

Non-compliances observed in the Ind AS Financial Statements pertaining to Assets in Balance Sheet

Financial statements remain a vital tool in the hands of stakeholders, enabling a comprehensive assessment of an enterprise's financial health. The adoption of Indian Accounting Standards (Ind AS) has marked a significant stride toward aligning Indian financial reporting practices with global benchmarks. As more enterprises embrace this framework, ensuring high-quality and compliant financial disclosures becomes imperative to foster trust, transparency, and comparability in financial statements.

The preparers and auditors carry a critical responsibility to ensure that these financial statements are complete, accurate, and aligned with all applicable statutory and regulatory frameworks.

The Financial Reporting Review Board (FRRB) of the Institute of Chartered Accountants of India (ICAI) conducts reviews of General-Purpose Financial Statements to identify non-compliances with Ind ASs, Standards on Auditing (SAs), The Companies Act, 2013, and other relevant statutes.

The FRRB has published its findings through several volumes of the “Study on Compliance of Financial Reporting Requirements” with latest publications focusing specifically on the Ind AS framework providing guidance to the preparers and auditors of Ind AS financial statements. These findings are also disseminated through ICAI’s Journal to enhance professional awareness.

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 this article focuses on non-compliances observed by the FRRB in the presentation and disclosure of Assets in the Balance Sheet under the Ind AS framework. The aim is to inform and guide members and stakeholders on critical areas of concern and promote adherence to robust reporting practices.

Observations related to Assets

Property, Plant and Equipment – Omission of Disclosure of Depreciation Method

Case:

The relevant abstract of accounting policy on Property, Plant and Equipment given in the Annual Report of a company, reads as follows:

“Significant Accounting Policies

Property, plant and equipment

Depreciation

The estimated useful lives of items of property, plant and equipment for the current and comparative periods are as follows:

Asset	Management estimate of useful life	Useful life as per Schedule II
Office equipment	5 years	5 years
Furniture and fixtures	10 years	10 years
Computer equipment	3 years	3 years

Depreciation method, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Based on technical evaluation and consequent advice, the management believes that its estimates of useful lives as given above best represent the period over which management expects to use these assets.

Contributed by the Financial Reporting Review Board of the ICAI.

Depreciation on additions (disposals) is provided on a pro-rata basis i.e., from (up to) the date on which asset is ready for use (disposed of)."

Principle: Ind AS 16 - Property, Plant and Equipment & Schedule II to the Companies Act, 2013

Paragraph 73 of Ind AS 16

"The financial statements shall disclose, for each class of property, plant and equipment:

- (b) the depreciation methods used"

Part C of Schedule II to the Companies Act, 2013

"...

3. The following information shall also be disclosed in the accounts, namely:

- (i) depreciation methods used; and

..."

Observation

It was noted from the accounting policy on depreciation that the company has not disclosed the method of depreciation as required by Indian Accounting Standard 16 as well as Schedule II of the Companies Act, 2013.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 16 and Schedule II of the Companies Act, 2013 have not been complied with in preparation and presentation of the financial statements.



Investment Property: Incorrect Classification and Disclosure

Case:

The accounting policy of Investment Property and related Notes to Accounts, reads as below:

"Significant Accounting Policies

Investment Property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment losses, if any in accordance with Ind AS 16 Property, Plant and Equipment. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized."

"Useful life of Investment properties:

Particulars	Life
...	...
Plant & Equipment	3 to 5 years
Furniture and fixtures	5 years
Office Equipment	5 years"

"Details of Investment Property and its Fair value

Particulars	31.03.20XX	31.03.20YY
...	...	...
Plant & Machinery	--	--
Furniture and fixtures	--	--
Office Equipment	--	--"

....

Principle: Ind AS 40: Investment Property

Paragraph 5

"Investment property is the property (land or a building, part of a building or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than

- (a) use in production or supply of goods or services or for administrative purposes; or
(b) sale in the ordinary course of Business.

Paragraph 75

"An entity shall disclose:

...

- (f) the amounts recognized in profit or loss for:
- rental income from investment property;
 - direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and
 - direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period."

Paragraph 79

"In addition to the disclosures required by paragraph 75, an entity shall disclose:

- (a) the depreciation methods used;
(b) the useful lives or the depreciation rates used;--"

Observation

It was observed from the accounting policy for Investment Property that furniture & fixtures, plant & equipment and office equipment have been included in it. Additionally, it was noted that,

“As per Ind AS 38, the expenditure on research and development should be classified into the expenditure incurred in research phase and development phase instead of classifying them into revenue and capital expenditure.”

while disclosing the fair value of Investment Properties, the company also included the fair value of plant & machinery, furniture & fixtures and office equipment. However, these items do not qualify as investment properties under Indian Accounting Standard (Ind AS) 40. According to Ind AS 40, only land, buildings, or part of building or both that are held to earn rentals, capital appreciation or both, are qualified as Investment Property.

It was further observed that other disclosures have also not been provided in the notes to financial statements, like amounts recognized in the Statement of Profit or Loss for rental income from investment property and depreciation method used for it, as required by paragraphs 75 and 79 of Ind AS 40.

Accordingly, it was viewed that requirements of Indian Accounting Standard 40 have not been complied with in preparation and presentation of financial statements.

Intangible Assets: Improper Classification of Research & Development Costs

Case:

The accounting policy on Research and Development Costs given in the Annual Report of the company, reads as below:

“Research and Development Costs

Revenue expenditure incurred on research and development has been

charged to the statement of profit and loss for the year in which it is incurred. Capital expenditure is included in respective heads under Property, plant and equipment”.

Principle: Ind AS 38: Intangible asset

Paragraph 54

“No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred”.

Paragraph 57

“An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- its intention to complete the intangible asset and use or sell it.
- its ability to use or sell the intangible asset.
- how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used

internally, the usefulness of the intangible asset.

- the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.”

Observation:

It was noted from the given accounting policy that the expenditure on research and developments has not been classified between research phase and development phase.

It was viewed that as per Ind AS 38, the expenditure on research and development should be classified into the expenditure incurred in research phase and development phase instead of classifying them into revenue and capital expenditure. The research expenses (revenue or capital expenses) should be recognised as expenses in line with paragraph 54 of Indian Accounting Standard 38 and development costs (in the nature of revenue or capital expense) may be capitalised as intangible assets subject to fulfilment of recognition criteria given under paragraph 57 of Ind AS 38 rather than recognising as property, plant and equipment.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 38 have not been complied with in preparation and presentation of financial statements.

Investments: Inconsistent Measurement Basis

Case:

The relevant abstract of Note on Investments and Fair Value Measurement Hierarchy given in the Annual Report, reads as below:

“Note XX: Investments

Particulars	As on March 31, 20XX	As on March 31, 20YY
Others (Measured at Cost, Refer Note No. XXX)		
(a) The ABC Commercial Co-Operative Bank Limited XXX (Previous Year: XXX) Equity Shares of Face Value Rs. XX Each	---	---

“Note XXX: Fair value measurement hierarchy:

Particulars	As on March 31, 20XX					Level of input used in		
	Carrying amount	Amortised Cost	FVTOCI	FVTPL		1	2	3
Financial assets								
Investments*	---	---	-	-	-	-	-	-

*Excluding investment in subsidiaries and joint venture amounting to Rs. --- lakhs as it is carried at cost.

Principle: Ind AS 109: Financial Instruments

Paragraph 5.2.1

“After initial recognition, an entity shall measure a financial asset in accordance with paragraphs 4.1.1–4.1.5 at:

- amortised cost;**
- fair value through other comprehensive income; or**
- fair value through profit or loss.”**

Paragraph 5.7.5

At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this Standard that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which Ind AS 103 applies. (See paragraph B5.7.3 for guidance on foreign exchange gains or losses.)

Paragraph B5.2.3

All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

Observation

It was noted from Note on Investments that the company has invested in equity shares of ABC Commercial Co-operative Bank and stated that it is measured ‘at cost’. However, under Note on Fair Value measurement Hierarchy, it has been stated to be valued at ‘amortized cost’. Hence, there is inconsistency with regard to valuation of equity investments. Further, it was viewed that investment in equity instruments (other than investment in group companies covered under Ind AS 27) should be measured at fair value through profit and loss or fair value through other comprehensive income (irrevocable option) in accordance with Ind AS 109.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 109 have not been complied with in preparation and presentation of the financial statements.

Financial Assets: Incomplete/Incorrect Accounting Policy on Measurement

Case:

The accounting policy on financial assets, valued at Fair Value through Other Comprehensive Income (FVOCI), reads as follows:

“Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)

A financial asset is subsequently measured at fair value through other

“As per Ind AS 109 – a financial asset should be classified as FVTOCI when the financial assets are held within business model whose objective is both to ‘collect contractual cash flows’ and ‘selling of the financial assets’.”

comprehensive income if it is held within a business model whose objective is achieved by collecting contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows. Investments which are classified as financial asset, the subsequent changes in fair value are recognized through other comprehensive income (OCI).”

Principle: Ind AS 109: Financial Instruments

Paragraph 4.1.2A

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.**
- 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 noted from the given accounting policy that the financial assets are subsequently measured at fair value through other comprehensive income (FVTOCI), ‘if it is held within a business model whose objective is achieved by collecting contractual cash flows and the contractual terms of the

financial asset give rise on specified dates to cash flows’.

It was viewed that, as per Ind AS 109 – a financial asset should be classified as FVTOCI when the financial assets are held within business model whose objective is both to ‘collect contractual cash flows’ and ‘selling of the financial assets’. It was viewed that another objective, i.e. selling of financial assets has not been considered while classifying financial assets as FVTOCI.

Accordingly, it was viewed that either policy on financial assets at FVTOCI or classification of financial assets at FVTOCI is not in line with Ind AS 109.

Inventory: Omission of Disclosure of Cost Formula

Case:

The relevant abstract of accounting policy on Inventories given in the Annual Report of a company, reads as below:

“Accounting Policy on Inventories

Inventories including goods-in-transit are valued at lower of cost and estimated net realisable value. However, Raw materials and other items held for use in the production of inventories are not written down below cost, if the finished products in which it will be incorporated are expected to be sold at or above cost.”

Principle: Ind AS 2: Inventories

Paragraph 36

“The financial statements shall disclose:

- (a) the accounting policies adopted in measuring inventories, including the cost formula used;”

Observation

It was noted that although the accounting policy adopted for valuation of inventories have been



disclosed, the cost formula used to determine the cost of inventories was not disclosed as required by paragraph 36 of Ind AS 2.

Hence, it was viewed that the disclosure requirements of Ind AS 2 relating to cost formula has not been complied with in preparation and presentation of the financial statements.

Comments may be sent to
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1 Which platform validates every B2B invoice under the e-invoicing system of GST 2.0 and generates a unique Invoice Reference Number (IRN)?

2 Which system ensures the authenticity of interstate movement of goods through a QR code and integrates with e-invoicing for real-time tracking under GST 2.0?

3 Which statement, introduced under GST 2.0, automatically reflects suppliers' filings to help taxpayers identify eligible Input Tax Credit?

4 Which AI-powered system under GST 2.0 analyzes data to detect risk patterns, potential fraud, and non-compliance without conducting audits?

5 Which digital infrastructure serves as India's GST backbone, enabling real-time compliance and evolving toward global interoperability for transparent trade and taxation?

Answer
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1. Green Washing
2. Green Taxonomy
3. Carbon Credits
4. Internal Carbon Pricing (ICP)
5. Green Bond

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