



Speaker : Ashutosh Pednekar

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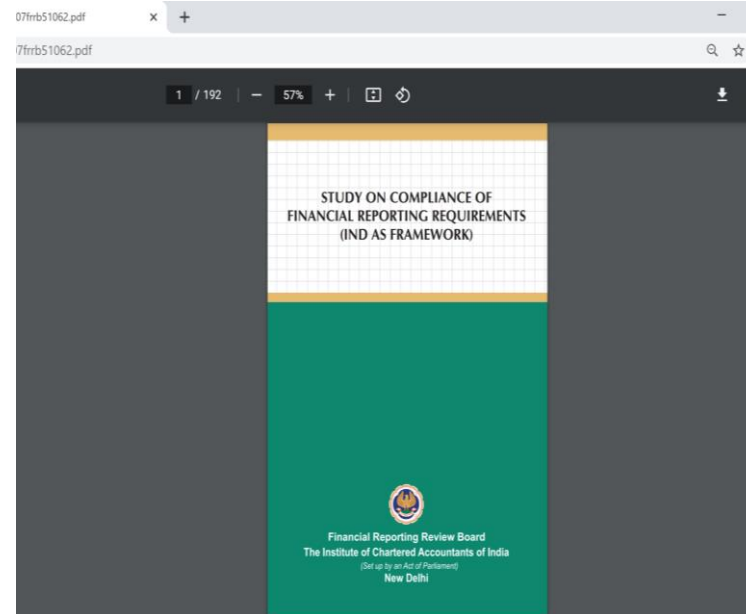
WIRC of ICAI

Ind AS - General Purpose Financial Statements - Practical Insights

- Ind AS 32, 107, 109 – Financial Instruments
- Ind AS 113 – Fair Value Measurement
- Ind AS 104 – Insurance Contracts
- Ind AS 19 – Employee Benefits
- Ind AS 8 – Accounting Policies, Estimates and Errors

FRRB's findings on compliance on Financial Reporting Requirements

- *Majority of the contents of this presentation are from FRRB's findings on compliance on Financial Reporting Requirements*
- *These are my views and should not be considered as views of the ICAI or M P Chitale & Co.*



IND AS 32, 109 and 107
Financial Instruments

Financial Instruments

Matter	FRRB Observations
Fixed Deposits with banks having maturity period of more than 12 months were classified as investments	<p>General Instructions for preparation of Balance Sheet requires “Bank deposits with more than 12 months maturity shall be disclosed under ‘Other financial assets’</p> <p>These amounts should have been classified as other bank balances under financial assets instead of investments</p>

Financial Instruments

Matter	FRRB Observations
<p>Non current investments</p> <ul style="list-style-type: none">• Cost of investment in equity shares of a company was same in current year and previous year.• Number of shares were more at end of current year than the previous year• Face value was Rs. 10 for current year against Rs. 5 for previous year	<p>No explanatory notes were provide for these changes in the characteristics of the investments. This is not in accordance with Ind AS 1 – para 7</p>

Financial Instruments...

Matter	FRRB Observations
<p>Financial Assets</p> <ul style="list-style-type: none">• Interest accrued was disclosed under the head Non-financial Assets• Prepaid expenses and Balances with revenue authorities were shown as Financial Assets	<p>Ind AS 32 – para 11</p> <ul style="list-style-type: none">• Interest accrued meets the definition of a Financial Assets and should be disclosed as such• Prepaid expenses and Balances with revenue authorities do not meet the definition of Financial Assets and should be disclosed under the head, Non-financial Assets

Financial Instruments...

Matter	FRRB Observations
<p>Financial Assets – Trade Receivables</p> <ul style="list-style-type: none">• “Receivable from Authority” and “Toll Collection Receivable” were presented under “Financial Assets – Others”	<p>“Receivable from Authority” and “Toll Collection Receivable” were in respect of amount due on account of services rendered in ordinary course of business. Accordingly, they meet the definition of Trade Receivables and should be presented as “Financial Assets – Trade Receivables”</p> <p>Para 8.1.9 of Guidance Note on Division II – Ind AS Schedule III</p>

Financial Instruments...

Matter	FRRB Observations
<p>Investments at FVTOCI</p> <ul style="list-style-type: none">• Company had designated three investments in equity shares as measured at Fair Value Through OCI; no other disclosures given	<p>The reason for using the FVTOCI alternative was not disclosed. This is not in accordance with Ind AS 107 – para 11A(b)</p>

Financial Instruments...

Matter	FRRB Observations
<p>Investments in a company – contradictory presentations & disclosures</p> <ul style="list-style-type: none">• Financial Statements presentation was “Investment in Subsidiary”• Related party disclosures in Financial Statements was “Fellow Subsidiary” and “Jointly Controlled Entity”• Directors Report, MGT 9 disclosure was “Associate”	<p>These disclosures were ambiguous and incorrect. These are not in accordance with Ind AS 1 Para 7 regarding “obscuration of information”.</p> <p>An entity cannot be subsidiary, fellow subsidiary, associate or jointly controlled entity at the same time.</p>

Financial Instruments...

Matter	FRRB Observations
Certain balances of trade receivables, loans and advances, trade payables and other liabilities are subject to confirmation and / or reconciliation	<p>This disclosure is ambiguous.</p> <ul style="list-style-type: none">• If amounts are not material and not affecting true and fair view, no disclosure is required. This disclosure will create doubts in the users of financial statements.• If amounts are material and affecting true and fair view, then modified opinion would be necessary <p>Non-compliance of SA 705 (Modifications to Audit Report) and SA 505 (External Confirmations)</p>

Financial Instruments...

Matter	FRRB Observations
Accounting Policy on “Classification of Financial Assets” included policy on Effective Interest Method	Correct nomenclature should be “Classification and Measurement of Financial Assets”
Financial Assets accounting policy was silent on treatment of interest income	Accounting policy needs to disclose the manner of presenting interest income on financial assets measured at FVTPL – whether as part of fair value changes or part of separately as interest. Ind AS 107, para B5

Financial Instruments...

Matter

Treasury Shares:-

Note on the financial statements stated:-

"Beneficial Interest in a Trust represent investments in company's shares, associates and other unlisted companies net off borrowings and liabilities pertaining to investment division of a company transferred to the said trust in terms of the scheme of amalgamation. Considering that the company's shares are held by an independent trust and are meant for sale in terms of the High Court order, the beneficial interest (including company's shares) has been treated as financial asset and fair valuation as required in terms of Ind AS 109 has been carried out by an independent firm of chartered accountant and the resultant decrease in value thereof, has been adjusted from other comprehensive income."

FRRB Observations

- Based on the disclosure it was clear that the Company through the Trust had beneficial interest in its own shares.
- They meet the definition of Treasury Shares (ind AS 32 Para 33 and AG 36).
- Such involvement should not be recognized as a financial asset measured at fair value.
- This involvement needs to be deducted from equity in line with requirements of para AG 36 of Ind AS 32

Financial Instruments...

Matter	FRRB Observations
Contingent liabilities included letter of comfort to banks against credit facilities / financial assistance facilities availed by subsidiaries and corporate guarantee given to banks against credit facilities / financial assistance availed by its associate company	If a significant feature of a financial instrument is the contractual obligation to make specified payment in case of default by the credit holder, the accounting will be the same as that of a financial guarantee contract. Ind AS 109 Appendix A definitions and para B2.5 ITFG December 2018, Issue no. 64

Financial Instruments...

Matter	FRRB Observations
It was disclosed that the company had given corporate guarantees to several banks i.r.o funded and non-funded limits of its foreign subsidiary and associate company	These corporate guarantees were in the nature of financial guarantees and should have been recognised, measured, presented and disclosed in accordance with Ind AS 109 (Paras 4.2.1 and 5.5.1), Ind AS 32 (Para AG8 of Appendix A) and Division II – Ind AS Sch III (Para 8.2.5.1 of the Guidance Note)

Financial Instruments...

Matter	FRRB Observations
<p>Accounting policy states as under:- Financial assets and liabilities at FVTPL</p> <ul style="list-style-type: none">- Financial instruments which do not meet the criteria of amortised cost or fair value through other comprehensive income are classified as fair value through profit or loss.	<p>The accounting policy gives an erroneous impression that the financial instruments (including financial liabilities) can be classified as either valued at amortised cost or FVOCI.</p> <p>FVOCI classification is not available for financial liabilities under Ind AS 109 – see para 4.2.2</p>

Financial Instruments...

Matter	FRRB / EAC Observations
ECL Note to financial statements stated that no provision was created on doubtful trade receivables	When trade receivables are doubtful there is a requirement to recognize a loss allowance for expected credit losses. Non compliance with Ind AS 109
ECL Whether ECL is to be recognized on receivables in ordinary course of business (Trade Receivables) for government or government owned organisations?	EAC held that there is no exemption available under Ind AS from making provision for ECL where clients are Central Government / State Government / Autonomous Bodies / PSUs.

Financial Instruments...

Matter	FRRB Observations
Disclosure of fair value of financial assets not proper	<p>Measurement of financial assets whether at cost or FVTPL or FVOCI has not been given</p> <p>Disclosure of fair values of financial assets valued either at amortised cost, FVTPL or FVTOCI is not given.</p> <p>Ind AS 109 requires such disclosures</p>

Financial Instruments...

Matter	FRRB Observations
Trade receivables from related parties constituted significant amounts and majority of them was from the holding company. The Financial Risk Management disclosures stated that no credit risk is involved in respect of such receivables from the holding company	This disclosure was erroneous as it did not give information of the 12 month expected credit losses or lifetime expected credit losses. Ind AS 109 para 35M

Financial Instruments...

Matter	FRRB Observations
Financial Risk Management disclosures were incomplete with regard to liquidity risk	Maturity analysis of financial assets was need to be disclosed. Ind AS 107 para B11E
Financial Risk Management:- <ul style="list-style-type: none">• Total of financial liabilities did not match with total of financial liabilities in the financial statements	Such difference between amounts reported raises doubt about overall correctness of financial statements.

Project Phase	Amendment in IFRS by IASB	Developments in India (Ind AS)
<p>Phase 1- Pre-replacement issues Issues affecting financial reporting in the period during which there is uncertainty about contractual cash flows arising from the reform</p>	<p>Sep 2019: Amendments to:</p> <ul style="list-style-type: none"> • IFRS 9, <i>Financial Instruments</i> • IFRS 7, <i>Financial Instruments: Disclosures</i> • IAS 39, <i>Financial Instruments: Recognition and Measurement</i> 	<p>Corresponding amendments have been notified by MCA in Ind As 109 and Ind AS 107 that are effective from April 1, 2020:</p>
<p>Phase 2- Replacement issues Issues affecting financial reporting when the uncertainty about contractual cash flows is resolved and hedging relationships are affected as a result of the reform.</p>	<p>Aug 2020: Amendments to provide practical expedient for particular changes to contractual cash flows and relief from specific hedge accounting requirements:</p> <p>IFRS 9, IFRS 7, IAS 39, IFRS 4, Insurance Contracts and IFRS 16, Leases are amended</p>	<p>Corresponding amendments in Ind AS 109, Ind AS 107 and Ind AS 116 are proposed to be made effective from April 1, 2021.</p>

Accordingly, Exposure Draft on **Interest Rate Benchmark Reform – Phase 2 (Amendments to Ind AS 109, Ind AS 107 and Ind AS 116)** has been issued with the last date of comments being **November 30, 2020** which can be accessed at the below link: <https://resource.cdn.icai.org/61633asb50164.pdf>

IBOR...

Phase 1

- July 2020 – MCA amended Ind AS 109 and Ind AS 107 providing some specific hedge accounting requirements to provide relief to potential effects of uncertainty caused by the Interest Rate Benchmark Offered Rate (IBOR) reform
- As per IBOR reform, widely used rates such as LIBOR will be replaced by alternate nearly risk free rates

Ind AS 109

- Applies to all hedging relationships directly affected by IBOR reform A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:
 - the interest rate benchmark designated as a hedged risk; and/ or
 - the timing or amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument
- It should be assumed that the hedged cash flows on which are based does not change as a result of the reform i.e the highly probable test does not fail
- Prospectively assessment needs to be done whether the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based is not altered by IBOR reform and hence the economic relationship and hedge effectiveness is not affected.

IBOR...

- Under the amendments, where only a risk component is hedged, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis.
- In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship.
- A company shall cease to apply the exceptions prospectively at the earlier of:-
 - When the uncertainty arising from interest rate benchmark reform is no longer present and
 - The discontinuing of the hedging relationship (or reclassification of all amounts from the cash flow hedge reserve)
- Amendments can be applied retrospectively to all hedging relationships affected by the interest rate benchmark reform that existed at the beginning of the reporting period in which the entity first applies these amendments or to those which were designated thereafter, and to amount accumulated in the cash flow hedging reserve that existed at the beginning of the reporting period in which the entity first applies these amendments.

IBOR...

Ind AS 107

For hedging relationships to which entity applies exception set out in Ind AS 109, following needs to be disclosed:-

- (a) the significant interest rate benchmarks to which the entity's hedging relationships are exposed;
- (b) the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;
- (c) how the entity is managing the process to transition to alternative benchmark rates;
- (d) description of significant assumptions or judgements the entity made in applying the exceptions (for example, assumptions or judgements about when the uncertainty arising from interest rate benchmark reform is no longer present); and
- (e) the nominal amount of the hedging instruments in those hedging relationships

IND AS 113

Fair Value Measurement

Fair Value Measurement

Matter	FRRB Observations
Company disclosed that all its financial assets and financial liabilities are grouped under Level 2 hierarchy	In relation to the grouping under Level 2 hierarchy the company did not disclose information about valuation technique and inputs used for the fair value measurement. Ind AS 113, para 93(d)

Fair Value Measurement

Matter	FRRB Observations
Financial assets of a company included investments in mutual funds. There was no disclosure of the classification and fair value measurement of these investments	The company ought to have disclosed as required by Ind AS 109 and Ind AS 113 the classification of these investments under amortised cost, FVTOCI or FVTPL and also the basis of determining the fair value measurement.

IND AS 104

Insurance Contracts

Insurance Contracts

Matter	FRRB Observations
<p>Accounting policy inter-alia stated that Financial Guarantee contracts, other than those which are in nature of insurance are those <i>(not reproduced here)</i></p> <p>Corporate guarantees are in the nature of insurance contracts</p>	<p>The Accounting policy did not disclose about the liability adequacy test on such designated insurance contracts.</p> <p>The financial statements did not present any LAT separately.</p> <p>Ind AS 104 was hence, not followed</p>

Insurance Contracts

Ind AS 117 – status in India

- Ind AS 104 corresponding to IFRS 4 is an interim standard and does not prescribe any measurement principles
- In May 2017 the IASB announced IFRS 17 Insurance Contracts to replace IFRS 4
- A Transition Resource Group was set up by the IASB to discuss implementation questions and meeting with stakeholders including preparers, auditors and regulators. The IASB was sensitized about the challenges in implementation
- In May 2019 issued an exposure draft and the amendments were announced in June 2020 with an implementation date of annual periods commencing on or after January 1, 2023
- To remain converged with IFRS, the ICAI Ind AS 117 was formulated and cleared by the Council.
- In November 2020 the Exposure Draft on the Amendments to Ind AS 117 was published and comments received have been considered by the ASB and recommended to the Council

IND AS 19

Employee Benefits

Employee Benefits

Matter	FRRB Observations
<p>Accounting policy abstract...</p> <ul style="list-style-type: none">• 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	<p>Since the Company has an obligation is to make good the shortfall, it is a defined benefit plan. Ind AS 19 para 8</p>

Employee Benefits

Matter	FRRB Observations
<p>Footnote to employee benefits disclosures stated that gratuity liability is recognized for every employee who has completed five years of service</p>	<p>Gratuity liability needs to be recognized as per employment contractual and regulatory requirements, which is irrespective whether an employee has completed five years of service or not. Ind AS 19, paras 56 and 57</p> <p>Moreover disclosures with regard to explaining the characteristics of the defined benefit plans, identifying and explaining the amounts of such defined benefit plans in financial statements and a description of how the defined benefit plan may be impacted by the timing and uncertainty of the entity's future cash flows are not given. Ind AS 19, para 135</p>

Employee Benefits...

Matter	FRRB Observations									
<p>Disclosure of mortality rate was not given under Actuarial assumptions</p>	<p>Disclosure of mortality rate is a part of the actuarial assumptions and needs to be disclosed. Ind AS 19, para 147 read with para 57(a)(i)</p>									
<p>Disclosure stated as under:- “Amounts for the current and previous four periods are as follows”</p> <table border="1" data-bbox="168 1071 1197 1316"> <thead> <tr> <th data-bbox="168 1071 509 1150">Particulars</th> <th data-bbox="509 1071 856 1150">Current Year</th> <th data-bbox="856 1071 1197 1150">Previous Year</th> </tr> </thead> <tbody> <tr> <td data-bbox="168 1150 509 1230">Gratuity</td> <td data-bbox="509 1150 856 1230"></td> <td data-bbox="856 1150 1197 1230"></td> </tr> <tr> <td data-bbox="168 1230 509 1316">-----</td> <td data-bbox="509 1230 856 1316"></td> <td data-bbox="856 1230 1197 1316"></td> </tr> </tbody> </table>	Particulars	Current Year	Previous Year	Gratuity			-----			<p>Though Ind AS 19 requires disclosures of five years in all, the table was only for two years.</p>
Particulars	Current Year	Previous Year								
Gratuity										

Employee Benefits...

Matter

What is the point in time of recognizing the accounting impact of Code of Social Security, 2020?

My Observations

Once the date of coming into force of the Code is notified in the official gazette, the accounting impact will need to be recognized in respect of the past service cost.

Guidance can be taken of the FAQ issued by the ICAI when gratuity ceiling was enhanced from Rs. 10 lakhs to Rs. 20 lakhs.

[50220asb39816.pdf \(icai.org\)](#)

IND AS 108

Accounting Policies, Estimates and
Errors

Prior Period Items

Matter	FRRB Observations
<p>Prior Period Items were disclosed in note to financial statements on Other Expenses</p>	<p>Ind AS 8 requires that prior period items should be adjusted either by restating the comparative amounts for the period in which error occurred or restating the opening balances of assets, liabilities and equity for the earliest prior period presented.</p> <p>Para 49 of Ind AS 8 requires additional disclosures of prior period errors.</p>

Ind AS mantra –

The reader should know what the preparer knows

Thank You

ashu01@mpchitale.com