Refresher Course on Accounting Standards

(*Case studies, disclosures and impact on Audit reporting of SMEs*)

5th July, 2020, Sunday

Topics for today:

- Applicability of Accounting Standards (AS) and the Framework
- AS 1 Disclosure of accounting policies
- AS 4 Contingencies and events occurring after the balance sheet date
- AS 5 Net profit or loss for the period, prior period items and changes in accounting policies

Presented by
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Applicability of Accounting Standards

- ❑ The set of Accountings standards for companies
- ❑ Exemptions & Relaxations
- ❑ Case Study
- ❑ Applicability of AS to Non Corporate Entities
- ❑ Case Study

Two set of Accounting Standards for Companies

The Companies Act, 2013, as amended ('the Act')

Indian Accounting Standards (Ind AS)

The Companies (Indian Accounting Standards) Rules, 2015, as amended

Applicable to Companies based on prescribed criteria

No exemptions/relaxations from compliance of any Ind AS

Accounting Standards (AS)

The Companies (Accounting Standards) Rules, 2006, as amended

Applicable to Companies whom Ind AS is not applicable

Certain exemptions/relaxations from compliance of AS to :

Small & Medium Sized Company (SMC)

Small Company

One Person Company (OPC)

Dormant Company

Compliance with applicable Accounting Standards is mandatory for all the companies incorporated under the Act.

Indian Accounting Standards (Ind AS)

ENTITY TYPE	Companies			NBFCs		Banks
APPLY FROM F.Y.	On or after 2015-16 with comparatives for 2014-15 or thereafter	On or after 2016-17 with comparatives for 2015-16 or thereafter	On or after 2017-18 with comparatives for 2016-17 or thereafter	On or after 2018-19 with comparatives for 2017-18 or thereafter	On or after 2019-20 with comparatives for 2018-19 or thereafter	As per RBI norms
CRITERIA LISTING*	• Companies can voluntary adopt Ind AS	• Companies whose equity or debt securities are listed on stock exchange in India or outside India and having NW of >=Rs 500 Crores	• Companies whose equity or debt securities are listed on stock exchange in India or outside India (NW < 500 Crores)	• NBFCs whose equity or debt securities are listed on stock exchange in India or outside India and having NW >= Rs 500 Crores	• NBFCs whose equity or debt securities are listed on stock exchange in India or outside India (NW < 500 Crores)	Deferred till further notice (vide RBI Notification dated 22-03-2019)
NET WORTH (NW)		• Unlisted companies having NW >= of Rs 500 Crores	• Unlisted companies having NW >= Rs 250 Crores & < Rs 500 Crores	• Unlisted NBFCs having NW >= Rs 500 Crores	• Unlisted NBFCs having NW >= Rs 250 Crores & < Rs 500 Crores	
GROUP		• Holding, subsidiary, JV or associate of above	• Holding, subsidiary, JV or associate of above	• Holding, subsidiary, JV or associate of above	• Holding, subsidiary, JV or associate of above	

* Companies with securities listed or in process of being listed on SME exchange as referred to in Chapter XB OR on the Institutional Trading Platform without initial public offering in accordance with the provisions of Chapter XC of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 are not required to follow Ind AS

Exemptions and Relaxations in AS to SMCs & other Companies

<table>
<tr><th>Company</th><th>Definition</th><th>Exemptions and relaxations in AS</th></tr>
<tr><td>Small and Medium Sized Company (SMC)</td><td>Company is SMC if it meets all the below criteria: (Rule 2(f) of the Companies (Accounting Standards) Rules, 2006, as amended)
• Not listed or not in process of listing on stock exchange, in India or outside India; and
• Not a bank, financial institution or an insurance company; and
• Turnover (excluding other income) <= Rs 50 Crores in preceding FY; and
• Borrowings (including public deposits) <= Rs 10 Crores at any time during preceding FY; and
• Not a holding or subsidiary company of a non-SMC.</td><td>Fully Applicable: AS 1 to 5, 7, 9 to 14, 16, 18, 22, 24, 26
Applicable with certain para relaxation: AS 15, 17, 19, 20, 25, 28, 29
Apply if Consolidated FS are required to be prepared as per the Act: AS 21, 23 & 27</td></tr>
<tr><td>Small Company</td><td>• Small Company should meet below criteria: (Section 2(85) of the Act)
o Paid-up share capital <= Rs 50 lakhs or
o Turnover <= Rs 2 Crores in preceding FY
• It should not be a public company, holding or subsidiary company, Company registered under Section 8, Company or body corporate governed under special Act.</td><td rowspan="3">• Where these Companies meet the definition of SMC, exemptions and relaxations applicable to SMCs apply to these Companies
• Additionally, these Companies are given exemption for compliance of AS 3 Cash Flow Statement (CFS)
• It also applies to a private company which is a start up or a start-up company incorporated under Companies Act 2013</td></tr>
<tr><td>One person Company</td><td>One person Company is company which has only one person as a member.
(Section 2(62) of the Act)</td></tr>
<tr><td>Dormant Company</td><td>It is formed for future project or to hold asset or intellectual property and has no significant accounting transaction. Such inactive company may apply with the Registrar for obtaining the status of a dormant company (Section 455 of the Act)</td></tr>
</table>

Case study

Question:

A company was classified as Non-SMC in 2018-2019. In 2019-2020 it has been classified as SMC. The management desires to avail the exemption or relaxations available for SMCs in 2019-2020.

Whether the Company can avail such exemption?

Answer:

As per Rule 5 of the Companies (Accounting Standards) Rules, 2006, an existing company, which was previously not an SMC and subsequently becomes an SMC, shall not be qualified for exemption or relaxation in respect of accounting standards available to an SMC until the company remains an SMC for two consecutive accounting periods. Therefore, the management of the company cannot avail the exemptions available with the SMCs for the year ended 31st March, 2020

Auditor's Report should be qualified where the Company has not complied with applicable AS.

Case study

Question:

QPR Pvt Ltd is classified as SMC in 2019-2020. The management is contemplating various scenarios regarding exemption or relaxations for compliance of AS. What disclosures should be given by the Company under each of the below case:

- Availing all exemption or relaxations of AS available to SMC

  Answer: SMC which does not disclose certain information pursuant to the exemptions or relaxations given to it shall disclose the fact that it is an SMC and has complied with the accounting standards insofar as they are applicable to an SMC on the following:
  "The Company is an SMC as defined in the general instruction in respect of accounting standards notified under the Companies Act, 2013, as amended. Accordingly, the Company has complied with the accounting standards as applicable to SMC.

- Availing part of the exemptions or relaxations of AS available to SMC

  Answer: If an SMC opts not to avail of the exemptions or relaxations available to an SMC in respect of certain AS, it shall disclose the standards in respect of which it has availed the exemptions or relaxations. However, in AS where the exemptions or relaxation is not applied, the disclosure and other details should be in compliance with respective AS.
  Further, the SMC may opt for availing certain exemptions or relaxations from compliances with the requirements prescribed in AS provided that such a partial exemptions or relaxations and disclosures shall not be permitted to mislead any person or public

- Not availing any of the exemptions or relaxations of AS available to SMC

  Answer: If an SMC desires to disclose information not required to be disclosed pursuant to exemptions or relaxations available to the SMCs, it shall disclose that information in compliance with the relevant accounting standards.

Applicability of AS to non-corporate entities (ICAI Guidelines)

CATEGORY (Any of the below criteria to be met)	Level 1	Level 2 (SMEs)	Level 3 (SMEs)
Listed/ in process of listing	Entities whose debt or equity are listed or in process of listing on stock exchange, in India or outside India		
Specific entity type	Banks (incl. co-op banks), financial institutions, entities in insurance business		
Commercial, Industrial and Business entities with Turnover in preceding FY	Rs 50 Crores	Exceeds Rs 1 Crore but does not exceed Rs 50 Crores	Rs 1 Crore or below
Commercial, Industrial and Business entities with Borrowings any time during preceding FY	Rs 10 Crores	Exceeds Rs 1 Crore but does not exceed Rs 10 Crores	Rs 1 Crore or below
Holding, Subsidiaries of above	✔	✔	✔
Accounting Standards Applicable	• Fully apply: AS 1 to AS 5, AS 7, AS 9 to 20, AS 22, 24, 25, 26, 28, 29 • Apply based on Regulation if Consolidated FS are prepared -AS 21, 23,& 27	• Fully apply: AS 1, 2, 4, 5, 7, 9 to 14, 16, 18, 22, 24, 26 • Apply with certain Para relaxations: AS 15,19,20,25,28,29 • Not applicable: AS 3 & 17 • Apply based on Regulation if Consolidated FS prepared: AS 21, 23 & 27	• Fully apply - AS 1, 2, 4, 5, 7, 9 to 14, 16, 22, 26 • Apply with certain Para relaxation: AS 15,19,20,25,28,29 • Not applicable: AS 3, 17, 18 & 24 • Apply based on Regulation if Consolidated FS are prepared: AS 21, 23 & 27

Case study

AS applicability

Entity	AS applicability
Charitable trusts	AS does not apply to purely charitable entities It applies to such trusts which are engaged in business or commercial activity (however insignificant), then AS would apply to entire activity - charitable and non-charitable
Co-operative societies	AS applies to such societies if they are engaged in business or commercial activity (however insignificant), then AS would apply to all the activities
Partnership firm/ Proprietorship firms	AS is applicable
Individuals/HUF/AOP	AS is applicable

Framework for the Preparation and Presentation of Financial Statements

The Framework for preparation and presentation of FS

Objective of FS

(Financial position, performance and cash flows of an enterprise that is useful to users for economic decisions)

Recognition of FS elements - asset, liability, equity

(probable economic benefit and reliable measure considering materiality)

Measurement

Profit = income - expenses
(Historical cost, current cost, NRV, PV)

Fundamental accounting assumptions

- Going concern
- Consistency
- Accrual

Framework for General Purpose Financial Statements (FS)

(Balance Sheet (BS), P&L, CFS, notes and schedules forming integral part)

Capital maintenance

(Financial & Physical)

Useful Characteristics of FS

- Understandability
- Relevance
- Reliability
- Comparability
- True and fair view

Users

(Investors, employees, lenders, suppliers and trade creditors, customers, government & other agencies, public)

Case study

Question:

A Ltd has not provided disclosure of going concern, consistency and accrual assumptions in its financial statements for the year ended 31st March 2020.

Whether the Company needs to disclose related accounting policies/notes?

Answer:

No

Specific disclosure for compliance of fundamental accounting assumptions is not required. If it is not followed, the fact should be disclosed.

Going concern assessment is critical factor considering the COVID situation.

Proper audit documentation in this regard is essential covering various financial ratio analysis and business projections and cash flows considering best estimates and judgement as obtained from the Management of the Company to support the going concern assumption.

AS 1 - Disclosure of Accounting Policies

- ❑ Important Aspects
- ❑ Case Study

Important aspects for AS 1

- The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements.
- The process involved in disclosure of accounting policies is as follows:

Case study

Question:

ABC Ltd has not complied with AS 2 on valuation of inventories. Management of the Company intends to append a note in the financial statements disclosing the accounting policy followed which is not in compliance with AS 2.

Do you agree with the Management?

Answer:

No.

Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item in the accounts. Therefore, the disclosure given by the company is not correct.

Auditor's Report should be qualified where the Company has not provided disclosures of all the applicable accounting policies and disclosures under respective AS in the financial statements.

Audit documentation should include checklist for applicable accounting standards, its compliance and disclosures required by the Company to identify any cases of non-compliance.

Case study

Question:

X Ltd. sold its commercial property (office space) to Y Ltd. for Rs 3 Crores on 30.09.2019 and gave possession of the property to Y Ltd. However, documentation and legal formalities are pending. Due to this, the company has not recorded the sale and has shown the amount received as an advance. The book value of the commercial property is Rs 1.5 Crores as on 31st March, 2020.

Do you agree with this treatment?

Answer:

The treatment is incorrect.

Principles of prudence, substance over form and materiality should be looked into, to ensure true and fair consideration in a transaction. In the given case, the economic reality and substance of the transaction is that the rights and beneficial interest in the property has been transferred although legal title has not been transferred.

Hence, X Ltd. should record the sale and recognize the profit of Rs 1.5 Crores in its financial statements for the year ended 31st March, 2020; value of building should be removed from the balance sheet.

Case study

Question:

UVW Pvt Ltd is engaged in providing advisory services to its clients. The Management of this company has to decide on the disclosures of various accounting policies in below scenarios. Pl provide your comments.

❖ The Company has no inventory. Whether accounting policy for inventory to be disclosed even though it does not apply to the Company?

Answer: As per Para 24 of AS 1, all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.
In this case, the company is required to disclose all accounting policies which are adopted in the financial statements
Where a particular AS is not applicable to the Company, it need not disclose related accounting policy.

❖ The Company has certain investments which are all sold during the year. Whether accounting policy for investments needs to be disclosed as there are no investments as on the Balance sheet date.

Answer: Considering Para 24 of AS 1, although there are no investments on the balance sheet date. However, the profit or loss on sale of investments is recorded in P&L based on the accounting policies laid down as per AS 13. Therefore, the accounting policy for the investments is required to be disclosed.

❖ What are details to be disclosed apart from the significant accounting policies:

Answer:

- Background of the Company should cover the fact that it is registered under the Companies Act 2013, incorporation date, nature of business of the Company, registered office and principal place of business of the Company. For consolidated financial statements, details of group entities also needs to be disclosed such as name of the Company, relation, principal place of business, principal activities, percentage holding, etc.
- Statement of compliance with the Accounting standards with exemptions or relaxations availed, if any
- Basis of preparation and presentation of financial statements covering measurement basis such as historical cost convention.
- In case of consolidated financial statements : Basis of consolidation
- Management judgement and estimates
- Disclosure notes as per the requirements applicable AS
- Disclosures as required under Schedule III to the Companies Act

Case study

Continued…

- ❖ Whether accounting policies for segment, earnings per share, cash and cash equivalents, cash flow statement, related party transactions, income from interest, dividend and rentals, provisions, contingent liabilities and contingent assets need to be disclosed

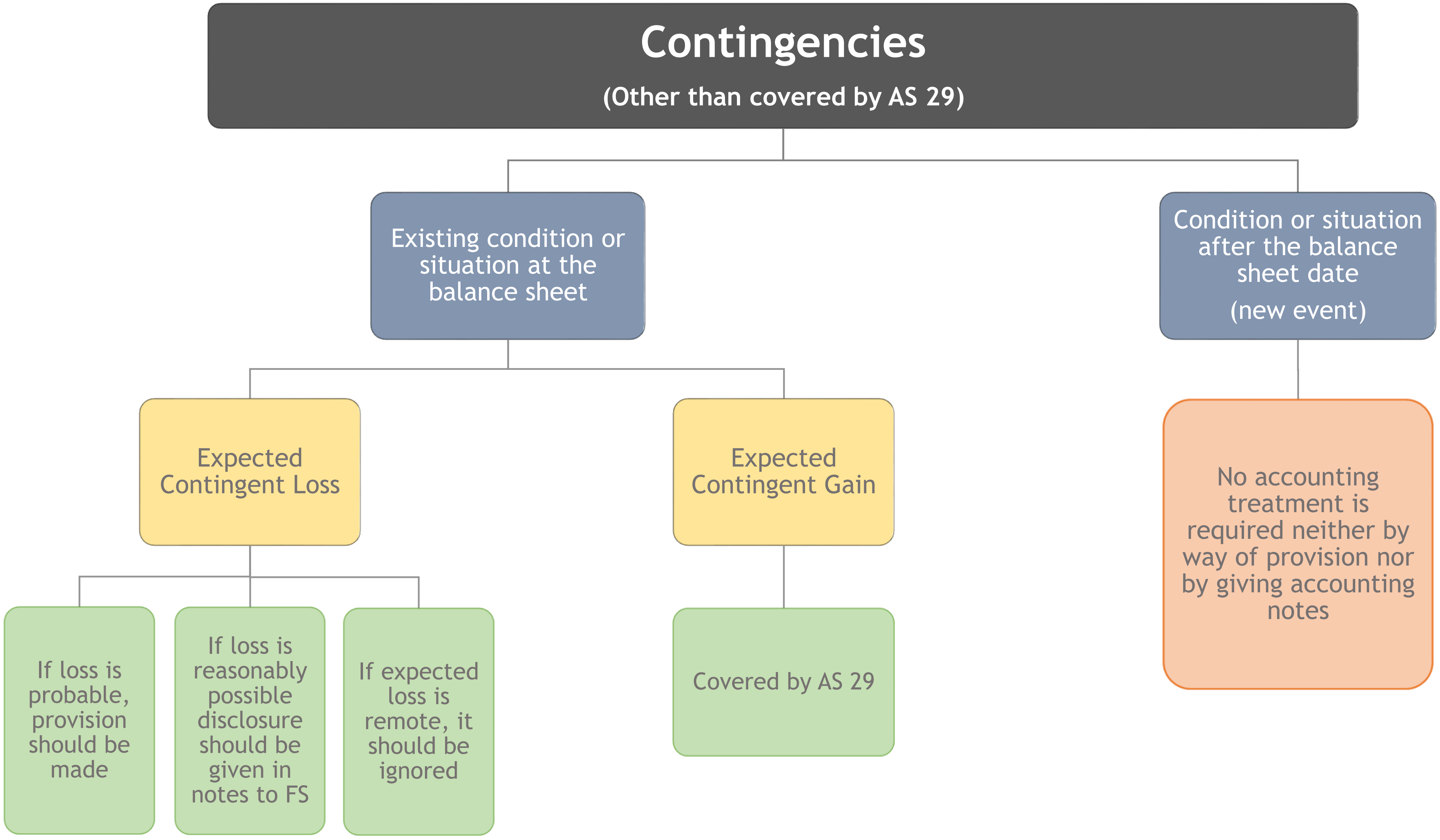
  Answer: As per the Quality Review Board observations, accounting policies for segment reporting, earnings per share, cash and cash equivalents, cash flow statement (specify direct or indirect method of cash flow used), interest income, dividend income, rental income, provisions, contingent liabilities and contingent assets should be disclosed. Accounting policies for related party transaction is not required to be disclosed.

- ❖ What are the details to be disclosed if there is change in accounting policy

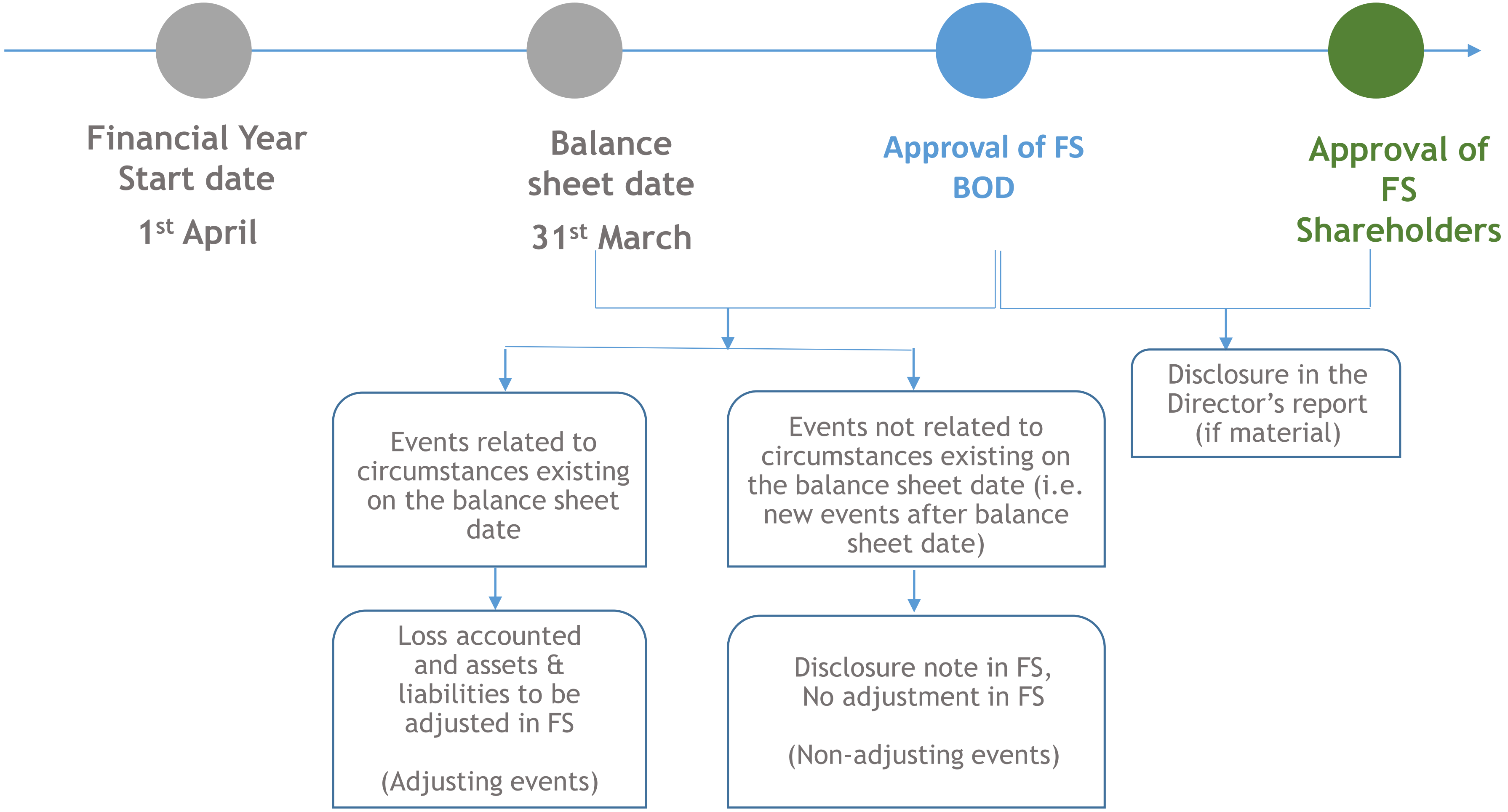
  Answer: As per Para 26 of AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

AS 4 Contingencies and events occurring after the balance sheet date

- ❑ Contingencies
- ❑ Events occurring after Balance Sheet date
- ❑ Case Study
- ❑ Covid-19 Impact on Financial Reporting


Contingencies
(Other than covered by AS 29)
Existing condition or situation at the balance sheet
Condition or situation after the balance sheet date
(new event)
Expected Contingent Loss
Expected Contingent Gain
No accounting treatment is required neither by way of provision nor by giving accounting notes
If loss is probable, provision should be made
If loss is reasonably possible disclosure should be given in notes to FS
If expected loss is remote, it should be ignored
Covered by AS 29

Events occurring after the balance sheet date



Case study

Question:

In which of below cases AS 4 does not apply?

Select the correct option.

A. Obligations under retirement benefit plans

B. Liabilities of Life insurance and general insurance

C. Commitments arising from long term lease contracts

D. All of the above

Case study

Question:

X Ltd. sold its commercial property (office space) to Y Ltd. for Rs 3 Crores on 31.01.2020 and entered into agreement to sell the property. However, legal formalities such as registration of sale deed was concluded on 30.04.2020. Due to this, the company has not recorded the sale and has shown the amount received as an advance. The book value of the commercial property is Rs 1.5 Crores as on 31st March, 2020. Financial statements for the year ended 31.03.2020 were approved on 31.05.2020.

Do you agree with this treatment?

Answer:

The treatment is incorrect.

As per Para 13 of AS 4, Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to the conditions existing at the balance sheet date.

In this case, sale of property was concluded before the approval of financial statements by the Board. This is clearly an event occurring after the balance sheet date as agreement to sell was entered into before the balance sheet date. Registration of the sale deed simply provides additional information relating to the conditions existing at the balance sheet date.

Hence, X Ltd. should carry out adjustments to assets as necessary and the property will be de-recognized in the balance sheet as at 31.03.2020 and profit on sale of property should be recognized in the statement of profit or loss for the year 2019-20.

Case study

Question:

Board of Directors (BOD) approved the financial statement for the year 2019-20 on 31.07.2020. The following events occurred before the approval of financial statements by Board of directors. How would you deal with these situations:

- The BOD at their meeting on 23-06-2020 has recommended a dividend of 15% to be paid to the shareholders after its approval at the AGM

  Answer: Non- adjustment event, Proposed dividend to be disclosed in the notes

- A fire occurred in the godown on 05.04.2020 damaging a huge quantity of stock of value Rs 15 Lakhs

  Answer: Non-adjusting event, disclosure by way of note

- A major debtor against whom insolvency proceedings were instituted prior to 31.03.2020 is declared insolvent on 15.06.2020. The amount outstanding on 31.03.2020 is Rs 10 Lakhs

  Answer: Adjusting event, provision of Rs 10 Lakhs to be recorded

Case study

Question:

GHI Ltd incurred loss due to fire at its entire office premises in February 2020. The Company has a valid insurance policy covering this mishap. It filed an insurance claim in April 2020 for a loss due to fire. The claim was approved by the Insurance Company in May 2020 (before approval of financial statements by Board of Directors BOD). The fair value of the property was Rs 50 Lakhs based on an independent appraisal shortly before the natural disaster.

a) Can the claim be recognized in FY 2019-20?

b) Had the claim been filed in March 2020 and approved in May 2020, Will the accounting change?

Answer:

As per Para 6 of AS 4, Contingent gains are not recognized in financial statements since their recognition may result in the recognition of revenue which may never be realized. However, when the realization of a gain is virtually certain, then such gain is not a contingency and accounting for the gain is appropriate. Thus, the insurance claim can be recognized in the year it is determined that is no contingency that the insurance company will settle the claim. If the settlement is probable, then the claim is disclosed but not recognized.

In this case, firstly GHI ltd should recognize the loss on the property due to fire during the year 2019-20. The Company has filed the claim in April 2020 which is approved in May 2020 (before approval of financial statements by BOD). For year ended 31-03-2020, there is no question of probable settlement of claims or any virtual certainty in realizing the claim amount. Hence, neither any disclosure nor any insurance claim recognition required.

If the claim was filed in March 2020 and is approved in May 2020, as on year ended 31-03-2020, there might be probability for receiving the insurance claim. However, there is no virtual certainty at this time. Hence, it should be disclosed by way of note only. It should be recognized in the year 2020-21 , when the insurance claim is not an contingent asset and the claim amount is virtually certain to be received.

Scenario for guidance	Year ended 31-03-2020	After 31-03-2020 but before the financial statements are approved
Claim is virtually certain	Recognize asset & gain for the insurance claim	Disclose the claim
Claim probable, but not virtually certain	Disclose the claim	Disclose the claim
Claim not probably	No disclosure	No disclosure

COVID -19 Impact on Financial Reporting

- Some of the key impact areas in the financial reporting under the COVID-19 situation are as the below.
  - Going concern assessment
  - Asset Impairment – Goodwill, fixed assets, intangibles, debtors, other receivables, etc
  - Inventory Valuation and write downs
  - Revenue recognition
  - Contingencies and events occurring after the balance sheet date
- Management's Role
  - Revision in significant judgements and estimates pertaining to going concern, future cash flows, liquidity, revenue and budgets, forecasts and other assumptions
  - Disclosures considering nature and materiality of the impact due to COVID should be provided in the financial statements
- Auditor's Role:
  - Increased scrutiny to complete the audit work in accordance with professional standards and ethics requirements
  - Significant modification in audit procedures to address the challenges and uncertainties arising out of the impact of COVID-19
  - Reporting of non-compliance with the accounting standards and disclosures in carrying out the audits.

Pl refer https://www.icai.org/post/covid19-resource-page

AS 5 Net profit or loss for the period, prior period items and changes in accounting policies

- ❑ Important Aspects of AS-5
- ❑ Case Study

Important Aspects of AS 5

AS 5 Scope	**Ordinary activity** (regular) and exceptional items (infrequent) **vs** **Extra-ordinary items** (unusual)	**Prior period items** (errors or omissions)	**Changes in accounting estimate**	**Changes in Accounting policy** (To comply AS /law/ better presentation of FS)
Accounting treatment /disclosure	Disclosure on the face of the P&L separately (Net profit before and after considering extraordinary items to be shown with disclosure note)	Disclosure of nature and amount separately in P&L (Net profit before and after considering prior period items to be shown with disclosure note)	Impact on P&L prospectively	Impact on P&L retrospectively Disclosure of impact on P&L (material) by way of disclosure note

Case study

Question:

Identify whether it is extra-ordinary item or exceptional item for ?

Losses sustained as a result of an earthquake	Extra-ordinary item
Huge amount of write-down of inventories to net realizable value as well as the reversal of such write-downs	Exceptional item
Major restructuring of the activities of Company and the reversal of any provisions for the costs of restructuring	Exceptional item
Substantial legislative changes having retrospective application	Exceptional item
Attachment of property of the enterprise	Extra-ordinary item

Case study

Question:

Identify whether it is change in accounting policy, change in accounting estimate or prior period item?

Valuation of inventories was based on LIFO method in the previous year which is changed to FIFO method in current year	Change in accounting policy
Provision for debtor was Rs 5 Lakhs for 2018-19. This year realized 3 Lakhs from these debtors	Change in accounting estimate
Expenses of Rs. 50,000 omitted in the year 2018-19 due to oversight	Prior period item
Change in depreciation method to comply with requirements of the standard	Change in accounting policy
Dividend income from investments was recorded twice during the previous year	Prior period item
Stock sheets of 31-03-2019 did not include two pages containing details of inventory worth Rs 15 Lakhs	Prior period item

Case study

Question:

During the year 2019-20, Company A Ltd has received a tax demand raised under intimation under section 143(1) of the Income Tax Act for the Assessment Year 2018-19 (i.e. FY 2017-18).
Is this a prior period item and require separate disclosure in P&L ?
How should the Company account for it in below cases:

The demand is raised because:

a. Certain exempt income items are disallowed or Certain expenses were disallowed by the income tax authority
b. The tax rate considered for tax computation is incorrect
c. Certain expenses are incorrectly considered twice in the computation or income was missed in the computation

Answer:

The additional tax provision for demand raised should be separately shown as short provision for tax for earlier year in the P&L under tax expenses with a note to that effect.

However, interest on such demand should be disclosed under finance costs.

Refer guidance note on schedule III Para 9.8.1.3 & 9.8.1.5

Case study

Question:

For the year 2019-20, the Company has recorded certain provision for expenses for the month of March 2020 based on previous history. The invoices for the expenses incurred in March 2020 would be available later in 2020-21. In the year 2020-21, when the amount for expenses is ascertained based the invoices received, the adjustment to the provision for expenses earlier recorded would constitute a change in accounting policy or change in accounting estimate?

Answer:

As per AS 5, Para 23 - the effect of a change in an accounting estimate should be included in the determination of net profit or loss in:

(a) the period of the change, if the change affects the period only; or

(b) the period of the change and future periods, if the change affects both.

Para 29 – A Change in an accounting policy should be made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise.

As per AS 29, Para 10.1 - A provision is a liability which can be measured only by using a substantial degree of estimation.

Para 52 - Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

In this case, the provision for expenses is created for accounting of proper expenses in the P&L and liability in the balance sheet. The estimation of this amount is based on best judgement considering history. There is certainty of the expenses which are incurred during the year which is to be paid in future.

There is no law/ AS/other more appropriate presentation requirements to make provision for such expenses.

Hence, provision for expenses should be considered as change in estimate.

Questions?

Questions	Reply
Foreign Debtor has declared bankruptcy in April 2020. While finalising accounting of company for year ended 31-03-2020 would it be correct to write off the debtor as bad debt?	It needs to be checked whether the conditions of bankruptcy existed on the balance sheet date. If yes, then the debtor can be written off.
As-1: What change should we make on accounting policy of operating lease as-19 as a lessee on getting temporary rent concessions from March to May 2020 due to Covid	There is no guidance in AS 19 for any concessions in lease payments. In absence of any such provisions, the accounting for lease payments should continue to be accounted as per Para 23 on operating leases of AS 19 "Lease payments under an operating lease should be recognized as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit" Under the SLM working, the concessional lease amount should be considered for the respective month prospectively.
With the recent change in definition of MSME companies by Govt, whether applicability of Accounting Standards would change in the criteria mentioned in the slide	No. For applicability of AS to Companies, there are separate parameters specified under the Companies Act, 2013. Pl refer slides on applicability of AS to companies.
if holding co is listed outside India . INDAS Applicable to Subsidiary ?	Yes. As per the criteria for Ind AS, if the Parent Company is listed on any stock exchange in India or outside India, It subsidiary is required to follow Ind AS.
How about applicability on Sec 8 company?	It is mandatory for all companies registered under the Companies Act to comply with applicable accounting standards. Thus, Company formed under Section 8 of the Act is required to comply with Schedule III and applicable AS

Questions	Reply
Is a Trust/ Societies registered under Indian Public Trust Act, Maharashtra Public Trust Act and Societies Registration Act to follow the Accounting Standards.	Yes, Pl. refer slide - case study on AS applicability for trusts, co-op. society, if it carries any commercial activity (however insignificant), AS would apply to all its activities.
In case of listed company do we have to apply the net worth criteria or irrespective of net worth all the listed company have to comply with IndAS	For listed Company, net worth criteria was prescribed for phase-wise implementation. Currently, all companies listed in India or outside India are required to comply with Ind AS irrespective of net worth.
For AS:5 if there is a rejection of Excise refund having a significant value which was earlier reflected as income receivable be an exceptional item? Or is it an ordinary activity considering it as a part of normal business?	Recognition of income requires that it is measurable and that it should not be unreasonable to expect ultimate collection. In such case, income from excise refund should only be recognized when there is certainty of its collection. Hence, the Company should have recorded the excise duty refund income only when it was approved by the authority. Thus, there is no question of exceptional income for its reversal in that case.
how to account for interest demand recd under 143(1) for interest under 234	Interest on income tax is not tax expenses. Hence, this expense should be recorded under finance costs. (refer Guidance note on Schedule III Div I – Para 9.8.1.3)
change in law restropective is execeptional items how? is it not normal incedance??	Change in Law is normal instance. But the Impact is huge and not frequent feature due to which the P&L may show sudden increase or decrease. Hence, such item is shown as exceptional item so that profit or loss is easily comparable with previous year. Refer examples for exceptional items in Para 14 of AS 5 & Para 9.6 of Guidance note on Schedule III Div II

Questions	Reply
whether covid effects for interest recognition on advances by bank as per this direction is an exceptional item	Interest income on loan given by banks is recognized on accrual basis considering reasonable certainty of its collection. However, the income which is recognized is lower and there is some loss of revenue due to COVID. Loss of revenue is not recorded in the financial statements. Thus, there is no point of classification of revenue into exceptional item or extra-ordinary item.
please throw some light on physical stock takings on 31 March 2020 being unable in COVID lockdown even at the time of signing of BS date	Where the physical stock taking cannot be conducted at year end, auditor can take the last physical inventory count checked and perform roll forward procedures. Or Auditor may conduct the physical inventory check after the balance sheet date but before approval of FS by BOD and perform roll back procedures Other alternative procedures: a. Using the work of Internal Auditor (SA 610). b. Engaging other Chartered Accountant(s) to attend physical verification. c. Use of technology in inventory counting (Virtual attendance i.e. video call) Appropriate cut off procedures should also be performed to identify any goods in transit. Pl refer https://www.icai.org/post/covid19-resource-page (Physical inventory verification guidance)
In covid era, not physically visited the client office, should it be disclosed	Not required to provide separate disclosure, Auditor should gather sufficient and appropriate evidence for its opinion on the financial statements
In case of march 2020 financials, is note required from mgt with regards to electronics records being made available for auditing and any disclaimer by the auditor in the audit report	Not required to provide separate disclosure. Soft copies of documents and mail confirmations are generally provided by clients for audit purpose.

Questions	Reply
Accounts prepared on liquidation basis. Whether EOM required under the heading " emphasis of matter" or under" material uncertainty related to going concern" ?	Where the FS is prepared on liquidation basis, there is no question of any uncertainty in going concern,. It is confirmed that the Company is not a going concern. Hence, Para on material uncertainty related to going concern would not be provided in audit report where the Company has prepared FS on liquidation basis. EOM may be provided Refer Qt 7 & 11 of Guidance on going concern amidst COVID. Refer https://www.icai.org/post/covid19-resource-page (Going concern guidance)
Diluted EPS for SMC - schedule 3 mandates disclosure of diluted eps where you mentioned Diluted eps not applicable to SMC. Whether schedule 3 overrules ?	Schedule III provides the format for P&L wherein it mentions about Basic and Diluted EPS. However, Companies need to disclose the details to the extent applicable to them. Hence, SMC need not disclose diluted EPS as it is exempted from it.
The Tax Auditor usually qualifies in case of non corporate entities say partnership firms, that although the firm is not statutorily required to follow the accounting standards, it has followed the same to the extent relevant and possible. Is it OK ?	Though the respective acts such as partnership act, etc. do not provide for compliance with accounting standards, but the ICAI guidelines mandate the non-corporate entities to comply with AS based on Level 1, Level 2 and Level 3 criteria. So, there is no need to qualify the report. The fact can be mentioned that the AS are followed as per the requirements ICAI guidelines
SEIS Claim of FY 2015-16 filed on March 2019. Since this was first time to file incentive claim, we do not know if we will be eligible for claim. In June 2020, office has verbally said that your claim is passed and we shall get incentive certificate by month end. Do we need to disclose benefit of SEIS in FY 2019-20, as event occurred after balance sheet..	SEIS claim (income) is dependent upon eligibility criteria and sanction from respective authority. Thus, it is contingent gain. Contingent gains should not be accounted as per para 6 of AS 4. Once the claim is virtually certain to be received, there is no contingency and it can be recorded. This happens only in the period when the claim amount is formally approved or amount is received.

Thank You !

Stay Home, Stay Safe…