

Non-compliances observed in the Ind AS Financial Statements pertaining to Equity and Liabilities 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 Equity and Liabilities 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.

Contributed by the Financial Reporting Review Board of the ICAI.

Observation related to Equity

Other Equity – Non-Disclosure of Nature and Purpose of Each Reserve within Equity

Case:

The relevant abstract of Note on Other Equity given in the Annual Report of a company, reads as below:

“Note: Other Equity

Particulars	As at 31 March 20XX	As at 31 March 20YY
Reserve for Equity Instruments through Other Comprehensive Income	---	---
Treasury Reserve	---	---
Employee Stock Option Reserve	---	---



Principle: Ind AS 1, Presentation of Financial Statements and General Instructions for Preparation of Balance Sheet, Part I, Division II, Schedule III to the Companies Act, 2013

Paragraph 79 of Ind AS 1

“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”

Note 6 General Instructions for Preparation of Balance Sheet, Part I, Division II, Schedule III to the Companies Act, 2013

“D. Equity

(II) Other Equity:

...

(d) Others – (specify the nature and purpose of each reserve and the amount in respect thereof)”

Observation:

It was noted from the note on ‘Other Equity’ that the Reserve for Equity Instruments through Other Comprehensive Income, Treasury Reserve and Employee Stock Option Reserve has been disclosed thereat. However, the nature and purpose of these reserves have not been disclosed

in line with paragraph 79 (b) of Ind AS 1 and Note 6D II (iv) of Division II, Schedule III to the Companies Act, 2013.

Accordingly, it was viewed that the requirements of Ind AS 1 as well as Division II of Scheduled III to the Companies Act, 2013 have not been complied with in preparation and presentation of financial statements.

Observation related to Liabilities

Non-Current Borrowings – Incorrect Classification of Preference Shares

Case:

From the financial statements of a company pertaining to financial year 2018- 19, it was noted that the Note on Non-Current Borrowings includes Redeemable Cumulative Preference Shares which would be redeemable at par in immediate next year. The relevant abstract of Note on Borrowings along with footnote, is reproduced below:

“Borrowings (Non-current)

(Rs. In Lakhs)

Particulars	As at 31.03.2019	As at 31.03.2018
Secured		
Redeemable cumulative preference shares from related party (see note below)	XXX	XXX

Note:

...

7.5% redeemable cumulative preference shares which are entirely held by the related party would be redeemable at par after 5 years from the date of allotment i.e., 10th January 2015. These shares would carry a fixed dividend of 7.5% p.a.”

Principle: Ind AS 1, Presentation of Financial Statements

Paragraph 60 of Ind AS 1

“An entity shall present current and non-current assets, current and non-current liabilities, as separate classifications in its balance sheet in accordance with paragraphs 66-76 ...”

Paragraph 69 of Ind AS 1

“An entity shall classify a liability as current when:

...

(d) it does not have an unconditional right to defer settlement of the Observations related to Liabilities 64 liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.”

Observation:

It was noted that Redeemable Cumulative Preference Shares were to be redeemed at par after 5 years from the date of allotment (i.e. 10 January 2015). Therefore, preference shares were due for redemption within the 12 months from the end of the financial year under review.

Accordingly, it was viewed that these Redeemable Cumulative Preference Shares should have been classified as current liabilities and not as non-current liabilities in the financial

statements. Thus, the classification of such preference shares as non-current was not in line with the requirements of Ind AS 1.

Accordingly, it was viewed that the requirements of Ind AS 1 have not been complied with in the preparation and presentation of financial statements.

Financial Liabilities – Misclassification of Employee Benefit Liabilities

Case:

The relevant abstract of Notes on Other Current Liabilities and Note on Other Non-Financial Liabilities given in the Annual Report of a company, read as below:

“Other Current Liabilities

Particulars	As at 31 st March 20XX	As at 31 st March 20YY
...		
iii) Employee Benefits Payable	---	---

“Other Non-Financial Liabilities

Particulars	As at 31 st March 20XX	As at 31 st March 20YY
...		
Leave Encashment Payable	---	---

Principle: Ind AS 32: Financial Instruments: Presentation

Paragraph 11

“...

A financial liability is any liability that is:

- (a) a contractual obligation;
- (i) to deliver cash or another financial asset to another entity; or
- (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity”

Observation:

It was noted from the notes to financial statements that the company has presented employee benefits payable under “Other Current Liabilities” and leave encashment payable under “Other Non-Financial Liabilities”. The Board viewed that the ‘Employee Benefits Payable’

and ‘Leave Encashment Payable’ are contractual obligations of the company to deliver cash to employees for the services rendered by them. Therefore,

these should be classified as financial liabilities in accordance with paragraph 11 of Ind AS 32.

Accordingly, it was viewed that the requirement of Ind AS 32 has not been complied with in the preparation and presentation of financial statements.

Current Tax Liabilities – Non-Disclosure on Face of the Balance Sheet

Case:

The relevant abstract of Note on Other Current Liabilities given in the Annual Report of a company, reads as below:

“Other Current Liabilities

Particulars	As at 31 st March 20XX	As at 31 st March 20YY
Income tax payable	XXX	XXX

Principle: Division II of Schedule III, Companies Act, 2013

Format of Balance Sheet prescribed under Part I, Division II, Schedule III to the Companies Act, 2013

Part I- Balance Sheet

	Particulars	Note No.	Figures as at the end of the current reporting	Figures as at the end of the previous reporting period
(2)	Current liabilities			
	...			
	(d) Current Tax Liabilities (Net)			



Observation:

It was observed from the given note that “Income Tax Payable“ has been grouped under “Other Current Liabilities” in the Notes to the financial statements. It was viewed that tax payable should be shown as “Current Tax Liabilities (Net)” on the face of Balance Sheet under the “Current Liabilities”.

Accordingly, it was viewed that the reporting of “Income Tax Payable“ under “Note on Other-Current Liabilities“ is not in line with the requirement of Division II - Schedule III to the Companies Act, 2013.

Trade Payables – Incomplete Disclosure on Face of the Balance Sheet w.r.t MSME Dues

Case:

The relevant abstract of Balance Sheet and Notes on Trade Payable given in the Annual Report of a company, reads as below:

“Balance Sheet as at 31st March, 20XX

Particulars	Note No.	As at 31 st March 20XX	As at 31 st March 20YY
(a) Financial Liabilities			
(iii) Trade payables	XX	XX	XX

Note XX on Trade Payable

Particulars	As at 31 st March 20XX	As at 31 st March 20YY
Trade Payable		
Total outstanding dues of micro enterprises and small enterprises	XXX	XXX
Total outstanding dues of other than micro and small enterprises	XXX	XXX

Principle: Division II, Schedule III to the Companies Act, 2013

Format of Balance Sheet prescribed under Part I, Division II Schedule III to the Companies Act, 2013

Part I- Balance Sheet

Particulars	Note No.	Figures as at the end of the current reporting	Figures as at the end of the previous reporting period
(ii) Trade Payables :-			
(A) total outstanding dues of micro enterprises and small enterprises; and			
(B) total outstanding dues of creditors other than micro enterprises and small enterprises.			

Observation:

It was observed from the Note on Trade Payable that there were outstanding dues payable to vendors registered under MSME Act, however, these dues have not been disclosed on the face of the Balance Sheet, instead the total trade payable were reported without bifurcation. It was viewed that trade payable should have been bifurcated

into dues to MSME and other payable, in line with the format prescribed above.

Accordingly, it was viewed that the requirements of Division II, Schedule III to the Companies Act,



2013 have not been complied with in the preparation and presentation of financial statements.

Provisions – Incomplete Disclosure

Case:

The relevant abstract of ‘Note on Provisions’ given in the Annual Report of a company, reads as below:

“Note XX – Provisions

Particulars	As at 31 st March 20XX	As at 31 st March 20YY
.....	---	---
Others:		
Provision for Indirect Tax Matters	---	---
Movement of Provision for Indirect Tax Matters		
Opening balance	---	---
Provision created / (utilised / reversed), net	(---)	---
Closing balance	--	--

Principle: Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets**Paragraph 85**

“An entity shall disclose the following for each class of provision:

a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits.”

Observation:

It was noted that the company has disclosed Provision for Indirect Tax Matters under note on provisions. However, the brief description of



the nature of the obligation and the expected timing of any resulting outflows of economic benefits has not been provided in line with paragraph 85 of Ind AS 37.

Accordingly, it was viewed that the requirements of Ind AS 37 have not been complied with in the preparation and presentation of financial statements.

Defined Benefit Plans – Non-Recognition of Gratuity Provision**Case:**

The relevant abstract from the accounting policy on Employee Benefit given in the annual report of a company, reads as below:

“Employee Benefits

...

c) **Defined benefit plans:** The Company doesn’t operate a defined benefit gratuity plan, which requires contributions to be made to the recognized fund. Hence Company doesn’t carry out the Actuarial valuation.”

Principle: Ind AS 19: Employee Benefits**Paragraph 72**

“Employee service gives rise to an obligation under a defined benefit plan

even if the benefits are conditional on future employment (in other words they are not vested). Employee service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although some post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation but does not determine whether the obligation exists.”

Observation:

It was noted from the accounting policy that the company has not carried out the actuarial valuation for the gratuity plan and has not made any provision for the same. It was viewed that the liability for gratuity arises as soon as the employee started rendering the services, and therefore, liability in this regard should be recognized as and when incurred, i.e., when employee renders the services to the company.

Accordingly, non-recognition of provision for gratuity is not in line with the requirement of Ind AS 19.

Accordingly, it was viewed that the requirements of Ind AS 19 have not been complied with in the preparation and presentation of financial statements.

Comments may be sent to
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