Commonly found Non-compliances in Financial Statements of Companies – Assets

INVESTMENT PROPERTY

1. **<u>Case</u>:** The relevant abstract of Accounting Policy on Investment Property reads as follows:

   "3.7 Investment Property

   Investment property is measured at cost less impairment, if any. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in Statement of Profit and Loss. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated using the straight-line method over their estimated useful lives."

   <u>Principle</u>: **Ind AS 40: Investment Property**

   Paragraph 79(b)
   "In addition to the disclosures required by paragraph 75, an entity shall disclose:
   …………….
   (b) the useful lives or the depreciation rates used;"

   <u>Observation:</u> The Board noted from the stated policy on investment property that **although the method used for charging depreciation on such properties was disclosed**, however, the rate of depreciation or useful life of investment property was not disclosed in line with paragraph 79(b), as mentioned above.

   Accordingly, it was viewed that the requirements of paragraph 79(b) of Ind AS 40 have not been complied with in preparation and presentation of the financial statements.

INTANGIBLE ASSETS

2. **<u>Case:</u>** Under a note to the financial statements, the company has disclosed goodwill. It was further noted that goodwill constituted more than 50% of the total assets of the Company.

   Note 2: Property, Plant and Equipment

   (Amount in Rs.)

Description	Gross Block				Depreciation				Net Block	
	Value at the	Additi on Durin	Deleti on durin	Value At the End	Value At the	Additi on durin	Deleti on durin	Value At the end	Value As On	Value As On

	Beginning	g The year	g The year		Beginning	g the year	g the year		31-03-20XX	31-03-20YY
Goodwill	---	---	---	---	---	---	---	---	---	---"

<u>Principle</u>: Ind AS 38: Intangible Assets and Ind AS 36: Impairment of Assets

Paragraph 48 of Ind AS 38

"Internally generated goodwill shall not be recognized as an asset."

Paragraph 9 of Ind AS 36

"An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset."

Paragraph 10 of Ind AS 36

"Irrespective of whether there is any indication of impairment, an entity shall also:

(a) ….

(b) test goodwill acquired in a business combination for impairment annually in accordance with paragraphs 80–99."

<u>Observation:</u> It was noted that the company has disclosed substantial amount of goodwill in its financial statements which is acquired goodwill since paragraph 48 of Ind AS 38 prohibits the recognition of internally generated goodwill. However, no accounting policy for Goodwill and its impairment was disclosed in the Financial Statements. It was noted that Goodwill is mandatorily required to be tested for impairment annually in line with the above stated requirement, however, no disclosure with regards to same was made in the financial statements.

Further, as per requirements of Division II of Schedule III, Company should present Goodwill as a separate line item on the face of the balance sheet apart from 'Other Intangible Assets'. Hence, including "Goodwill" under note on Property, Plant and Equipment is an incorrect disclosure.

Accordingly, it was viewed that the requirements of Ind AS 36 and Division II, Schedule III of Companies Act 2013 have not been complied with

INVESTMENTS

3. **<u>Case</u>:** From the notes to the financial statements, it was noted that equity investment designated at Fair value through Other Comprehensive Income (FVOCI) has been derecognized during the year. The relevant abstracts of Note 13: Other Equity and Note 23: Other Income read as follows:

"Note 13 Other Equity

(Amount in Rs.)

Particulars	**As at 31st March 20XX**	**As at 31st March 20YY**	**As at 1st April 20ZZ**
....	---	---	---
Gain on sale of FVOCI equity investments, net of tax transferred to retained earnings	---	---	---"

"Note 23 Other Income

....

(a) All dividends from equity investments designated at FVOCI relate to investments held at the end of the reporting period except dividend income amounting to Rs. 4.43 Lacs (31.03.20YY Rs. 0.02 Lacs) pertaining to investments derecognized during the year."

<u>Principle</u>: Ind AS 107: Financial Instruments: Disclosures

Paragraph 11B

"If an entity derecognized investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:

(a) the reasons for disposing of the investments.

(b) the fair value of the investments at the date of de-recognition.

(c) the cumulative gain or loss on disposal."

<u>Observation</u>: It was noted from the Note on other equity read with the Note on other income that equity investments designated at FVOCI have been derecognized during the year. However, no disclosure as to reasons for de-recognition, fair value of investments at the date of de-recognition and cumulative gains and loss on disposal was made by the company anywhere in the financial statements, in line with the paragraph 11B of Ind AS 107.

Accordingly, it was viewed that the requirements of paragraph 11B of Ind AS 107 have not been complied with in preparation and presentation of the financial statements.

DEFERRED TAX ASSETS

4. **<u>Case</u>:** The company has presented Deferred Tax Asset & Deferred Tax Liability separately on the face of the balance sheet and details thereof have been disclosed under separate notes. The relevant abstract of the Notes is given below:

Note No 4(a): Deferred Tax Assets (net)

(Amount in Rs.)

Particulars	***As at 31st March 20XX***	**As at 31st March 20YY**	**As at 1st April 20ZZ**
Deferred Tax Assets (Net)	---	---	---
Total	---	---	---"

Note No 4(b): Deferred Tax Liabilities (net)

(Amount in Rs.)

Particulars	**As at 31st March 20XX**	**As at 31st March 20YY**	**As at 1st April 20ZZ**
Deferred Tax Liabilities (Net)	---	---	---
Total	---	---	---"

Principle: Ind AS 12: Income Taxes

Paragraph 74

"An entity shall offset deferred tax assets and deferred tax liabilities if, and only if:

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

(i) the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered."

Observation: It was noted from the Standalone Financial Statements that the company has presented deferred tax asset (DTA) & deferred tax liability (DTL) separately on the face of the Balance Sheet. The Board viewed that as per the requirements of paragraph 74 of Ind AS 12, **deferred tax should be presented on net basis on the face of Balance Sheet after offsetting the DTA and DTL.**

Accordingly, it was viewed that the requirements of paragraph 74 of Ind AS 12 have not been complied with.

CASH AND CASH EQIVALENTS

5. **Case**: Under the notes to the financial statements, fixed deposits held as margin money have been included and classified as Cash and Cash Equivalents. The relevant abstracts of Cash Flow Statement read with Note 8: Cash and Cash Equivalents and Note 9: Other Bank Balance given in the Annual Report, read as follows:

"Cash Flow Statement for the year ended 31st March 20XX

(Rs. in Lacs)

Particulars	**As at 31st March, 20XX**	**As at 31st March, 20YY**
……….	---	---
Cash and Cash Equivalents at the end of the year	---	---"

"Note 8 Cash and Cash Equivalents

(Rs. in Lacs)

Particulars	**As at 31st March, 20XX**	**As at 31st March, 20YY**
Balance with Banks in current account	---	---
Cash in Hand	---	---
Total	---	---"

"Note 9 Other Bank Balance

(Rs. in Lacs)

Particulars	**As at 31st March, 20XX**	**As at 31st March, 20YY**
Amount held as margin money	---	---
Fixed Deposits with banks	---	---
Total	---	---"

9.1 *Fixed Deposits held as margin money or security against guarantees, letter of credits and other commitments."*

Principle: Ind AS 7: Cash Flow Statement

Paragraph 6

"Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value."

<u>Observation:</u> It was noted that the balance of cash and cash equivalents reported at Cash Flow Statement was sum-total of the closing balances of 'Cash and Cash Equivalents' disclosed by way of Note on 'Cash and Cash Equivalents' and 'Other Bank Balances' disclosed by way of Note on "Other Bank Balance". It was, further, noted from the Notes that the year - end balance of cash and cash equivalents includes fixed deposit which has been held as margin money or security against guarantees, letter of credits and other commitments. **It was viewed that fixed deposits held with banks as margin money should not be classified as cash and cash equivalents in Cash Flow Statement.**

Accordingly, it was viewed that the requirements of paragraph 6 of Ind AS 7 regarding reporting of cash and cash equivalents have not been complied with in preparation and presentation of the Statement of Cash Flows**.**

ASSET HELD FOR SALE

6. **<u>Case</u>:** Under the notes to the financial statements, land & building has been classified as assets held for sale but required disclosures have not been made. The relevant abstracts of the Notes read as follows:

"Note 6 Assets classified as held for sale

(Amount in Rs.)

Particulars	**As at March 31, 20XX**	**As at March 31, 20YY**	**As at March 31, 20ZZ**
Land and Building	---	---	---
Total	**---**	**---**	**---"**

"Note 12 Other Income

Particulars	**As at March 31, 20XX**	**As at March 31, 20YY**
Continuing Operations		
Profit on sale of Assets held for disposal	---	---
Interest Income	---	---
Total	**---**	**---"**

<u>Principle:</u> Ind AS 105: Non-current Assets Held for Sale and Discontinued Operations

Paragraph 41

"An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

(a) a description of the non-current asset (or disposal group).

(b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal.
(c) the gain or loss recognized in accordance with paragraphs 20–22 and, if not separately presented in the statement of profit and loss, the caption in the statement of profit and loss that includes that gain or loss.
(d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with Ind AS 108, Operating Segments."

Observation: It was noted from the Note on Assets classified as held for sale that land and building has been classified as 'assets held for sale' and its profit has been disclosed under Note on other income. However, the Board noted that the company has not made the disclosures as required under the paragraph 41 (b) of Ind AS 105, anywhere in the financial statements.

Accordingly, it was viewed that the requirements of paragraph 41(b) of Ind AS 105 have not been complied with in preparation and presentation of the financial statements.