

Common Non-Compliances on Indian Accounting Standards(Ind AS) in the General Purpose Financial Statements as Observed by FRRB



Financial Reporting Review Board (FRRB)

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 1 - Presentation of Financial Statements



Case:

Under the Accounting Policy with regard to Interest Income, it was noted that the interest income is shown net of interest expenses in the Statement of Profit and Loss.

Principle:

Paragraphs 32 & 82 (b) of Ind AS 1

Observation:

As per paragraph 32 of Ind AS 1, an entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.

Accordingly, it was viewed that netting off finance income with finance expense is not in line with the requirement of paragraph 32 of Ind AS 1. In fact , **finance cost is to be shown as line item in the Statement of Profit and Loss as per Para 82(b) of Ind AS-1.**



Case:

From the notes to accounts given in the financial statements, it was noted that a Loan has been taken from related party for which repayment terms has not been stipulated. This loan has been disclosed under the head “Non-Current liabilities”.

Principle:

Paragraphs 60, 61 and 69 of Ind AS 1.

Observation:

It was viewed that since repayment terms has not been stipulated, such loan are callable on demand. Accordingly, the classification of such loans as non-current is not in line with the guidance given in Ind AS 1.

Non - Compliance of Indian Accounting Standard (Ind AS)

Ind AS 2 - Inventories



Case:

In the Annual Report of a company , the accounting policy on Inventory was stated as follows:

“Inventories are valued at the lower of cost and fair value “

Principle:

Paragraph 6 of Ind AS 2 gives definition of NRV & para 9 of Ind AS 113 (Fair Value Measurement) defines fair value. It was viewed that the net realizable value is different from the fair value of inventories. **The net realizable value is entity-specific value whereas the fair value is not entity-specific. Hence, they both may not be same.**



Observation:

It was viewed that net realisable value of inventory refers to the net amount (estimated selling price Less estimated cost of completion and estimated cost of sale) that an entity expects to realise from the sale of inventory in the ordinary course of business whereas the fair value reflects the price at which an orderly transaction in the principal (or most advantageous) market would take place between market participants at the measurement date to sell the same inventory.

Accordingly, **inventories are to be valued at the lower of the cost or net realizable values and not the fair value** and therefore, the stated policy on inventory valuation is not in line with the requirements of Ind AS 2.

Non - Compliance of Indian Accounting Standard (Ind AS)

Ind AS 7 - Statement of Cash flows



Case:

From the Cash Flow Statement as given in an Annual Report of a company, it was observed that the cash paid to purchase the property, plant and equipment has been disclosed as “*capital expenditure*”, under the head cash flow from Investing activities

Principle:

Paragraph 16 of Ind AS 7

Observation:

It was noted that such **outflow should have been reported using the proper description of the line item viz. ‘acquisition of property, plant and equipment’ rather than as ‘capital expenditure’** in line with the paragraph (16)(a) of Ind AS 7.

Accordingly, it was viewed that the requirement of Ind AS 7 has not been appropriately complied with.



Case:

From the cash flow statement, it was observed that the total amount of repayment of borrowings as appearing under the financing activities is lesser than the difference between the closing and opening balance of borrowings as appeared in the Balance Sheet.

Principle

Paragraph 43 and 44A to 44E of Ind AS 7

Observation

It was viewed that if there is any change in liabilities arising from cash flows and non cash changes the same should be disclosed in the financial statements in such a way that provides all the relevant information about this financing activity as required in paragraph 43 read with para 44A to 44E of Ind AS 7.

Accordingly, it was viewed that the requirement of Ind AS 7 has not been complied with.

Non - Compliance of Indian Accounting Standard (Ind AS)

Ind AS 8 - Accounting Policies, Change
in Accounting Estimates & Errors



Case:

In the Annual Report of a company , the accounting policy for “Leasehold Land” had been reported as under :

“The lease term in respect of leasehold land is 97 years. The lease term in respect of land acquired under finance lease is up to 97 years with ability to opt for renewal of lease term and fulfillment of certain conditions.”

Principle:

Paragraph 7 of Ind AS 8

Observation:

From the above disclosure, it was noted that the company has finance lease. However, specific accounting policy for the finance lease has not been disclosed. **In absence of accounting policy, principles, bases, conventions, rules and practices applied by the enterprise in preparing and presenting the financial statements, the recognition and disclosure of finance lease is not clear.**

It was viewed that the accounting policy for finance lease should be disclosed for the understanding of the users of the financial statements.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 12 - Income Taxes



Case:

Under the accounting policy related to the deferred tax assets & liabilities, it was stated that the changes in them is attributable to temporary differences.

Principle:

Paragraph 5 of Ind AS 12

Observation:

It was viewed that deferred tax liabilities are recognised for **taxable** temporary differences and deferred tax assets is recognised for **deductible** temporary differences, **carry forward** of unused tax losses, **carry forward** of unused tax credits. Accordingly, the stated policy is not in line with requirements of Ind AS 12.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 16 - Property ,Plant and
Equipment



Case:

The accounting policy on Property, Plant and Equipment of a company states that the subsequent expenditure related to an item of PPE is added to its carrying value, only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance.

Principle:

Paragraph 7 & 13 of Ind AS 16

Observation:

It was viewed that as per paragraph 13 of Ind AS 16 , the **subsequent expenditure would be recognized in the carrying amount of PPE when that cost/ expense would meet the recognition criteria i.e., cost can be measured reliably and it is probable that the future benefits will flow to the company .**

Accordingly, **capitalisation of subsequent expenditure on the basis of “increase of future benefits from the existing asset beyond previously assessed standard of performance” is not in line with the requirement of Ind AS 16.**



Case:

The Accounting Policy of Property, Plant and Equipment of a company states that the depreciation on leasehold improvements is provided over the **primary period of lease** or over the useful lives of the respective fixed assets, whichever is shorter.

Principle:

Paragraph 50 & 56 of Ind AS 16

Observation:

It was viewed that as per paragraph 50 read with 56 of Ind AS 16 various factors are considered in determining the useful life of an asset which, inter alia, includes legal limits on the use of asset such as the expiry dates of related asset. Accordingly, depreciation on leasehold improvement, '**over lease term**' should be considered instead of considering '**primary period of lease**'. Therefore, it was viewed that the stated accounting policy is not in line with Ind AS 16.



Case:

From the notes to the account of the financial statements it was noted that no movement in the capital work-in-progress were disclosed although the details of various items of property, plant and equipment have been disclosed by the company.

Principle:

Paragraph 74(b) of Ind AS 16

Observation

It was viewed that since the **capital work in progress is also the part of property, plant and equipment and therefore the amount of expenditures recognized in the carrying amount of capital-work-in-progress should have been disclosed by the company in line with the paragraph 74(b) of Ind AS 16.**

The same view, as to capital-work-in-progress be treated as property, plant and equipment, was taken by the Ind AS Transition and Facilitation Group (ITFG) of ICAI and can be referred from issue number 33 of Compendium of ITFG Clarification Bulletins, December 2018 edition.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 19 - Employee Benefits



Case:

The accounting policy for employee benefit states as follows with regard to defined contribution plan:

*“Defined Contribution Plans such as Provident Fund etc., are charged to the Statement of Profit and Loss Account as incurred. Further for certain employees, the monthly contribution for Provident Fund is made to a Trust administered by the Company. The interest payable by the Trust is notified by the Government. **The Company has an obligation to make good the shortfall, if any.**”*

Principle:

Paragraph 8 of Ind AS 19.

Observation:

It was viewed that under defined contribution plan, employer’s liability to the employee is limited to the amount of contribution & has no further obligation to pay beyond agreed contribution. **Thus, if the company has an obligation to make good any shortfall, the said plan cannot be considered as defined contribution plan as per Ind AS 19, such plans are covered under Defined Benefit Plans.**

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 21- The Effects of Changes in Foreign Exchange Rates



Case:

From the accounting policy with regard to foreign currencies, it was noted that the exchange difference on monetary items related to foreign operations are initially recognized in OCI and **reclassified from equity to Statement of Profit and Loss on repayment of monetary items.**

Principle:

Paragraph 32 of Ind AS 21

Observation:

It was viewed that as per paragraph 32 of Ind AS 21 **reclassification from equity to Statement of Profit and Loss should have been made on disposal of net investment instead of repayment of the monetary items.**

Accordingly, it was viewed that the requirement of Ind AS 21 has not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 32 - Financial Instruments:
Presentation



Case:

In the notes to the accounts of a company, the Interest accrued has been disclosed under ‘Non-financial assets’.

Principle:

Paragraph 11 of Ind AS 32

Observation:

It was viewed that **interest accrued is in nature of financial asset as defined under paragraph 11 of Ind AS 32, and hence, should be shown under the head of Financial Assets.**

Accordingly, it was viewed that the requirements of Ind AS 32 have not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 38 - Intangible Assets



Case:

From the annual report of a company, it was noted that the accounting policy on Research and Development states as follows:

“Research and Development expenditure is charged to revenue under the natural heads of account in the year in which it is incurred. Research and Development expenditure on property, Plant and Equipment is treated in the same way as expenditure on other property, plant and equipment.”

Principle:

Paragraph 54 & 57 of Ind AS 38

Observation:

As per Ind AS 38, Intangible Assets, the expenditure on research and development is classified into the expenditure on research phase and development phase.

Expenditures on research phase should be recognised as an expense immediately as per paragraph 54 and expenditure on development phase should be recognised as an intangible asset, if the recognition criteria given in paragraph 57 of Ind AS 38 are satisfied.

Accordingly, it was viewed that the requirements of Ind AS 38 have not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 101 - First-time Adoption of Indian Accounting Standards



Case:

From the annual report of a company, it was noted that the statement of Ind AS Adjustments showing Reconciliation of IGAAP vs Ind AS has not been given anywhere in the notes to the accounts.

Principle:

Paragraph 23 read with 24 and 25 of Ind AS 101

Observation:

It was viewed that **the company should explain how transition from previous GAAP to Ind AS affected financial statements by providing reconciliation of equity, total comprehensive income and recognition/reversal of impairment losses if any.** This shall give sufficient detail to enable users to understand the material adjustments to the Balance Sheet and Statement of profit and loss.

Accordingly, it was viewed that the requirement of Ind AS 101 has not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 103 - Business Combinations



Case:

In the annual report of a company, the accounting policy with regard to Business Combinations reads as follows:

*“The acquisition related costs are **generally** recognized in statement of profit or loss as incurred”.*

Principle:

Paragraph 53 of Ind AS 103

Observation:

It was observed that the wordings **generally** should not be used. **It was viewed that the acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received** as required by paragraph 53 of Ind AS 103.

Accordingly, it was viewed that the language of the policy is not in line with the requirements of Ind AS 103.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 107 - Financial Instruments:
Disclosures



Case:

In the annual report of a company , the Note on Non-current Investments contains the investments in the equity shares of other companies appearing at fair value through other comprehensive income.

Principle:-

Paragraph 11A of Ind AS 107

Observation:

It was noted that the investments in equity shares of some companies have been fair valued through OCI (FVTOCI). However, **the reason for using the FVTOCI alternative has not been disclosed**. It is not in line with the requirement of paragraph 11A(b) of Ind AS 107.

Accordingly, it was viewed that the requirement of Ind AS 107 has not been complied with.



Case :

In the notes to the accounts , under the heading “ Financial Risk Management”, sub heading “exposure to liquidity risk”, the company has given the maturity analysis of financial liabilities only.

Principle:

Paragraph B 11E of Ind AS 107

Observation:

It was viewed that **while giving disclosure regarding the “exposure to liquidity risk”, maturity analysis of financial assets it holds for managing liquidity risk, has to be disclosed.** Given disclosure is therefore not complete and is not in line with the requirement of paragraph B 11 E of Ind AS 107.



Case:

Under the notes to the accounts regarding non-current liabilities , the defaults in the payment of principal and interest have been disclosed in the financial statements. However, from the auditor's report it was noted that these defaults were remedied before the approval date of the financial statements.

Principle:

Paragraph 18(c) of Ind AS 107.

Observation:

It was observed that the **details of defaults remedied before the date of approval of the financial statements has not been disclosed in the financial statements (although reported in auditor's report)**. This is not in line with the requirement of paragraph 18 (c) of Ind AS 107.



Case:

Under the Note on Non-Current Assets, a line item 'Receivables from Redeemable Preference Shares' have been disclosed. From another note, it was noted that this asset has been recognised at amortised cost.

Principle:

Paragraph 20 of Ind AS 107

Observation:

It was noted that Receivable from Redeemable Preference Shares given under Financial Assets and have been recognized at amortised cost. However, interest income on '**Financial Assets that are not at fair value through profit or loss**' has not been disclosed separately, which is not in line with the requirement of paragraph 20 of Ind AS 107.



Case:

From Note on Trade Receivables given under Financial Assets, it was noted that the majority of the amount was due from related parties. Further, it was noted that under Note related to Financial Risk Management, it is stated that no credit risk was involved.

Principle:

Paragraph 35M of the Ind AS 107

Observation:

It was viewed that **information as required by paragraph 35M of Ind AS 107 regarding the Financial Assets for which loss allowance is measured at an amount equal to 12-month expected credit losses or for which loss allowance is measured at lifetime expected credit losses, have not been disclosed.** Accordingly, it was viewed that the requirements of Ind AS 107 have not been complied with.



Case:

Incomplete disclosure was given in the note related to Financial Risk Management in the Financial Statements of a company.

Principle:

Paragraph 35A to 35N of Ind AS 107

Observation:

The following discrepancies have been noted with regard to disclosure under Note related to Financial Risk Management in pursuance to the requirement of Ind AS 107:-

- i. It was noted that the **method to measure expected credit losses has not been disclosed** which is not in line with the requirement of paragraph 35B (a) of Ind AS 107.
- ii. It was noted that the **entity's definition of default with regard to trade receivable is not disclosed** which is not in line with the requirement of paragraph 35F (b) of Ind AS 107.
- iii. Further, it was noted that **detailed credit risk disclosure has been given for trade receivables only. It was viewed that non-disclosure of credit risk for other financial assets is not in line with the requirement of paragraph 35 H, 35I, 35J, 35K, 35 L, 35M of Ind AS 107.**

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 108 - Operating Segments



Case:

It was noted from accounting policy on segment reporting that the company had identified business segment as **primary segment**.

Principle:

Paragraph 11 of Ind AS 108.

Observation:

It was noted from accounting policy for segment and note on Segment disclosures that the company has identified **business segment as primary segment which was required in AS 17 (IGAAP)**. **It was viewed that as per Ind AS 108, the company needs to identify operating segments and to report information for each operating segment.** It was further noted that the disclosures have also been given as per AS 17 (IGAAP). It was viewed that as per Ind AS 108, the company needs to identify operating segments and to report information for each operating segment.



Ind AS 108 – Operating Segments

Further, following discrepancies have been noted with regard to reporting of amount under segment disclosure (which is given as per AS 17):

- The total amount of segment assets and unallocated assets is not matching with the total of asset side of balance sheet.
- Similarly, total amount of segment liabilities and unallocated liabilities is not matching with the total of liabilities side of balance sheet.

Accordingly, it was viewed that the requirement of Ind AS 108 has not been complied with.



Case:

In the Annual Report of a Company, Segment disclosure read as follows:

The Company's business activity falls within a single primary business segment, hence, the disclosure requirement of Ind AS 108 Operating Segment is not applicable. Further the Company does not meet the quantitative threshold as mentioned in Ind AS 108 and hence separate disclosure is not required.

Principle:

Paragraph 13 read with 5 and 31 of Ind AS -108

Observation:

It was noted from Note on Operating Segments that it has been stated that the Company does not meet the quantitative threshold as mentioned in Ind AS 108 and hence separate disclosure is not required. It was viewed that the **quantitative threshold as mentioned in Para 13 of Ind AS 108 is not the only criteria, rather three characteristics as described in paragraph 5 of Ind AS 108 should be considered to identify operating segments.** Further, if the Company's business activity falls within a single reportable segment then disclosures as required by Paragraph 31 of Ind AS 108 need to be made.

Accordingly, it was viewed that the requirements of Ind AS 108 have not been complied with.



Case:

The note with regard to the Segment Reporting read as follows “*Company operates in a Single Primary Segment*”.

Principle:

Paragraph 20 read with paragraph 21 and 22 of Ind AS 108.

Observation:

It was viewed that adequate **disclosures of factors used to identify the reportable segment, judgments made by the managements in applying aggregation criteria etc. should have been clearly made by the company** in line with para 20, 21 and 22 of Ind AS 108.



Case:

In the annual report of a company, it was disclosed under Segment Information that the company is engaged in the single reporting segment. Hence there is no requirement of separate disclosure under Ind AS 108.

Principle:

Paragraph 31 read with para 32 to 34 of Ind AS 108.

Observation:

It was viewed that although the company is engaged in the single reporting segment, paragraph 31 of Ind AS 108 is applicable on single segment entities also. However, the required disclosures have not been made by the company.

Accordingly, it was viewed that the requirement of Ind AS 108 has not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 109 - Financial Instruments



Case:

Under the Contingent liabilities, it was disclosed that the “letter of comfort to banks” has been given by the company against credit facilities availed by the subsidiaries and ‘corporate guarantee given to banks’ towards the credit facilities / financial assistance given to the associate.

Principle:

Paragraph B2.5 and 4.2.1 (c)of Ind AS 109



Observation:

It was viewed that **both these items by their nature, are financial guarantees** and therefore should have been disclosed as such by the company.

It was further viewed that a significant feature of a financial guarantee contract is the contractual obligation to make specified payment in case of default by the credit holder. As such, the contract may not necessarily be called as financial guarantee contract and it may take any name or legal form, however the treatment will be same as that of a financial guarantee contract. If a contract legally meets these requirements, then it would be accounted for as the financial guarantee contract as per Ind AS 109.

Accordingly, it was viewed that, in the given case, **the letter of comfort as well as the corporate guarantees given in support of the credit facilities / financial assistance availed by the subsidiaries and associates of the company should have been recognized in the books as per Ind AS 109. Initial recognition should be at fair value and subsequently it should be measured as provided in para 4.2.1(c).**



Case:

In the Annual report of a company, disclosure regarding Loans to Subsidiaries, Associates and Others read as follows:

“In respect of few of its subsidiaries efforts are being made to recover the loans, however due to financial weakness of those subsidiaries they are unable to repay and regularize the Loans.”

Principle:

Paragraph 5.5.1 of Ind AS 109

Observation:

It was noted that the financial condition of some of the subsidiaries is weak, which indicates that under Ind AS 109, loans to those entities are impaired and an expected credit loss should have been recognised in the books. However, **no provision has been made for expected credit loss on these financial assets. It is not in line with the requirement of paragraph 5.5.1 of Ind AS 109.**

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 113 - Fair Value Measurement



Case:

Under the Accounting policy with regard to Fair value measurement, it was stated that all the financial assets and liabilities of the company has been grouped under Level 2. Moreover, the information about the valuation technique and the inputs used for the fair value measurement has not been disclosed.

Principle:

Paragraph 93 (b) and 93(d) of Ind AS 113

Observation:

Considering the provisions of Para 93(d), it was viewed that **fair value measurements categorized within Level 2 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement should be disclosed.**

Accordingly, it was viewed that the requirement of Ind AS 113 has not been complied with.