CHAPTER 3

IND AS ON PRESENTATION OF ITEMS IN THE FINANCIAL STATEMENTS

UNIT 1 : INDIAN ACCOUNTING STANDARD 1 : PRESENTATION OF FINANCIAL STATEMENTS

LEARNING OUTCOMES

After studying this unit, you will be able to:

- List the scope and objective of Ind AS 1
- Define the relevant terms used in Ind AS 1
- Explain the purpose of financial statements
- Illustrate the complete set of financial statements
- Describe the general features of the financial statements
- Follow the structure and content of the financial statements
- Identify the various components of financial statements
- Prepare the disclosures to be made in the financial statements
- Discuss the significant differences in Ind AS 1 vis-à-vis AS 1
- Reconcile the carve out in Ind AS 1 from IAS 1.

UNIT OVERVIEW

Ind AS 1

- Objective
- Scope
- Definitions

Financial Statements

- Purpose of financial statements
- Complete set of financial statements
- General features

Structure and Content

- Identification of the financial statements
- Components of financial statements

1.1 INTRODUCTION

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

1.2 OBJECTIVE

This standard prescribes the basis for presentation of general-purpose financial statements to ensure comparability:

(a) with the entity's financial statements of previous periods and

(b) with the financial statements of other entities.

It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

1.3 SCOPE

- This standard **applies** to all types of entities including those that present:

  (a) consolidated financial statements in accordance with Ind AS 110 'Consolidated Financial Statements'; and

  (b) separate financial statements in accordance with Ind AS 27 'Separate Financial Statements'.

- This standard **does not apply** to structure and content of condensed interim financial statements prepared in accordance with Ind AS 34 except for para 15 to 35 of Ind AS 1.

- This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities.
- If entities with not for-profit activities in the private sector or the public sector apply this Standard, they may need to amend the descriptions used for line items in the financial statements and for the financial statements themselves.
- Similarly, entities that do not have equity as defined in Ind AS 32 Financial Instruments: Presentation (e.g. some mutual funds) and entities whose share capital is not equity (e.g. some co-operative entities) may need to adapt the financial statement presentation of members' or unit holders' interests.

1.4 DEFINITIONS

1. **Accounting policies** are defined in paragraph 5 of Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors, and the term is used in this Standard with the same meaning.
2. **General purpose financial statements** (referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.
3. **Impracticable**: Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
4. **Indian Accounting Standards (Ind AS)** are Standards prescribed under Section 133 of the Companies Act, 2013.
5. **Material**

   Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

   Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

   Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information.

Examples of circumstances that may result in material information being obscured:

(a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

(b) information regarding a material item, transaction or other event is scattered throughout the financial statements;

(c) dissimilar items, transactions or other events are inappropriately aggregated;

(d) similar items, transactions or other events are inappropriately disaggregated; and

(e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

6. **Notes** contain information in addition to that presented in the balance sheet, statement of profit and loss, other comprehensive income, statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregation of items presented in those statements and information about items that do not qualify for recognition in those statements.

7. **Owners** are holders of instruments classified as equity.

8. **Profit or loss** is the total of income less expenses, excluding the components of other comprehensive income.

9. **Reclassification adjustments** are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.

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

    Total comprehensive income comprises all components of 'profit or loss' and 'other comprehensive income'.

11. **Other comprehensive income** comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Ind AS.

    The components of Other Comprehensive Income include the following:

S.No.	Components	Reference
1.	Changes in revaluation surplus	Ind AS 16 'Property, Plant and Equipment' and Ind AS 38 'Intangible Assets'
2.	Re-measurements of defined benefit plans	Ind AS 19, Employee Benefits
3.	Gains and losses arising from translating the financial statements of a foreign operation	Ind AS 21 'The Effects of Changes in Foreign Exchange Rates'
4.	Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	Paragraph 5.7.5 of Ind AS 109, Financial Instruments
5.	Gains and losses on financial assets measured at fair value through other comprehensive income	Paragraph 4.1.2A of Ind AS 109
6.	The effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income	Paragraph 5.7.5 of Ind AS 109

7.	For liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk	Paragraph 5.7.7 of Ind AS 109
8.	Changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value	Ind AS 109
9.	Changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument	Ind AS 109

1.5 PURPOSE OF FINANCIAL STATEMENTS

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

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

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

1.6 COMPLETE SET OF FINANCIAL STATEMENTS

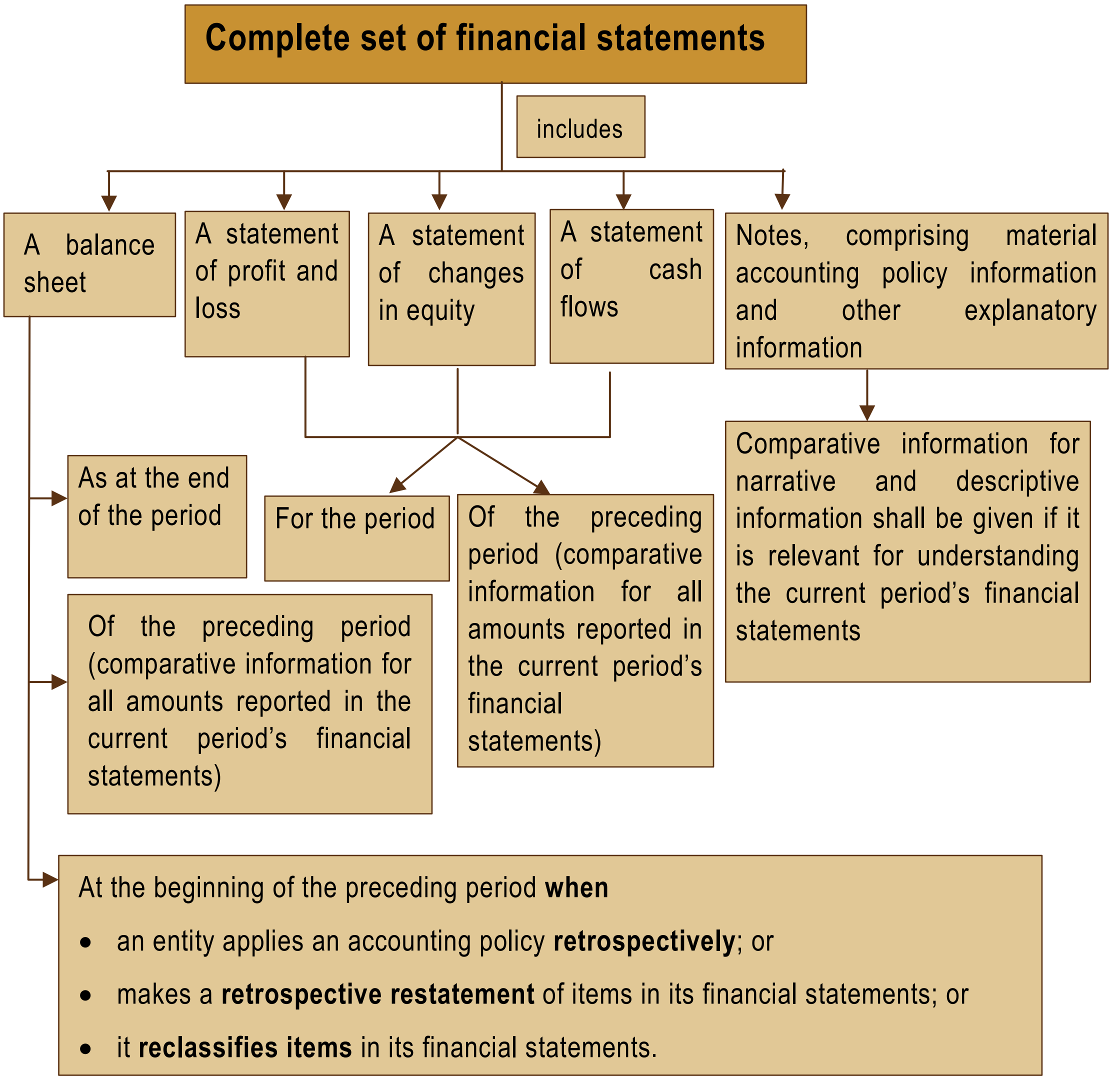
A complete set of financial statements comprises:

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

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

An entity shall present with equal prominence all of the financial statements in a complete set of financial statements.

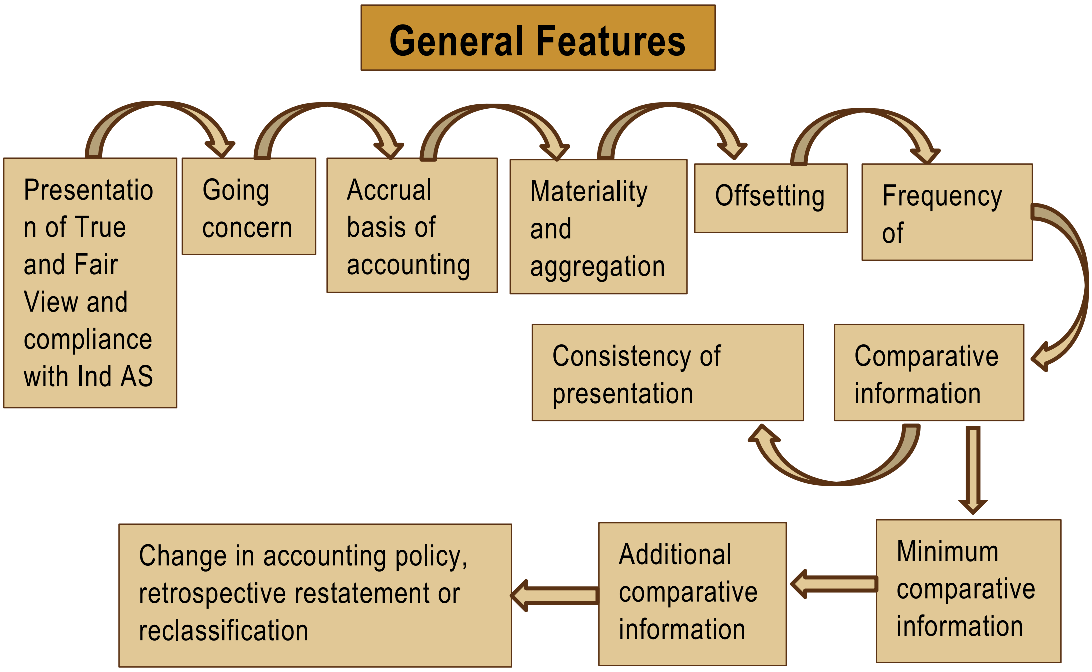
Many entities also present reports and statements (generally in annual reports) such as financial reviews by management, environmental reports, and value added statements that are outside the financial statements. Such reports and statements that are presented outside the financial statements are outside the scope of Ind AS.



Note:

1. An entity shall present a single statement of profit and loss, with profit or loss and other comprehensive income (OCI) presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.
2. Reports and statements presented outside financial statements are outside the scope of Ind AS.
3. An entity is not required to present the related notes to the opening balance sheet as at the beginning of the preceding period.

1.7 GENERAL FEATURES OF FINANCIAL STATEMENTS



1.7.1 Presentation of True and Fair View and compliance with Ind AS

Financial statements shall present a true and fair view of the financial position, financial performance and cash flows of an entity. Presentation of true and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework. The application of Ind AS, with additional disclosure when necessary, is presumed to result in financial statements that present a true and fair view.

1.7.1.1 An explicit and unreserved statement

An entity whose financial statements comply with Ind AS shall make an explicit and unreserved statement of such compliance in the notes.

An entity shall not describe financial statements as complying with Ind AS unless they comply with all the requirements of Ind AS. There may be disagreement between the Company and its auditor on the applicability of any Ind AS or any particular requirement of any Ind AS and accordingly auditor may qualify the audit report. Even in such a situation, the financial statements shall be assumed to be Ind AS compliant.

In virtually all circumstances, presentation of a true and fair view is achieved by compliance with applicable Ind AS. Presentation of a true and fair view also requires an entity:

(a) to select and apply accounting policies in accordance with Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Ind AS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an Ind AS that specifically applies to an item.

(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) to provide additional disclosures when compliance with the specific requirements in Ind AS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

An extract from the annual report of Tata Consultancy Services Limited for the year ended 31st March, 2022:

Notes forming part of Standalone Financial Statements

2) Statement of compliance

These standalone financial statements have been prepared in accordance with the Indian Accounting Standards (referred to as "Ind AS") as prescribed under section 133 of the Companies Act, 2013 read with the Companies (Indian Accounting Standards) Rules as amended from time to time.

1.7.1.2 Inappropriate Accounting Policies

An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

1.7.1.3 Departure from the Requirements of an Ind AS — Whether Permissible?

In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the Conceptual Framework, the entity shall depart from that requirement if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

When an entity departs from a requirement of an Ind AS, it shall disclose:

(a) that management has concluded that the financial statements present a true and fair view of the entity's financial position, financial performance and cash flows;

(b) that it has complied with applicable Ind AS, except that it has departed from a particular requirement to present a true and fair view;

(c) the title of the Ind AS from which the entity has departed, the nature of the departure, including the treatment that the Ind AS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the Conceptual Framework, and the treatment adopted; and

(d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

When an entity has departed from a requirement of an Ind AS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures given above. For example, when an entity departed in a prior period from a requirement in an Ind AS for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the Conceptual Framework, but the relevant regulatory framework prohibits departure from the requirement, the entity shall to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

(a) the title of the Ind AS in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the Conceptual Framework; and

(b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to present a true and fair view.

An item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the Framework, management considers:

(a) why the objective of financial statements is not achieved in the particular circumstances; and

(b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the Framework.

Presentation of True and Fair View and compliance with Ind AS

Of the financial position

Of the financial performance

Of the cash flows of an entity

Presentation of a true and fair view requires an entity to

To select and apply accounting policies as per Ind AS 8

To present information, in a manner that provides relevant, reliable, comparable and understandable information

To provide additional disclosures, if required, to enable users to understand the impact of particular item

When an entity departs from a requirement of an Ind AS (in extremely rare circumstances), it shall disclose

Management's conclusion that the financial statements present a true and fair view

Management's compliance with applicable Ind AS, except departure from a particular requirement to present a true

- The title of the Ind AS departed
- The nature of the departure
- The treatment that the Ind AS would require
- The reason why that treatment would be so misleading; and

For each period presented, the financial effect of the departure on each item in the financial

Note: An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

Illustration 1

An entity prepares its financial statements that contain an explicit and unreserved statement of compliance with Ind AS. However, the auditor's report on those financial statements contains a qualification because of disagreement on application of one Accounting Standard. In such case, is it acceptable for the entity to make an explicit and unreserved statement of compliance with Ind AS?

Solution

Yes, it is possible for an entity to make an unreserved and explicit statement of compliance with Ind AS, even though the auditor's report contains a qualification because of disagreement on application of Accounting Standard(s), as the preparation of financial statements is the responsibility of the entity's management and not the auditors. In case the management has a bona fide reason to believe that it has complied with all Ind AS, it can make an explicit and unreserved statement of compliance with Ind AS.

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1.7.2 Going concern

Financial statements prepared under Ind AS should be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. Management is required to assess, at the time of preparing the financial statements, the entity's ability to continue as a going concern, and this assessment should cover the entity's prospects for at least 12 months from the end of the reporting period. The 12-month period for considering the entity's future is a minimum requirement; an entity cannot, for example, prepare its financial statements on a going concern basis if it intends to cease operations 18 months from the end of the reporting period.

The assessment of the entity's status as a going concern will often be straight forward. A profitable entity with no financing problems will generally be a going concern. In other cases, management might need to consider very carefully the entity's ability to meet its liabilities as they fall due. Detailed cash flow and profit forecasts might be required to satisfy management that the entity is a going concern.

The following are examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. This listing is neither all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists:

- Net liability or net current liability position;
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets;
- Indications of withdrawal of financial support by creditors;
- Negative operating cash flows indicated by historical or prospective financial statements;
- Adverse key financial ratios;
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows;
- Arrears or discontinuance of dividends;
- Inability to pay creditors on due dates;
- Inability to comply with the terms of loan agreements;
- Change from credit to cash-on-delivery transactions with suppliers;
- Inability to obtain financing for essential new product development or other essential investments;
- Loss of key management without replacement;
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s);
- Emergence of a highly successful competitor;
- Changes in law or regulation or government policy expected to adversely affect the entity.

If management has significant doubt of the entity's ability to continue as a going concern, the uncertainties should be disclosed.

In case the financial statements are not prepared on a going concern basis, the entity should disclose the basis of preparation of financial statements and also the reason why the entity is not regarded as a going concern.

Events that occur after the reporting period might indicate that the entity is no longer a going concern. An entity does not prepare its financial statements on a going concern basis if management's post-year end assessment indicates that it is not a going concern. Any financial statements that are prepared after that assessment (including the financial statements in respect of which management are making the assessment) are not prepared on a going concern basis. This is consistent with Ind AS 10, which requires a fundamental change to the basis of accounting when the going concern assumption is no longer appropriate.

Illustration 2

Entity XYZ is a large manufacturer of plastic products for the local market. On 1st April, 20X6 the newly elected government unexpectedly abolished all import tariffs, including the 40 per cent tariff on all imported plastic products. Many other economic reforms implemented by the new government contributed to the value of the country's currency ₹ appreciating significantly against most other currencies. The currency appreciation severely reduced the competitiveness of the entity's products.

Before 20X6 entity XYZ was profitable. However, because it was unable to compete with low priced imports, entity XYZ went into losses. As at 31st March, 20X7, entity XYZ's equity was ₹ 1,000. During the second quarter of financial year ended 31st March 20X7, the management restructured entity's operations. That restructuring helped reduce losses for the third and fourth quarters to ₹ 400 and ₹ 380, respectively. During the year ended 31st March, 20X7, entity XYZ reported a loss of ₹ 4,000. In January 20X7, the local plastic industry and labour union lobbied government to reinstate tariffs on plastic. On 15th March, 20X7, the government announced that it would reintroduce limited plastic import tariffs at 10 percent in 20X8. However, it emphasised that those tariffs would not be as protective as the tariffs enacted by the previous government. In its latest economic forecast, the government predicts a stable currency exchange rate in the short term with a gradual weakening of the jurisdiction's currency in the longer term.

Management of the entity XYZ undertook a going concern assessment at 31st March, 20X7. Management projects / forecasts that imposition of a 10 per cent tariff on the import of plastic products would, at current exchange rates, result in entity XYZ returning to profitability. How should the management of entity XYZ disclose the information about the going concern assessment in entity XYZ's 31st March, 20X7 annual financial statements?

Solution

Going concern is a general feature to be considered while preparing the financial statements. As per Ind AS 1, when preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. An entity is required to disclose the facts, if the financial statements are not prepared on a going concern basis. Along with the reason, as to why the financial statements are not prepared on a going concern basis.

While assessing the going concern assumption, an entity is required to take into consideration all factors covering atleast but not limited to 12 months from the end of reporting period.

On the basis of Ind AS 1 and the facts and circumstances of this case, the following disclosure is appropriate:

Extracts from the notes to entity XYZ's 31st March, 20X7 financial statements

Note 1: Basis of preparation

On the basis of management's assessment at 31st March 20X7, the financial statements have been prepared on the going concern basis. However, management's assessment assumes that the government will reintroduce limited plastic import tariffs and that the currency exchange rate will remain constant. On 15th March 20X7, the government announced that limited import tariffs will be imposed in 20X8. However, the government emphasised that the tariff would not be as protective as the 40 percent tariff in effect before 20X7.

Provided that ₹ does not strengthen, management projects / forecasts that a 10 percent tariff on all plastic products would result in entity XYZ returning to profitability. As at 31st March, 20X7 entity XYZ had net assets of ₹ 1,000. If import tariffs are not imposed and currency exchange rates remain unchanged, entity XYZ's liabilities could exceed its assets by the end of financial year 20X7-20X8. On the basis of their assessment of these factors, management believes that entity XYZ is a going concern.

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1.7.3 Accrual basis of accounting

- An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.
- When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Conceptual Framework.

1.7.4 Materiality and aggregation

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

- Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.
- An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.
- An entity need not provide a specific disclosure required by an Ind AS if the information is not material except when required by law.

Examples 1 - 3

1. Entity A has made a wrong classification of assets between 2 categories of plant and machinery. Such a classification would not be material in amount if it affected two categories of plant or machinery, however, it might be material if it changes the classification between a non-current and a current asset category.
2. Losses from bad debts or pilferage that could be shrugged off as routine by a large business may threaten the continued existence of a small business.
3. An error in inventory valuation may be material in a small enterprise for which it may cut earnings by half but could be immaterial in an enterprise for which it might make a barely perceptible ripple in the earnings.

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1.7.5 Offsetting

- An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.
- An entity reports separately both assets and liabilities, and income and expenses. Measuring assets net of valuation allowances — for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.
- Ind AS 115, 'Revenue from Contracts with Customers', requires an entity to measure revenue from contracts with customers at the amount of consideration to which the entity

expects to be entitled in exchange for transferring promised goods or services. For example, the amount of revenue recognized reflects any trade discounts and volume rebates the entity allows. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. An entity presents the results of such transactions, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction.

Examples 4 and 5

4. An entity presents gains and losses on the disposal of non-current assets, including investments and operating assets, by deducting from the amount of consideration on disposal the carrying amount of the asset and related selling expenses; and

5. An entity may net expenditure related to a provision that is recognised in accordance with Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) against the related reimbursement.

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

Illustration 3

Is offsetting of revenue against expenses, permissible in case of a company acting as an agent and having sub-agents, where commission is paid to sub-agents from the commission received as an agent?

Solution

On the basis of the guidance regarding offsetting, net presentation in the given case would not be appropriate, as it would not reflect substance of the transaction and would detract from the ability of users to understand the transaction.

Accordingly, the commission received by the company as an agent is the gross revenue of the company. The amount of commission paid by it to the sub-agent should be considered as an expense and should not be offset against commission earned by it.

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1.7.6 Frequency of reporting

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

Example 6

In 20X8 entity 'Superb' was acquired by entity 'Happy Go Luck'. To align its reporting date with that of its parent, Superb changed the end of its annual reporting period from 31st January to 31st March. Consequently, entity Superb's reporting period for the year ended 31st March, 20X8 is 14 months. On the basis of these facts, the following disclosure would be appropriate:

Extract from the notes to entity Superb's 31st March, 20X8 financial statements:

Note 1

Basis of preparation and accounting policies

Reporting period

To align the entity's reporting period with that of its parent (Happy Go Luck), the entity changed the end of its reporting period from 31st January to 31st March. Amounts presented for the period ended 31st March, 20X8 are for 14 months. Comparative figures are for a 12 months period. Consequently, comparative amounts for the statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes are not entirely comparable.

1.7.7 Comparative information

1.7.7.1 Minimum comparative information

- An entity should present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements except when Ind AS permit or require otherwise.
- Comparative information for narrative and descriptive information should be included if it is relevant to understand the current period's financial statements.

For example, in the current period an entity discloses details of a legal dispute whose outcome was uncertain at the end of the immediately preceding reporting period and that is yet to be resolved.

- An entity shall present, as a minimum:
  - 2 Balance Sheets
  - 2 Statement of Profit and Loss
  - 2 Statement of Cash Flows
  - 2 Statement of Changes in Equity and
  - Related Notes.

1.7.7.2 Additional comparative information

An entity may present comparative information in addition to the minimum comparative financial statements required by Ind AS, as long as that information is prepared in accordance with Ind AS. This comparative information may consist of one or more statements referred to in 'Complete set of financial statements' but need not comprise a complete set of financial statements. When this is the case, the entity shall present related note information for those additional statements.

Example 7

An entity may present a third statement of profit or loss (thereby presenting the current period, the preceding period and one additional comparative period). However, the entity is not required to present a third balance sheet, a third statement of cash flows or a third statement of changes in equity (ie an additional financial statement comparative). The entity is required to present, in the notes to the financial statements, the comparative information related to that additional statement of profit or loss and other comprehensive income.

Illustration 4

A retail chain acquired a competitor in March, 20X1 and accounted for the business combination under Ind AS 103 on a provisional basis in its 31st March, 20X1 annual financial statements. The business combination accounting was finalised in 20X1-20X2 and the provisional fair values were updated. As a result, the 20X0-20X1 comparatives were adjusted in the 20X1-20X2 annual financial statements. Does the restatement require an opening statement of financial position (that is, an additional statement of financial position) as of 1st April, 20X0?

Solution

An additional statement of financial position is not required, because the acquisition had no impact on the entity's financial position at 1st April, 20X0.

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1.7.7.3 Change in accounting policy, retrospective restatement or reclassification

- When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements and the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the balance sheet at the beginning of the preceding period, it shall present, as a minimum, three balance sheets, two of each of the other statements, and related notes. An entity presents balance sheets as at
    - ♦ the end of the current period,
    - ♦ the end of the preceding period, and
    - ♦ the beginning of the preceding period.
- When an entity is required to present an additional balance sheet as at the beginning of the preceding period, it must disclose the information as required by Ind AS 8 and also the information as explained in subsequent points. However, it need not present the related notes to the opening balance sheet as at the beginning of the preceding period.
- When the entity changes the presentation or classification of items in its financial statements, the entity shall reclassify comparative amounts unless reclassification is impracticable.
- When the entity reclassifies comparative amounts, the entity shall disclose:
    - ♦ the nature of the reclassification;
    - ♦ the amount of each item or class of items that is reclassified; and
    - ♦ the reason for the reclassification.
- When it is impracticable to reclassify comparative amounts, an entity shall disclose:
    - ♦ the reason for not reclassifying the amounts, and
    - ♦ the nature of the adjustments that would have been made if the amounts had been reclassified.

1.7.8 Consistency of presentation

An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:

- it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in Ind AS 8; or
- an Ind AS requires a change in presentation.

Example 8

A significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information.

1.8 STRUCTURE AND CONTENT

Ind AS 1 requires particular disclosures in the balance sheet or in the statement of profit and loss, or in the statement of changes in equity and requires disclosure of other line items either in those statements or in the notes. Ind AS 7, Statement of Cash Flows, sets out requirements for the presentation of cash flow information.

1.8.1 Identification of Financial Statements

- An entity shall clearly identify the financial statements and distinguish them from other information in the same published document. Ind AS apply only to financial statements, and not necessarily to other information presented in an annual report, a regulatory filing, or another document though they may be useful to users.
- An entity shall display the following information prominently:
    - the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period
    - whether the financial statements are of an individual entity or a group of entities;

- the date of end of reporting date or the period covered by the financial statements or notes
- the presentation currency
- the level of rounding used in presenting amounts in the financial statements.
- An entity meets above requirements by presenting appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of presenting such information.

  For example, when an entity presents the financial statements electronically separate pages are not always used; an entity then presents the above items to ensure that the information included in the financial statements can be understood.
- An entity often makes financial statements more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the entity discloses the level of rounding and does not omit material information.

As per Schedule III of the Companies Act 2013, depending upon the total income of the company, the figures appearing in the financial statements shall be rounded off as below:

- Less than one hundred crore rupees - To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.
- One hundred crore rupees or more- To the nearest, lakhs, millions or crores, or decimals thereof.

Once a unit of measurement is used, it should be used uniformly in the Financial Statements.

1.8.2 Balance Sheet

At a minimum, the balance sheet shall include following line items:

a	Property, plant and equipment
b	Investment property
c	Intangible assets
d	Financial assets (excluding amounts shown under (e, h &i)

da	***Portfolios of contracts as per Ind AS 117 that are assets, disaggregated as required by Ind AS 117***
e	Investments accounted for using the equity method
f	Biological assets
g	Inventories
h	Trade and other receivables
i	Cash and cash equivalents
j	The total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with Ind AS 105 ‘Non-current Assets Held for Sale and Discontinued Operations’
k	Trade and other payables
l	Provisions
m	Financial liabilities (excluding amounts shown under k and l)
ma	***portfolios of contracts within the scope of Ind AS 117 that are liabilities, disaggregated as required by Ind AS 117***
n	Liabilities and assets for current tax, as defined in Ind AS 12 ‘Income Taxes’
o	Deferred tax liabilities and deferred tax assets, as defined in Ind AS 12
p	Liabilities included in disposal groups classified as held for sale in accordance with Ind AS 105
q	Non-controlling interests, presented within equity
r	Issued capital and reserves attributable to owners of the parent

Additional line items, headings and subtotals in the balance sheet should be presented when such presentation is relevant to an understanding of the entity’s financial position.

The descriptions of the line items, and the order in which they are shown, can be adapted according to the entity's nature and its transactions.

Example 9

Financial institutions would amend the descriptions of line items to provide information that is relevant to the operations of financial institutions.

1.8.2.1 Distinction between Current / Non-current

Entities preparing Ind AS financial statements are required to present the face of the balance sheet, differentiating between current and non-current assets and between current and non-current liabilities.

When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).

An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.

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

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

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

When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the balance sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.

When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).

Note:

1. Financial institutions may present assets and liabilities in increasing or decreasing order of liquidity if the presentation is reliable and more relevant than a current / non-current

presentation. This is because such entity does not supply goods or services within a clearly identifiable operating cycle.

2. An entity is permitted to present some of its assets and liabilities using a current / non-current classification and others in order of liquidity. The need for a mixed basis of presentation might arise when an entity has diverse operations.

1.8.2.2 Current Assets

An entity shall classify an asset as current when:

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

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

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

(d) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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

This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

An extract from the annual report of Reliance Industries Limited for the year ended 31st March, 2022:

Notes to the Standalone Financial Statements for the year ended 31st March, 2022

B.2 Summary of Significant Accounting Policies

(a) Current and Non-current Classification

The Company presents assets and liabilities in the Balance Sheet based on Current/ Non-Current classification.

An asset is treated as current when it is –

- *Expected to be realised or intended to be sold or consumed in normal operating cycle;*
- *Held primarily for the purpose of trading;*
- *Expected to be realised within twelve months after the reporting period, or*

- *Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.*

All other assets are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

1.8.2.3 Operating Cycle

The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading.

For example

- Some financial assets classified as held for trading in accordance with Ind AS 109
- Current portion of non-current financial assets.

Examples 10 -13

10. An entity produces whisky from barley, water and yeast in a 24-month distillation process. At the end of the reporting period the entity has one month's supply of barley and yeast raw materials, 800 barrels of partly distilled whisky and 200 barrels of distilled whisky.

All raw materials (barley and yeast) work in process (partly distilled whisky) and finished goods (distilled whisky) are inventories. The raw materials are expected to be realised (ie turned into cash after being processed into whisky) in the entity's normal operating cycle. Therefore, even though the realisation is expected to take place more than twelve months after the end of the reporting period, the raw materials, work in progress and finished goods are current assets.

11. An entity owns a machine with which it manufactures goods for sale. It also owns the building in which it carries out its commercial activities.

The machine and the building are non-current assets because:

- ♦ they are not cash or cash equivalents;
- ♦ they are not expected to be realised or consumed in the entity's normal operating cycle;

- they are not held for the purpose of trading; and
- they are not expected to be realised within twelve months of the end of the reporting period.

12. On 31st December 20X2, an entity replaced a machine in its production line. The replaced machine was sold to a competitor for ₹ 3,00,000. Payment is due 15 months after the end of the reporting period.

The receivable is a non-current asset because:

- it is not cash or a cash equivalent;
- it is not expected to be realised or consumed in the entity's normal operating cycle;
- it is not held for the purpose of trading; and
- it is not expected to be realised within twelve months of the end of the reporting period.

Note: If payment was due in less than twelve months from the end of the reporting period, it would have been classified as a current asset.

13. On 1st April, 20X2, XYZ Ltd invested ₹ 15,00,000 surplus funds in corporate bonds that bear interest at 8 percent per year. Interest is payable on the corporate bonds on 1st April, of each year. The principal is repayable in three annual instalments of ₹ 5,00,000 starting from 1st April, 20X3.

In its statement of financial position at 31st March, 20X3, the entity must present the ₹ 1,20,000 accrued interest and ₹ 5,00,000 current portion of the non-current loan (i.e. the portion repayable on 31st March, 20X3) as current assets because they are expected to be realised within twelve months of the end of the reporting period.

The instalments of ₹ 10,00,000 due later than twelve months after the end of the reporting period is presented as a non-current asset because it is not cash or a cash equivalent as it is not expected to be realised or consumed in the entity's normal operating cycle, it is not held for the purpose of trading and it is not expected to be realised within twelve months of the end of the reporting period.

Illustration 5

X Ltd. provides you the following information:

Raw material stock holding period : 3 months

Work-in-progress holding period : 1 month

Finished goods holding period : 5 months

Debtors collection period : 5 months

You are requested to compute the operating cycle of X Ltd.

Solution

The operating cycle of X Ltd. will be computed as under:

Raw material stock holding period + Work-in-progress holding period + Finished goods holding period + Debtors collection period = 3 + 1 + 5 + 5 = 14 months.

*****

Illustration 6

Inventory or trade receivables of X Ltd. are normally realised in 15 months. How should X Ltd. classify such inventory / trade receivables: current or non-current if these are expected to be realised within 15 months?

Solution

These should be classified as current.

*****

Illustration 7

B Ltd. produces aircrafts. The length of time between first purchasing raw materials to make the aircrafts and the date the company completes the production and delivery is 9 months. The company receives payment for the aircrafts 7 months after the delivery.

(a) What is the length of operating cycle?

(b) How should it treat its inventory and trade receivables?

Solution

(a) The length of the operating cycle will be 16 months.

(b) Assuming the inventory and trade receivables will be realised within normal operating cycle, i.e., 16 months, both the inventory as well as trade receivables should be classified as current.

*****

1.8.2.4 Current Liabilities

- An entity shall classify a liability as current when:

  (a) it expects to settle the liability in its normal operating cycle;

  (b) it holds the liability primarily for the purpose of trading;

  (c) the liability is due to be settled within twelve months after the reporting period; or

  (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its *classification.*

An extract from the annual report of Reliance Industries Limited for the year ended 31st March, 2022:

Notes to the Standalone Financial Statements for the year ended 31st March, 2022

B.2 Summary of Significant Accounting Policies

(a) Current and Non-Current Classification

The Company presents assets and liabilities in the Balance Sheet based on Current/ Non-Current classification.

A liability is current when:

- *It is expected to be settled in normal operating cycle;*
- *It is held primarily for the purpose of trading;*
- *It is due to be settled within twelve months after the reporting period, or*
- *There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.*

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

- An entity shall classify all other liabilities as non-current.
- Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle.

- An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period.
- The same normal operating cycle applies to the classification of an entity's assets and liabilities.
- When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.
- Other current liabilities which are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading.

  Examples are some financial liabilities classified as held for trading in accordance with Ind AS 109, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables.

- Financial liabilities that provide financing on a long-term basis (i.e. are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities.
- An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:
  - ♦ the original term was for a period longer than twelve months, and
  - ♦ an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are approved for issue.
- If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.
- When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, the entity does not classify the liability as current, even if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

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

Illustration 8

On 1st April, 20X3, Charming Ltd issued 1,00,000 ₹ 10 bonds for ₹ 10,00,000. On 1st April, each year interest at the fixed rate of 8 percent per year is payable on outstanding capital amount of the bonds (ie the first payment will be made on 1st April, 20X4). On 1st April each year (i.e from 1st April, 20X4), Charming Ltd has a contractual obligation to redeem 10,000 of the bonds at ₹ 10 per bond. In its statement of financial position at 31st March, 20X4. How should this be presented in the financial statements?

Solution

Charming Ltd must present ₹ 80,000 accrued interest and ₹ 1,00,000 current portion of the non-current bond (i.e. the portion repayable on 1st April, 20X4) as current liabilities. The ₹ 9,00,000 due later than 12 months after the end of the reporting period is presented as a non-current liability.

*****

Illustration 9

X Ltd provides you the following information:

Raw material stock holding period	*: 3 months*
Work-in-progress holding period	*: 1 month*
Finished goods holding period	*: 5 months*
Debtors collection period	*: 5 months*

The trade payables of the Company are paid in 12.5 months. Should these be classified as current or non-current?

Solution

In this case, the operating cycle of X Ltd. is 14 months. Since the trade payables are expected to be settled within the operating cycle i.e. 12.5 months, they should be classified as a current.

*****

Illustration 10

Entity A has two different businesses, real estate and manufacturing of passenger vehicles. With respect to the real estate business, the entity constructs residential apartments for customers and the normal operating cycle is three to four years. With respect to the business of manufacture of passenger vehicles, normal operating cycle is 15 months. Under such circumstance where an entity has different operating cycles for different types of businesses, how classification into current and non-current be made?

Solution

As per paragraph 66(a) of Ind AS 1, an asset should be classified as current if an entity expects to realise the same, or intends to sell or consume it in its normal operating cycle. Similarly, as per paragraph 69(a) of Ind AS 1, a liability should be classified as current if an entity expects to settle the liability in its normal operating cycle. In this situation, where businesses have different operating cycles, classification of asset/liability as current/non- current would be in relation to the normal operating cycle that is relevant to that particular asset / liability. It is advisable to disclose the normal operating cycles relevant to different types of businesses for better understanding.

*****

Illustration 11

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

(a) Electricity Deposit

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

(c) GST Deposit paid under dispute or GST payment under dispute.

Solution

(a) **Electricity Deposit -** At all points of time, the deposit is recoverable on demand, when the connection is not required. However, practically, such electric connection is required as long as the entity exists. Hence, from a commercial reality perspective, an entity does not expect to realise the asset within twelve months from the end of the reporting period. Hence, electricity deposit should be classified as a non-current asset.

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

(c) **GST Deposit paid under dispute or GST payment under dispute -**Classification of GST deposit paid to the Government authorities in the event of any legal dispute, which is under protest would depend on the facts of the case and the expectation of the entity to realise the same within a period of twelve months. In the case the entity expects these to be realised within 12 months, it should classify such amounts paid as current otherwise these should be classified as non-current.

*****

Illustration 12

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

Solution

Ind AS 1 provides "Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period."

In accordance with the above, income received in advance would be classified as current liability since it is a part of the working capital, which the entity expects to earn within its normal operating cycle.

*****

Illustration 13

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

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

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

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

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

Solution

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

(b) Yes, the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period, since assessment is required to be made based on terms of the existing loan facility. As at the end of the reporting period, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Hence the loan is to be classified as current.

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

(d) Yes, the answer will be different and the loan should be classified as current. This is because, as per paragraph 73 of Ind AS 1, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

*****

Illustration 14

In December 20X1 an entity entered into a loan agreement with a bank. The loan is repayable in three equal annual instalments starting from December 20X5. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by promoters by 24th March 20X2, failing which the loan becomes payable on demand. As on 24th March 20X2, the entity has not been able to get the promoter's contribution. On 25th March, 20X2, the entity approached the bank and obtained a grace period up to 30th June, 20X2 to get the promoter's contribution.

The bank cannot demand immediate repayment during the grace period. The annual reporting period of the entity ends on 31st March, 20X2.

(a) As on 31st March, 20X2, how should the entity classify the loan?

(b) Assume that in anticipation that it may not be able to get the promoter's contribution by due date, in February 20X2, the entity approached the bank and got the compliance date extended up to 30th June, 20X2 for getting promoter's contribution. In this case will the loan classification as on 31st March, 20X2 be different from (a) above?

Solution

(a) Paragraph 75 of Ind AS 1, inter alia, provides, "An entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment." In the present case, following the default, grace period within which an entity can rectify the breach is less than twelve months after the reporting period. Hence as on 31st March 20X2, the loan will be classified as current.

(b) Ind AS 1 deals with classification of liability as current or non-current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach. In this case, whether actual breach has taken place or not is to be assessed on 30th June 20X2, i.e., after the reporting date. Consequently, in the absence of actual breach of the loan covenant as on 31st March 20X2, the loan will retain its classification as non-current.

*****

Illustration 15

OMN Ltd has a subsidiary MN Ltd. OMN Ltd provides a loan to MN Ltd at 8% interest to be paid annually. The loan is required to be paid whenever demanded back by OMN Ltd.

How should the loan be classified in the financial statements of OMN Ltd? Will it be any different for MN Ltd?

Solution

The demand feature might be primarily a form of protection or a tax-driven feature of the loan. Both parties might expect and intend that the loan will remain outstanding for the foreseeable future. If so, the instrument is, in substance, long-term in nature, and accordingly, OMN Ltd would classify the loan as a non-current asset.

However, OMN Ltd would classify the loan as a current asset if both the parties intend that it will be repaid within 12 months of the reporting period.

MN Ltd would classify the loan as current because it does not have the right to defer repayment for more than 12 months, regardless of the intentions of both the parties.

The classification of the instrument could affect initial recognition and subsequent measurement. This might require the entity's management to exercise judgement, which could require disclosure under judgements and estimates.

*****

1.8.2.5 Information to be provided in the Balance Sheet or in the notes

- An entity shall disclose, either in the balance sheet or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations.
- The detail provided in sub-classifications depends on the requirements of Ind AS and on the size, nature and function of the amounts involved. The disclosures vary for each item, for example:
  - (i) items of property, plant and equipment are disaggregated into classes in accordance with Ind AS 16;
  - (ii) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;
  - (iii) inventories are disaggregated, in accordance with Ind AS 2, Inventories, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;
  - (iv) provisions are disaggregated into provisions for employee benefits and other items; and
  - (v) equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.
- An entity shall disclose the following, either in the balance sheet or in the statement of changes in equity which is part of the balance sheet, or in the notes:
  - (i) for each class of share capital:
    - (a) the number of shares authorised;

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

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

(d) a reconciliation of the number of shares

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

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

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

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

- An entity whose capital is not limited by shares e.g., a company limited by guarantee, shall disclose information, showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.

Illustrated format of Balance Sheet

Balance Sheet (with hypothetical figures given for ease in understanding) ₹ '000

	As at 31st March 20X6	As at 31st March 20X5
Assets		
Non-current Assets		
Property, plant and equipment	1,37,048	97,023
Capital work in progress	17,450	3,100
Investment property	7,419	7,179
Goodwill	8,670	4,530
Other Intangible Assets	12,033	10,895
Intangible assets under development	2,365	1,965
Financial assets		
Investments	38,576	32,416
Loans	1,033	850
Trade Receivables	3,238	2,376

Deferred tax assets (net)		4,598	2,774
Other non-current assets		21,586	10,565
Total Non-Current Assets	(A)	2,54,016	1,73,673
Current Assets			
Inventories		67,878	61,062
Financial assets			
Loans		623	546
Trade receivables		30,712	30,078
Derivative instruments			
Cash and cash equivalents		25,031	7,035
Investments		10,695	9,170
Other financial assets		2,856	2,093
Prepayments		459	543
		1,38,254	1,10,527
Assets classified as held for sale		220	19,310
Total Current Assets	(B)	1,38,474	1,29,837
Total Assets	(A+B)	3,92,490	3,03,510

	As at 31st March 20X6	As at 31st March 20X5
Equity and liabilities		
Equity		
Equity share capital	22,400	12,600
Other equity		
Equity component of compound financial instruments	372	
Reserves and surplus	2,16,092	1,60,796
Other reserves	4,233	3,215
Equity attributable to equity holders of the parent	2,43,097	1,76,611

Non-Controlling interest		24,742	16,248
Total equity	(C)	2,67,839	1,92,859
Non-current liabilities			
Financial liabilities			
Borrowings		41,455	35,565
Other financial liabilities		1,670	199
Long term provision		241	91
Deferred Income - Government grants		2,352	2,550
Net employee defined benefit liabilities		7,296	5,076
Deferred tax liabilities (net)		12,085	9,864
Other non-current liabilities			
Total non-current liabilities	(D)	65,099	53,345
Current Liabilities			
Financial liabilities			
Borrowings		2,807	2,685
Trade payables (Other than micro enterprises and small enterprises)		38,011	28,977
Other current financial liabilities		8,909	8,837
Deferred income - Government grants		938	1,017
Employee benefit obligations		430	378
Deferred revenue		4,152	3,986
Liabilities for current tax (net)		2,803	1,905
Provisions		1,502	531
Liabilities directly associated with the assets classified as held for distribution			8,990
Total current liabilities	(E)	59,552	57,306
Total liabilities	(F=D+E)	1,24,651	1,10,651
Total equity and liabilities	(C+F)	3,92,490	3,03,510

1.8.3 Statement of Profit and Loss

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

  (a) profit or loss;

  (b) total other comprehensive income;

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

- An entity shall present (in case of consolidated statement of profit and loss) the following items as allocation of profit or loss and other comprehensive income for the period:

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

    (i) non-controlling interests, and

    (ii) owners of the parent.

  (b) comprehensive income for the period attributable to:

    (i) non-controlling interests, and

    (ii) owners of the parent.

1.8.3.1 Information to be presented in the profit or loss section of the Statement of Profit and Loss

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

(a) revenue, presenting separately

  (i) interest revenue calculated using the effective interest method; and

  (ii) insurance revenue (see Ind AS 117)

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

(c) insurance service expenses from contracts issued within the scope of Ind AS 117

(d) income or expenses from reinsurance contracts held

(e) finance costs;

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

(g) insurance finance income or expenses from contracts issued within the scope of Ind AS 117

(h) finance income or expenses from reinsurance contracts held (see Ind AS 117)

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

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

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

(l) tax expense;

(m) a single amount for the total discontinued operations

1.8.3.2 Information to be presented in the Other Comprehensive Income section

- The other comprehensive income section should present line items for the amounts of other comprehensive income classified by nature and grouped into those that, in accordance with other Ind AS:
  (i) will not be reclassified subsequently to profit or loss; and
  (ii) will be reclassified subsequently to profit or loss when specific conditions are met.
- An entity shall present additional line items, headings and subtotals in the statement of profit and loss, when such presentation is relevant to an understanding of the entity's financial performance.
- When an entity presents subtotals, those subtotals shall:
  (a) be comprised of line items made up of amounts recognised and measured in accordance with Ind AS;

(b) be presented and labelled in a manner that makes the line items that constitute the sub total clear and understandable;

(c) be consistent from period to period; and

(d) not be displayed with more prominence than the subtotals and totals required in Ind AS for the statement of profit and loss.

- An entity shall present the line items in the statement of profit and loss that reconcile any sub totals presented with the subtotals or totals required in Ind AS for such statement.
- An entity shall not present any items of income or expense as extraordinary items, in the statement of profit and loss or in the notes.

1.8.3.3 Profit or loss for the period

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

Illustrative format of Statement of Profit and Loss *(only profit or loss section of statement of profit and loss)*

Statement of Profit and Loss for the year ended 31st March 20X6

	31st March 20X6	31st March 20X5
	₹ '000	₹ '000
Revenue from operations	6,33,124	4,86,316
Other Income	6,704	6,676
Total Income	**6,39,828**	**4,92,992**
Expenses		
Cost of raw material consumed	2,43,929	2,34,262
Purchase of stock-in-trade	56,300	51,700
(Increase)/decrease in inventories of finished goods, Stock-in-Trade and work-in-progress	2,895	(2,587)
Employee benefits expenses	80,998	69,962
Finance costs	3,085	2,963

Depreciation and amortisation expense	10,147	8,534
Impairment of non-current assets	480	790
Other expenses	15,308	9,065
Total Expense	**4,13,142**	**3,74,689**
Profit/(loss) before exceptional items and tax	2,26,686	1,18,303
Exceptional items	(2,856)	
Profit / (loss) before tax from operations	2,23,830	1,18,303
a) Current tax	5,388	4,474
b) Deferred tax	427	(746)
Income tax expense	5,815	3,728
Profit / (loss) for the year	2,18,015	1,14,575
Profit for the year attributable to*		
Equity holders of the parent	2,11,475	1,11,138
Non-controlling interest	6,540	3,437

* To be given in case of consolidated statement of profit and loss.

1.8.3.4 Other comprehensive income for the period

- With regard to other comprehensive income for the period, the Standard requires to disclose the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments, either in the statement of profit and loss or in the notes.
- An entity may present items of other comprehensive income either:
  - (a) net of related tax effects, or
  - (b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those items.
- The Standard further prescribes that an entity should disclose reclassification adjustments relating to components of other comprehensive income.

- Other Ind AS specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments.
- A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss.

Components of Other Comprehensive Income (OCI)

- changes in revaluation surplus
- reameasurements of defined benefit plans
- gains and losses arising from translating the financial statements of a foreign operations
- gains and losses from investments in equity instruments designated at fair value through OCI
- gains and losses on financial assets measured at fair value through OCI
- the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through OCI
- for particular liabilities designated as at FVTPL, the amount of the change in fair value that is attributable to changes in the liability's credit risk
- changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value
- changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument
- ***insurance finance income and expenses from contracts issued as per Ind AS 117, excluded from profit or loss when total insurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation, or by an amount that eliminates accounting mismatches with the finance income or expenses arising on the underlying items, applying Ind AS 117***
- ***finance income and expenses reinsurance contracts held excluded from profit or loss when total reinsurance finance or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation applying Ind AS 117***

Example 14

Gains realised on the disposal of financial assets are included in profit or loss of the current period. These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.

The following table depicts some of the items which are taken to OCI (numbers are illustrative only): ₹ in lakhs

	Cash flow Hedge reserve	FVTOCI reserve	Foreign currency translation reserve	Revaluation reserve	Retained earnings	Total
Net Investment hedge			2,340			2,340
Foreign Exchange translation reserve			(2,950)			(2,950)
Currency Forward contracts	(7,680)					(7,680)
Reclassified to statement of profit or loss	3,385					3,385
Commodity forward contract	(1,850)					(1,850)
Gain / (loss) on FVTOCI financial assets		(480)				(480)
Re-measurement gains (losses) on defined benefit plans					3,085	3,085
Revaluation of land and buildings				7,100		7,100
	(6,145)	(480)	(610)	7,100	3,085	2,950

- An entity may present reclassification adjustments in the statement of profit and loss or in the notes. An entity presenting reclassification adjustments in the notes presents the items of other comprehensive income after any related reclassification adjustments.

- Reclassification adjustments arise, for example, on disposal of a foreign operation (see Ind AS 21), and when some hedged forecast cash flows affect profit or loss (see paragraph 6.5.11(d) of Ind AS 109 in relation to cash flow hedges).
- Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with Ind AS 16 or Ind AS 38 or on re-measurements of defined benefit plans recognised in accordance with Ind AS 19. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see Ind AS 16 and Ind AS 38). In accordance with Ind AS 109, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.

Illustrative format of other Comprehensive Income

	31.3.20X6	31.3.20X5
	₹ '000	₹ '000
Other comprehensive income to be reclassified to profit and loss in subsequent periods		
Net gain on hedge of a net investment	467	300
Income tax effect	(156)	(100)
	311	**200**
Exchange differences on translation of foreign operations	(590)	(281)
Income tax effect	0	0
	(590)	**(281)**
Net movement on cash flow hedges	(1757)	80
Income tax effect	528	(22)
	(1229)	**58**
Net gain / (loss) through FVTOCI debt securities	(115)	7
Income tax effect	36	(2)
	(79)	**5**

Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(1587)**	**(18)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		
Re-measurement gains /(losses) on defined benefit plans	886	(933)
Income tax effect	(269)	278
	617	**(655)**
Revaluation of land and building	2030	
Income tax effect	(610)	
	1420	**0**
Net loss / (gain) through FVTOCI equity securities	(24)	
Income tax effect	7	
	(17)	
Net other comprehensive income not to be classified to profit or loss in subsequent periods	2020	(655)
Other comprehensive income for the year, net of tax	**433**	**(673)**
Total comprehensive income for the year attributable to*		
Equity holders of the parent	2,11,908	1,10,465
Non-controlling interest	6,540	3,437

*To be given in case of consolidated statement of profit and loss.

1.8.3.5 Information to be presented in the Statement of Profit and Loss or in the Notes

- When items of income or expense are material, an entity shall disclose their nature and amount separately.
- Circumstances that would give rise to the separate disclosure of items of income and expense include:

  (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

  (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

  (c) disposals of items of property, plant and equipment;

(d) disposals of investments;

(e) discontinued operations;

(f) litigation settlements; and

(g) other reversals of provisions.

- An entity shall present an analysis of expenses recognised in profit or loss using a classification based on the nature of expense method.

Revenue		X
Other income		X
Changes in inventories of finished goods and work in progress	X	
Raw materials and consumables used	X	
Employee benefits expense	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Profit before tax		X

1.8.4 Statement of Changes in Equity

An entity shall present a statement of changes in equity which includes all changes in equity. It includes both - relating to performance and owner changes in equity (from transactions and events that increase or decrease equity but are not part of performance). The statement of changes in equity includes the following information:

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

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

c. for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each change resulting from:

    - profit or loss;

- each item of other comprehensive income;
- transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control; and
- any item recognised directly in equity such as amount recognised directly in equity as capital reserve with Ind AS 103.

1.8.4.1 Information to be presented in the statement of changes in equity or in the notes.

- An entity shall present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item.
- An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.
- Ind AS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another Ind AS require otherwise. Ind AS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity but they are adjustments to the opening balance of retained earnings, except when an Ind AS requires retrospective adjustment of another component of equity.
- Para 106(b) requires disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

Format of Statement of changes in equity for the year ended 31st March 20X6*				
				₹
	Share capital	**Translation reserve**	**Retained earnings**	**Total**
Equity as at 31st March 20X5 (A)	**1,041**	**(47,382)**	**2,65,266**	**2,18,925**
Profit for the year			28,461	**28,461**

Other comprehensive income for the year		(3,399)	(5,535)	**(8,934)**
Total comprehensive income for the year (B)		(3,399)	22,926	**19,527**
Dividend paid to shareholders of the parent			(17,817)	**(17,817)**
Equity compensation plans			15	**15**
Reduction in share capital	(51)		(26,427)	**(26,478)**
Total transactions (C)	(51)		(44,229)	**(44,280)**
Equity as at 31st March, 20X6 (A+B+C)	**990**	**(50,781)**	**2,43,963**	**1,94,172**

*For the purpose of convenience, the movement has been given only for one year. However as per the requirement, the similar reconciliation is also required from 31st March, 20X4 to 31st March, 20X5 as comparatives in the Statement of changes in equity.

1.8.5 Statement of Cash Flows

- Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows.
- An entity should present a statement of cash flows in accordance with Ind AS 7, Statement of Cash Flows.

1.8.6 Notes

1.8.6.1 Structure

The notes shall:

a. present information about the basis of preparation of the financial statements and the specific accounting policies used;

b. disclose the information required by Ind AS that is not presented elsewhere in the financial statements; and

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

An entity shall present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements.

An entity shall cross-reference each item in the balance sheet, in the statement of changes in equity, in the statement of profit and loss, and statement of cash flows to any related information in the notes.

Examples of systematic ordering or grouping of the notes include:

(a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular operating activities;

(b) grouping together information about items measured similarly such as assets measured at fair value; or

(c) Notes may be in the following order:

  (i) statement of compliance with Ind AS;

  (ii) material accounting policy information;

  (iii) supporting information for items presented in the balance sheet and in the statement of profit and loss, and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and

  (iv) other disclosures, including:

    (1) contingent liabilities (see Ind AS 37) and unrecognised contractual commitments; and

    (2) non-financial disclosures, eg the entity's financial risk management objectives and policies (see Ind AS 107).

An entity may present notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.

1.8.6.2 Disclosure of accounting policies

An entity shall disclose material accounting policy information. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Not all accounting policy information relating to material transactions, other events or conditions is itself material.

An entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:

(a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;

(b) the entity chose the accounting policy from one or more options permitted by Ind AS

(c) the accounting policy was developed in accordance with Ind AS 8 in the absence of an Ind AS that specifically applies;

(d) the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions; or

(e) the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions—such a situation could arise if an entity applies more than one Ind AS to a class of material transactions.

Accounting policy information that focuses on how an entity has applied the requirements of the Ind AS to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the Ind AS.

If an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

An entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other Ind AS.

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

1.8.6.3 Sources of estimation uncertainty

An entity must disclose, in the notes, information about the assumptions made concerning the future, and other important sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Disclosures about nature of such assets and their carrying amount as at the end of the reporting period should also be made.

1.8.6.4 Capital

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

Examples 15 -17

15. For the purpose of the Group's capital management, capital includes issued equity capital, convertible preference shares, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 20% and 40%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations.

₹

	31.3.20X6	31.3.20X5
Borrowings other than convertible preference shares	1,44,201	1,57,506
Trade payables	1,26,489	1,36,563
Other payables	13,506	12,693
Less : Cash and cash equivalents	(1,18,362)	(1,05,615)
Net debt	**1,65,834**	**2,01,147**
Convertible preference shares	20,001	19,038
Equity	4,29,600	3,37,000
Total Capital	**4,49,601**	**3,56,038**
Capital and net debt	**6,15,435**	**5,57,185**
Gearing ratio	27	36

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowing in the current period. No changes were made in the objectives, policies or processes for managing capital during the years ended 31st March 20X6 and 31st March 20X5.

16. **Capital Allocation Policy**: The Board reviewed and approved a revised Capital Allocation Policy of the Company after taking into consideration the strategic and operational cash requirements of the Company in the medium term.

The key aspects of the Capital Allocation Policy are:

1. The Company's current policy is to pay dividends of up to 50% of post-tax profits of the Financial Year. Effective from Financial Year 20X1, the Company expects to payout up to 70% of the free cash flow* of the corresponding Financial Year in such manner (including by way of dividend and/or share buyback) as may be decided by the Board from time to time, subject to applicable laws and requisite approvals, if any.

2. In addition to the above, the Board has identified an amount of upto ₹ 13,000 crore ($2 billion)** to be paid out to shareholders during Financial Year 20X1, in such manner (including by way of dividend and/ or share buyback), to be decided by the Board, subject to applicable laws and requisite approvals, if any. Further announcements in this regard will be made, as appropriate, in due course

*Free cash flow is defined as net cash provided by operating activities less capital expenditure as per the consolidated statement of cash flows prepared under Ind AS.

**USD/Rupee exchange rate as on 31st March, 20X0 was 65.

17. The groups' objective when managing capital are to:

- Safeguard their ability to continue as a going concern, so that they can continue to provide returns to shareholders and benefits for other stakeholders, and
- Maintain an optimum capital structure to reduce the cost of capital

In order to maintain or adjust the capital structure, the group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the group monitors capital on the basis of the following gearing ratio: Net debt divided by the Total equity (as shown in balance sheet including Non-Controlling Interest)

During 20X5, the group's strategy which was unchanged from 20X4 was to maintain a gearing ratio within 20% to 30% and credit rating of A. The credit rating was unchanged and the gearing ratio was within the limits as follows:

	31st March 20X5	31st March 20X4
Net debt	3,384	3,447
Total equity	16,035	11,762
Net debt to equity	21%	29%

1.8.6.5 Puttable financial instruments classified as equity

For puttable financial instruments classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):

a. summary quantitative data about the amount classified as equity;

b. its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;

c. the expected cash outflow on redemption or repurchase of that class of financial instruments; and

d. information about how the expected cash outflow on redemption or repurchase was determined.

1.8.6.6 Other disclosures

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

Ind AS 1 requires certain other disclosures, if not disclosed elsewhere in information published with the financial statements:

a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);

b) a description of the nature of the entity's operations and its principal activities;

c) the name of the parent and the ultimate parent of the group; and

d) if it is a limited life entity, information regarding the length of its life.

(a) An extract from the annual report of Tata Consultancy Services Limited for the year ended 31st March, 2022:

Notes forming part of Standalone Financial Statements

1) Corporate information

Tata Consultancy Services Limited (referred to as "TCS Limited" or "the Company") provides IT services, consulting and business solutions and has been partnering with many of the world's largest businesses in their transformation journeys. The Company offers a consulting-led, cognitive powered, integrated portfolio of IT, business and engineering services and solutions. This is delivered through its unique Location-Independent Agile delivery model, recognised as a benchmark of excellence in software development.

The Company is a public limited company incorporated and domiciled in India. The address of its corporate office is TCS House, Raveline Street, Fort, Mumbai - 400001. As at 31st March, 2022, Tata Sons Private Limited, the holding company owned 72.27% of the Company's equity share capital.

The Board of Directors approved the standalone financial statements for the year ended 31st March, 2022 and authorised for issue on 11th April, 2022.

(b) An extract from the annual report of Tata Consultancy Services Limited for the year ended 31st March, 2022:

Overview and notes to the standalone financial statements

1. Overview

1.1 Company overview

Infosys Limited ("the Company" or Infosys) provides consulting, technology, outsourcing and next-generation digital services, to enable clients to execute strategies for their digital transformation. Infosys strategic objective is to build a sustainable organization that remains relevant to the agenda of clients, while creating growth opportunities for employees and generating profitable returns for investors. Infosys strategy is to be a navigator for our clients as they ideate, plan and execute on their journey to a digital future.

The Company is a public limited company incorporated and domiciled in India and has its registered office at Electronic city, Hosur Road, Bengaluru 560100, Karnataka, India. The

Company has its primary listings on the BSE Ltd. and National Stock Exchange of India Limited. The Company's American Depositary Shares (ADS) representing equity shares are listed on the New York Stock Exchange (NYSE).

The Standalone financial statements are approved for issue by the Company's Board of Directors on 13th April 2022.

Illustration 16

A Limited has prepared the following draft balance sheet as on 31st March 20X1: (₹ in crores)

Particulars	**31st March, 20X1**	**31st March, 20X0**
ASSETS		
Cash	250	170
Cash equivalents	70	30
Non-controlling interest's share of profit for the year	160	150
Dividend declared and paid by A Limited	90	70
Accounts receivable	2,300	1,800
Inventory at cost	1,500	1,650
Inventory at fair value less cost to complete and sell	180	130
Investment property	3,100	3,100
Property, plant and equipment (PPE) at cost	5,200	4,700
Total	**12,850**	**11,800**
	₹	₹
CLAIMS AGAINST ASSETS		
Long term debt (₹ 500 crores due on 1st January each year)	3,300	3,885
Interest accrued on long term debt (due in less than 12 months)	260	290
Share Capital		
Retained earnings at the beginning of the year	1,130	1,050
Profit for the year	1,875	1,740
Non-controlling interest	1,200	830
Accumulated depreciation on PPE	830	540
Provision for doubtful receivables	1,610	1,240
Trade payables	200	65

Accrued expenses	*880*	*790*
Warranty provision (for 12 months from the date of sale)	*15*	*30*
Environmental restoration provision (restoration expected in	*600*	*445*
20X6)	*765*	*640*
Provision for accrued leave (due within 12 months)		
Dividend payable	*35*	*25*
	150	*230*
Total	***12,850***	***11,800***

Prepare a consolidated balance sheet using current and non-current classification in accordance with Ind AS 1. Assume operating cycle is 12 months

Solution

A Limited

Consolidated Balance Sheet as at 31st March 20X1

(₹ in crores)

Particulars	Note	31.3.20X1	31.3.20X0
ASSETS			
Non-current assets			
(a) Property, plant and equipment	1	3,590	3,460
(b) Investment property		3,100	3,100
Total non-current assets		**6,690**	**6,560**
Current assets			
(a) Inventory	2	1,680	1,780
(b) Financial assets			
(i) Trade and other receivables	3	2,100	1,735
(ii) Cash and cash equivalents	4	320	200
Total current assets		**4,100**	**3,715**
Total assets		**10,790**	**10,275**
EQUITY & LIABILITIES			
Equity attributable to owners of the parent			
Share capital		1,130	1,050

Other Equity	5	2,825	2,350
Non-controlling interests		830	540
Total equity		4,785	3,940
LIABILITIES			
Non-current liabilities			
(a) Financial Liabilities			
Borrowings -Long-term debt	6	2,800	3,385
(b) Provisions			
Long-term provisions (environmental restoration)		765	640
Total non-current liabilities		3,565	4,025
Current liabilities			
(a) Financial Liabilities			
(i) Trade and other payables (Other than micro enterprises and small enterprises)	7	895	820
(ii) Current portion of long-term debt	8	500	500
(i) Interest accrued on long-term debt		260	290
(ii) Dividend payable		150	230
(b) Provisions			
(i) Warranty provision		600	445
(ii) Other short-term provisions		35	25
Total current liabilities		2,440	2,310
Total liabilities		6,005	6,335
Total equity and liabilities		10,790	10,275

Working Notes:

Notes	Particulars	Basis	Calculation ₹ crores	Amount ₹ crores
1	Property, plant and equipment	Property, plant and equipment (PPE) at cost *less* Accumulated (depreciation on PPE	5,200 – 1,610 (4,700 – 1,240)	3,590 (3,460)
2	Inventory	Inventory at cost *add* Inventory at fair value less cost to complete and sell	1,500 + 180 (1,650 + 130)	1,680 (1,780)

3	Trade and other receivables	Accounts receivable *less* Provision for doubtful receivables	2,300 – 200 (1,800 – 65)	2,100 (1,735)
4	Cash and cash equivalents	Cash and Cash equivalents	250 + 70 (170 + 30)	320 (200)
5	Other Equity	Retained earnings at the beginning of the year *add* Profit for the year *less* Non-controlling interest's share of profit for the year *less* Dividend declared by A Limited	1,875 + 1,200– 160 – 90 (1,740 + 830 – 150 – 70)	2,825 (2,350)
6	Long-term debt	Long-term debt *less* Due on 1st January each year	3,300 – 500 (3,885 – 500)	2,800 (3,385)
7	Trade & other payables	Trade payables *add* Accrued expenses	880 + 15 (790 + 30)	895 (820)
8	Current portion of long- term debt	Due on 1st January each year	- -	500 (500)

Note: Figures in brackets represent the figures for comparative year.

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1.9 SIGNIFICANT DIFFERENCES IN IND AS 1 VIS-À-VIS AS 1

Ind AS 1 deal with presentation of financial statements, whereas AS 1 deal only with the disclosure of accounting policies. The scope of Ind AS 1 is thus much wider and some of its requirements are contained in other AS e.g. AS 5 and, therefore, line by line comparison of the differences between Ind AS 1 and AS 1 is not possible. Therefore, the differences between Ind AS 1 and Indian GAAP are divided into following parts and summarised below.

S.No.	Particulars	Ind AS 1	AS 1
I.	**Part 1 Ind AS 1 requirement not covered in any AS**		
1.	Complete set of Financial Statements	Ind AS 1 prescribes what comprises a complete set of financial statements such as balance sheet, statement of profit and loss, statement of changes in equity, statement of cash flows, notes, comprising significant accounting policies, and comparative information in respect of preceding period.	Not covered in any AS
2.	Purpose and General Features of Financial Statements	Ind AS 1 lays down purpose of financial statements and general feature of financial statements such as True and Fair view and compliance with Ind AS. An enterprise shall make an explicit statement in the financial statements of compliance with all the Indian Accounting Standards. Further, Ind AS 1 allows deviation from a requirement of an accounting standard in case the management concludes that compliance with Ind AS will be misleading and if the regulatory framework requires or does not prohibit such a departure.	Not covered in any AS
3.	Off-setting	Ind AS 1 state that an entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.	Not covered in any AS
4.	Frequency of reporting	Ind AS 1 requires an entity to present a complete set of financial statements (including comparative information) at least annually.	Not covered in any AS
5.	Structure and Contents	Ind AS 1 requires an entity ▪ to clearly identify the financial statements and distinguish them from other information in the same published document. ▪ To give information about the name of the entity, whether financial statements are of individual entity of	Not covered in any AS

S.No.	Particulars	Ind AS 1	AS 1
		group of entities, presentation currency and level of rounding off.	
6.	Balance sheet	▪ Prescribes certain line items to be presented in the balance sheet and permits presentation of additional line items. ▪ Ind AS 1 requires presentation and provides criteria for classification of Current / Non- Current assets / liabilities. ▪ Ind AS 1 requires presentation of balance sheet as at the beginning of the earliest period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in the financial statements, or when it reclassifies items in its financial statements.	Not covered in any AS
7.	Statement of profit and loss	▪ Ind AS 1 requires that an entity shall present a single statement of profit and loss, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section. ▪ Ind AS 1 prohibits presentation of any item as 'Extraordinary Item' in the statement of profit and loss or in the notes. ▪ Ind AS 1 requires classification of expenses to be presented based on nature of expenses.	Not covered in any AS
8.	Reclassification of items	Ind AS 1 requires disclosure of nature, amount and reason for reclassification in the notes to financial statements.	Not covered in any AS
9.	Statement of Changes in Equity	Ind AS 1 requires the financial statements to include a 'Statement of Changes in	Not covered in any AS

S.No.	Particulars	Ind AS 1	AS 1
		Equity' to be shown as a separate statement, which, inter alia, includes reconciliation between opening and closing balance for each component of equity.	
10.	Comparative information	As per Ind AS 1, an entity shall include certain comparative information for understanding the current period's financial statements.	Not covered in any AS
11.	Classification of long-term loan arrangement	Ind AS 1 clarifies that long-term loan arrangement need not be classified as current on account of breach of a material provision, for which the lender has agreed to waive before the approval of financial statements for issue. (Paragraph 74 of Ind AS 1)	Not covered in any AS
II.	**Part 2 Ind AS 1 requirements vis-a-vis AS 1**		
1.	Fundamental accounting assumptions	Ind AS 1 requires adherence to accrual basis of accounting.	AS 1 only requires disclosure if this fundamental accounting assumption, among others like going concerns and consistency, is not followed by the entity.
2.	Rectification of accounting policies	Ind AS 1 explicitly states that an entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.	
3.	Sources of estimation uncertainty	Ind AS 1 requires to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.	

1.10 CARVE OUT IN IND AS 1 FROM IAS 1

As per IFRS

IAS 1 requires that in case of a non-current loan liability, if any condition of the loan agreement is breached on or before the reporting date, such loan liability should be classified as current, even if the breach is rectified after the balance sheet date.

Carve Out

Ind AS 1 clarifies that where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach. Consequent to this, requirements of paragraph 76 of IAS 1 to treat such events as non-adjusting events are also deleted.

Reason

Under Indian banking system, a long-term loan agreement generally contains a large number of conditions. Some of these conditions are substantive, such as, recalling the loan in case interest is not paid, and some conditions are procedural and not substantive, such as, submission of insurance details where the entity has taken the insurance but not submitted the details to the lender at the end of the reporting period. Generally, in case of any procedural breach, a loan is generally not recalled. Also, in many cases, a breach is rectified after the balance sheet date and before the approval of financial statements. Carve out has been made as it is felt that if the breach is rectified after the balance sheet date but before the approval of the financial statements, it would be appropriate that the users are informed about the true nature of liabilities being non-current liabilities instead of current liabilities.

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Questions

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

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

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

2. In December 20X1 an entity entered into a loan agreement with a bank. The loan is repayable in three equal annual instalments starting from December 20X5. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by promoters by 24^{th} March, 20X2, failing which the loan becomes payable on demand. As on 24^{th} March, 20X2, the entity has not been able to get the promoter's contribution. On 25^{th} March, 20X2, the entity approached the bank and obtained a grace period upto 30^{th} June, 20X2 to get the promoter's contribution.

   The bank cannot demand immediate repayment during the grace period. The annual reporting period of the entity ends on 31^{st} March.

   (a) As on 31^{st} March, 20X2, how should the entity classify the loan?

   (b) Assume that in anticipation that it may not be able to get the promoter's contribution by due date, in February 20X2, the entity approached the bank and got the compliance date extended upto 30th June, 20X2 for getting promoter's contribution. In this case will the loan classification as on 31st March, 20X2 be different from (a) above?

3. Company A has taken a long-term loan from Company B. In the month of December 20X1, there was a breach of material provision of the arrangement. As a consequence of which the loan becomes payable on demand on 31st March, 20X2. In the month of May 20X2, the company started negotiation with company B for not to demand payment as a consequence of the breach. The financial statements were approved for the issue in the month of June 20X2. In the month of July 20X2, both the companies agreed that the payment will not be demanded immediately as a consequence of breach of material provision.

   Advise on the classification of the liability as current / non-current.

4. Entity A has undertaken various transactions in the financial year ended 31st March, 20X1. Identify and present the transactions in the financial statements as per Ind AS 1. ₹

Remeasurement of defined benefit plans	2,57,000
Current service cost	1,75,000
Changes in revaluation surplus	1,25,000
Gains and losses arising from translating the monetary assets in foreign currency	75,000
Gains and losses arising from translating the financial statements of a foreign operation	65,000
Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	1,00,000
Income tax expense	35,000
Share based payments cost	3,35,000

5. XYZ Limited (the 'Company') is into the manufacturing of tractor parts and mainly supplying components to the Original Equipment Manufacturers (OEMs). The Company does not have any subsidiary, joint venture or associate company. During the preparation of financial statements for the year ended 31st March, 20X1, the accounts department is not sure about the treatment / presentation of below mentioned matters. Accounts department approached you to advice on the following matters.

S. No.	Matters
(i)	There are qualifications in the audit report of the Company with reference to two Ind AS.
(ii)	Is it mandatory to add the word "standalone" before each of the components of financial statements?
(iii)	The Company is Indian Company and preparing and presenting its financial statements in ₹. Is it necessary to write in the financial statements that the financial statements have been presented in ₹.
(iv)	The Company had sales transactions with 10 related party parties during previous year. However, during current year, there are no transactions with 4 related parties out of aforesaid 10 related parties. Hence, Company is of the view that it need not disclose sales transactions with these 4 parties in related party disclosures because with these parties there are no transactions during current year.

Evaluate the above matters with respect to preparation and presentation of a general-purpose financial statement.

Answers

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

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

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

2. (a) Ind AS 1, inter alia, provides, "An entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment." In the present case, following the default, grace period within which an entity can rectify the breach is less than twelve months after the reporting period. Hence as on 31st March, 20X2, the loan will be classified as current.

(b) Ind AS 1 deals with classification of liability as current or non-current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach. In this case, whether actual breach has taken place or not is to be assessed on 30th June, 20X2, i.e., after the reporting date. Consequently, in the absence of actual breach of the loan covenant as on 31st March, 20X2, the loan will retain its classification as non-current.

3. As per para 74 of Ind AS 1 "Presentation of Financial Statements", where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

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

In the given case, Company B (the lender) agreed for not to demand payment but only after the reporting date and the financial statements were approved for issuance. The financial statements were approved for issuance in the month of June 20X2 and both companies agreed for not to demand payment in the month of July 20X2 although negotiation started in the month of May 20X2 but could not agree before June 20X2 when financial statements were approved for issuance.

Hence, the liability should be classified as current in the financial statement as at 31st March, 20X2.

4. Items impacting the Statement of Profit and Loss for the year ended 31st March, 20X1 (₹)

Current service cost	1,75,000
Gains and losses arising from translating the monetary assets in foreign currency	75,000
Income tax expense	35,000
Share based payments cost	3,35,000

Items impacting the other comprehensive income for the year ended 31st March, 20X1 (₹)

Remeasurement of defined benefit plans	2,57,000
Changes in revaluation surplus	1,25,000
Gains and losses arising from translating the financial statements of a foreign operation	65,000
Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	1,00,000

5. (i) Yes, an entity whose financial statements comply with Ind AS shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with Ind AS unless they comply with all the requirements of Ind AS. (Refer Para 16 of Ind AS 1)

(ii) No, but need to disclose in the financial statement that these are individual financial statements of the Company. (Refer Para 51(b) of Ind AS 1)

(iii) Yes, Para 51(d) of Ind AS 1 inter alia states that an entity shall display the presentation currency, as defined in Ind AS 21 prominently, and repeat it when necessary for the information presented to be understandable.

(iv) No, as per Para 38 of Ind AS 1, except when Ind AS permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.