Non-compliances observed in the Ind AS Financial Statements pertaining to Other Disclosure

Contributed by the Financial Reporting Review Board of the ICAI. Comments may be sent to frrb@icai.in and eboard@icai.in

Financial Statements are the paramount source in hands of the stakeholders to understand the financial well-being of an enterprise. The users are highly reliant on the information presented in the financial statements and therefore the preparers ought to ensure that it is correct, complete, relevant and adhere to the applicable regulatory requirements. Financial Reporting Review Board (FRRB) reviews the General Purpose Financial Statements (GPFS) of enterprises with the view to identify the non-compliances with Accounting Standards/ Ind AS and Standards of Auditing, CARO, Companies Act, and other applicable statutory requirements.

The non-compliances observed by the Board are compiled and published under the name of ''Study on Compliance with Financial Reporting Requirement''. Till date three volumes of the aforesaid publication have been released by the Board. Further, one more publication on "Study on Compliance of Financial Reporting Requirements (Ind AS Framework)" has been released for preparers and auditors of the Ind AS financial statements. In addition, the Board publishes such non compliances observed by way of articles in the 'Journal' of the Institute. This article is in furtherance of the FRRB's endeavour to update the members and other stakeholders in the field of financial reporting.

It may be noted that in the article, the observations related to Ind AS framework have been classified on the basis of components of financial statements i.e. Assets, Equity, Liabilities for Balance Sheet and revenue, interest income, employee benefits etc. for Statement of Profit and Loss and likewise. This article deals with the non-compliances, observed by the Board, with regard to Other Disclosures which is an important element for Ind AS financial statements.

Observations related to Other Disclosures

Non-disclosure of Accounting Policy

Case:

A company has given a note regarding mining operation which read as follows:

"The company's mining operations at the lease mine remained suspended during the year owing to the ban imposed by the regulatory authority. The company's investments in the said cash generating unit consists of Trucks, Trippers, material handling equipment, and similar movable assets and also a long-term lease premium was paid in respect of the said land and the mine development expenses were incurred by the company. These assets continue to be carried at cost less accumulated depreciation and amortization, and depreciation/ amortization expense for the current year has been charged to the Statement of Profit and Loss. The said treatment is owing to the management expectation of re-starting with the mining activity and the fact that the transportation vehicles are otherwise being used for other business purposes of the company".

Principle: Ind AS 1, Presentation of Financial Statements

Paragraph 117– Disclosure of accounting policies

"An entity shall disclose its significant accounting policies comprising:

(a) the measurement basis (or bases) used in preparing the financial statements, and

(b) the other accounting policies used that are relevant to an understanding of the financial statements."

Observation:

It was noted from the financial statements of the company that the accounting policies of impairment of assets and segment reporting, being significant accounting policies, have not been disclosed.

It was noted from note to the financial statements regarding mining disclosures that the company's mining operation was suspended. It was viewed that the management was required to make judgement whether it is discontinued operation of major component of an entity as per Ind AS 105 or there is indication about the impairment of assets as per Ind AS 38. Accordingly, it was viewed that the accounting policy of the same should have been disclosed. With regard to segment reporting, it was noted that the company is in diversified business. Accordingly, the accounting policy for the same is also significant.

Both accounting policies have been considered as significant accounting policies which are relevant to the understanding of the financial statements and hence, should have been disclosed as per the above stated requirements of Ind AS 1.

Accordingly, it was viewed that the requirements of Ind AS 1 have not been complied with.

Related Party Disclosure

Case:

In the note to the financial statements of a company on Exceptional Items, the exceptional items included waiver of interest receivables from a related party. No disclosure in this regard was given under related party disclosures.

Further, the items reported under exceptional items included expense on account of waiver of regulatory accrual, however, the nature of such expense was not clear.

Principle: Ind AS 24, Related Party Disclosures

***Paragraph 18*–** Disclosures

"If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:

a) the amount of the transactions;

b) the amount of outstanding balances, including commitments, and:

   i. their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

   ii. details of any guarantees given or received;

c) provisions for doubtful debts related to the amount of outstanding balances; and

d) the expense recognised during the period in respect of bad or doubtful debts due from related parties."

Observation:

It was viewed that expense on account of waiver of an interest receivable is a bad debt. **As the expense pertains to a related party, it requires disclosure under Related Party Disclosure as per paragraph 18 (d) of Ind AS 24. However, under related party disclosure, no disclosure was given in this regard.**

Further, an item can be classified as an exceptional item only if the criteria mentioned in paragraphs 97 and 98 of Ind AS 1 has been met.

Accordingly, it was viewed that the requirements of Ind AS 24 have not been complied with.

Financial Risk Management

Case:

In the note to the financial statements on Financial Risk Management, the disclosure with regard to credit risk, liquidity risk and market risk were made. However, disclosure for liquidity risk is not complete.

Further, the total of financial liabilities (except Financial Guarantee {Contingent Liability}) given under this note did not match with the total of the financial liabilities as per the Balance sheet.

Principle:- Ind AS 107, Financial Instruments: Disclosures

Paragraph B11E – Quantitative liquidity risk disclosures

"Paragraph 39(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph 39(a) and (b). **An entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk** (eg financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk."

Observation:

The following discrepancies were noted with regard to disclosure of financial risk and financial liabilities:

a) It was noted that the disclosure with regard to credit risk, liquidity risk and market risk were made. However, while giving "exposure to liquidity risk", **maturity analysis of financial assets held by company for managing liquidity risk, was not disclosed**. It is, therefore, not in line with the requirement of paragraph B 11 E of Ind AS 107.

b) It was further noted that under note to the financial statements on Financial Risk Management, the company's financial liabilities at the reporting date were disclosed and classified on the basis of remaining contractual maturities of financial liabilities. However, the total of financial liabilities (except Financial Guarantee {Contingent Liability}) given under this note did not match with the total of the financial liabilities as per the Balance sheet for all the three years presented in the financial statements. Such difference in amount reported raised doubt regarding the correctness of the information given in the financial statements.

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

Segment Reporting

Case:

Abstract of note to the financial statements on Segment Reporting read as follows:

"Segment Information

The Company is engaged in the business of Branding, Manufacturing, Processing, Selling and Distribution of "Consumer Products" which constitutes a single reporting segment. Hence there is no separate reportable segment under Indian Accounting Standard on Ind AS 108 'Operating Segment'.

Geographic Information

There are no revenues or non-current operating assets from external customers outside India."

Principle:-Ind AS 108, Operating Segments

Paragraph 32 of Ind AS 108 – Information about products and services

"An entity shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the entity's financial statements."

Observation:

It was noted that although the company is engaged in the single reporting segment but paragraph 32 of Ind AS 108 is applicable on single segment entities also, however, **the required disclosures were not given by the Company.**

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

Fair Value Measurement

Case:

From the notes to the financial statements of a company on Non-current financial assets and Current financial assets, it was noted that the company has investments in mutual funds.

Principle: Ind AS 109, Financial Instruments

Paragraph 4.1.1– Classification of financial assets

"Unless paragraph 4.1.5 applies, an entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

a) the entity's business model for managing the financial assets and

b) the contractual cash flow characteristics of the financial asset."

Paragraph 4.1.2– Classification of financial assets

"A financial asset shall be measured at amortised cost if both of the following conditions are met:

a. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding."

Paragraph 4.1.2A– Classification of financial assets

"A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding."

Observation:

It was viewed that as per the requirements of Ind AS 109, financial assets are initially measured at fair value. Subsequent to initial recognition, these should be measured at amortised cost, fair value through other comprehensive income (FVOCI) or Fair Value through Profit and Loss (FVTPL). Amortised cost classification is permissible for debt instruments only if they meet both business model test and the contractual cash flow characteristics test. Similarly, in Ind AS 109, there are conditions for financial assets in case if they are valued at FVOCI or FVTPL.

However, in the given case**, it was viewed that the disclosure with regard to financial assets at amortized cost, financial assets valued at Fair value through profit and loss and financial assets valued at fair value through other comprehensive income has not been provided in the financial statements. Also, the measurement whether at cost or fair value through profit and loss or fair value through other comprehensive income has not been defined.**

Accordingly, it was viewed that the requirements of

Ind AS 109 have not been complied with.

Signing of Financial Statements

Case:

An abstract of Balance Sheet, Statement Profit & Loss, Statement of Changes in Equity and Cash Flow Statement was as follows:

"For and on behalf of the Board of Directors

Sd/-

Director

DIN:"

Principle: Companies Act, 2013

134. Financial statement, Board's report, etc.

(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 at least by the chairperson of the company where he is authorised by the Board or by two directors out of which one shall be managing director and the Chief Executive Officer, if he is a director in the company, the Chief Financial Officer and the company secretary of the company, wherever they are appointed, or in the case of a One Person Company, only by one director, for submission to the auditor for his report thereon.

...

Section 158 Obligation to indicate Director Identification Number

"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."

Observation:

It was noted from the financial statements that one of the directors of the company signed the Balance Sheet, Statement of Profit and Loss, Statement of Changes in Equity and Cash Flow Statement without incorporating his full name and DIN (Director Identification Number).

It was viewed that the director should incorporate his full name and DIN, below his signature in order to identify his authentication.

Accordingly, it was viewed that the requirements of Section 134 read with section 158 of Companies Act, 2013 have not been complied with. ■■■