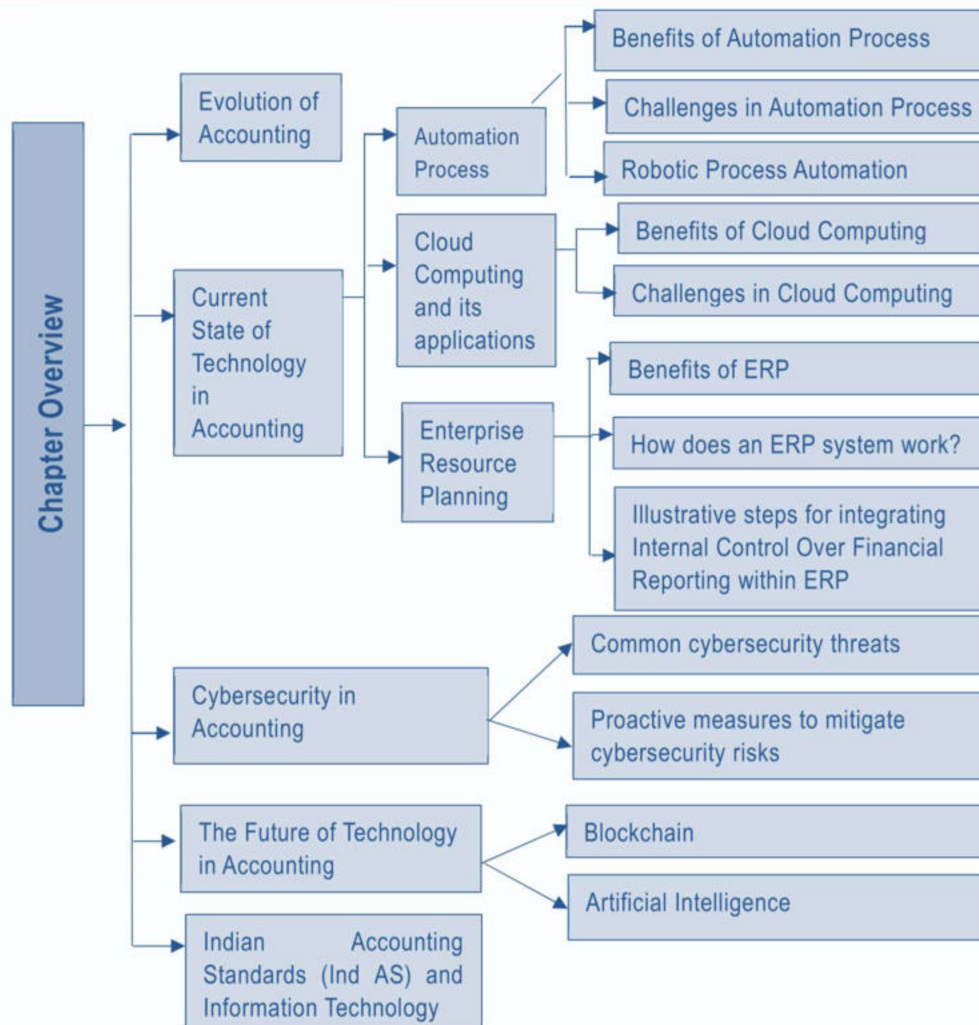
Professional competence

When preparing the financial statements, the financial controller should ensure that the fundamental principle of professional competence should be followed, which requires that accounts should be prepared in compliance with Ind AS.

Thus, since the arrangement meets the Ind AS 116 criteria for a lease, the right-of-use asset and a corresponding lease liability should be recognised, as otherwise the liabilities of Shastra Ltd. would be understated. The ICAI Code of Ethics and Conduct sets boundaries beyond which accountants should not act. If the managing director refuses application of Ind AS 116, Leases, the financial controller should disclose this to the appropriate internal governance authority, and thus feel confident that his actions were ethical.

If the financial controller were to bend under pressure and accept the managing director’s proposed treatment, this would contravene Ind AS 116 and breach the fundamental principle of professional competence. In such a case, he would be subject to professional misconduct under Clause 1 of Part II of Second Schedule of the Chartered Accountants Act, 1949, which states that a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council. As per the Guidelines issued by the Council, a member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

ACCOUNTING AND TECHNOLOGY



1. THE CURRENT STATE OF TECHNOLOGY IN ACCOUNTING

- It discusses various technologies used in accounting and their impact on profession, including automation, cloud computing, and artificial intelligence

I) AUTOMATION PROCESS

- Automation is use of software and other tools to automate manual processes, making them faster and more accurate.

A) Benefits of Automation Process

1) **Streamlining Data Entry:** Automation tools, such as optical character recognition (OCR) or barcode recognition technology, can help to automate the entry of data from source

documents such as receipts and invoices. This can reduce the amount of time and effort required for manual data entry, as well as minimizing the potential for human error.

2) Accelerating Data Processing: Automation can help to process large amounts of data / large volumes of transactions more quickly and accurately than manual methods. For example, software can automatically categorize transactions into the appropriate accounts, calculate tax amounts, and generate financial statements, among other tasks.

3) Enhancing Accuracy: Automation can help to reduce errors and discrepancies in accounting processes. By automating tasks such as data entry and calculations, businesses can minimize the risk of errors caused by human error, improving the accuracy and reliability of their financial data.

4) Improving Decision-Making: Automation can provide real-time insights into financial data, enabling businesses to make informed decisions more quickly. With automated reporting, the time spent on routine tasks is greatly minimized, enabling businesses to gain deeper insights into their financial performance, identify trends and patterns, and adjust their strategies accordingly.

5) Saving Time and Money: Automation reduces the amount of time and resources required to perform manual tasks such as data entry and reconciliations. This results in businesses saving on staffing costs and increases productivity and enabling accountants to focus on higher-level tasks such as analysis and planning.

6) Facilitating Compliance: Automation helps business to stay compliant with regulations and standards by ensuring accounting practices meet the necessary requirements. As seen above, automation ensures accurate data for the purposes of return filing. Further, in case the systems are so programmed, reporting tools can generate financial statements that meet the criteria of Ind AS or Indian GAAP as the case may be. This would ensure minimizing the risk of non-compliance and potential penalties.

B) Challenges in Automation Process

- Automation also comes with its own set of potential drawbacks and challenges:

1) Need for ongoing training and education to keep up with latest technology.
2) Risk of data breaches & cyber-attacks, which can compromise the security and confidentiality of financial data.
3) Potential loss of jobs. This can be mitigated by ensuring training to workforce to remain

updated with technology.

C) Robotic Process Automation

- Robotic Process Automation (RPA) is an emerging technology that revolutionizes financial reporting processes. RPA utilizes software robots or "bots" to automate manual and repetitive tasks in financial data processing, analysis, and reporting.
- By mimicking human interactions with digital systems, RPA bots can extract and consolidate data, perform calculations, generate reports, and ensure compliance with accounting standards.
- The adoption of RPA in financial reporting improves accuracy, enhances efficiency, and frees up time.
- Moreover, RPA enables organizations to achieve timely reporting, cost savings, and increased data integrity, ultimately leading to more reliable and insightful financial information.

II) CLOUD COMPUTING

- Cloud computing refers to the delivery of computing services over the internet. It allows accountants to access their data and software from any device with an internet connection.

A) Common Applications / Cases of Cloud Computing

1) Cloud Storage: Services like Dropbox, Google Drive, and Microsoft OneDrive offer cloud storage solutions that allow users to store and access their files and data from anywhere with an internet connection. Users can save documents, photos, videos, and other files in the cloud and synchronize them across multiple devices.
2) Software as a Service (SaaS): SaaS platforms provide cloud-based software applications that users can access and utilize via the internet. Examples include Salesforce for customer relationship management (CRM), Slack for team collaboration, and QuickBooks Online for accounting and financial management.
3) Infrastructure as a Service (IaaS): IaaS providers offer virtualized computing resources, including servers, storage, and networking infrastructure, on a pay-as-you-go basis. Examples include Amazon Web Services (AWS), Microsoft Azure, and Google Cloud Platform. These platforms allow businesses to scale their IT infrastructure based on demand without the need for physical hardware.

4) **Platform as a Service (PaaS):** PaaS providers offer cloud-based platforms that enable developers to build, deploy, and manage applications without the complexity of infrastructure management. Examples include Microsoft Azure App Service, and Google App Engine.

5) **Cloud-based Communication and Collaboration:** Applications like Microsoft Teams, Google Workspace (formerly G Suite), and Zoom provide cloud-based communication and collaboration tools that facilitate real-time messaging, video conferencing, file sharing, and project management.

6) **Cloud-based E-commerce:** Few platforms enable businesses to set up and manage online stores using cloud infrastructure. These platforms provide features like product catalogues, payment processing, inventory management, and customer analytics.

7) **Big Data Analytics:** Cloud computing enables organizations to process and analyze large volumes of data efficiently. Services like Amazon Redshift, Google BigQuery, and Microsoft Azure Data Lake Analytics provide scalable infrastructure for big data processing and analytics, empowering businesses to derive valuable insights from their data.

B) Benefits of Cloud Computing

- Following are some of the ways in which Cloud Computing has positively impacted accounting:

1) **Improved accessibility:** Cloud-based accounting software allows users to access their financial data from any location with an internet connection. This has increased accessibility and flexibility for accountants and business owners, allowing them to work remotely and collaborate in real-time.

2) **Enhanced security:** Cloud-based accounting software providers typically offer advanced security features such as encryption, firewalls, and multi-factor authentication helping in the protection of sensitive financial data from cyber threats and data breaches.

3) **Increased scalability:** Cloud-based accounting software allows businesses to easily scale up or down based on their changing needs. As a business grows, it can easily add new users and features without having to invest in additional hardware or software.

4) **Reduced costs:** Cloud-based accounting software typically requires less upfront investment in hardware and software, as well as ongoing maintenance costs. This can help businesses save money on IT expenses and redirect those funds to other areas of the business. For example,

the costs of installing Microsoft Office Suite on a laptop or desktop is far more expensive than subscribing to the Office 365 Suite, which is a web-based download. Further, the web-based download also provides the options of continuous free updates unlike its Office Suite offline counterpart.

5) Streamlined collaboration: Cloud-based accounting software allows multiple users to collaborate in real-time, reducing the need for manual data entry and communication. This can help to streamline workflows and reduce errors caused by miscommunication.
6) Improved reporting and analytics: Cloud-based accounting software often includes powerful reporting and analytics tools that allow businesses to gain deeper insights into their financial performance. This can help businesses make more informed decisions and identify areas for improvement.

C) Challenges in Cloud Computing

- Following are the potential challenges which may emerge in cloud computing:

1) Since cloud-based software are completely online, they could be prone to hackers who could 'steal' data or passwords or compromise the integrity of the processed data, thereby causing disruptions to the businesses.
2) Strong net connectivity is a must for cloud-computing to be a success.

III) Enterprise Resource Planning (ERP)

- ERP is used for managing day-to-day business activities like procurement, project management, accounting, risk management, compliance, and supply chain operations.
- ERP systems connects and corelates a multitude of business processes and enable the flow of data between them.
- ERP are designed around a common database. These are then interconnected with business processes driven by workflows across business departments (e.g. finance, human resources, engineering, marketing, and operations), connecting systems and people who use them.
- Data integrity is assured for every task performed throughout the organization

A) Benefits of ERP

1) Improved business insight from real-time information generated by reports
2) Less operational costs through streamlined business processes and best practices

3) Enhanced collaboration of users sharing data in contracts, requisitions, and purchase orders
4) Better efficiency through a common user experience across many business functions and well-defined business processes
5) Consistent infrastructure from the back office to the front office
6) Increased user-adoption rates from a common user experience and design
7) Reduction in risk through improved data integrity and financial controls
8) Less management and operational costs through uniform and integrated systems

B) How does an ERP system work?

- ERP systems work by using a defined, standard data structure. Information entered by one department is immediately available to authorized users across business.
- Real-time data is then interlinked into business processes and workflows across departments. Managers check if one location is doing significantly better than another site and can figure out why. Finance department can use ERP for comparison of sales, profits and other financial data to help executives in understanding the performance of the organisation and also for setting new targets.
- ERP systems deliver the most value when a company has modules for each major business function and ensures timely and accurate data entry.

C) Illustrative steps for integrating Internal Control Over Financial Reporting (ICOFR) with an ERP

- ICOFR with an ERP offers key advantage of streamlining financial processes, ensuring data integrity, and promoting effective internal controls. By automating and standardizing procedures, ERP system reduces manual effort and minimizes risk of errors. It enables segregation of duties, real-time visibility into financial data, comprehensive audit trails, enhanced reporting capabilities, and proactive risk mitigation. This integration strengthens financial control, accuracy, and compliance, ultimately enabling better decision-making and reducing the likelihood of fraud or errors.

The following are illustrative steps for integrating ICOFR within ERP:

1) Verify that process includes identification and updating of internal & external financial reporting requirements and deadlines.

The finance team regularly reviews the regulatory guidelines and reporting requirements set by the regulators and ensures that the ERP system's financial closing process is aligned with these requirements. Examples are listed companies to declare quarterly results as per LODR, filing of periodical returns under GST, Income Tax, Labour laws, etc.,

2) Review the documented process to ensure it aligns with organization's financial reporting policies & regulatory guidelines.

The finance team reviews documented process in ERP and cross-checks it with organization's financial reporting policies and regulatory guidelines to ensure consistency. Examples are accounting polices relating to Property plant and equipment, depreciation, Inventory etc.,

3) Use ERP system's change management functionality to track & validate changes made to the financial closing & reporting process.

When changes are made to the financial closing and reporting process, the finance team uses the ERP system's change management functionality to track and record these changes. They review system logs and audit trail for changes made to the financial closing and reporting process are as per defined roles and responsibilities for change control, including change initiators, approvers, and change management teams.

4) Verify that changes to the process are authorized by designated individuals with appropriate authority using system logs.

Finance team reviews system logs, audit trail and confirms that any changes to financial closing & reporting process were authorized by designated individuals with the appropriate authority, such as the CFO or finance manager.

5) Review the change requests, approvals, and documentation within the ERP system to ensure proper authorization & validation of process changes.

6) Validate that roles & responsibilities are clearly defined within ERP system by reviewing users access matrix configurations & system logs.

Review system logs and audit trail with Responsibility assignment matrix (RAM). RAM is a tool used in project management and (ERP) implementations to define and communicate the roles and responsibilities of individuals or teams involved in a project or process. The matrix clarifies who is responsible, accountable, consulted, and informed for each task or deliverable within the ERP implementation.

7) Assess qualifications & training records of individuals assigned to financial reporting roles

within the ERP system.

8) Validate that individuals responsible for financial reporting have necessary understanding of organization's operations and appropriate accounting knowledge.

The finance team validates that individuals responsible for financial reporting within the ERP system have a comprehensive understanding of the organization's operations and possess appropriate accounting knowledge. For example, verify HR records of those involved in accounting have appropriate knowledge.

9) Validate that decisions on alternative accounting treatments for significant events or transactions are documented & approved by management.

Reviewing the Journal vouchers listing by identifying non routine transactions. Review the system of Standardizing voucher types. This involves defining a set of predefined templates or formats for different types of journal entries to ensure consistency and accuracy in recording financial data.

10) Review ERP system for documentation of accounting treatment decisions, including approvals and communication to the audit committee.

Documentation of accounting treatment decisions refers to the process of recording and maintaining comprehensive documentation regarding the rationale, analysis, and conclusions related to accounting treatments chosen for specific transactions or events like recognising long term construction projects.

11) Review ERP system's user administration functionality to ensure appropriate individuals have access to financial reporting process.

Review system logs and audit trail with Responsibility assignment matrix (RAM).

12) Review whether proper KYC validation controls are in place for creating account masters & review the process for identifying related party transactions.

Separate ledger coding for related parties for auto tabulating transactions to present as per Schedule III of Companies Act, 2013.

13) Validate that ERP captures & documents appropriate accounting treatment for each non-routine event, transaction, and account balance by reviewing Journal Vouchers listing.

14) Use ERP system's audit trail & reporting capabilities to validate that all postings have occurred in correct accounting period.

In an ERP system, the accounting date and transaction date are captured and stored as part of the transactional data. They are used in various processes, such as journal entry

creation, financial statement generation, period-end closing activities, and audit trails. Understanding the distinction between these dates is important for accurate financial reporting, compliance, and analysis of business transactions within the ERP system.

15) Review system's controls for preventing backdating or unauthorized adjustments to postings by reviewing posting date & transactions date of entries.

2. CYBERSECURITY IN ACCOUNTING

- Organizations have legal & ethical obligations to disclose cybersecurity incidents with financial implications.
- A cybersecurity breach can have significant consequences, including financial losses, reputational damage, and loss of sensitive client data. In all cases, aim of the attack would be either stealing sensitive financial data or disrupting operations or demand ransom money.

A) Common cybersecurity threats

1) Phishing attacks: Phishing attacks are a common cybersecurity threat that involves tricking users into clicking on malicious links or providing sensitive information.
2) Malware attacks: Malware attacks involve infecting computers or networks with malicious software that can steal data or disrupt operations.
3) Ransomware attacks: Ransomware attacks involve encrypting files or locking users out of systems and demanding a ransom payment in exchange for restoring access.
4) Insider threats: Insider threats involve malicious actions by employees or other insiders who have access to sensitive data.
5) Denial of Service (DoS) attacks: DoS attacks involve overwhelming a system or network with traffic to disrupt operations.
6) Supply chain attacks: Supply chain attacks involve compromising third-party software or hardware to gain access to a system or network.

B) Proactive measures to mitigate cybersecurity risks

1) Password management: Strong passwords are critical for protecting sensitive financial data. Accounting professionals should ensure that all passwords are complex and changed

regularly.

2) Encryption: Encryption can be used to protect sensitive data during transmission and storage. The IT Team of an organization should ensure that all sensitive data is encrypted using appropriate methods.

3) Access control: Access control is critical for preventing unauthorized access to financial data. Accounting professionals should ensure that access to sensitive data is limited to authorized personnel and that appropriate access controls are in place. The access controls should be continuously reviewed and updated based on any changes in the management or employee structure.

4) Network security: Network security is critical for protecting financial data from cyberattacks. It should be ensured that firewalls and other security measures are in place to prevent unauthorized access to the network.

5) Employee training: Employee training is critical for ensuring that all staff members are aware of the importance of cybersecurity and understand how to protect sensitive financial data.

6) Data backup: Regular data backups are critical for ensuring that financial data is not lost in the event of a cyberattack. Accounting professionals should ensure that data backups are performed regularly and that backups are stored securely.

7) Incident response planning: Accounting professionals should have a clear incident response plan in place in the event of a cyberattack. This plan should include procedures for detecting, containing, and mitigating the impact of a cyberattack.

3. THE FUTURE OF TECHNOLOGY IN ACCOUNTING

I) BLOCKCHAIN

- Blockchain is a decentralized & transparent ledger that enables secure and immutable transactions. Unlike traditional centralized systems, blockchain offers a distributed network where information is shared and verified by multiple participants, eliminating the need for intermediaries and enhancing data integrity.
- From a financial statement preparation perspective, blockchain holds immense potential to streamline processes, enhance transparency, and improve accuracy & reliability of financial reporting.

A) Key impacts of blockchain on financial reporting

1) Enhanced Transparency: Blockchain technology provides a decentralized and immutable ledger, where transactions are recorded and stored in a transparent and tamper-proof manner. This increased transparency ensures that financial data is accurately captured and can be easily audited, promoting trust and reliability in financial reporting.

2) Improved Data Integrity: Blockchain's distributed ledger ensures that each transaction is verified and encrypted, preventing unauthorized modifications or tampering. This feature enhances data integrity, reducing the risk of fraudulent activities and errors in financial reporting.

3) Streamlined Audit Processes: Blockchain technology enables real-time access to financial data, eliminating the need for time-consuming and manual data reconciliation processes. Auditors can directly access the blockchain ledger to verify transactions, reducing audit time and enhancing efficiency in financial reporting.

4) Enhanced Security: Blockchain incorporates advanced cryptographic algorithms, making it highly secure against unauthorized access or data breaches. Financial data stored on the blockchain is encrypted and protected, minimizing the risk of data manipulation or unauthorized disclosure, thus strengthening the security of financial reporting.

5) Simplified Reconciliation: Blockchain's decentralized ledger eliminates the need for reconciling multiple versions of data across different systems. With a single shared source of truth, financial reporting processes become more streamlined, reducing reconciliation efforts and potential errors.

6) Cost Reduction: By eliminating intermediaries and central authorities, blockchain reduces the costs associated with traditional financial reporting processes. It eliminates the need for third-party verification and reconciliation, leading to cost savings for organizations.

7) Enhanced Audit Trail: Blockchain maintains a comprehensive and immutable audit trail of all transactions, providing a transparent and traceable record of financial activities. This audit trail simplifies the identification and investigation of any irregularities or discrepancies, improving the accuracy and reliability of financial reporting.

8) Real-time Financial Reporting: With blockchain's real-time data availability and consensus mechanism, financial reporting can be performed more frequently and with greater accuracy. Organizations can generate up-to-date financial statements, enabling stakeholders to make informed decisions based on the most current financial information.

II) ARTIFICIAL INTELLIGENCE (AI)

- AI refers to simulation of human intelligence in machines, enabling them to perform tasks that would typically require human intervention.
- Apart from the aspects of automation, accuracy, fraud detection and cost savings, the most important feature is enabling predictive analytics.
- AI can be used to analyze large amounts of data & make predictions about future trends, which can be useful for forecasting financial performance and identifying potential risks.
- Artificial Intelligence (AI) and Machine Learning (ML) are technologies that enable computers to learn and perform tasks without being explicitly programmed to do so. AI and ML enable accounting professionals to automate routine tasks, improve decision-making processes, and reduce errors.

A) Benefits of AI and ML when used in accounting

1) Automated Data Entry: AI & ML algorithms can process and extract data from invoices, receipts and other documents, reducing need for manual data entry. AI & ML algorithms can also review bank statements and pass entries in system, followed by bank reconciliation, thereby automating entire process, saving time & improving efficiency.
2) Fraud Detection: AI can help detect fraud by analysing large amounts of data and identifying patterns that may indicate fraudulent activity.
3) Financial Forecasting: ML can be used to develop predictive models that can forecast financial performance based on historical data, market trends, and other factors.
4) Accounting Automation: AI can analyse financial statements and other data to identify errors or inconsistencies, making accounting more efficient and accurate.
5) Tax Compliance: AI can help automate tax compliance by analysing financial data and identifying tax obligations, ensuring that businesses remain compliant with tax regulations.

B) Challenges with Artificial Intelligence

- Along with the advantages of AI and ML, there are following potential challenges and risks associated with the adoption of AI and machine learning like:

1) Data privacy
2) Security concerns

3) Technical complexity
4) Need to train employees in an organization to extract capabilities of AI from the system

4. INDIAN ACCOUNTING STANDARDS (IND AS) AND INFORMATION TECHNOLOGY

- Ind AS consists of specific principles for various accounting topics, such as revenue recognition, leasing, financial instruments, employee benefits, consolidation, and many more. These principles provide detailed guidance on how to account for transactions in accordance with principles of measurement & recognition.
- For implementation of Ind AS, technology will play key role in automating process. However, role of technology for such processing is directly related to configuration at Account level with rule-based validations.
- Configuration implements pre-defined validation rules within system to identify discrepancies or noncompliance with Ind AS.
- If the account level configuration is not done properly, then the next phase of using technology will be after generating the reports. In such scenario, use of technology is about applications such as Microsoft Excel or Google Sheets which can be used to perform such validations from Ind AS point of view and then generate the report. This is purely dependent on human intelligence rather than on technology, except for the cases where AI is involved with proper training using machine learning.

"Don't let yesterday take up too much of today"

ACCOUNTING & TECHNOLOGY

Illustration 1

A listed company's financial transactions are carried out in ERP. Following financial reporting weaknesses were observed during internal control over financial reporting:

1. There is no appropriate documented process with respect to financial closing and reporting, including the identification and updating of internal and external financial reporting requirements and deadlines.
2. Changes made to the financial closing and reporting process are not valid and properly authorised.
3. Roles and responsibilities in the financial closing and reporting process are not clearly defined, documented, updated, and not communicated to appropriate departments and individuals on a timely basis.
4. Individuals in financial reporting roles do not have the necessary understanding of the organisation's operations and appropriate accounting knowledge to properly perform their assigned responsibilities.
5. When alternative accounting treatments are available for a significant event or transaction, the decisions on which treatments to select are not documented, approved by management, and are not communicated to the audit committee.
6. General policies are not established and documented regarding permissible overrides of existing policies and procedures for the financial closing and reporting process.
7. User profiles (on General Ledger (G/L) system) are not monitored / maintained to ensure that appropriate individuals have access to financial reporting process.
8. The appropriate accounting treatment is not specified for each non-routine event, transaction, and account balance, including those requiring the use of accounting estimates and judgment in the selection and application of accounting principles.
9. Relevant, sufficient, and reliable data necessary to record, process, and report each non-routine event or transaction is not captured.
10. There are no procedures to ensure all postings have occurred in the correct period.
11. The application of the entity's accounting policies to each non-routine event or transaction is not performed on a timely basis and appropriately documented by knowledgeable and qualified personnel using approved methods and formats.
12. All non-routine events and transactions are not accurately processed in the appropriate accounting period.
13. There is no independent review of application of the entity's accounting policies to each non-routine event or transaction for appropriateness and absence of bias by an individual with the appropriate level of authority and experience.
14. There is no basis for significant estimates and judgments associated with each non-routine event or transaction.
15. No analysis is prepared accurately and consistently in accordance with the entity's defined financial closing process and in the appropriate accounting period.
16. All sources of information for routine and non-routine events and transactions are not identified and analysed.
17. There are no reconciliations for all significant accounts and no independent review of such reconciliation.
18. All intercompany transactions and balances are not identified, reconciled, and appropriately eliminated in consolidation in the appropriate accounting period.
19. All suspense accounts are not identified and monitored.
20. The trial balance(s) used to prepare the financial statements are not generated from the final general ledger(s).

21. All trial-balance accounts are not appropriately and consistently grouped for presentation in the financial statements for accounting periods presented.
22. There are no restrictions to access and to run transactions in the automated consolidation software which may compromise the integrity of financial data
23. All related-party events and transactions are not identified and authorised, appropriately accounted for, and disclosed in the appropriate accounting period.
24. There are no procedures to ensure all postings have occurred in the correct period.
25. Entries recorded directly to the financial statements are not valid.

Provide illustrative steps for Financial Closing and Reporting.

Solution

Following are the illustrative steps for Financial Closing and Reporting:

1. Verify that the process includes identification and updating of internal and external financial reporting requirements and deadlines.
2. Review the documented process to ensure it aligns with the organization's financial reporting policies and regulatory guidelines.
3. Use the ERP system's change management functionality to track and validate changes made to the financial closing and reporting process using system logs and audit trail.
4. Verify that changes to the process are authorized by designated individuals with appropriate authority using system logs.
5. Review the change requests, approvals, and documentation within the ERP system to ensure proper authorization and validation of process changes.
6. Validate that roles and responsibilities in the financial closing and reporting process are clearly defined within the ERP system by reviewing users access matrix configurations and system logs
7. Assess the qualifications and training records of individuals assigned to financial reporting roles within the ERP system.
8. Validate that individuals responsible for financial reporting have the necessary understanding of the organization's operations and appropriate accounting knowledge.
9. Validate that decisions on alternative accounting treatments for significant events or transactions are documented and approved by management by reviewing the Journal vouchers listing.
10. Review the ERP system for documentation of accounting treatment decisions, including approvals and communication to the audit committee.
11. Review the ERP system's user administration functionality to ensure appropriate individuals have access to the financial reporting process.
12. Review whether proper KYC validation controls in place for creating account masters and review the process for identifying related party transactions.
13. Validate that the ERP system captures and documents the appropriate accounting treatment for each non-routine event, transaction, and account balance by reviewing Journal Vouchers listing.
14. Use the ERP system's audit trail and reporting capabilities to validate that all postings have occurred in the correct accounting period reviewing accounting period configuration controls.
15. Review the system's controls for preventing backdating or unauthorized adjustments to postings by reviewing the posting date and transactions date of entries.

Illustration 2

Company XYZ is a manufacturing company that implements Ind AS 2 and wants your advice on utility of an ERP system for inventory management. They also aim to integrate ICOFR controls into their ERP system to ensure accurate inventory valuation, minimize the risk of inventory fraud, and enhance process efficiency and accordingly they need your guidance in integrating ICOFR in ERP system.

Also, advice the steps to be followed if the company cannot afford a ERP system but still want to ensure proper implementation of Ind AS 2 to the extent possible.

Solution

A. ERP System for inventory management

ERP system integrates all relevant modules, such as inventory management, production, purchasing, and cost accounting. This ensures data consistency and reduces manual errors in recording and processing transactions. Following illustrative steps may be followed to configure and enable ERP with following modules:

- ✓ Maintain an updated and accurate Bill of Materials (BOM) Management within the ERP system, specifying the components required for each control unit. This allows the system to calculate the total cost of materials accurately by considering the quantities and costs of each component.
- ✓ Implement Purchase order controls within the ERP system to manage the procurement process effectively. This includes verifying purchase requisitions, obtaining appropriate approvals, and ensuring that the correct quantities and costs of materials are recorded.
- ✓ Define appropriate costing methods within the ERP system to allocate costs to inventory accurately. The ERP system should be configured to apply the chosen costing method consistently across all inventory transactions.
- ✓ Track labour costs within the ERP system by integrating with timekeeping or attendance systems. This ensures accurate recording of the number of hours worked by production workers and enables the calculation of labour costs based on the defined hourly rate.
- ✓ Define an overhead absorption rate within the ERP system to allocate production overheads to inventory. This rate should be based on the normal level of production per month. The ERP system should apply the overhead rate consistently to all units produced during the period.
- ✓ Integrate the ERP system with the general ledger and expense allocation modules to accurately allocate non-production expenses such as factory rent, energy costs, and selling and administrative costs. This ensures that these expenses are appropriately recorded and reflected in the cost of inventory.
- ✓ Perform periodic reconciliations between the inventory records within the ERP system and physical inventory counts. This helps identify any discrepancies and ensures the accuracy of inventory valuation.
- ✓ Utilise the reporting and analytics capabilities of the ERP system to generate accurate and timely reports on inventory costs. These reports should provide detailed breakdowns of material costs, labour costs, overheads, and any other relevant cost components.

Integration of ICOFR in ERP system:

The management of company XYZ may integrate ICOFR controls in ERP system by using following points:

1. The integration of ICOFR into ERP system is configured to enforce segregation of duties within the inventory management process. For example, the system restricts the ability to initiate purchase orders, receive goods, and update inventory records to separate individuals. This segregation ensures that no single employee has the ability to manipulate inventory quantities or values without appropriate checks and balances.
2. ICOFR is incorporated by implementing access controls in the ERP system. Users are granted access to inventory-related functions based on their roles and responsibilities. For instance, only authorized personnel can modify inventory master data, update cost information, or perform inventory counts. This prevents unauthorized access and reduces the risk of data manipulation or theft.
3. To ensure proper authorization, the ERP system includes workflow approval processes for inventory transactions. For example, when a purchase requisition is raised, the system automatically routes it through predefined approval hierarchies based on transaction value or other criteria. This ensures that inventory purchases are authorized by the appropriate individuals before they are processed.
4. The company utilizes barcode or radio-frequency identification (RFID) technology to enhance inventory control and accuracy. The ERP system is integrated with barcode scanners or RFID readers, allowing real-time tracking of inventory movements. This reduces manual data entry errors and provides accurate and up-to-date inventory information within the system.

5. ICOFR requires periodic physical inventory counts to verify the accuracy of recorded inventory quantities. The ERP system supports this process by generating inventory count sheets or reports based on predefined criteria such as product categories or locations. The system can also reconcile the physical count results with the recorded quantities, highlighting any discrepancies for further investigation and adjustment.
6. Technology-driven data analytics tools can be integrated into the ERP system to identify inventory-related exceptions or anomalies. For example, the system can analyse inventory turnover ratios, slow-moving or obsolete items, or abnormal inventory cost fluctuations. These analytics help in detecting potential control weaknesses or irregularities, enabling timely action by management.
7. The ERP system can provide management dashboards or customized reports that display key inventory control indicators. These dashboards summarize information such as inventory turnover, stock levels, and valuation accuracy. They facilitate monitoring and decision-making, enabling management to assess the effectiveness of ICOFR controls and take corrective actions if needed.

B. Inventory management in the absence of efficient ERP system

In the absence of ERP system or in the absence of properly configured ERP system, the alternative procedure available is by exporting the data to a spreadsheet and perform the following steps:

1. Export the relevant data from the accounting package, including information such as quantities, costs, labour hours, and overhead expenses into a spreadsheet. Ensure that the exported data contains all the necessary details to calculate the inventory costs accurately.
2. Organize the exported data in appropriate columns. Label each column with the corresponding data, such as item codes, quantities, costs, labour hours, and overhead expenses.
3. Use the formulas to calculate the material costs for each item. Multiply the quantities of each component by their respective costs. If there are multiple components, sum up the costs of all components to get the total material cost for each item.
4. Use the formulas to calculate the labour costs for each item. Multiply the labour hours for each item by the defined hourly rate to obtain the labour cost.
5. Determine the overhead absorption rate based on the normal level of production per month. Multiply the rate by the total labour hours to calculate the total overhead cost. Divide the overhead cost by the total quantity of items produced to get the overhead cost per item.
6. If there are non-production expenses such as rent, energy costs, or administrative costs, allocate them to each item using an appropriate method. This can be based on quantities, labour hours, or other relevant factors. Apply formulas to distribute the expenses accordingly.
7. Sum up the material costs, labour costs, overhead costs, and allocated non-production expenses for each item to obtain the total inventory cost.
8. If you have physical inventory counts, compare the calculated inventory costs in spreadsheet with the physical counts. Identify any discrepancies and investigate the causes. Adjust the inventory costs as necessary to reconcile them with the physical counts.
9. Create reports in spreadsheet that provide a breakdown of the inventory costs for each item. Include material costs, labour costs, overhead costs, and allocated non-production expenses. Use formatting and charts to present the information clearly.

Illustration 3

Company Z is engaged in the business of importing oil seeds for further processing as well as trading purposes. It enters into the following types of contracts as on 1st October 20X1:

Particulars	Contract 1	Contract 2	Contract 3
Nature	of Contract Import of oil seeds from a foreign supplier	Purchase of oil seeds from a domestic producer / supplier	Contract to sell oil seeds on the commodity exchange
Quantity and rate	100 MT at USD 400 per MT to be delivered as on 31st March 20X2	50 MT at ₹ 30,000 per MT to be delivered as on 31st January 20X2	50 MT at USD 450 per MT, maturing as on 15th January 20X2

Net settlement clause included in the contract	Yes	Yes	Yes
Net settlement in practice for similar contracts	There have also been several instances of the oil seeds being sold prior to or shortly after taking delivery. These instances of net settlement constitute approximately 30 per cent of the value of total import contracts.	Yes – company Z has net settled some of the domestic purchase contracts. However, these instances constitute only 1 per cent of the total domestic purchase contracts in value. The remaining contracts are settled by taking delivery of oil seeds which are used for further processing.	Yes – these contracts are required to be net settled with the exchange on the maturity date. Company Z enters into these types of derivative contracts to hedge the risks on its domestic oil seeds purchase contracts

Company Z wants to determine if the contracts entered into for purchase and sale of oil seeds are derivatives within the scope of Ind AS 109 or are executory contracts outside the scope of Ind AS 109. Though the Company Z is using an ERP accounting package it is not properly configured to provide the required reports for above said decision making. Therefore, Company Z requires your advice on whether such process of determining the nature of contracts is possible through use of external sources of technology.

Solution

Yes, it is possible by extracting the data from the accounting package or by connecting to the database of the accounting package.

For example, the same can be done by connecting the spreadsheet with database through ODBC connectivity or by extracting the data from accounting package into a spreadsheet. In case the data is being extracted from accounting package, the following steps may be followed:

1. Identify the relevant data fields in the accounting package that contain the contract information, such as contract particulars, quantities, rates, and settlement details.
2. Export the required data from the accounting package in a compatible format (e.g., CSV, Excel, or other supported formats).
3. Open the exported data in Microsoft Excel.
4. Clean the data by removing any unnecessary or irrelevant columns and rows.
5. Ensure that the data is properly formatted and aligned for further analysis.
6. Define the rules or criteria for categorizing the contracts as derivative or executory based on the requirements of Ind AS 109.
7. Establish conditions using Excel formulas or logical functions to evaluate the contract data.
8. Apply the defined rules or criteria to the contract data using Excel formulas or logical functions.
9. Use functions such as IF, AND, OR, or VLOOKUP to evaluate the conditions and determine the nature of each contract.
10. Create additional columns in Excel to categorize the contracts based on the analysis results.
11. Assign appropriate labels or values to indicate whether a contract is a derivative or an executory contract.

Illustration 4

An entity provides broadband services to its customers along with voice call service. Customer buys modem from the entity. However, customer can also get the connection from the entity and modem from any other vendor. The installation activity requires limited effort and the cost involved is almost insignificant. It has various plans where it provides either broadband services or voice call services or both.

Comment on how to identify whether the performance obligations under the contract is distinct by using an automated process?

Solution

To identify the performance obligations under the contract and determine if they are distinct, an automated process can be implemented using technology. The following steps can be taken:

(a) Analyze the clauses in the contract related to the services provided (broadband services, voice call services, modem sales).

(b) Each clause should be codified using appropriate parameters or tags to capture the relevant information.

(c) Assign Boolean values (0 or 1) to each parameter or tag in the codified clauses.

(d) Use "0" to represent "No" and "1" to represent "Yes" for each parameter.

(e) Define the criteria for evaluating the performance obligations based on the parameters and their Boolean values.

(f) Consider factors such as the type of service involved, benefits derived by the customer, and promises made in the contract regarding the transfer of goods or services.

(g) Develop an automated algorithm or script that evaluates the Boolean values of the parameters according to the defined criteria.

(h) Calculate scores or weights for each parameter based on their significance in determining performance obligations.

(i) Utilize the scores or weights assigned to the parameters to determine if the performance obligations are distinct.

(j) If the total score exceeds a certain threshold, consider it a separate performance obligation.

The automated process should flag and identify these distinct performance obligations based on the evaluation results.

Illustration 5

T Ltd is engaged in transport sector, running a fleet of buses at different routes. T Ltd has identified 3 operating segments:

- ✓ Segment 1: Local Route
- ✓ Segment 2: Inter-city Route
- ✓ Segment 3: Contract Hiring

The characteristics of each segment are as under:

Segment 1: The local transport authority awards the contract to ply the buses at different routes for passengers. These contracts are awarded following a competitive tender process; the ticket price paid by passengers are controlled by the local transport authority. T Ltd would charge the local transport authority on a per kilometer basis.

Segment 2: T Ltd operates buses from one city to another, prices are set by T Ltd on the basis of services provided (Deluxe, Luxury or Superior).

Segment 3: T Ltd also leases buses to schools under a long-term arrangement.

While Segment 1 has been showing significant decline in profitability, Segment 2 is performing well in respect of higher revenues and improved margins. The management of the company is not sure why is the segment information relevant for users when they should only be concerned about the returns from overall business. They would like to aggregate the Segment 1 and Segment 2 for reporting under ‘Operating Segment’.

Required

What are the steps involved to automate the process to determine whether it is appropriate to aggregate Segments 1 and 2 with reference to Ind AS 108 ‘Operating Segments’?

Answers

Following steps should be followed to automate the process to determine whether it is appropriate to aggregate Segments 1 and 2 with reference to Ind AS 108 'Operating Segments':

1. Extract the relevant financial data related to Segments 1 and 2 from your accounting system.
2. Ensure that the data includes segment-specific information such as revenue, expenses, assets, liabilities, and any other relevant metrics.
3. Define the criteria for evaluating whether the segments should be aggregated.
4. Consider factors such as the nature of the business activities, economic characteristics, customer base, pricing policies, and risks and returns associated with each segment.
5. Utilize automated analysis tools or software capable of processing large volumes of financial data.
6. Apply predefined algorithms or rules to evaluate the financial performance and characteristics of Segments 1 and 2 based on the defined criteria.
7. Conduct a comparative analysis of the financial metrics and performance indicators between Segments 1 and 2.
8. Based on the analysis and findings, evaluate whether it is appropriate to aggregate Segments 1 and 2.
9. Document the rationale behind the decision, including the analysis results and supporting evidence.
10. Use tools such as business intelligence software, data visualization platforms, or custom-built reporting modules to present the aggregated and segmented data in a meaningful way.

Illustration 6

New Way Ltd. decides to enter a new market that is currently experiencing economic difficulty and expects that in future the economy will improve. New Way Ltd. enters into an arrangement with a customer in the new region for networking products for promised consideration of ₹ 12,50,000.

At contract inception, New Way Ltd. wants to

(i) Define criteria for identifying contracts with customers, such as enforceable rights and obligations, agreement terms, and consideration.

(ii) Establish rules to link relevant transactions to specific contracts and assign unique identifiers to each contract

Required

Advice the steps to automate the process to perform the above tasks on behalf of New Way Ltd.

Answers

A contract management system may be implemented which allows to store and organize contract documents electronically. This system can help you define and capture key contract details, such as enforceable rights and obligations, agreement terms, and consideration.

Accordingly, the said contract management system shall be enabled to configure a mechanism to assign unique identifiers to each contract.

- ✓ Integrate the contract management system or accounting software with other operational systems, such as sales, CRM, or project management systems. This integration allows for the automatic capture and synchronization of contract-related data, ensuring that transactions associated with specific contracts are accurately linked.
- ✓ Assign specific tags or attributes to contracts based on the defined criteria, such as contract type, customer name, contract start and end dates, or specific service offerings, to enable efficient searching, filtering, and grouping of contracts based on various criteria.
- ✓ Use custom queries or predefined templates to extract information on the number of contracts identified, their characteristics, and the associated transactions. This provides visibility into the implementation of Ind AS 115 and helps to monitor compliance.
- ✓ In addition to the above, the following may be adopted:

- ✓ Consider utilizing OCR technology to extract relevant information automatically. OCR can convert printed or handwritten text into machine-readable format, enabling efficient extraction of contract details for further processing and analysis.
- ✓ Apply machine learning and Neuro-Linguistic Programming (NLP) techniques to analyze and extract contract data automatically. These technologies can help identify specific contract terms, clauses, or obligations, aiding in the accurate identification and classification of contracts based on predefined criteria.
- ✓ Utilize workflow automation tools to streamline the contract identification process. Establish predefined rules or triggers within your system that automatically identify new contracts based on specific criteria and assign unique identifiers. This automation reduces manual effort and ensures consistency in contract identification.

Example 1: Using RPA (Robotic Process Automation) in Financial Reporting

Let us consider XYZ Company, a group of companies that prepares consolidated financial statements in accordance with Ind AS 110. To streamline their financial reporting processes, XYZ Company decides to leverage Robotic Process Automation (RPA). In that case, the steps involved would be:

- ✓ As XYZ Company has multiple subsidiaries, each maintaining their own financial data, RPA bots are implemented to automate the process of extracting financial data from the subsidiary systems and consolidating it into the parent company's financial system.
- ✓ The bots retrieve the relevant financial information, perform necessary currency conversions, and reconcile intercompany transactions, ensuring accurate and timely consolidation.
- ✓ As per Ind AS 110, intercompany transactions need to be eliminated to avoid double counting and provide a true representation of the group's financial position. RPA bots are programmed to identify intercompany transactions within the consolidated financial data.
- ✓ The bots automatically eliminate these transactions by adjusting the corresponding accounts and generating elimination entries, simplifying the process and reducing the potential for errors.
- ✓ The bots retrieve the consolidated financial data from the parent company's financial system and apply the necessary consolidation adjustments.
- ✓ They perform calculations for non-controlling interests, equity, and comprehensive income attributable to the parent and non-controlling interests.
- ✓ The bots generate the consolidated balance sheet, income statement, statement of changes in equity, and cash flow statement, ensuring accuracy and consistency in the financial reporting process.

Example 2: Using Cloud Computing

The finance team at XYZ Company, consisting of chartered accountants and financial analysts, collaborates on the preparation of the Income Statement. They utilize cloud-based collaboration tools, such as Microsoft Teams or Google Workspace, to enhance their efficiency and ensure accuracy in the reporting process.

- ✓ Using cloud-based spreadsheets or shared documents, the finance professionals from various locations input the relevant financial data into the Income Statement template. They update revenue figures, operating expenses, cost of goods sold, and other relevant information, ensuring accurate and comprehensive data collection.
- ✓ Through cloud collaboration platforms, team members can work on the Income Statement simultaneously, regardless of their physical locations. They can review, edit, and make real-time updates to the document. For example, the finance team in Mumbai can update the revenue figures based on the sales data received, while the team in Bengaluru can revise the operating expenses based on the cost information provided.
- ✓ Cloud-based collaboration tools offer version control features, allowing the team to track changes made to the Income Statement over time. This ensures that the latest version is always accessible and helps in maintaining an audit trail for any revisions or modifications made during the reporting process.
- ✓ Once the Income Statement is prepared, the finance team can use cloud-based communication channels, such as instant messaging or video conferencing, to discuss the document and address any queries or concerns. The team lead or finance manager can review the Income Statement, provide feedback, and approve the final version before submission.
- ✓ Cloud-based collaboration ensures that all team members have secure access to the Income Statement from their respective locations. User access controls and permissions can be managed to restrict access to authorized personnel only, maintaining data confidentiality and security.

Examples 3 – 5 : Using Blockchain

Example 3

Imagine a finance professional working for a multinational corporation that engages in complex supply chain operations. With blockchain technology, the company can create a decentralized ledger that records every step of the supply chain process, from raw material sourcing to final product delivery. Each transaction is securely recorded on the blockchain, providing real-time visibility and transparency to all

stakeholders involved. The finance professional can easily access the blockchain to verify the authenticity and accuracy of transactions, ensuring compliance with regulatory requirements and building trust with customers, investors, and auditors.

Example 4

Consider a finance professional responsible for conducting an audit of a large e-commerce platform. Traditionally, audits involve manually reviewing numerous financial transactions and reconciling data from different sources, which can be time-consuming and prone to errors. However, with blockchain technology, the e-commerce platform can implement a blockchain-based payment system that automatically records and timestamps every transaction. During the audit process, the finance professional can access the blockchain ledger to instantly verify transaction details, reconcile data, and ensure compliance with accounting standards and regulatory guidelines. This streamlined approach improves audit efficiency, reduces the risk of human error, and enhances the accuracy of financial reporting.

Example 5

Imagine a finance professional working for a financial institution that handles sensitive customer data, such as personal information and transaction records. By utilizing blockchain technology, the institution can implement a secure and encrypted blockchain network to store and share customer data. The finance professional can ensure the integrity and security of the data by leveraging blockchain's cryptographic algorithms and consensus mechanisms. This eliminates the risk of unauthorized access, data tampering, or data loss. With blockchain, the finance professional can confidently handle customer data, knowing that it is protected by a robust and transparent system, enhancing data privacy, and maintaining the trust of customers and regulatory bodies.

Examples: 6 – 9 : Using Artificial Intelligence in Financial Reporting

Example 6

XYZ Company, a large multinational corporation, needs to prepare its financial statements according to Ind AS. The company has a vast amount of financial data stored in various formats, including spreadsheets, PDFs, and scanned documents. Manually extracting and analysing this data is time consuming and error prone. By implementing AI-driven optical character recognition (OCR) technology, the company automates the data extraction process from diverse sources and converts it into structured formats. This enables seamless analysis and financial reporting, reducing human effort and minimizing the risk of errors.

Example 7

PQR Company, a financial institution, needs to comply with Ind AS requirements while monitoring and mitigating fraud risks. AI-powered algorithms can analyse large volumes of financial transactions, identify patterns, and detect potential anomalies indicative of fraudulent activities. By implementing machine learning techniques, the company can create predictive models that learn from historical data, enabling early detection of suspicious transactions and reducing the risk of financial fraud.

Example 8

ABC Company, a manufacturing entity, wants to forecast its financial performance based on various scenarios to comply with Ind AS guidelines. AI can assist in generating accurate financial forecasts by analysing historical data, market trends, and relevant external factors. By leveraging machine learning algorithms, the company can simulate different scenarios, such as changes in market demand, input costs, or regulatory requirements. This helps management make informed decisions, assess potential risks, and develop robust financial strategies in accordance with Ind AS principles.

Example 9

A to Z Company Ltd., a publicly listed entity, faces the challenge of timely financial reporting and compliance with Ind AS regulations. AI-powered tools can integrate with the company's financial systems and automatically extract relevant data in real-time. These tools apply data validation rules, perform calculations, and generate accurate financial reports. By leveraging natural language processing (NLP), AI systems can also assist in reviewing financial statements, identifying potential errors, and ensuring compliance with Ind AS requirements. This improves the accuracy, efficiency, and speed of financial reporting processes.