

CHAPTER 3

PRESENTATION OF FINANCIAL STATEMENT (IND AS 1)

QUESTIONS FROM ICAI STUDY MATERIAL

Q1: 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?

Ans: 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 prerogative of the management. In case the management has a bonafide reason to believe that it has complied with all Ind AS, it can make an explicit and unreserved statement of compliance with Ind AS.

Q2: Entity XYZ is a large manufacturer of plastic products for the local market. On 1 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 (CU) 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 reported a loss of CU 4,000 for the year ended 31 March 20X7. At 31 March 20X7, entity XYZ's equity was CU 1,000. Management restructured entity B's operations in the second quarter of 20X7. That restructuring helped reduce losses for the third and fourth quarters to CU 400 and CU 380, respectively.

In January 20X7 the local plastic industry and labour union lobbied government to reinstate tariffs on plastic. On 15 March 20X7, the government announced that it would reintroduce limited plastic import tariffs 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 entity XYZ undertook a going concern assessment at 31 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 31 March 20X7 annual financial statements?

Ans: Going concern is a general feature of Presentation of 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 at least 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 31 XYZ 20X7 financial statements

Note 1: Basis of preparation

On the basis of management's assessment at 31 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 15 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 the CU does not strengthen, management projects/forecasts that a 10 percent tariff on all plastic products would result in entity XYZ returning to profitability. At 31 March 20X7 entity XYZ had net assets of CU1,000. If import tariffs are not imposed and currency exchange rates remain unchanged, entity XYZ's liabilities could exceed its assets by the end of the third quarter of 20X8. On the basis of their assessment of these factors, management believes that entity XYZ is a going concern.

Q3: 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?

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

Q4: In 20X8 entity 'Superb' was acquired by entity 'Happy go lucky'. To align its reporting date with that of its parent. Superb changed the end of its annual reporting period from 31 January to 31 March. Consequently, entity Superb's reporting period for the year ended 31 March 20X8 is 14 months. What disclosure is required by Superb

Ans: On the basis of those facts, the following disclosure is appropriate.

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

Note 1

Basis of preparation and accounting policies

Reporting period

In 20X8, 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 31 January to 31 March. Amounts presented for the 20X8 reporting period are for a 14-month period. Comparative figures are for a 14-month 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.

Q5: A retail chain acquired a competitor in March, 2011 and accounted for the business combination under Ind AS 103 on a provisional basis in its 31st March, 2011 annual financial statements. The business combination accounting was finalised in 2011-2012 and the provisional fair values were updated. As a result, the 2010-2011 comparatives were adjusted in the 2011-12 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, 2010?

Ans: An additional statement of financial position is not required, because the acquisition had no impact on the entity's financial position at 1st April, 2010.

Q6: 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.

Ans: 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.

Q7: 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?

Ans: These should be classified as current.

Q8: 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 debtors?

[MTP May 2022]

Ans:

- (a) The length of the operating cycle will be 16 months.
- (b) Assuming the inventory and debtors will be realised within normal operating cycle, i.e., 16 months, both the inventory as well as debtors should be classified as current.

Q9: Identify Current and Non-current assets

- A) 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.
- B) 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.
- C) On 31 December 20x2 an entity replaced a machine in its production line. The replaced machine was sold to a competitor for ₹ 300,000. Payment is due 15 months after the end of the reporting period.
- D) On 1 April 20X2 XYZ Ltd invested ₹ 15,00,000 surplus funds in corporate bonds that bear interest at 8 per cent per year. Interest is payable on the corporate bonds on 1 April of each year. The capital is repayable in three annual instalments of ₹500,000 starting on 31 March 20X3.
- E) At the end of the reporting period a citrus grower's fruit trees bear partially developed oranges. Citrus trees bear fruit over many years.

- Ans:**
- a) 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.
- b) The machine and the building are non-current assets—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.
- c) The receivable is a non-current asset—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 of the end of the reporting period it would be a current asset.

- d) In its statement of financial position at 31 March 20X3 the entity must present the ₹ 1,20,000 accrued interest and ₹ 500,000 current portion of the non-current loan (ie the portion repayable on 31 March 20X3) as current assets—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—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.

- e) The citrus trees and the fruit they bear are accounted for as a single biological asset until the point of harvest. The trees and the fruit they are bearing are classified as non-current assets. Once harvested the fruit would be classified as current.

Q10: On 1 April 20X3 Charming Ltd issued 100,000 Rs 10 bonds for Rs 1,000,000. On 1 April each year interest at the fixed rate of 8 per cent per year is payable on outstanding capital amount of the bonds (ie the first payment will be made on 1 April 20X4). On 31 March each year (i.e from 31 March 20X4), Charming Ltd has a contractual obligation to redeem 10,000 of the bonds at Rs 10 per bond. How should Charming Ltd. classify such Bonds: current or non-current?

[MTP May 22]

Ans: In its statement of financial position at 31 March 20X4, Charming Ltd must present Rs 80,000 accrued interest and Rs 100,000 current portion of the non-current bond (ie the portion repayable on 31 March 20X4) as current liabilities. The Rs 900,000 due later than 12 months after the end of the reporting period is presented as a non-current liability.

Q11: X Ltd provides you the following information:

Raw material stock holding period	3 months
Work-in-progress holding period	1 months
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?

Ans: 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

Q12: Entity A has two different businesses, real estate and manufacture of passenger vehicles. With respect to the real estate business, the entity constructs residential apartments for customers and the normal operating cycle is three to four years. With respect to the business of manufacture of passenger vehicles, normal operating cycle is 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?

Ans: 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.

Q13: 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.

Ans:

- (a) 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) 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.

Q14: Paragraph 69(a) of Ind AS 1 states “An entity shall classify a liability as current when it expects to settle the liability in its normal operating cycle”. An entity develops tools for customers and this normally takes a period of around 2 years for completion. The material is supplied by the customer and hence the entity only renders a service. For this, the entity receives payments upfront and credits the amount so received to “Income Received in Advance”. How should this “Income Received in Advance” be classified, i.e., current or non-current?

Ans: 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.

Q15: 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?

[Exam May 23 (5 Marks); MTP SEP 25]

- Ans:**
- (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.

Q16: In December 2XX1 an entity entered into a loan agreement with a bank. The loan is repayable in three equal annual instalments starting from December 2XX5. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by promoters by March 24 2XX2, failing which the loan becomes payable on demand. As on March 24, 2XX2, the entity has

not been able to get the promoter's contribution. On March 25, 2XX2, the entity approached the bank and obtained a grace period upto June 30, 2XX2 to get the promoter's contribution.

The bank cannot demand immediate repayment during the grace period. The annual reporting period of the entity ends on March 31, 2XX2.

- (a) As on March 31, 2XX2, 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 2XX2, the entity approached the bank and got the compliance date extended upto June 30, 2XX2 for getting promoter's contribution. In this case will the loan classification as on March 31, 2XX2 be different from (a) above?

[Exam May 22 (5 Marks); MTP May 24; May 25]

- Ans:**
- (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 March 31, 2XX2, the loan will be classified as current.
 - (b) Ind AS 1 deals with classification of liability as current or non-current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach. In this case, whether actual breach has taken place or not is to be assessed on June 30, 2XX2, i.e., after the reporting date. Consequently, in the absence of actual breach of the loan covenant as on March 31, 2XX2, the loan will retain its classification as non-current.

Q17: 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?

Ans: 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.

Q18: 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?

[RTP May 2022; MTP Nov 24; IBS (Nov24 Exam)]

Ans: 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.

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

- (a) No more than twelve months after the reporting period, and
- (b) More than twelve months after the reporting period.”

Q19: Company A has taken a long term loan arrangement from Company B. In the month of December 20X1, there has been a breach of material provision of the arrangement. As a consequence of which the loan becomes payable on demand on March 31, 20X2. In the month of May 20X2, the Company started negotiation with the 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 company 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.

[RTP May 2018]

Ans: 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.

In the given case, Company B (the lender) agreed for not to demand payment but only after 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 for the year ended March 31, 20X2.

Q20:	Entity A has undertaken various transactions in the financial year ended March 31, 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

Ans: 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

Q21: 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 March 31, 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 has 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 general purpose financial statement. **[MTP May 2025]**

- Ans:**
- 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 statement 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.

Q22: A Company presents financial results for three years (i.e., one for current year and two comparative years) internally for the purpose of management information every year in addition to the general purpose financial statements. The aforesaid financial results are presented without furnishing the related notes because these are not required by the management for internal purpose. During current year, management thought why not they should present third year statement of profit and loss also in the general purpose financial statements. It will save time and will be available easily whenever management needs this in future.

With reference to above background, answer the following:

- i) Can management present the third statement of profit and loss as additional comparative in the general-purpose financial statements?
- ii) If management present third statement of profit and loss in the general purpose financial statement as comparative, is it necessary that this statement should be compliant of Ind AS?
- iii) Can management present third statement of profit and loss only as additional comparative in the general purpose financial statements without furnishing other components (like balance sheet, statement of cash flows, statement of change in equity) of financial statements?

- Ans:**
- i) Yes, as per Para 38C of Ind AS 1, 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 paragraph 10 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.
 - ii) Yes, as per Para 38C of Ind AS 1, 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.
 - iii) Yes, as per Para 38C of Ind AS 1, 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 paragraph 10 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.

Q23: A Company while preparing the financial statements for Financial Year (FY) 20X1 -20X2, erroneously booked excess revenue of ₹ 10 Crore. The total revenue reported in FY 20X1-20X2 was ₹ 80 Crore. However, while preparing the financial statements for 20X2-20X3, it discovered that excess revenue was booked in FY 20X1 -20X2 which it now wants to correct in the financial statements. However, management of the Company is not sure whether it need to present the third balance sheet as additional comparative.

regard to the above background, answer the following:

- a) Is it necessary to provide the third balance sheet at the beginning of the preceding period in this case?
- b) The Company wants to correct the error during FY 20X2 -20X3 by giving impact in the figures of current year only. Is the contention of management, correct?

- Ans:** a) No, as per Para 40A of Ind AS 1, an entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements required in paragraph 38A if:
- it applies an accounting policy retrospectively, 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.
- b) No, management need to correct the previous year figures to correct the error but need not to furnish third balance sheet at the beginning of preceding period. (Refer Para 40A of Ind AS 1)

Q24: XYZ Limited (the 'Company') is into construction of turnkey projects and has assessed its operating cycle to be 18 months. The Company has certain trade receivables and payables which are receivable and payable within a period of twelve months from the reporting date, i.e, March 31, 20X2.

In addition to above there are following items/transactions which took place during financial year 20X1-20X2.

S. No.	Items/transactions
(1)	The Company has some trade receivables which are due after 15 months from the date of balance sheet. So, the Company expects that the payment will be received within the period of operating cycle.
(2)	The Company has some trade payables which are due for payment after 14 months from the date of balance sheet. These payables fall due within the period of operating cycle. Though the Company does not expect that it will be able to pay these payable within the operating cycle because the nature of business is such that generally projects get delayed and payments from customers also gets delayed.
(3)	The Company was awarded a contract of ₹ 100 Crore on March 31, 20X2. As per the terms of the contract, the Company made a security deposit of 5% of the contract value with the customer, of ₹ 5 crore on March 31, 20X2. The contract is expected to be completed in 18 month's time. The aforesaid deposit will be refunded back after 6 months from the date of the completion of the contract.

- (4) The Company has also given certain contracts to third parties and have received security deposits from them of ₹ 2 Crore on March 31, 20X2 which are repayable on completion of the contract but if contract is cancelled before the contract term of 18 months, then it becomes payable immediately. However, the Company does not expect the cancellation of the contract.

Considering the above items/transactions answer the following:

- The Company wants to present the trade receivable as current despite the fact that these are receivables in 15 months' time. Does the decision of presenting the same as current is correct?
- The Company wants to present the trade payables as non-current despite the fact that these are due within the operating cycle of the Company. Does the decision of presenting the same as non-current is correct?
- Can the security deposit of ₹ 5 Crore made by the Company with the customers be presented as current?
- Can the security deposit of ₹ 2 Crore taken by the Company from contractors be presented as non-current?

- Ans:**
- Yes, but additionally the Company also need to disclose amounts that are receivable within a period of 12 months and after 12 months from the reporting date. (Refer Para 60 and 61 of Ind AS 1)
 - No, the Company cannot disclose these payables as non-current and the Company also need to disclose amounts that are payable within a period of 12 months and after 12 months from the reporting date. (Refer Para 60 and 61 of Ind AS 1)
 - No, because the amount will be received after the operating cycle of the Company. (Refer Para 66 of Ind AS 1)
 - No, because the amount may be required to be paid before completion of the contact in case the contract is cancelled. (Refer Para 69 of Ind AS 1).

Q25: Is offsetting permitted under the following circumstances?

- Expenses incurred by a holding company on behalf of subsidiary, which is reimbursed by the subsidiary - whether in the separate books of the holding company, the expenditure and related reimbursement of expenses can be offset?
- Whether profit on sale of an asset against loss on sale of another asset can be offset?
- When services are rendered in a transaction with an entity and services are received from the same entity in two different arrangements, can the receivable and payable be offset?

[RTP Nov 2021; Nov 24 Exams (4 Marks)]

Ans:

- As per paragraph 33 of Ind AS 1, offsetting is permitted only when the offsetting reflects the substance of the transaction.

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

- b) Paragraph 35 of Ind AS 1 requires an entity to present on a net basis gains and losses arising from a group of similar transactions. Accordingly, gains or losses arising on disposal of various items of property, plant and equipment shall be presented on net basis. However, gains or losses should be presented separately if they are material.
- c) Ind AS 1 prescribes that assets and liabilities, and income and expenses should be reported separately, unless offsetting reflects the substance of the transaction. In addition to this, as per paragraph 42 of Ind AS 32, a financial asset and a financial liability should be offset if the entity has legally enforceable right to set off and the entity intends either to settle on net basis or to realise the asset and settle the liability simultaneously.

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

Q26: A Limited has prepared the following draft balance sheet as on 31st March 20X1:
(₹ in crores)

Particulars	March 31, 20X1	March 31, 20X0
ASSETS		
Cash	250	170
Cash equivalents	70	30
Non-Controlling interest's share of profit for the year	160	150
Dividend declared 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
Particulars	March 31, 20X1	March 31, 20X0
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	1,130	1,050
Retained earnings at the beginning of the year	1,875	1,740
Profit for the year	1,200	830
Non-controlling interest	830	540

Accumulated depreciation on PPE	1,610	1,240
Provision for doubtful receivables	200	65
Trade payables	880	790
Accrued expenses	15	30
Warranty provision (for 12 months from the date of sale)	600	445
Environmental restoration provision (restoration expected in 20X6)	765	640
Provision for accrued leave (due within 12 months)	35	25
Dividend payable	150	230
Total	12,850	11,800

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

Ans: A Limited

Balance Sheet as at 31st March 20X1

(₹ in crores)

Particulars	March 31, 20X1	March 31, 20X0
ASSETS		
Non-current assets		
(a) Property, plant and equipment (Refer Note 5)	3,590	3,460
(b) Investment property	3,100	3,100
Current assets		
(a) Inventory (Refer Note 6)	1,680	1,780
(b) Financial assets		
Trade and other receivables (Refer Note 7)	2,100	1,735
(c) Cash and cash equivalents (Refer Note 8)	320	200
Total assets	10,790	10,275
EQUITY & LIABILITIES		
Equity attributable to owners of the parent		
Share capital	1,130	1,050
Other Equity (Refer Note 1)	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 (Refer Note 2)	2,800	3,385
(b) Provisions		
Long-term provisions (environmental restoration)	765	640

Current liabilities		
(a) Financial Liabilities		
(i) Trade and other payables (<i>Refer Note 3</i>)	895	820
(ii) Current portion of long-term debt (<i>Refer Note 4</i>)	500	500
(iii) Interest accrued on long-term debt	260	290
(b) Provisions		
(i) Warranty provision	600	445
(ii) Other short-term provisions	35	25
(c) Other current liability		
Dividends payable	150	230
Total liabilities	6,005	6,335
Total equity and liabilities	10,790	10,275

Working Notes:

Notes	Particulars	March 31, 20X1	March 31, 20X0
1.	Retained earnings		
	Retained earnings at the beginning of the year	1,875	1,740
	Add: Profit for the year	1,200	830
	Less: Non- controlling interest's share of profit for the year	160	150
	less Dividend declared by A Limited	90	70
		2,825	2,350
2	Long-term debt		
	Long-term debt	3,300	3,885
	less Due on 1st January each year	500	500
		2,800	3,385
3	Trade & other payables		
	Trade payables	880	790
	Add Accrued expenses	15	30
		895	820
4	Current portion of long- term debt		
	Due on 1st January each year	500	500
5	Property, plant and equipment		
	Property, plant and equipment (PPE) at cost	5,200	4,700
	Less: Accumulated (depreciation on PPE	1,610	1,240
		3,590	3,460
6	Inventory		
	Inventory at cost	1,500	1,650
	Add Inventory at fair value Less cost to complete and sell	180	130
		1,680	1,780
7	Trade and other receivables		

	Accounts receivable	2,300	1,800
	Less: Provision for doubtful receivables	200	65
		2,100	1,735
8	Cash and cash equivalents		
	Cash	250	170
	Add: Cash equivalents	70	30
		320	200

QUESTIONS FROM OTHER SOURCE

Q27: KAY Ltd. is in the process of finalizing its accounts for year ended 31st March, 2014 and furnishes the following information:

- (i) Finished goods normally are held for 30 days before sale.
- (ii) Sales realization from Debtors usually takes 60 days from date of credit invoice.
- (iii) Raw materials are held in stock to cover one month's production requirements.
- (iv) Packing materials, being specifically made for the company and having lead time of 90 days is held in stock for 90 days.
- (v) The holding period in respect of unfinished goods is 30 days.
- (vi) Being a monopoly KAY Ltd. enjoys a credit period of 12.5 months from its suppliers who sometimes at the end of their credit period opt for conversion of their dues into long term debt of KAY Ltd.

You are required to compute the operating cycle of KAY Ltd. as per Schedule III of Companies Act, 2013. As the suppliers of the company are paid off after a credit period of 12.5 months should this be part of Current Liability? Would your answer be the same if the creditors are settled in 330 days?

Ans: Operating cycle of Kay Ltd. will be computed as under:

Raw material stock holding period + Work-in-progress holding period + Packing Materials holding period + Finished goods holding period + Debtors collection period = 1 + 1 + 3 + 1 + 2 = 8 months

There are two situations:

- (a) When credit period given by supplier is 12.5 months: The nature of classification of liability is to be seen with reference to the reporting date. Hence all liabilities except those that arise in the last fortnight of the accounting period will be "Current" as this will have to be settled within 12 months of the reporting date. Thus, all liabilities that do not arise in the last fortnight of the accounting period will be "Non-Current".
- (b) When credit period given by suppliers is 330 days (i.e. 11 months approx.): If the creditors are settled in 330 days i.e. within 11 months. This satisfies the third condition

i.e. it is due to be settled within twelve months after the reporting date and there is no option to defer it. Hence, in the case it will be treated as current liability.

Q28: XYZ Limited is having the following Fixed Deposit Receipts:

	Date of FDR	Maturity Date	Amount (₹)
Axis Bank Limited	01 January, 2014	30 April, 2015	10,00,000
Punjab National Bank	01 January, 2014	30 June, 2014	15,00,000
State Bank of India	28 February, 2014	30 May, 2014	10,00,000
ICICI Bank	31 January, 2013	31 January, 2015	10,00,000

Prepare 'Notes to accounts' showing the above deposits in accordance with the requirements of Schedule III. Reporting Date is 31 March 2014

Ans: Notes to Accounts

S. No.	Particulars		Amount in ₹
1.	Non-current assets		
	Financial Assets		
	- Other Financial Assets		
	FDR of Axis Bank Limited		10,00,000
2.	Current assets		
	Financial Assets		
	- Cash and cash equivalents		
	FDR of State Bank of India	10,00,000	
	- Other bank balances		
	FDR of ICICI Bank	10,00,000	
	FDR of Punjab National Bank	15,00,000	35,00,000

Note: The above 'Notes to Accounts' have been prepared on the basis of IND AS 1. It states that in case of bank deposits having maturity of more than 3 months but up to 12 months will be shown as "Other bank balances" under Current Financial assets. As per IND AS 7, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Therefore, even if the remaining maturity of FDR from reporting date is 3 months or less but its original maturity is more than 3 months from the date of acquisition it will be shown under the sub-heading "Other Bank Balances".

It also states that bank deposits having maturity of more than 12 months should be shown as "Other Financial assets" under non-current financial assets

Working Notes:

	Amount in ₹	Date of FDR	Maturity date	Maturity months from the reporting date i.e. 31.3.2014
Axis Bank Limited	10,00,000	1.1.2014	30.4.2015	13
Punjab National Bank	15,00,000	1.1.2014	30.6.2014	3

State Bank of India	10,00,000	28.2.2014	30.5.2014	2
ICICI Bank	10,00,000	31.1.2013	31.1.2015	10
	45,00,000			

Chp Nov 26

Q29: A Ltd has following Balances as on 1/4/2018

	₹ 000
Equity Share Capital (of ₹ 10 each)	2,000
Shares application money pending Allotment	2,000
General Reserve	200
Convertible Preference Share Capital	
- Liability Component	400
- Equity Component	800
Revaluation Surplus	1200
Retained earnings	1,800
Securities Premium	800

Additional information:

(a) During the year 18-19, 40,000 ES of ₹10 each were allotted at a premium of ₹ 40 out of share application money

(b) Purchase of furniture 20,000 on 01/10/17 were wrongly debited to purchase account. Rate of Dep = 10%

(c) During the year, management decided to change method of inventory valuation from FIFO to WAPM due to this opening Stock will be reduced by ₹ 40,000

(d) Dividend including CDT paid ₹1,00,000

(e) Total comprehensive income for 18-19

PL =	₹ 10,00,000
OCI =	₹ 2,50,000

(f) OCI consist of following items

(a) Items that will be reclassified to PL	
Changes in FV of debt instrument through OCI	₹ 1,00,000
Effective portion of cash flow hedge	₹ (70,000)
(b) Items that will not be reclassified to PL	
Revaluation surplus	₹ 1,00,000

Changes in FV of equity through OCI

₹1,20,000

(g) During the year, amount of additional dep has been transferred from Revaluation Surplus to retained earning = ₹ 80,000

(h) Transfer to general reserve = ₹ 1,00,000

Prepare Statement of Changes in equity

Ans: Statement of Shareholders Equity for the year ended 30 June 2014

a) Equity Share Capital

Balance as at 1-4-08	Changes during the year	Balance as at 31-03-09
2,000	400	2,400

b) Other Equity

	Shares Application money pending allotment	Equity Component of CFI	General Reserve	Securities Premium	Retained earnings	Debt Instrument though OCI	Equity Instrument Though OCI	Revaluation surplus	Cash flow hedge reserve	Total
Balance as at 1-4-08	2,000	800	200	800	1,800	-	-	1,200	-	6,800
Effect due to changes in accounting policy					(40)					(40)
Effect due to correction of error					19					19
Restated Balance as at 1-4-08	2,000	800	200	800	1,779	-	-	1,200	-	6,779
Issue of new shares	(2,000)		-	1,600	-			-		(400)
TCI	-		-		1,000	100	120	100	(70)	1,250
Dividends					(100)					(100)
Transfer from Revaluation surplus	-				80			(80)		-
Transfer to General Reserve	-		100		(100)			-		-
Balance as at 31/03/09	-	800	300	2,400	2,659	100	120	1,220	(70)	7,529

Q30: Alumina, Inc. is a company engaged in extraction of Aluminum. The company's CFO has asked you to prepare a statement of changes in equity for the company for the year ended 30 June 2014. Following information is available:

The composition of the company's shareholders equity as at 1 July 2013 was as follows:

₹ in million

Equity Shares, 20 Million authorized shares, 5 Million issued and outstanding	50
Securities premium	120
Capital reserves	30
Retained earnings	90
Revaluation surplus	15
	305

On 30 August 2013, the company declared and issued 10% bonus shares. Price per share at the date was ₹ 40.

On 1 September 2013, the company issued 1 million new shares for total consideration of ₹ 45 million. The face Value of a equity share is ₹ 10.

Profit for the financial year ended 30 June 2014 amounted to ₹ 50 million and the company paid dividends totaling ₹ 16 million.

The company is required under law to set a side 10% of net income for the period and credit it to capital reserve.

The company reversed upward revaluation of an asset by ₹ 5 million. The revaluation surplus already includes ₹ 7 million of such initial upward revaluation.

Ans: Following is the statement of shareholders equity for Alumina, Inc. for financial year ended 30 June 2014. Each change is explained in the notes below:

Alumina, Inc.

Statement of Shareholders Equity for the year ended 30 June 2014

	Equity Shares	Securities Premium	Capital Reserve	Retained earnings	Revaluation surplus	Total
	₹ in million					
Balance as at 1-Jul-13	50	120	30	90	15	305
Issue of bonus shares	5	-	-	(5)	-	-
Issue of new shares	10	35	-	-	-	45
TCI	-	-	-	50	-	50
Transfer to capital reserve	-	-	5	(5)	-	-
Dividends	-	-	-	(16)	-	(16)
Reversal of revaluation	-	-	-	-	(5)	(5)

Balance as at 30-Jun-14	65	155	35	114	10	379
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QUESTIONS FROM RTP/MTP/EXAMS

Q31: An entity has the following trial balance line items. How should these items be classified, i.e., current or non-current as per Ind AS 1?

- (a) Receivables (viz., receivable under a contract of sale of goods in which an entity deals)
- (b) Advance to suppliers
- (c) Income tax receivables [other than deferred tax]
- (d) Insurance spares

[RTP May 21; MTP Nov 22]

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

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

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

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

- (b) As discussed in point (a) above, advances to suppliers for goods and services would be classified in accordance with normal operating cycle if it is given in relation to the goods or services in which the entity normally deals. If the advances are considered a part the normal operating cycle, it would be classified as a current asset. If the operating cycle exceeds twelve months, then additional disclosure as required by paragraph 61 of Ind AS 1 is required to be given in the notes.
- (c) Classification of income tax receivables [other than deferred tax] will be driven by paragraph 66 (c) of Ind AS 1, i.e., based on the expectation of the entity to realise the asset. If the receivable is expected to be realised within twelve months after the reporting period, then it will be classified as current asset else non-current asset.
- (d) Para 8 of Ind AS 16 states that items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Ind AS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

Accordingly, the insurance spares that are treated as an item of property, plant and equipment would normally be classified as non-current asset whereas insurance spares that are treated as inventory will be classified as current asset if the entity expects to consume it in its normal operating cycle.

Q32: Entity A had obtained a long-term bank loan during January 2019, which is subject to certain financial covenants. One of such covenants states that during the tenure of the loan, debt equity ratio of 65:35 is to be maintained at all time. In case of breach of this covenant, the loan will be repayable immediately. The loan agreement also states that these covenants will be assessed at the end of each quarter and reported to the bank within a month from the end of each quarter. If the covenants are breached at this time, the loan will be repayable immediately. The entity closes its annual accounts as on 31st March every year.

You are required to show how the loan will be classified as on 31st March 2020, if:

- (i) At the financial year end, Entity A determines that it is not in breach of any of the covenants;
- (ii) At the quarter ending 31st December 2019, Entity A's debt equity ratio became 75:25 and thus breaches the covenant, however it obtains a waiver from the bank. The terms of the waiver specify that if Entity A rectifies the breach within a period of 12 months from the reporting date then the bank cannot demand repayment immediately on account of the breach during this period. Entity A expects to rectify the breach by raising additional equity capital by means of a rights issue to the existing shareholders and expects that the issue will be fully subscribed;
- (iii) Considering the same facts as in (ii) above, except obtaining the waiver clause, what would be your answer?

[Exam JAN 2021 (5 Marks)]

Ans: Para 74 of Ind AS 1 'Presentation of Financial Statements', states 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.

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.

- (i) The entity has obtained a long-term loan during January, 2019. Since repayment period of the loan is not mentioned in the question, it is assumed that on 31st March 2020, the repayment period of the loan is more than 12 months. Further, the entity has not breached the covenants specified in the loan; therefore, as at 31st March, 2020, the loan will be classified as 'non-current liability'.
- (ii) In the second case, though there is a breach of covenant on 31st December, 2019 i.e. before reporting date of 31st March, 2020, yet the bank had agreed to provide a period of grace for twelve months from the reporting period, within which the entity A can

rectify the breach and during this period bank cannot demand immediate repayment. Also, entity A has intention to rectify the breach. Thus, entity A will classify the liability of bank loan as non-current liability in its books as at 31st March, 2020.

- (iii) Since the covenant for the bank loan has been breached during the quarter ended 31st December, 2019 and reported to the bank within one month from the end of the quarter i.e., by 31st January, 2020, the bank loan becomes repayable immediately. Therefore, it will be presented as current liability in the books of entity A as on 31st March, 2020.

Q33: A holding company [being the entity under consideration] gives a loan / intercorporate deposit to a subsidiary that is recoverable on demand, at a rate of interest at 10%.

- a) Should such loan be disclosed as a current/non-current asset in the books of the holding company?
- How relevant would the commercial reality of the transaction be in comparison to the legal terms of the transaction?
- b) How this loan / inter-corporate deposit that is repayable on demand would be classified in the books of the subsidiary? **[MTP Nov 2021]**

- Ans:**
- a) Paragraph 66 (c) of Ind AS 1 provides that an asset shall be classified as current when an entity expects to realise the asset within a period of twelve months after the reporting period. To determine the expectation of the entity, the commercial reality of the transaction should also be considered. If the loans have been given with an understanding that these loans would not be called for repayment even though a clause may have been added that these are recoverable on demand, it should be classified as a non-current asset.
- b) Paragraph 69(c) of Ind AS 1 provides that a liability should be classified as current if the liability is due to be settled within twelve months after the reporting period. Since the loan/inter-corporate deposit would become due immediately as and when demanded and presuming that the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, it should be classified as current liability.

Q34: Charm Limited (the 'Company') is a manufacturing company, which is into manufacturing of wires and cables and has assessed its operating cycle to be 15 months. The Company has some trade receivables which are receivable within a period of 12 months from the reporting date i.e. 31st March 2021.

With respect to the following transactions, which took place during the financial year 2020-2021, give your opinion based on relevant Ind AS:

- a) The Company has received a contract of ₹ 10 crore on 31st March 2021. The terms of the contract require the Company to make a security deposit of 20% of the contract value with the customer. The Company made a security deposit of ₹ 2 crore on 31st March 2021. This contract will be completed in about 14 months. 70% of the deposit will be refunded immediately and the balance 30% of the deposit will be refunded after

- 3 months from the completion of the contract. The Company wants to present the security deposit of ₹ 2 crore as non-current. Is the management's decision correct?
- b) The Company has some trade receivables that are due after 14 months from the date of the balance sheet; the management of the Company expects to receive the amount within the period of the operating cycle. Despite the fact that these are receivables in 14 months, the management would like to present these as current. Is the management's decision correct?
- c) In the normal course of business, the Company has given 2 contracts and received a total security deposit of ₹ 4 crore. ₹ 3 crore is received from X Limited and ₹ 1 crore is received from Y Limited on 31st March 2021. These are repayable on completion of the contract. However, if the contract is cancelled within the contract term of 18 months, then the deposit becomes payable immediately. The Company is positive about the contract with X Limited but is in doubt about the contract received from Y Limited. The Company wants to present the amount of ₹ 3 crore as non-current and ₹ 1 crore as current in the balance sheet. Is the management's decision correct?
- d) The Company is planning to replace a machinery. It has given an advance of ₹ 1 crore for purchase of new machinery which will be delivered in 6 months from the date of the balance sheet. It has sold the old machinery for ₹ 0.5 crore, the payment of which is due in 10 months from the date of the balance sheet. The Company wants to present both these amounts as current since they will be settled within twelve months from the end of the reporting period. Is the management's decision correct?

[Exam JULY 2021 (4 Marks); MTP Jan 2026]

Ans: Operating cycle of Charm Limited = 15 months

- a) The security deposit made by the Company with the customers be classified as current assets to the extent of 70% ($₹ 2 \text{ crore} \times 70\% = ₹ 1.40 \text{ crore}$) as it will be refunded immediately on completion of 14 months of contract i.e. within the operating cycle of 15 months.

However, 30% of the security deposit will be refunded after 3 months of completion of the contract ($14+3 = 17 \text{ months}$) i.e. after 2 months of operating cycle (Operating cycle of the Company is 15 months). Hence, it will be classified as non-current. Therefore, management's decision is not correct. (Refer Para 66 of Ind AS 1)

- b) Yes, the Company's decision of presenting the trade receivables as Current Assets is correct despite the fact that these are receivables in 14 months' time since the operating cycle of the company is 15 months and any event arising due to trade will be considered as current if its settlement is within the tenure of operating cycle. Additionally, the Company also need to disclose amounts that are receivable within a period of 12 months and after 12 months from the reporting date. (Refer Para 60 and 61 of Ind AS 1)

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

Although it is expected that X Limited will fulfil the contract and the deposit will not be refunded, but in case of cancellation within the contract term, refund of security deposit is a condition that is not within the control of the entity. Hence, Charm Limited does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Accordingly, the deposit will have to be classified as current liability in case of both X and Y Limited.

- d) Yes, the management decision to classify the payment of ₹ 0.5 crore as a current asset is correct since the payment will be realised in less than twelve months from the end of the reporting period.

Capital advances are advances given for procurement of Property, Plant and Equipment etc. Typically, companies do not expect to realize them in cash. Rather, over the period, these get converted into non-current assets. Hence, capital advances should be treated as other non-current assets irrespective of when the Property, Plant and Equipment is expected to be received.

Under Ind AS Schedule III, Capital Advances are not to be classified under Capital Work in Progress since they are specifically to be disclosed under other non-current assets.

Accordingly, advance of ₹ 1 crore given for purchase of machinery is 'Capital advance' which will be classified as non-current as it relates to acquisition of non-current item i.e., machinery. Hence, management decision to classify it as current is incorrect.

Q35: As per the statutory requirements, exceptional items are required to be disclosed whereas Ind AS 1 requires separate disclosures of material items and how these are to be presented in the financial statements. Does that imply that 'exceptional' means 'material'? Give examples. How should these be presented in the financial statements?

[RTP Nov 2022; Exam Sep 2025 (4 Marks)]

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

As per Ind AS 1, 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 and it could be the determining factor.

When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

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

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

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

- (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
- (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
- (c) disposals of items of property, plant and equipment;
- (d) disposals of investments;
- (e) discontinued operations;
- (f) litigation settlements; and
- (g) other reversals of provisions.

Q36: In December, 2022, X Limited entered into a loan agreement with a Bank. The loan is repayable in five annual installments commencing from 1st October, 2024. One of the material provisions of the loan agreement is that X limited should create an equitable mortgage on its assets in favour of the Bank by 31st March, 2023 failing which the loan would become payable on demand. X Limited is not able to create the equitable mortgage by 31st March, 2023. In April, 2023, X Limited started negotiation with the Bank and requested it not to demand payment due to non-creation of the equitable mortgage.

Meanwhile the financial statements of X Limited for the year ended 31st March, 2023 were approved for issue on 30th May, 2023. In the month of June, 2023, the Bank agreed that the payment would not be demanded immediately as a consequence of breach of the material provision. How would the loan liability be classified by X Limited as at 31st March, 2023?

[Exam May 2024 (4 Marks)]

Ans: As per 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, bank (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 on 30th May 2023 and the Bank agreed for not to demand payment in the month of June 2023 although negotiation started in the month of April 2023 but could not agree before May 2023 when financial statements were approved for issuance.

Hence, the liability should be classified as current in the financial statement as at 31st March, 2023.

Q37: Assume operating cycle to be of twelve months. Classify the following deposits given by an entity in automobile industry during the year ended 31st March, 2025 either as current asset or non-current asset. Give reasons.

- a) Electricity deposit paid to permanently enhance the power load of the factory.
- b) Tender deposit. Tender is likely to be opened & awarded to the lowest bidder within next six months.
- c) GST demand deposited with the department against which the entity has filed an appeal before the appellate authorities. Appeal is likely to be heard after 30th June, 2026.
- d) Earnest money deposit on award of a long-term job contract to be completed by 31st May, 2026. Earnest money is returnable only on completion of the job work.

[Exam May 2025 (4 Marks)]

- Ans:**
- (i) **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.
 - (ii) **Tender Deposit** - In the given case, tender is likely to be opened and awarded to the lowest bidder within six months. Therefore, it is expected that the refund of tender deposit will also be received within a few days or a month from the date of tender being opened and awarded. Hence, tender deposit will be classified as current asset in the books of the entity as on 31st March, 2025.
 - (iii) **GST Demand Deposit paid under dispute** - Since appeal is likely to be heard after 30th June, 2026 i.e., 15 months from 31st March, 2025 (reporting date), it should classify such GST demand deposit as non-current asset.
 - (iv) **Earnest Money Deposit** - Since the job contract is of long term in nature and is expected to be completed by 31st May, 2026, i.e., 14 months from 31st March, 2025 (reporting date), the earnest money deposit should be classified as non-current asset.

NOTES

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