

Commonly found Non-compliances in Financial Statements of Companies – Equity and Liabilities

SHARE CAPITAL

1. **Case:** Under the note on Share Capital, only the amount of authorized, issued, subscribed & paid-up capital has been disclosed, number of shares were not disclosed.

Relevant abstract of note on Share Capital read as follows:

Share Capital

(Amount in Rs.)

Particulars	As at 31st March 20XX	As at 31st March 20YY	As at 1st April 20ZZ
<u>Authorized</u>			
Equity Shares of Rs 10/- each	XXX	XXX	XXX
<u>Issued</u>			
Equity Shares of Rs 10/- each	XXX	XXX	XXX
<u>Subscribed & Paid Up</u>			
Equity Shares of Rs 10/- each	XXX	XXX	XXX
Less: Calls in Arrears	-	-	
	XXX	XXX	XXX
<u>Subscribed but not fully Paid Up</u>			
Equity Shares Not Fully Paid Up	-	-	-
Total	XXX	XXX	XXX"

Principle: General Instructions for preparation of Balance Sheet of Division II - Ind AS Schedule III to the Companies Act, 2013

Paragraph 6 D (I) (d) and (e) of General Instructions for preparation of Balance Sheet given under Part I of Division II – Ind AS Schedule III to the Companies Act, 2013

“D. Equity

I. Equity Share Capital:

...

(d) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(e) the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital;”

Observation: It was noted from the note on share capital that amount of authorized, issued, subscribed & paid-up capital has been disclosed thereat, however, the details of the number of shares for Current and Previous year have not been disclosed. Accordingly, reconciliation of the number of shares outstanding at the beginning and at the end of the period has also not been provided. Further, the rights, preferences & restrictions attached to equity shares have also not been disclosed.

Accordingly, it was viewed that the requirements of Paragraph 6 D (I) (d) and (e) of Part I, Division II - Ind AS Schedule III to the Companies Act, 2013 have not been complied with in preparation and presentation of the financial statements.

RETAINED EARNING

2. **Case:** In the financial statements, Retained Earnings have been disclosed on the face of balance sheet at Nil value. Abstract of Balance Sheet reads as under:

“Balance Sheet as at 31st March 20XX

(Amount in Rs.)

Particulars	As at 31.03.20XX	As at 31.03.20YY
Equity and Liabilities		
Equity		
(a) Equity Share Capital	XXX	XXX
(b) Retained Earnings	NIL	NIL
(c) Other Equity	XXX	XXX
Total Equity	XXX	XXX”

Principle: Format of Balance Sheet as prescribed under Division II- Ind AS Schedule III to the Companies Act, 2013

Part I: Balance Sheet

Name of the Company...

Balance Sheet as at ...

PARTICULARS	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
EQUITY AND LIABILITIES		
Equity		

(a) Equity Share Capital	XXX	XXX
(b) Other Equity	XXX	XXX"

Observation: It was noted that the company has disclosed Equity on the face of the Balance Sheet as follows:

- a) Equity Share Capital
- b) Retained Earnings
- c) Other Equity

It was viewed that there is no requirement to disclose 'Retained Earnings' on the face of the Balance Sheet. The prescribed format of the Balance Sheet requires only two items to be disclosed as part of Equity which are 'equity share capital' and 'other equity'. It was viewed that as per the prescribed format of the Statement of Changes in Equity as prescribed under Division II – Ind AS Schedule III to the Companies Act, 2013, retained earnings are disclosed as part of the 'Statement of Changes in Equity'.

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

OTHER EQUITY

3. **Case:** In the notes to the financial statements of a company on Other equity, various reserves were disclosed like Capital Redemption Reserve, Securities Premium, General Reserve and Retained Earnings.

Principle: : Ind AS 1, Presentation of Financial Statements

Paragraph 79

"An entity shall disclose the following, either in the balance sheet or the statement of changes in equity, or in the notes:

...

(b) a description of the nature and purpose of each reserve within equity."

Paragraph 8.2.2.1 of Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013

"Reserves & Surplus:

...

(c) Other Reserves (specify the nature and purpose of reserve and the amount in respect thereof):

Every other reserve which is not covered in above paragraphs is to be reflected as 'Other Reserves'. However, since the nature, purpose and the amount are to be shown, each reserve under 'Other Reserves' is to be shown separately in Notes to Accounts....."

Observation: It was noted from the note to the financial statements on Other Equity that there are various reserves with the company however; the nature and purpose of these reserves were not disclosed by the company in the notes to accounts.

As per the above stated requirements of Ind AS 1 and Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013, the nature and purpose of each reserve is required to be disclosed which was not given by the company.

Accordingly, it was viewed that the requirements of Ind AS 1 and the Companies Act, 2013 have not been complied with.

BORROWINGS

4. **Case:** In one of the financial statement loan repayable on demand was disclosed as term loan under the head ‘Borrowings’.

The relevant abstract of note on borrowings reads as under:

“Borrowings

(Amount in Rs.)

Particulars	As at 31 st March 20XX	As at 31 st March 20YY
Term loan – (From Holding Company-X Ltd.)*	XXX	XXX
Total	XXX	XXX
* Repayable on demand		

*Repayable on demand

Principle: Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013

Paragraph 8.2.3.7

“...the phrase "term loan" has not been defined in the Schedule III. Term loans normally have a fixed or pre-determined maturity period or a repayment schedule.”

Observation: The Board noted from the note on ‘Borrowings’ that the company has disclosed ‘Loan Repayable on Demand’ as a Term Loan. It was viewed that the loan repayable on demand shall not be classified as ‘term loan’ as the basic characteristics of a term loan is that it has a fixed or predetermined maturity period or a repayment schedule. However, loan payable on demand cannot be said to have a fixed or pre-determined maturity period. It is payable on demand. The same should have been disclosed as “Loans repayable on demand” in accordance with paragraph 6 F I (i) (a) of the General Instructions for the preparation of Balance Sheet under Division II- Schedule III.

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

TRADE PAYABLES

5. **Case:** In the Note on Trade Payables, disclosures regarding MSMED enterprises were not given. The relevant abstract of the Note on Trade Payables is reproduced below

“Trade Payables

(Amount in Rs.)

Particulars	As at 31.03.20XX	As at 31.03.20YY
Trade payable for goods & services	XXX	XXX
Trade payable for salaries and wages	XXX	XXX
Total	XXX	XXX”

Principle: General Instructions for preparation of Balance Sheet of Division II of Schedule III to the Companies Act, 2013

Paragraph 6(FA) of General Instructions for preparation of Balance Sheet given under Part – I of Division II of Schedule III to the Companies Act, 2013, introduced by MCA Notification No. GSR 679€ dated 4 September 2015, requires as follows:

“FA. Trade Payables

The following details relating to Micro, Small and Medium Enterprises shall be disclosed in the notes: -

- a) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year.
- b) the amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006, along with the amount of the payment made to the supplier beyond the appointed day during each accounting year.
- c) the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006.
- d) the amount of interest accrued and remaining unpaid at the end of each accounting year; and

- e) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006.”

Observation: It was noted from the disclosure made in the note on ‘Trade Payables’ that trade payables were disclosed by way of two-line items viz. ‘trade payables for goods and services’ and ‘trade payables for salaries and wages.’ It was further noted that neither on the face of the balance sheet nor in the notes to the accounts the trade payables were segregated into two parts viz. ‘total outstanding dues to micro enterprises and small enterprises’ and ‘others.’ Also, the details required under paragraph 6(FA) of General Instructions for preparation of Balance Sheet, Part – I of Division II of Schedule III to the Companies Act, 2013, as mentioned above, were not disclosed by the company.

Accordingly, it was viewed that the requirements of Division II of Schedule III to the Companies Act, 2013 regarding disclosure of trade payables have not been complied with in preparation and presentation of the financial statements.

PROVISIONS

6. **Case:** The relevant abstract of the Accounting Policy on Provisions is reproduced below:

“A provision is recognized when the Company has a present obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions (excluding retirement benefits) are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.”

Principle: Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets

Paragraph 46

“Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting period are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.”

Observation: The Board noted from the adopted policy on ‘Provisions’ that provisions were not discounted to their present value. It was viewed that paragraph 46 of Ind AS 37 specifically provides that if the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows. Accordingly, an outright statement that no provision is discounted without giving accord to the time value of

money and materiality of its effect, is not correct and not in line with the paragraph 46 of Ind AS 37.

Accordingly, it was viewed that the accounting policy on provisions is not in line with the requirements of paragraph 46 of Ind AS 37.

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