TOPIC 4.

IND AS – I PRESENTATION OF FINANCIALSTATEMENTS

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Quotes:

"All you need is the plan, the road map,

and the courage to press on to your destination"

1. Applicable for preparing and presenting **General purpose financial statements (not for any specific industry).**
2. General purpose FS means – which intends to fulfill the need of those users who cannot require an entity to prepare tailored reports for their particular needs.
3. **Not** applicable to the **Structure and Content** of condensed Interim FS (where Ind AS 34 is applicable) except provisions relating to Fair presentation, compliance with IND AS and Fundamental accounting assumptions.
4. It uses terminology suitable for **Profit Oriented entities**. (Entities having non-profit activities have to amend description used for particular line item)
5. Material omissions or misstatements of items – are those which can **influence the economic decisions** that users make on the basis of FS. (Size or nature is to be considered for materiality)
6. Notes – Additional information, Narrative descriptions or disaggregation of items.
7. **OCI (Other Comprehensive Income)**- Items which are not recognized in the statement of Profit or loss as per any other IND ASs. Components of OCI (examples):
   (i) Revaluation Reserve (INDAS 16 & INDAS38)
   (ii) Re Measurements of defined benefit Plans (INDAS 19)
   (iii) FCTR on conversion of Foreign Operations (INDAS 21)
   (iv) Change in fair value of Equity Instruments if not HFT and designated as FVTOCI (INDAS 109)
   (v) Change in fair value of Hedged Instrument in case of CASH FLOW HEDGE (IND AS 109)
8. **Reclassification adjustments** – amounts reclassified to Profit or Loss in current period that were recognized in OCI.
9. Complete Set of Financial Statements
   (a) A Balance Sheet as at the end of the Period
   (b) A Statement of Profit and Loss for the period (two sections – P&L and OCI)
   (c) A Statement of Changes in Equity for the period (all owner changes in equity)
   (d) A Statement of CashFlows for the period
   (e) Notes, significant a/c policies and explanatory information
   (f) Comparative information in respect of preceeding period.
   (g) A Balance Sheet as at the beginning of preceeding period **if entity applies accounting policy retrospectively or makes retrospective restatement of items or on reclassification of items and they are material**. (Notes of this Opening BS need not be presented)
10. Entity shall make an **EXPLICIT & UNRESERVED STATEMENT** of compliance if its FS

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are complied with in accordance with IND ASs.

However Ind AS 1 allows deviation from a requirement of an Accounting Standard in case:

- The Management concludes that compliance with Ind ASs will be misleading; &
- If the regulatory framework requires such a departure OR if the regulatory framework does not prohibit such a departure.

  Else, Disclosure of non-compliance is required to be given.

Example - 1

An entity prepares its financial statements that contain an explicit and unreserved statement of compliance with Ind AS. However, the auditor's report on those financial statements contains a qualification because of disagreement on application of one Accounting Standard. In such case, is it acceptable for the entity to make an explicit and unreserved statement of compliance with IndAS?

Solution:

Yes, it is possible for an entity to make an unreserved and explicit statement of compliance with Ind AS, even though the auditor's report contains a qualification because of disagreement on application of Accounting Standard(s), as the preparation of financial statements is the prerogative of the management. In case the management has a bonafide reason to believe that it has complied with all IndAS, it can make an explicit and unreserved statement of compliance with IndAS.

11. **Inappropriate** Accounting policies **can-not be rectified** only by Disclosure, or Notes or Explanatory statements.
12. FS shall be prepared on the basis of **GOING CONCERN** unless there is intention to liquidate or to cease trading or has no realistic alternative but to do so.

    If on the basis of **material uncertainties** that may cast significant doubt upon the entity's ability to continue as a going concern the entity shall disclose such uncertainties.

    If FS are **not** prepared on Going Concern Basis then **it shall disclose such fact along with the basis on which it is prepared and reasons**.

    Assessment of Going Concern assumption should be based on all available future information which is **at least 12 months** from the end of reporting period.
13. FS shall be prepared on **ACCRUAL** basis.
14. No offsetting of Assets and Liabilities or Incomes and Expenses unless requires by INDAS.

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Example 2

Is offsetting of revenue against expenses, permissible in case of a company acting as an agent and having sub-agents, where commission is paid to sub-agents from the commission received as an agent?

Solution

On the basis of the above, net presentation in the given case would not be appropriate, as it would not reflect substance of the transaction and would detract from the ability of users to understand the transaction. The commission received by the company as an agent is the gross revenue of the company. The amount of commission paid by it to the sub-agent should be considered as an expense and should not be offset against commission earned by it.

15. Frequency of Reporting: **at least Annual.**
16. Change in Presentation or Change in Classification of items in FS – **reclassify comparative amounts** unless it is impracticable.
17. **Consistency:** Presentation and Classification of items shall be consistent from one period to next unless:
    (a) It is apparent that such change would be more appropriate; or
    (b) An IND AS requires such Change.
18. **Structure and Content of FS:** Clearly identify each financial statements and notes and distinguished from other information in published documents. Disclose following information prominently and repeat it as necessary:
    (c) Name of reporting entity and any change in the name
    (d) Whether FS are of Individual entity of Group of Entity
    (e) Date of end of reporting period or the period covered by FS
    (f) Presentation currency used
    (g) Level of rounding used.
19. Separate classification for Current and Non-Current items except when presentation on liquidity basis provides reliable and more relevant information. (Even mixed basis is allowed in diverse operations)
20. IND AS 1 does not prescribe format of FS rather prescribed minimum line items.
21. Current Assets as per (Schedule III of Comp Act, 2013):
    (h) It expects to realise the asset, or intends to sell or consume it, in its normal operating cycle (receivables and inventories);
    (i) It holds the asset primarily for the purpose of trading (Financial Instr. - HFT);
    (j) It expects to be realised within 12 months after the reporting period.
    (k) Cash and Cash equivalents, unless it is restricted for being exchanged or used to

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settle liability for at least 12 months after the reporting period.

22. Normal operating cycle is the **Time between** the acquisition of assets for processing and their realisation in cash or cash equivalents. **If not clearly identifiable** it is assumed to have a period of **12months.**

23. **Current liabilities** are those:
    - expected to be settled within the entity's normal operating cycle
    - held for purpose of trading
    - due to be settled within 12months
    - for which the entity does not have an unconditional right to defer settlement beyond 12 months (settlement by the issue of equity instruments does not impact classification).

Example - 3

On 31 December 20x2 an entity replaced a machine in its production line. The replaced machine was sold to a competitor for ₹300,000. Payment is due 15 months after the end of the reporting period.

Solution:

The receivable is a non-current asset—it is not cash or a cash equivalent; it is not expected to be realised or consumed in the entity's normal operating cycle; it is not held for the purpose of trading; and it is not expected to be realised within twelve months of the end of the reporting period.

Note: If payment was due in less than twelve months of the end of the reporting period it would be a current asset.

Example - 4

On 1 April 20X2 XYZ Ltd invested ₹15,00,000 surplus funds in corporate bonds that bear interest at 8 per cent per year. Interest is payable on the corporate bonds on 1 April of each year. The capital is repayable in three annual instalments of ₹500,000 starting on 31 March 20X3.

Solution:-

In its statement of financial position at 31 March 20X3 the entity must present the 1,20,000 accrued interest and ₹ 500,000 current portion of the non-current loan (ie the portion repayable on 31 March 20X3) as current assets—they are expected to be realised within twelve months of the end of the reporting period. The installments of ₹ 10,00,000 due later than twelve months after the end of the reporting period is presented as a non-current asset—it is not cash or a cash equivalent; it is not expected to be realised or consumed in the entity's normal

operating cycle; it is not held for the purpose of trading; and it is not expected to be realised within twelve months of the end of the reporting period.

24. REFINANCING:

Refinancing Agreement on a long term basis is completed after the reporting period but before the approval of FS – Treat FL as Current when it is due to be settled within 12 months after RP.	**At the Reporting date, if Entity Expects and has discretion to refinance/roll over the Obligation for at least 12 months** - Treat FL as Non- Current even it is due to be settled within 12months.

25. BREACH OF PROVISION OF LONG TERM LOAN ARRENGMENT ON OR BEFORE REPORTING DATE:

Non – Current	Non-Current	Current
If Liability become repayable on demand and if lender agreed after reporting period but before approval of FS for not demanding the payment.	If lender agreed to provide grace period before end of reporting period for at least 12 months from the end of reporting date and during which lender cannot demand immediate payments.	If Liability becomes repayable on demand and if the lender does not agreed for not demanding the payment.

26. Statement of Profit or loss and Other Comprehensive income:
    No Choice of : (a) Singal Statement with two sections or (b) two statements
27. Allocation of Profit or loss and OCI attributable to
    (l) Non -controlling Interest; and
    (m) Owners of the parent
28. OCI will be grouped into the items:
    (n) Which will not be reclassified subsequently to Profit or loss; and
    (o) Which will be reclassified subsequently to Profit or Loss when conditions met.
29. **EXTRAORDINARY ITEM:** PROHIBITED
30. **Presentation of Expense:** NATURE wise only not on FUNCTION wise.
31. Presentation of Notes normally in following order:

(p) Statement of compliance with IND ASs

(q) Summary of Significant Acc. Policies applied

(r) Supporting information for items shown in BS, P&L, Cash Flows (i.e. schedules)

(s) Other disclosures such as Contingent liabilities and Non-financial disclosures.

32. Disclosure of **Critical Judgements** made by management in applying accounting policies in summary of significant accounting policies.

Eg. of Critical judgement : whether substantially all the significant risks and rewards of ownership of FA and Leased Assets are transferred to other entities.

33. Disclose key source of **Estimation Uncertainty** at the end of reporting period that have a significant risk of causing material adjustment to the carrying amounts of A/L within the next financial year. (Jo assumptions or estimations liye gaye hai year-end pe unke karan next f.y. me A/L ki book value par agar koi material impact aasakta hai to vo assumptions or estimations disclose karo)

Q1

Inventory or trade receivables of X Ltd. are normally realised in 15 months. How should X Ltd. classify such inventory/trade receivables: current or non-current if these are expected to be realised within 15 months?

Solution

These should be classified as current.

Q2

B Ltd. produces aircrafts. The length of time between first purchasing raw materials to make the aircrafts and the date the company completes the production and delivery is 9 months. The company receives payment for the aircrafts 7 months after the delivery.

(a) What is the length of operating cycle?

(b) How should it treat its inventory and debtors?

Solution

(a) The length of the operating cycle will be 16 months.

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

Q3

X Ltd provides you the following information:

Raw material stock holding period : 3 months
Work-in-progress holding period : 1 month
Finished goods holding period : 5 months
Debtors collection period : 5 months

You are requested to compute the operating cycle of X Ltd.

Solution

The operating cycle of X Ltd. will be computed as under:

Raw material stock holding period + Work-in-progress holding period + Finished goods holding period + Debtors collection period = 3 + 1 + 5 + 5 = 14 months.

Q4

In the above Illustration, what would happen if the trade payables of the Company are paid in 12.5 months? Should these be classified as current or non-current?

Solution

Since the operating cycle of X Ltd. is 14 months, trade payables expected to be settled in 12.5months. The same should be classified as a current liability.

Q5

Entity A has two different businesses, real estate and manufacture of passenger vehicles. With respect to the real estate business, the entity constructs residential apartments for customers and the normal operating cycle is three to four years. With respect to the business of manufacture of passenger vehicles, normal operating cycle is 15 months. Under such circumstance where an entity has different operating cycles for different types of businesses, how classification into current and non-current be made?

Solution

As per paragraph 66(a) of Ind AS 1, an asset should be classified as current if an entity expects to realise the same, or intends to sell or consume it in its normal operating cycle. Similarly, as per paragraph 69(a) of Ind AS 1, a liability should be classified as current if an entity expects to settle the liability in its normal operating cycle. In this situation, where businesses have different operating cycles, classification of asset/liability as current/non-current would be in relation to the normal operating cycle that is relevant to that particular asset/liability. It is advisable to disclose the normal operating cycles relevant to different types of businesses for better understanding.

Q6

In December 2XX1 an entity entered into a loan agreement with a bank. The loan is repayable in three equal annual installments starting from December 2XX5. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by promoters by March 24, 2XX2, failing which the loan becomes payable on demand. As on March 24, 2XX2, the entity has not been able to get the promoter's contribution. On March 25, 2XX2, the entity approached the bank and obtained a grace period up to June 30, 2XX2 to get the promoter's contribution.

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

(a) As on March 31, 2XX2, how should the entity classify the loan?

(b) Assume that in anticipation that it may not be able to get the promoter's contribution by due date, in February 2XX2, the entity approached the bank and got the compliance dateextended up to June 30, 2XX2 for getting promoter's contribution. In this case will the loan classification as on March 31, 2XX2 be different from (a) above?

Solution

(a) Paragraph 75 of Ind AS 1, inter alia, provides, "An entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment." In the present case, following the default, grace period within which an entity can rectify the breach is less than twelve months after the reporting period. Hence as on March 31, 2XX2, the loan will be classified as current.

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

CARVE OUT

IAS 1	IND AS 1 (CARVE OUT)
It requires that in case of a loan liability, if any condition of the agreement which was classified as	It clarifies that when there is breach of a material provision of a long term loan liability on or before the end of

Non-Current is breached on the reporting date, such loan liability should be classified as **Current.** Even if the breach is rectified after the reporting date, IAS 1 requires loans to be classified as Current.	reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as Current, if the lender agreed not to demand payment as a consequence of breach after the reporting period and before the approval of financial statements for issue.

DIFFERENCE BETWEEN IND AS 1 & IAS 1

BASIS	IAS 1	IND AS 1
Single or Two Statements	It permits companies to present all items of income and expenses recognised either in a single or in two statements	It does not permit the two statement approach. All items of incomes and expenses to be presented in a single statement of Profit and Loss.
Analysis of Expenses	Expenses will be presented using the classification based on either their **nature** or their **function** within the company.	Ind AS 1 mandates only **nature** wise classification of expenses.
Statement of Changes in Equity	It requires the statement to be presented as a separate statement.	Requires the statement to be presented as a part of the Balance Sheet.

2 Steps to Distinguish Other Comprehensive Income from Profit or Loss and Changes in Equity

IND AS 1 - Presentation of Financial Statements introduced the concept of ***"Statement of Other Comprehensive Income"***

Now it began lots of confusion, frustration and doubts! Many of us simply did not get the point. What items belong to OCI? What items belong to P/L? And, how do the changes in equity fit in?

What is the difference between other comprehensive income and profit and loss? What is the difference between other comprehensive income and changes in equity?

Let's bring it some light.

The key is net assets

Surprised? It is as simple as that: the whole thing becomes clear when you focus on the net assets.

First, we need to understand what the **net assets** are.

Net assets are simply total assets less total liabilities of a company.

It is the same as **equity** which is the residual interest in the assets of an entity after deducting all of its liabilities

As you can see above, if total assets are greater than total liabilities, then there is a **positive equity** or net assets.

When total assets are lower than total liabilities, there is a **negative equity** or net assets.

What items belong to net assets?

Well, basically it is share capital, share premium, reserves, retained earnings or losses and some other items, too.

What can cause the change in net assets?

Net assets or equity can increase or decrease as a result of several things, for example:

- shareholders contribute cash to the company
- company makes a profit or loss
- company buys own shares back from the market
- company pays out the dividends to shareholders
- company revalues certain assets directly through equity and not through profit or loss

The key to understand the difference between profit or loss, other comprehensive income and changes in equity is **to understand where these changes are coming from**.

So which statement to use?

We can **classify changes in net assets** or equity into **2 main categories**:

1. **Capital changes** – these are all changes related to introduction and return of capital to shareholders, such as:
    - Issuance of new shares
    - Paying out of dividends to shareholders
    - Buy-back of own shares from the market

    All capital changes must be reported **in the statement of changes in equity**.
2. **Performance changes** – these are all changes coming from the activities of the company and not from the shareholders.

We can further divide this category into 2 subcategories:

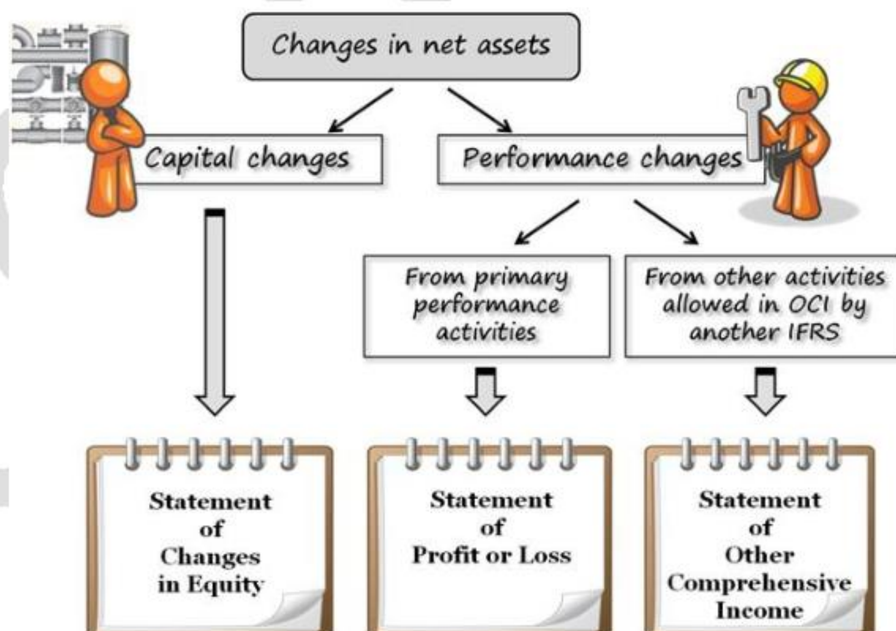
i. Changes resulting from or related to **primary performance or main revenue-producing activities** of the company that are reported in profit or loss. Here the following items fall:

- Revenue from sales of goods or services
- Expenses incurred to make sales of goods or services
- All other income and expenses, such as finance, administrative, marketing, personnel, etc.
- Gains related to primary performance (sale of property, plant and equipment, etc.)

The main point here is that other IFRS standard **does not permit** recognition of these changes directly to equity.

All these changes are reported in **profit or loss**.

ii. Changes resulting **from other, non-primary or non-revenue producing activities** of the company that are not reported in profit or loss **as required or permitted by other IFRS standard**. 0



Follow these 2 steps

Step I: Performance or capital change?

If you are not sure where certain item belongs, then think a while:

Is it performance change or capital change?

The reason for introducing other comprehensive income and merging it with profit or loss into the statement of comprehensive income ***was to distinguish between capital and performance changes.***

The company needs to show clearly why its net assets go up or down – is it due to capital change? Or is it due to performance change?

Step 2: Allowed by other IND AS to OCI?

And then, if it is a performance change, ***is it from primary activity****?*

Can we report it directly to equity in other comprehensive income – is it ***allowed by some IND AS*** *or not?*

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