Common Errors in Financial Statements Preparation of FS

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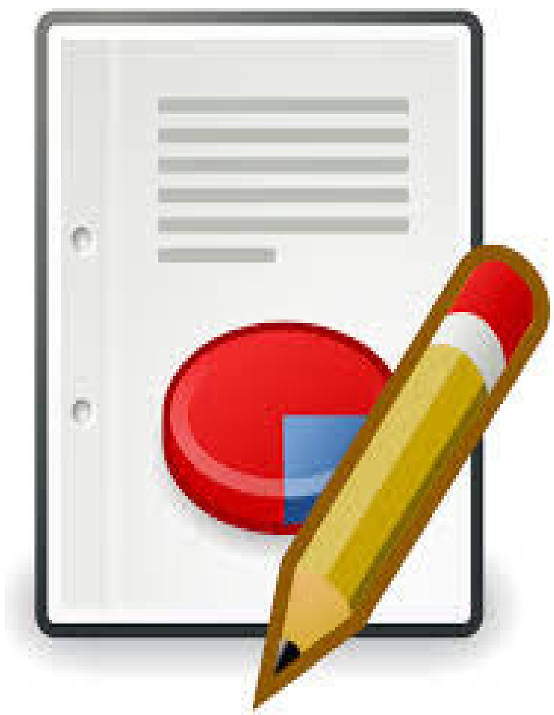


OBSERVATIONS IN SCHEDULE III AND SIGNING OF FINANCIAL STATEMENT

OBSERVATIONS IN SCHEDULE III

Observation
1. Investments in Subsidiaries, Associates and Joint ventures have been disclosed separately from other than financial assets instead of under the head of financial assets as a separate line item on the face of the Balance Sheet. 2. Financial statements on Financial Assets (Loans) that the loans were not classified as per the requirement specifying whether these loans were secured, unsecured or doubtful. Further, the nature of other advances was also not specified as the amount shown under this head was material, consisting of 86% of total loans and advances. 3. Toll Collection Receivable and Receivable from Authority is in respect of the amount due on account of services rendered in the normal course of business. Accordingly, Receivable from Authority and Toll collection receivable were in the nature of trade receivables and should have been classified as 'Financial Assets -Trade Receivables instead of —Financial Asset – Others. 4. PPE Disclosure not given as per Schedule III

OBSERVATIONS IN SCHEDULE III

Observation
5. Expenses on acquisition of intellectual property rights and licenses for projects under development have been classified as capital work-in-progress instead of intangible assets under development. 6. Operating cycle of assets and liabilities has been determined on the basis of duration of each contract instead of determining it for the company as a whole. 7. Advances given to government authorities classified on the basis of amount held with different authorities instead of disclosing them as per their nature such as income tax, etc. 8. Bank and other finance charges which are in the nature of 'other borrowing costs' have been classified as 'interest expense'. 9. Exchange differences on foreign currency transactions and translation have been included in the cost of raw material consumed instead of presenting them separately. 10. Profit on slump sale (being an exceptional item) has been adjusted before charging off depreciation cost and finance cost.

PREPARATION OF FINANCIAL STATEMENTS

PREPARATION OF FINANCIAL STATEMENTS

- **In case of Company** – Ensure Compliance with Schedule III
- **In case of non-companies -** Guidance note on Non Company FS & LLP
- Balance Sheet , Profit & Loss, Cash Flow (as applicable) and Notes to Accounts
- Background of the Company
- Notes to be tailored – applicable accounting policies, specifics required (eg/- revenue recognition), completeness etc.,
- Casting
- Rounding off (in FS and Auditor's report)
- Consistency of font, figures, size, spacing etc

Signing of Financial Statements

SIGNING OF FINANCIAL STATEMENTS

Provisions of Companies Act, 2013

Section 134(1): The financial statement, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board by the chairperson of the company where he is authorized by the Board or by two directors out of which one shall be managing director, if any, and the Chief Executive Officer, the Chief Financial Officer and the company secretary of the company, wherever they are appointed, or in the case of One Person Company, only by one director, for submission to the auditor for his report thereon.

SIGNING OF FINANCIAL STATEMENTS

Provisions of Companies Act, 2013

Section 158: Every person or company, while furnishing any return, information or particulars as are required to be furnished under this Act, shall mention the Director Identification Number in such return, information or particulars in case such return, information or particulars relate to the director or contain any reference of any director.

FRRB Observation (ICAI)

It was noted that one of the director has signed Financial Statements without incorporating his full name and DIN.

Accordingly, it was viewed that the requirements of section 134 read with section 158 have not been complied with.

SIGNING OF FINANCIAL STATEMENTS

FRRB Observation

From the Annual Report of a company, it has been noted that the auditor has signed the audit report at one place while he has signed the financial statements on the same day at a different place ?

Response: It was noted that the place of signature of the auditor's report is different from the place of signature of the financial statements. It was possible that the financial statements are signed by the directors at a different location. It was viewed that when these are signed by the auditors along with the audit report both should be signed at the same location.

Hence, signing auditor's report at one place and financial statement at another place is not appropriate.

SIGNING OF FINANCIAL STATEMENTS

FRRB Observation

From the Balance Sheet and the Statement of Profit and loss given in the Annual Report, the following has been stated

Director Director

Response: It may be noted that section 215(1) of the Companies Act, 1956* states as follows:

"215. Authentication of Balance Sheet and Profit and loss Account

(1)Save as provided by the sub-section(2), every Balance Sheet and every profit and loss account of a Company shall be signed on behalf of the Board of Directors….."

From the given abstract of the Balance Sheet and Statement of Profit and loss, it was viewed that in the absence of Statement "For and On behalf of the Board of Directors", it prima facie appears that Directors have signed the documents in their individual capacity which does not meet the requirements of section 215(1) of the Companies Act, 1956, to get these documents signed on behalf of the Board of Directors.

*Observation is still relevant under section 134 of the Companies Act, 2013.

SIGNING OF FINANCIAL STATEMENTS

FRRB Observation

Extract from illustrative FS

For and on behalf of the Board of Directors of
[Name of the Company]
CIN:

[Name of Director]	[Name of CS]	[Name of CS]
Director	Director	Company Secretary
DIN:	DIN:	Membership No:
Place:	Place:	Place:
Date:	Date:	Date:

[Name of CFO]
Chief Finance officer

Place:
Date:

SIGNING OF FINANCIAL STATEMENTS

FREQUENTLY ASKED QUESTIONS

- **Can the audit report be digitally signed?**

  Response: Yes, The Auditing and Assurance Standards Board of ICAI had released and announcement for use of electronic signature for signing of Audit Reports and Certificates.

- **Can financial statements be digitally signed by the auditors as well as the signatories from the client side ?**

  Response: Yes, the financial statement can be digitally signed by the auditors as well as signatories from the client side.

- **What if some directors have digital signature while some do not? Can mixed practise be followed ?**

  Response: Mixed practise cannot be followed. Either it needs to be signed completely physically or completely digital signature is to be used.

- **Whether auditor's stamp and initials are required on every page of the financial statement?**

  Response: In case the financial statements are digitally signed, then there is no requirement for stamp and signature of the auditors.

SIGNING OF FINANCIAL STATEMENTS

FREQUENTLY ASKED QUESTIONS

- **Whether the auditor can sign the financial statements and audit report on different dates?**

  Response: The date of signing of financial statement and the audit report cannot be different. It needs to be the same date.

- **Whether the date of signature of the Board of Directors and Auditor need to be on the same date on the financial statements?**

  Response: As per provisions of Companies Act, 2013, signing of the financial statements is allowed only after the approval of Board of Directors. Once the FS has been approved in the Board Meeting, the same needs to be sent to the Directors for signing. Once the financials are signed by the Board of Directors, only then it can be sent for auditor's sign. The auditor needs to mention the date and place of signing of FS.

- **Whether auditor can sign the financials before the directors?**

  Response: No, the FS needs to be first signed by the Board of Directors and then it is to be sent to the auditors for the signature.

SIGNING OF FINANCIAL STATEMENTS

FREQUENTLY ASKED QUESTIONS

- **Which financials are to be signed first ? The subsidiary or the holding company consolidated FS?**

  Response: The subsidiary's FS needs to be signed first and only then the consolidated FS can be signed.

- **Whether standalone and consolidated FS are to be signed on the same date?**

  Response: Standalone and consolidated FS can be signed on different dates, but consolidated FS should be signed after the signing of Standalone FS

- **What if out of the total directors, one signing director is outside India and other director is in India?**

  Response: The same can be digitally signed on the same day.

- **Whether Company Secretary (CS) is required to sign the Financial Statements?**

  Response: If the Company is required to appoint the CS, then the financials are required to be signed by the CS.

SIGNING OF FINANCIAL STATEMENTS

FREQUENTLY ASKED QUESTIONS

- **What if the Company Secretary is not appointed or the Company Secretary has resigned before the financial statements are signed and new Company Secretary has not been appointed?**

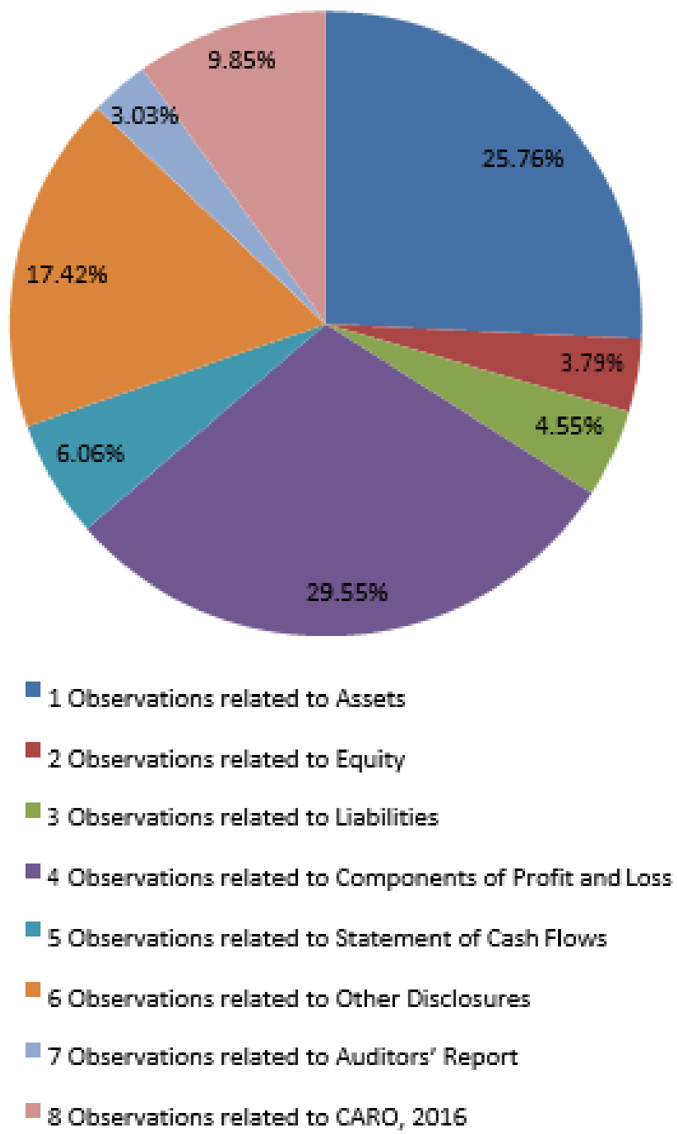
  Response: As per Section 134 of Companies Act, the FS needs to be signed by the Company Secretary of the company, wherever appointed. If there is a temporary vacancy, it can be filled up by the board within period of six months from the date of vacancy as per Section 203. However, the fact is to be stated in the notes to FS. Also ET to evaluate the impact on auditor's report as well.

- **In case any of the Director signing the Financial Statements is a non-resident director and will be signing the Financial Statements outside India, can Auditor and Directors of the Company sign the Financial Statements on different dates?**

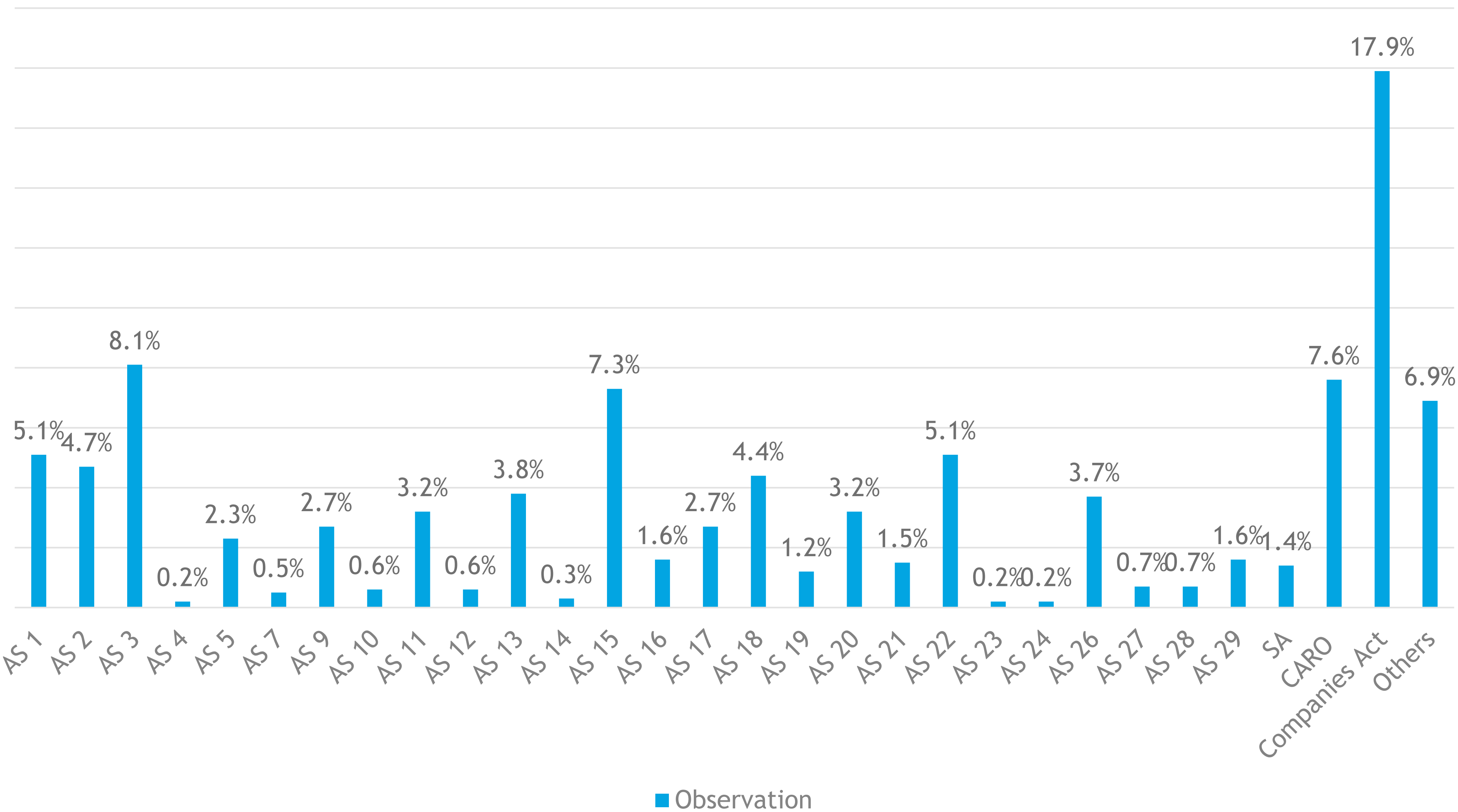
  Response: Yes, however Auditor shall always sign the Financial Statements after those are signed off by all the directors.

OBSERVATIONS IN ACCOUNTING STANDARDS

DEFICIENCIES OBSERVED – ELEMENTS OF FINANCIAL STATEMENTS



SUMMARY OF NON – COMPLIANCES (AS)



OBSERVATIONS IN ACCOUNTING STANDARDS

Accounting Standard	Observation
AS 1: Disclosure of accounting policies	1. Failure to disclose significant accounting policies adopted in the preparation and presentation of financial statements such as revenue recognition, borrowing costs, inventories, impairment of assets, goodwill and subsidies granted by the government. 2. Gain on outstanding derivative contract has been recognized in the statement of profit and loss which is against the principle of prudence as given in AS 1 (i.e. in view of the uncertainty attached to future events, profits are not anticipated but recognized only when realized though not necessarily in cash). In this case, the company did not state whether it has adopted AS 30, *Financial Instruments: Recognition and Measurement*, AS 31, *Financial Instruments: Presentation* and AS 32, *Financial Instruments: Disclosures*.

OBSERVATIONS IN ACCOUNTING STANDARDS

Accounting Standard	Observation
AS 2: ***Valuation of Inventories***	Failure to disclose the cost formula adopted for determining the cost of inventories. In certain cases, where the company has various classes of inventories, the formula for valuation of each class has not been identified and in certain cases, the cost formula has not been correctly applied (e.g. use of average cost instead of weighted average cost).
AS 3, *Cash Flow Statements*	A cash flow statement has not been prepared by a certain subsidiary of a listed company and also by a certain company which is in the process of listing (on the ground of being a small and medium sized company), when such companies are not exempt from preparation of cash flow statement under AS 3

OBSERVATIONS IN ACCOUNTING STANDARDS

Accounting Standard	Observation
AS 12, *Accounting for Government Grants*	Capital investment subsidy which is in the nature of promoter's contribution has been credited to the statement of profit and loss instead of capital reserve.
AS 14, *Accounting for Amalgamations*	1. Systematic basis of amortizing goodwill on amalgamation has not been followed. 2. There is a failure to comply with the disclosure requirements of AS 14 in few cases. For instance, the missing disclosures are, general nature of business of the amalgamating company, percentage of each company's equity shares exchanged and the accounting treatment of the difference between the consideration and the value of net assets acquired.

OBSERVATIONS IN ACCOUNTING STANDARDS

Accounting Standard	Observation
AS 16, *Borrowing Costs*	In certain cases, cost of derivative transactions has been added to the cost of borrowings. Such cost does not qualify to be a borrowing cost as it is neither an ancillary cost incurred in connection with the arrangement of borrowings nor it is an exchange difference arising on the amount of principal of the foreign currency borrowings.
AS 17, *Segment Reporting*	1. In certain cases, disclosure of the fact that there is only one business or geographical segment has not been made. Merely reporting that 'segment reporting as per AS 17 is not applicable' is not a sufficient disclosure as per AS 17. 2. In certain cases, amount of segment assets and segment liabilities do not match with the aggregate assets and liabilities as given in the balance sheet. A reconciliation has not been given to explain the difference in figures.

OBSERVATIONS IN ACCOUNTING STANDARDS

Accounting Standard	Observation
AS 18, *Related Party Disclosures*	In certain cases, there is a failure to disclose corporate guarantees given to banks/financial institutions for credit facilities extended to the subsidiaries and/or personal guarantees given by the directors for loans taken from banks/financial institutions as related party transactions.
AS 20, *Earnings Per Share (EPS)*	Failure to disclose negative basic and diluted EPS (i.e. loss per share) on the face of the statement of profit and loss.

OBSERVATIONS IN ACCOUNTING STANDARDS

Accounting Standard	Observation
AS 21, *Consolidated Financial Statements (CFS)*	Fact that different policies have been adopted for subsidiaries (vis-à-vis parent) have been mentioned. However, companies have not mentioned proportion of the items in the CFS to which these different accounting policies have been applied. Additionally, such companies did not disclose the fact that it is not practicable to follow uniform accounting policies.
AS 24, *Discontinuing Operations*	Failure to disclose the information relating to net cash flows attributable to the operating, financing and investing activities of the discontinuing operations during the reported period.
AS 26, *Intangible Assets*	Failure to classify research and development expenditures between research and development phase.

OBSERVATIONS IN ACCOUNTING STANDARDS

Accounting Standard	Observation
AS 28, *Impairment of Assets*	Net selling price for the purpose of impairment loss has been determined on the basis of expected salvage value (i.e. estimated value that an asset will realize upon its sale at the end of its useful life) rather than on the basis of value obtained as on the balance sheet date (which cannot be considered to be an end of the useful life of an asset, unless the assets would not be in use after the reporting date).


THANK YOU