

Study on Compliance of Financial Reporting Requirements

(Compiled from the records of Financial Reporting
Review Board)

Volume-III



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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(This Third volume contains observations finalised between March, 2011 and January, 2017. The observations finalised upto February, 2011 are contained in Volume 1 and Volume 2.)

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Foreword

I am delighted to note that Financial Reporting Review Board (FRRB) has come up with the Third Volume of 'Study on Compliances of Financial Reporting Requirements'. The publication contains various instances of non-compliances with the reporting requirements that have been noticed by the Board during the course of review of the general purpose financial statements of enterprises.

ICAI, as a regulator of the accounting and auditing profession in the country, is dedicated towards promotion of best financial reporting practices in the country. Accordingly, towards its objective to ensure sound financial reporting practices and transparency in the financial statements safeguarding the interest of the stakeholders, Institute has formed the Financial Reporting Review Board in the year 2002. FRRB conducts the review of general purpose financial statements of certain enterprises with the view to find non-compliances with reporting requirements of Accounting and Auditing Standards, CARO, Companies Act and other relevant statutes governing the concerned entity. An advisory is issued to the concerned members for any non-compliance noticed by the Board in the financial statement audited by him to enable him to exercise greater care in performing his professional assignments. If, however, the Board feels that the non-compliances observed is serious and grave in nature, it refers the same to the relevant regulator(s).

I believe this publication would be of great help to the members in performing their professional duties. I compliment CA. Babu Abraham Kallivayalil, Chairman FRRB, CA. Anil Satyanarayan Bhandari, Vice Chairman FRRB, and all members of the Board for their efforts in bringing out the publication.

Date: February 1, 2018

Place: New Delhi

CA. Nilesh S. Vikamsey

President, ICAI

Preface

In the current socio-economic environment, information is one of the most powerful tools for the success of not only an individual but also large organizations. Financial statement of an entity is the prime source of the information on its financial health. The users of financial statements which include shareholders, creditors, suppliers of funds and Government authorities dependent on the information depicted in the financial statement of the enterprises.

To maintain reliability and credibility, emphasis should be on accuracy, transparency and adherence to accounting and reporting standards. Care should be taken to ensure relevant regulations are met with in the preparation and presentation of the financial statements. Being the premier accounting body and regulator of auditing profession in the country, the Institute of Chartered Accountants of India (ICAI) has been working towards ensuring the best practices and transparency in the reporting of financial statement of the enterprises.

The Financial Reporting Review Board (FRRB) of the ICAI was formed in the year 2002, as an ombudsman to the financial reporting. The Board undertakes the review of financial statements and auditor's report thereon of selected enterprises with the view to identify the non-compliances with the reporting requirements of Accounting Standards, Standards on Auditing, CARO, Schedule II & III to the Companies Act, 2013 and other reporting requirements under the relevant statute governing the enterprise. The Board, also informs the concerned auditor about non-compliances, if any, noticed during the review of financial statement audited by him in order to enable him to exercise greater caution while discharging his professional duties. The Board has also been actively involved in updating the members on topics related to financial reporting by bringing the publication as well as organising the awareness programmes.

In past, the Board had brought out the two volumes of its publications 'A Study on Compliances of Financial Reporting Requirements' with the objectives to educate the members on various reporting requirements. This is the third volume of the publication in form of compilation of observations on various non-compliances with applicable statues, ASs, SAs, CARO, Companies Act etc. that have been noticed by the Board in the recent reviews carried out by the Board.

We are of the firm belief that this publication will further enhance the knowledge and skills of the auditors as well as others who prepare financial

statements. It will not only educate the members about the principles as well as disclosure requirements but also equip them with the required skills for greater compliances of various regulatory statutes, rules and regulations and also enabled them in delivering quality services.

I take this opportunity to thank CA. Nilesh S. Vikamsey, President ICAI and CA. Naveen N. D. Gupta, Vice-president ICAI for their support and guidance.

I, also, wish to place on record my sincere thanks to present and past members of the FRRB for their valuable inputs on which we laid the foundation of this publication.

I am thankful to my Council colleagues who are the strong pillars of the Board during the year - CA. Anil S. Bhandari, Vice-chairman, FRRB, CA. Dhinal A. Shah, CA. Shyam Lal Agarwal, Shri. Vijay Jhalani (Government nominee), CA. Vijay Kumar Gupta, CA. M. P. Vijaykumar, CA. Sanjay Vasudeva, CA. Ranjeet Kumar Agarwal, CA. Kemisha Soni and CA. Nandkishore C. Hegde.

I also want to thank members of various Financial Reporting Review Groups (FRRGs) as well as Technical Reviewers (TRs) for their huge contribution and unparalleled support.

I also like to place on record my sincere thanks to CA. Sankar Datta, Chennai and CA. Nalin Shah, Mumbai who has prepared the basic draft of the publication based on the content provided by the Board and for sparing time out of their pressing preoccupations. Without their support this publication would not have been possible.

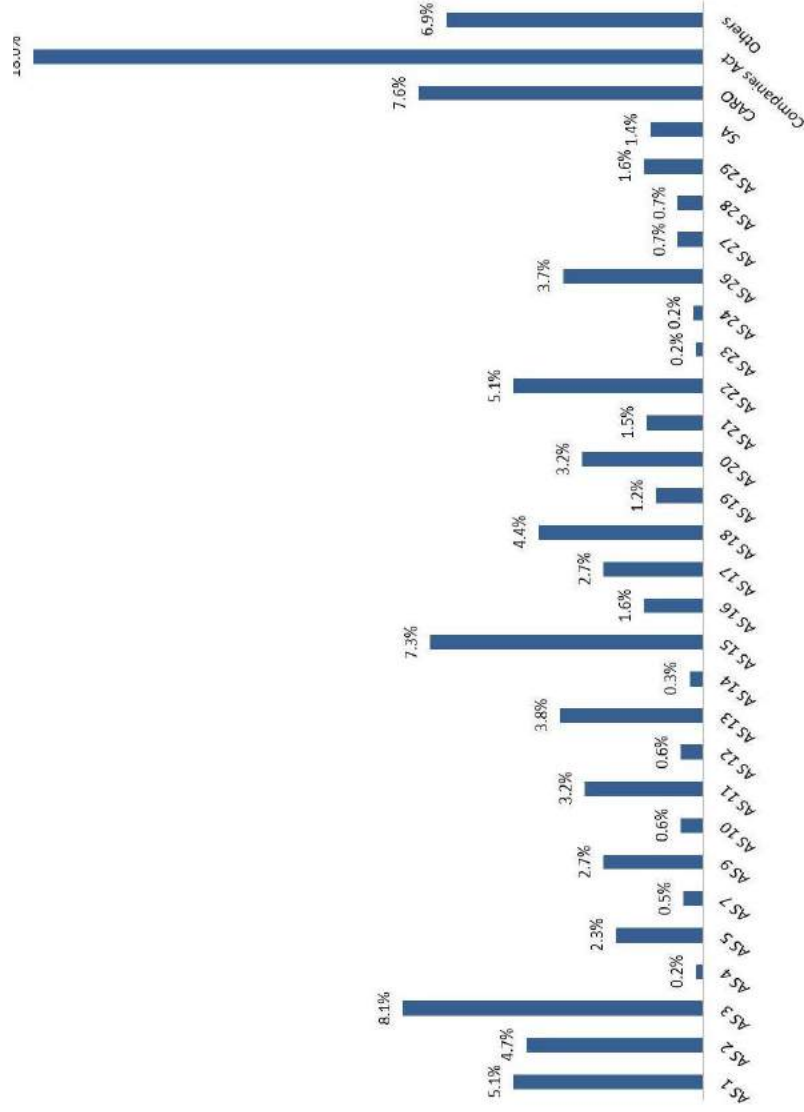
I would also wish to express my gratitude to CA. Aakanksha Kapoor, Secretary, FRRB, CA. Ankita Mangla, CA. Chetna Gupta, CA. Rohit Ahuja, CA. Ashish Tiwari and the team at FRRB Secretariat for their efforts in bringing out the publication.

Date: February 1, 2018
Place: New Delhi

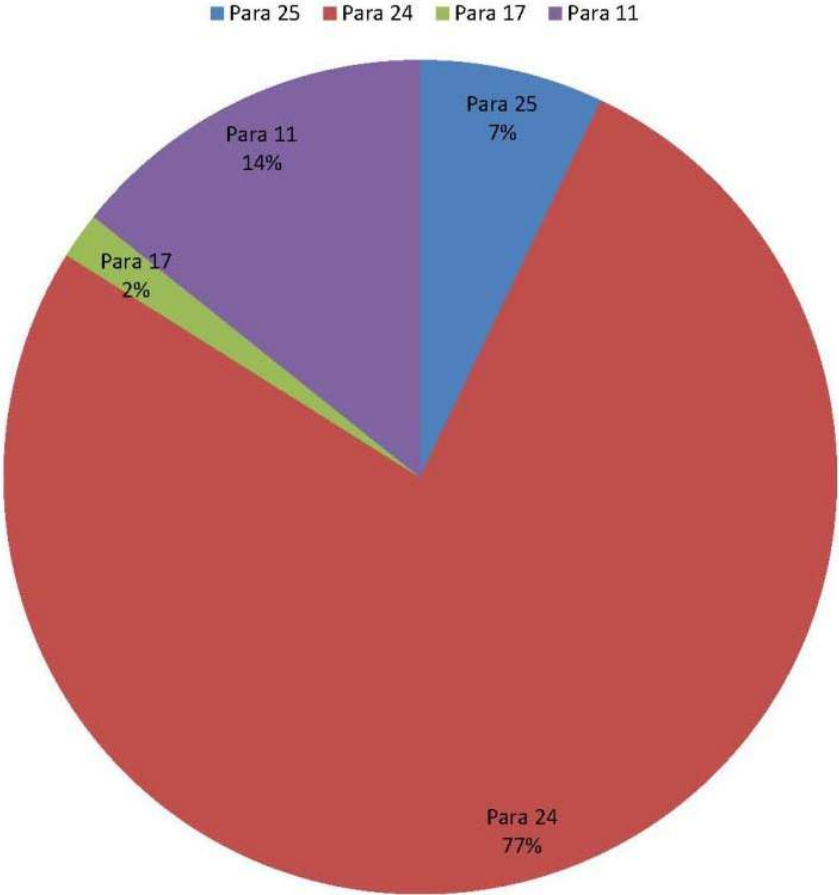
CA. Babu Abraham Kallivayalil
Chairman
Financial Reporting Review Board

Deficiencies Observed: At a Glance

Graphical Presentation of Accounting Standards

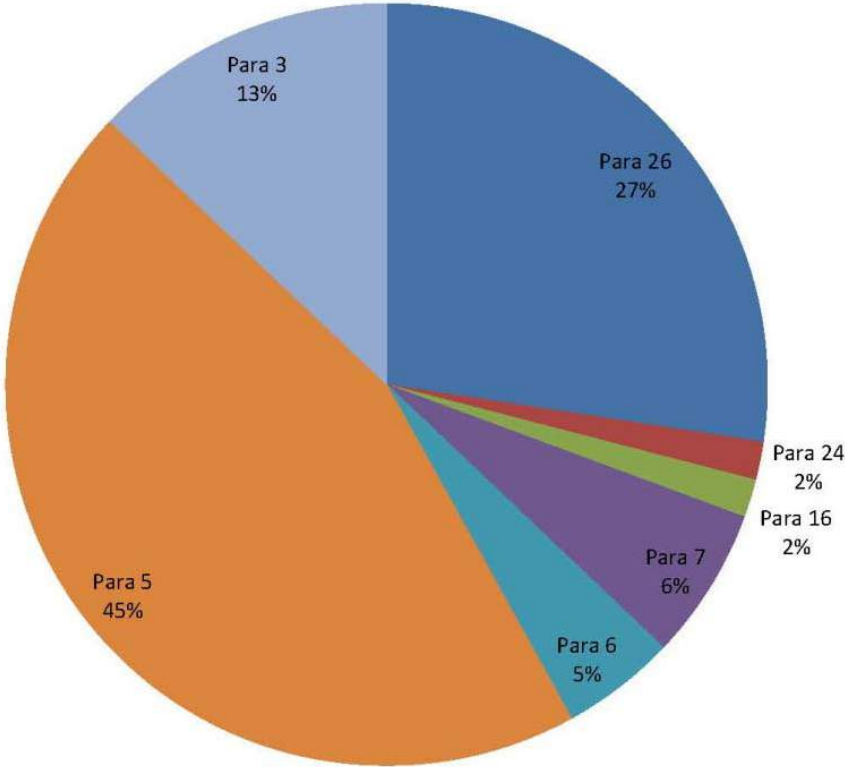


AS 1: Disclosure of Accounting Policies



AS 2 : Valuation of Inventories

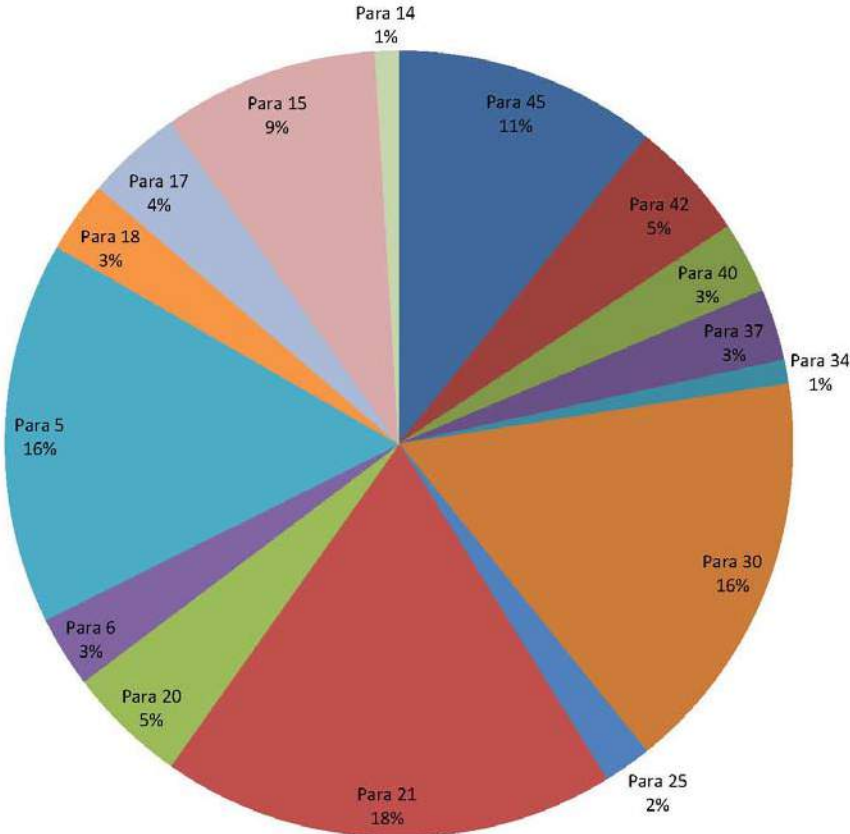
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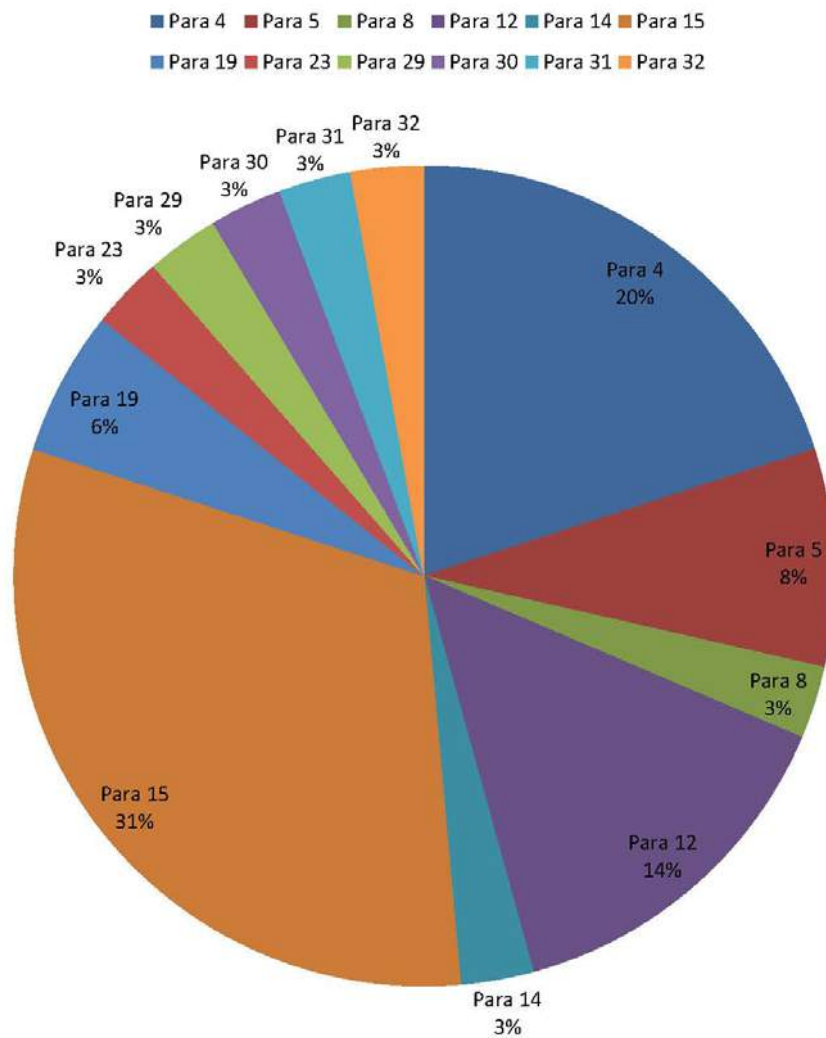
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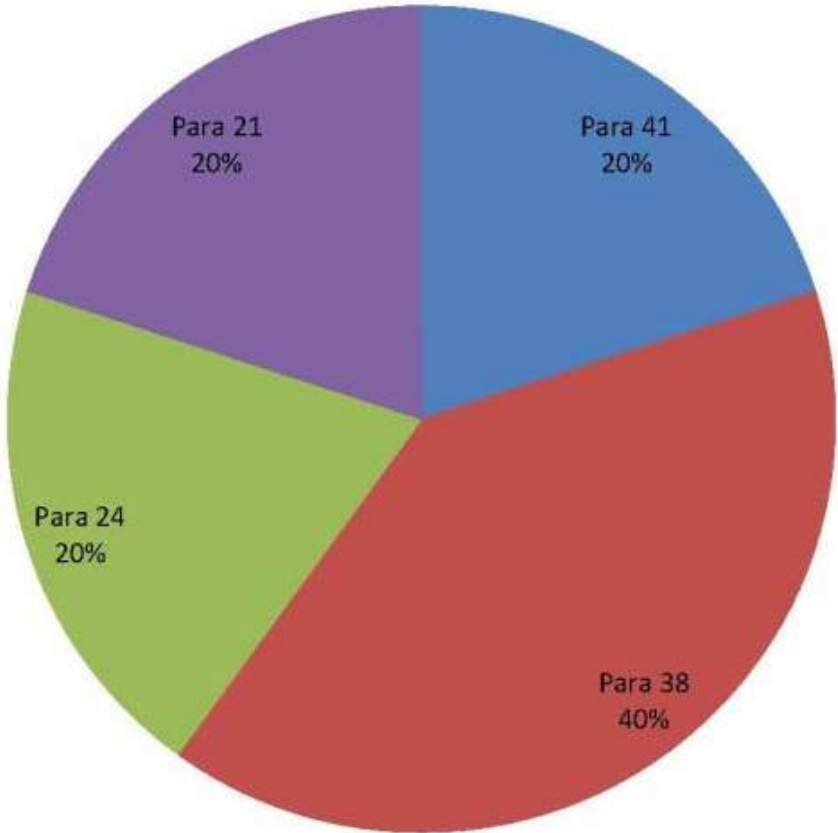


AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies



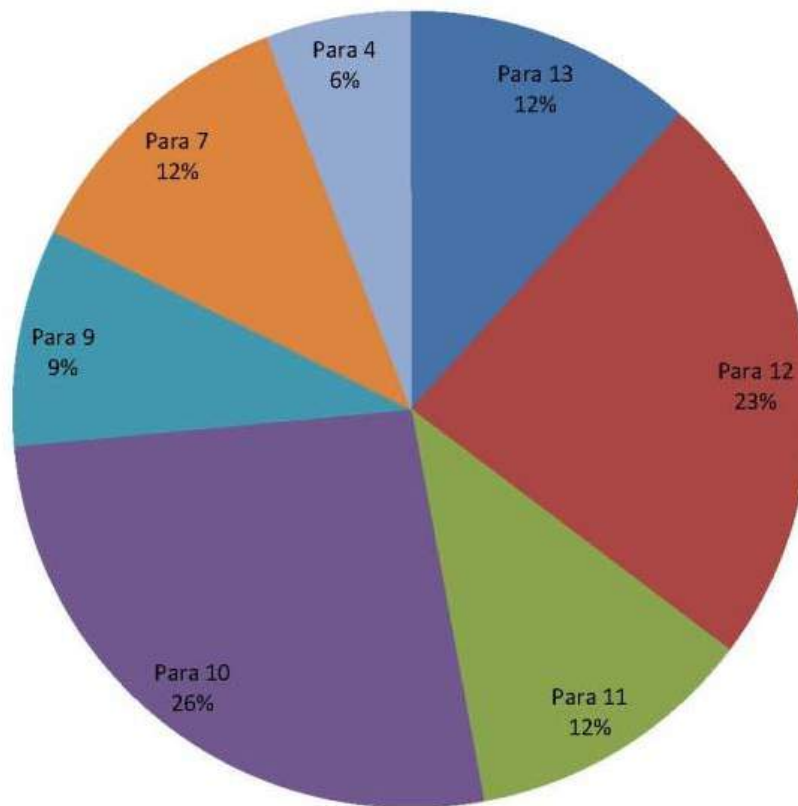
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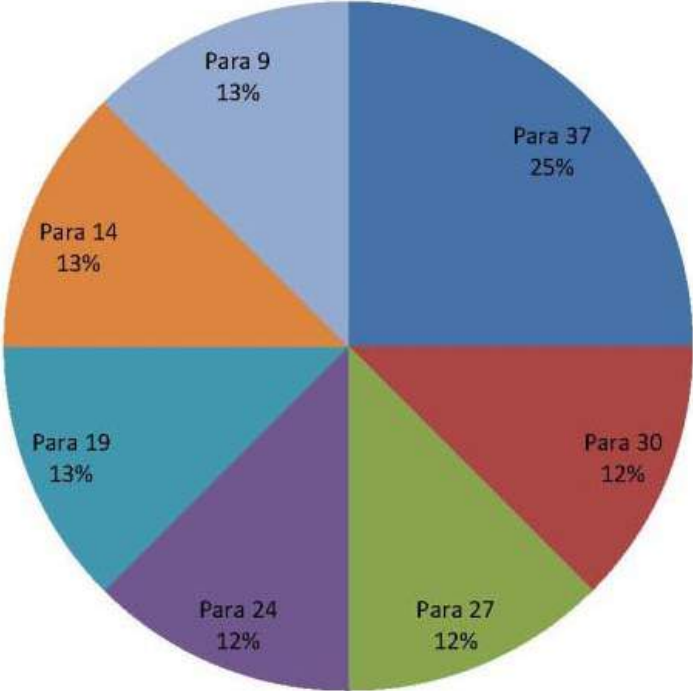
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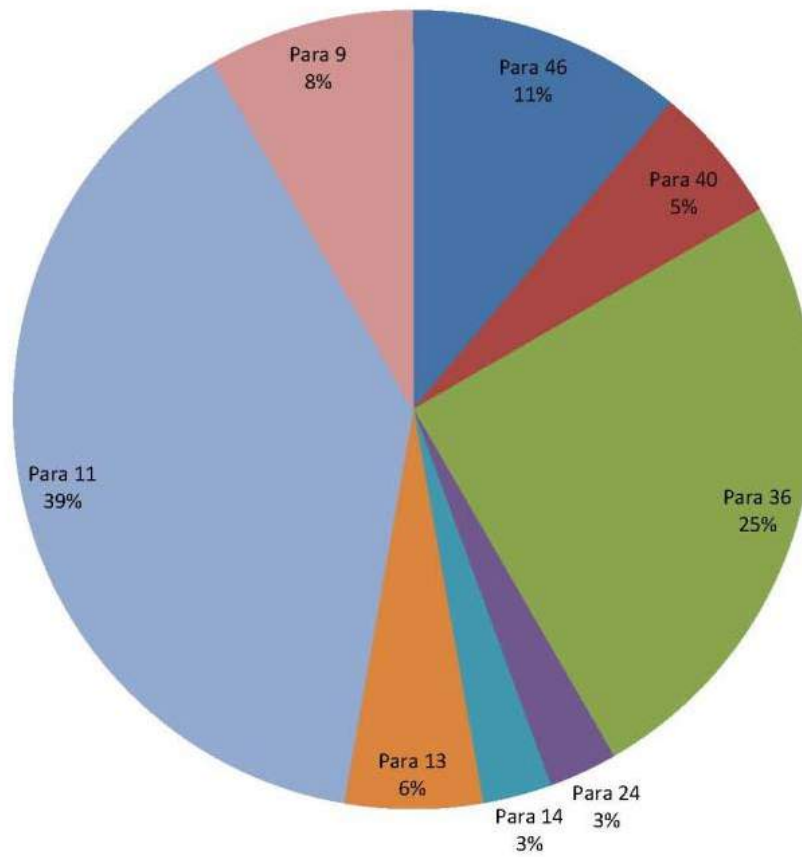
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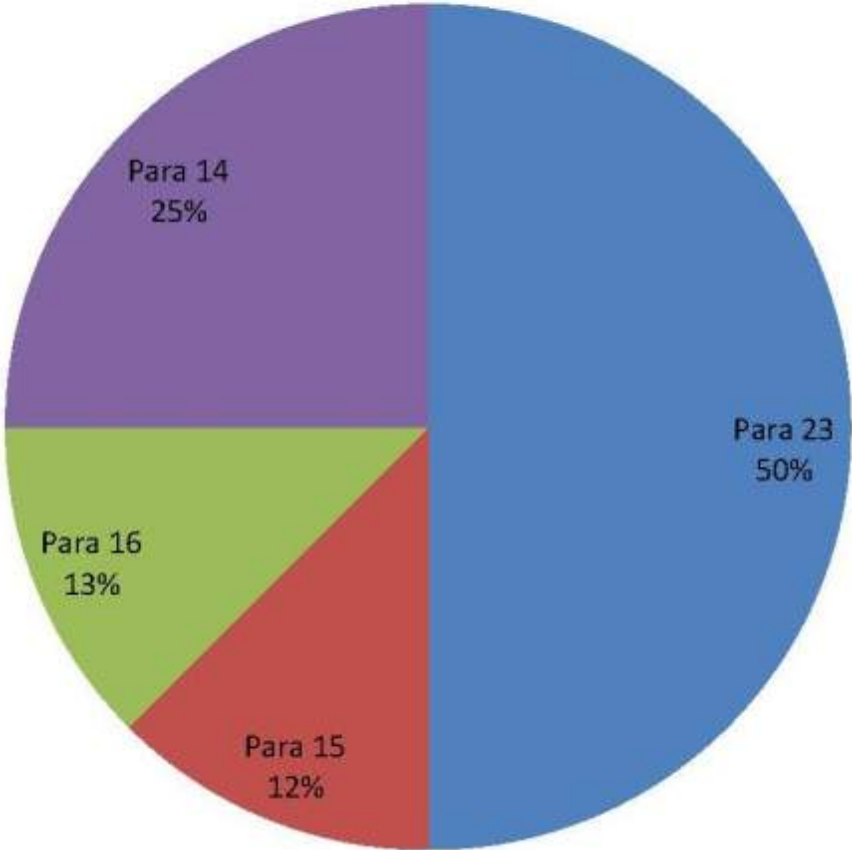
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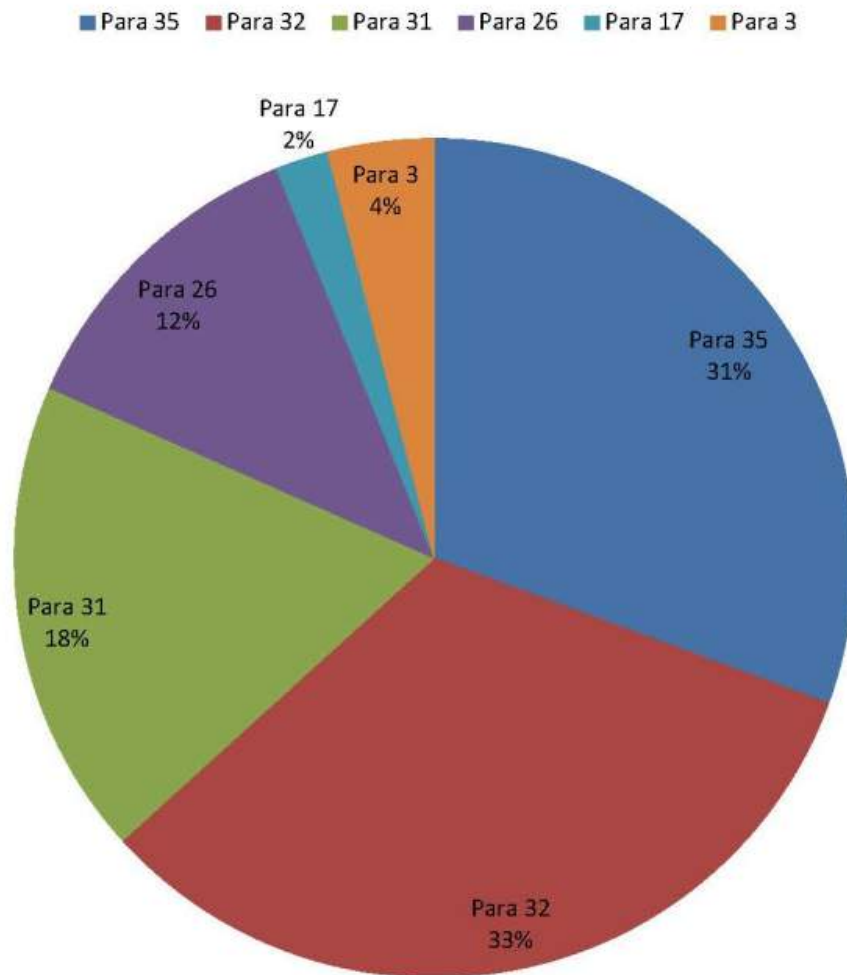


AS 12: Accounting for Government Grants

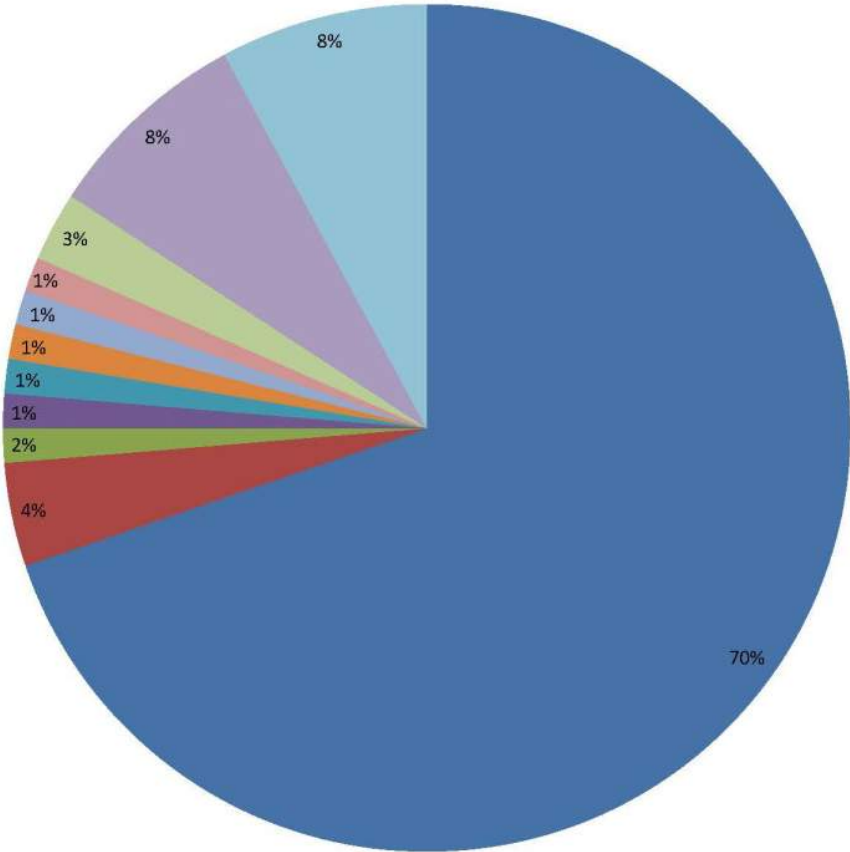
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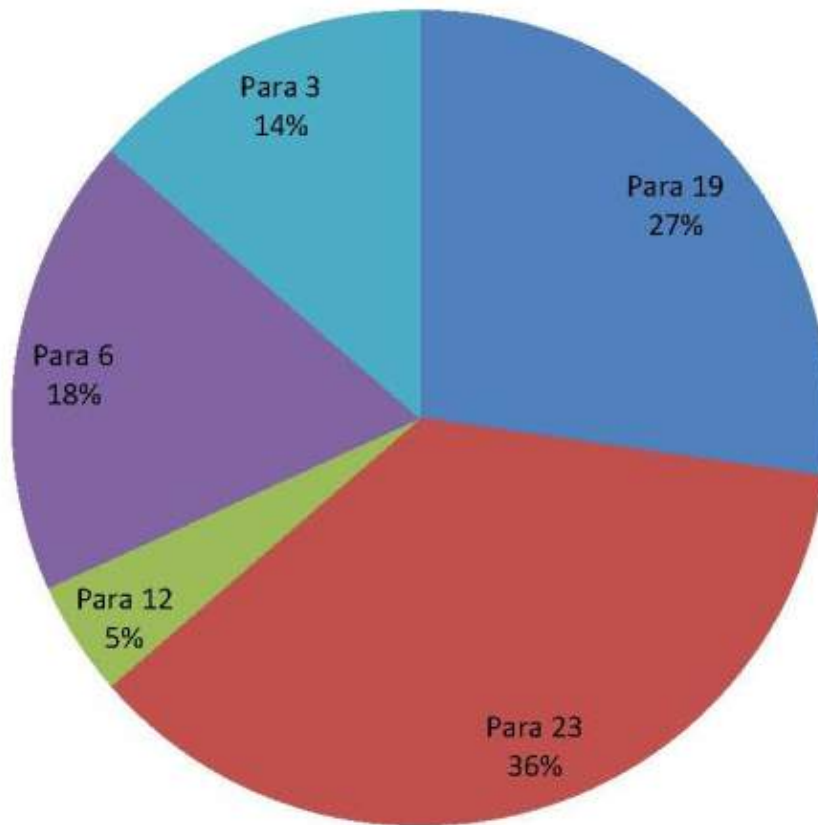


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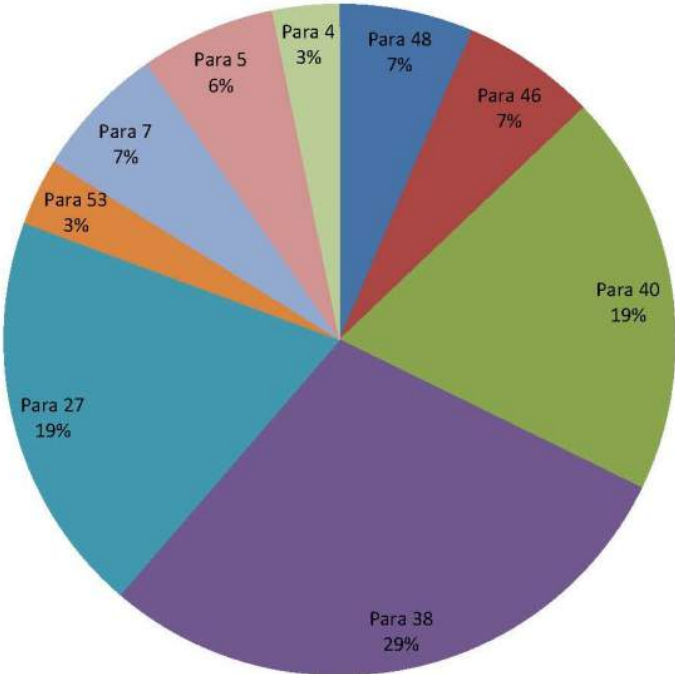
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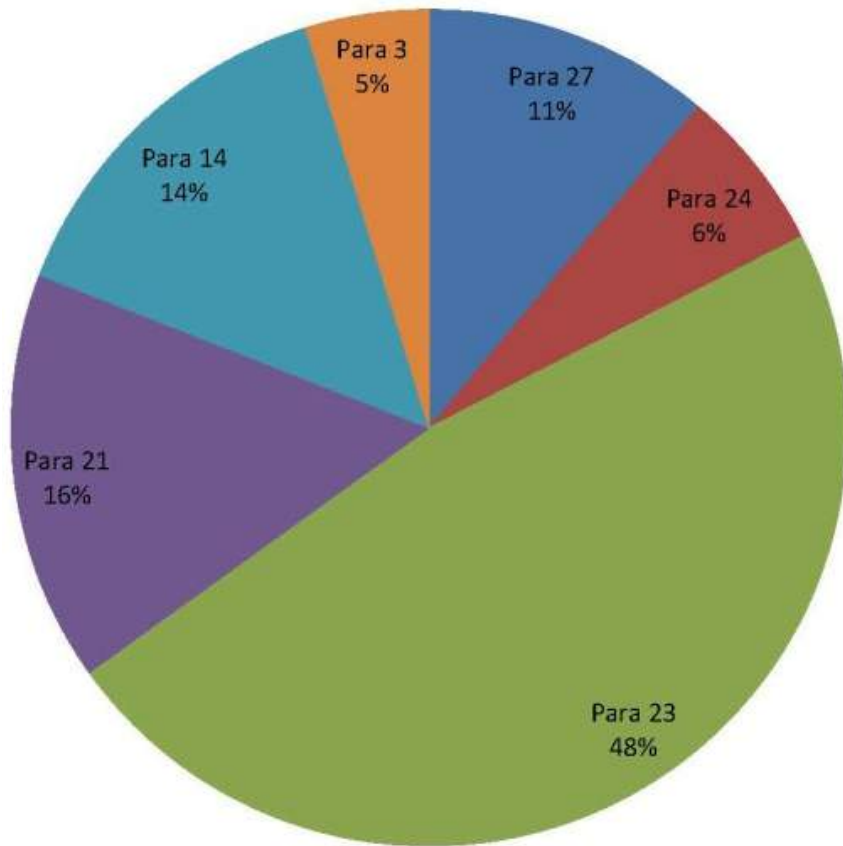
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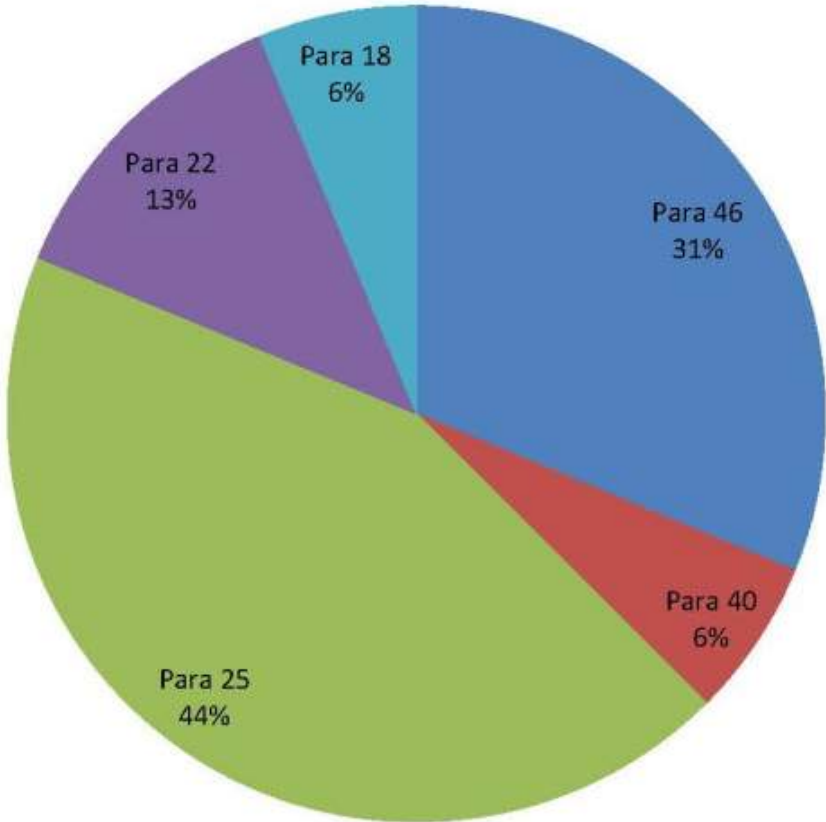
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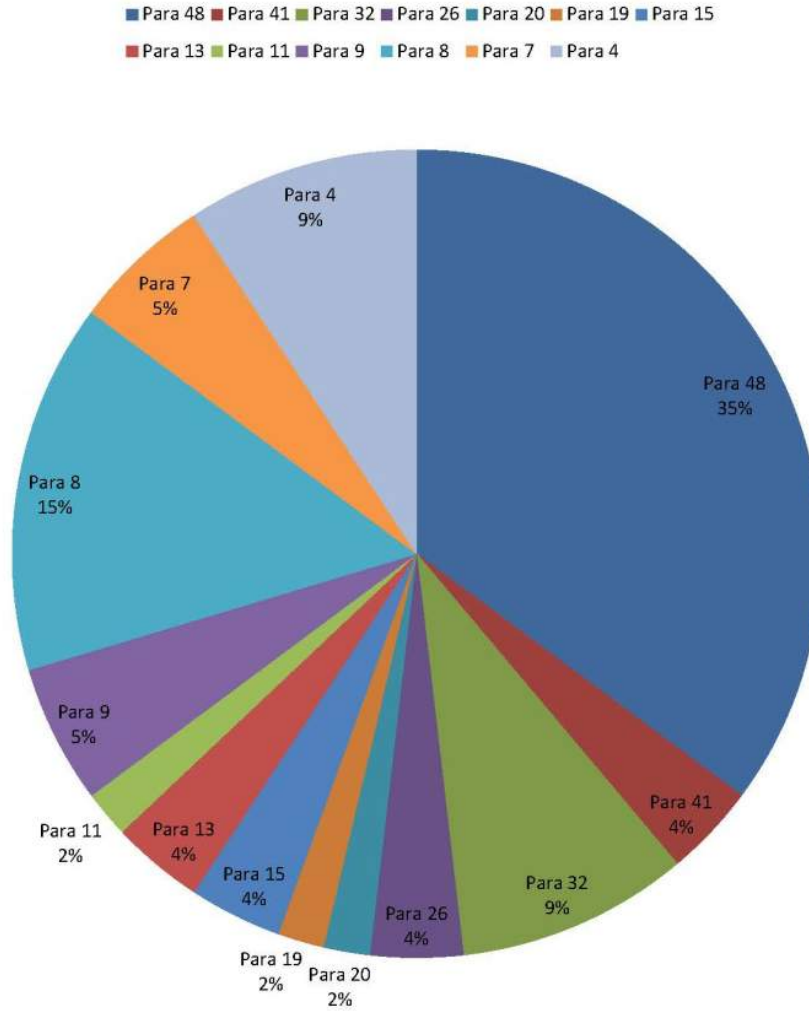


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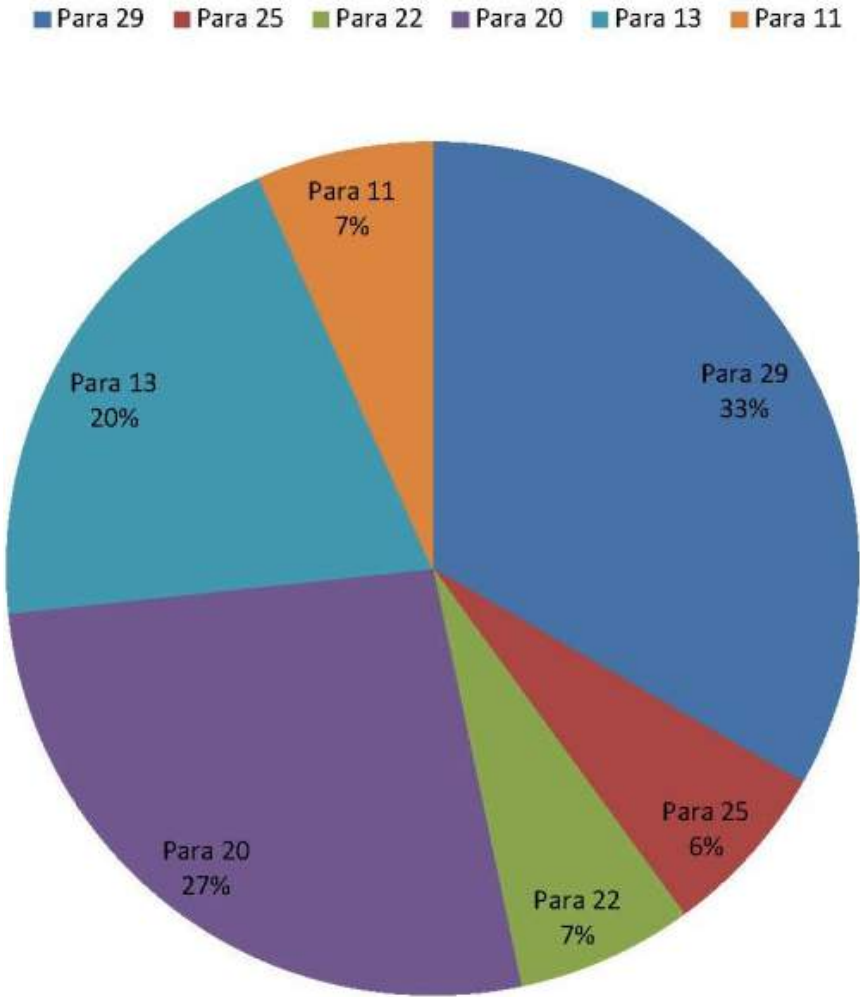
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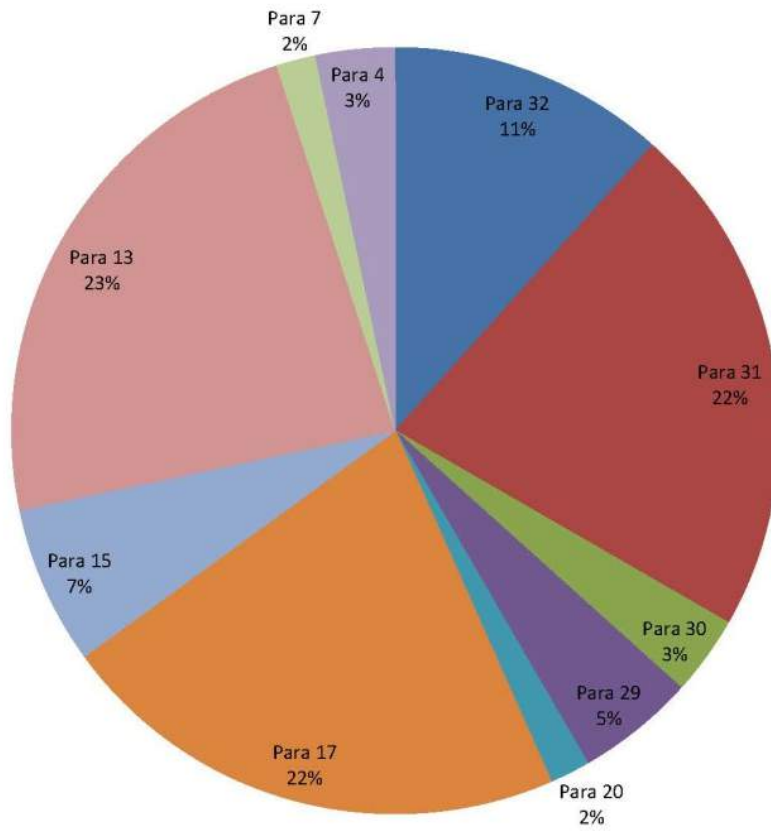


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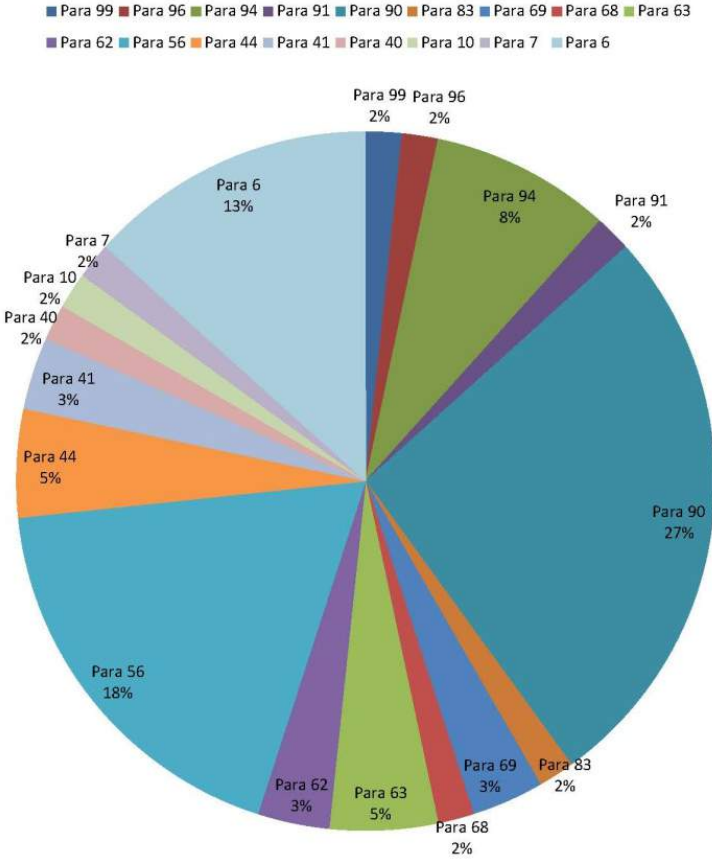


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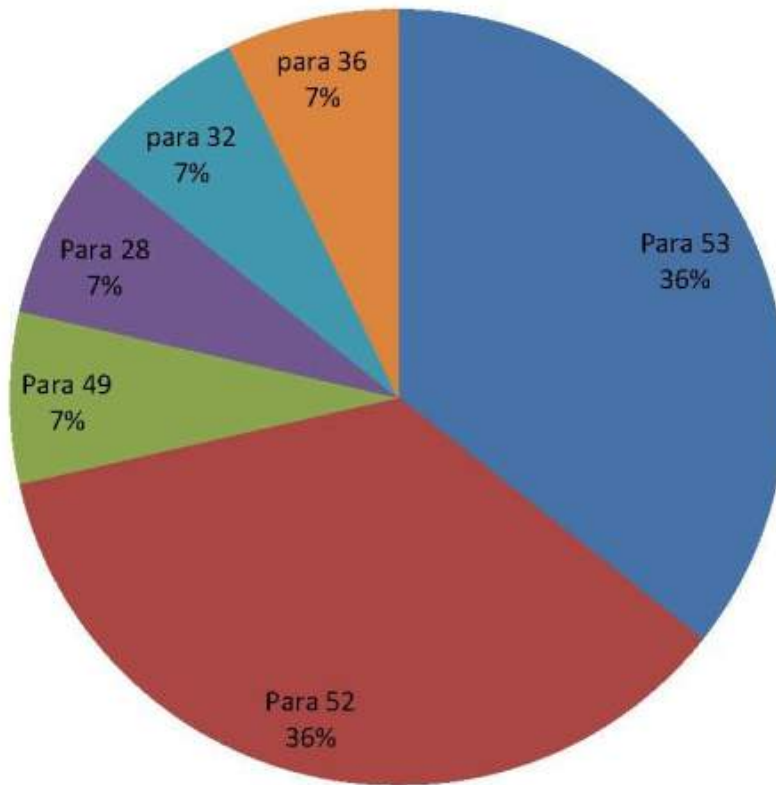


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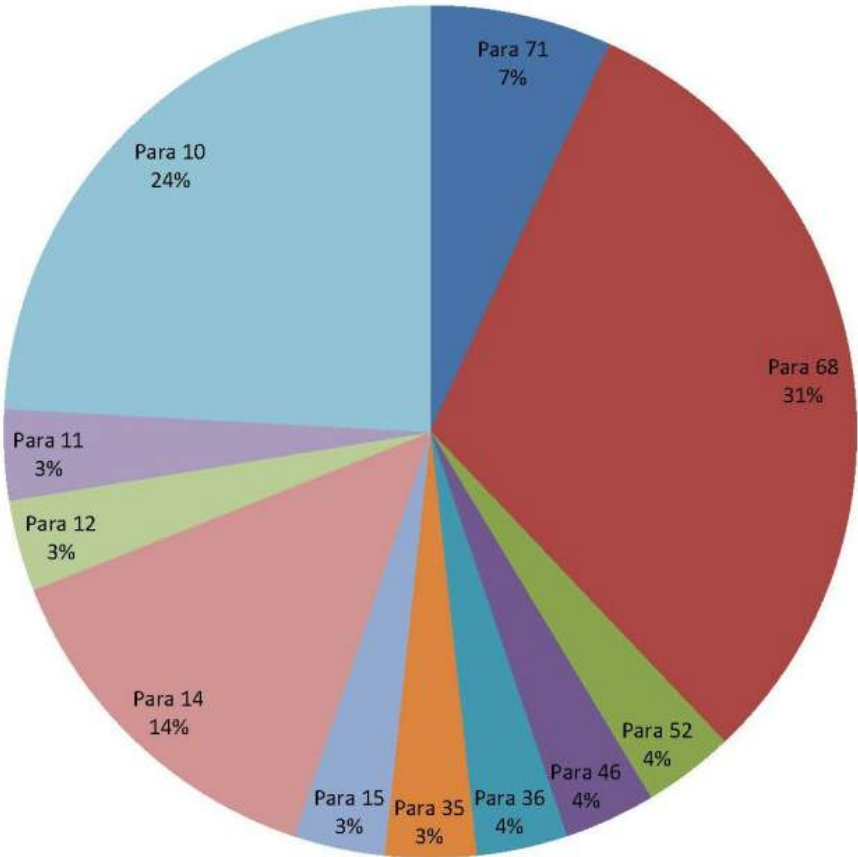
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Observations on Accounting Standard (AS) 1: Disclosure of Accounting Policies

S. No	Matters contained in the Annual Report	Observations
1.	<p>From the Annual Report of a company it has been noted that income from leasing business has been shown as Income from Operations. It has been further noted from the Report on Corporate Governance that the company was mainly engaged in the business of setting up/operating Industrial Infrastructure. The company was also engaged in related activities involving leasing and providing services connected with computer software and data processing.</p>	<p>It may be noted that paragraph 24 of AS 1, requires that;</p> <p><i>“24. All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.”</i></p> <p>As stated in the Report on Corporate Governance, Leasing is a secondary business for the company for which the accounting policy has been disclosed. However, no accounting policy has been explicitly disclosed for recognizing revenue as adopted by it from its primary business i.e. setting up and operating industrial infrastructure.</p> <p>It was viewed that the accounting policy adopted by the company for recognizing revenue from its primary business together with the timing for recognition of such revenue should have been disclosed to comply with the</p>

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		requirement of paragraph 24 of AS 1.
2.	<p>In the Annual Reports of some companies, the accounting policies regarding impairment of assets, intangibles, deferred tax, subsidies and gratuity have been stated as follows:</p> <ul style="list-style-type: none"> • Impairment losses, if any, on Fixed Assets (including revalued assets) are recognised in accordance with the Accounting Standard 28 'Impairment of Assets' issued by Institute of Chartered Accountants of India (ICAI) and charged to Profit and Loss Account." • Intangible assets are recognised and accounted at cost in accordance with Accounting Standard 26 'Intangible Assets' issued by ICAI. • Deferred Tax Asset/Liability has been provided for in the books of accounts as per AS-22 • Subsidies granted by the government for providing telecom services in rural areas are recognised as other operating income in accordance with the relevant terms and conditions of the scheme 	<p>It may be noted that Paragraph 11 of AS 1, states that:</p> <p>"11. The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements."</p> <p>It was observed that in some cases the companies have merely mentioned in these accounting policies that they are in accordance with the requirements of the relevant Accounting Standards (viz. AS 28, AS 26 and AS 22) as issued by the Institute. In case of subsidies the policy states that the subsidies are recognised in accordance with the relevant terms and conditions of the scheme and arrangement whereas for gratuity the policy states that gratuity is provided as per the approval of the Central Government and as per the Payment of Gratuity Act, 1972.</p> <p>It was viewed that such policies only provide means to understand these accounting policies adopted by the</p>

Observations on Accounting Standard (AS) 1: Disclosure of Accounting Policies

	<p>and arrangements.</p> <ul style="list-style-type: none"> In case of non member of the Gratuity Fund, the gratuity is provided as per the approval of Central Government and as per the payment of Gratuity Act, 1972, wherever applicable. 	<p>companies rather than providing the accounting policies more explicitly, which will help the readers to understand the financial statements.</p> <p>Accordingly, the stated accounting policies are not in accordance with the requirements of AS 1.</p> <p>Further, references should have been made to the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 rather than those issued by the Institute of Chartered Accountants of India.</p>
<p>3.</p>	<p>From the Annual Report of few companies, it has been noted that MAT credit entitlement of significant amounts has been recognised in the financial statements with corresponding recognition of the related asset as shown under Long Term Loans and Advances.</p>	<p>It may be noted that Paragraph 11 of Guidance note on Accounting for Credit Availability in respect of Minimum Alternative Tax under Income-Tax Act, 1961, states as under:</p> <p>“...MAT Credit should be recognised as an asset only when and to the extent there is convincing evidence that the company will pay normal income tax during the specified period.”</p> <p>Further, Paragraph 24 of AS 1 states as follows:</p> <p>“24. All significant accounting policies adopted in the preparation and presentation of financial statements should</p>

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		<p><i>be disclosed.”</i></p> <p>Though the MAT Credit Entitlement was significant amount, the accounting policy adopted for its recognition has not been disclosed, which is not in accordance with the requirement of paragraph 24 of AS 1.</p> <p>It was, accordingly, viewed that the accounting policy adopted for its recognition should be disclosed to understand that this has been recognised based on convincing evidence and that it would be utilized within the specified period.</p>
4.	<p>In the Annual Report of a company the accounting policy on ‘Tangible Fixed Assets’ has been stated, as given below :</p> <p>“Tangible fixed assets are stated at cost (or re-valued amounts, as the case may be), less accumulated depreciation and impairment loss, if any. Cost comprises the purchase price, borrowing costs, if capitalisation criteria are met, and any attributable cost of bringing the asset to its present working condition for its intended use.”</p> <p>Further, it has been noted that no separate policy was stated for borrowing cost.</p>	<p>It was noted from the stated accounting policy that the cost, inter alia, comprises of borrowing costs if capitalisation criteria are met. However, the criteria used for capitalisation have not been disclosed in the policy and it was not clear from the stated policy as to whether the policy adopted in respect of borrowing costs was in compliance with the requirements of AS 16.</p> <p>Accordingly, it was viewed that the accounting policy adopted in respect of borrowing cost has not been explicitly disclosed as required by paragraph 24 of AS 1.</p>

Observations on Accounting Standard (AS) 1: Disclosure of Accounting Policies

5	<p>Following note is appearing in the Notes to Financial Statements of a company as given in the Annual Report:</p> <p>“The Company has no manufacturing activity since 1992-93 and hence additional information regarding licensed capacity, installed capacity, actual production and quantitative details of production, sales and closing stock in respect of the previous year is not given.”</p> <p>It was further noted that revenue from operations has been shown in the Statement of Profit and Loss for the current year as well as for the previous year.</p>	<p>It was noted that although the Statement of Profit and Loss shows revenue from operations, the accounting policy as adopted for recognizing such revenue has not been disclosed.</p> <p>Further, the nature of operation from which revenue has been generated is not clear from the financial statements. It was viewed that despite the fact that the company has no manufacturing activity since 1992-93, revenue from operations has still been disclosed. This raises doubt with regard to the nature of income, which has also not been disclosed.</p> <p>Accordingly, it was viewed as a non compliance with paragraph 24 of AS 1 (non disclosure of accounting policy) as well as Revised Schedule VI to Companies Act, 1956¹ (non-disclosure of the nature of income).</p>
6	<p>The accounting policy on foreign currency transactions as given in the Annual Report of a company was as follows:</p> <p>“Foreign currency transactions</p>	<p>It may be noted that the Institute of Chartered Accountants of India has issued an Announcement titled ‘Accounting for Derivatives’ dated 29-03-2008, which states as under:</p>

¹Subsequent to the observations of the Board, Revised Schedule VI has been withdrawn. However, content is still relevant in terms of Schedule III to Companies Act, 2013.

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	<p>...</p> <p>Any profit or loss arising on settlement or cancellation of other derivative contracts (swaps and currency options) is recognised as income/expense for the year. The derivative contracts outstanding at the year-end, are marked to its current market value and gain/loss on such contracts, is recognised in the statement of profit and loss (emphasis supplied).</p>	<p>“In case an entity does not follow AS 30, keeping in view the principle of prudence as enunciated in AS 1, Disclosure of Accounting Policies, the entity is required to provide for losses in respect of all outstanding derivative contracts at the balance sheet date by marking them to market.”</p> <p>It may further be noted that Paragraph 17 of AS 1, envisages principle of prudence as follows:</p> <p>“a. <i>Prudence</i></p> <p>In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.”</p> <p>It was noted from the stated accounting policy on foreign currency transactions that not only losses but also gains on outstanding derivative contracts were being recognised in the Statement of Profit and Loss. It was further noted that financial</p>
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Observations on Accounting Standard (AS) 1: Disclosure of Accounting Policies

		<p>statement does not state that the enterprise has adopted AS 30, AS 31 and AS 32.</p> <p>Accordingly, it was viewed that recognizing gain on outstanding derivative contract is against the principle of prudence enunciated in AS 1 as well as the above stated ICAI announcement.</p>
7.	<p>In the Annual Reports of few companies it has been noted that certain accounting policies viz. investments, other income, foreign currency transactions, lease, provision for current tax, impairment of assets and provision & contingent liabilities have been disclosed in one note titled 'Significant Accounting Policies', whereas other accounting policies viz. deferred tax, inventory valuation, fixed assets and depreciation, revenue recognition, employee benefits, hedging contracts and employees stock option scheme have been given under the related notes annexed to the Balance Sheet and Statement of Profit and Loss.</p>	<p>It may be noted that paragraph 25 of AS 1, provides that:</p> <p><i>"25. The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place."</i></p> <p>It was observed that the accounting policies disclosed have been scattered at various places in the financial statements. It was viewed that all the accounting policies should be disclosed at one place in the financial statements as per the requirement of paragraph 25 of AS 1.</p>
8.	<p>In the Annual Report of a company it was noted that the revenue from operations comprises of (a) Income from real estate projects and (b) Other operating Income.</p>	<p>It was noted that 'other operating income' constitutes 95% of the total income of the company. However, the nature of such income as well as the accounting policy as adopted for its recognition has not been</p>

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		disclosed. Accordingly, it was viewed as a non compliance with the requirements of paragraph 24 of AS 1 (non disclosure of Accounting Policy) as well as Revised Schedule VI to Companies Act, 1956 ² (non-disclosure of the nature of income).
9.	From the Annual Report of a banking enterprise it has been noted that the particulars of securities purchased and sold under repo/reverse repo have been disclosed by way of a note to the financial statements.	It was viewed that for a banking enterprise, accounting policy relating to repo / reverse repo transactions is important since it is a monetary measure of RBI to control inflation. It was, therefore, viewed that the recognition as well as measurement principles in respect of securities sold or purchased under repo/reverse repo should be disclosed separately as per the requirements of paragraph 24 of AS 1.
10.	In the Annual reports of certain companies the accounting policy for Revenue Recognition has been stated as follows: <ul style="list-style-type: none"> • Turnover includes sale of services and service tax, adjusted for discounts (net), if any. 	It was observed that the policy simply states the value at which revenue has been recognised but does not state the point of time when significant risk and rewards in goods stand transferred to the buyer or the point of time when the services

²Subsequent to the observations of the Board, Revised Schedule VI has been withdrawn. However, content is still relevant in terms of Schedule III to Companies Act, 2013.

Observations on Accounting Standard (AS) 1: Disclosure of Accounting Policies

	<ul style="list-style-type: none"> • Sales are net of discount, include applicable excise duty, surcharge and other elements as are allowed to be recovered as part of the price but excludes VAT and Sales tax. • Income from sale of electricity generated by wind mills and rental income from immovable properties are recognised on accrual basis. • Jatropha seeds, Biofuel (finished/semi finished) are sold at prices determined by the Board of Directors. 	<p>were rendered.</p> <p>It was viewed that the policy regarding timing of recognition of revenue from sales and services is an important accounting policy for any company and should, therefore, be disclosed as per the requirements of paragraph 24 of AS 1.</p>
11.	<p>The Accounting policies disclosed by certain companies in the Annual Report with regard to accounting of income and expenditure are set out below:</p> <ul style="list-style-type: none"> • All income and expenditure items having a material bearing on the financial statements are recognised on accrual basis. • Expenses and income are accounted for on an accrual basis. • Income and expenditure are recognised on accrual basis except benefits on Special import license premium, Sales tax set off, Duty drawback and all cash 	<p>It may be noted that paragraph 24 of AS 1, provides that:</p> <p><i>“24. All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.”</i></p> <p>It was noted that only a common policy of recognizing income and expenditure has been given and that the accounting policy for recognizing revenue including the point of time when the significant risks and rewards in goods stand transferred to the buyer, has not been stated.</p> <p>It was viewed that the revenue recognition policy should be separately disclosed stating explicitly the timing of</p>

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	<p>incentives, Claims receivable and Government taxes, which have been accounted for on cash basis.</p>	<p>recognition of revenue.</p> <p>Further, accounting of import license benefits, duty drawback, claims, cash incentives etc. on cash basis is not in accordance with the generally accepted accounting principles.</p>
12.	<p>From the Annual Report of certain companies it has been noted that no accounting policies have been disclosed with regard to one or more of the following:</p> <ul style="list-style-type: none"> • Fixed assets • Inventories • Provisions and Contingent Liabilities • Impairment of assets • Accounting of taxes on Income • Revenue Recognition • Lease • Employee Benefits • Foreign Currency Transactions • Borrowing Costs • Goodwill and other intangible Assets • Interest, Commission and Royalty included under 	<p>Companies would generally have most of the assets/liabilities and income/expenses listed in the observation. Even interest, commission and royalty included under other income could be significant. Accordingly, subject to circumstances of a company, all significant accounting policies should be disclosed as adopted by it for preparation and presentation of the financial statements.</p> <p>It was viewed that non-disclosure of these accounting policies is a major non-compliance with the requirement of the AS 1.</p>

Observations on Accounting Standard (AS) 1: Disclosure of Accounting Policies

	other Income	
13	From the Annual Report of a company it was noted that in the Statement of Profit and Loss income from services has been shown gross from which reimbursed energy charges have been deducted to arrive at the net revenue. Similarly, in the note of Infrastructure Operating Expenditure reimbursement received has been shown as a deduction.	<p>It was observed that certain reimbursed energy charges have been set off against service revenue and certain reimbursements received have been netted off against infrastructure operating expenditure. Further, it was noted that amount involved was material. However, the nature of such reimbursed charges/receipts has not been disclosed in the accounting policy.</p> <p>Accordingly, it was viewed that the requirement of paragraph 24 of AS 1 has not been strictly complied with.</p>
14.	<p>The accounting policy regarding employee benefits as given in the Annual Report of a company, reads as follows:</p> <p>“Liabilities for gratuity and leave encashment are provided on the basis of annual actuarial valuation at the year end and the management estimates for interim period keeping in view of last actuarial valuation.”</p>	<p>It was observed from the notes to accounts that the company has also made contribution to provident fund but the related accounting policy has not been disclosed.</p> <p>It was viewed that accounting policies covering all types of employee benefits should be disclosed as per the requirement of paragraph 24 of AS 1.</p>
15	From the Annual Report of a company it has been noted that the company has been set up for plantation. Further, seeds of the plants are used for	The stated accounting policy indicates that jatropa plantation is a self constructed item of property plant and equipment (Bearer Plant). Since all

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	<p>production of bio-diesel as a viable renewable source of energy.</p> <p>It was further noted from the accounting policies as disclosed in the financial statements that all expenses incurred on cultivation and maintenance of plantation are transferred to Capital Work in Progress for a period of 5 years and thereafter these expenses are capitalised to be amortised over a period of 25 years.</p>	<p>expenses are transferred to CWIP, it appears to be still in development stage. Accordingly, any income generated from pre-harvest produce of bearer plant is in the nature of income generated before the commencement of commercial operation and should be deducted from the development cost.</p> <p>It has, however, been noted that the income earned from immature crop has been credited to Statement of Profit and Loss, which is not in accordance with the generally accepted accounting principles in India.</p>
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2

Observations on Accounting Standard (AS) 2: Valuation of Inventories

S. No	Matters contained in the Annual Report	Observation
1.	<p>The accounting policies regarding valuation of inventories as disclosed in the Annual Report of several companies are listed below :</p> <ul style="list-style-type: none">• Stocks of Cards are valued at Cost and on FIFO basis and include all applicable overheads in bringing the inventories to their present location and condition. Work in progress is valued at Cost.• Inventories are measured at cost. Cost is determined on weighted average basis.• Work - in - Progress is valued at direct raw material cost and appropriate cost of completed process.• Raw materials are valued at average cost. Raw materials at bonded warehouse stores, spares, consumables, packing material, coal & fuel are valued at cost and	<p>It may be noted that paragraph 5 of AS 2, provides that:</p> <p><i>“5. Inventories should be valued at the lower of cost and net realisable value.”</i></p> <p>Further, paragraph 3.2 of AS 2 defines the term ‘Net Realisable Value’ as follows :</p> <p><i>“Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.”</i></p> <p>It was noted from the accounting policies as disclosed in the financial statements that except for finished goods in a few cases inventories have been valued at cost or average cost. In other words ‘net realisable value’ has not been considered for the purpose of valuing the inventories.</p>

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<p>finished goods are valued at cost or net realisable value whichever is lower.</p> <ul style="list-style-type: none"> • Raw materials, Stores and spares and Stock-in process are valued at weighted average cost. • Raw Materials lying at factory and job work have been valued at cost. Stocks in Process have been valued at Raw Materials Cost plus proportionate of conversion cost. Finished Goods lying at factory have been valued at Raw Material cost plus conversion cost including excise duty payable. Scrap has been valued at net realisable value. Stores & Spares have been valued at cost. • Raw materials, Packing materials and Stores & Spares are valued at cost on FIFO basis. Semi-Finished Goods are valued at estimated cost. Traded goods and Finished Goods are valued at lower of the cost or net realisable value. • Inventories, consist of blank betacam tapes, are stated at cost on First in First out (FIFO) basis. • Stocks of Raw Materials, 	<p>Accordingly, it was viewed that the valuation of inventories in all these cases is not in line with the requirement of paragraph 5 of AS 2.</p>
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Observations on Accounting Standard (AS) 2: Valuation of Inventories

	<p>Work-in-Progress and Stores and Spares have been valued at cost or under.</p> <ul style="list-style-type: none"> • Stores and maintenance spares are valued at cost. Empty packages are valued at weighted average cost. Stores and spares are valued at weighted average cost. Stores & spares in transit are valued at cost. • Raw Materials, construction materials and stores and spares are valued at weighted average cost. 	
2.	<p>In the Annual Reports of a number of companies the accounting policies regarding valuation of inventories have been stated as follows :</p> <ul style="list-style-type: none"> • Inventories are valued at lower of cost or net realisable value. • Inventories are valued at cost or market value, whichever is lower. The company has been following this generally accepted accounting policy in accordance with the Accounting Standard (AS 2) on valuation of Inventories. • Raw Materials, process stock and stores and spares - valued at cost. • Finished goods are valued at 	<p>It may be noted that paragraph 26 read with paragraph 16 of AS 2, states as follows:</p> <p><i>“26. The financial statements should disclose:</i></p> <p><i>(a) the accounting policies adopted in measuring inventories, including the cost formula used.”</i></p> <p><i>“16. The cost of inventories, other than those dealt with in paragraph 14, should be assigned by using the first-in, first-out (FIFO), or weighted average cost formula. The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present</i></p>

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	<p>cost or market price, whichever is lower.</p> <ul style="list-style-type: none"> • Raw materials, consumables, stores and spares are valued at lower of cost or Net realisable value as certified by the management. • Raw Materials lying at factory and job works have been valued at cost. Stores & spares have been valued at cost. • Semi-finished goods are valued at estimated cost. Traded goods and finished goods are valued at lower of the cost or net realisable value. • Items of inventories are measured at lower of cost or net realisable value after providing for obsolescence, if any. • Inventories of fuel oil, spares, stores & consumables on board of the vessels are valued at lower of cost or net realisable value. 	<p><i>location and condition.”</i></p> <p>It was noted from the stated accounting policies of these companies that, although the accounting policy adopted for determining the value of inventories has been disclosed, the cost formula adopted for determining the cost has not been disclosed.</p> <p>Accordingly, it was viewed that the requirements of paragraph 26 (a) of AS 2 have not been complied with.</p>
3.	<p>Accounting policy on valuation of inventories as disclosed in the Annual Reports of some companies reads as under :</p> <ul style="list-style-type: none"> • Inventories are valued at 	<p>It may be noted that paragraph 5 of AS 2, requires that:</p> <p><i>“5. Inventories should be valued at the lower of cost and</i></p>

Observations on Accounting Standard (AS) 2: Valuation of Inventories

	<p>cost or market value, whichever is lower. The company has been following this generally accepted accounting policy in accordance with the Accounting Standard (AS 2) on valuation of Inventories.</p> <ul style="list-style-type: none"> • Inventories are valued at cost or market value whichever is lower. Cost considered for valuation is weighted average cost. • Finished goods - valued at cost or market price, whichever is lower. • Trading inventories are valued at cost or market value whichever is lower. • Finished goods are valued at cost, or market value/Contract Price, whichever is less.... • Raw materials and finished goods are valued at cost or market price, whichever is lessor. Scrap is valued at estimated market price. 	<p>net realisable value.”</p> <p>Further, paragraph 3.2 of AS 2, defines the term ‘Net Realisable Value’ as follows :</p> <p><i>‘Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.’</i></p> <p>It was noted from the stated accounting policies as adopted by these companies for valuation of inventories that the inventories have been valued at lower of cost and market value instead of net realisable value. It appears that the estimated costs of completion and the estimated costs necessary to make the sale have not been reduced from the estimated selling price for the purpose of inventory valuation.</p> <p>Accordingly, it was viewed that the valuation of inventories is not in line with the requirement of paragraph 5 of AS 2.</p>
4.	<p>In the Annual Reports of few companies following notes have been given with regard to accounting treatment of excise duty in inventory valuation :</p> <ul style="list-style-type: none"> • The liability for excise duty on finished goods lying in 	<p>It may be noted that paragraph 7 of AS 2, provides that:</p> <p>’7. The costs of purchase consist of the purchase price including duties and taxes (other than those subsequently recoverable by the enterprise from the taxing</p>

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	<p>stock at the close of the year has not been provided for in the accounts and hence not included in the valuation of inventory of such products. However, the said liability, if accounted, would have no impact on profit for the year.</p> <ul style="list-style-type: none"> • Raw material and finished goods are valued net of excise duty. But goods at branches are valued at inclusive of excise duty and freight. • Liability for excise duty on finished goods is accounted as and when they are cleared from the factory premises. No provision is made in the account for goods manufactured and lying in factory premises. 	<p>authorities), freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates, duty draw backs and other similar items are deducted in determining the costs of purchase.'</p> <p>It may be further noted that as per paragraph 18 of the Institute's 'Guidance Note on Accounting Treatment for Excise Duty,' the liability for excise duty arises when the manufacture of the goods is completed; hence, it is necessary to create a provision for liability of unpaid excise duty on stocks lying at the factory or bonded warehouse. However, it appears from the notes that excise duty has neither been considered in the valuation of inventories nor provided for except for the stocks lying at the branches.</p> <p>Accordingly, it was viewed that the requirements of paragraph 7 of AS 2 as well as paragraph 18 of the Guidance Note on Accounting Treatment for Excise Duty have not been complied with.</p>
5.	<p>From the note of inventories as given in the Annual Reports of several companies it has been noted that the inventories have been described as taken, valued and certified by the</p>	<p>It may be noted from the clarification given in the Guidance Note on 'Audit of Inventories' issued by the Institute of Chartered Accountants of India that the use</p>

Observations on Accounting Standard (AS) 2: Valuation of Inventories

	<p>director/management’.</p> <p>In few annual reports even the accounting policies have stated as follows :</p> <ul style="list-style-type: none"> • The stock of paper, books & magazines is as certified by the management. • Raw materials, consumables, stores and spares are valued at lower of cost or net realisable value as certified by the management. • Finished goods are valued at lower of cost or net realisable value as certified by the management. <p>In another annual report the following description has been given:</p> <ul style="list-style-type: none"> • Inventories (As taken, valued at cost or realisable value, whichever is lower and certified by the Management). 	<p>of expression ‘as taken, valued and certified by the director/management’ may lead the users of financial statements to believe that the auditors have merely relied on the management’s certificate without carrying out any other appropriate audit procedures to satisfy themselves about the existence and valuation of inventories.</p> <p>It may further be noted from the above Guidance Note that the duties and responsibilities of the auditors with regard to audit of inventories are not diminished. Thus, in order that the auditor’s role with regard to verification of inventories is properly appreciated by the users of the financial statements, the auditors should advise their clients to omit the expression ‘as taken, valued and certified by the director/management’, when describing inventories in the financial statements.’</p>
6.	<p>From the Annual Reports of some companies it has been noted that different accounting policies have been adopted to determine the cost of inventories as given below :</p> <ul style="list-style-type: none"> • Work in Process at raw material cost. 	<p>It may be noted that paragraph 6 of AS 2, provides that:</p> <p>“6. The cost of inventories should comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and</p>

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	<ul style="list-style-type: none"> • Cost of finished goods and work in progress are determined on estimated cost basis. • Inventories are valued at cost or net realisable value, whichever is less. Cost is determined by using the first in first out formula. Cost comprises all. • Raw materials are valued at average cost. • Inventories are stated at lower of cost and net realisable value. Cost is determined on weighted average/ first-in,first-out (FIFO) basis, as considered appropriate by the Company. • Cost of inventories is computed on weighted average / FIFO basis. 	<p>condition.”</p> <p>In the first case, work in progress has been valued only at raw material cost, which indicates that the conversion cost has not been considered.</p> <p>In the second case, cost of finished goods and work in progress is determined on estimated basis and in the third case, it states cost comprises all. It is not clear from such accounting policies whether all applicable costs have been considered or not.</p> <p>In the fourth case, average cost method has been used instead of weighted average cost method as required under paragraph 16 of AS 2.</p> <p>Accordingly it was viewed that the stated methods of determining cost of inventories are not in accordance with paragraph 6 as well as paragraph 16 of AS 2.</p> <p>In the last two cases though cost formula has been given it would be more appropriate to disclose which cost formula has been used for which class of inventories.</p>
7.	From the Annual Report of a company, it has been noted that the accounting policy on valuation of inventories has not been disclosed.	It may be noted that paragraph 26 of AS 2, requires that: “26. The financial statements should disclose:

Observations on Accounting Standard (AS) 2: Valuation of Inventories

		<p><i>(a) the accounting policies adopted in measuring inventories, including the cost formula used.</i></p> <p>Further paragraph 24 of AS 1, requires that:</p> <p><i>“24. All Significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.”</i></p> <p>Accordingly, it was viewed that non-disclosure of accounting policy on valuation of inventories is not in compliance with the requirements of paragraph 24 of AS 1 as well as paragraph 26 (a) of AS 2.</p>
8.	<p>From the Annual Report of a company, it has been noted that short term provisions includes a provision towards old inventory and the amount is significant.</p>	<p>It may be noted that paragraph 5 of AS 2, requires as follows:</p> <p><i>“5. Inventories should be valued at the lower of cost and net realisable value.”</i></p> <p>It was observed that provision for old inventory has been shown under the head ‘short term provisions’ instead of reducing it from the carrying value of inventories, which is not in line with the requirements of paragraph 5 of AS 2.</p> <p>Further, it also raises doubt as to whether the net realisable value</p>

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		has been considered for valuation of old inventories or not.
9.	<p>From the Annual Report of a company pertaining to Agro Industry, it has been noted that land has been shown as an item of inventories (earlier shown as fixed asset), which has been valued at cost or net realisable value, whichever is lower.</p> <p>Further the following note appears in the financial statements :</p> <p>'The company entered into an agreement with X Ltd. for the purpose of development of the commercial cum residential project in Mumbai. In accordance with the agreement, the company has to contribute its land and X Ltd. is required to incur all the development expenses of the project with the understanding to share the ownership of the project in an agreed ratio. <i>The construction/development of the project was stayed by the Hon'ble Supreme Court of India stating that the same land can be used for the purpose of Agro Industry or any other permissible industry under the current regulations.</i> The management is exploring the possibilities to use the land in question as per the</p>	<p>It may be noted that paragraph 3.1 of AS 2, provides as under:</p> <p><i>"3.1 Inventories are assets:</i></p> <p><i>(a) held for sale in the ordinary course of business;</i></p> <p><i>(b) in the process of production for such sale; or</i></p> <p><i>(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services."</i></p> <p>From the note given in the financial statements, it was observed that the land (earlier recognised as fixed assets) has now been classified as inventories. However, during the year the purpose for which it is intended to be used has been stayed by Hon'ble Supreme Court. Further, the management was exploring possibility to use the land as per the current regulations. Having regard to the definition of inventories as per paragraph 3.1 of AS 2 as given above the land in question</p>

Observations on Accounting Standard (AS) 2: Valuation of Inventories

	permissible regulations (emphasis supplied).'	cannot be considered as held for sale in the ordinary course of business nor can it be considered to be used in the process of production. Accordingly, its classification as an item of inventories does not appear to be correct.
10.	Significant accounting policy on inventory as disclosed in the Annual Report of a company, inter alia, state that: "Import of materials is accounted on receipt thereof at the factory."	It was observed from the accounting policy that import of materials is accounted on receipt basis and not on accrual basis. This is not in accordance with the generally accepted accounting principles. It was viewed that when the materials are shipped by the exporter the company should recognize the liability and the materials should be accounted for as 'Materials in Transit'.
11.	From the Annual Report of a company, it has been noted that under note on inventories stores & spares has been disclosed on net basis.	It may be noted that paragraph 26 of AS 2, requires that: "26. The financial statements should disclose: (a) the accounting policies adopted in measuring inventories, including the cost formula used." It was not clear from the use of the term 'Net' as to what has been netted off against the carrying value of Stores and Spares. It was viewed that the

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		nature of adjustment should be adequately disclosed for better understanding of the financial statements.
12.	<p>In the Annual Report of a company, the accounting policy on inventories states that the cost of raw materials, components and stores and spares is determined on a weighted average basis. However, in the note of inventories under the head raw materials it has been stated as 'valued at cost on FIFO method'.</p> <p>In the Annual Report of another company, the accounting policy on inventories states that raw materials, stock in process, finished goods and stores and spares have been valued at cost and that scrap has been valued at net realisable value. However, in the note of inventories it has been stated that scrap has been valued at estimated market price and that all other items have been valued at cost or market price, whichever is less.</p>	<p>It may be noted that the accounting policies and explanatory notes that may be attached form an integral part of the financial statements.</p> <p>In both the cases information given in the accounting policies contradict with the information given in the note of inventories with regard to inventory valuation. Consequently, it is not clear as to which method of valuation these companies have actually followed.</p> <p>It was accordingly viewed that such contradictory information should be avoided for better understanding of the financial statements.</p>

3

Observation on Accounting Standard (AS) 3: Cash Flow Statements

S. No	Matter Contained in Annual Report	Observations
1.	From the Statement of Profit and Loss and the Cash Flow Statement of a company read with the notes to the accounts, it was noted that Net profit for the year is inclusive of unrealised exchange rate difference, interest and dividend income.	It may be noted that paragraphs 20 and 30 of AS 3 respectively provides as follows: "20. Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of: (a) (b) non-cash items such as depreciation, provisions, deferred taxes, and unrealised foreign exchange gains and losses; and (c) all other items for which the cash effects are investing or financing cash flows." (emphasis added) "30. Cash flow from interest and dividends received and paid should be disclosed separately. Cash flow arising from interest paid and interest and dividend received in the case of financial enterprise should be

		<p><i>classified as cash flow arising from operating activities. In the case of other enterprises, cash flow arising interest paid should be classified as cash flow from financing activities while interest and dividends received should be classified as cash flow from investing activities. Dividend paid should classified as cash flow from financing activities”.</i></p> <p>The following non-compliances were noticed in context of AS 3:</p> <ul style="list-style-type: none"> i) It was noted that the figure of net profit which has been used to determine the ‘cash flow from operating activities’, has been derived after adjusting the exchange rate difference (as is evident from the Statement of Profit and Loss). However, being non-cash item, such loss has not been adjusted in the Cash Flow Statement to determine the ‘cash flow from operating activities’, as required by paragraph 20(b) of AS 3. ii) It was further noted that for determining the cash flow from operating activities the basis used is Net profit including interest income
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Observation on Accounting Standard (AS) 3: Cash Flow Statements

		<p>and dividend income. In view of the requirement of paragraph 30 of AS 3, it was felt that in order to separately disclose cash flows arising from dividend income and interest income under 'cash flow from investing activities', the interest income and dividend income credited in the Statement of Profit and Loss should have been adjusted as required under paragraph 20(c) of AS 3. Further, after such adjustment as per paragraph 30 of AS 3, the cash flows arising from 'interest income' and 'dividend income' should be disclosed under the 'cash flow arising from investing activities'. Hence, current presentation of keeping the dividend income and interest income under profit figures and therefore showing it as 'cash flow from operating activities' is incorrect.</p>
2.	<p>From the Cash Flow Statement of a financial company it was noted that the following items were disclosed as 'Cash Flow from Financing Activities' :</p>	<p>It may be noted that paragraph 14 of AS 3, provides as follows: "14. An enterprise may hold securities and loans for dealing or trading purposes, in which</p>

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	<ul style="list-style-type: none"> • Loan repayments • Loans disbursed 	<p>case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial enterprises are usually classified as operating activities since they relate to the main revenue-producing activity of that enterprise.(emphasis added)”</p> <p>It was observed that since company under review is a financial enterprise, in terms of paragraph 14 of AS 3, loans made and repayment thereof should have been classified as ‘cash flows from operating activities’ rather than ‘cash flows from financing activities’.</p>
3.	<p>From the Annual Report of a company it was noted that it was subsidiary of a listed company, however, cash flow statement was not prepared as part of its financial statements on the ground that it is a ‘Small and Medium Sized Enterprise’ having regard to its turnover.</p>	<p>It may be noted that as per introductory paragraph of AS 3, the accounting standard is not mandatory for Small and Medium Sized Companies, as defined in the notification.</p> <p>Further it may be noted that paragraph 2(f) of the Companies (Accounting Standards) Rules, 2006, defines Small and Medium Sized Company as follows:</p> <p>(f) “Small and Medium Sized</p>

Observation on Accounting Standard (AS) 3: Cash Flow Statements

		<p>Company” (SMC) means, a company-</p> <ul style="list-style-type: none">(i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;(ii) which is not a bank, financial institution or an insurance company.(iii) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediate preceding accounting year;(iv) which does not have borrowing (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and(v) which is not holding or subsidiary company of a company which is not a small and medium-sized company.” (emphasis added) <p>It was viewed that since the company was a subsidiary of a listed enterprise, it cannot be considered as Small and Medium Company in terms of paragraph 2 (f) (v) of the</p>
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		aforesaid Rules. Hence, AS 3 was mandatorily applicable on the company.
4.	From the Cash Flow Statement given in the Annual Report of a company it has been noted that movement in unsecured loans, deposits/advances, borrowing and investment was disclosed on net basis.	<p>It may be noted that paragraph 21 of AS 3, provides as follows:</p> <p><i>“21. An enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraph 22 and 24 are reported on a net basis.”</i></p> <p>It may be noted that movement in unsecured loans/ borrowings are cash flow arising under financing activities and movement in deposit/advances, investments are cash flow arising from investing activities. It was noted that under the head of ‘Cash Flow from Financing Activities’ and ‘Cash Flow from Investing Activities’, the repayment/ proceeds have been disclosed on net basis although it was evident from the notes to accounts that both cash inflows as well as cash outflows have occurred on account of unsecured loans, borrowings, advances, deposits and investments. It was viewed that, as per the aforesaid</p>

Observation on Accounting Standard (AS) 3: Cash Flow Statements

		<p>requirement, such transactions should be reported on gross basis instead of net basis, by providing separate figures of cash flow received and paid during the period.</p>
<p>5.</p>	<p>From the Cash Flow Statement given in the Annual Report of a non-financial company, it was noted that interest paid has been shown under 'Cash Flow from Operating Activities' whereas interest received has been shown under 'Cash Flow from Financing Activities'.</p> <p>From the another Annual Report it has been noted that dividend paid has been shown under 'Cash Flow arising from Investing Activities' and dividend received has been shown under 'Cash Flow arising from Financing Activities'.</p>	<p>It may be noted that paragraph 30 of the AS 3, provides as follows:</p> <p><i>30. Cash flows from interest and dividends received and paid should each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial enterprise should be classified as cash flows arising from operating activities. In the case of other enterprises, cash flows arising from interest paid should be classified as cash flows from financing activities while interest and dividends received should be classified as cash flows from investing activities. Dividends paid should be classified as cash flows from financing activities.</i></p> <p>It was observed from the Cash Flow Statement that the enterprise has shown interest paid as 'Cash Flow from Operating Activities' and</p>

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		<p>interest received as 'Cash Flow from Financing Activities'. It was viewed that since it is a non-financial enterprise interest paid is in the nature of 'Cash Flow from Financing Activities' and not in the nature of 'Cash Flow from Operating Activities.' Similarly, interest received is in the nature of 'Cash Flow from Investing Activities' and not in the nature of 'Cash Flow from Financing Activities.'</p> <p>With regard to dividend, it was viewed that cash outflow due to dividend paid should be shown as 'Cash Flow arising from Financing Activities' and dividend income should be shown as 'Cash Flow arising from Investing Activities'.</p>
6.	<p>From the note on Cash and Bank Balances given in the Annual Report of a company, it has been noted that it included 'margin money', 'unpaid dividend account', 'fixed deposit under lien' and 'earmarked balances against gratuity'.</p>	<p>It may be noted that paragraph 45 of AS 3, provides as follows:</p> <p><i>“45. An enterprise should disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprise that is not available for use by it.”</i></p> <p>It was observed that the balance of 'cash and cash equivalents' as reported in the Cash Flow Statement is same as that given under the Note on</p>

Observation on Accounting Standard (AS) 3: Cash Flow Statements

		<p>'Cash and Bank Balances'. It was viewed that since margin money as well as Unpaid Dividend Account are not readily available for use by it, such facts should have been disclosed by the management in the Cash Flow Statement.</p> <p>Accordingly, it was viewed that omission of such information is not in line with the disclosure requirements of paragraph 45 of AS 3.</p>
7.	<p>From the Cash Flow Statement given in the Annual Report of a company it was noted that ONLY the Opening and the Closing Balance of 'Cash and cash equivalents', has been disclosed.</p>	<p>It may be noted that paragraph 42 of AS 3, provides as follows :</p> <p><i>“42. An enterprise should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet.”</i></p> <p>It was viewed that the components of Cash and Cash Equivalents has not been disclosed in the Cash Flow Statement as required under paragraph 42 of AS 3.</p>
8.	<p>From the Annual Report of a company it was noted that the amount of 'Cash and Cash Equivalents' disclosed in the</p>	<p>It may be noted that paragraph 42 of AS 3, provides that:</p> <p><i>“42. An enterprise should</i></p>

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	<p>Cash Flow Statement differed from the amount disclosed in the note on Cash and Bank Balances forming part of the accounts.</p>	<p><i>disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet.</i></p> <p>In the view of above and considering the fact that the balances disclosed under the Cash Flow Statement and note on Cash & Bank Balances do not tally with each other, the reconciliation should have been provided as per the said requirement.</p>
<p>9.</p>	<p>From the Cash Flow Statement given in the Annual Report of company, it was noted that net interest has been shown as 'Cash Flow from Financing Activities.'</p>	<p>It was noted from the note on finance charges that interest income has been netted off against interest charges to determine the final figure and also that the same amount has been reported as 'Cash Flows arising from Financing Activities' in the Cash Flow Statement. It was viewed that netting off of interest received against the interest paid is not in line with the requirement of paragraph 30 of AS 3.</p> <p>It was also observed that as per aforesaid requirement, in case of non - financial entities, cash flow on account of interest paid is the 'cash flow arising from</p>

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		<p>financing activities' and cash flow on account of interest income is 'cash flow arising from investing activities', hence the gross interest paid and the gross interest received should have been shown separately under 'Cash Flow from Financing Activities' and 'Cash Flow from Investing Activities' respectively.</p>
<p>10.</p>	<p>The Cash Flow Statement of a company seems to <i>prima facie</i> suggest that dividend paid by it has been effectively disclosed as 'Cash Flow from Operating Activities.'</p>	<p>It may be noted that paragraph 30 of AS 3, provides as follows:</p> <p><i>“30. Cash flows from interest and dividends received and paid should each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial enterprise should be classified as cash flows arising from operating activities. In the case of other enterprises, cash flows arising from interest paid should be classified as cash flows from financing activities while interest and dividends received should be classified as cash flows from investing activities. Dividends paid should be classified as cash flows from financing activities.”</i></p> <p>It was noted that during the</p>

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		<p>current year dividend paid for the preceding year has been appropriated from the profit of current year. It was noted that such dividend has neither been shown as liabilities under the head 'provisions' nor it has been separately shown in the Cash Flow Statement.</p> <p>Accordingly, it is not clear as to whether the dividend has been paid during the year or outstanding as on Balance Sheet date.</p>
11.	<p>From the Cash Flow Statement given in the Annual Report of a non-financial company, it has been noted that 'interest and finance charges paid' were disclosed under 'Cash Flow from Investing Activities'.</p>	<p>It may be noted that paragraph 30 of AS 3, provides as follows:</p> <p><i>“30. Cash flows from interest and dividends received and paid should each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial enterprise should be classified as cash flows arising from operating activities. In the case of other enterprises, cash flows arising from interest paid should be classified as cash flows from financing activities while interest and dividends received should be classified as cash flows from investing activities. Dividends paid should be classified as</i></p>

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		<p><i>cash flows from financing activities.”</i></p> <p>It was noted from the Cash Flow Statement that the interest and finance charges paid have been shown as ‘cash flow from investing activities’. It was viewed that in case of non-financial entities, cash outflows due to interest and finance charges arises on financing transactions of the enterprise, therefore, they should be presented as ‘cash flows from financing activities’.</p>
12.	<p>From the Cash Flow Statement given in the Annual Report of a non-financial company, it has been noted that ‘Decrease/ (increase) in long-term loans and advances’ were shown on NET basis under the head ‘Cash Flow from Operating Activities.’</p>	<p>It may be noted that clauses (e) and (f) of paragraph 15 and 21 of AS 3, provide as follows:</p> <p>“15. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:</p> <p>(a) ...</p> <p>(b) ...</p> <p>....</p> <p>(e) cash advances and loans made to third parties (other than</p>

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		<p>advances and loans made by a financial enterprise);</p> <p>(f) cash receipts from the repayment of advances and loans made to third parties (other than advances and loans of a financial enterprise);”</p> <p>“21. An enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraph 22 and 24 are reported on a net basis.”</p> <p>It was noted from the Cash Flow Statement that Decrease/ (increase) in long term loans and advances has been adjusted as working capital changes under the head ‘cash flow from operating activity’. It was viewed that cash flow from operating activities signifies cash flows primarily occurring due to principal revenue generating activities of an enterprise. However, long term loans and advances are in the nature of investing activity and it cannot be considered as a part of revenue generating activities. Therefore, such cash flows should not be shown under the head ‘cash flow from operating</p>
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		<p>activities’.</p> <p>Further, it was also noted that such cash flows have been shown on net basis. It was viewed that separate figures of gross receipts and repayments of long term loans and advances, should have been shown as required under paragraph 21 of AS 3.</p> <p>Accordingly, it was viewed that the requirements of AS 3 have not been complied with.</p>
13.	<p>From the Annual Report of a company, it has been noted that the amount of ‘Cash and Cash Equivalents’ disclosed in the Cash Flow Statement agreed with the amount shown as ‘Cash and Bank Balances in the Balance Sheet, which included deposits with maturity of more than three months and more also.</p>	<p>It may be noted that paragraph 6 of AS 3 requires as follows:</p> <p>“6. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Investments in shares are excluded from cash equivalents unless they are, in substance, cash equivalents; for example, preference shares of a company acquired shortly</p>

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		<p>before their specified redemption date (provided there is only an insignificant risk of failure of the company to repay the amount at maturity).”</p> <p>From the above, it was viewed that deposits with original maturity of 3 months or less should be considered as cash and cash equivalents and remaining deposits should be classified as ‘other bank balances’. However, it was observed that the balance of ‘Cash and cash equivalents’ as reported in the Cash Flow Statement is same as that reported under the note of ‘Cash and Bank Balances’ which indicates that the ‘deposits with maturity for more than 12 months’ and ‘deposits with maturity for more than 3 months’ but less than 12 months have also been considered as a part of cash equivalents. Hence, it was viewed that cash and cash equivalents as considered for the cash flow statement is not in line with the requirement of paragraph 6 of AS 3.</p>
14.	From the Cash Flow Statement given in the Annual Report of a company, it has been noted that increase in share capital and repayment of debts were shown	It may be noted that paragraphs 17 and 40 of AS 3, <i>inter alia</i> , provide as follows: “17. The separate disclosure of

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	<p>as 'Cash Flow from Financing Activities.' However, in terms of a Scheme of Compromise approved by the Honorable High Court, shares were issued for cash to the investor and shares were also issued in lieu of conversion of debt.</p>	<p>cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of funds (both capital and borrowings) to the enterprise. Examples of cash flows arising from financing activities are:</p> <p>(a) cash proceeds from issuing shares or other similar instruments;</p> <p>(b) ...</p> <p>(c) ...</p> <p><i>“40. Investing and financing transactions that do not require the use of cash and cash equivalents should be excluded from a cash flow statement.”</i></p> <p>It was observed that the company had issued share capital during the year in terms of scheme of compromise approved by Hon'ble High Court, which included issue of shares in favour of an Investor against equity share capital brought in by them and also issue of shares on conversion of debt into equity.</p> <p>It was viewed that conversion of debt into equity is a non cash item, therefore, such transaction should be excluded</p>
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		<p>from the cash flow statement as per the requirement of paragraph 40 of AS 3 and only those transactions which involves receipt/payment of cash should be reported in the Cash Flow Statement as per the requirement of paragraph 17 of AS 3.</p>
15.	<p>From the Cash Flow Statement given in the Annual Report of a company, it was noted that, ' (increase)/decrease in loans and advances' and 'increase/ (decrease) in current liabilities and provisions' were disclosed under the head 'Cash Flow from Investing Activities'.</p>	<p>It may be noted that paragraph 20(a) and (c) of AS 3, provides as follows:</p> <p>"20. Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:</p> <p>(a) changes during the period in inventories and operating receivables and payables;</p> <p>(b) ...</p> <p>(c) all other items for which the cash effects are investing or financing cash flows."</p> <p>It was observed from the Cash Flow Statement that Increase/ (decrease) in loans & advances and (Increase)/ decrease in current liabilities & provisions have been adjusted as 'cash flow from investing activities'. It was viewed that increase/decrease in current</p>

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		<p>liabilities and provisions are changes in the payables, which should be adjusted to determine 'cash flow from operating activities'. Further, changes in loans and advances, if not in the nature of financing activity or investing activity, should also be adjusted to determine cash flow from operating activity as required under paragraph 20(a) & (c) of AS 3.</p>
16.	<p>From the Cash Flow statement given in the Annual Report of a company, it was noted that exchange fluctuation reserve & hedging reserve have been adjusted to net profit before tax.</p>	<p>It may be noted that paragraph 18(b) of AS 3, provides as follows:</p> <p><i>“18. An enterprise should report cash flows from operating activities using either:</i></p> <p><i>(a) ...</i></p> <p><i>(b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.”</i></p> <p>It was observed from Cash Flow Statement that exchange fluctuation reserve as well as hedging reserve has been</p>

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		<p>adjusted to the Net profit before tax to determine the 'cash flow from operating activities'. It was further observed that such reserves were not reflected in the Statement of Profit and Loss. It was viewed that the company is following indirect method for reporting cash flows from operating activities according to which profit after tax is adjusted for calculating cash flows from operations. It was viewed that since such reserves have not been routed through the Statement of Profit and Loss, accordingly, these should not have been adjusted for arriving at the operating profits before working capital changes in the cash flow statement.</p> <p>Accordingly, it was viewed that the Cash Flow Statement has not been prepared in accordance with AS 3.</p>
17.	<p>From the Annual Report of a company which proposes to list its share on the stock exchange had not included the Cash Flow Statement as part of its financial statement on the ground that it is a small and medium sized company.</p>	<p>It may be noted that as per introductory paragraph of AS 3, the accounting standard is not mandatory for Small and Medium Sized Companies, as defined in the notification.</p> <p>Further, it may be noted that paragraph 2(f) of Companies (Accounting Standards) Rules, 2006, defines Small and</p>

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		<p>Medium Sized Company as follows:</p> <p>(f) "Small and Medium Sized Company" (SMC) means, a company-</p> <p>(i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India; (emphasis added)</p> <p>(ii) which is not a bank, financial institution or an insurance company.</p> <p>(iii) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediate preceding accounting year;</p> <p>(iv) which does not have borrowing (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and</p> <p>(v) which is not holding or subsidiary company of a company which is not a small and medium-sized company." (emphasis supplied)</p> <p>It was observed from the</p>
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		<p>Director's report that the company under review is in the process of listing, hence it was viewed that it cannot be considered as Small and Medium Sized Company. Hence, AS 3 was mandatorily applicable on the company. Non-preparation of Cash Flow Statement is a non-compliance of AS 3.</p>
18	<p>From the Annual Report of a company, it was noted that the Cash and Bank balances included balances in foreign currencies. However, there was no adjustment shown in the Cash and Cash Equivalent for 'exchange rate difference' in the Cash Flow Statement.</p>	<p>It may be noted that paragraph 25 of AS 3, provides as follows:</p> <p><i>"25. Cash flows arising from transactions in a foreign currency should be recorded in an enterprise's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the cash flow. A rate that approximates the actual rate may be used if the result is substantially the same as would arise if the rates at the dates of the cash flows were used. <u>The effect of changes in exchange rates on cash and cash equivalents held in a foreign currency should be reported as a separate part of the reconciliation of the changes in cash and cash equivalents during the</u></i></p>

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		<p><u>period.” (emphasis added)</u></p> <p>It was observed from the note of Cash and Bank Balances that balances in EEFC account are held in foreign currency, however, the effect of changes in exchange rates thereon has not been reported as a separate part of reconciliation of changes in cash and cash equivalents while reporting cash flows in Cash Flow Statement. This is not in accordance with the requirement of paragraph 25 of AS 3.</p>
19	<p>From the notes to accounts given in the Annual Report of some companies, the following has been noted:</p> <ul style="list-style-type: none"> • The provision for doubtful debts, advances written off and unrealised foreign exchange gain has been reported in the Statement of Profit and Loss. • Certain amount of miscellaneous expenditure has been written off during the year which includes preliminarily expenses and deferred revenue expenditure. 	<p>It may be noted that Paragraph 20 (b) of AS 3 provides as follows:</p> <p>“20. Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:</p> <p>...</p> <p>(b) non-cash items such as depreciation, provisions, deferred taxes, and unrealised foreign exchange gains and losses; and</p> <p>(c) all other items for which the cash effects are investing or financing cash flows.</p>

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		<p>...”</p> <p>It was observed that although non-cash items such as provision for doubtful debts, advances written off, unrealised foreign exchange gain and writing off miscellaneous expenditure have been reported in the Statement of Profit and Loss, however, they have not been adjusted against ‘Net Profit before tax & extraordinary items in the Cash Flow Statement while deriving the Cash Flow from Operating Activities.</p>
20	<p>From the Cash Flow Statement given in the Annual Report of a non-financial company, it was noted that loans and advances given to a subsidiary have been disclosed under “Cash Flow from Financing Activities.”</p>	<p>It may be noted that paragraph 15 (e) of AS 3, states as follows:</p> <p>“15. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:</p> <p>(a) ...</p> <p>(b) ...</p> <p>(c) ...</p>

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		<p>(d) ...</p> <p>(e) cash advances and loans made to third parties (other than advances and loans made by a financial enterprise);”</p> <p>It was observed that the company has given loans as well as advance to the subsidiary. It was noted that the loans given to the subsidiary have been disclosed under the head ‘cash flow from financing activity’ instead of disclosing it under ‘cash flow from investing activity’ as stated above in Paragraph 15 (e) of AS 3.</p>
21	<p>From the note of advances and the Cash Flow Statement given in the Annual Report of a company, it has been noted that although the company had paid income tax during the year, no adjustment thereof was shown in the Cash Flow Statement.</p>	<p>It may be noted that paragraph 34 of AS 3, provides as follows:</p> <p>“34. Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.”</p> <p>It was observed from the note of Loans and Advances that certain taxes have been paid in advance during the reported period, however, the Cash Flow Statement reports the same as Nil. Accordingly, it was viewed</p>

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		that the cash flows arising due to taxes have not been reported correctly in the Cash Flow Statement.
22	From the Cash Flow Statement given in the Annual Report of a company, it was noted that under the head 'Cash Flow from Investing Activities' disclosure was made for purchase of fixed assets, net of reimbursements under co-development arrangements.'	<p>It may be noted that paragraphs 15 and 21 of AS 3, provide as follows:</p> <p>"15. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:</p> <p>a) Cash payments to acquire fixed assets (including intangibles). These payments include those relating to capitalised research and development costs and self constructed fixed assets.</p> <p>b) ...</p> <p>c) ...</p> <p>d) ...</p> <p>e) Cash advances and loans made to third parties (other than advances and loans made by a financial</p>

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		<p>enterprise)</p> <p>f) Cash receipts from the repayment of advances and loans made to third parties (other than advances and loans of a financial enterprise);”</p> <p>“21. An enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraph 22 and 24 are reported on a net basis.”</p> <p>From the above, it was noted that cash flows from investing and financing activities should be reported on gross basis until or unless cash receipts or payments are on behalf of customers and their turnover is quick involving short maturities and large amounts. It was viewed that loans given to third parties or investment in fixed assets cannot be considered to be transactions with quick turnover; hence, such cash flows should be reported on gross basis.</p> <p>It was further noted that cash flows on account of purchase of fixed assets have been shown</p>
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		<p>on net of reimbursement basis. It was observed from note of Fixed assets that certain addition of fixed assets has been funded by co-development partner. It was viewed that as per AS 3 'cash flow arising from investing activities' indicate the cash flows that represent extent of expenditure which have been made for resources intended to generate benefit in future. Hence, the investment made in fixed asset should have been reported on gross basis and the portion by co-development partner should be disclosed under the head 'Cash Flow from Financing Activities'.</p> <p>Thus, it was viewed that the requirements of AS 3 have not been complied with.</p>
23	<p>From the Cash Flow Statement given in the Annual Report of a company it was noted that 'fixed assets lost due to robbery' were disclosed under the head 'Cash Flow from Investing Activities.'</p>	<p>It was noted from the Cash Flow Statement that fixed assets lost due to robbery have been shown as cash outflow under the head 'Cash Flow from Investing Activities'. It was viewed that loss of fixed assets due to theft / robbery is a non-cash transaction, hence, it should have been excluded from Cash Flow Statement as explained in paragraph 40 of AS 3, reproduced below:</p> <p><i>"40. Investing and financing</i></p>

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		<p><i>transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.”</i></p> <p>It was further noted that loss on fixed assets lost in robbery has already been adjusted to determine ‘cash flow from operations’. Hence, showing separate cash outflow for same loss which is a non-cash transaction would be unwarranted.</p>
24	<p>From the Cash Flow Statement and note of Loans and Advances given in the Annual Report of a company, it was noticed that adjustment for ‘(Increase)/decrease in loans & advances’, which include corporate deposits, was made under the ‘cash flow from operating activities’ in cash flow statement.</p>	<p>It was noted from the note on short term loan and advance that inter corporate loan were given to the holding company, however, cash flows arising thereon have not been separately shown as Cash Flow from Investing Activities. In fact, it has been shown as an adjustment of working capital under the head (increase)/decrease in loans and advances and other current assets to determine Cash Flow from Operating Activities. It was viewed that being non-financial</p>

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		<p>enterprise, showing such cash flows as part of operating activities is not in line with paragraph 15 of AS 3, which is reproduced below:</p> <p>“15. The separate disclosure of cash flows arising from investing activities is important because cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:</p> <p>(a) ...</p> <p>(e) Cash advances and loans made to third parties (other than advances and loans made by a financial enterprise)”.</p>
25	<p>From the Cash Flow Statement given in the Annual Report of a bank, it has been noted that net '(Increase)/Decrease in Investments' has been disclosed under the head 'Cash Flow from Operating Activities.'</p> <p>Further, it has been noted from the note on Investments that it also includes 'Held to maturity' investments.</p>	<p>It may be noted that paragraphs 5.4 and 5.5 of AS 3, define 'operating activities' and 'financing activities' as follows:</p> <p>“5.4 Operating activities are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.</p> <p>5.5 Investing activities are the acquisition and disposal of</p>

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		<p><i>long-term assets and other investments not included in cash equivalents”.</i></p> <p>From the above, it was viewed that cash flow from operating activities signifies cash flows primarily derived from main revenue generating activities of an enterprise.</p> <p>It was noted from Cash Flow Statement of the bank that cash flows from investments have been classified as 'Cash Flow from Operating Activities'. It was further noted from accounting policy of 'Investments' that the investments in subsidiary/ joint ventures/ regional rural banks are investments 'Held to maturity'. It was viewed that only the cash flows arising from purchase/sale of investments which are in the nature of 'available for sale and held for trading' should be classified as 'Cash Flow from Operating Activities' and those acquired on account of sale/ purchase of 'held to maturity' investments should not be considered as cash flow from revenue generating activity of the bank due to its long term nature. Such activities are in the nature of investing activities and</p>
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		therefore should be classified as 'Cash Flow from Investing Activities'.
26	From the Cash Flow Statement given in the Annual Report of a company, it has been noted that amount of Cash and Cash Equivalents included 'interest accrued on fixed deposits'.	<p>It may be noted that paragraphs 5.1 and 5.2 of AS 3, define 'Cash' and 'Cash equivalents' as follows:</p> <p><i>"5.1 <u>Cash</u> comprises cash on hand and demand deposits with banks.</i></p> <p><i>5.2 <u>Cash equivalents</u> are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value."</i></p> <p>From the above, it was viewed that the cash and cash equivalents includes the cash, balances with banks, demand deposits and investments that are readily convertible into known amounts of cash.</p> <p>It was viewed that although such income has been earned, it is not due for payment as on the Balance Sheet date. Hence, it is neither cash nor cash equivalent nor held as bank balance. Therefore, its disclosure under the head of cash and cash equivalents is not appropriate.</p>

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27	<p>From the Cash Flow Statement and the note of Cash and Bank Balances given in the Annual Report of a company, it has been noted that 'cash and cash equivalents' include fixed deposits pledged as security against loans and guarantees.</p>	<p>It was observed that the balance of 'Cash and Cash Equivalents' reported in the Cash Flow Statements is same as that reported in the balance sheet as 'Cash and Bank Balance'. It was further noted that stated balance includes 'Deposits pledged with bank against borrowings and guarantees issued'. It was viewed that fixed deposits pledged against borrowings or guarantees issued cannot be treated as 'Cash equivalents' as defined in paragraph 5.2 of AS 3.</p>
28	<p>From the Cash Flow Statement given in the Annual Report of a company, it was noted that ONLY the aggregate amount of 'Cash Flow from Investing Activities' has been disclosed.</p>	<p>It was noted from the Cash Flow Statement that the aggregate amount of cash outflows has been reported as 'Cash Flow from Investing Activities'. It was viewed that the nature of activities that give rise to such cash flows has not been disclosed, though it is required to be disclosed as per the requirements of paragraph 21 of AS 3, as reproduced below:</p> <p><i>"21. As enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent</i></p>

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		<i>the cash flows described in paragraph 22 and 24 are reported on net basis.”</i>
29	From the Cash Flow Statement and the Statement of Profit and Loss given in the Annual Report of a company, it was noted that Profit before tax also included profit on sale of investments.	<p>It was noted that the ‘Profit before tax’ used for determining ‘Cash flow from operations’ included ‘Profit on sale of Investments’. It was further noted that such gain being item of income associated with investing activity, has not been adjusted to determine ‘Operating Profit before Working Capital Changes’ although gross cash flow from sale of investments have been separately disclosed. This presentation of Cash Flow Statement is not in accordance with requirements of paragraph 18(b) of AS 3 which states as follows:</p> <p><i>“18. An enterprise should report cash flows from operating activities using either:</i></p> <p><i>(a) ...</i></p> <p><i>(b) <u>the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and <u>items of income or expense</u></u></i></p>

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		<u><i>associated with investing or financing cash flows(emphasis supplied)</i></u> ".
30	<p>From the Cash Flow Statement and Statement of Profit and Loss given in the Annual Report of a company, it was noted that company had purchased and sold some fixed assets during the year on which it had made profit.</p>	<p>It may be noted that paragraph 15 (b) of AS 3, provides as follows:</p> <p>“15. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:</p> <ul style="list-style-type: none"> (a) Cash payments to acquire fixed assets (including intangibles)...; (b) Cash receipt from disposal of fixed assets (including intangibles)...” <p>It was noted from the note on fixed assets read with note on 'other income' that during the year certain fixed assets were sold. However, in the Cash Flow Statement the cash flows that occurred ONLY on account on purchases of fixed assets were reported. It was viewed that paragraph 15(b) of AS 3 requires to separately report cash flows pertaining to</p>

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		acquisition and disposal of fixed assets.
31	From the Cash Flow Statement and notes to accounts given in the Annual Report of a company, it was noted that the amount of 'Cash and Cash Equivalent' as disclosed in the Cash Flow Statement has been arrived after considering the credit balance in 'cash credit account' and 'interest accrued thereon.'	It was noted that components of cash and cash equivalents that have been disclosed in the Cash Flow Statement, <i>inter alia</i> include cash credit balances which is part of secured borrowings as well as interest accrued and due which is classified as 'other current liabilities' in the balance sheet. It was viewed that cash and cash equivalents are investments that are readily convertible into known amounts of cash. However, neither cash credit balance nor interest accrued & due are in the nature of investments. Accordingly, their inclusion as 'Cash and Cash Equivalents' for the purpose of Cash Flow Statement is not in accordance with the requirement of paragraph 5.2 of AS 3.
32	From the Cash Flow Statement of a non-financial company, it has been noted that under 'Cash Flow from Financing Activities', the loan amount was disclosed net of interest received.	It may be noted that Paragraphs 21 and 30 of AS 3, provide as follows: <i>"21. An enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities except to the extent</i>

		<p><i>that cash flows described in paragraphs 22 and 24 are reported on a net basis.”</i></p> <p><i>“30. Cash flows from interest and dividends received and paid should each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial enterprise should be classified as cash flows arising from operating activities. In the case of other enterprises, cash flows arising from interest paid should be classified as cash flows from financing activities while interest and dividends received should be classified as cash flows from investing activities. Dividends paid should be classified as cash flows from financing activities.”</i></p> <p>It was viewed that as per paragraph 30 of AS 3, in case of non financial enterprise, cash flows arising due to ‘interest income’ are ‘cash flow arising from investing activities’. Hence, adjusting such income to report cash flows occurring under financing activities is not a correct presentation of cash flows occurring under these activities.</p>
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33	<p>From the Cash Flow Statement of a company, it has been noted that the amount of 'Proceeds from issue of shares' shown under the head 'Cash Flow from Financing Activities' differed from the amount disclosed in the Share Capital note. Similarly, there was a difference in the amount shown as 'repayment of loans.'</p>	<p>It may be noted that paragraph 40 of AS 3, provides as follows:</p> <p><i>“40. Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.”</i></p> <p>The following discrepancies have been noted with regard to Cash Flow Statement:</p> <p>(i) It was noted from note relating to Share Capital that during the year the shares were reported to be issued for an amount higher than that disclosed in the Cash Flow Statement under the 'Cash Flow from Financing Activities'. It was viewed that in case if balance shares were issued for consideration other than cash, it should have been disclosed separately in the financial statements as required by paragraph 40 of AS 3.</p>
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Observation on Accounting Standard (AS) 3: Cash Flow Statements

		<p>(ii) It was, further, noted from note relating to Short Term Borrowings that the outstanding balance of Rs. XX lakhs as at the end of previous year has been reduced to nil as at the end of the current year, which indicates that stated borrowings were repaid during the year. However, in the Cash Flow Statement the payments reported against short term borrowings under the 'Cash Flow from Financing Activities' was less than the opening balance of short term borrowings. It was viewed that if debt had been repaid in a mode other than cash viz shares issued, the same should be disclosed separately as required in paragraph 40 of AS 3.</p> <p>Accordingly, it was viewed that the information relating to transactions involving significant amount have not been properly disclosed and the requirement of AS 3 has also not been complied with.</p>
34	From the Cash Flow Statement of a financial company it has been noted that changes in 'borrowings' (including debt	It may be noted that paragraph 17 of AS 3, provides as follows: "17. The separate disclosure of cash flows arising from

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	<p>raised for Tier II Capital) were disclosed under 'Cash Flow from Financing Activities'.</p>	<p>financing activities is important because it is useful in predicting claims on future cash flows by providers of fund (both capital and borrowings) to the enterprise. Examples of cash flows arising from financing activities are:</p> <ul style="list-style-type: none"> (a) cash proceeds from issuing shares or other similar instruments; (b) cash proceeds from issuing debentures, loans, notes, bonds, and other short or long-term borrowings; and (c) cash repayments of amounts borrowed.” <p>It was noted from the Cash Flow Statement that while reporting Cash Flow from Operating Activities, cash flows from borrowings have been included therein. It was further noted from note of Borrowings that there are borrowings in the nature of capital instruments. It was viewed that cash flow on account of borrowings in case of all enterprises whether financial or non-financial enterprises, should be presented as cash flow from 'financing activities' as the definition of 'financing activities' in AS 3 does not make any distinction between financial</p>
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Observation on Accounting Standard (AS) 3: Cash Flow Statements

		<p>and non-financial enterprises. Accordingly, classifying cash flows of borrowings as 'operating activities' is not line with AS 3.</p> <p>It may be noted that stated view is also supported by the Expert Advisory Opinion on Query No. 31 of Compendium of Opinions Volume No. XXIX.</p>
35.	<p>From the Note on Non-Current Investments as well as its footnote, it has been noted that during the year all the equity shares in three enterprises were purchased, thus, acquiring wholly owned subsidiaries. It was further noted from the cash flow statement that the difference between opening and closing balances of 'investments in subsidiaries' have been shown as 'purchase of investments' in the Cash Flow Statements.</p>	<p>It may be noted that paragraph 37 of AS 3, provides that:</p> <p><i>“37. The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities.”</i></p> <p>It was viewed that since such flows results into acquisition of subsidiaries, it should have been presented separately clearly indicating the nature of cash flows or explained in aforesaid requirement rather than using generic head 'purchase of investments'.</p> <p>Accordingly, it was viewed that the requirements of paragraph 37 of AS 3, have not been complied with.</p>

4

Observations on Accounting Standard (AS) 4: Contingencies and Events Occurring After the Balance Sheet Date

S. No	Matters contained in the Annual Report	Observations
1.	<p>In the Annual Report of a company the following note is appearing :</p> <p>“Cheques received from XYZ Marketing Services Pvt. Ltd. were dishonored during the year. The company has initiated legal proceedings against the said party u/s 138 of the Negotiable Instruments Act. The management is confident of recovery of the dues and hence no provision is required.”</p>	<p>It may be noted that paragraph 9.2 of AS 4, states as follows:</p> <p><i>“9.2 If a contingent loss is not provided for, its nature and an estimate of its financial effect are generally disclosed by way of note unless the possibility of a loss is remote (other than the circumstances mentioned in paragraph 5.5). If a reliable estimate of the financial effect cannot be made, this fact is disclosed.”</i></p> <p>It was viewed that since the company has initiated legal proceedings against the party, there was a possibility of existence of a contingent loss though the management was confident of recovery of the dues. Therefore, the requirements of paragraph 9.2 of AS 4 are applicable. It was viewed that although nature of contingent loss has been</p>

Observations on Accounting Standard (AS) 4 : Contingencies...

		<p>disclosed, an estimate of its financial effect has not been disclosed in the note.</p> <p>Accordingly, disclosure is not in line with the requirements of paragraph 9.2 of AS 4.</p>
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Observations on Accounting Standard (AS) 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

S. No	Matters contained in the Annual Report	Observations
1.	<p>From the Annual Reports of some companies, it has been noted that the following items of income and expenditure have been directly credited/debited to Reserves and Surplus:</p> <ul style="list-style-type: none"> • Gain on commutation of Sales Tax Deferral Loan • Short provision for Bonus • Provision for Income Tax relating to earlier years • Investment Written Off 	<p>It may be noted that paragraph 5 of AS 5, provides as follows:</p> <p><i>“5. All the items of income and expense which are recognised in a period should be included in the determination of net profit or loss for the period unless an Accounting Standard requires or permits otherwise.”</i></p> <p>It was noted that short provision for bonus and provision for income tax relating to earlier years have been directly debited to Reserves and Surplus. Such liability may have arisen either as a result of error/omissions in the preparation of financial statements of one or more prior periods or that there were circumstances in the current period that have determined the liability in the current period though related to previous</p>

Observations on Accounting Standards (AS) 5: Net Profit or Loss for the Period ...

		<p>period. It was viewed that in either case, these expenses should be included in determination of profit or loss of the current period. Similarly, investment written off is also an expenditure of the current period. With regard to gain on commutation of sales tax deferral loan, it may also be noted that Query no. 21 of Volume XXIII of the Expert Advisory Committee of ICAI provides that the credit arising on premature repayment of accumulated sales tax liability should be credited to the Statement of Profit and Loss of the period, disclosing the nature and amount distinctly.</p> <p>Accordingly, it was viewed that all these items should be recognised in the Statement of Profit and Loss as required under paragraph 5 of AS 5.</p>
2.	<p>From the Annual Report of a company, it has been noted that certain extra ordinary items have been disclosed in the Cash Flow Statement under cash flow from operating activities. However, no extra ordinary item has been disclosed in the Statement of Profit and Loss.</p>	<p>It may be noted that paragraph 8 of AS 5, provides that:</p> <p><i>“8. Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the Statement of Profit and Loss in a manner</i></p>

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		<p><i>that its impact on current profit or loss can be perceived.”</i></p> <p>It was observed that whereas certain extraordinary items have been disclosed in the Cash Flow Statement, no such disclosure has been made in the Statement of Profit and Loss and consequently, its impact on the current profit cannot be perceived properly.</p> <p>Accordingly, it was viewed that the requirement of paragraph 8 of AS 5 has not been complied with.</p>
<p>3.</p>	<p>In the Annual Reports of some companies following information have been disclosed with regard to prior period items:</p> <ul style="list-style-type: none"> • Prior period income – shown under Other Income • Priorperiod expenses – shown under Selling and Administration Expenses • Prior period expenses– shown in Profit and Loss Account • Prior period adjustments (Net) – shown below Profit after Tax • Prior period income – 	<p>It may be noted that paragraph 15 of AS 5, provides that:</p> <p><i>“15. The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.”</i></p> <p>It was noted that prior period income/ expenses/ adjustments have been disclosed either in the Statement of Profit and Loss or in the notes forming part thereof. However, the nature of such income/expenses/ adjustments has not been disclosed as required by</p>

Observations on Accounting Standards (AS) 5: Net Profit or Loss for the Period ...

	<p>included in revenue</p> <ul style="list-style-type: none"> • Prior period expenses – included in infrastructure expenses 	<p>paragraph 15 of AS 5.</p>
<p>4.</p>	<p>In the Annual Report of a company, prior period expenses and exceptional items have been shown as one line item in the Statement of Profit and Loss.</p>	<p>It may be noted that paragraphs 12 and 15 of AS 5, state as follows:</p> <p><i>“12. When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such item should be disclosed separately.”</i></p> <p><i>“15. The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.”</i></p> <p>It may be further noted that Part II of Revised Schedule VI to Companies Act, 1956³ also requires separate disclosure of exceptional items.</p> <p>Thus, it was viewed that ‘prior period items’ and ‘exceptional items’ should be shown as</p>

³Subsequent to the observations of the Board, Revised Schedule VI has been withdrawn. However, content is still relevant in terms of Schedule III to Companies Act, 2013.

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		<p>separate line items in the Statement of Profit and Loss.</p> <p>Accordingly, it was viewed that presenting prior period expenses and exceptional items as one line item in the Statement of Profit and Loss is not in accordance with the requirements of AS 5 as well as Revised Schedule VI to Companies Act, 1956.</p>
5.	<p>In the Annual Report of a company, 'Sundry Balances written off' has been disclosed as prior period adjustment.</p>	<p>It may be noted that paragraph 4.3 of AS 5, states that:</p> <p><i>"4.3 Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods".</i></p> <p>It was noted that the prior period adjustments include the amount of sundry balances written off. It was viewed that sundry balances recognised in prior years but written off in the current year should not be considered as prior period item because such writing off has not arisen due to any error or omission in preparation of financial statements of prior period/s. In fact there has been a change in estimate or change in circumstances due to which company has decided to write</p>

Observations on Accounting Standards (AS) 5: Net Profit or Loss for the Period ...

		<p>off these balances in the current year.</p> <p>Hence, it was viewed that presenting sundry balances written off as prior period adjustment is not in line with the requirement of AS 5.</p>
6.	<p>In the Annual Report of a couple of companies, the following items of income/expenses have been shown in the Statement of Profit and Loss under the head appropriations/ below the line:</p> <ul style="list-style-type: none"> • Provision of earlier years taxation • Write back of debts and sales tax dues 	<p>It may be noted that paragraph 5 of AS 5, provides as follows:</p> <p><i>“5. All the items of income and expense which are recognised in a period should be included in the determination of net profit or loss for the period unless an Accounting Standard requires or permits otherwise.”</i></p> <p>It was viewed that provision for earlier years taxation is an expense whereas write back of debts and sales tax dues is an income, both of which should be included in the determination of net profit for the period instead of showing them as appropriations/below the line, which would result in overstatement/ understatement of current year’s net profit.</p> <p>Further, it was not clear whether such liability or reversal thereof has arisen as a result of error/omissions in the preparation of financial statements of one or more prior</p>

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		<p>periods in order to treat them as prior period items. Even if these items are considered as prior period items, these should be disclosed in the Statement of Profit and Loss in a manner that their impact on the current year's profit can be perceived as per the requirements of paragraph 15 of AS 5.</p>
7.	<p>In the Annual Report of a company, profit from sale of its division has been shown as 'short term capital gain' under the head 'Other Income'.</p>	<p>It may be noted that paragraph 12 of AS 5, provides that:</p> <p><i>"12. When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately."</i></p> <p>It was noted that paragraph 12 of AS 5 prescribes to show only those items of income and expenses separately, which are of such size and nature that their separate disclosure would better explain the performance of the enterprise. Further, paragraph 14 of AS 5 enumerates circumstances which may give rise to a need for separate disclosure, which <i>inter alia</i> include disposal of items of fixed assets, disposals of long-term</p>

Observations on Accounting Standards (AS) 5: Net Profit or Loss for the Period ...

		<p>investments, restructuring of the activities of an enterprise etc. Even Part II of Revised Schedule VI to the Companies Act, 1956⁴ requires separate disclosure of exceptional items.</p> <p>Having regard to the nature of the transaction and the significant amount involved, it was viewed that it should have been disclosed as an 'exceptional item' as per the requirements of paragraph 12 of AS 5 as well as Part II of Revised Schedule VI</p> <p>It was further observed that the profit on sale of the division has been disclosed as short term capital gain. It may be noted that in accounting parlance any excess of consideration over the book value of an asset is either a gain or profit. It is, accordingly, viewed that such nomenclature like short term capital gain should be avoided.</p>
8.	<p>From the Annual Reports of some companies, it has been noted that the following items of income/expenses have been disclosed in the Statement of Profit and Loss as exceptional items:</p>	<p>It may be noted that paragraphs 4.1 and 12 of AS 5, provide that:</p> <p><i>“4.1 Ordinary activities are any activities which are undertaken by an enterprise as part of its business and such related activities in</i></p>

⁴Subsequent to the observations of the Board, Revised Schedule VI has been withdrawn. However, content is still relevant in terms of Schedule III to Companies Act, 2013.

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<ul style="list-style-type: none"> • Gain on Finance Lease Arrangement • Write back of compensation under employee stock option scheme • Loss on fair valuation of a derivative contract • Foreign Currency Translation Reserve written off • Foreign Exchange Fluctuation Difference • Gain on payment of FCCB • Tax impact on credit/charge in respect of exceptional items 	<p><i>which the enterprise engages in furtherance of, incidental to, or arising from, these activities.”</i></p> <p><i>“12. When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.”</i></p> <p>It was observed that the transactions referred to in these cases have arisen from ordinary activities of the enterprises. Further, the size of these transactions does not warrant their classification as 'exceptional items'. Therefore, it was viewed that presentation of these transactions as exceptional items is not in line with the requirements of AS 5.</p> <p>It was further noted that in one case tax impact of exceptional items has been separately deducted under the head 'exceptional items'. In other words, their impact is not considered when current tax and deferred tax for the period are measured and recognised. It was viewed that the tax impact of these items should be</p>
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Observations on Accounting Standards (AS) 5: Net Profit or Loss for the Period ...

		<p>included as tax expense in the Statement of Profit and Loss as prescribed in paragraph 4.3 of AS 22, Accounting for Taxes on Income, which is reproduced below:</p> <p>“4.3 Tax expense (tax saving) is the aggregate of current tax and deferred tax charged or credited to the statement of profit and loss for the period.”</p> <p>Hence, all tax expenses incurred on account of items appearing in Statement of Profit and Loss should be included under the head ‘tax expense’.</p>
9.	<p>In the Annual Report of a company, the following items have been disclosed as extra ordinary items:</p> <ul style="list-style-type: none"> • Profit on sale of one business unit to subsidiary company. • Capital loss arising from disinvestment and winding up of the wholly owned subsidiary company. 	<p>It may be noted that paragraphs 4.1 and 4.2 of AS 5, state as follows:</p> <p>“4.1 Ordinary activities are any activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities.</p> <p>4.2 Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur</p>

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		<p><i>frequently or regularly.”</i></p> <p>It was observed that the reported gains /losses have occurred due to disinvesting or investing activities of the enterprise which have been described as ordinary activities of the enterprise. Accordingly, it was viewed that presenting such gains or losses as extraordinary items is not in line with the requirements of AS 5.</p> <p>However, circumstances which may give rise to separate disclosure of items of income and expenses as listed in paragraph 14 of AS 5 <i>inter alia</i> include restructuring of the activities of an enterprise and the reversal of any provisions for the costs of restructuring and disposals of long-term investments. Accordingly, it was viewed that the reported gains/losses should have been disclosed as exceptional items and not as extraordinary items.</p>
10.	<p>From the Annual Report of a company, it has been noted that gratuity liability has been recognised on payment basis. During the year, under review the company has changed its accounting policy from cash basis to accrual basis and has determined the gratuity liability</p>	<p>It may be noted that paragraph 32 of AS 5, provides that:</p> <p><i>“32. Any change in an accounting policy which has a material effect should be disclosed. The impact of, and the adjustments resulting from, such change, if material, should be shown in the</i></p>

Observations on Accounting Standards (AS) 5: Net Profit or Loss for the Period ...

	<p>based on actuarial valuation.</p>	<p><i>financial statements of the period in which such change is made, to reflect the effect of such change. Where the effect of such change is not ascertainable, wholly or in part, the fact should be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted”.</i></p> <p>It was noted from the accounting policy disclosed in the current year and that of the previous year that the company has changed its accounting policy for recognition of gratuity liability. However, no disclosure of such change has been made in the financial statements as per the requirements of paragraph 32 of AS 5.</p>
11.	<p>In the Annual Report of a company one of the notes on accounts states as follows:</p> <p>“Miscellaneous income of Rs. XXX is on account of surplus as difference of price on cancellation of contracts due to</p>	<p>It was noted that a significant income has arisen due to price difference on cancellation of contracts and errors in the records, which has been disclosed as ‘miscellaneous income’. It was viewed that the income arising due to</p>

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	<p>non-supply of CMO by various parties during the year and on account of any possible error in records. The said surplus has been accounted for on the basis of disclosure of income made by the company during action u/s. 132 of the Income Tax Act, 1961.”</p>	<p>cancellation of contracts is an income arising from ordinary activities; however, the income arising from errors in records (presumably of earlier period/s) is a prior period item.</p> <p>Accordingly, the first part of the income should have been disclosed as exceptional item in view of the significant amount involved and the second part should have been disclosed as prior period income as per the requirements of paragraphs 12 and 15 of AS 5.</p>
<p>12.</p>	<p>In the Annual Report of a company, the following note appears in the financial statements:</p> <p>“Presentation and disclosure of financial statements</p> <p>During the year, the Revised Schedule VI notified under the Companies Act, 1956, has become applicable to the Company, for preparation and presentation of its financial statements. The adoption of revised Schedule VI does not impact recognition and measurement principles followed for preparation of financial statements. However, it has significant impact on presentation and disclosures made in the financial</p>	<p>It may be noted that paragraphs 4.4 and 29 of AS 5, provide as follows:</p> <p><i>“4.4 Accounting policies are the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements.”</i></p> <p><i>“29. A change in an accounting policy should be made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate presentation of</i></p>

Observations on Accounting Standards (AS) 5: Net Profit or Loss for the Period ...

	<p>statements. The Company has also reclassified the previous year figures in accordance with the requirements applicable in the current year.”</p> <p>The above note has been given under the head ‘Change in accounting policy’.</p>	<p><i>the financial statements of the enterprise.”</i></p> <p>It was noted that preparation and presentation of the financial statements in accordance with the Revised Schedule VI to the Companies Act, 1956 has been regarded as a change in accounting policy. It was viewed that a change in the presentation format of the financial statements does not lead to change in accounting principles/policies.</p> <p>It was viewed that although the separate note is appropriate to disclose the change in presentation, however, it should not be given as a change in accounting policy.</p>
13.	<p>From the Annual Report of a company, it has been noted that the details of prior period expenses have been disclosed as extraordinary items.</p>	<p>It may be noted that paragraphs 4.2 and 4.3 of AS 5, define ‘extraordinary items’ and ‘prior period items’ as follows:</p> <p><i>“4.2 Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.”</i></p> <p><i>“4.3. Prior period items are income or expenses which arise in the current period as a</i></p>

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		<p><i>result of errors or omissions in the preparation of the financial statements of one or more prior periods.”</i></p> <p>From the above, it may be noted that whereas extraordinary items arise from events that are clearly distinct from ordinary activities of an enterprise, prior period items arise due to error or omission in preparation of financial statements of one or more prior periods. In this case, all prior period expenses have been presented as extraordinary items in the Statement of Profit and Loss.</p> <p>Accordingly, it was viewed that presenting prior period expenses as extra ordinary items is not in line with the requirements of AS 5.</p>
<p>14.</p>	<p>In the Annual Report of a company, the following note on change in accounting policy has been given under Significant Accounting Policies:</p> <p>'Change in Accounting Policy</p> <p>...</p> <p>(ii) Plantation Development Expenditure</p> <p>The company has changed its accounting policy during the year under review with respect</p>	<p>It may be noted that paragraph 4.3 of AS 5, defines 'prior period items' as follows:</p> <p><i>“4.3. Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.”</i></p> <p>It was noted that the company has changed its accounting policy retrospectively with regard</p>

Observations on Accounting Standards (AS) 5: Net Profit or Loss for the Period ...

<p>to expenditure incurred on cultivation and maintenance of plantation. Prior to the year, all expenses directly or indirectly attributable to plantation activity were charged to revenue in the year in which they were incurred. However, from the current year all expenses directly or indirectly attributable to plantation activity are transferred to Capital Work in Progress for a period of 5 years from the date of plantation. The same are capitalised thereafter and amortised over a period of 25 years.</p> <p>This change in accounting policy has been carried out with retrospective effect since inception and following items have been disclosed as prior period items:</p> <p>a) Rs.xxx credited to the Statement of Profit & Loss on account of change in rate of depreciation;</p> <p>b) Rs xxx credited to Statement of Profit& Loss for change in accounting policy</p>	<p>to expenditure incurred on cultivation and maintenance of jatropa plantation. All expenses directly or indirectly attributable to plantation activity, which were hitherto being charged off to revenue have been transferred to capital work in progress during the year under review. Since the change in the accounting policy has been made retrospectively the resulting adjustments have been disclosed as prior period items. However, having regard to the definition of prior period items it was viewed that none of the items which were shown as prior period items, has arisen as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.</p> <p>Accordingly, it was viewed that disclosure of such items as prior period items is not in line with the requirement of paragraph 4.3 of AS 5.</p> <p>It may also be noted that change in depreciation rates is a change in accounting estimate and the impact thereof on the profit for the year should be separately disclosed. It is further observed that the change in depreciation rates has been made with retrospective effect. However, a</p>
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		<p>change in accounting estimate can affect the current period only or both the current period and future periods as envisaged in paragraph 24 of AS 5. Further, paragraph 23 of AS 6, Depreciation Accounting provides:</p> <p><i>“23. The useful lives of major depreciable assets or classes of depreciable assets may be reviewed periodically. Where there is a revision of the estimated useful life of an asset, the unamortized depreciable amount should be charged over the revised remaining useful life.”</i></p> <p>Accordingly, it was viewed that the change in depreciation rates with retrospective effect is not in line with the requirements of paragraph 24 of AS 5 as well as paragraph 23 of AS 6.</p>
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Observations on Accounting Standards (AS) 7: Construction Contracts

S. No	Matter Contained in the relevant Annual Report	Observations
1.	<p>In the Annual Report of a company engaged in real estate business, the accounting policy on revenue recognition as disclosed in the financial statements was stated as below:</p> <p>“Revenue Recognition:</p> <p>Income from real estate sales is recognised on the transfer of all significant risks and rewards of ownership to the buyers and it is not unreasonable to expect ultimate collection and no significant uncertainty exists regarding the amount of consideration. However, if at the time of transfer substantial acts are yet to be performed under the contract, revenue is recognised on proportionate basis as the acts are performed, i.e. on the percentage of completion basis. <i>Revenues from real estate projects are recognised only when the actual project costs incurred</i></p>	<p>It may be noted that according to the guidelines issued by the Institute of Chartered Accountants of India on 'Accounting for Real Estate Transactions' there is a rebuttable presumption that the outcome of a real estate project can be estimated reliably and that revenue should be recognised under the percentage completion method only when the events in (a) to (d) prescribed therein are completed. The event prescribed in (b) states as follows:</p> <p>“When the stage of completion of the project reaches a reasonable level of development. A reasonable level of development is not achieved if the expenditure incurred on construction and development costs is less than 25% of the construction and development costs as defined in paragraph 2.2(c) read with paragraphs 2.3</p>

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	<p>exceed 25% of the total estimated project costs including land (emphasis supplied)".</p>	<p>to 2.5.”</p> <p>It may further be noted that as per the definition given in the above paragraphs construction and development costs would not include land cost. However, in the reported case the accounting policy states that revenue is recognised when the actual project costs incurred exceed 25% of the total estimated project costs, including land.</p> <p>The company has considered 25% of the total project costs including land cost whereas the guidance note prescribes 25% of construction and development costs alone.</p> <p>Accordingly, it was viewed that the method adopted by the company for revenue recognition is strictly not in line with the requirements of the guidance note.</p>
<p>2.</p>	<p>The accounting policy on revenue recognition as given in the Annual Report of a construction company, states as follows:</p> <p>Revenue Recognition</p> <p>“In respect of construction contracts revenue is recognised on ‘percentage</p>	<p>It may be noted that paragraph 38 of AS 7, provides that:</p> <p>“38. An enterprise should disclose :</p> <p>(a) The amount of contract revenue recognised as revenue in the period;</p> <p>(b) The methods used to determine the contract</p>

Observations on Accounting Standards (AS) 7: Construction Contracts

	<p>of completion method.' Price escalation claims and additional claims including those under arbitration are recognised as revenue when they are realised or receipt thereof are mutually settled or reasonably ascertained."</p>	<p>revenue recognised in the period ;and</p> <p>(c) The methods used to determine the stage of completion of contracts in progress."</p> <p>It was noted from the notes to accounts that although the company has complied with the requirements of paragraphs 38 (a) and (b) of AS 7, it has not complied with the requirements of paragraph 38 (c) of AS 7 i.e. methods used to determine the stage of completion of contracts.</p>
<p>3.</p>	<p>In the Annual Report of a construction company, the following disclosures have been made regarding 'Construction Contracts':</p> <p>(a) (i) Contract Revenue recognised</p> <p>(ii) Method used to determine the contract revenue recognised and the stage of completion of contracts in progress</p> <p>(b) Disclosures in respect of contracts in progress at the year end:</p> <p>(i) Aggregate amount of costs incurred and recognised profits</p>	<p>It may be noted that paragraph 41 (a) of AS 7, requires the following disclosure:</p> <p>"41. An enterprise should present:</p> <p>(a) The gross amount due from customers for contract work as an asset;"</p> <p>It was observed that although various disclosures as required under AS 7 have been complied with, the disclosure of gross amount due from customers for contract work has not been made.</p> <p>Accordingly, it is viewed that the requirements of AS 7 have not</p>

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	(less recognised losses) (ii) Advance received (iii) Retention money	been fully complied with.
4.	From the Annual Report of a construction company, it has been noted that Sale of Products and Services and Revenues from Construction Contracts (Gross) have been shown as one line item of income in the Statement of Profit and Loss.	<p>It may be noted that paragraph 38 (a) of AS 7, provides that:</p> <p>“38. An enterprise should disclose:</p> <p>(a) the amount of contract revenue recognised as revenue in the period;”</p> <p>Further, according to paragraph 2 (A) of Part II of Revised Schedule VI to the Companies Act, 1956 requires that the revenue from sales and gross income from services rendered should be shown separately in the Statements of Profit and Loss.</p> <p>From the above, it was noted that the income from sale of products, income from services rendered and the revenue from construction contracts should be disclosed separately. However, it was noted from the Statement of Profit and Loss that all income arising from sale of products, services rendered and construction contracts have been clubbed together to report only aggregate income, which is against the requirements of</p>

Observations on Accounting Standards (AS) 7: Construction Contracts

		<p>paragraph 38 (a) of AS 7 as well as Revised Schedule VI to the Companies Act, 1956⁵.</p>						
<p>5.</p>	<p>In the Annual Report of a construction company, the following notes regarding accounting policy on revenue recognition and revenue from operations have been disclosed:</p> <p>Accounting Policy for Construction Contracts</p> <p>Revenue from fixed price construction contracts are recognised on the percentage of completion method, measured by reference to the percentage of cost incurred up to the year end to estimated total cost for each contract. For the purpose of determining percentage of work completed, estimates of contract cost and contract revenue are used.</p> <p><u>Computation of Revenue from Operations</u></p> <table border="0" style="width: 100%;"> <thead> <tr> <th style="text-align: left;">Particulars</th> <th style="text-align: right;">Year ended</th> </tr> </thead> <tbody> <tr> <td>Contract Revenue:</td> <td></td> </tr> <tr> <td>Closing work-in-</td> <td style="text-align: right;">xxx</td> </tr> </tbody> </table>	Particulars	Year ended	Contract Revenue:		Closing work-in-	xxx	<p>It may be noted that paragraphs 21 and 24 of AS 7, provide that:</p> <p><i>“21. When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. An expected loss on the construction contract should be recognised as an expense immediately in accordance with paragraph 35.”</i></p> <p><i>“24. The recognition of revenue and expenses by reference to the stage of completion of a contract is often referred to as the percentage of completion method. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can</i></p>
Particulars	Year ended							
Contract Revenue:								
Closing work-in-	xxx							

⁵Subsequent to the observations of the Board, Revised Schedule VI has been withdrawn. However, content is still relevant in terms of Schedule III to Companies Act, 2013.

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	progress		<p><i>be attributed to the proportion of work completed. This method provides useful information on the extent of contract activity and performance during a period.”</i></p> <p>It was observed from the note showing computation of revenue from operations that the income from contract revenue has been determined by adding the closing work in progress to and deducting the opening work in progress from the contract receipts, which is not consistent with the accounting policy as adopted by the company. Revenue should have been recognised based on the percentage of work completed rather than adjusting opening and closing work in progress with contract receipts which may include advances towards initial mobilisation activities.</p> <p>Hence, it was viewed that considering 'Contract Receipts' as a basis for recognising revenue is not as per the requirements of paragraphs 21 and 24 of AS 7.</p>
	Add: Contract Receipts	xxx	
		xxx	
	Less: Opening work-in-progress	xxx	
	Total	xxx	

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Observations on Accounting Standards (AS) 9: Revenue Recognition

S. No	Matters contained in the Annual Report	Observations
1.	<p>From the Annual Reports of some companies, it has been noted that one of the items of income as shown in the Statement of Profit and Loss is income from advertisement and ticket sales and the related accounting policy states as follows:</p> <p>‘Revenue from sale of tickets is recognised when the tickets have been sold. Advertisement revenue is recognised when advertisements and net realisation are confirmed.’</p>	<p>It may be noted that paragraph 12 of AS 9, provides that:</p> <p><i>“12. In a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. Such performance should be regarded as being achieved when no significant uncertainty exists regarding the amount of the consideration that will be derived from rendering the service.”</i></p> <p>It was noted that the enterprises under review render services. Therefore, revenue from sale of tickets should be recognised as per the completed contract method. However, as per the</p>

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		<p>accounting policy adopted by these enterprises, the revenue from sale of tickets is recognised when tickets are sold. It may be noted that tickets are sold before the event takes place. Accordingly, in case of advance booking of tickets there may be substantial time gap between the sale of tickets and actual event. Hence, such revenue cannot be considered to have been earned until and unless the event has taken place. However, in the given case the enterprise does not consider the happening of the related event for recognition of revenue. Same principle is applicable to income from advertisement as well. Thus, recognising revenue as and when tickets are sold and when advertisements and net realisations are confirmed is not in line with the requirements of AS 9.</p>
<p>2.</p>	<p>The accounting policy of revenue recognition as given in the Annual Report of a company <i>inter alia</i> states that revenue from online educational services (if charged) is recognised upon receipt of subscription fee (in case of non-refundable) otherwise apportioned over the</p>	<p>It may be noted that paragraph 7.1 of AS 9, provides that:</p> <p><i>“7.1 Revenue from service transactions should be recognised as the service is performed, either by the proportionate completion method or by the completed service contract method.”</i></p>

Observations on Accounting Standards (AS) 9: Revenue Recognition

	<p>subscription period.</p> <p>In the Annual Report of another company, the following accounting policy has been disclosed:</p> <p>“Revenue from online educational services is recognised upon receipt of subscription fees. ...”</p>	<p>It may also be noted that illustrations B.5 and A.7 to AS 9 lays down principles for recognition of tuition fees and subscription fees respectively as follows:</p> <p>“5. Tuition Fees</p> <p><i>Revenue should be recognised over the period of instruction.”</i></p> <p>“7. Subscription for publications</p> <p><i>Revenue received or billed should be deferred and recognised either on a straight line basis over time or, where the items delivered vary in value from period to period, revenue should be based on the sales value of the item delivered in relation to the total sales value of all items covered by the subscription.”</i></p> <p>From the above, it was viewed that the period when services are rendered should be considered for recognition of revenue. Accordingly, if revenue is received it should be deferred and recognised over the period when services are rendered.</p> <p>It was further viewed that irrespective of whether the</p>
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		<p>subscription fee for online educational services is refundable or non-refundable, revenue from the same should be recognised apportioned over the service period.</p> <p>Accordingly, it was viewed that the accounting policy followed by these companies are not in line with the requirements of AS 9.</p>
<p>3.</p>	<p>From the Annual Report of a company, it has been noted that the company has recognised as income the entire cost of garments destroyed by fire under other operating income (stock loss claim) based on filing of insurance claim. With regard to partially damaged stocks, the related inventory has been valued at net realisable value ascertained on the basis of the claim filed with the insurance company. Insurance claim against loss of fixed assets has also been recognised based on the claim filed with the insurance company. The note further states that said income has been recognised as per the AS 9.</p>	<p>It may be noted that paragraph 9.2 of AS 9, states that:</p> <p><i>“9.2 Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g., for escalation of price, export incentives, interest etc., revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise revenue only when it is reasonably certain that the ultimate collection will be made. Where there is no uncertainty as to ultimate collection, revenue is recognised at the time of sale or rendering of service even though payments are made by installments.”</i></p> <p>It was noted that insurance claims do not fall within the</p>

Observations on Accounting Standards (AS) 9: Revenue Recognition

		<p>definition of 'Revenue' as given in AS 9. However, it was viewed that as in the case of sale of goods or rendering of services, the recognition of insurance claims also requires that the amount realisable is measurable and it is not unreasonable to expect ultimate collection. Accordingly, recognising insurance claims at the time of filing the claims with the insurance company without considering the uncertainty relating to its measurability and collectability is not appropriate. In such cases, revenue recognition should be postponed until the claims are accepted/sanctioned by the insurance company. It is also supported by the Expert Advisory Opinion on Query no. 18 of Compendium of Opinions Volume No. XX.</p> <p>Accordingly, it was viewed that recognition of revenue either at the time of filing of claims or on actual receipt is not in line with the requirements of AS 9.</p>
<p>4.</p>	<p>In the Annual Reports of a couple of companies, the following accounting policies on Revenue Recognition have been disclosed:</p> <ul style="list-style-type: none"> • Revenue in the nature of 	<p>It may be noted that paragraph 12 of AS 9, state as follows:</p> <p><i>“12. In a transaction involving the rendering of services, performance should be measured either under the</i></p>

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	<p>advisory services rendered towards finalisation of power purchase agreements, CDM services, load management etc. is recognised when the fees are determined under the terms of respective agreements.</p> <ul style="list-style-type: none"> • Other services on completion of services and billed. 	<p><i>completed services contract method or under the proportionate completion method, whichever relate the revenue to the work accomplished. Such performance should be regarded as being achieved when no significant uncertainty exists regarding the amount of the consideration that will be derived from rendering the service.”</i></p> <p>From the above, it was viewed that revenue from services should be recognised either under proportionate completion method or completed service method. However, it was noted from the stated policies that revenue from various services has been recognised when the fees are determined under the terms of the respective agreements or when the services are completed and billed. It was viewed that neither determination of fees nor billing should be the criteria for recognition of revenue from services. Performance of service should be the criteria for revenue recognition.</p> <p>Accordingly, it was viewed that the requirements of AS 9 have not been complied with.</p>
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Observations on Accounting Standards (AS) 9: Revenue Recognition

<p>5.</p>	<p>From the Annual Report of a company it has been noted that although the company has shown gross sales less excise duty on the face of the Statement of Profit and Loss, the difference in excise duty on opening and closing stock of finished goods has not been disclosed.</p>	<p>It may be noted that the explanation to paragraph 10 of AS 9, <i>inter alia</i> provides that:</p> <p>“10. The excise duty related to the difference between the closing stock and opening stock should be recognised separately in the statement of profit and loss, with an explanatory note in the notes to accounts to explain the nature of the two amounts of excise duty.”</p> <p>It was noted that the amount of excise duty has been duly reported and deducted from sales in the Statement of Profit and Loss, however, the difference in excise duty on opening and closing stocks of finished goods has not been disclosed separately in the Statement of Profit and Loss nor in any notes forming part thereof.</p> <p>Accordingly, it was viewed that the disclosure requirement as per the explanation to paragraph 10 of AS 9 has not been complied with.</p>
<p>6.</p>	<p>The accounting policies regarding recognition of dividend income have been disclosed as follows in the Annual Reports of some</p>	<p>It may be noted that paragraph 13 of AS 9, states that:</p> <p>“13. Revenue arising from the use by others of enterprise resources yielding interest,</p>

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	<p>companies:</p> <ul style="list-style-type: none"> • Dividend is accounted as and when received. • Dividend income is considered on receipt basis • Income & Expenditures are recognised on accrual basis except dividend on shares and units of Mutual Funds, which are recognised on cash basis. 	<p><i>royalties and dividends should only be recognised when no significant uncertainty as to measurability or collectability exists. These revenues are recognised on the following bases:</i></p> <p><i>iii) Dividends from investments in shares: when the owner's right to receive payment is established."</i></p> <p>It was observed that the dividend income has been recognised on receipt basis while paragraph 13 of AS 9 requires recognition of dividend income when the right to receive payment is established.</p> <p>Accordingly, it was viewed that the recognition of dividend income on receipt basis is not in line with the requirements of AS 9.</p>
7.	<p>The following accounting policies on Revenue Recognition have been disclosed in the Annual Reports of some companies:</p> <ul style="list-style-type: none"> • Revenue (income) is recognised when no significant uncertainty as to measurability or 	<p>It may be noted that paragraph 24 of AS 1, requires as follows:</p> <p><i>"24. All Significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed."</i></p> <p>Further, paragraph 11 of AS 9</p>

Observations on Accounting Standards (AS) 9: Revenue Recognition

	<p>collectability exists.</p> <ul style="list-style-type: none"> • Revenue/Income and Cost/Expenditure are accounted for on accrual basis. • Sales are accounted for on dispatch of products. 	<p>states as follows:</p> <p><i>“11. In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:</i></p> <p><i>(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and</i></p> <p><i>(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.”</i></p> <p>It was observed in the first case that revenue has been recognised when there is no uncertainty as to measurability and collectability whereas in the second case it simply states accrual basis. However, in none of these cases the timing of recognition of revenue i.e. when the enterprise has transferred</p>
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		<p>significant risk and reward to the buyer has been disclosed. In the last case also, it was not clear whether significant risk and rewards associated with the ownership of goods stands transferred when the products are dispatched.</p> <p>Thus, it was viewed that the accounting policies for revenue recognition as disclosed in the financial statements are not in line with the requirements of paragraph 11 of AS 9 as well as paragraph 24 of AS1.</p>
<p>8.</p>	<p>In the Annual Reports of a number of companies the following disclosures have been made on the face of the Statement of Profit and Loss and/ or in the notes to accounts with regards to Sales:</p> <ul style="list-style-type: none"> • In the note of sales, gross sales figure has been shown from which 'Duties and Taxes' have been shown as a deduction. • Net Sales (i.e. net of excise duty) has been shown on the face of the Statement of Profit and Loss whereas gross sales less excise duty has been shown in the note of Sales and Operational Income. 	<p>It may be noted that paragraph 14.06 of GN(A) 5, 'Guidance Note on Terms Used in Financial Statements,' defines the term 'Revenue' as follows:</p> <p><i>“The gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and</i></p>

Observations on Accounting Standards (AS) 9: Revenue Recognition

<ul style="list-style-type: none"> • Sales have been reported net of excise duty. The related accounting policy states 'Sales are reported net of trade discounts, returns & rebates, Excise Duty and Sales Tax'. • Sales including excise duty have been shown on the face of the Statement of Profit and Loss as well as in the note of Sales and Other Income whereas excise duty has been shown as an expense in the note of Selling and Distribution Expenses. • Revenue from operations (Gross) less Excise Duty/ Sales Tax has been shown on the face of the Statement of Profit and Loss. The related accounting policy states Sales are recognised on dispatch of goods to customers. It includes 'Excise Duty & Sales Tax'. • In the Statement of Profit and Loss, Revenue from operations has been disclosed and in the related note 'Sale of goods – Gold and Jewellery', has been disclosed. However, there is no mention as to whether sales include excise duty or 	<p><i>rewards arising from the use of resources by them. It excludes amount collected on behalf of third parties such as certain taxes. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration."</i></p> <p>Further, explanation to paragraph 10 of AS 9, states that:</p> <p><i>"The amount of revenue from sales transaction (turnover) should be disclosed in the following manner on the face of the statement of profit & loss:</i></p> <table style="margin-left: 20px;"> <tr> <td><i>Turnover (Gross)</i></td> <td style="text-align: right;"><i>xxx</i></td> </tr> <tr> <td><i>Less: Excise Duty</i></td> <td style="text-align: right;"><i>xxx</i></td> </tr> <tr> <td><i>Turnover (Net)</i></td> <td style="text-align: right;"><i>xxx"</i></td> </tr> </table> <p>It may be noted from the above definition and the explanation that no taxes and duties other than excise duty should be included in sales. It has, however, been observed in certain cases that sales include sales tax, VAT etc. It has been further observed that some companies have not shown excise duty as a deduction from sales on the face of the Statement of Profit and Loss.</p>	<i>Turnover (Gross)</i>	<i>xxx</i>	<i>Less: Excise Duty</i>	<i>xxx</i>	<i>Turnover (Net)</i>	<i>xxx"</i>
<i>Turnover (Gross)</i>	<i>xxx</i>						
<i>Less: Excise Duty</i>	<i>xxx</i>						
<i>Turnover (Net)</i>	<i>xxx"</i>						

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	<p>are net of excise duty.</p> <ul style="list-style-type: none"> Accounting policy on Revenue Recognition states ‘...Revenue from operations includes sale of goods, services, sales tax, service tax, excise duty and sales during trial run period, adjusted for discounts (net), Value Added Tax (VAT) and gain / loss on corresponding hedge contracts...’ 	<p>This has been either shown in a note or netted with sales. In one case, excise duty has been shown as an expense whereas in another case there is no mention as to whether sales include excise duty or are net of excise duty.</p> <p>It was accordingly viewed that grossing up of sales with sales tax, VAT etc. and disclosure of net sales or showing excise duty as an expense or not mentioning whether sales includes excise duty or not are not in line with the requirements of AS 9.</p> <p>It was further noted from the stated policy of the last case under review that the revenue from operations includes gain/loss on corresponding hedge contracts. It was viewed that the sale transactions and the hedging contracts undertaken to cover the sale transactions are two independent transactions. Accordingly, adjusting gain /loss on hedging contracts against revenue is also not in line with AS 9.</p>
<p>9.</p>	<p>The revenue recognition policy as disclosed in the Annual Report of a company includes the following:</p>	<p>It may be noted that paragraph 4.1 of AS 9, defines ‘revenue’ as follows:</p> <p>“4.1. Revenue is the gross</p>

Observations on Accounting Standards (AS) 9: Revenue Recognition

	<p>‘Revenue recognition</p> <p>Profit on sale of Investment is recognised as income in the period in which the investment is sold/disposed off.’</p>	<p><i>inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration”.</i></p> <p>It was noted that policy for recognising income from sale of investments has been given under ‘revenue recognition’ policy. It was viewed that such presentation indicates that income from ‘sale of investments’ has been considered as ‘revenue’ for the enterprise.</p> <p>However, from the above definition it may be noted that income from sale of investment cannot be considered as an ordinary activity of the</p>
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		<p>enterprise. Such income is neither generated from sale of goods or services or from the use of enterprise resources.</p> <p>Accordingly, it was viewed that disclosure of such accounting policy under revenue recognition policy is not in line with the requirements of AS 9.</p>
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8

Observations on Accounting Standard (AS) 10: Accounting for Fixed Assets

S No	Matters contained in the Annual Report	Observations
1.	<p>The accounting policy on Fixed Assets as disclosed in the Annual Reports of a couple of companies <i>inter alia</i> states as follows:</p> <ul style="list-style-type: none"> • Under utilized /Idle assets are recorded at estimated realisable value. • Assets held for disposal are stated at their estimated net realisable value 	<p>It may be noted paragraph 24 and 14.2 of AS 10⁶, provide as follows:</p> <p><i>“24. Material items retired from active use and held for disposal should be stated at the lower of their net book value and net realisable value and shown separately in the financial statements.”</i></p> <p><i>“14.2 Items of fixed assets that have been retired from active use and are held for disposal are stated at the lower of their net book value and net realisable value and are shown separately in the financial statements. Any expected loss is recognised immediately in the profit and loss statement.”</i></p> <p>It was observed from the accounting policies on fixed assets that the under utilised/</p>

⁶Observation is still relevant under paragraph 73 of AS 10 revised.

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		<p>idle assets and assets held for disposal are stated at estimated realisable value. It was quite likely that these assets were stated at net realisable value because their book values are higher.</p> <p>However, this should be clearly stated in the policy (e.g the carrying values of idle assets and assets held for disposal are written down to their estimated realisable values) as per the requirements of paragraph 24 of AS 10.</p>
<p>2.</p>	<p>In the Annual Report of a company the following note appear with regard to Fixed Assets:</p> <p>‘Land and Buildings at certain locations were re-valued on 1st October, 1982. Gross depreciation for the year includes depreciation on re-valued assets of Rs. xxx charged against Revaluation reserve.’</p>	<p>It may be noted that paragraphs 27 and 37(iii)⁷ of AS 10, provide as follows:</p> <p>“27. When a fixed asset is revalued in financial statements, an entire class of assets should be revalued, or the selection of assets for revaluation should be made on a systematic basis. This basis should be disclosed.”</p> <p>“37. The following information should be disclosed in the financial statements:</p> <p>(i)</p> <p>(ii)</p> <p>(iii) revalued amounts</p>

⁷Observation still relevant under paragraphs 39 and 81 of AS 10 revised.

Observations on Accounting Standard (AS) 10: Accounting for Fixed Assets

		<p><i>substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of any indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.”</i></p> <p>It was observed that the company has revalued land and buildings at certain locations while AS 10 requires that either an entire class of assets should be revalued or the basis for selecting certain assets for revaluation should be disclosed. However, it was noted that the company has not disclosed the basis of selection of assets for revaluation as required by paragraph 27 of AS 10.</p> <p>It was further observed that the disclosures as required by paragraph 37(iii) of AS 10 have also not been made. Hence, it was viewed that the requirements of AS 10 have not been complied with.</p>
3.	In the Annual Report of a company the accounting policy	It may be noted that paragraph 19 ⁸ of AS 10, provides that:

⁸ Observation is still relevant under paragraph 33 and 34 of AS 10 (Revised)

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<p>on fixed assets states as under:</p> <p>‘Fixed Assets are stated at cost/professional valuation less accumulated depreciation. Cost includes freight, installation cost, duties and taxes, interest on specific borrowings utilised for financing the qualifying fixed assets and other incidental expenses. (emphasis supplied)’</p>	<p>“19. The gross book value of a fixed asset should be either historical cost or a revaluation computed in accordance with this Standard.”</p> <p>It appears from the stated accounting policy that certain assets have been revalued, which are stated at professional valuation. However, no information has been provided either in the accounting policy or in the note of fixed assets as to which assets have been revalued.</p> <p>Further, it has been noted that no revaluation reserve has been shown in the Balance Sheet. Assuming there is a decrease in the net book value arising on revaluation of fixed assets then such decrease should have been charged to the Statement of Profit and Loss as prescribed in paragraph 30 of AS 10. However, nothing has been mentioned in the financial statements in this regard.</p> <p>It may also be noted that paragraph 37(iii) of AS 10 requires the following disclosures:</p> <p>“(iii) revalued amounts substituted for historical costs of fixed assets, the method adopted to compute</p>
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Observations on Accounting Standard (AS) 10: Accounting for Fixed Assets

		<p><i>the revalued amounts, the nature of any indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.”</i></p> <p>It was observed that no such disclosures have been made except stating ‘at professional valuation’.</p> <p>Accordingly, it was viewed that the requirements of AS 10, have not been complied with.</p>
<p>4.</p>	<p>In the Annual Report of a company the following note appears with regard to fixed assets:</p> <p>‘The Company revalued its freehold land, buildings and plant & machinery. These revaluations resulted in net increase in value of assets by Rs xxx which was credited to Revaluation Reserve.’</p>	<p>It may be noted that paragraph 37(iii) of AS 10⁹, provides follows:</p> <p>“37. The following information should be disclosed in the financial statements:</p> <p>(i) ...</p> <p>(ii)...</p> <p>(iii) <i>revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of any indices used, the year of any appraisal made, and whether an external valuer was</i></p>

⁹ Observation is still relevant under paragraph 81 of AS 10 (Revised).

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		<p><i>involved, in case where fixed assets are stated at revalued amounts.”</i></p> <p>It was observed that except for the revalued amounts substituted for historical costs, no other information as required by the above paragraph has been disclosed.</p> <p>Accordingly, it was viewed that the requirements of AS 10 have not been complied with.</p>
5.	<p>From the Annual Report of a company, it has been noted that a significant amount has been shown as additions to Site & Land Development during the year under review and that no depreciation has been charged in respect thereof.</p>	<p>It may be noted that paragraph 9.1 of AS 10 ¹⁰provides that:</p> <p><i>“9.1 The cost of an item of fixed asset comprises its purchase price, including import duties and other non-refundable taxes or levies and any directly attributable cost of bringing the asset to its working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price.”</i></p> <p>Further, examples of directly attributable costs as given in paragraph 9.1 of AS 10 include cost of site preparation.</p> <p>It may be noted that site preparation would be required for developing land as well as</p>

¹⁰ Observation is still relevant under paragraph 18 of AS 10 (Revised)

Observations on Accounting Standard (AS) 10: Accounting for Fixed Assets

		<p>construction of building and installation of plant and machinery.</p> <p>Accordingly, it was viewed that the site preparation costs comprising mainly of uprooting of any existing structure, leveling, clearing and grading incurred to prepare the land for its intended use or for construction thereon should be suitably apportioned to land, building and plant and machinery and capitalised as part of the costs of the respective assets as per the requirements of AS 10.</p> <p>Accordingly, capitalizing site and land development expenditure under a separate head and not charging depreciation/amortisation on it is not in line with the requirements of AS 6 and AS 10.</p>
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Observations on Accounting Standard (AS) 11: The Effects of Changes in Foreign Exchange Rates

S. No	Matters contained in the Annual Report	Observations
1.	<p>In the Annual Report of a company, accounting policy of foreign exchange transactions stated as follows:</p> <p>‘Transactions in foreign currencies are recorded at the rates prevailing on the dates of the transactions. Monetary items denominated in foreign currency are stated at contracted rates as those are covered by forward contracts (emphasis supplied)’.</p>	<p>It may be noted that paragraph 11(a) of AS 11, provides as follows:</p> <p>“11. At each balance sheet date:</p> <p>(a) Foreign currency monetary items should be reported using the closing rate. However, in certain circumstances, the closing rate may not reflect with reasonable accuracy the amount in reporting currency that is likely to be realised from, or required to disburse, a foreign currency monetary item at the balance sheet date, e.g., where there are restrictions on remittances or where the closing rate is unrealistic and it is not possible to</p>

Observations on Accounting Standard (AS) 11: The Effects of Changes in ...

		<p><i>effect an exchange of currencies at that rate at the balance sheet date. In such circumstances, the relevant monetary item should be reported in the reporting currency at the amount which is likely to be realised from, or required to disburse, such item at the balance sheet date.</i></p> <p>It was observed from the policy of foreign currency transactions that foreign currency monetary items have been recognised at contracted rates, as those are covered by forward contracts. It was viewed that hedging contracts (i.e. forward contracts) are independent of underlying contracts and therefore both of them should be recognised independent of each other. Hence recognizing monetary item at contract rates is against AS 11. They should have been recognised at the closing exchange rate irrespective of the fact whether risk against such items have been hedged by forward contracts.</p>
2.	From one of the notes to accounts given in the Annual Report of a company, it has	It may be noted that paragraph 13 of AS 11, provides as follows:

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	<p>been noted that:</p> <p>'Expenditure in foreign exchange is accounted at the actual amount spent and provision for expenses to be paid in foreign currency has been made at the rate of exchange prevailing on the Balance Sheet date.'</p>	<p>"13. Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as expenses in the period in which they arise, with the exception of exchange differences dealt with in accordance with paragraph 15."</p> <p>It was noted that expenditure in foreign exchange is accounted at the actual amount spent i.e. at the rate prevailing on the time of settlement of transaction, which indicates that exchange difference arising on reporting date on such monetary items has not been recognised which is against the requirement of paragraph 13 of AS 11.</p>
<p>3.</p>	<p>From the notes to the accounts of a company, it has been noted that it incurred expenses and earned income in foreign currencies. However, in the Statement of Profit and Loss and notes to the accounts, there was no disclosure of gain/loss</p>	<p>It may be noted that paragraph 40(a) of AS 11, provides that:</p> <p>"40. An enterprise should disclose:</p> <p>a. the amount of exchange differences included in the net profit or loss for</p>

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	<p>on exchange difference.</p>	<p><i>the period; and...</i></p> <p>It was noted from the information relating to value of imports expenditure and earnings in foreign currency that the company has entered into foreign exchange transactions during the year; however, no exchange gain or loss arising from foreign exchange fluctuation has been separately disclosed in the Statement of Profit and Loss and note to the accounts.</p> <p>Accordingly, it was viewed that the requirements of paragraph 40 (a) of AS 11 have not been complied with.</p>
<p>4.</p>	<p>In the Annual Report of company, accounting policy relating to foreign transaction has been stated as follows:</p> <p>'Difference between the forward exchange contract rate and the exchange rate as at the date of settlement is recognised as income/expense and is accounted for in the Statement of Profit and Loss.'</p>	<p>It may be noted that paragraph 36 of AS 11, provides as follows:</p> <p><i>"36. An enterprise may enter into a forward exchange contract or another financial instrument that is in substance a forward exchange contract, which is not intended for trading or speculation purposes, to establish the amount of the reporting currency required or available at the settlement date of a transaction. The premium or discount arising at the inception of such a forward exchange contract</i></p>

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		<p><i>should be amortised as expense or income over the life of the contract. Exchange differences on such a contract should be recognised in the statement of profit and loss in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such a forward exchange contract should be recognised as income or as expense for the period.”</i></p> <p>It was noted from the accounting policy relating to forward exchange contract that although the accounting policy as adopted by company for settlement of forward exchange contract has been given, the accounting policy adopted for recognition of premium or discount arising at its inception and/ or at the cancellation/renewal of such contract have not been disclosed. Therefore, it was viewed that the accounting policy relating to forward currency transactions cannot be considered as complete.</p>
5.	From the Annual Report of a company, it has been noted from accounting policy on transaction in foreign currency	It may be noted that paragraph 11 (b) of AS 11, provides as follows:

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	<p>states as follows:</p> <p>'Non-monetary items (fixed asset and loans) denominated in a foreign currency are reinstated as at the date of the Balance Sheet. The difference on reinstatement is carried to relevant non- monetary items.'</p>	<p>" 11.At each balance sheet date:</p> <p>(b) non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction."</p> <p>It has been noted from the accounting policy on transaction in foreign currency about non-monetary items that the non-monetary items denominated in a foreign currency are reinstated as at the date of the Balance Sheet instead of being reported at the date of the transaction as required under paragraph 11(b) of AS 11.</p> <p>Further, it was also noted that loans are monetary items and accordingly, the same has not been covered with the non-monetary items and accordingly, accounting policy adopted for the same is also not correct.</p> <p>Thus, the requirements of AS 11 have not been complied with.</p>
<p>6.</p>	<p>In the Annual Report of a company, accounting policy relating to foreign currency transactions has been stated as</p>	<p>It may be noted that paragraph 9 of AS 11, provides as follows:</p> <p>"9. A foreign currency transaction should be</p>

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	<p>follows:</p> <p>'Transactions in Foreign Currency Foreign currency transactions are recorded at the exchange rate prevailing as at the date of transactions except export sales which are recorded at a rate notified by the customs for invoice purposes. Such rate is notified in the last week of the month and is adopted for recording export sales of the next month. The exchange fluctuation arising as a result of negotiation of export bill is accounted for as difference in exchange rates.'</p>	<p>recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction."</p> <p>It was noted from accounting policy relating to transactions in foreign currency that the export sales have been recorded at a rate notified by the customs for invoice purposes instead of translating the same on exchange rates prevailing on the date of transactions.</p> <p>Hence, it was viewed that the accounting policy as adopted for the recognition of export sales is not in line with the principals enunciated in paragraph 9 of AS 11.</p>
7.	<p>It has been noted from the accounting policy relating to Foreign Currency transactions that these are accounted at the rates prevailing on date of transaction. 'Yearend current assets and year end liabilities are translated at exchange rate ruling on the date of the Balance Sheet.'</p>	<p>It may be noted that paragraph 11(a) of AS 11, provides as follows :</p> <p>"11. At each Balance Sheet date:</p> <p>(a) foreign currency monetary items should be reported using the closing rate....."</p> <p>It has been observed from the accounting policy that all current</p>

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		<p>assets and liabilities as at the end of the year are translated at exchange rate ruling on the date of Balance Sheet. However, as per above mentioned requirement, it is only the monetary items which are required to be translated at the closing exchange rate and not all the foreign currency assets and liabilities which may include non-monetary assets/ liabilities as well. This is not in line with AS 11.</p>
8.	<p>It has been noted from the Balance Sheet of a company which is reproduced below:</p> <p>'Balance Sheet</p> <p>II Application of Funds</p> <p>(1) Fixed Assets</p> <p>(2) Investments</p> <p>(3) Current Assets, Loans & Advances</p> <p>(4) Foreign currency monetary item</p> <p>Translation difference account'</p>	<p>As per FAQ 14 of FAQs on AS 11 Notification-Companies (Accounting Standards) Amendment Rules, 2009 issued by Ministry of Corporate Affairs, the 'foreign currency monetary item translation difference account' should be shown as a separate line item in the Balance Sheet, in line with treatment given to deferred tax asset /liability, i.e. after the head 'Investments' or after the head of 'Unsecured Loans' as the case may be and separately from current assets and current liabilities.</p> <p>Accordingly, it was viewed that the presentation of 'Foreign currency monetary item translation difference account' is not correct and it should be shown after the head of</p>

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		'Investments'.
9.	From the Annual Report of a company, it has been noted that the Balance Sheet of a company included "Foreign currency monetary item Translation difference account."	<p>It was observed from the Balance Sheet that "Foreign Currency Monetary Item Translation Difference Account" has been disclosed which indicates that the company has exercised the option of accumulating the exchange difference in the said account. It was, accordingly, viewed that on adoption of such policy, additional disclosures are required as prescribed in FAQ to Q.23 in 'Frequently Asked Questions on AS 11 notification –Companies (Accounting Standards) Amendment Rules, 2009 issued by Ministry of Corporate Affairs which states as follows:</p> <p>"23...</p> <p>Additional Disclosures are:</p> <p>(a) That the company has chosen to avail the option.</p> <p>(b) Amount of amortisation charged to the profit and Loss Account.</p> <p>(c) Amount remaining to be amortised in the financial statements of the period in which such option is exercised and in every subsequent period so long as the exchange</p>

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		<p>differences remain unamortised.</p> <p>(d) Comparative figures should be furnished based on last audited figures.</p> <p>(e) The effect of adjustment (relating to amounts previously recognised) made through general reserve or if no balance is available through the balance in opening surplus/deficit in the Profit and Loss Account.”</p> <p>However, no such disclosures have been made by the company. It was further noted that the amount relating to foreign currency monetary item translation difference has been written off during the year but no information relating to same has been disclosed in notes to accounts.</p> <p>Hence, the requirements of AS 11 have not been complied with.</p>
10.	<p>From a note relating to foreign currency translation difference, the following has been noted :</p> <p>‘Exchange difference in respect of forward exchange contracts to be recognised in the Statement of Profit and Loss in subsequent accounting period</p>	<p>It may be noted that paragraph 36 of AS 11, <i>inter alia</i> provides as follows:</p> <p>“36. Exchange differences on such a contract should be recognised in the statement of profit and loss in the reporting period in which the exchange rates change. Any</p>

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	<p>is.....'</p>	<p><i>profit or loss arising on cancellation or renewal of such a forward exchange contract should be recognised as income or as expense for the period.</i></p> <p>It was observed from the stated note that a part of the exchange difference on forward exchange contract has not been recognised. It was viewed that as per paragraph 36 of AS 11, exchange difference on forward exchange contracts should be recognised in the reporting period in which the exchange rate changes rather than recognising them in the subsequent periods. Accordingly, it was viewed that the requirements of AS 11 have not been complied with.</p>
<p>11.</p>	<p>In the Annual Report of company, accounting policy relating to foreign exchange transactions has been stated as follows:</p> <p>'Transactions involving foreign exchange are translated into Rupee in the basis of prevailing exchange rates on the date of transaction. Impact of difference in exchange rate is accounted in the year period in which the transactions are finally determined (emphasis</p>	<p>It may be noted that paragraph 11 of AS 11, provides as follows:</p> <p><i>"11. At each Balance Sheet date:</i></p> <p><i>(a)...</i></p> <p><i>(b) foreign currency monetary items should be reported using the closing rate.....</i></p> <p><i>(c) Non-monetary items which are carried in terms</i></p>

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		<p><i>exception of exchange differences dealt with in accordance with paragraph 15.”</i></p> <p>“14. An exchange difference results when there is a change in the exchange rate between the transaction date and the date of settlement of any monetary items arising from a foreign currency transaction. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognised in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognised in each intervening period up to the period of settlement is determined by the change in exchange rates during that period.”</p> <p>It was observed from the accounting policy that exchange difference arising was accounted only when finally determined. It was viewed that the phrase ‘finally determined’ indicates as when finally settled. It was viewed that exchange difference on monetary items should be recognised at each reporting period as well as when finally settled. Hence, the</p>
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		accounting policy to the extent is again not in line with the requirements of paragraph 13 of AS 11.
12.	<p>From the Annual Report of a company, accounting policy relating to Foreign Currency Transactions has been stated as follows:</p> <p>‘...The gain or loss relating to long term monetary items for financing acquisition of capital assets is adjusted to the acquisition cost of such assets and depreciated over their remaining useful lives.’</p>	<p>It may be noted that paragraph 46A of AS 11, provides that:</p> <p>“46A.</p> <p>...</p> <p>(2) To exercise the option referred to in sub-paragraph (1), an asset or liability shall be designated as a long-term foreign currency monetary item, if the asset or liability is expressed in a foreign currency and has a term of twelve months or more at the date of origination of the asset or the liability:</p> <p><i>Provided that the option exercised by the enterprise shall disclose the fact of such option and of the amount remaining to be amortized in the financial statements of the period in which such option is exercised and in every subsequent period so long as any exchange difference remains unamortized.(emphasis supplied)”</i></p> <p>It was noted that although the fact of exercising the option provided in paragraph 46A of</p>

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		<p>AS 11 has been disclosed, the amount remaining unamortised as at the end of the period has not been disclosed anywhere in notes to accounts.</p> <p>Accordingly, it was viewed that the requirements of AS 11 have not been complied with.</p>
13.	<p>From the Annual Report of a company, accounting policy on Foreign Currency Transactions has been stated as follows:</p> <p>(i) Foreign currency transactions during the year are accounted for in the reporting currency at the exchange rates prevailing on the date of the respective transaction in accordance with the Revised Accounting Standard 11 for “The Effects of Changes in Foreign Exchange Rates” Exchange difference arising on settlement of transactions and/ or restatements are dealt with in the Statement of Profit & Loss. Exchange difference arising on reporting \settlement of long term foreign currency monetary items (other than depreciable non current assets) at rates different from those at which they</p>	<p>The following discrepancies have been noted with regard to foreign currency transactions:</p> <p>i It may be noted that paragraph 11 of AS 11, provides as follows:</p> <p>“11. At each balance sheet date :</p> <p>(b) Non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction</p> <p>(c) non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency should be reported using the exchange rates that existed</p>

	<p>are initially recorded during the period which were earlier being recognised in the Statement of Profit & Loss are now being accumulated in "Foreign Exchange Translation Reserve" and would be accounted for in the Statement of Profit & Loss in the year in which transaction is complete.'</p>	<p><i>when the values were determined."</i></p> <p>It was viewed from the above paragraph that foreign currency items are classified into monetary items and non-monetary items for application of AS 11. However, it was noted from the stated accounting policy that although the accounting policy relating to monetary items has been disclosed, there is no disclosure of the accounting policy relating to non-monetary items as required by paragraph 11 of AS 11.</p> <p>ii It was noted that exchange difference on reporting long term foreign currency monetary items are being accumulated in "Foreign Exchange Translation Reserve" as per the requirements of clause (1) to paragraph 46A of AS 11. However, neither the fact of exercising the option provided in paragraph 46A of AS 11 nor the amount remaining unamortized as at the end of the period has been disclosed.</p> <p>Accordingly, it was viewed that the accounting policy adopted for foreign currency transactions</p>
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		is not in line with AS 11.
14.	<p>It has been noted that significant accounting policy on Foreign Currency Transactions of a company states as follows:</p> <p>'(ii) In order to hedge its exposure to foreign exchange, the Company enters into forward contracts. The Company do not hold derivative financial instrument for speculative purposes. Derivative financial instrument are initially recorded at their fair value on the date of the derivative transaction and are re-measured at their fair value at subsequent balance sheet dates. Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recorded as equity. Amount deferred to equity are recycled in the Statement of Profit and Loss in the period when the hedged item is recognised in the Statement of Profit and Loss.</p> <p>Hedge accounting is discounted when the hedging instrument expires or sold, terminated or exercised or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until</p>	<p>The following discrepancies were noted with regard to accounting policy on forward exchange contracts:</p> <p>i It was noted from the reproduced paragraph that company enters into forward contracts. It was not clear from the information available as to whether forward contracts taken were covered by AS 11 or AS 30 and the circumstances based on which derivative contracts are differently treated under both the standards.</p> <p>ii It was also not clear from the stated policy as to whether such contracts were entered to hedge foreign currency risk of existing assets/ liabilities or its future transactions. Hence, it was not possible to assess the nature of transaction being covered by fair value hedge and cash flow hedge are correct or not.</p> <p>iii From the disclosure made, it appears that the company had early adopted AS 30, Financial Instruments: Recognition and</p>

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	<p>the forecast transactions occur. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net Profit or Loss for the year. Derivative embedded in other financial instrument or other host contract are treated as separate derivatives when their risk and characteristics are not closely related to those of host contract and the host contract are not carried at fair value with unrealised gain or losses reported in the Statement of Profit and Loss.'</p>	<p>Measurement, AS 31, Financial Instruments: Presentation and AS 32, Financial Instruments: Disclosures but such fact has not been disclosed. Further, the extent to which AS 11 and AS 30 have been opted is also not clear.</p> <p>iv It was noted that only the accounting treatment in respect of cash flow hedges has been disclosed. However, the types of contracts entered into and the circumstances when it is treated as cash flow hedge or fair value hedge has not been disclosed.</p> <p>v Further, it was noted that the determination of the effectiveness of the hedge as well as other related disclosures have also not been made.</p> <p>Accordingly, it was viewed that from the stated policy, it is not clear whether AS 11 and AS 30 has been correctly adopted or not.</p>
15.	<p>From the accounting policies on 'Foreign Currency transactions' as given under Significant Accounting Policies of a company, the following has been</p>	<p>It may be noted that paragraphs 9 and 11 of AS 11, provide as follow:</p> <p>"9. A foreign currency transaction should be</p>

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<p>noted:</p> <p>'Investments are stated at cost. Investments in shares of fully owned foreign subsidiary are stated at cost and expressed in Indian rupees at the rate of exchange prevailing at the time of actual remittance(emphasis added)'.</p> <p>'Transactions in foreign currency are recorded in rupees by applying rate of exchange prevailing at the time of transaction and exchange differences arising on settlements except for acquisition of fixed assets which are dealt with in the Statement of Profit & Loss. Unsettled transactions are converted at the year-end rate and gain or loss arising on such transaction is recognised in the Statement of Profit & Loss except in respect of exchange differences arising on repayment of foreign currency liabilities incurred for acquiring fixed assets which are adjusted in the carrying cost of the respective fixed assets(emphasis added)'.</p>	<p><i>recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction."</i></p> <p>"11. At each balance sheet date:</p> <p>(a) foreign currency monetary items should be reported using the closing rate.</p> <p><i>However, in certain circumstances, the closing rate may not reflect with reasonable accuracy the amount in reporting currency that is likely to be realised from, or required to disburse, a foreign currency monetary item at the balance sheet date, e.g., where there are restrictions on remittances or where the closing rate is unrealistic and it is not possible to effect an exchange of currencies at that rate at the balance sheet date. In such circumstances, the relevant monetary item should be reported in the reporting currency at the amount which is likely to be realised from, or</i></p>
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		<p><i>required to disburse, such item at the balance sheet date;</i></p> <p><i>(b) non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction; and</i></p> <p><i>(c) non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined.”</i></p> <p>It was noted that the investment in shares of foreign subsidiary has been recognised at the rate prevailing at the time of actual remittance of foreign currency rather than recognising the same at the rate prevailing on the date of transaction. Similarly, fixed assets acquired in foreign currencies are initially accounted at the rate of exchange ruling on the date of acquisition. However, the differences are accounted on repayment of foreign currency liability. This <i>prima facie</i> suggests that foreign currency</p>
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		<p>liabilities for acquisition of fixed assets are not translated at the Balance Sheet date.</p> <p>Accordingly, it was viewed that requirements of AS 11 have not been complied with.</p>
16.	<p>The accounting policy for foreign currency transaction given in the Annual Report of company reads as follows:</p> <p>'Foreign currency transactions</p> <p>Foreign currency transactions are accounted at the exchange rate prevailing on the date of transactions. Gains or losses resulting from the settlement of such transaction and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the Statement of Profit and Loss. <i>In cases where they relate to acquisition of fixed assets, they are adjusted to the carrying cost of such assets. (emphasis supplied)</i></p>	<p>It may be noted that that paragraph 46A of AS 11, provides as follows:</p> <p><i>"46A. In respect of accounting periods commencing on or after the 7th December 2006, (such option to be irrevocable and to be applied to all such foreign currency monetary items), the exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and should be depreciated over the balance life of the asset, ..."</i></p> <p>It was noted from the stated accounting policy that <i>prima facie</i> all foreign exchange differences related to acquisition of any fixed asset in foreign currency are adjusted to the</p>

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		<p>cost of such assets.</p> <p>It was viewed that such adjustment is permitted only if such exchange difference has arisen on long term foreign currency monetary items incurred for acquisition of a depreciable fixed asset. It was noted that in the given case neither the stated accounting policy nor the Balance Sheet indicates existence of any foreign currency monetary items. Hence, adjustment of any foreign exchange rate variation to the cost of fixed asset was observed to be not in line with the requirements of AS 11.</p>
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Observations on Accounting Standard (AS) 12: Accounting for Government Grants

S. No	Matters contained in the Annual Report	Observations
1.	<p>From the Annual Reports of some companies, it has been noted that the following subsidies have been received by these companies as disclosed in the financial statements:</p> <ul style="list-style-type: none">• Capital Incentive Subsidy• Central Investment Subsidy• Special Capital Subsidy• Grant From National Highway Authority Of India (Equity Support)	<p>It may be noted that paragraph 23 of AS 12, requires as follows:</p> <p>“23. The following should be disclosed:</p> <p>(i) the accounting policy adopted for government grants, including the methods of presentation in the financial statements;</p> <p>(ii) the nature and extent of government grants recognised in the financial statements, including grants of non-monetary assets given at a concessional rate or free of cost.”</p> <p>It was observed that these companies are in receipt of government grants in the nature of capital grants. However, the accounting policies as adopted by these companies for recognising such government grants have not</p>

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		<p>been disclosed.</p> <p>Accordingly, it was viewed that the requirements of paragraph 23 of AS 12 have not been complied with.</p>
2.	<p>In the Annual Reports of a couple of companies following accounting policies on government grants have been disclosed :</p> <ul style="list-style-type: none"> • Grants and Capital subsidy from the government is credited to Capital Reserve. Further, in accordance with the guidelines issued by ICAI, proportionate amount to the extent of depreciation charged, is being transferred to surplus in the Statement of Profit and Loss in case of grant received in relation to acquisition of any assets. • In case of depreciable assets, the cost of the asset is shown at gross value and grant thereon is taken to Capital Reserve which is recognised as income in the Statement of Profit and Loss over the useful life period of the asset. <p>In both the cases a portion of the grant has been transferred from capital reserve to Statement of Profit and Loss during the year</p>	<p>It may be noted that paragraph 14 of AS 12, <i>inter alia</i>, states that:</p> <p>“14. Government grants related to specific fixed assets should be presented in the balance sheet by showing the grant as a deduction from the gross value of the assets concerned in arriving at their book value. Alternatively, government grants related to depreciable fixed assets may be treated as deferred income which should be recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset, i.e., such grants should be allocated to income over the periods and in the proportions in which depreciation on those assets is charged...”</p> <p>It was noted from above that subsidy received against a depreciable asset is either shown as deduction from gross value of the asset to arrive at its book value or treated as deferred income which is recognised in the Statement of Profit and Loss on a systematic and rational basis</p>

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	<p>under review.</p>	<p>over the useful life of the asset.</p> <p>However, in both the cases the grants/subsidy has been credited to capital reserve instead of treating it as deferred income as required by the above paragraph.</p> <p>Accordingly, it was viewed that the accounting policies adopted by these companies for recognition of government grants are not in compliance with the requirements of AS 12.</p>
<p>3.</p>	<p>In the Annual Report of a company, the following accounting policies on government grants have been disclosed:</p> <p>a) The Company is registered under the West Bengal Incentive Scheme 2000 & 2004 of the Director of Industries, Government of West Bengal. Under the said scheme the Company is entitled to receive Capital Investment Subsidy, Interest Subsidy, Employment Generation Subsidy, and Remission of Stamp Duty & Registration Fee. These shall be accounted for in the year of receipt and/or crystallisation.</p> <p>b) The Company has been granted eligibility certificate</p>	<p>It may be noted that paragraphs 15 and 23(ii) of AS 12, state as follows:</p> <p>“15. Government grants related to revenue should be recognised on a systematic basis in the profit and loss statement over the periods necessary to match them with the related costs which they are intended to compensate. Such grants should either be shown separately under ‘other income’ or deducted in reporting the related expense.”</p> <p>“23. The following should be disclosed:</p> <p>(i)</p> <p>(ii) the nature & extent of government grants recognised in the financial statements, including</p>

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	<p>under the West Bengal Incentives to Power Intensive Industries Scheme, 2005, promulgated by the Department of Commerce & Industries, Government of West Bengal. Under the said scheme, the Company is entitled to receive incentive on energy charges, which has been accounted for in the books on accrual basis.</p>	<p>grants of non-monetary assets given at a concessional rate or free of cost”.</p> <p>It was observed from the accounting policies that the company was entitled to receive certain subsidies in the nature of ‘grants related to revenue’ viz. interest subsidy and incentive on energy charges. It may be noted that according to paragraph 15 as stated above such grants should either be shown separately in the Statement of Profit and Loss under the head ‘other income’ or deducted in reporting the related expense. It was, however, observed that such grants have neither been shown under other income nor deducted from the related expense. Further, although the nature and timing of recognising the grants have been disclosed, the extent of such grants recognised in the financial statements has not been disclosed as required as per paragraph 23(ii).</p> <p>Accordingly, it was viewed that the requirements of paragraphs 15 and 23(ii) of AS 12 have not been complied with.</p>
<p>4.</p>	<p>In the Annual Report of a company the following accounting policy on government</p>	<p>It may be noted that paragraph 16 of AS 12, provides as follows: “16. Government grants of the</p>

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	<p>grants has been disclosed:</p> <p>'Government grants availed in the nature of capital investment subsidy and other subsidies under the West Bengal Incentive Scheme are treated as income of the year on sanction of the same and shown separately in the Statement of Profit and Loss. Subsidies in the nature of the revenue item are deducted from the respective expenditures.'</p> <p>The subsidy received during the year under review has been disclosed under 'other income'.</p>	<p><i>nature of promoters' contribution should be credited to capital reserve and treated as a part of shareholders' funds."</i></p> <p>It was noted from the stated policy that capital investment subsidy which is in the nature of promoters' contribution has been credited to the Statement of Profit and Loss. However, according to paragraph 16 as stated above this subsidy should have been credited to capital reserve and treated as a part of shareholders funds.</p> <p>It was, therefore, viewed that the requirements of paragraph 16 of AS 12 have not been complied with.</p>
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Observations on Accounting Standard (AS) 13: Accounting for Investments

S. No	Matters contained in the Annual Report	Observations
1.	<p>In the Annual Reports of a number of companies the accounting policies with regard to valuations of long-term investments have been stated as follows:</p> <ul style="list-style-type: none"> • Long-term investments are carried at cost. No provision is being made for diminution in the value of investments as they are long-term investments. • Non-current Investments are stated at cost. No provision for diminution in value, if any, has been made as these are long-term investments and in the opinion of the management any decline is temporary. • Investments other than current investments, made by the company are intended to be held for long-term; hence, diminutions in value of quoted investments 	<p>It may be noted that paragraph 32 of AS 13, provides that:</p> <p><i>“32. Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.”</i></p> <p>From the stated policies it is noted that in certain cases provision for diminution in value of long-term investments is not made as these are long-term investments or in the opinion of the management any decline is temporary or diminutions in value are not considered to be of permanent nature. It was viewed that presuming every decline to be temporary or not</p>

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	<p>are generally not considered to be of permanent nature.</p> <ul style="list-style-type: none"> • Long-term investments are stated at cost. • Long-term Investments are stated at Cost and provision for diminution in value in the perception of the management will only be considered. • Long-term investments are stated at cost less provision, if any, for permanent diminution in value. • Long-term investments are carried at costs. Provision for diminution in the value of long- term investments has been made as applicable. 	<p>of permanent nature may not be correct. Based on prevailing facts and circumstances one may decide whether any decline is a 'temporary decline' or 'other than temporary' decline.</p> <p>In few cases the policy simply states that long-term investments are valued at cost. This indicates that provision for diminution in value has not been considered. In one case, provision is considered only on the basis of management perception. In some other cases, long-term investments are stated at cost less provision, if any, for permanent diminution in value. It was viewed that there is a difference between 'permanent diminution in the value of investments' and 'other than temporary diminution in value of investments'.</p> <p>Accordingly, it was viewed that the stated policies on valuation of long term investments are not in line with the requirements of paragraph 32 of AS 13.</p>
2.	<p>In the Annual Reports of some companies the accounting policies with regard to valuation of current investments have been stated as follows:</p> <ul style="list-style-type: none"> • Current Investments are valued at cost or market 	<p>It may be noted that paragraph 31 of AS 13, provides as follows:</p> <p><i>"31. Investments classified as current investments should be carried in the financial statements at the lower of</i></p>

Observations on Accounting Standards (AS) 13: Accounting for Investments

	<p>value, whichever is lower.</p> <ul style="list-style-type: none"> • Current investments are stated at lower of cost and net realisable value. • Current Investments, if any, are carried at lower of costs and quoted/fair value, computed category-wise. • Short-term Investments are valued at lower of cost and market value compared on a scrip- wise basis. • Current investments are valued at lower of cost or fair market value. 	<p><i>cost and fair value determined either on an individual investment basis or by category of investment, but not on an overall (or global) basis.</i></p> <p>From the stated accounting policies, it has been noted that in certain cases, the current investments have been valued at lower of cost and market value. In couple of other cases, these were valued at lower of cost and net realisable value/quoted value. It was viewed that these companies have not considered fair value of current investments. As per paragraph 3.5 of AS 13, fair value is defined as <i>“the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm’s length transaction. Under appropriate circumstances, market value or net realisable value provides an evidence of fair value.”</i></p> <p>Accordingly, it was viewed that the market value of investment does not always reflect its fair value until or unless there is an active market for such investments. In the absence of such information, adopting such</p>
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		policy is considered to be not in line with the requirements of paragraph 31 of AS 13.
3.	In the Annual Reports of few companies it has been noted that though these companies have both non-current and current investments of significant amounts, the accounting policies adopted by them for valuation of such investments have either not been disclosed or have been partly disclosed in the financial statements.	<p>It may be noted that paragraph 35 (a) of AS 13, requires that:</p> <p>“35. The following information should be disclosed in the financial statements:</p> <p>(a) the accounting policies for determination of carrying amount of investments;”</p> <p>In the reported cases, it was noted that these companies have both non-current and current investments of significant amounts, however, one company has not disclosed any accounting policy for determination of carrying amounts of such investments while the other companies have disclosed accounting policies only either with regard to long-term investments or with regard to current investments.</p> <p>Accordingly, it was viewed that the requirements of AS 13 have not been complied with.</p>
4.	In the note on investments as given in the Annual Reports of a number of companies, investments have been classified in various ways as	<p>It may be noted that paragraphs 26 and 35(e) of AS 13, provide that:</p> <p>“26. An enterprise should disclose current investments</p>

Observations on Accounting Standards (AS) 13: Accounting for Investments

<p>summarised below:</p> <ul style="list-style-type: none"> • Long-term investments in wholly-owned subsidiaries. Current Investments. • Short term investments in mutual funds (unquoted). • Unquoted and valued at cost; Quoted and valued at cost. • Non-current Investments and Current Investments. • Non-current Investments – Quoted and Unquoted. • Investments • Investments – Quoted and Unquoted. • Current Investments (Unquoted) • Investments – Trade (Quoted) and Trade (Unquoted) • Non –Current Investments 	<p><i>and long term investments distinctly in its financial statements.”</i></p> <p><i>“35(e) the aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments.”</i></p> <p>It has been noted that in few cases, the investments have not been classified as current investments and long-term investments. It has been further noted that in some cases investments have not been classified between trade investments and other investments. In few cases aggregate value of unquoted investments has not been disclosed while in some other cases market value of quoted investments has not been disclosed. In one case, it simply states Investments and nothing else has been disclosed.</p> <p>In another case, investments have been classified as short-term investments and long-term investments. It was viewed that such classification is not in line with the requirements of paragraph 26 of AS 13, which prescribes the classification of investments as current and long-term investments.</p>
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		<p>Accordingly, it was viewed that the stated classifications of investments do not fully comply with the requirements of AS 13 as well as paragraph 6k(i) of Notes to General Instructions for preparation of Balance Sheet given under Revised Schedule VI to the Companies Act, 1956.</p>
<p>5.</p>	<p>In the Annual Reports of some companies, accounting policies on investments have been disclosed as follows:</p> <ul style="list-style-type: none"> • Investments are stated at cost. • Investments are carried at lower of cost or market value and provision is made to recognise any decrease in the carrying value, as applicable. Unquoted investments are accounted at cost. 	<p>It may be noted that paragraphs 26, 31 and 32 of AS 13 provide as below:</p> <p><i>“26. An enterprise should disclose current investments and long term investments distinctly in its financial statements.”</i></p> <p><i>“31. Investments classified as current investments should be carried in the financial statements at lower of cost and fair value determined either on an individual investment basis or by category of investment, but not on an overall (or global) basis.”</i></p> <p><i>“32. Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a</i></p>

Observations on Accounting Standards (AS) 13: Accounting for Investments

		<p><i>decline other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.”</i></p> <p>From the above, it was noted that the method of valuation of investments depends upon the nature of the investment i.e. whether it is current investments or long- term.</p> <p>However, in one case, it was observed that there is a blanket policy of carrying all investments at cost, and in the other case, it states ‘at lower of cost and market value and provision is made to recognise any decrease in the carrying value, as applicable’. As regards unquoted investments, it is being carried at cost regardless of the nature of such investments.</p> <p>It was viewed that valuing investments without considering the purpose and/or the period for which these are intended to be held is against the requirements of AS 13. Further, considering market value rather than fair value is also not in line with the requirement of AS 13.</p>
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<p>6.</p>	<p>From the Annual Reports of some companies it has been noted that Other Income <i>inter alia</i> includes the following:</p> <ul style="list-style-type: none"> • Profit on sale of Investments <li style="padding-left: 20px;">Less: Loss on sale of Investments • Dividend Income • Gain of investments sold, net • Dividend Income on Investment in Subsidiaries Investment in Associates Other Investments • Profit on sale of investments • Interest received • Interest-Others <p>In the Annual Report of couple of other companies one of the notes to accounts states as follows:</p> <ul style="list-style-type: none"> • Miscellaneous income includes income from mutual fund investments (non-trade) of Rs. xxx. • Other Operational Treasury Income includes income 	<p>It may be noted that paragraph 35(c) of AS 13, requires following disclosures:</p> <p><i>“35(c) the amounts included in profit and loss statement for:</i></p> <p><i>(i) Interest, dividends (showing separately dividends from subsidiary companies), and rentals on investments showing separately such income from long term and current investments. Gross income should be stated, the amount of income tax deducted at source being included under Advance Taxes Paid.”</i></p> <p><i>(ii) profits and losses on disposal of current investments and changes in the carrying amount of such investments;</i></p> <p><i>(iii) Profits and losses on disposal of long term investments and changes in the carrying amount of such investments.”</i></p> <p>It may be noted that paragraph 9.2.4 of General Instructions to the Revised Schedule VI as given in ‘Guidance Note on the</p>
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	<p>from mutual fund operation of Rs. xxx, Profit on sale of investments of Rs.xxx and Dividend income of Rs xxx.</p>	<p>Revised Schedule VI to the Companies Act, 1956, also requires that:</p> <p>“Other income items such as interest income, dividend income and net gain on sale of investments should be disclosed separately for Current as well as Long-term Investments as required by AS 13 “Accounting for Investments...”</p> <p>It may be noted from the above requirements that dividend and interest income from investments as well as profit or loss on disposal thereof should be disclosed separately for current investments and long-term investments.</p> <p>It was, however, observed that in none of the reported cases the nature of investment from which dividend/interest income and profit/loss from sale of investment have arisen viz. current investments and/ or long term investments has been disclosed.</p> <p>Accordingly, it was viewed that such presentation is not in line with the requirements of AS 13 as well as Revised Schedule VI to the Companies Act, 1956.</p>
7.	The note on Non-current Investments (Long-term	It may be noted that paragraph 3.1 of AS 13, states as follows:

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	<p>Investments) as given in the Annual Report of a company states as follows:</p> <p>Additional contribution on account of Fair valuation of Corporate Guarantee to the Lenders of its Subsidiary Companies*Rs xxx</p> <p>*Additional contribution represents, the fair value of commission determined in terms of AS 30 in respect of corporate guarantee given by the company for financial facilities availed by its whollyowned subsidiaries.</p>	<p><i>“3.1 Investments are assets held by an enterprise for earning income by way of dividends, interests, and rentals, for capital appreciation, or for other benefits to the investing enterprise. Assets held as stock-in-trade are not ‘investments’.”</i></p> <p>From the above definition of investments, it was viewed that such additional contribution made for corporate guarantee given to lenders of subsidiary companies cannot be considered to be an asset held for earning income nor such contribution appears to enhance the company’s financial rights on the subsidiaries. Hence, its inclusion under the head investment is not in line with the requirements of AS 13.</p> <p>It has further been observed from the footnote to the note on investments that such contribution represents the fair value of commission determined in terms of AS 30 in respect of corporate guarantee. It was viewed that AS 13 does not prescribe fair value of guarantee to be considered as ‘investments’.</p>
8.	The following accounting policy on investments has been	It may be noted that paragraph

Observations on Accounting Standards (AS) 13: Accounting for Investments

	<p>disclosed in the Annual Report of a company:</p> <p>'Investments are classified as long-term and current on the basis of decision taken by the Board of Directors at the time of making Investments.'</p>	<p>35 (a) of AS 13, requires that:</p> <p>“35. The following information should be disclosed in the financial statements:</p> <p>(a) the accounting policies for determination of carrying amount of investments;</p> <p>It was observed that as disclosed in the accounting policy the classification of investments as current and long-term investments is based on the decision taken by the Board of Directors. However, the policy for determination of carrying amount of investments has not been disclosed.</p> <p>Accordingly, it was viewed that the stated policy is not in line with the requirement of paragraph 35(a) of AS 13.</p>
9.	<p>From the Annual Report of a company, it has been noted that the accounting policy on investment <i>inter alia</i> states that cost includes interest attributable to funds borrowed for acquisition of investments (equity instruments).</p>	<p>It was noted from the stated policy that cost includes interest on funds borrowed for acquisition of investments. It may be noted that AS 16 prescribes that borrowing cost can be capitalised if it is directly attributable to acquisition of a qualifying asset. Further, qualifying asset has been defined as an asset that necessarily takes a substantial</p>

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		<p>period of time to get ready for its intended use or sale.</p> <p>It was viewed that equity instruments are available for their intended use or sale when acquired and hence capitalisation of borrowing cost with the cost of investments is against the principles of AS 16.</p>
10.	<p>In the Annual Report of a company, it has been noted that its investment in a wholly-owned subsidiary has been stated at nil value at the end of the year under review while in the previous year significant value has been stated for which no provision for diminution in value exists in the books although the accounting policy on investments states that long-term investments are stated at cost, less provision for other than temporary diminution in value, if any.</p> <p>It appears from the note to the financial statements that investment in wholly owned subsidiary has been written off during the year and this writing down has been done as part of an internal restructuring. The note further states that over last few years, the performance of the subsidiary was affected due to the recession which impacted</p>	<p>It may be noted that paragraph 17 of AS 13, provides that:</p> <p>“17. Long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long term investment, the carrying amount is reduced to recognise the decline. Indicators of the value of an investment are obtained by reference to its market value, the investee’s assets and results and the expected cash flows from the investment. The type and extent of the investor’s stake in the investee are also taken into account. Restrictions on distributions by the investee or on disposal by the investor may affect the value attributed to the investment.”</p> <p>It was noted from the note on investments as well as note to the financial statements that the investment in the subsidiary has been written off during the year</p>

Observations on Accounting Standards (AS) 13: Accounting for Investments

	<p>the end customers resulting in falling revenues and operational losses. Subsequently, it has been decided to wind up this subsidiary.</p>	<p>under the review. It was further noted from note that over last few years, the performance of the subsidiary was affected due to the recession, which resulted in falling revenue and operational losses.</p> <p>It was viewed that an appropriate provision against the investments in the subsidiary should have been recognised in the years when the indication of decline in value of investment other than temporary had arisen instead of writing it off only when the decision to wind up the subsidiary has been taken.</p> <p>Accordingly, it was viewed that the requirements of AS 13 have not been complied with.</p>
11.	<p>In the Annual Report of a company cost of sales has been shown as follows:</p> <p>Opening stocks Add: Purchase of Goods Add: Purchase of Shares Less: Closing Stock of Goods Less: Closing Stock of Shares</p> <p>Further the related accounting policy is set out below:</p> <p>“...Securities acquired with the</p>	<p>It has been noted that the company was dealing in shares as well as goods and therefore closing stock comprises of both goods and shares.</p> <p>With regard to shares held as stock-in-trade, it was observed from the stated accounting policy that investments classified as stock-in-trade were valued at cost or market price whichever is lower.</p> <p>It may be noted that paragraph 1(c) of AS 2, Valuation of</p>

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	<p>intention to trade considered as stock-in-trade. Investment classified as “stock-in-trade” are valued at cost or market price, whichever is lower...”</p>	<p>Inventories and footnote 1 as given under AS 13, Accounting for Investment, provide as follows:</p> <p>AS 2</p> <p><i>“1. This Standard should be applied in accounting for inventories other than: (c) shares, debentures and other financial instruments held as stock-in-trade; and”</i></p> <p>...</p> <p>“Footnote 1 under AS 13</p> <p>¹ Shares, debentures and other securities held as stock-in-trade (i.e., for sale in the ordinary course of business) are not ‘investments’ as defined in this Standard. However, the manner in which they are accounted for and disclosed in the financial statements is quite similar to that applicable in respect of current investments. Accordingly, the provisions of this Standard, to the extent that they relate to current investments, are also applicable to shares, debentures and other securities held as stock-in-trade, with suitable modifications as specified in this Standard.”</p> <p>From the above, it was viewed that the investments held as stock-in-trade should be valued</p>
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Observations on Accounting Standards (AS) 13: Accounting for Investments

		<p>on the basis of principles prescribed for current investments under AS 13.</p> <p>It may further be noted that paragraph 31 of AS 13, provides that:</p> <p><i>“31. Investments classified as current investments should be carried in the financial statements at the lower of cost and fair value determined either on an individual investment basis or by category of investment, but not on an overall (or global) basis.”</i></p> <p>It was therefore observed that shares held as stock-in-trade should have been valued at lower of cost and fair value. However, in the reported case, such shares have been valued at lower of cost and market price.</p> <p>It was viewed that it is not always necessary that fair value of investment is reflected by its market value until or unless there is an active market for such investments. Accordingly, the accounting policy as adopted for valuation of shares held as stock in trade is not in line with the requirements of paragraph 31 of AS 13.</p>
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Observations on Accounting Standard (AS) 14: Accounting for Amalgamations

S. No	Matters contained in the Annual Report	Observations
1.	From the note on fixed assets given in the Annual Report of a company, it has been noted that the fixed assets include Goodwill on Amalgamation, which is amortised over a period of five years.	<p>It may be noted that paragraph 38 of AS 14, provides that:</p> <p><i>“38. The goodwill arising on amalgamation should be amortised to income on a systematic basis over its useful life. The amortisation period should not exceed five years unless a somewhat longer period can be justified.”</i></p> <p>It was observed that Goodwill on Amalgamation has been amortised over a period of five years and that approximately 60% of the cost of goodwill has been amortised till the previous year. However, no amount has been amortised during the current year i.e. the year under review.</p> <p>It was, therefore, viewed that no systematic basis of amortising Goodwill on Amalgamation has been followed, which is not in line with the requirement of paragraph 38 of AS 14.</p>

Observations on Accounting Standard (AS) 15: Employee Benefits

<p>2.</p>	<p>From the note on accounting for amalgamation as given in the Annual Report of a company, it has been noted that various disclosures have been given with regard to amalgamations. Further, it has been noted that accounting for amalgamations has been done under the pooling of interest method and the number of equity shares issued has been disclosed.</p>	<p>It may be noted that paragraph 43 of AS 14, provides that:</p> <p>“43. For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamation:</p> <p>(a) names and general nature of business of the amalgamating companies;</p> <p>(b) effective date of amalgamation for accounting purposes;</p> <p>(c) the method of accounting used to reflect the amalgamation; and</p> <p>(d) particulars of the scheme sanctioned under a statute.”</p> <p>It was observed from the financial statements that although various disclosures as required under paragraph 43 have been made, the general nature of business of the amalgamating company has not been disclosed.</p> <p>It was further noted that the amalgamation has been accounted for under the pooling of interest method, which requires the following additional disclosures as prescribed in</p>
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		<p>paragraph 44 of AS 14:</p> <p><i>“44. For amalgamations accounted for under the pooling of interests method, the following additional disclosures should be made in the first financial statements following the amalgamation:</i></p> <p><i>(a) description and number of shares issued, together with the percentage of each company’s equity shares exchanged to effect the amalgamation;</i></p> <p><i>(b) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.”</i></p> <p>It was observed that although the number of equity shares issued has been disclosed, the percentage of each company’s equity shares exchanged and the accounting treatment of the difference, if any, between the consideration and the value of net assets acquired has not been disclosed.</p> <p>Thus, it was viewed that the disclosure requirements under paragraphs 43 and 44 of AS 14 have not been fully complied with.</p>
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Observations on Accounting Standard (AS) 15: Employee Benefits

<p>3.</p>	<p>A detailed note on the Schemes of Amalgamation and Arrangement of the earlier years as given in the Annual Report of a company inter alia states as follows:</p> <p>‘Scheme of Amalgamation and Arrangement of the earlier years</p> <p>The Company, during the past years, undertook various Schemes, including restructuring of ownership structure so as to align the interest of the shareholders. Accordingly, pursuant to the Schemes of Amalgamation and Arrangement (“the Scheme”) under Sections 391 to 394 of the Companies Act, 1956 approved by the Hon’ble High Courts of respective judicature, the company, during the respective years, recorded all necessary accounting effects, along with requisite disclosure in the notes to the accounts. The cumulative effects of the Schemes have been disclosed:</p> <p>...</p> <p>(i) General Reserves I of Rs. xxx representing the unadjusted balance being the excess of assets over liabilities relating to Telecommunications Undertaking transferred to</p>	<p>It may be noted that paragraph 42 of AS 14, provides that:</p> <p>“42. Where the scheme of amalgamation sanctioned under a statute prescribes the treatment to be given to the reserves of the transferor company after amalgamation, the same should be followed. Where the scheme of amalgamation sanctioned under a statute prescribes a different treatment to be given to the reserves of the transferor company after amalgamation as compared to the requirements of this Standard that would have been followed had no treatment been prescribed by the scheme, the following disclosures should be made in the first financial statements following the amalgamation:</p> <p>(a) A description of the accounting treatment given to the reserves and the reasons for following the treatment different from that prescribed in this Standard.</p> <p>(b) Deviations in the accounting treatment given to the reserves as prescribed by the scheme of amalgamation sanctioned under the statute as compared to the</p>
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	<p>and vested in the Company.</p> <p>(ii) Reserve for Business Restructuring of Rs xxx representing the unadjusted balance of revaluation of investment in xxx Ltd ... after withdrawing an amount equivalent to writing off Passive Infrastructure assets, ... transferred to the Statement of Profit and Loss balance in Reserve for Business Restructuring shall be available to meet the increased depreciation, costs, expenses and losses including on account of impairment of or write down of assets etc.</p> <p>(iii) Additional depreciation arising on fair value of the assets has been adjusted from General Reserve II and Provision for Business Restructuring.’</p>	<p>requirements of this Standard that would have been followed had no treatment been prescribed by the scheme.</p> <p>(c) The financial effect, if any, arising due to such deviation.</p> <p>It may be also noted that section 211 of Companies Act 1956¹¹, <i>inter alia</i>, states as below:</p> <p>“ ...</p> <p>(3B) Where the profit and loss account and the balance sheet of the company do not comply with the accounting standards, such companies shall disclose in its profit and loss account and balance sheet, the following, namely:-</p> <p>a) the deviation from the accounting standards;</p> <p>b) the reasons for such deviation; and</p> <p>c) the financial effect, if any, arising due to such deviation.”</p> <p>It was viewed that if the effect of a deviation from the treatment prescribed by an Accounting Standard continues in the financial statements of the</p>
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¹¹ Requirement is still relevant under Section 129(1) and (5) of Companies Act, 2013

Observations on Accounting Standard (AS) 15: Employee Benefits

		<p>subsequent periods, the financial statements of those periods should also comply with the requirements of paragraph 42 read with the requirements of the Companies Act, 1956. (It is also supported by the Expert Advisory Opinion on Query No 30 of Compendium of Opinion Volume XXXIV.)</p> <p>Having regard to the above requirements, the following discrepancies have been noticed between the accounting treatment followed pursuant to the court order and that prescribed by the accounting standard:</p> <ul style="list-style-type: none">i. It was noted from Note (ii) that the reserve created from the revaluation of investment has been utilised to write off the passive infrastructure assets. However, the balance transferred to write off such assets has not been disclosed.ii. Further, it was noted from Note (iii) that additional depreciation arising on fair value of the assets has been adjusted against General Reserve II and provision for business restructuring. <p>It was viewed that utilisation of reserve to write off fixed</p>
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		<p>assets as well as adjustment of additional depreciation against reserve is not in line with AS 10, 'Accounting for Fixed Assets'. Hence, a description of the difference between the accounting treatments prescribed in the Accounting Standard and that followed by the Company as well as the financial impact thereof should have been disclosed.</p> <p>iii. As stated in note (i) the excess of assets over liabilities has been transferred to General Reserve in accordance with the schemes approved by the Hon'ble High Courts whereas in terms of the requirements of Paragraphs 17 and 37 of AS 14 'Accounting for Amalgamations' the difference should have been treated as Capital Reserve. However, a description of the difference in the accounting treatments has not been disclosed.</p> <p>Therefore, it was viewed that the company has not complied with the disclosure requirements of paragraph 42 of AS 14.</p>
4.	From the Annual Report of a company, it has been noted that Fixed Assets include Goodwill of	It may be noted that paragraph 38 of AS 14, provides that:

Observations on Accounting Standard (AS) 15: Employee Benefits

	<p>a significant amount.</p>	<p><i>“38. The goodwill arising on amalgamation should be amortised to income on a systematic basis over its useful life. The amortisation period should not exceed five years unless a somewhat longer period can be justified.”</i></p> <p>It was observed that no accounting policy has been disclosed with regard to the accounting of goodwill. Hence, it was not clear whether the goodwill was internally generated or has arisen on amalgamation. Since internally generated goodwill cannot be recognised, it was assumed that it has arisen on amalgamation.</p> <p>It may be noted from paragraph 38 stated above that goodwill arising on amalgamation should be amortised over a period of five years unless a somewhat longer period can be justified. However, it was observed that the goodwill has neither been amortised nor any reason for its non amortisation has been disclosed.</p> <p>Accordingly, it was viewed that the requirements of AS 1 [non disclosure of accounting policy] as well as AS 14 [non amortisation of goodwill] have not been complied with.</p>
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Observations on Accounting Standard (AS) 15: Employee Benefits

S. No	Matters contained in the Annual Report	Observations
1.	Note forming part of Accounts regarding Employee Benefits given in the Annual Report of a company reads as follows:	<p>It has been noted from the stated note that no provision for gratuity has been made on the pretext that none of the employees have completed five years.</p> <p>Answer to Question No. 14 of ASB Guidance on Implementing AS 15, Employee Benefits (Revised 2005), issued by the Accounting Standard Board, states as follows:</p> <p>“In this case, the employee’s right to receive the benefit is conditional on future employment for a period of five years. Although there is a possibility that the benefit may not vest, there is also a probability that the employee would serve for the minimum period of five years and become eligible for gratuity. An obligation exists even if a benefit is not vested. The obligation arises when the employee renders the service though the benefit is not vested. The measurement of this obligation at</p>

Observations on Accounting Standard (AS) 15: Employee Benefits

		<p>its present value takes into account the probability that the benefit may not vest and this is appropriately factored in the calculation of the present value of the defined benefit obligation. An enterprise should, therefore, create a provision in respect of gratuity payable during the first five years of service of an employee.”</p> <p>From the above, it was viewed that the provision for gratuity should be created irrespective of the fact as to whether the employees have completed or not completed five years of service.</p>
2.	<p>From the Note on Employee Benefits given in the Annual Report of a company, it has been noted that Leave Encashment Benefit is provided for on the basis of an actuarial valuation.</p> <p>From the Annual Report of another companies, it has been noted that the accounting policy relating to various employee benefits (defined benefits) have been disclosed and they are in line with AS 15.</p>	<p>It may be noted that Paragraph 119 of AS 15, provides as follows:</p> <p>“119. An enterprise should disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.”</p> <p>Further, Paragraph 120 of AS 15 requires the companies to disclose the information relating to defined benefit plans in accordance with the requirements specified there under.</p>

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		<p>It has been noted that although as per accounting policy there is a defined benefit plan for leave encashment, no disclosure has been made with regard to same as per the requirement of paragraph 120 of AS 15.</p> <p>It was further observed that although the accounting policy relating to various employee benefits are disclosed, and they are in line with AS 15, no disclosure has been given in respect of employee benefits in the nature of defined benefits as per the requirement of paragraph 120 of AS 15.</p>
3.	<p>From the Note relating to Employee Benefits given in the Annual Report of a company that it had not recognised past year's liability in respect of gratuity and leave encashment representing liability of past years, which the company intends to account on a straight-line basis over three years commencing the current financial year.</p>	<p>It was noted from the objective paragraph read with paragraph 94 of AS 15, which states as follows;</p> <p>“The objective of this statement is to prescribe the accounting and disclosure for employee benefits. The Statements requires an enterprise to recognise:</p> <p>(a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and</p> <p>(b) an expense when the enterprise consumes the economic benefit arising from service provided by an</p>

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		<p>employee in exchange for employee benefits.</p> <p><i>“94. In measuring its defined benefit liability under paragraph 55, an Enterprise should recognise past service cost as an expense on a straight line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an enterprise should recognise past service cost immediately.”</i></p> <p>It was viewed from the above that the company should immediately recognise past service cost. However, if such benefit would be vested in future, such past service cost can be recognised on straight line basis until the benefits become vested. It was viewed that neither gratuity nor leave encashment benefit are of the nature of later kind of benefits; hence past service cost in respect of them should be recognised immediately.</p>
4.	The accounting policy for employee benefits given in the Annual Report of various companies, states as follows:	It has been noted that paragraph 49 of AS 15, provides as follows: “49. Accounting for defined benefit plans is complex because

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<ul style="list-style-type: none"> • Provision for gratuity is made in the accounts considering the Balance sheet date as the notional date of retirement. • Provision for leave encashment and gratuity are determined on estimated basis in accordance with the rules of the company. • Liability towards Gratuity has been provided as per management's calculation base on the service contracts. Provision has been made for Leave Encashment on actual basis. • For defined benefit scheme viz. gratuity, cost of providing benefits is <i>determined on actual</i> in accordance with the provision of payment of Gratuity Act, 1975. <i>(emphasis supplied)</i> 	<p>actuarial assumptions are required to measure the obligation and the expense and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service. While the Standard requires that it is the responsibility of the reporting enterprise to measure the obligations under the defined benefit plans, it is recognised that for doing so the enterprise would normally use the services of a qualified actuary.”</p> <p>In view of above, it was felt that defined benefit plan requires measurement of liability based on actuarial assumption which is further explained under paragraphs 73, 75 and 76 as follows:</p> <p>“73. Actuarial assumptions comprising demographic assumptions and financial assumptions should be unbiased and mutually compatible.....”</p> <p>“75. Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.”</p>
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		<p>“76.Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, the return on plan assets and discount rates.....”</p> <p>It was noted that the said paragraphs clearly states that actuarial assumption should not be excessively conservative and it should reflect the economic relationship between factors such as inflation, rates of salary increase etc. However, it was noted that in the reported cases, the liability for gratuity has been determined on the premise that the Balance Sheet date is the notional date of retirement or determined on estimated basis according to the rules of the company, which is against the aforesaid requirement of actuarial assumption. The Standard further requires various disclosures relating to actuarial valuation to be made in terms of paragraph 120.</p> <p>Further, in one case, it was also observed that usage of the term ‘actual basis’ is not clear as to whether the liabilities are being measured when leaves are earned or availed by the employees. Thus, the stated</p>
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		policy is also considered to be ambiguous.
5.	From Note on Employee Benefits relating to Liability for superannuation fund given in the Annual Report of a company, it has been noted that the same is provided for on the basis of premium paid to insurance company in respect of employees covered under Superannuation Fund Scheme.	<p>It may be noted that the recognition and measurement requirement of paragraph 45 of AS 15, provides as follows:</p> <p><i>“When an employee has rendered service to an enterprise during a period, the enterprise should recognise the contribution payable to a defined contribution plan in exchange for that service:</i></p> <p><i>(a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the balance sheet date, an enterprise should recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and</i></p> <p><i>(b) as an expense, unless another Accounting Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, AS 10,</i></p>

Observations on Accounting Standard (AS) 15: Employee Benefits

		<p align="center"><i>Accounting for Fixed Assets).</i></p> <p>It was observed that the liability for superannuation fund was being provided on the basis of premium paid to insurance company. However, it has not been mentioned as to whether the said premium is the appropriate accrual of the liability for the year or not. The company has also not indicated as to whether the scheme covers all past as well as present liabilities or it covers only the present liability for the current year. It was felt that in the absence of specific mention to this effect, it is possible that the scheme does not cover past liabilities and/ or that the premium charged is not the appropriate accrual of the liability for the year. It was viewed that in such a case, the company was required to create a provision for past liability in the books and/ or additional liability for the year, as appropriate. However, in case the company has ignored this aspect, then it would be contrary to paragraph 45 of AS 15.</p>
6.	The accounting policy for the Employee Benefits given in the Annual Report of a company reads as follows:	<p>The following discrepancies were observed with respect to Employee Benefits:</p> <p>(i) It was noted from the</p>

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	<p>‘Company’s liability towards Gratuity in respect of Directors on full time employment has been provided for and not funded. Company’s liability towards Gratuity in respect of all other employees is worked out on actuarial basis.</p> <p>Liability on account of leave salary has been provided for in accordance with the scheme in force.’</p>	<p>accounting policy for gratuity that although gratuity in respect of all other employees has been determined on an actuarial basis, in respect of directors the same basis has not been followed. It was viewed that liability towards gratuity are in the nature of defined benefit obligation and hence non-determination of the liabilities on actuarial basis is against the requirement of AS 15.</p> <p>(ii) As per AS 15, if the employer provides retirement benefit viz. gratuity, leave encashment to its employees then the company is required to disclose certain information as specified under paragraph 120 of AS 15, as reproduced below:</p> <p>“120. An enterprise should disclose the information about defined benefit plan as mentioned in clause (a) to (o)”</p> <p>It was observed from the accounting policy relating to gratuity for employees other than directors as well as Note relating to accounting for leave salary that the company is providing benefits in the nature of defined benefits plans,</p>
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		<p>accordingly, it was viewed that the disclosures requirements prescribed under paragraph 120 of AS 15 should have been complied with in context of both liability for gratuity and leave salary. However, it was observed from Notes to Accounts that no disclosures have been made with regard to the same. It is again a non-compliance of AS 15.</p>
7.	<p>Accounting policy on Employee Benefits given in the Annual Report of a company, reads as under:</p> <p>‘Defined contribution plans are provident fund scheme and part of the pension fund scheme for eligible employees. The Company's contribution to defined contribution plans are recognised in the Statement of Profit and Loss in the financial year to which they relate.</p> <p>The Company makes specified monthly contribution towards employee provident fund and pension fund to respective trusts administered by the Company. The minimum interest payable by the provident fund trust to the beneficiaries every year is notified by the Government. The company has an obligation to</p>	<p>As per answer to Q.9 in ASB Guidance on Implementing AS 15, Employee Benefits, where company provide for the deficiency in the rate of interest on the contributions based on its return on investment as compared to the rate declared for Employees Provident Fund then such provident fund would tantamount to a guarantee of a specified rate of return. As per AS 15 where in terms of any plan the enterprise's obligation is to provide the agreed benefits to employees and the actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the enterprise, the plan would be defined benefit plan. Accordingly, provident funds set up by employers which requires interest shortfall to be met by the employer would be in effect</p>

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	<p>make good the shortfall, if any, between the return on investments of the trust and the notified interest rate.'</p>	<p>defined benefit plans in accordance with the requirements of paragraph 26(b) of AS 15.</p> <p>In view of above, it was felt that in the given case, shortfall in the interest rate is met by the company and accordingly, such provident fund is a defined benefit plan rather than defined contribution.</p>
<p>8.</p>	<p>From the Annual Reports of some companies, it has been noted that the companies have provided for gratuity plan as well as leave encashment. Further, it has been noted that the companies have given certain disclosures in pursuance to AS 15.</p>	<p>It may be noted that paragraph 120 of AS 15 prescribes various disclosures in relation to retirement benefits in the nature of defined benefit plans which <i>inter alia</i> requires as follows:</p> <p>“120. An enterprise should disclose the following information about defined benefit plans:</p> <p>(a) the enterprises accounting policy for recognizing actuarial gains and losses;</p> <p>(b)...</p> <p>(c)...</p> <p>(f) a reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognised in the balance</p>

		<p>sheet, showing at least:</p> <ul style="list-style-type: none"> (i) the past service cost not yet recognised in the balance sheet (see paragraph 94); (ii) any amount not recognised as an asset, because of the limit in paragraph 59(b); (iii) the fair value at the balance sheet date of any reimbursement right recognised as an asset in accordance with paragraph 103 (with a brief description of the link between the reimbursement right and the related obligation); and (iv) the other amounts recognised in the balance sheet. <p>(i) the amounts included in the fair value of plan assets for:</p> <ul style="list-style-type: none"> (i) each category of the enterprise's own financial instruments; and (ii) any property occupied by, or other
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		<p>assets used by, the enterprise.</p> <p>(h) for each major category of plan assets, which should include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets.</p> <p>(n) the amounts for the current annual period and previous four annual periods of:</p> <p>(i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan;</p> <p>(ii) the experience adjustments arising on:</p> <p>(A) The plan liabilities expressed either as (1) an amount or (2) a percentage of the plan liabilities at the balance sheet date; and</p> <p>(B) The plan assets</p>
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Observations on Accounting Standard (AS) 15: Employee Benefits

		<p align="center">expressed either as (1) an amount or (2) a percentage of the plan assets at the balance sheet date.</p> <p>(o) the employer’s best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the balance sheet date.”</p> <p>It was observed that although certain disclosures related to paragraph 120 have been made, disclosures under paragraph 120 (a), (f), (h) (i), (n) and (o) have not been made.</p>
9.	<p>The accounting policy relating to employee benefits given in the Annual Report of a company, reads as follows:</p> <p>‘Provision for Gratuity has been made and is charged to Statement of Profit and Loss. Leave Encashment and other Benefits are charged to revenue on accrual basis.’</p>	<p>It was noted from the accounting policy of Gratuity that the accounting principles as adopted by the company for recognition and measurement of provision for gratuity have not been disclosed viz whether they are recognised on accrual basis; whether estimated on actuarial basis or otherwise.</p> <p>Further, it has been noted that the provision for leave encashment has been made on accrual basis. It was viewed that although it has been stated to have followed accrual basis of</p>

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		<p>accounting, whether such liability has been determined on actuarial basis or not was not disclosed.</p>
<p>10.</p>	<p>From the notes to accounts of a company, it has been noted that in respect of its gratuity liability funded through an insurance company, it disclosed 'Provision for gratuity' under the head of 'Provisions' and 'LIC Group Gratuity Account' under the head 'Loans and Advances'.</p>	<p>It may be noted that paragraph 55 of AS 15, provides as follows:</p> <p><i>“55. The amount recognised as a defined benefit liability should be the net total of the following amounts:</i></p> <p><i>(a) the present value of the defined benefit obligation at the balance sheet date (see paragraph 65);</i></p> <p><i>(b) minus any past service cost not yet recognised (see paragraph 94);</i></p> <p><i>(c) minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 100-102).”</i></p> <p>From the above, it was viewed that defined benefit liability is recognised at present value of such obligations as at the balance sheet date minus fair value of plan assets as on that date.</p> <p>It was noted from the Balance Sheet that whereas 'Provision for Gratuity' relates to the present value of obligations against</p>

Observations on Accounting Standard (AS) 15: Employee Benefits

		<p>gratuity, LIC Group Gratuity account under the head 'loans and advances' provides the fair value of such assets as on that date. Accordingly, it was viewed that the two (provision for gratuity and LIC group gratuity account) had not been adjusted against each other which is not in line with the requirements of paragraph 55 of AS 15.</p>
<p>11.</p>	<p>The accounting policy of Employee Benefits given in the Annual Report of a Company, reads as follows:</p> <p>'No provision has been made for gratuity liability. Gratuity will be recognised in the year of its payment.'</p>	<p>It was noted from note regarding disclosure under AS 15 on employee benefits that the liabilities towards gratuity has been estimated on actuarial basis; however, as per the stated accounting policy it has not been provided for but recognised when it is paid. It was viewed that as per AS 15 the liabilities towards gratuity is required to be recognised on accrual basis. Hence, it was viewed that merely estimating the liabilities does not mean compliance with the stated standard.</p>
<p>12.</p>	<p>From the note relating to employee cost given in the Annual Report of a company it has been noted that although it included "Contribution to Provident Fund and Employees State Insurance Scheme", there was no disclosure of the accounting policy relating thereto.</p>	<p>It was noted that although the Contribution to PF & ESI has been charged to the Statement of Profit and Loss, the accounting policy as adopted by the company for its recognition has not been disclosed.</p> <p>In the absence of the accounting</p>

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	<p>Further, it was stated in the accounting policy relating to gratuity that the same is funded.</p>	<p>policy, it is not clear as to whether the said contribution is an appropriate estimation of the accrual of liability for the year or not. Further, it also does not indicate whether such estimation covers all past liabilities or it covers only the present liability for the current year.</p> <p>It was further noted from the disclosures relating to the gratuity liabilities that while the present value of the stated obligations have been described as funded, fair value of plan assets has been stated at nil which indicates that no funds have earmarked for the same. Accordingly, it was viewed that the details of disclosures contradicts among themselves.</p>
<p>13.</p>	<p>A note on 'employee benefits' given in the Annual Report of a company, reads as below:</p> <p>"Provisions for the leave encashment & gratuity liabilities, which are not funded, have been determined using the Projected Unit Credit method and are based on the results of the Actuarial Valuation carried out as on 31st March 2008 in terms of the revised AS 15. Provision for current year has been made based on internal workings."</p>	<p>It may be noted that paragraphs 57, 58 and 64 of AS 15, provide as under;</p> <p><i>"57. An enterprise should determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date."</i></p>

Observations on Accounting Standard (AS) 15: Employee Benefits

		<p>“58. The detailed actuarial valuation of the present value of defined benefit obligations may be made at intervals not exceeding three years. However, with a view that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date, the most recent valuation is reviewed at the balance sheet date and updated to reflect any material transactions and other material changes in circumstances (including changes in interest rates) between the date of valuation and the balance sheet date. The fair value of any plan assets is determined at each balance sheet date (emphasis supplied).”</p> <p>“64. The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, medical cost trends and, for a funded plan, the investment earnings on the plan assets. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist</p>
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		<p>over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary to:</p> <ul style="list-style-type: none"> (a) apply an actuarial valuation method (see paragraphs 65-67); (b) attribute benefit to periods of service (see paragraphs 68-72); and (c) make actuarial assumptions (see paragraphs 73-91).” <p>From the above, it was noted that actuarial valuation is required to be carried out regularly at intervals not exceeding three years and that to measure the present value of defined benefit obligation, it is necessary to apply actuarial valuation method attributing benefit to periods of service and making relevant actuarial assumption for future.</p> <p>It was noted from the stated policy that the last actuarial valuation was carried out in March 2008 and thereafter for current year estimations, certain internal working has been done.</p> <p>It was, accordingly, observed that basis of recognition of employee benefit costs on internal workings</p>
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Observations on Accounting Standard (AS) 15: Employee Benefits

		without determining the actual present value regularly is not in accordance with AS 15.
14.	From the disclosure given in pursuance to paragraph 120 of AS 15 given in the Annual Report, it has been noted that under footnote, the plan assets are fully represented by balance with LIC of India.	<p>It may be noted that paragraph 120 (h) of AS 15 provides as follows:</p> <p><i>“120. An enterprise should disclose the following information about defined benefit plans:</i></p> <p>...</p> <p><i>(h) for each major category of plan assets, which should include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets.”</i></p> <p>From the above, it was noted that the company is required to disclose the nature of instrument in which plan assets are held by it. It was noted that the ‘assets under scheme of insurance’ has been disclosed as a category of plan assets held by it and it is stated under footnote that plan</p>

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		<p>assets are fully represented by balance with LIC of India. It was viewed that the insurance company merely manages the fund on behalf of the company. In practice, insurance company also holds equity fund, debt fund or their combination against funds of the company. Accordingly, the nature of funds so held by insurance company should have been disclosed as per the requirement of paragraph 120 (h) of AS 15.</p>
<p>15.</p>	<p>From the note relating to employee benefits expense of a company, it has been noted that Employee benefits include amount debited by the holding company towards leave, superannuation and other benefits of employees posted on secondment basis from the holding company.</p>	<p>It was noted that all employees of the enterprise are on secondment posting from holding company and employee benefits paid are debited by holding company on it.</p> <p>It was viewed that AS 15 is applicable to all forms of employer-employee relationships. There is no requirement for a formal employer-employee relationship. An employee may provide services to an enterprise on a full-time, part-time, permanent, casual or temporary basis. There are several factors that need to be considered to determine the nature of relationship. It was viewed that in given case, though the holding company is legal employer of the employee but in substance the employees are rendering services to the subsidiary</p>

Observations on Accounting Standard (AS) 15: Employee Benefits

		<p>company and employee benefits are being paid by the enterprise to its employees, though final obligations may be settled by the holding company. It was accordingly viewed that considering the nature of obligations borne by the enterprise in respect of such benefits, they should be classified as defined benefits and/or defined contribution plans and accordingly related policy should be disclosed and related disclosures under paragraph 120 of AS 15 should be made.</p>
16.	<p>It was observed from the Note relating to “Employment Expenses” of a company that only the aggregate amount of “Salaries and Allowances” was disclosed.</p>	<p>It was noted that the employees benefits include defined contribution and defined benefit plans. However, the expense incurred during the year against such plans was not disclosed separately, as required under paragraphs 47 and 120(g) of AS 15, as reproduced below:</p> <p>“47. An enterprise should disclose the amount recognised as an expense for defined contribution plans.”</p> <p>“120(g) the total expense recognised in the statement of profit and loss.....and the line item(s) of the statement of profit and loss in which they are included...”</p>

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Observations on Accounting Standard (AS) 16: Borrowing Costs

S. No	Matters contained in the Annual Report	Observations
1.	<p>One of the notes to accounts as given in the Annual Report of a company states as follows:</p> <p>‘...Net cost of derivative transaction of Rs. xxx is added to cost of borrowing.’</p>	<p>It may be noted that paragraph 3 of AS 16, provides that:</p> <p>“3. Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds.”</p> <p>It was observed that the cost of derivative transactions has been added to the cost of borrowings. It was viewed that cost of derivative transaction is not a borrowing cost as it is neither an ancillary cost incurred in connection with the <i>arrangement of borrowings</i> nor it is an exchange difference arising on the amount of <i>principal of the foreign currency borrowings</i>. Therefore, derivative costs should not be added to the cost of borrowings as per the requirement of AS 16.</p>
2.	In the Annual Reports of some companies, the accounting	It may be noted that paragraph 19 of AS 16 and paragraphs 9.4

Observations on Accounting Standard (AS) 16: Borrowing Costs

<p>policy on borrowing costs has been stated as under:</p> <ul style="list-style-type: none"> • Borrowing costs include interest, fees and other charges incurred in connection with the borrowing of funds and is considered as revenue expenditure for the year in which it is incurred except for borrowing costs attributed to the acquisition / improvement of qualifying capital assets and incurred till the commencement of commercial use of the asset and which is capitalised as cost of that asset. • Borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalised as part of the cost of the assets up to the date the assets are put to use. Other borrowing costs are charged to the Statement of Profit & Loss in the year in which they are incurred. • Expenditure during construction period (including financing cost relating to borrowed funds for construction or 	<p>and 20 of AS 10, provide as under:</p> <p>AS 16</p> <p><i>“19. Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.”</i></p> <p>AS 10</p> <p><i>“9.4 If the interval between the date a project is ready to commence commercial production and the date at which commercial production actually begins is prolonged, all expenses incurred during the period are charged to the profit and loss statement.”</i></p> <p><i>“20. The cost of a fixed asset should comprise its purchase price and any attributable cost of bringing the asset to its working condition for its intended use.”</i></p> <p>It may be noted from the above that capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete i.e. the asset is ready for its intended</p>
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<p>acquisition of qualifying fixed assets) incurred on projects under implementation are treated as Pre-operative expenses, pending allocation to the assets, and are included under 'Capital Work in Progress'. These expenses are apportioned to fixed assets on commencement of commercial production.</p> <ul style="list-style-type: none"> • Fixed assets are shown at cost or valuation less depreciation. Cost comprises of the purchase price and other attributable expenses including cost of borrowings till the date of capitalisation in the case of assets involving material investment and substantial lead time. • In case of new projects and in case of substantial modernisation/ expansion at existing units of the company expenditure incurred, including interest on borrowings and financing cost on specific loans prior to commencement of commercial production is capitalised. • Borrowing costs that are 	<p>use and that any costs incurred thereafter should be charged to the Statement of Profit and Loss. It was, however, observed from the stated accounting policies that the borrowing costs are capitalised till the commencement of commercial use/production/operations or up to the date the assets are put to use. In one case, the policy states 'till the date of capitalisation'. In this case, it is not clear what is the date of capitalisation– date when the asset is ready for its intended use or when it is put to use.</p> <p>Accordingly, it was viewed that the stated accounting policies on borrowing costs are not in line with the requirements of AS 16 as well as AS 10¹².</p>
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¹² Subsequent to the observation of the Board, AS 10 has been revised.

Observations on Accounting Standard (AS) 16: Borrowing Costs

	<p>attributable to the acquisition or construction of qualifying assets are capitalised as part of the cost of such assets upto the commencement of commercial operations...</p> <ul style="list-style-type: none"> • Borrowing cost is charged to the Statement of Profit and Loss except meant for acquisition of qualifying assets, which is capitalised till the date of commercial use (emphasis supplied). 	
<p>3.</p>	<p>In the Annual reports of few companies, borrowing costs in the form of interest and finance charges, including premium on redemption of debentures of significant amounts have been disclosed in the notes forming part of the Statement of Profit and Loss. However, no accounting policy on such borrowing costs has been disclosed.</p> <p>Further, from the Annual Reports of some other companies, it has been noted that though the accounting policy on borrowing costs has been disclosed the amount of borrowing costs capitalised during the period has not been disclosed in the financial statements.</p>	<p>It may be noted that paragraph 23 of AS 16, states as follows:</p> <p>“23.The financial statements should disclose:</p> <p>(a) the accounting policy adopted for borrowing costs; and</p> <p>(b) the amount of borrowing costs capitalised during the period.”</p> <p>It may be noted from the above that the accounting policy adopted for borrowing costs as well as the amount of borrowing costs capitalised during the period should be disclosed. However, it was observed that in some cases the accounting policy for borrowing cost has not been disclosed. In some other</p>

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		<p>cases, though the accounting policy on borrowing costs has been disclosed, the amount of borrowing costs capitalised has not been disclosed.</p> <p>Accordingly, it was viewed that such non disclosure is not in line with the requirements of paragraph 23 of AS 16.</p>
4.	<p>In the Annual Reports of some companies following accounting policies have been disclosed with regard to capitalisation of borrowing costs:</p> <ul style="list-style-type: none"> • Construction Period Expenses On Projects <ul style="list-style-type: none"> a. ... b. Financing cost incurred during the construction period on loans specifically borrowed and utilised for projects is capitalised. Financing cost includes exchange rate variation in relation to borrowings denominated in foreign currency. c. Financing cost, if any, incurred on general borrowings used for projects during the construction period is capitalised at the 	<p>It may be noted that paragraphs 3.2, 6, 19 and 23 of AS 16, provide as follows:</p> <p>“3.2 A Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.”</p> <p>“6. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset.”</p> <p>“19. Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.”</p> <p>“23. The financial statements should disclose:</p> <p>(a) the accounting policy adopted for borrowing</p>

Observations on Accounting Standard (AS) 16: Borrowing Costs

<p align="center">weighted average cost.</p> <ul style="list-style-type: none"> • Fixed Assets ... Interest on borrowing for acquisition of qualifying asset is capitalised... • Fixed assets Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost comprises of purchase price and other directly attributable costs of bringing the asset to its working condition for its intended use and includes interest on moneys borrowed for construction/acquisition of fixed assets up to the period the assets are ready for use. • Fixed Assets All fixed assets are stated at cost of acquisition less accumulated depreciation and includes adjustment arising from exchange rate variations attributable to fixed assets. In the case of fixed assets acquired for new projects / expansion, interest cost on borrowings, and other related expenses 	<p>costs; and (b) the amount of borrowing costs capitalised during the period.”</p> <p>It was observed in the reported cases that borrowing costs incurred in relation to construction/acquisition of fixed assets for new projects or expansion of existing projects have been capitalised without considering whether such fixed assets are qualifying assets that necessarily take substantial time to get ready for their intended use as required by paragraphs 3.2 and 6 of AS 16.</p> <p>It was further observed that no separate accounting policy on borrowing costs has been stated; rather the related accounting policy has been included in the accounting policy for Construction Period expenses on projects or Fixed assets, which is not strictly in line with the requirements of paragraph 23 of AS 16.</p> <p>It may be noted from paragraph 19 of AS 16 as stated above that capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. However, in couple of</p>
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	<p>incurred upto the date of completion of project are capitalised.</p>	<p>cases, it has been observed that the stated accounting policies do not explicitly indicate the point of time up to which such borrowing costs have been capitalised. In the absence of such information, it is not clear whether borrowing costs have been capitalised only up to the date when the assets are ready for their intended use or thereafter.</p> <p>Accordingly, it was viewed that the stated accounting policies are not in compliance with the requirements of AS 16.</p>
<p>5.</p>	<p>The accounting policy on borrowing costs as given in the Annual Report of a company reads as below:</p> <p>‘Borrowing costs include interest, amortisation of ancillary costs incurred and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest cost. Costs in connection with the borrowing of funds to the extent not directly related to the acquisition of qualifying assets are charged to the Statement of Profit and Loss over the tenure of the loan.’</p>	<p>It may be noted that as per paragraph 6 of AS 16, the borrowing costs incurred directly in relation to acquisition, construction or production of <i>qualifying assets</i> can be capitalised and that other borrowing costs should be recognised as an expense in the period in which they are incurred.</p> <p>However, it was observed from the stated policy that borrowing costs to the extent not directly related to the acquisition of qualifying assets are charged to the Statement of Profit and Loss over the tenure of the loan as against charging off as expense when incurred.</p> <p>Accordingly, it was viewed that</p>

Observations on Accounting Standard (AS) 16: Borrowing Costs

		<p>stated accounting policy is not in compliance with the requirements of AS 16.</p>
<p>6.</p>	<p>The accounting policy on borrowing costs as given in the Annual Report of a company reads as follows:</p> <p>‘Borrowing costs attributable to the fixed assets during construction, renovation and modernisation are capitalised. Such borrowing costs are apportioned on the average balance of capital work-in-progress for the year. Other borrowing costs are recognised as an expense in the period in which they are incurred.’</p>	<p>It may be noted that paragraphs 6 and 12 of AS 16, provide as follows:</p> <p>“6. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.”</p> <p>“12. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than</p>

		<p><i>borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowings costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.</i></p> <p>It may be noted from paragraph 6 above that borrowing cost on acquisition, construction or production of qualifying asset should be capitalised as part of the cost of the asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. However, from the stated accounting policy, it is not clear whether the related assets are qualifying assets.</p> <p>It was further noted from paragraph 12 above that the capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset and that rate should be applied to the expenditure on the qualifying assets. However, it was observed in the reported case that borrowing costs have been capitalised by apportioning</p>
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Observations on Accounting Standard (AS) 16: Borrowing Costs

		<p>such costs on the basis of average balance of capital work-in-progress. The policy is silent on capitalisation rate adopted.</p> <p>Accordingly, it was viewed that accounting policy for borrowing costs is not in line with the requirements of paragraphs 6 and 12 of AS 16.</p>
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Observations on Accounting Standard (AS) 17: Segment Reporting

S. No	Matters contained in the Annual Report	Observations
1.	<p>Segment information as disclosed under Segment Reporting in the Annual Reports of some companies are stated below:</p> <ol style="list-style-type: none"> 1. Segment Revenue Segment Results Capital Employed 2. Segment Revenue Segment Results 3. Segment Revenue Segment Results Segment Assets Segment Liabilities 	<p>It may be noted that paragraph 40 of AS 17, states that:</p> <p><i>“40. An enterprise should disclose the following for each reportable segment:</i></p> <ol style="list-style-type: none"> a) <i>Segment revenue, classified into segment revenue from sales to external customers and segment revenue from transactions with other segments;</i> b) <i>Segment result;</i> c) <i>Total carrying amount of segment assets;</i> d) <i>Total amount of segment liabilities;</i> e) <i>Total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets);</i>

Observations on Accounting Standard (AS) 17: Segment Reporting

		<p>f) Total amount of expense included in the segment result for depreciation and amortisation in respect of segment assets for the period; and</p> <p>g) Total amount of significant non-cash expenses, other than depreciation and amortisation in respect of segment assets that were included in segment expense and, therefore, deducted in measuring segment result.”</p> <p>It was observed from the segment information disclosed in the Annual Reports that some companies have disclosed capital employed instead of separately reporting segment assets and segment liabilities. One company has disclosed only segment revenue and segment results while another company has disclosed segment assets and segment liabilities as well. However, the information required under paragraphs 40(e), 40(f) and 40(g) have not been disclosed by any of these companies.</p> <p>Hence, it was viewed that the disclosure requirements as per paragraph 40 of AS 17 have not been complied with.</p>
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<p>2.</p>	<p>From the Annual Reports of a couple of companies, it has been noted that segment revenue alone has been disclosed as part of the segment information relating to secondary reporting segment (Geographical Segment).</p> <p>From the Annual Report of another company, it has been noted that income arising outside India has been stated as domestic income in the geographical segment report.</p>	<p>It may be noted that paragraph 48 of AS 17, provides as follows:</p> <p><i>“48. If primary format of an enterprise for reporting segment information is business segments, it should also report the following information:</i></p> <p><i>(a) segment revenue from external customers by geographical area based on the geographical location of its customers, for each geographical segment whose revenue from sales to external customers is 10 per cent or more of enterprise revenue;</i></p> <p><i>(b) the total carrying amount of segment assets by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all geographical segments; and</i></p> <p><i>(c) the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and</i></p>
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Observations on Accounting Standard (AS) 17: Segment Reporting

		<p><i>intangible fixed assets) by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all segment.”</i></p> <p>It was noted from disclosures of ‘Segment Reporting’ that although segment revenue as required by paragraph 48(a) of AS 17 has been disclosed, no disclosure has been made with respect of total carrying amount of segment assets and the total cost incurred during the period to acquire segment assets, as required under paragraph 48 (b) and (c) of AS 17.</p> <p>In other case, even in the segment revenue income arising outside India has been reported as domestic income.</p> <p>Accordingly, it was viewed that the disclosure requirements under paragraph 48 of AS 17 have not been complied with.</p>
3.	<p>The notes regarding segment reporting as given in the Annual Reports of some companies are stated below:</p> <ul style="list-style-type: none"> • There are no separate reportable segments as per Accounting Standard 17, as 	<p>It may be noted that paragraph 27 of AS 17, states that:</p> <p><i>“27. A business segment or geographical segment should be identified as a reportable segment if:</i></p>

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	<p>the entire operations of the company relate to one segment, viz. Agrochemicals.</p> <ul style="list-style-type: none"> • In accordance with Accounting Standard 17, the company's activities broadly fall into the category of specialty chemicals and hence, the company has only one reportable segment. • Considering the organisation structure, nature of products and risk and return profile based on geographical distribution, the tyre business is considered as a single segment. • The Company has identified manufacturing of automobile components as its sole primary segment. Thus, the disclosure requirements as set out in Accounting Standard 17 (AS-17) "Segment Reporting" are not applicable. <p>It has, however, been noted that all these companies have reported significant earnings in foreign currency in the form of</p>	<p>(a) its revenue from sales to external customers and from transactions with other segments is 10 per cent or more of the total revenue, external and internal, of all segments; or</p> <p>(b) its segment result, whether profit or loss, is 10 per cent or more of)</p> <p>i. the combined result of all segments in profit, or</p> <p>ii. the combined result of all segments in loss, whichever is greater in absolute amount; or</p> <p>(c) its segment assets are 10 per cent or more of the total assets of all segments."</p> <p>It was noted from Note on Sales and Operational Income as well as from notes relating to earnings in foreign exchange given in pursuance to paragraph 4D (e) of Part II of Schedule VI to the Companies Act, 1956¹³ that there have been significant earnings in foreign exchange in the form of export sales, which</p>
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¹³Subsequent to the observations of the Board, Schedule VI has been withdrawn. However, content is still relevant in terms of Schedule III to Companies Act, 2013.

Observations on Accounting Standard (AS) 17: Segment Reporting

	<p>export sales in the financial statements.</p>	<p>according to paragraph 27 of AS 17 constitutes a separate reportable geographical segment. However, no segment reporting has been made in the notes to accounts.</p> <p>Accordingly, it was viewed that the requirements of paragraph 27 of AS 17 have not been complied with.</p>
<p>4.</p>	<p>From the Annual Reports of a number of companies, it has been noted that no disclosure has been made in the financial statements with regard to segment reporting except in one case where the following note was given as part of the Notes to Accounts:</p> <ul style="list-style-type: none"> • The segment reporting as per AS-17 issued by 'Institute of Chartered Accountants of India' is not applicable. 	<p>It was noted that explanation given under Paragraph 38 of AS 17, provides that:</p> <p>"In case by applying the definition of 'business segment' and 'geographical segment' it is concluded that there is neither more than one business segment nor more than one geographical segment, segment information as per this Standard is not required to be disclosed. However, the fact that there is only one 'business segment' and 'geographical segment' is disclosed by way of a note."</p> <p>It was observed from the notes to accounts that except in one case, neither any segment reporting disclosures have been made nor the fact that the enterprise has only one 'business segment' and one 'geographical segment' has been disclosed.</p>

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		<p>With regard to given note on segment reporting, it was viewed that merely stating that 'segment reporting as per AS-17 is not applicable' is not sufficient disclosure as per paragraph 38 of AS 17.</p> <p>Accordingly, it was viewed that the disclosure requirements of paragraph 38 of AS 17 have not been complied with.</p>
5.	<p>From the Annual Report of a company, it has been noted that inter-segment revenue has been reported under the Segment Reporting.</p>	<p>It may be noted that paragraph 53 of AS 17, states that:</p> <p><i>“53. In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers should be measured on the basis that the enterprise actually used to price those transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements.”</i></p> <p>It was observed that inter-segment revenue has been disclosed under the segment reporting; however, the basis of pricing of inter-segment transfer has not been disclosed as per the requirements of paragraph 53 of AS 17.</p>
6.	<p>From the Annual Reports of few companies, it has been noted that segment assets and</p>	<p>It may be noted that paragraph 46 of AS 17, provides that:</p>

Observations on Accounting Standard (AS) 17: Segment Reporting

	<p>segment liabilities do not match with the aggregate assets and liabilities as per the Balance Sheet and that no reconciliation has been provided in the segment reporting for the differences in the reported figures.</p>	<p><i>“46. An enterprise should present reconciliation between the information disclosed for reportable segments and the aggregated information in the enterprise financial statements. In presenting the reconciliation, segment revenue should be reconciled to enterprise revenue; segment result should be reconciled to enterprise net profit or loss; segment assets should be reconciled to enterprise assets; and segment liabilities should be reconciled to enterprise liabilities.”</i></p> <p>It was noted from the disclosure made under segment reporting that the segment assets and segment liabilities do not match with the aggregate assets and liabilities as given in the Balance Sheet.</p> <p>It was observed that though there are differences in the aggregate assets and liabilities reported under segment reporting with those as per the Balance Sheet, no reconciliation has been given to explain the difference in figures.</p> <p>Accordingly, it was viewed that the information provided under Segment Reporting is not in accordance with the</p>
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		requirements of paragraph 46 of AS 17.
7.	<p>In the Annual Report of a company, the following note on segment information has been disclosed in the standalone financial statements:</p> <p>'Segment Information</p> <p>Segment information is based on consolidated financial statements.'</p>	<p>It may be noted that paragraph 4 of AS 17, provides that:</p> <p><i>"4. If a single financial report contains both consolidated financial statements and the separate financial statements of the parent, segment information need be presented only on the basis of the consolidated financial statements. In the context of reporting of segment information in consolidated financial statements, the references in this standard to any financial statement items should construe to be the relevant item as appearing in the consolidated financial statement."</i></p> <p>It was observed from the note on segment information given in the standalone financials that segment reporting is based on the consolidated financial statements whereas there is no segment reporting in the consolidated financial statements. It was viewed that paragraph 4 of AS 17 requires segment information to be prepared only on the basis of consolidated financial statements when the financial</p>

Observations on Accounting Standard (AS) 17: Segment Reporting

		<p>statements contain both the consolidated financial statements and the separate financial statements. However, it does not mean that segment information reported in separate financial statements should be on the basis of the consolidated financial statements. Such segment information prepared on the basis of the Consolidated Financial Statements should be included in the Consolidated Financial Statements and the fact that the segment information is given only in the Consolidated Financial Statements should be stated in the Standalone Financial Statements.</p> <p>Accordingly, it was viewed that the requirements of paragraph 4 of AS 17 have not been complied with.</p>
8.	<p>A note relating to Segment Reporting as disclosed in the Annual Report of a company is stated below:</p> <p>‘Segment Information</p> <p>The Company is primarily engaged in a single segment i.e. Investment Activities. The risk and returns of the Company are predominantly determined by its principal activity and the Company’s activities fall within a single business and</p>	<p>It may be noted that while paragraph 5.1 defines the term ‘business segment’, paragraphs 7 and 27 of AS 17, provide the circumstances when a ‘business segment’ should be identified as a ‘reportable segment’, are as follows:</p> <p><i>“5.1 A <u>business segment</u> is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group</i></p>

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<p>geographical segment. Accordingly, no further disclosures are required as per the Accounting standard 17 on segment reporting notified by the Companies (Accounting Standards) Rules, 2006, (as amended)'</p> <p>It has, however, been noted that the company has consultancy income of significant amount as shown under Other Operating Income in the Note on Revenue from Operations.</p> <p>In the Annual Report of another company, the following note has been given with regard to segment reporting:</p> <p>'The Company is primarily engaged in the business of Engineering, Procurement and Construction business (EPC). As such, there is no other separate reportable segment as defined by Accounting Standard-17 'Segment Reporting.'</p> <p>Here also following items of income have been shown as revenue from operations:</p> <p>Sale of products</p> <ul style="list-style-type: none"> - Towers and structural - Cables <p>Turnkey contracts revenue</p>	<p><i>of related products or services and that is subject to risks and returns that are different from those of other business segments. Factors that should be considered in determining whether products or services are related include:</i></p> <p><i>(a) the nature of the products or services;</i></p> <p><i>(b) the nature of the production processes;</i></p> <p><i>(c) the type or class of customers for the products or services;</i></p> <p><i>(d) the methods used to distribute the products or provide the services; and</i></p> <p><i>(e) if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities."</i></p> <p>"7. A single business segment does not include products and services with significantly differing risks and returns. While there may be dissimilarities with respect to one or several of the factors listed in the definition of business segment, the products and services included in a single business segment are expected to be similar with respect to a majority of the</p>
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Observations on Accounting Standard (AS) 17: Segment Reporting

	<ul style="list-style-type: none"> - Transmission and distribution - Others 	<p>factors.”</p> <p>“27. A business segment or geographical segment should be identified as a reportable segment if:</p> <p>(a) its revenue from sales to external customers and from transactions with other segments is 10 per cent or more of the total revenue, external and internal, of all segments; or</p> <p>(b) its segment result, whether profit or loss, is 10 per cent or more of</p> <p style="padding-left: 40px;">i. the combined result of all segments in profit, or</p> <p style="padding-left: 40px;">ii. the combined result of all segments in loss, whichever is greater in absolute amount; or</p> <p>(c) its segment assets are 10 per cent or more of the total assets of all segments.”</p> <p>From the above, it was viewed that the products or services being produced/ rendered can be considered to be belonging to single business segment if majority of the relevant factors</p>
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		<p>including those listed above are similar.</p> <p>In the first case, it was observed that while the note on segment reporting states that the company is engaged in only investment activities, the note on Revenue from Operations shows consultancy income which constitutes 52.36% of the total revenue of the enterprise. Accordingly, it was viewed that company was engaged in investment as well as consultancy activities and they can be regarded as related activities. Hence, consultancy activities would constitute a separate reportable business segment for which the required segmental information should have been disclosed.</p> <p>In the second case, it was observed that though the note on segment reporting states that the enterprise has only one business viz. engineering, procurement and construction segment, it has reported revenue from turn-key contracts as well as sale of products constituting 70% and 29.55% of the total revenue from operation respectively. It was viewed that risks and rewards associated with turnkey contracts cannot be considered to be same as that of sale of</p>
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Observations on Accounting Standard (AS) 17: Segment Reporting

		<p>products.</p> <p>Accordingly, it was viewed that the requirements of AS 17 have not been complied with.</p>
9.	<p>The notes relating to Segment Reporting as given in the Annual Report of a couple of companies read as follows:</p> <ol style="list-style-type: none"> 1. The business segment is the primary segment of the Company consisting of:- <ol style="list-style-type: none"> i. Investment Activities ii. Real Estate iii. Trading 2. As per information given to us and to the best of our knowledge, company is only manufacturing skelp, MS Pipes & GI Pipes, therefore, segment reporting in this case is not applicable. 3. The Company operates only in one business segment viz. cement. 	<p>It may be noted that the explanation given under paragraph 38 of AS 17, states as follows:</p> <p>“In case by applying the definitions of ‘business segment’ and ‘geographical segment’, it is concluded that there is neither more than one business segment nor more than one geographical segment, segment information as per this Standard is not required to be disclosed. However, the fact that there is only one ‘business segment’ and ‘geographical segment’ is disclosed by way of note.”</p> <p>It was observed from the note on segment reporting that the company has disclosed information relating to business segment but no information about existence or non-existence of geographical segment has been disclosed. It was viewed that if there exists only one reportable geographical segment then the fact should be disclosed as explained in paragraph 38 of AS 17.</p>

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		Accordingly, it was viewed that the requirements of paragraph 38 of AS 17 have not been complied with.
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Observations on Accounting Standard (AS) 18: Related Party Disclosures

S. No	Matters contained in the Annual Report	Observations
1.	<p>From the 'Related Party Disclosures' given in the Annual Reports of some companies, it has been noted that the names of the related parties as well as the transactions that have taken place with such related parties have been disclosed but the nature of relationship with them has not been disclosed.</p> <p>In certain cases, the names of related parties have been disclosed along with their designations viz. Managing director, Whole time director.</p> <p>It has also been noted in few cases, that the transactions (i.e. remuneration) with the key management personnel have not been disclosed under Related Party Disclosures; instead only a reference to the note on managerial remuneration has been given.</p>	<p>It may be noted that paragraph 23(ii) of AS 18, provides that:</p> <p><i>“23. If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:</i></p> <p>...</p> <p><i>(ii) a description of the relationship between the parties;”</i></p> <p>Based on the above, it was viewed that non-disclosure of a description of the relationship between the parties is not in line with the requirement of paragraph 23(ii) of AS 18. It was further viewed that merely stating the designation of the related parties does not indicate the relationship with the reporting entity.</p> <p>It has also been observed that remuneration paid to key</p>

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		management personnel has not been reported under related party disclosures. Only a reference to the note on managerial remuneration has been given. It was viewed that a mere reference to a note cannot be construed as information itself.
2.	From the 'Related Party Disclosures' as given in the Annual Report of a company, it has been noted that the volume of transactions has been disclosed but the nature of transactions has not been disclosed.	<p>It may be noted that paragraph 23 of AS 18, provides that:</p> <p><i>"23. If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:</i></p> <p>...</p> <p><i>(iii) a description of the nature of transactions;"</i></p> <p>In view of the above, it was observed that if any transaction has taken place during the year with a related party, the reporting enterprise is required to disclose a description of the nature of such transactions.</p> <p>Accordingly, it was viewed that non-disclosure of the nature of transactions is not in compliance with the requirement of paragraph 23(iii) of AS 18.</p>
3.	From the Annual Reports of few companies, it has been noted	It may be noted that paragraph 21 of AS 18, states that:

Observations on Accounting Standard (AS) 18: Related Party Disclosures

	<p>that these companies are subsidiaries of some other companies. However, the names of the holding companies have not been disclosed in the 'Related Party Disclosures'.</p> <p>From the Annual Report of another company, it has been noted that a wholly owned subsidiary has been formed during the year under review; however, the name of the subsidiary has not been disclosed as a related party under the 'Related Party Disclosures'.</p>	<p><i>“21. Name of the related party and nature of the related party relationship where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties.”</i></p> <p>It may be noted from the above that where control exists the name of the related party and nature of the related party relationship should be disclosed irrespective of whether or not there have been any transactions between the related parties.</p> <p>Accordingly, it was viewed that non-disclosure of the names of the holding companies or the subsidiary company in the 'Related Party Disclosures' is not in compliance with the requirements of paragraph 21 of AS 18.</p>
4.	<p>From Notes to Accounts, Cash Flow Statement, Director's Report, Corporate Governance Report given in the Annual Reports of a number of companies, following information has been noted with regard to 'Related Party Disclosures':</p> <ul style="list-style-type: none"> • Advances given to directors; • Application money received from a key management personnel for preferential 	<p>It may be noted that paragraph 23 of AS 18, requires that:</p> <p><i>“23. If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:</i></p> <p><i>(i) the name of the transacting related party;</i></p> <p><i>(ii) a description of the</i></p>

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	<p>allotment;</p> <ul style="list-style-type: none"> • Equity shares allotted to key management personnel on conversion of warrants; • Dividend paid to the holding company; • Short-term loans given to related parties; • Loans and advances given to as well as repaid by the subsidiary; • Remuneration paid to directors (key management personnel); • Repayment of liabilities to a related party; • Advances received from holding company; • Unsecured loans received from related parties; • Sale of a business unit to a fellow subsidiary; • Repayment of loans by the subsidiary company. 	<p><i>relationship between the parties;</i></p> <p><i>(iii) a description of the nature of transactions;</i></p> <p><i>(iv) volume of the transactions either as an amount or as an appropriate proportion;</i></p> <p><i>(v) any other elements of the related party transactions necessary for an understanding of the financial statements;</i></p> <p><i>(vi) the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and</i></p> <p><i>(vii) amounts written off or written back in the period in respect of debts due from or to related parties.”</i></p> <p>It was noted from the above that if there have been transactions between the related parties during the existence of a related party relationship, the reporting entity should disclose the details of such transactions.</p> <p>It was viewed that all the transactions observed in the</p>
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Observations on Accounting Standard (AS) 18: Related Party Disclosures

		<p>reported cases are in the nature of related party transactions and that although these transactions have been reported in various parts of the Annual Reports, no disclosure has been made under 'Related Party Disclosures' as per the requirements of paragraph 23 of AS 18.</p>
5.	<p>From the Annual Reports of some companies, it has been noted that in the 'Related Party Disclosures' transactions of similar nature along with the values thereof have been disclosed on an aggregate basis against each type of related party.</p>	<p>It may be noted that paragraph 27 read with explanation thereon of AS 18, provides that:</p> <p>"27. Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions. Hence, purchases or sales of goods are not aggregated with purchases or sales of fixed assets. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure.</p> <p>Explanation:</p> <p>(a) Materiality primarily depends on the facts and circumstances of each case. In deciding whether an item or an aggregate of items is</p>

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		<p>material, the nature and the size of the item(s) are evaluated together. Depending on the circumstances, either the nature or the size of the item could be the determining factor. As regards size, for the purpose of applying the test of materiality as per this paragraph, ordinarily a related party transaction, the amount of which is in excess of 10% of the total related party transactions of the same type (such as purchase of goods), is considered material, unless on the basis of facts and circumstances of the case it can be concluded that even a transaction of less than 10% is material. As regards nature, ordinarily the related party transactions which are not entered into in the normal course of the business of the reporting enterprise are considered material subject to the facts and circumstances of the case.”</p> <p>It was observed that certain material transactions have taken place with the related parties. However, the names of the related parties with whom such transactions have taken place</p>
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Observations on Accounting Standard (AS) 18: Related Party Disclosures

		<p>and the volume of each such material transaction have not been separately disclosed.</p> <p>Accordingly, it was viewed that the requirements of paragraph 27 of AS 18 have not been fully complied with.</p>
6.	<p>From the Annual Reports of some companies, it has been noted that the managing director or the whole time directors or the manager have not been identified as key management personnel and consequently the remuneration paid to them or any other transactions with them have not been disclosed under 'Related Party Disclosure'.</p> <p>From the Annual Report of another company, it has been noted that although the Chief Operating Officer (COO) has been reported as key management personnel, the Chief Executive Officer (CEO) who appears to have the authority and responsibility for planning, directing and controlling the activities of the company has not been identified as key management personnel.</p>	<p>It may be noted that paragraph 14 of AS 18, provides that:</p> <p><i>“14. Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. For example, in the case of a company, the managing director(s), whole time director(s), manager and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered key management personnel.”</i></p> <p>From the above, it was viewed that managing director and/or whole time directors or manager generally have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise and are accordingly considered key management personnel. However, in the reported cases, neither these</p>

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		<p>directors/manager have been identified as key management personnel nor any transactions with them have been disclosed as related party transactions. In the other reported case also, it was observed that the COO has been considered as key management personnel but not the CEO.</p> <p>Accordingly, it was viewed that the disclosure requirements of AS 18 with regard to key management personnel have not been complied with.</p>
7.	<p>From the Annual Reports of some companies, it has been noted that the corporate guarantees given to banks / financial institutions for credit facilities extended to the subsidiaries and/or personal guarantees given by the directors (key management personnel) for loans taken from banks / financial institutions have not been disclosed as related party transactions.</p>	<p>It may be noted that paragraph 24 of AS 18, provides as follows:</p> <p>“24. The following are examples of the related party transactions in respect of which disclosures may be made by a reporting enterprise:</p> <ul style="list-style-type: none"> a) purchases or sales of goods (finished or unfinished); b) purchases or sales of fixed assets; c) rendering or receiving of services; d) agency arrangements; e) leasing or hire purchase arrangements; f) transfer of research and development;

Observations on Accounting Standard (AS) 18: Related Party Disclosures

		<p>g) license agreements;</p> <p>h) finance (including loans and equity contributions in cash or in kind);</p> <p>i) guarantees and collaterals; and</p> <p>j) management contracts including for deputation of employees.</p> <p>(emphasis supplied)”</p> <p>From the above, it was viewed that the corporate guarantees given for credit facilities extended to the subsidiaries and the personal guarantees given by the directors (key management personnel) for loans taken by the company should be disclosed as related party transactions as per the requirements of paragraph 24 of AS 18.</p>
8.	<p>From the ‘Related Party Disclosures’ as given in the Annual Reports of few companies, it has been noted that although the nature of transactions and the volume thereof have been disclosed, the names of the related parties with whom such transactions have been taken place have not been disclosed.</p> <p>Further, it has been noted that the balances outstanding at the</p>	<p>It may be noted that paragraph 23 (i) of AS 18, provides as follows:</p> <p>“23. If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:</p> <p>(i) the name of the transacting related party;”</p> <p>It was noted from the above that the names of the related parties</p>

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	<p>balance sheet date have been disclosed by the nature of balances eg. Debtors, payable towards services etc.; however, the names of the related parties from/to whom such balances are due have not been disclosed.</p>	<p>with whom transactions have taken place and from/to whom the year end balances are due should be disclosed as part of the related party disclosure.</p> <p>Accordingly, it was viewed that the non-disclosure of the names of the transacting related parties is not in line with the requirements paragraph 23(i) of AS 18.</p>
<p>9.</p>	<p>From the 'Related Party Disclosures' as given in the Annual Reports of some companies, it has been noted that the relationships with the related parties have been described as follows:</p> <ul style="list-style-type: none"> • Common Director; • Affiliates; • Related Party-Common control exists; • Holding Company/ Enterprise Controlled by the Holding Company; 	<p>It may be noted that paragraph 3 of AS 18, provides as follows:</p> <p>"3. This Statement deals only with related party relationships described in (a) to (e) below:</p> <p>(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);</p> <p>(b) associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture;</p> <p>(c) individuals owning, directly or indirectly, an interest in the voting power of the reporting</p>

Observations on Accounting Standard (AS) 18: Related Party Disclosures

		<p>enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;</p> <p>(d) key management personnel and relatives of such personnel; and</p> <p>(e) enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.”</p> <p>It may be, however, noted that paragraph 3 does not include any nature of relationship as ‘Common Director’ or ‘Affiliates’. It was, therefore, viewed that the relationship with the related parties is not clear from such descriptions. Even in the other two cases instead of reporting ‘Related Party-Common control exists’ or ‘Enterprise Controlled by the Holding Company’ it would be more appropriate to describe the relationship as ‘subsidiaries’ or ‘fellow subsidiaries’.</p> <p>Accordingly, it was viewed that the requirements of paragraph 3</p>
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		of AS 18 have not been complied with.
10.	<p>The Related Party Disclosures as given in the Annual Report of a bank include the following note:</p> <p>‘...</p> <p>Transactions with Related Parties:</p> <p>In terms of the RBI circular/guidelines regarding disclosure of related party transactions where there is only one entity in any category of related parties, particulars of such transactions have not been disclosed. There have been no transactions with subsidiaries of Head Office.’</p>	<p>It may be noted that paragraph 4.5 of ‘Master Circular – Disclosures in Financial Statements – Notes to Accounts’ dated July 2, 2012, issued by RBI, provides an illustrative format for Related Party Disclosures prescribing to disclose related party transactions in separate column for each nature of relationship and the footnote to the given format states as follows:</p> <p>“Where there is only one entity in any category of related party, banks need not disclose any details pertaining to that related party other than the relationship with that related party.”</p> <p>From the above, it was viewed that the stated footnote provides exemption from providing party-wise details separately when there is only single party in the given category. In other words, such footnote does not exempt the bank from providing the related party transactions on the ground that there is only one entity in a given category of relationship.</p> <p>It was observed that no related party transactions have been disclosed on the ground that</p>

Observations on Accounting Standard (AS) 18: Related Party Disclosures

		<p>there is only one entity in any category of relationship. It was viewed that the prescribed format does not provide such exemptions. Further, it was observed that there are two individuals described to be holding KMP relationship with the bank.</p> <p>Accordingly, it was viewed that the requirements of AS 18 as well as 'Master Circular– Disclosures in Financial Statements– Notes to Accounts' issued by RBI have not been complied with.</p>
11.	<p>From the 'Related Party Disclosures' in the Annual Reports of some companies, it has been noted that while the volume of transactions with the related parties has been disclosed, the year end balances due to/from the related parties in respect of the loans and advances received/given from/to such parties or in respect of other payables or receivables have not been disclosed.</p>	<p>It may be noted that paragraph 23(vi) of AS 18, provides as follows:</p> <p><i>“23. If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:</i></p> <p><i>(vi) the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date;</i></p> <p>It was noted from the above that the amounts outstanding at the</p>

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		<p>balance sheet date should be disclosed as part of the related party disclosure. Accordingly, it was viewed that non-disclosure of the year end outstanding balances due to/from the related parties is not in compliance with the requirements of paragraph 23(vi) of AS 18.</p>
12.	<p>From the 'Related Party Disclosures' as given in the Annual Report of a company, it has been noted that the transactions with the controlling companies and fellow subsidiaries have been disclosed together in a single column.</p>	<p>It may be noted that paragraph 23 of AS 18, inter alia, provides as follows:</p> <p><i>“23. If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:</i></p> <ul style="list-style-type: none"> <i>i. the name of the transacting related party;</i> <i>ii. a description of the relationship between the parties;</i> <i>iii. a description of the nature of transactions;”</i> <p>It was noted from the above that transactions for each type of relationship should be separately disclosed under the related party disclosures.</p> <p>Accordingly, it was viewed that disclosing transactions with controlling companies and fellow subsidiaries together under single</p>

Observations on Accounting Standard (AS) 18: Related Party Disclosures

		column is not in line with the requirements of paragraph 23 of AS 18.
13.	From the note on the 'Related Party Disclosures' as given in the Annual Report of a company, it has been noted that the related parties have been described "as certified by the management".	<p>It was observed that use of expression 'as certified by the management' may lead the users of financial statements to believe that the auditors have merely relied on the management's certificate without carrying out any other appropriate audit procedures to satisfy themselves about the existence and disclosure of related party transactions.</p> <p>Accordingly, it was viewed that use of such expression "as certified by the management" should be avoided while describing related parties.</p>
14.	In the 'Related Party Disclosures' as given in the Annual Report of a company, the list of related parties where control exists includes the name of an individual and the relationship has been stated as 'Lessor'.	<p>It may be noted that paragraph 3 of AS 18, provides as follows:</p> <p>"3.This Statement deals only with related party relationships described in (a) to (e) below:</p> <p>(a)</p> <p>(b)</p> <p>(c) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise,</p>

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		<p>and relatives of any such individual;</p> <p>(d)</p> <p>(e) enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.”</p> <p>It was noted from the above that an individual in the capacity of a lessor cannot exercise control or significant influence over the company.</p> <p>Accordingly, it was viewed that such description of relationship is not in line with the requirements of paragraph 3 of AS 18.</p>
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Observations on Accounting Standard (AS) 19: Leases

S. No	Matters contained in the Annual Report	Observations
1.	<p>From the Annual Reports of few companies, it has been noted that significant expenses in the nature of rent and hire charges have been shown under Administration Expenses/Other Expenses. In the Annual Reports of a couple of other companies, lease rentals and rent, including lease rentals, have been shown under operating expenses/overheads.</p> <p>It has also been noted in some of the above cases that the following notes have been given with regard to lease payments under non – cancelable Lease:</p> <ul style="list-style-type: none"> • Total lease rental of Rs. xxx has been included under Operating expenses - Rent, Taxes and Lighting in the Statement of Profit & Loss. • The Company's leasing arrangements are mainly in respect of residential/office 	<p>It may be noted that paragraph 25 of AS 19, provides as follows:</p> <p>"25. The lessee should make the following disclosures for operating leases:</p> <p>(a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:</p> <p>(i) not later than one year;</p> <p>(ii) later than one year and not later than five years;</p> <p>(iii) later than five years;</p> <p>(b) the total of future minimum sublease payments expected to be received under non-cancellable subleases at balance sheet date;</p>

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	<p>premises and plant and machinery. The aggregate lease rentals payable are charged as rent under "overheads" except otherwise treated.</p> <p>Lease rental obligation –</p> <p>Not later than one year Rs xxx</p> <p>Later than one year but not later than five years Rs xxx</p> <p>Later than five years Rs xxx</p> <ul style="list-style-type: none"> Lease Rental expenses are accounted on straight line basis over the lease term. 	<p>(c) Lease payments recognised in the statement of profit and loss for the period, with separate amounts for minimum lease payments and contingent rents.</p> <p>(d) A general description of the lessee's significant leasing arrangements including, but not limited to, the following:</p> <p>(i) the basis on which contingent rent payments are considered</p> <p>(ii) the existence and terms of renewal or purchase options and escalation clauses? and</p> <p>(iii) restrictions imposed by lease arrangements, such as those concerning dividends and further leasing."</p> <p>It is evident from the nature of expenses as disclosed in the financial statements, including notes to accounts, that these companies have taken certain under non cancellable assets on operating lease. It is, however, observed that the disclosures</p>
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Observations on Accounting Standard (AS) 19: Leases

		<p>required under paragraph 25 of AS 19 as applicable to such leases have not been made in the financial statements except in one case where disclosure under paragraph 25(a) alone has been made.</p> <p>Accordingly, it was viewed the requirements of paragraph 25 of AS 19 have not been complied with.</p>
<p>2.</p>	<p>From the Annual Reports of some companies, it has been noted that certain assets including land and residential premises have been given under non - cancellable operating leases.</p> <p>Further, it has been noted that in one case, the accounting policy adopted by the company with regard to leases has been disclosed and that in another case following disclosure has been made in the notes to accounts:</p> <p>Lease rental income -</p> <p>Not later than one year Rs xxx</p> <p>Later than one year but not later than five years Rs xxx</p> <p>Later than five years Rs xxx</p>	<p>It may be noted that paragraphs 40 and 46 of AS 19, state as follows:</p> <p><i>“40. Lease income from operating leases should be recognised in the statement of profit and loss on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the use of the leased asset is diminished.”</i></p> <p><i>“46. The lessor should, in addition to the requirements of AS 6, Depreciation Accounting and AS 10, Accounting for Fixed Assets, and the governing statute, make the following disclosures for operating leases:</i></p> <p><i>(a) for each class of assets,</i></p>

		<p><i>the gross carrying amount, the accumulated depreciation and accumulated impairment losses at the balance sheet date; and</i></p> <p><i>(i) the depreciation recognised in the statement of profit and loss for the period;</i></p> <p><i>(ii) impairment losses recognised in the statement of profit and loss for the period;</i></p> <p><i>(iii) impairment losses reversed in the statement of profit and loss for the period;</i></p> <p><i>(b) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:</i></p> <p><i>(i) not later than one year;</i></p> <p><i>(ii) later than one year and not later than five years;</i></p> <p><i>(iii) later than five years;</i></p>
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		<p>(c) <i>total contingent rents recognised as income in the statement of profit and loss for the period;</i></p> <p>(d) <i>a general description of the lessor's significant leasing arrangements; and</i></p> <p>(e) <i>accounting policy adopted in respect of initial direct costs."</i></p> <p>It was observed that although gross carrying amount of fixed assets includes the assets given on lease, the disclosures required under paragraph 46 of AS 19 have not been made in the financial statements. It was further observed in one case that lease rental for not later than one year, later than one year but not later than five years and later than five years have been disclosed, however, the rental income arising from such lease has not been disclosed either in the Statement of Profit and Loss or in the related notes to accounts, which is not in line with the requirement of paragraph 40 of AS 19.</p> <p>Accordingly, it was viewed that the requirements of paragraphs 40 and 46 of AS 19 have not been complied with.</p>
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<p>3.</p>	<p>The Statement of Significant Accounting Policies as given in the Annual Report of a company includes the following:</p> <p>‘Furniture & fixtures includes the cost of Rs xxx towards interior decoration and civil work for leased premises and depreciation rate adopted in respect of these assets are at the rate of 10% under straight line method.’</p>	<p>It may be noted that paragraph 18 of AS 19, states that:</p> <p>”18. ...The depreciation policy for a leased asset should be consistent with that for depreciable assets which are owned, and the depreciation recognised should be calculated on the basis set out in Accounting Standard (AS) 6, Depreciation Accounting. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the lease term or its useful life, whichever is shorter.”</p> <p>It was observed that the interior decoration and civil work for leased premises is depreciated at an ad hoc rate of 10% instead of depreciating the same with reference to the lease term of the related premises or its useful life, whichever is shorter.</p> <p>Accordingly, it was viewed that the requirements of paragraph 18 of AS 19 have not been complied with.</p>
<p>4.</p>	<p>The significant accounting policy with regard to Leased Equipment as given in the</p>	<p>It may be noted that paragraph 22 of AS 19, states as follows:</p> <p>“22. The lessee should, in</p>

Observations on Accounting Standard (AS) 19: Leases

	<p>Annual Report of a company reads as follows:</p> <p>‘Rental in respect of leased equipment acquired under financial lease is charged to the Statement of Profit and Loss.’</p> <p>From the Annual Report of another company, it has been noted that tangible fixed assets include leasehold building. In other words, the building has been acquired under finance lease.</p>	<p><i>addition to the requirements of AS 10, Accounting for Fixed Assets, AS 6, Depreciation Accounting, and the governing statute, make the following disclosures for finance leases:</i></p> <p><i>a) assets acquired under finance lease as segregated from the assets owned;</i></p> <p><i>b) for each class of assets, the net carrying amount at the balance sheet date;</i></p> <p><i>c) a reconciliation between the total of minimum lease payments at the balance sheet date and their present value. In addition, an enterprise should disclose the total of minimum lease payments at the balance sheet date, and their present value, for each of the following periods:</i></p> <p><i>i. not later than one year;</i></p> <p><i>ii. later than one year and not later than five years;</i></p> <p><i>iii. later than five years;</i></p> <p><i>d) contingent rents</i></p>
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		<p><i>recognised as expense in the statement of profit and loss for the period;</i></p> <p>e) <i>the total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date; and</i></p> <p>f) <i>a general description of the lessee's significant leasing arrangements including, but not limited to, the following:</i></p> <p><i>i. the basis on which contingent rent payments are determined;</i></p> <p><i>ii. the existence and terms of renewal or purchase options and escalation clauses; and</i></p> <p><i>iii. restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.</i></p> <p><i>Provided that a Small and Medium Sized Company, as defined in the Notification, may not comply with sub-</i></p>
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Observations on Accounting Standard (AS) 19: Leases

		<p>paragraphs (c),(e) and (f).”</p> <p>It was observed that although the equipment and building have been acquired under finance leases, the disclosures as set out above have not been made in the financial statements.</p> <p>Accordingly, it was viewed that the requirements of paragraph 22 of AS 19 have not been complied with.</p>
<p>5.</p>	<p>In the Annual Report of a bank the accounting policy on leased assets states as follows:</p> <p>‘Lease income is recognised based on the internal rate of return method over the primary period of the leased assets and accounted for in accordance with Guideline / Accounting Standard issued by the Institute of Chartered Accountants of India (ICAI)</p> <p>Depreciation is provided on Straight Line Method at rates prescribed under Schedule XIV of the Companies Act, 1956. Extra lease depreciation, in accordance with the applicable guidelines, is adjusted against the cost of Lease assets through lease equalisation account.</p>	<p>It may be noted that paragraph 4.11 of Master Circular No. DBOD.BP.BC No.14 /21.04.018/2012-13 dated July 2, 2012 regarding ‘Disclosure in Financial Statements - Notes to Accounts’ issued by RBI, requires banks to comply with the requirements of Accounting Standards issued by the Institute of Chartered Accountants of India.</p> <p>It may also be noted that preface to AS 19, Leases, provides that “Accounting Standard (AS) 19, ‘Leases’ comes into effect in respect of all assets leased during accounting periods commencing on or after 1.4.2001 and is mandatory in nature from that date.” Accordingly, ‘Guidance Note on Accounting for Leases’ issued by the ICAI in 1995, is</p>

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	<p>Provision for Non-Performing leased assets is made on the basis of IRAC norms applicable to advances, as per RBI guidelines.'</p>	<p>applicable in respect of assets leased prior to 1.4.2001.</p> <p>From the stated accounting policy, it appears that the bank has adopted the accounting treatment as per the Guidance Note. It may be noted that the principles given in Guidance Note for assets acquired under finance lease are different from that envisaged under AS 19.</p> <p>It was observed that the dates when the related assets have been taken on finance lease have not been disclosed in the accounting policy nor in the notes to accounts, which may appear to be against the requirement of AS 19.</p> <p>Accordingly, it was viewed that the date of acquiring the assets under finance lease should be explicitly disclosed in the accounting policy to avoid any such possible non compliance.</p>
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Observations on Accounting Standard (AS) 20: Earnings Per Share

S. No.	Mater contained in Annual Report	Observations
1.	From the Annual Report of company, it was noted that basic and diluted earnings per share has not been disclosed on the face of Statement of Profit & Loss. However, the basic as well as the diluted earnings per share were disclosed in the Notes to Accounts and the Diluted EPS has been reported as 'Not Applicable'.	<p>It may be noted that paragraph 8 of AS 20, provides as follows:</p> <p><i>“8. An enterprise should present basic and diluted earnings per share on the face of the statement of profit and loss account for each class of equity shares that has different right to share in the net profit for the period. An enterprise should present basic and diluted earnings per share with equal prominence for all periods presented.”</i></p> <p>It has been noted that the company has not disclosed basic as well as diluted earnings per share on the face of the Profit and Loss Account although the information relating to the same has been disclosed in the note.</p> <p>Further, it has been noted from the note on 'Earnings Per Share' that the diluted earnings per</p>

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		<p>share has been stated to be as 'Not Applicable'.</p> <p>It appears that the company has stated Diluted EPS as 'Not Applicable' either because there are no potential equity shares or potential equity shares (if any) have an anti-dilutive impact.</p> <p>It may be noted that paragraphs 26 and 41 of AS 20, state as follows:</p> <p>“26. For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares.”</p> <p>“41. Potential equity shares are anti-dilutive when their conversion to equity shares would increase earnings per share from continuing ordinary activities or decrease loss per share from continuing ordinary activities. The effects of anti-dilutive potential equity shares are ignored in calculating diluted earnings per share.”</p> <p>As per above paragraphs, it was viewed that in absence of potential equity shares, both the</p>
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Observations on Accounting Standard (AS) 20: Earnings Per Share

		<p>net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period will remain the same as that in case of basic earnings per share. Hence, if a company has no potential equity shares then its diluted EPS would be the same as basic EPS.</p> <p>Further, in case potential equity shares have an anti-dilutive effect, then such potential equity shares are ignored for calculating diluted EPS which will result in diluted earnings per share being equal to basic EPS.</p> <p>Accordingly, stating the diluted EPS as 'Not Applicable' is not in line with the requirement of AS 20.</p>
2.	<p>From the Annual Report of a company, it was noted that although the Balance Sheet of a company showed 'Equity Share Warrants' as Sources of Fund, the basic and diluted earnings per share have been disclosed as the same amount. Further, the nominal value of shares has been disclosed only on the face of the statement of Profit and Loss and not in the Note giving computation of earnings per share.</p>	<p>It may be noted that paragraphs 4.4 and 4.5 of AS 20 define potential equity shares and share warrants as follows:</p> <p><u>“4.4. A potential equity share is a financial instrument or other contract that entitles, or may entitle, its holder to equity shares.”</u></p> <p><u>“4.5 Share warrants or options are financial instruments that give the holder the right to</u></p>

		<p>acquire equity shares.”</p> <p>Further, it has been noted that paragraph 32 of AS 20, provides as follows:</p> <p>“32. For the purpose of calculating diluted earnings per share, the number of equity share should be the aggregate of the weighted average number of equity shares calculated in accordance with paragraphs 15 and 22, and the weighted average number of equity shares which would be issued on the conversion of all the dilutive potential equity shares into equity shares. Dilutive potential equity shares should be deemed to have been converted into equity shares at the beginning of the period or, if issued later, the date of the issue of the potential equity shares.”</p> <p>It was noted from the Balance Sheet that certain equity share warrants were outstanding as on the Balance Sheet date. It was viewed that equity share warrants are financial instruments that give the holders the right to acquire equity shares; therefore, they are potential equity shares which should be considered for the purpose of determining diluted</p>
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Observations on Accounting Standard (AS) 20: Earnings Per Share

		<p>earnings per share. However, it has been noted from the note that the basic as well as diluted earnings per share have been disclosed as same which indicates that share warrants have not been considered for determination of diluted earnings per share.</p> <p>Further, it was noted that the nominal value of shares has not been disclosed in the given note although disclosed on the face of Statement of Profit and Loss.</p> <p>Accordingly, it was viewed that the requirement of AS 20 has not been complied with.</p>
3.	<p>In the Statement of Profit and Loss and the computation of earnings per share given in the Notes to the Accounts, a company has disclosed “earnings per share.”</p>	<p>It may be noted that paragraph 8 of AS 20, provides that:</p> <p>“8. An enterprise should present basic and diluted earnings per share on the face of the statement of profit and loss for each class of equity shares that has a different right to share in the net profit for the period. An enterprise should present basic and diluted earnings per share with equal prominence for all periods presented.”</p> <p>It was observed from the face of the Statement of Profit and Loss as well as disclosure given in context of AS 20 that only</p>

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		<p>'earning per share' has been disclosed, without stating whether it is basic earnings per share or diluted earnings per share.</p> <p>It was viewed that even if there is no difference in the basic and diluted EPS, to comply with the requirement of AS 20, the basic as well as diluted EPS should be explicitly disclosed.</p>
4.	<p>From the Notes to Accounts of the Annual Report, it was noted that a company has disclosed the basic earnings per share and has stated that it has been computed by dividing the profit after tax by number of equity shares without disclosing the amount of the profit after tax or the number of equity shares.</p>	<p>It may be noted that paragraphs 8 and 48 (iii) of AS 20, provides as follows:</p> <p><i>“8. An enterprise should present basic and dilutive earning per share on the face of the statement of profit and loss of each class of equity shares that has a different right to share in the net profit for the period. An enterprise should present basic and diluted earnings per share with equal prominence for all periods presented. ”</i></p> <p><i>“48.</i></p> <p><i>(ii)</i></p> <p><i>a) the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those</i></p>

Observations on Accounting Standard (AS) 20: Earnings Per Share

		<p><i>amounts to the net profit or loss for the period;</i></p> <p><i>b) the weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other; and</i></p> <p><i>c) the nominal value of shares along with the earnings per share figures.”</i></p> <p>It was observed that although the basic earnings per share has been disclosed, neither the diluted earnings per share has been reported nor other disclosures as required by paragraph 48 of AS 20 have been disclosed in the notes to accounts.</p> <p>Accordingly, it was viewed that the requirements of AS 20 have not been complied with.</p>
5.	In the Annual Report of some companies, it was observed that although Statement of Profit and Loss showed ' Exceptional / Extraordinary Items', the computation of basic and diluted	<p>It may be noted that paragraph 48(i) of AS 20, provides as follows:</p> <p>“48. In addition to disclosures as required by paragraphs 8, 9</p>

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<p>earnings per share was made with the profit after tax inclusive of the 'Exceptional/Extraordinary Items'.</p>	<p>and 44 of this Standard, an enterprise should disclose the following:</p> <p><i>(i) where the statement of profit and loss includes extraordinary items (within the meaning of AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies), the enterprise should disclose basic and diluted earnings per share computed on the basis of earnings excluding extraordinary items (net of tax expense)."</i></p> <p>It was noted from the Statement of Profit & Loss as well as the earnings per share note that the company has computed the earnings per share on the basis of earnings including extraordinary items as per the requirement of paragraph 8 read with paragraph 12 of AS 20. It is not in line with the aforesaid requirement of paragraph 48(i) of AS 20.</p> <p>However, the Earnings Per Share computed on the basis of earnings excluding extraordinary items has not been disclosed as per the requirements of paragraph 8 read with paragraph 12 of AS 20.</p>
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Observations on Accounting Standard (AS) 20: Earnings Per Share

6.	<p>From the notes to the accounts given in the Annual Report of a company, it was noted that only the weighted average number of shares considered for basic and diluted earnings per share has been disclosed.</p>	<p>It may be noted that the disclosure requirement of paragraph 48(ii)(b) of AS 20, provides as follows:</p> <p>“48. In addition to disclosures as required by paragraphs 8, 9 and 44 of this Statement, an enterprise should disclose the following:</p> <p>(ii)</p> <p>(b) the weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other.”</p> <p>It was observed from the Earnings per share note that although the company has disclosed the weighted average number of equity shares used for determining the basic as well as diluted earnings per share, it has not disclosed the reconciliation of the weighted average number of equity shares used as the denominator in calculating the basic and diluted earnings per share, as required by Paragraph 48(ii)(b) of AS 20.</p>
7.	<p>From the Annual Report of a company, it has been noted that company has shown negative basic earnings per share in its</p>	<p>It may be noted that paragraphs 9 and 48 of AS 20, provide as follows:</p>

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	<p>account and the computation of the EPS without disclosing the additional information required to be disclosed in computation of EPS.</p>	<p><i>“9. This Standard requires an enterprise to present basic and diluted earnings per share, even if the amounts disclosed are negative (a loss per share).”</i></p> <p><i>“48. In addition disclosures as required by paragraph 8,9 and 44 of this standard, an enterprise should disclose the following:</i></p> <p><i>(i).....</i></p> <p><i>(ii)(a) the amount used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to the net profit or loss for the period;</i></p> <p><i>(b) the weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other; and</i></p> <p><i>(c) ”</i></p> <p>It was noted that although negative basic earnings per share has been disclosed in the Statement of Profit and Loss, there is no disclosure in respect of diluted earnings per share. It</p>
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Observations on Accounting Standard (AS) 20: Earnings Per Share

		<p>was viewed that even if there was no difference in the basic and diluted EPS, to comply with AS 20, the company should have mentioned on the face of the Statement of Profit and Loss both basic as well as diluted EPS.</p> <p>Further, it was noted that although the company has disclosed the basic Earnings Per Share along with nominal value of the share in the Statement of Profit and Loss, it has omitted to disclose the details of the numerator and denominator of earning per share any as required under paragraph 48 (ii) (a) and (b) of AS 20.</p>
8.	From the Annual Report of a company, it was noted that the only earnings per share on the face of statement of Profit and Loss although in the Notes to the Accounts, it has disclosed 'basic and diluted earnings per share' at the same amount.	It was noted from the Earning per share note that although calculation relating to basic and diluted earnings per share has been disclosed, the nature of earning per share i.e. basic and diluted has not been disclosed on the face of the Statement of Profit and Loss, which is against the requirement of paragraph 8 of AS 20.
9.	From the Annual Report of a company, it was noted that although a company had issued Preference Shares, in the computation of earnings per	<p>It may be noted that paragraph 13(b) of AS 20, states as follows:</p> <p>"13. The amount of preference</p>

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	<p>share disclosed in the Notes to the Account, it has not made any adjustment for dividend payable on the preference shares in arriving at the profit after tax attributable to equity share holders.</p>	<p>dividend for the period that is deducted from the net profit for the period is :</p> <p>...</p> <p>(b) The full amount of the required preference dividends for cumulative preference shares for the period, <i>whether or not the dividends have been provided for.</i> The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous period.” (Emphasis Supplied)</p> <p>It was noted that although the company has issued non-convertible cumulative preference shares, the preference dividend on the same has not been adjusted against the net profit/loss for the period for determining the earning per share which is contrary to the aforesaid requirements of AS 20.</p>
<p>10.</p>	<p>From the Statement of Profit and Loss as well as Notes to the Accounts given in the Annual Report, a company has disclosed the basic and diluted</p>	<p>It was observed from the disclosure given in respect of earning per share in notes to accounts read with the Statement of Profit and Loss that</p>

Observations on Accounting Standard (AS) 20: Earnings Per Share

	<p>earnings per share without stating the nominal value of the share.</p>	<p>the nominal value of shares has neither been disclosed in the Earnings per share note nor on the face of the Statement of Profit and Loss as per the requirement of paragraph 48 (ii) (c) of AS 20.</p>
<p>11.</p>	<p>From the Annual Report of a company, it has been noted that although the number of equity shares outstanding at the current Balance Sheet date had undergone a change compared to that of the previous Balance Sheet, for computation of EPS, the number of weighted average equity shares was shown as the same as the number of outstanding shares. Further, the company also had convertible warrants with an option to convert these into shares and some of the warrants has been converted into equity shares during the year.</p>	<p>It may be noted that paragraph 15 of AS 20, <i>inter alia</i> provides that:</p> <p>“15. For the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period.”</p> <p>It was noted that number of equity shares outstanding has increased as on the current Balance Sheet date when compared with last Balance Sheet date. Accordingly, it was viewed that in such cases the weighted number of shares would be different from the outstanding number of shares. However, for the purpose of calculating basic EPS, the number of equity shares outstanding as on the Balance Sheet date has been considered for its computation which is not in line with aforesaid requirement of paragraph 15 of AS 20.</p>

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		<p>Further, it was also viewed that as per paragraph 26 of AS 20, net profit or loss for the period attributable to equity shareholders and weighted average number of shares should be adjusted for the effects of all dilutive potential equity shares. It was noted that some of the warrants were converted into the equity shares whereas the weighted average number of shares considered for the purpose of calculating diluted EPS excluded in the denominator the warrants that were converted. It was viewed that weighted average number of shares considered for the purpose of calculating diluted EPS would change due to effects of dilutive potential equity shares.</p> <p>Accordingly, it was viewed that calculation of the Diluted EPS is not in accordance with AS 20.</p>
12.	<p>In the Annual Report of a company, it was observed from the Statement of Profit and Loss and the Notes to the Account that although it had issued Optionally Convertible Preference Shares, the 'basic' and 'diluted' earnings per share were disclosed at the same amount.</p>	<p>It may be noted that paragraphs 4.4, 7 (a) and 32 of AS 20, provides as follows:</p> <p><u>“4.4. A potential equity share is a financial instrument or other contract that entitles, or may entitle, its holder to equity shares.”</u></p> <p>“7. Examples of potential equity</p>

		<p>shares are:</p> <p>(a) Debt instruments or preference shares, that are convertible into equity shares.”</p> <p>“32. For the purpose of calculating diluted earnings per share, the number of equity share should be the aggregate of the weighted average number of equity shares calculated in accordance with paragraphs 15 and 22, and the weighted average number of equity shares which would be issued on the conversion of all the dilutive potential equity shares into equity shares. Dilutive potential equity shares should be deemed to have been converted into equity shares at the beginning of the period or, if issued later, the date of the issue of the potential equity shares. “</p> <p>It was observed from the note relating to share capital that convertible preference shares have been issued which are optionally convertible into equity shares between three to twelve years which has not yet elapsed considering the date of allotment. In the absence of any other information in the financial statements, it was viewed that such convertible preference</p>
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		<p>shares are potential equity shares which should be considered for determination of diluted earnings per share.</p> <p>However, it was noted from the Statement of Profit and Loss that both the basic earnings per share as well as diluted earnings per share have been shown at the same value which clearly indicates that the convertible preference shares have not been considered for determination of diluted earnings per share. Accordingly, it was viewed that the requirement of AS 20 has not been complied with.</p>
13.	<p>In the Annual Report of a company, it was noted from the Statement of Profit and Loss and the note relating to Earning per share that EPS has been disclosed as 'basic', 'weighted average' and 'diluted'.</p>	<p>It was noted from the Statement of Profit and Loss that three types of EPS have been disclosed - basic, diluted and weighted. It was viewed that paragraph 8 of AS 20 prescribes disclosure of only basic EPS and diluted EPS but there is no requirement to disclose weighted EPS.</p>
14.	<p>From the note on computation of the earnings per share given in the Annual Report of a company, it was noted that reference has been made to 'average number of equity shares.'</p>	<p>It may be noted that paragraph 48 (ii) of AS 20, <i>inter alia</i> provides that;</p> <p>"48...</p> <p>(ii)</p>

Observations on Accounting Standard (AS) 20: Earnings Per Share

		<p>a) ...</p> <p>b) <i>the weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other; and</i></p> <p>... “</p> <p>It was noted that although the company has disclosed the calculation of earnings per share in notes to accounts, the terminology used for denominator is “average number of equity shares.” It may be noted that as per the aforesaid requirement, weighted average number of equity shares should be used to determine the basic and diluted earnings per share. Hence, the terminology used is incorrect.</p>
15.	<p>From the Annual Report of a company, it was noted that although the company had issued shares during the years, the computation of basic earnings per share was done on the basis of the number of shares outstanding as at the end of the year.</p>	<p>It may be noted that paragraphs 8, 9 and 15 of AS 20, respectively provide as follows :</p> <p>“8. An enterprise should present basic and diluted earnings per share on the face of the statement of profit and loss account for each class of equity shares that has different right to share in the net profit for the period. An</p>

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		<p><i>enterprise should present basic and diluted earnings per share with equal prominence for all periods presented.”</i></p> <p><i>“9. This Standard requires an enterprise to present basic and diluted earnings per share, even if the amounts disclosed are negative (a loss per share).”</i></p> <p><i>“15. For the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period.”</i></p> <p>It was noted that although certain equity shares have been issued during the year, the earning per share has been computed with reference to the number of shares outstanding as at the end of the year rather than considering the weighted average number of shares outstanding during the period as required under paragraph 15 of AS 20.</p> <p>Further, it was noted that the diluted earnings per share has neither been disclosed on the face of the Statement of Profit and Loss nor in the notes to accounts. It was viewed that even if basic and diluted</p>
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Observations on Accounting Standard (AS) 20: Earnings Per Share

		<p>earnings per share are same, both of them should be disclosed separately. Non-disclosure of diluted earnings per share is not in line with the requirement of paragraph 9 of AS 20.</p>
<p>16.</p>	<p>From the Annual Report of a company, it was noted that preference dividend has not been added to determine the loss attributable to equity shareholders for the computation of earnings per sheet.</p>	<p>It may be noted that paragraphs 11, 12 and 13 of AS 20, provide as follows:</p> <p><i>“11. For the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period.”</i></p> <p>“12...The amount of preference dividends and any attributable tax thereto for the period is deducted from the net profit for the period (or added to the net loss for the period) in order to calculate the net profit or loss for the period attributable to equity shareholders.”</p> <p>“13. The amount of preference dividends for the period that is deducted from the net profit for the period is:</p> <p>(a) ...</p>

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		<p>(b) the full amount of the required preference dividends for cumulative preference shares for the period, <i>whether or not the dividends have been provided for</i>. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods. (emphasis supplied)”</p> <p>It was noted from the note that the company has cumulative preference shares. However, the balance of ‘Loss after tax’ used for determination of earning per share for equity shareholders is same as that in the Statement of Profit and Loss. It was viewed that the preference dividend has not been added to determine the loss attributable to equity shareholders for computation of earnings per share which is not in line with the aforesaid requirements of AS 20.</p>
17.	From the Annual Report of a cooperative bank, it was noted that earnings per share figure was not disclosed on the face of the statement of Profit and Loss and computation of EPS was not	It may be noted that co-operative banks are required to comply with the disclosure norms stipulated under Accounting Standards, issued by ICAI, until or unless RBI

Observations on Accounting Standard (AS) 20: Earnings Per Share

	<p>disclosed in the note to Accounts.</p>	<p>prescribes specific disclosure with regard to any accounting standard.</p> <p>It was noted that the bank is required to present basic as well as diluted earnings per share on the face of the Statement of Profit and Loss. Further, other disclosures required under paragraph 48 of AS 20 should also have been made in the notes to accounts.</p> <p>However, in the given case, it was noted that neither basic and diluted earnings per share have been shown on the face of Statement of Profit and Loss nor the details relating to computation of earnings per share are given in the Notes to Accounts.</p> <p>Accordingly, it was viewed that the requirements of paragraphs 8 and 48 of AS 20 have not been complied with.</p>
<p>18.</p>	<p>In the Statement of Profit and Loss and the notes to accounts given in the Annual Report of a company, there was no disclosure of information relating to Earning per share.</p>	<p>It was observed that no information has been disclosed with regard to Earning Per Share either in the Statement of Profit and Loss or in the Notes to Accounts as required by paragraphs 8 and 48 of AS 20.</p> <p>Accordingly, it was viewed that the disclosure requirements of AS 20 have not been complied with.</p>

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<p>19.</p>	<p>A note on Earnings per Share read with the note of Share Capital as given in the Annual Report of a company indicated that it had shares on which there were calls in arrear.</p>	<p>It may be noted that paragraphs 8, 19 and 20 of AS 20, provide as follows:</p> <p><i>“8. An enterprise should present basic and diluted earnings per share on the face of the statement of profit and loss for each class of equity shares that has a different right to share in the net profit for the period. An enterprise should present basic and diluted earnings per share with equal prominence for all periods presented.”</i></p> <p>“19. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period.”</p> <p>“20. Where an enterprise has equity shares of different nominal values but with the same dividend rights, the number of equity shares is calculated by converting all such equity shares into equivalent number of shares of the same nominal value.”</p> <p>It was noted from note relating to calculation of Earnings Per Share that while calculating EPS, the number of shares</p>
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Observations on Accounting Standard (AS) 20: Earnings Per Share

		<p>used as denominator was same as stated in note of Share Capital without adjusting the fraction of shares on which calls are in arrears. It indicates that the denominator used to determine earning per share is not in accordance with requirements of paragraph 20 of AS 20.</p>
20.	<p>The Statement of Profit and Loss and the note on Earning per share given in the Annual Report of a company indicate that since it has incurred loss during the year, the EPS has been disclosed as NIL.</p>	<p>It may be noted that paragraph 9 of AS 20, provides as follows:</p> <p><i>“9. This Standard requires an enterprise to present basic and diluted earnings per share, even if the amounts disclosed are negative (a loss per share).”</i></p> <p>It was viewed that aforesaid requirement envisages the disclosure of even negative basic and diluted earnings per share. In the given case, it was noted that losses have accrued and hence during the year, the basic and diluted earnings per share have been reported at nil, which is not in line with the requirement of paragraph 9 of AS 20.</p>

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Observations on Accounting Standard (AS) 21: Consolidated Financial Statements

S. No	Matters contained in the Annual Report	Observations
1.	<p>In the Consolidated Financial Statements of a company, the following note was appearing:</p> <p>'Most of the accounting policies of the reporting company and that of its subsidiaries are similar and are in line with generally accepted accounting principles in India. However since certain subsidiaries are in the business lines which are distinct from that of the reporting company and function in a different regulatory environment, certain policies in respect of investments, gratuity, depreciation/ amortisation etc. differ.'</p>	<p>It may be noted that paragraph 20 of AS 21, requires that:</p> <p><i>“20. Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.”</i></p> <p>It was noted from the given note that although the fact that the accounting policy followed by the subsidiaries in respect of investment, gratuity, depreciation/ amortisation etc. differ from that followed by the parent company has been</p>

Observations on Accounting Standard (AS) 21: Consolidated Financial ...

		<p>disclosed, however, neither the proportion of these items in the consolidated financial statements to which these different accounting policies have been applied has been disclosed nor the fact that it is not practicable to do so has been mentioned.</p>
<p>2.</p>	<p>From the Annual Report of a company, it was noted from the "Related Party Disclosure" in the Standalone Financial Statements that it had acquired a subsidiary during the year. However, from the Consolidated Financial Statements, it was noted that the said subsidiary was neither consolidated nor information relating to it as a subsidiary was disclosed.</p>	<p>It may be noted that paragraphs 29(a) and 11 of AS 21, provides as follows:</p> <p><i>"29. In addition to disclosures required by paragraph 11 and 20, following disclosures should be made:</i></p> <p><i>(a) in consolidated financial statements a list of all subsidiaries including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held;"</i></p> <p><i>"11. A subsidiary should be excluded from consolidation when:</i></p> <p><i>(a) control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or</i></p>

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		<p>(b) it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent. In consolidated financial statements, investments in such subsidiaries should be accounted for in accordance with Accounting Standard(AS) 13, Accounting for Investments. The reasons for not consolidating a subsidiary should be disclosed in the consolidated financial statements.”</p> <p>It was noted from related party disclosure given in the standalone financial statements that the company had acquired a subsidiary during the financial year. It has also been noted that during the year, certain transactions have taken place with the said subsidiary company. However, the same was neither included in the list of entities the financials of which have been consolidated nor any note providing the reasons for not consolidating the subsidiary was disclosed as required under paragraph 29(a) and paragraph 11 of AS 21 respectively.</p>
3.	The following disclosure was	It was noted from perusal of the

Observations on Accounting Standard (AS) 21: Consolidated Financial ...

	<p>noted in the notes of the Consolidated Financial Statements as given in the Annual Report of a company.</p> <ul style="list-style-type: none"> • 'The financial statements of foreign subsidiaries are general purpose financial reports which have been prepared in accordance with generally accepted accounting principles and complies with other requirements of the law of the country in which the companies are incorporated. The financial statements of the foreign subsidiaries reflect total revenue of Rs. XXX and total expenses of Rs. YYY and total assets of Rs. XXXX and total liabilities of Rs. YYYYY.(Emphasis added)' <p>Further, one of the foreign subsidiary has not adopted Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurement and consequently has not accounted for the fair valuation of forward contract entered into to hedge the overseas Investments.</p>	<p>Auditors' Report that the Auditors have confirmed that the consolidated financial statements have been prepared in accordance with the generally accepted accounting principles of India. However, from the stated note, it was noted that there is a list of foreign subsidiaries, whose financial statements have been prepared in accordance with generally accepted accounting principles of the country in which they have been incorporated. It was viewed that such note clearly indicates that financial statements of those subsidiaries are prepared in accordance with accounting principles other than that followed by the parent and subsidiaries registered in India. It was further viewed that in case uniform accounting policies were not followed in preparing consolidated financial statements, the proportion of items for which different accounting policies were applied should have been disclosed as required under paragraph 20 of AS 21.</p> <p>Further, it was also noted from the given note that, one of the subsidiary, is reported to have not adopted AS 30 with regard to accounting for forward contracts and even the</p>
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		<p>proportion of that item has been disclosed.</p> <p>It was observed that this exemption is given only in case if it is not practicable to use uniform accounting policy. However, in the absence of the disclosure of the fact leading to such inconsistency, it appears that although it was practicable for application of uniform policy still, different policy was adopted. It was, therefore, viewed that the exemption used is not in line with the requirements of paragraph 20 of AS 21.</p>
4.	<p>From the Standalone and Consolidated Financial Statements of a company, it was noted that in the note of "Other Current Assets" the amount of "Assets held for disposal" was higher in the Standalone Financial Statements than in the Consolidated Financial Statements.</p>	<p>It may be noted that paragraph 13 of AS 21, provides as follows:</p> <p><i>"13. In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries should be combined on a line by line basis by adding together like items of assets, liabilities, income and expenses."</i></p> <p>It was observed that the amount of "assets held for disposal" in the standalone note of other assets was much higher than the amount disclosed in the Consolidated schedule of other assets. Paragraph 13 of AS 21</p>

Observations on Accounting Standard (AS) 21: Consolidated Financial ...

		<p>requires the similar items should be combined on a line by line basis by adding together like items of assets. It <i>prima facie</i> appears that a line by line consolidation of “assets held for disposal” has not been done.</p>
5.	<p>From the note to Accounts given in the Consolidated Financial Statements of a company, it was noted that it had acquired two subsidiaries during the year.</p>	<p>It may be noted that paragraph 29(b)(ii) of AS 21, provides as follows:</p> <p>“29. In addition to disclosures required by paragraph 11 and 20, following disclosures should be made:</p> <p>(a) ...</p> <p>(b) in consolidated financial statements, where applicable:</p> <p>(i) ...</p> <p>(ii) the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date, the results for the reporting period and on the corresponding amounts for the preceding period.”</p> <p>It was noted from Note relating to Non Current Investments that two entities had become subsidiaries of the company during the year. Hence,</p>

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		<p>paragraph 29 of AS 21 is applicable in respect of the subsidiaries acquired. However, it was noted that the required disclosures in respect of the two subsidiaries acquired were not made.</p>
6.	<p>From the Consolidated Balance Sheet of a company, it was noted that minority interest was disclosed as part of the Shareholders fund.</p>	<p>It may be noted that paragraph 25 of AS 21, provides as follows:</p> <p><i>“25. Minority interests should be presented in the consolidated balance sheet separately from liabilities and the equity of the parent’s shareholders. Minority interests in the income of the group should also be separately presented.”</i></p> <p>It was viewed that the presentation of minority interest as part of Shareholders’ fund amounts to presenting it as equity of the parent’s shareholders which is not in accordance with requirements of paragraph 25 of AS 21.</p>
7.	<p>A following note formed part of the Notes in the Consolidated Financial Statements of a company:</p> <p>‘Statutory information and notes on accounts are disclosed in</p>	<p>It may be noted that paragraph 20 of AS 21, provides as follows:</p> <p><i>“20. Consolidated financial statements should be prepared using uniform</i></p>

	<p>separate financial statements of holding and subsidiary companies. Since none of the above notes have material effect on the consolidated financial statements, separate notes on accounts have not been furnished along with Consolidated financial Statements.'</p>	<p><i>accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.</i></p> <p>It was noted that as per above-mentioned requirement, if the accounting policies adopted for preparation of subsidiary financials are not same as that used for financials of holding company then such fact should be disclosed in the consolidated financial statements together with the proportions of the items to which different accounting policies have been applied. However, in given case, in the absence of accounting policy, it cannot be judged that whether such differentials have been dealt in accordance with AS 21.</p>
<p>8.</p>	<p>The Note on Consolidated Financial Statements given in the Annual Report of a company, states as follows:</p> <p>'The following subsidiary companies/ companies</p>	<p>It may be noted that paragraph 22 of AS 21, provides as follows:</p> <p>"22. The results of operations of a subsidiary are included in the consolidated financial</p>

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	<p>controlled/ associates/ companies consolidated ceased to remain subsidiaries/ controlled/ consolidated during the year...(emphasis supplied)'</p>	<p>statements as from the date on which parent-subsidiary relationship came in existence. The results of operations of a subsidiary with which parent-subsidiary relationship ceases to exist are included in the consolidated statement of profit and loss until the date of cessation of the relationship...In order to ensure the comparability of the financial statements from one accounting period to the next, supplementary information is often provided about the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date and the results for the reporting period and on the corresponding amounts for the preceding period. (emphasis Supplied)"</p> <p>From the above, it was noted that the results of a subsidiary is consolidated only till the date such relationship ceases to exist.</p> <p>It was noted from the stated note that certain subsidiaries have ceased to remain as subsidiaries during the year. However, the treatment followed for their consolidation viz. whether financials of such enterprises have been consolidated till date of</p>
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Observations on Accounting Standard (AS) 21: Consolidated Financial ...

		<p>cessation or otherwise has not been disclosed.</p> <p>Accordingly, it was viewed that the requirements of AS 21 have not been complied with.</p>
9.	<p>From the Consolidated notes to account given in the Annual Report of a company, it was noted that it has disclosed only the names of the subsidiaries consolidated by it.</p>	<p>It may be noted that paragraph 29(a) of AS 21, provides as follows.</p> <p>“29. In addition to disclosures required by paragraph 11 and 20, following disclosures should be made:</p> <p>(a) in consolidated financial statements a list of all subsidiaries including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held;...”</p> <p>It was noted from reproduced disclosure given in the Consolidated Financial Statements that although the list of subsidiaries held has been disclosed, neither the country of their incorporation nor proportion of ownership interest held in them were disclosed as required by paragraph 29(a) of AS 21.</p>
10.	<p>From the Standalone and the Consolidated Financial</p>	<p>It may be noted that paragraph 13 of AS 21, provides as</p>

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	<p>Statements of a company, it was noted that auditors' remuneration disclosed in both financial statements was same.</p>	<p>follows:</p> <p><i>“13. In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries should be combined on a line by line basis by adding together like items of assets, liabilities, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single enterprise, the following steps should be taken:</i></p> <p><i>...”</i></p> <p>It was noted that amount of auditors' remuneration reported in the Consolidated Financial Statements was same as that reported in the Standalone Financial Statements. It was viewed that if the principles of consolidating subsidiaries with the enterprise were done on 'line by line' basis, the amount incurred by the Consolidated entities on the auditors remuneration should have been aggregated with the expenditure incurred by the reporting company as required by paragraph 13 of AS 21.</p>
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Observations on Accounting Standard (AS) 22: Accounting for Taxes on Income

S No	Matter contained in Annual report	Observations
1.	<p>In the Annual Report of a company, Net Deferred Tax Liabilities/ (Assets) was disclosed in Balance Sheet as follows:</p> <p style="text-align: right;">(Rs. in lakhs)</p> <p>Deferred Tax Assets</p> <p>On accounts of Provision for contingency</p> <p>Deferred Tax Liability</p> <p>On accounts of depreciation</p> <p>On accounts of others</p>	<p>It may be noted that paragraph 31 of AS 22, provides as follows:</p> <p><i>“31. The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.”</i></p> <p>It was observed from the Schedule of Net Deferred Tax Liabilities/ (Assets) that although a significant amount had been recognised as the deferred tax liabilities ‘on account of others’, however, the nature of such ‘other’ was not disclosed. Accordingly, it was viewed that the requirements of paragraph 31 of AS 22 has not been complied with.</p>
2.	<p>Presentation of Deferred tax liability on the face of the Balance Sheet as given in the Annual</p>	<p>It may be noted that the explanation given under paragraph 30 of AS 22, provides</p>

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	<p>Report of a company:</p> <p>Reserve & Surplus</p> <p>Deferred Tax Liability</p> <p>Loan Funds</p> <p>Secured Loans</p> <p>Unsecured Loans</p>	<p>as follows:</p> <p>“30. Deferred tax assets (net of the deferred tax liabilities, if any, in accordance with paragraph 29) is disclosed on the face of the balance sheet separately after the head ‘Investments’ and deferred tax liabilities (net of deferred tax assets, if any, in accordance with paragraph 29) is disclosed on the face of the balance sheet separately after the head ‘Unsecured Loans’.”</p> <p>It was noted from the face of the Balance Sheet that deferred tax liability has been shown after the head of ‘Reserve & Surplus’ instead of disclosing the same after the ‘Unsecured Loans’.</p> <p>Accordingly, it was viewed that the presentation of ‘Deferred Tax Liabilities’ on the face of Balance Sheet is not in line with the requirements of AS 22.</p>
3.	<p>From the Statement of Profit and Loss of a company, it was noted that “provision for taxation” was shown as an “appropriation” of net profit.</p>	<p>It may be noted that paragraph 9 of AS 22, provides as follows:</p> <p>“9. Tax expense for the period, comprising current tax and deferred tax, should be included in the determination of the net profit or loss for the period.”</p> <p>In view of the above</p>

Observations on Accounting Standard (AS) 22: Accounting for Taxes on Income

		requirements, it was noted that income tax should be included for the determination of net profit of the period; however, in the given case, the same has been shown as appropriation of profits which is not in line with the requirements of AS 22.
4.	<p>In the Annual Report of a Company, Note on Deferred Tax Liability was stated as under:</p> <p>‘Note on Deferred Tax Liability</p> <p>Deferred Tax Liability xx</p> <p>As per last year</p> <p>Balance Sheet xx”</p>	It was noted that instead of giving components of deferred tax liabilities, it was merely stated that it comprises of opening balance of deferred tax liabilities. It was viewed that such disclosure does not give information about the major components comprising deferred tax liabilities, which is not in line with the requirements of paragraph 31 of AS 22.
5.	<p>In the Balance Sheet of a company, both the Deferred Tax Liabilities and Deferred Tax Assets have been shown separately on the face of the Balance Sheet.</p>	<p>It may be noted that paragraph 29 of AS 22, provides as follows:</p> <p>“29. An enterprise should offset deferred tax assets and deferred tax liabilities if:</p> <p>(a) the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and</p> <p>(b) the deferred tax assets and the deferred tax liabilities relate to taxes on income levied by the</p>

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		<p><i>same governing laws.”</i></p> <p>In view of the above, it was felt that an enterprise is required to disclose on the face of the Balance Sheet either the ‘Deferred Tax Assets’ or the ‘Deferred Tax Liabilities’ after setting-off the two balance against each other.</p> <p>However, it has been noted that both the ‘Deferred Tax Assets’ and ‘Deferred Tax Liabilities’ have been shown separately on the face of the Balance Sheet. In other words, the ‘Deferred Tax Assets’ and ‘Deferred Tax Liabilities’ have not been set-off against each other for their presentation in the Balance Sheet as required by paragraph 29 of AS 22.</p>
6.	<p>From the Annual Report of a Housing Finance company, it was observed from the note of Reserves and note relating to Deferred tax that while it had made a transfer to “Special Reserve” created under section 35(10)(viii) of the Income Tax Act, 1960, the note on components of Deferred Tax Liabilities did not include the deferred tax liability arising on such transfer.</p>	<p>It was observed that no deferred tax liability has been recognised on special reserve created under 35(10)(viii) of the IT Act.</p> <p>It was noted from the Statement of Profit and Loss that although the current tax has been determined considering the deduction available under Section 36(10)(viii) of Income Tax Act, while providing the policy and related disclosure of Deferred Tax neither the policy states to have considered the aforesaid deduction nor the</p>

Observations on Accounting Standard (AS) 22: Accounting for Taxes on Income

		<p>components of DTA/DTL shows any DTL made with respect to the same.</p> <p>In view of EAC opinion on Query No.18 of Compendium of Opinions, Vol. 26, it was viewed that the company is required to create deferred tax liability on the special reserve created and maintained under section 36(1)(viii) of the Income-tax Act, 1961, irrespective of the fact that withdrawal of the reserve may or may not happen since the company is capable to withdraw the reserve resulting into reversal of the difference between accounting income and taxable income (i.e., timing difference).</p>
7.	<p>The accounting policy with regard to deferred taxation given under note of Significant Accounting policies as given in the Annual Report of a company, states as follows:</p> <p>‘Taxation</p> <p>b. Deferred Tax:</p> <p>In accordance with Accounting Standard 22 – “Accounting for Taxes on Income”, the deferred tax for the timing differences is measured using the tax rates and tax laws that have been enacted or substantially enacted at the Balance Sheet date. Deferred tax</p>	<p>It may be noted that paragraphs 13, 15 and 17 of AS 22, provide as follows:</p> <p>“13. Deferred tax should be recognised for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets as set out in paragraphs 15-18.”</p> <p>“15. Except in the situations stated in paragraph 17, deferred tax assets should be recognised and carried forward only to the extent that there is a reasonable certainty</p>

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	<p>assets arising from the timing differences are recognised only on the consideration of prudence.’</p>	<p><i>that sufficient future taxable income will be available against which such deferred tax assets can be realised.”</i></p> <p><i>“17. Where an enterprise has unabsorbed depreciation or carry forward of losses under tax laws, deferred tax assets should be recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.”</i></p> <p>It was noted from the accounting policy as well as note relating to taxation that although the deferred tax assets arising from timing differences have been recognised on the consideration of prudence, it has not been stated whether such prudence was reasonably certain or not that sufficient future taxable income would be available against which such deferred tax assets would be realised.</p> <p>Accordingly, it was viewed that in the absence of such information with regard to recognition of deferred tax assets, the accounting policy cannot be considered to be in line with AS 22.</p>
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Observations on Accounting Standard (AS) 22: Accounting for Taxes on Income

8.	<p>In the Annual Report of a company, the accounting policy on taxation, reads as under:</p> <p>'Current Income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with Indian Income Tax Act, 1961.</p> <p>Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. In situations where the company has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that they can be realised against future taxable profits. Unrecognised deferred tax assets of earlier period are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.'</p>	<p>It may be noted that paragraph 32 of AS 22 provides as follows:</p> <p><i>“32. The nature of the evidence supporting the recognition of deferred tax assets, should be disclosed, if an enterprise has unabsorbed depreciation or carry forward of losses under tax laws”</i></p> <p>It was noted from the note providing the components of deferred tax asset and deferred tax liability that the company had unabsorbed depreciation and carry forward of business losses against which deferred tax had been recognised, accordingly the above-mentioned provisions of AS 22 were applicable. However, it was noted that the nature of evidence, based on which such deferred tax assets was recognised had not been disclosed which is not in line with the requirements of paragraph 32 of AS 22.</p>
9.	In the Annual Report of company,	It may be noted that paragraph

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	<p>the accounting policy on taxation, reads as under:</p> <p>'a) Current Tax is determined at the amount of tax payable in respect of taxable income for the period, computed with relevant tax rules and tax laws. In case of tax payable as per provisions of MAT under Section 115 JB of the Income Tax Act, 1961, Deferred MAT Credit Entitlement is separately recognised as advance.</p> <p>b) Deferred tax is recognised subject to the consideration of prudence, on timing differences, being the difference between taxable and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.'</p>	<p>11 of Guidance note on "Accounting for credit in respect of Minimum alternative tax", <i>inter alia</i>, provides as follows:</p> <p>"MAT credit should be recognised as an asset only when and to the extent there is convincing evidence that the company will pay normal income tax during the specified period."</p> <p>It was noted from the stated accounting policy that it is silent whether MAT credit entitlement has been recognised, if there exists any convincing evidence to demonstrate that the company will pay normal tax during the specified period. In the absence of such reference in the accounting policy, it is observed that stated accounting policy is not in line with Guidance Note on Accounting for credit in respect of Minimum alternative tax.</p>
10.	<p>In the Annual Report of company, the accounting policy on Income tax, reads as under:</p> <p>'Tax expense comprises of current income tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act, 1961. Deferred income taxes are recognised for the future tax</p>	<p>It may be noted that paragraph 4.3 of AS 22, provides as follows:</p> <p>"4.3. Tax expense (tax savings) is the aggregate of current tax and deferred tax charged or credited to the statement of profit and loss for the period."</p> <p>It was noted from the stated</p>

Observations on Accounting Standard (AS) 22: Accounting for Taxes on Income

	<p>consequences attributable to timing differences between the financial statement determination of income and their recognition for tax purposes. ...(emphasis supplied)'</p>	<p>policy on income tax that tax expense comprises of only current income tax. It was viewed that as per paragraph 4.3 of AS 22, tax expense is the aggregate of current tax and deferred tax, accordingly, such statement was viewed to be not in line with the requirements of AS 22.</p>
<p>11.</p>	<p>In the Annual Report of company, the note relating to provision for taxation reads as follows:</p> <p>'In the absence of book/ tax profits or losses and consequent impact of the timing differences on the same, provision for deferred taxes and current income tax has not been made.'</p>	<p>It may be noted that from paragraph 13 of AS 22, provides as follows:</p> <p><i>"13. Deferred tax should be recognised for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets as set out in paragraphs 15-18."</i></p> <p>It may further be noted that as per the clarification given in response to Question 9(ii) of Background Material for Seminars on Accounting Standard (AS) 22, Accounting for Taxes on Income , issued by the Institute, states as follows:</p> <p>"(ii) ... It may, however, be added that the deferred tax liability recognised at the balance sheet date will give rise to future taxable income at the time of reversal thereof. Accordingly, in the present case, in respect of tax losses of</p>

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		<p>the company, which can be carried forward at the balance sheet date, deferred tax asset can be recognised to the extent that the reversal of the deferred tax liability will give rise to sufficient future taxable income against which such deferred tax asset can be realised.”</p> <p>From the above, it was viewed that deferred tax should be recognised for all the timing differences. The fact that there are no tax profits or book profits does not exempt the company from recognition of deferred taxes. As regards recognition of deferred tax asset, it should be recognised based on principles of prudence stated therein. However, as per the clarification in response to Question 9 (ii), it was viewed that deferred tax liability recognised at the balance sheet date gives rise to future taxable income at the time of reversal. Hence, deferred tax assets to the extent of deferred tax liability should be recognised. In the given case, it was viewed that depreciation is giving rise to deferred tax liability. Hence, DTL as well as DTA should have been recognized as per the requirements of AS 22..</p>
12.	In the Annual Report of a	It may be noted that paragraph

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	<p>company, Note relating to Deferred Tax Liability reads as under:</p> <p>'Deferred tax liability is on account of timing difference of depreciation.'</p>	<p>31 requires the break up of deferred tax assets and deferred tax liabilities balances, accordingly, it was viewed that the term 'balances' signify that paragraph 31 requires break up of DTA or DTL as shown in the Balance Sheet rather than the amount expensed in the Statement of Profit and Loss. However, it was noted from stated Note that it provides break up of only the deferred tax liability that has been created during the year rather than providing the break up of entire balance being carried forward. Accordingly, it was viewed that the requirement of paragraph 31 of AS 22 have not been complied with.</p>
13.	<p>The note relating to income-tax given in the Annual Report of a company reads as follows:</p> <p>'Income tax comprises current tax and deferred tax. Current tax is determined in accordance with the provisions of Income Tax Act, 1961.</p> <p>Deferred tax charge or credit is recognised on timing difference between taxable incomes and accounting income that originate in one period and are capable of reversal, subject to consideration of prudence, in one or more</p>	<p>It may be noted that paragraph 13 of AS 22, provides as follows:</p> <p><i>"13. Deferred tax should be recognised for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets as set out in paragraphs 15-18."</i></p> <p>It was noted that as per the clarification given in response to Question 9(ii) of Background Material for Seminars on Accounting Standard (AS) 22,</p>

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<p>subsequent periods. Deferred tax assets and liabilities are measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.’</p> <p>It was further noted that the company has brought forward losses but no DTA has been recognised.</p>	<p>Accounting for Taxes on Income , issued by the Institute, states that;</p> <p>“(ii) ... It may, however, be added that the deferred tax liability recognised at the balance sheet date will give rise to future taxable income at the time of reversal thereof. Accordingly, in the present case, in respect of tax losses of the company, which can be carried forward at the balance sheet date, deferred tax asset can be recognised to the extent that the reversal of the deferred tax liability will give rise to sufficient future taxable income against which such deferred tax asset can be realised.”</p> <p>From the above, it was viewed that deferred tax should be recognised for all the timing differences that are capable of reversal in one or more subsequent period. Further, it is virtually certain that taxable income would accrue at the time of reversal of deferred tax liability. Hence, deferred tax assets on carried forward losses should be recognised to the extent of deferred tax liability as on the balance sheet date.</p> <p>It was noted that, in the given case, during the given financial year depreciation as well as</p>
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Observations on Accounting Standard (AS) 22: Accounting for Taxes on Income

		<p>amortisation on tangible assets and intangible assets respectively would have given rise to deferred tax liability (DTL). It was further noted that the company has brought forward losses which would give rise to the deferred tax asset (DTA). However, neither deferred tax liability nor deferred tax assets have been recognised during the period. It was viewed that the deferred tax assets at least to the extent of deferred tax liability should have been recognised. It may be argued that such accounting treatment would have again given NIL balance of DTA/DTL on the Balance Sheet but nil balance does not exempt the company either from recognition of DTA/ DTL in the Balance Sheet or from providing the details of DTA/DTL. Hence, non recognition of DTA/DTL and non disclosure of breakup of components of DTA/ DTL is not in line with the requirements of AS 22.</p>
14.	<p>In the Annual Report of a company, the accounting policy on Taxation reads as follows:</p> <p>‘Provision for Taxation is ascertained on the basis of assessable profit computed in accordance with the provisions of</p>	<p>It may be noted that paragraph 20 of AS 22, provides as follows:</p> <p>“20. Current tax should be measured at the amount expected to be paid to (recovered from) the taxation</p>

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	<p>Income Tax Act, 1961 & tax advices, wherever considered necessary...'</p>	<p>authorities, using the applicable tax rates and tax laws."</p> <p>It was noted from the stated accounting policy that provision for tax is estimated based on Income Tax laws as well as certain tax advices wherever considered necessary. It was viewed that AS 22 does not prescribe to follow income tax advices which involve interpretation of income tax laws. Hence, estimating provision on the basis of such advices cannot be considered to be in line with paragraph 20 of AS 22.</p>
<p>15.</p>	<p>From the Annual Report of a company, it was noted that the Deferred Tax Liability of a company comprised of 'Deferred liability on Fixed Assets' and 'Provision for Gratuity'.</p>	<p>The following discrepancies have been noted with regard to AS 22:</p> <p>i. It was observed from the break up of deferred tax liability that it has been recognised in context of fixed assets. It was viewed that the nature of transaction(s) on which deferred tax liability has been arisen for fixed asset is not clear from the stated disclosures viz whether such deferred tax liability has been recognised on account of difference in depreciation on fixed assets or it is a tax effect on sale of</p>

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		<p>fixed assets. The amount involved being significant, it was viewed that the nomenclature used should be clear enough to indicate the nature of component of DTL.</p> <p>ii. It may be noted that paragraph 11 and 13 of AS 22 , provides as follows:</p> <p>“11. An example of tax effect of a timing difference that results in a deferred tax asset is an expense provided in the statement of profit and loss but not allowed as a deduction under Section 43B of the Income-tax Act, 1961. This timing difference will reverse when the deduction of that expense is allowed under Section 43B in subsequent year(s).”</p> <p>“13. Deferred tax should be recognised for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets as set out in paragraphs 15-18.”</p> <p>It was observed that deferred tax liability has also been recognised against provision for</p>
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		<p>gratuity. It was viewed that provision for gratuity is an expense which is provided every year in the statement of profit and loss based on services rendered by the employee but it is not allowed as a deduction, as per Section 43B of the Income-tax Act, 1961, Accordingly, it would result in deferred tax asset only.</p> <p>Accordingly, it was viewed that treating provision for gratuity as deferred tax liability is not in line with AS 22.</p>
16.	<p>In the Annual Report of a company, it was observed from the components of deferred tax liability that the 'deferred tax liability has been created on 'difference in depreciation and amortisation in block of assets as per Income Tax and books of account' in the current year was the same as that in the previous year.</p>	<p>It was noted that paragraphs 7 and 13 of AS 22, provide as follows:</p> <p>"7. ...the total depreciation charged on machinery for accounting purposes and the amount allowed as deduction for tax purposes will ultimately be the same, but periods over which the depreciation is charged and the deduction is allowed will differ...."</p> <p><i>"13. Deferred tax should be recognised for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets as set out in paragraphs 15-18."</i></p>

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		<p>From the above, it was noted that the total amount of depreciation charged for accounting purpose and tax purpose may <i>ultimately</i> become same but during the useful life of asset timing difference would arise on which deferred tax should be recognised.</p> <p>It was noted in the given case that the deferred tax liability recognised in the current year due to difference in depreciation for accounting purpose vis-a-vis tax purpose is the same as that recognised in the previous year which indicates that deferred tax liabilities have not been adjusted for timing difference arising due to depreciation charged in the current year for accounting vis-a-vis tax purpose. Accordingly, it was viewed that the requirements of AS 22 have not been complied with.</p>
17.	<p>It was noted from the Consolidated Financial Statements given in the Annual Report of a company having several subsidiaries that in the Consolidated Balance Sheet, Net Deferred Tax was disclosed on the face of it.</p>	<p>It may be noted that paragraph 29 of AS 22, provides as follows:</p> <p>"29. An enterprise should offset deferred tax assets and deferred tax liabilities if:</p> <p>(a) the enterprise has a legally enforceable right to set off assets against liabilities representing</p>

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		<p>current tax; and</p> <p>(b) the deferred tax assets and the deferred tax liabilities relate to taxes on income levied by the same governing taxation laws."</p> <p>From above, it was noted that deferred tax liabilities and deferred tax assets can be set off against each other only when the enterprise has legal enforceable right to set them off against each other. It was noted that in given case, the Deferred Tax Assets reported in the Consolidated Balance Sheet has been determined by adjusting deferred tax asset of one enterprise against Deferred Tax Liabilities of other enterprises. It was viewed that there is no legal enforceable right to set off DTA of one enterprise against DTL of another. Hence, reporting such balances on net basis is not in accordance with AS 22.</p>
18.	<p>From the note of Reserve and Surplus given in the Annual Report of a company, it has been noted that it had accounted for Deferred Tax Asset on Cash Flow Hedge Reserve against the liability created in the said Reserve.</p>	<p>It may be noted that principles for recognizing 'deferred tax' and the definition of 'timing difference' as given in paragraphs 13 and 4.6 of AS 22, provide as follows:</p> <p>"13. Deferred tax should be recognised for all the timing</p>

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		<p><i>differences, subject to the consideration of prudence in respect of deferred tax assets as set out in paragraph 15-18.”</i></p> <p><i>“4.6 Timing differences are the differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods.”</i></p> <p>It was noted from the note of Reserves & Surplus that balance of cash flow hedge reserve is stated to be net of deferred tax assets. It was noted that AS 22 stipulates recognition of deferred tax for only the timing differences which arises when there is difference in taxable income and accounting income for the period which originate in one period and would reverse in subsequent period. It was noted in the given case that gain or loss on cash flow hedge has directly been adjusted into reserves. In other words, gain or loss on such hedging arrangement has not been routed through the Statement of Profit and Loss. It was viewed that such balance would impact the Statement of Profit and Loss</p>
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		<p>only when hedged forecast transaction would occur. So effectively, till the final transaction takes place neither the accounting income nor taxable income will be affected. Hence, such adjustment cannot be considered to be giving rise to any timing difference on which deferred tax should be recognised.</p>
19.	<p>In the Annual Report of a company, Note on Deferred Tax Asset reads as follows:</p> <p>‘Deferred tax asset has been recognised on account of unabsorbed depreciation and business loss of the current year. The management is of the opinion that there is a virtual certainty against which such deferred tax will be realised, in view that its ability to continue as a going concern depending on the successful outcome of the management plan’.</p>	<p>It may be noted that paragraph 17 of AS 22, provides as follows:</p> <p>“17. Where an enterprise has unabsorbed depreciation or carry forward of losses under tax laws, deferred tax assets should be recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.”</p> <p>Explanation:</p> <p>1. ... On the other hand, a projection of the future profits made by an enterprise based on the future capital expenditures or future restructuring etc., submitted even to an outside agency, e.g., to a</p>

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		<p><i>credit agency for obtaining loans and accepted by that agency cannot, in isolation, be considered as convincing evidence”.</i></p> <p>From the above, it was viewed that, if an enterprise has unabsorbed depreciation or carry forward losses, deferred tax assets on such deductions should be recognised only if it is virtually certain, supported by convincing evidence, that sufficient future taxable income would be available to realise it. However, a projection to future profit made by an enterprise cannot, in isolation, be considered as convincing evidence.</p> <p>In the given case, it was noted that future projection was the basis to consider virtual certainty of sufficient future taxable income which is not in line with the requirements of AS 22.</p>
20.	<p>In the Annual Report of company, note relating to Deferred tax liabilities (Net), reads as follows:</p> <p>‘Pursuant to the Order of the Hon’ble High Court, reversal of the deferred tax liability for the year has been credited to</p>	<p>It may be noted that the Announcement XXIV: ‘Disclosures in cases where a Court/Tribunal makes an order sanctioning an accounting treatment which is different from that prescribed by an Accounting Standard’ issued by</p>

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	<p>Securities Premium Account.’</p>	<p>the Institute of Chartered Accountants of India states as follows:</p> <p><i>“...In view of the above, if an item in the financial statements of a Company is treated differently pursuant to an Order made by the Court/Tribunal, as compared to the treatment required by an Accounting Standard, following disclosures should be made in the financial statements of the year in which different treatment has been given:</i></p> <ol style="list-style-type: none"> <i>1. A description of the accounting treatment made along with the reason that the same has been adopted because of the Court/ Tribunal Order.</i> <i>2. Description of the difference between the accounting treatment prescribed in the Accounting Standard and that followed by the Company.</i> <i>3. The financial impact, if any, arising due to such a difference.”</i> <p>It was noted from the stated note that although disclosure required under paragraph 1 and 3 of the above Announcement has partially been made by</p>
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		<p>disclosing the nature of non-compliance and its quantification. However, neither its impact on the financial statements is clearly given nor a description of the difference between the accounting treatment in the Accounting Standard vis-a-vis that followed has been disclosed .</p> <p>Accordingly, it was viewed that the requirements of Announcement XXIV: 'Disclosures in cases where a Court/Tribunal makes an order sanctioning an accounting treatment which is different from that prescribed by an Accounting Standard' has not been complied with.</p>												
21.	<p>In the Annual Report of company, Statement of Profit & Loss and Note relating to Short Term Provision, stated as under:</p> <p>PROFIT & LOSS STATEMENT</p> <table border="1"> <thead> <tr> <th>Particulars</th> <th>Current Year</th> <th>Previous Year</th> </tr> </thead> <tbody> <tr> <td>MAT Credit Entitlement</td> <td>XXX</td> <td>Nil</td> </tr> </tbody> </table> <p>Note: Short Term Provisions</p> <table border="1"> <thead> <tr> <th>Particulars</th> <th>Current</th> <th>Previous</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Particulars	Current Year	Previous Year	MAT Credit Entitlement	XXX	Nil	Particulars	Current	Previous				<p>It may be noted that paragraphs 13 and 14 of 'Guidance note on Accounting for Credit Available in respect of Minimum Alternate Tax' issued by ICAI state as follows:</p> <p>"13. Where a company recognises MAT credit as an assets on the basis of the consideration specified in paragraph 11 above, the same should be presented under the head 'Loans and Advances' since, there being a convincing evidence of realization of the asset, it is of the nature of a</p>
Particulars	Current Year	Previous Year												
MAT Credit Entitlement	XXX	Nil												
Particulars	Current	Previous												

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	Year	Year	
	Provision for Income Tax		<p>pre-paid tax which would be adjusted against the normal income tax during the specified period. The assets may be reflected as 'MAT credit entitlement'.</p> <p>14. In the year of set-off of credit, the amount of credit availed should be shown as a deduction from the 'Provision for Taxation' on the liabilities side of the balance sheet. The unavailed amount of MAT credit entitlement, if any, should continue to be presented under the head 'Loans and Advances' if it continues to meet the considerations stated in paragraph 11 above."</p> <p>It was noted that the MAT credit entitlement has been shown in the Statement of Profit and Loss. It was viewed that in case if it is being created then the 'MAT credit entitlement' has not been separately shown in the Balance Sheet as required under paragraph 13 and in case if it is being availed then neither its presentation is in accordance with paragraph 14 of 'Guidance note on Accounting for Credit Available in respect of Minimum Alternate Tax' nor the 'MAT credit entitlement' asset of previous year has been shown separately in the Balance Sheet.</p>

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		<p>Accordingly, it was viewed that the requirements of 'Guidance note on Accounting for Credit Available in respect of Minimum Alternate Tax' have not been complied with.</p>
22.	<p>In the Annual Report of a company, the Accounting Policy on Provision for Current Deferred Tax, reads as follows:</p> <p>'In accordance with the Guidance Note issued by Institute of Chartered Accountants of India, the Company recognises MAT Credit as an asset only to the extent the probability exists that the Company will become liable to pay normal Income Tax during the specified period as per provision of the Income Tax Act, 1961'.</p>	<p>It may be noted that paragraph 11 of "Guidance note on Accounting for Credit Available in respect of Minimum Alternative Tax under the Income-tax Act, 1961" <i>inter alia</i> states that:</p> <p>"MAT credit should be recognised as an asset only when and to the extent there is convincing evidence that the company will pay normal income tax during the specified period."</p> <p>It was noted that, as per the stated policy, MAT credit is recognised as an asset on the basis of degree of certainty i.e. if it is more likely than not that the company will become liable to pay normal income tax whereas as per the Guidance Note, it should be recognised only when convincing evidence is available that the company will pay normal income tax.</p> <p>Accordingly, it was viewed that the accounting policy to recognise MAT credit on the basis of probability is not in line with the requirements of the</p>

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		Guidance Note on Accounting for Credit Available in respect of Minimum Alternative Tax under the Income Tax Act, 1961.
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Observations on Accounting Standard (AS) 23: Accounting for Investments in Associates in Consolidated Financial Statements

S. No	Matters contained in Annual Report	Observations
1.	<p>Note relating to Other Income read with Note relating to Non-Current Investments in the Consolidated Financial Statements given in the Annual Report of a company, states as follows:</p> <p><u>Note: Other Income</u></p> <p>Dividend Income On</p> <p>Investment in Associates</p> <p><u>Note: Non-Current Investments</u></p> <p>Unquoted Equity Instruments (Fully Paid up)</p> <p>Investment in Associates</p> <p>ABC Ltd.</p>	<p>It may be noted that paragraph 7 of AS 23, provides that:</p> <p><i>“7. An investment in an associate should be accounted for in consolidated financial statements under the equity method except when:</i></p> <p><i>a) the investment is acquired and held exclusively with a view to its subsequent disposal in the near future; or</i></p> <p><i>b) the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor”.</i></p> <p>From the above, it was viewed that the Consolidated Financial Statements should be prepared using the equity method except in the above mentioned two</p>

		<p>conditions.</p> <p>Further, it was noted that the equity method has been defined under paragraph 3.8 of AS 23, as follows:</p> <p><i>“3.8 The equity method is a method of accounting whereby the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition. The carrying amount of the investment is adjusted thereafter for the post acquisition change in the investor’s share of net assets of the investee. The consolidated statement of profit and loss reflects the investor’s share of the results of operations of the investee.”</i></p> <p>From the above, it was noted that in case an associate does not fall in the exceptional circumstances defined in paragraph 7 of AS 23, then on consolidation of the financials of an associate, it is investor’s share in the results of the associate that is included in the Consolidated Statement of Profit and Loss.</p> <p>In the given case, it was noted from the Standalone Financial Statements that although the company holds investments in an</p>
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Observations on Accounting Standard (AS) 23: Accounting for Investments ...

		<p>associate, in Consolidated Statement of Profit & Loss, the dividend on such investment has been recognised as income. It was viewed that in the absence of any information that such investments in associate falls under the exceptions as per paragraph 7 states above, equity method of accounting should have been adopted for consolidating its results. Hence, company's share in the associate company's result of operation should have been recognised in Consolidated Statement of Profit and Loss instead of recognizing the dividend income on such investments.</p> <p>Accordingly, it was viewed that neither the Consolidated Financial Statements have been prepared as per the equity method nor has been stated that the associate company meets the prescribed exceptional conditions.</p> <p>Accordingly, it was viewed that the requirement of AS 23 has not been complied with.</p>
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Observations on Accounting Standard (AS) 24: Discontinuing Operations

S. No	Matters contained in the Annual Report	Observations
1.	<p>In the Annual Report of a company, Note on Business Sale on Slump Sale Bases, reads as under:</p> <p>'Business Sale on Slump Sale Bases</p> <p>During the year, the Company transferred one of its business as ongoing business, on slump sale basis to its holding company as per the terms of Business Transfer Agreement (BTA) for a total consideration which was lower than the net business assets value. As a result, the Board of Directors of the company is looking for alternative business plans including supporting the execution of the upcoming projects for the group companies in its domain as a service. In view of this, the Going concern Assumption is not affected.'</p>	<p>It may be noted that paragraph 23 of AS 24, provides as follows:</p> <p><i>"23. When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation or enters into binding agreements for the sale of such assets or the settlement of such liabilities, it should include, in its financial statements, the following information when the events occur:</i></p> <p><i>(a) for any gain or loss that is recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation, (i) the amount of the pre-tax gain or loss and (ii) income tax expense relating to the gain or</i></p>

		<p><i>loss; and</i></p> <p><i>(b) the net selling price or range of prices (which is after deducting expected disposal costs) of those net assets for which the enterprise has entered into one or more binding sale agreements, the expected timing of receipt of those cash flows and the carrying amount of those net assets on the balance sheet date”.</i></p> <p>“32. The disclosures required by paragraphs 20, 23, 26, 28, 29 and 31 should be presented in the notes to the financial statements except the following which should be shown on the face of the statement of profit and loss:</p> <p>(a) ...</p> <p>and</p> <p>(b) the amount of the pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation (paragraph 23 (a)).”</p> <p>It was noted that the company has stated that it has entered into a Business Transfer</p>
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		<p>Agreement with the holding company for a total consideration which is lower than the book value of the business assets transferred. Hence, it was viewed that the loss was incurred by the company due to such business agreement. However, it was noted from the financial statements that neither the loss arising on such business transfer has been recognised in the Statement of Profit and Loss as required under paragraph 32 (b) of AS 24 nor any other note explaining the accounting treatment as adopted by the enterprise to recognise the same has been disclosed as required under paragraph 23 (a) of AS 24.</p> <p>Accordingly, it was viewed that the requirements of AS 24 have not been complied with.</p>
2.	<p>In the Annual Report of a company, Note on Discontinuing operation reads as under:</p> <p>‘Discontinuing Operation</p> <p>The Company has transferred one of its business Units by way of Slump Sale to a wholly-owned subsidiary of the Company for a consideration of Rs. XXX, as a result of which the current year’s figures of</p>	<p>It may be noted that paragraph 20 (h) of AS 24, provides as follows:</p> <p>“20. An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure</p>

Observations on Accounting Standards (AS) 24: Discontinuing Operations

	<p>Assets & Liabilities are not strictly comparable with that of the previous year.’</p>	<p>event (as defined in paragraph 15) occurs:</p> <p>...</p> <p>(h) the amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.”</p> <p>It was observed that although the disclosure with respect to discontinuing operations has been provided under the relevant note, but the information relating to net cash flows attributable to the operating, investing, and financing activities of the discontinuing operations that have occurred during the reported period were not disclosed as required by paragraph 20 (h) of AS 24</p> <p>Accordingly, it was viewed that the requirements of AS 24 have not been complied with.</p>
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Observations on Accounting Standard (AS) 26: Intangible Assets

S. No.	Matters contained in the Annual Report	Observations
1.	<p>The accounting policy on Research and Development Expenditure and Miscellaneous Expenditure of a Company reads as follows:</p> <p>‘Research and Development</p> <p>Research and Development expenditure on the proposed projects is accumulated for writing off in future years. Research and Development expenditure incurred during the year on software development, product development, product testing, etc. is charged to revenue.</p> <p>Miscellaneous Expenditure</p> <p>Preliminary expenses viz. Research and Development Expenditure are amortised over a period of 5 years’.</p>	<p>It may be noted that AS 26 requires classification of expenses incurred on Research and Development activities phase-wised i.e. those which have been incurred during research phase are classified as ‘Research Expenditure’ and those which have been incurred during development phase be classified as ‘Development Expenditure’. It was noted that expenditure incurred during the phase should be recognised as an expense in the Statement of Profit & Loss immediately, and expenditure which have been incurred during the development phase should be recognised as an Intangible Asset, if the recognition criteria given in paragraph 44 of AS 26 are satisfied.</p> <p>Accordingly, it was viewed that Research & Development expenditure that meets the criteria of paragraph 44 of AS</p>

Observations on Accounting Standard (AS) 26: Intangible Assets

		<p>26 should be recognised as an 'intangible assets'. However, it has been noted from the accounting policy on Research & Development that the expenditure on proposed projects has been accumulated and the policy on Miscellaneous Expenditure says R&D expenditures are amortized over a period of 5 years which indicates that R&D expenditures have been treated as 'deferred revenue expenditure' which is contrary to AS 26. It was further noted from the accounting policy of Research & Development that the expenditure on software development, product development, product testing, etc. has been charged to the Statement of Profit & Loss. It appears from the stated policy that Research and Development expenditures have not been classified between research phase and development phase as required by AS 26.</p>
2.	<p>From the Annual Report of a company, it was noted that 'ERP Software' had been included under the sub-head "Capital Work-in-Progress' with the opening balance and additions during the year had been transferred and had nil value at</p>	<p>It may be noted that paragraph 10 of AS 26, provides as follows: "10. In some cases, an asset may incorporate both intangible and tangible elements that are, in practice, inseparable. In</p>

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	the Balance Sheet date'	<p>determining whether such an asset should be treated under AS 10, Accounting for Fixed Assets, or as an intangible asset under this Statement, judgement is required to assess as to which element is predominant. For example, computer software for a computer controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as a fixed asset. The same applies to the operating system of a computer. Where the software is not an integral part of the related hardware, computer software is treated as an intangible asset.”</p> <p>It was noted from the note on Fixed Assets that opening balance of capital work-in-progress included ERP software which has been completed during the year and hence, it was stated at nil value as at the end of the year. However, no intangibles are shown separately which indicates that the same has been clubbed with other components of fixed assets. However, it was viewed from the above stated details that when earlier the expenditure was disclosed under the head of software it indicated that software was not an integral part of the related hardware, hence it</p>
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Observations on Accounting Standard (AS) 26: Intangible Assets

		<p>should have been treated as intangible asset in terms of paragraph 10 of AS 26.</p>
<p>3.</p>	<p>The accounting policy on 'Deferred Revenue Expenditure' given in the Annual Report of a company reads as follows:-</p> <p>'This includes expenditure incurred on factory license fees, trade mark fee and rental paid for pre-commencement of retail stores, factories, seed marketing expenses, public/capital issue expense, preliminary expenses, product development expenses and software development expenses, which have amortized over the life period of concerned item in accordance with the AS 26 (Intangible Assets) issued by the ICAI'</p>	<p>It may be noted that paragraph 6.2 and 56 of AS 26 provides as follows:-</p> <p>"6.2 An asset is a resource:</p> <p>(a) controlled by an enterprise as a result of past events; and</p> <p>(b) from which future economic benefits are expected to flow to the enterprise."</p> <p>"56. In some cases, expenditure is incurred to provide future economic benefits to an enterprise, but no intangible asset or other asset is acquired or created that can be recognised. In these cases, the expenditure is recognised as an expense when it is incurred. For example, expenditure on research is always recognised as an expense when it is incurred (see paragraph 41). Examples of other expenditure that is recognised as an expense when it is incurred include:</p> <p>(a) expenditure on start-up activities (start-up costs), unless this expenditure is</p>

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		<p>included in the cost of an item of fixed asset under AS 10. Start-up costs may consist of preliminary expenses incurred in establishing a legal entity such as legal and secretarial costs, expenditure to open a new facility or business (pre-opening costs) or expenditures for commencing new operations or launching new products or processes (pre-operating costs);</p> <p>(b)</p> <p>(c)</p> <p>(d)"</p> <p>Further, paragraph 2 of the Announcement of the Council XIX 'Applicability of Accounting Standard (AS) 26, Intangible Assets, to Intangible items' published in 'The Chartered Accountant', November 2003, states that:</p> <p>"2. An issue has been raised as to what should be the treatment of the expenditure incurred on intangible items, which were treated as deferred revenue expenditure and ordinarily spread over a period of 3 to 5 years before AS 26 became mandatory and which do not</p>
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Observations on Accounting Standard (AS) 26: Intangible Assets

		<p>meet the definition of an 'asset' as per AS 26. The examples of such items are expenditure incurred in respect of lump sum payment towards a Voluntary Retirement Scheme (VRS), preliminary expenses etc. In this context , it is clarified as below:</p> <p>(i) The expenditure incurred on intangible assets (referred to paragraph 2 above) after the date AS 26 became/becomes mandatory (1-4-2003 or 1-4-2004, as case may be) would have to be expensed when incurred since these do not meet the definition of an 'asset' as per AS 26.</p> <p>(ii) In respect of the balances of the expenditure incurred on intangible items (referred to in paragraph 2 above) before the date AS 26 became/ becomes mandatory, appearing in the Balance sheet as on 1-4-2003 or 1-4-2004, as case may be, paragraphs 99 and 100 of AS 26 are applicable.”</p> <p>From the above, it was viewed that in case expenditure meets the definition of the term 'asset' and the recognition criteria thereof, the same should be capitalised as part of the cost of</p>
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		<p>that asset, otherwise, such expenditure should be expensed in the Statement of Profit and Loss in the year in which the expenditure is incurred.</p> <p>It was noted that expenditure incurred on factory license fees, trade mark fee, seed marketing expenses, public/capital issue expenses, preliminary expenses and rental paid for pre-commencement of retail stores, factories has been treated as deferred revenue expenditure which are being amortised over the life of the concerned items.</p> <p>It was viewed that the expenditure incurred on rental paid for pre-commencement of retail stores, factories, seed marketing expenses, public/capital issue expenses, preliminary expenses cannot be considered to be a 'resource' being controlled by the enterprise and hence, such expenses do not meet the criteria of the term 'asset' and therefore, they can not be treated as asset. Accordingly, any such expenditure incurred after 1-4-2006 i.e. after AS 26 become mandatory should be expensed as and when it is incurred.</p> <p>With regard to factory license fees, trade mark fees, it was</p>
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Observations on Accounting Standard (AS) 26: Intangible Assets

		<p>viewed that these expenditure gives rise to intangible assets. Accordingly, they should be disclosed under the head of 'intangible assets' rather than 'deferred revenue expenditure'.</p> <p>With regard to software development expense and product development expense, it was viewed that if it meets the definition of asset as stated in paragraph 6.2 of AS 26, the same should also be recognised as an 'intangible asset', otherwise it should be expensed in the Statement of Profit and Loss in the year in which the expenditure is incurred.</p>
4.	<p>In the Annual Report of certain companies, following have been noted:-</p> <ul style="list-style-type: none"> • The Fixed Assets Schedule of a company includes "Technical Know-how" capitalised . • Fixed Asset Schedule includes Intellectual Property Rights under the sub-head 'Intangible Assets.' 	<p>It was noted that paragraph 90 of AS 26, provides as follows:</p> <p><i>"90. The financial statements should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:</i></p> <p><i>(a) the useful lives or the amortisation rates used;</i></p> <p><i>(b) the amortisation methods used;"</i></p> <p>It was noted from the schedule of fixed assets that although the enterprise possess intangible</p>

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		<p>assets in the nature of 'Technical Know-how', 'Intellectual Property Rights', yet the accounting policy adopted by the company for their valuation and amortisation viz. the amortisation method, the amortisation rates or useful lives used had not been disclosed as required by paragraph 90 of AS 26.</p> <p>Accordingly, it was viewed that the requirements of AS 26 have not been complied with.</p>
5.	<p>From the Annual Report of a company, it was noted that Fixed Assets of a company includes 'Intellectual Property Rights' with the net book value being the same in the current year and in the previous year.</p>	<p>It may be noted that Paragraphs 62 and 63 of AS 26, provide as follows:</p> <p><i>“62. After initial recognition, an intangible asset should be carried at its cost less any accumulated amortisation and any accumulated impairment losses.</i></p> <p><i>63. The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortisation should commence when the asset is</i></p>

Observations on Accounting Standard (AS) 26: Intangible Assets

		<p>available for use”.</p> <p>It was noted from the Note on Fixed Assets that the company possess intellectual property rights which are being carried forward at the same value which <i>prima facie</i> indicates that the said asset has not been amortized which is not in line with the requirements of AS 26.</p>
6.	<p>In the Annual Report of a company, the accounting policy on Fixed Asset reads as follows :</p> <p>‘Intangible Assets-Work-in-progress – EPC sub contract work time by EPC Contractors relating to the construction of project (BOT) and other direct expenditure/income (including preliminary and pre-operative) relating to the Project are included in Intangible assets - Work-in-progress. (emphasis added)’</p>	<p>It may be noted that paragraphs 6.2 and 56 of AS 26, <i>inter alia</i> provide as follows :</p> <p>“6.2 An asset is a resource:</p> <p>(a) controlled by an enterprise as a result of past events; and</p> <p>(b) from which future economic benefits are expected to flow to the enterprise.”</p> <p>“56. In some cases, expenditure is incurred to provide future economic benefits to an enterprise, but no intangible asset or other asset is acquired or created that can be recognised. In these cases, the expenditure is recognised as an expense when it is incurred. For example, expenditure on research is always recognised as an expense when it is incurred (see paragraph 41).</p>

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		<p>Examples of other expenditure that is recognised as an expense when it is incurred include:</p> <p>(a) expenditure on start-up activities (start-up costs), unless this expenditure is included in the cost of an item of fixed asset under AS 10. Start-up costs may consist of preliminary expenses incurred in establishing a legal entity such as legal and secretarial costs, expenditure to open a new facility or business (pre-opening costs) or expenditures for commencing new operations or launching new products or processes (pre-operating costs).</p> <p>...”</p> <p>It was noted from the stated accounting policy of ‘intangible assets’ that the preliminary and pre-operative expenditure relating to the project have been capitalised while paragraph 56 of AS 26 explicitly provides to expense the start up costs such as preliminary expenses in the year in which they are incurred.</p> <p>It was viewed that although preliminary and pre-operative expenses may provide economic benefits in the future they do not give rise to any resource which can be controlled by the</p>
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		<p>enterprise, and hence such expense do not meet the criteria of the term 'assets'.</p> <p>Accordingly, such expenditure incurred should be expensed as and when it is incurred.</p>
7.	<p>It was noted from note on Fixed Asset of a company that Fixed Assets includes 'goodwill' at cost which was entirely written off during the year.</p>	<p>It may be noted that paragraph 90 of AS 26, provides as follows:</p> <p><i>“90. The financial statements should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:</i></p> <p><i>(a) the useful lives or the amortisation rates used;</i></p> <p><i>(b) the amortisation methods used;</i></p> <p><i>(c) the gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;</i></p> <p><i>(d) a reconciliation of the carrying amount at the beginning and end of the period showing:...”</i></p> <p>It was noted from the note of fixed assets that the</p>

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		<p>amortisation of goodwill up to previous year was nil, it indicates that the total amount of goodwill is written off during the year under review only. However, no accounting policy with regard to amortisation of goodwill has been disclosed, which is contrary to the requirements of paragraph 90 of AS 26.</p>
<p>8.</p>	<p>From the Note on Fixed Asset in the Annual Report of a company, it was noted that Fixed Assets also includes intangible assets i.e. Navision Software and Computer Software. It was, further, noted that the accounting policy on Intangible Assets read as follows:</p> <p>‘Intangible Assets are recognised by the Company only if it is probable that the future economic benefits that are attributable to the assets will flow to the enterprise and the cost of the same can be measured reliably.</p> <p>Intangible assets are amortized on a systematic basis over its useful life and the amortisation for each period will be recognised as an expense’.</p>	<p>It may be noted that paragraphs 90 (a) and (b) of AS 26, require that :</p> <p>“90. The Financial statements should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:</p> <p>(a) the useful lives or the amortisation rates used;</p> <p>(b) the amortisation methods used;</p> <p>(c) the gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;</p> <p>(d) a reconciliation of the carrying amount at the</p>

Observations on Accounting Standard (AS) 26: Intangible Assets

		<p><i>beginning and end of the period showing:"</i></p> <p>It has been noted from the note of Fixed Assets that the company also holds intangible assets viz. Navision Software and Computer Software. It was observed that no information has been provided in the financial statements or in the notes to accounts as to whether these are internally generated or otherwise. Further, no disclosure regarding 'useful life of the assets' and 'amortisation method used' for such intangible assets has been given in the financial statements. Accordingly, it was viewed that the requirements of paragraphs 90 (a) and (b) of AS 26 have not been complied with.</p>
<p>9.</p>	<p>The paragraph related to Research and Development given under the Chairman's message in the Annual Report read as follows:</p> <p>'It is pertinent to note that the Company owns several patents and several applications for patents are also pending for approval. Being a technology focused company; the Company has established R & D centers in India and abroad and incurred the expenses on Research and</p>	<p>It may be noted that paragraph 96 of AS 26, requires that:</p> <p><i>"96.The financial statements should disclose the aggregate amount of research & development expenditure recognised as an expense during the period."</i></p> <p>It was noted from the facts of the Chairman's Message that the company has established research and development centres in different locations nationally and internationally and</p>

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	Development'.	<p>incurred expenditures on research and developments; however, no separate disclosure for the amount recognised in the financial statements has been made as required under aforesaid paragraph.</p> <p>Further, it was also observed that the accounting policy followed by the company with respect to recognition of the research & development expenditure has also not been disclosed.</p>
10.	<p>The accounting policy of fixed assets given in the Annual Report of a company read as follows:</p> <p>'Intangible assets are identified when they are expected to provide future enduring economic benefits. The assets are identified in the year in which the relevant asset is put to use. (emphasis added)'</p>	<p>It may be noted that paragraphs 44, 53 and 83 of AS 26, provides that an internally generated asset can be capitalised if it meets the criteria as laid in paragraph 44 of AS 26 and the cost, so capitalised comprises of expenditure that are directly attributable for making the asset ready for its intended use. Further, paragraph 83 of AS 26 lays the principle of impairment which are with reference to date when intangible is available for use.</p> <p>It was noted from the stated accounting policy of fixed assets that the intangible assets are identified in the year in which the relevant asset is put to use. It was viewed that this is not in line</p>

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		<p>with requirement of AS 26 which requires recognition with reference to the date when an intangible asset is available for use rather than when it is put to use.</p> <p>Accordingly, it was viewed that the requirements of AS 26 have not been complied with.</p>
11.	<p>It was noted from the Balance Sheet of a company that the Miscellaneous Expenditure (to the extent not written off or adjusted) as at 31st March, 20XX was the same as in the immediately preceding year.</p>	<p>It was noted that the closing balance of the Miscellaneous expenditure for the financial year 20XX and 20XX is same, which indicates that the said expenditure has not been amortised during the financial year under review. Further, it was noted that neither the amortisation policy nor the information regarding miscellaneous expenditure (viz. nature of such expense, year of incurrence) has been disclosed in the financial statements.</p> <p>In the absence of such information, it could not be ascertained as to whether the said miscellaneous expenditure was incurred before 1.4.2004 or after 1.4.2004. It was viewed that in case, it was incurred before 1.4.2004, it should be amortised as per original accounting policy of the company, provided the total period of amortisation does not</p>

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		<p>exceed ten years, otherwise it should have been expensed as and when incurred. However, non- amortisation of such expenses during the year indicates that the accounting treatment adopted by the company is not in line with the requirements of paragraph 99 of AS 26.</p>
<p>12.</p>	<p>It was noted from the accounting policy on Intangible Assets of a company that Intangible Assets were stated at cost of acquisition less accumulated amortisation. Technical know-how is amortised over the useful life of the underlying plant. Amortisation was done on straight line basis.</p>	<p>It was noted that as per the stated policy, Technical know-how is amortized over the useful life of the underlying plant. It was viewed that such policy indicates that the useful life of technical know-how has not been considered for determination of its amortisation period, which is an important element to determine its amortisation policy as explained in paragraph 69 of AS 26 reproduced below:</p> <p><i>“69. If control over the future economic benefits from an intangible asset is achieved through legal rights that have been granted for a finite period, the useful life of the intangible asset should not exceed the period of the legal rights unless:</i></p> <p><i>(a) the legal rights are renewable; and</i></p> <p><i>(b) renewal is virtually certain.”</i></p>

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		<p>It was further viewed that intangible assets should be amortised over its useful life or the life of underlying assets or over the period of 10 years, whichever is earlier. In case if it is more than 10 years, then the reason should be described for determining the useful life higher than 10 years as prescribed below:</p> <p>“94. The financial statements should also disclose:</p> <p>(a) If an intangible assets is amortized over more than 10 years, the reasons why it is presumed that the useful life of an intangible asset will exceed ten years from the date when the asset is available for use. In giving reasons, the enterprise should describe the factors(s) that played a significant role in determining the useful life of the asset.”</p> <p>Hence, it was viewed that the stated policy adopted for the technical know-how is not in line with the requirements of AS 26.</p>
13.	<p>The Accounting Policy on Research and Development expenditure as given in the Annual Report of a company states as follows:</p> <p>‘Revenue expenditure is charged</p>	<p>It may be noted that paragraphs 41 and 44 of AS 26, provide as follows:</p> <p>Research Phase</p> <p>“41. No intangible asset</p>

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	<p>to the Statement of Profit and Loss and capital expenditure resulting into enduring benefits is added to the cost of the fixed assets in the year in which it is incurred’.</p>	<p><i>arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred. “</i></p> <p>Development Phase</p> <p><i>“44. An intangible asset arising from development (or from the development phase of an internal project) should be recognised if, and only if, an enterprise can demonstrate all of the following:</i></p> <ul style="list-style-type: none"> <i>a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;</i> <i>b) its intention to complete the intangible asset and use or sell it;</i> <i>c) its ability to use or sell the intangible asset;</i> <i>d) how the intangible asset will generate probable future economic benefits. Among other things, the enterprise should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or,</i>
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		<p><i>if it is to be used internally, the usefulness of the intangible asset;</i></p> <p>e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and</p> <p>f) its ability to measure the expenditure attributable to the intangible asset during its development reliably.”</p> <p>It was noted from the stated accounting policy with regard to Research & Development expenses that the revenue expenditures on research and development has been charged to the Statement of Profit and Loss and the capital expenditure on research and development has been added to the cost of fixed assets.</p> <p>It was viewed that the expenditure on research and development phase should be classified as, expenditure either on research phase or development phase, instead of classifying the total expenditure on the basis of their nature viz. revenue and capital expenditure. The expenditure on research</p>
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		<p>phase should be expensed as and when it is incurred and expenditure on development phase should be capitalised if, and only if, such expenditure meets the conditions as laid under paragraph 44 of AS 26.</p> <p>Further, it was viewed that the expenditure on research phase and development phase should be accounted as per the provision of paragraphs 41 and 44 of AS 26.</p>
14.	<p>The accounting policies on Intangible Assets and Amortisation as given in the Annual Report of a company, read as follows:</p> <p>‘INTANGIBLE ASSETS</p> <p>Cost of Right of Way for laying pipelines is capitalised as Intangible Asset and being perpetual in nature, is not amortised’.</p> <p>a. ...”</p> <p>‘Amortisation of Intangible Assets</p> <p>e. Intangible Assets including technical/process licenses are amortised on a straight line basis over a period of ten years or life of the underlying plant/facility, whichever is</p>	<p>It may be noted that paragraphs 6.7 , 63 , 68 and 69 of AS 26, provide as follows:</p> <p>“6.7 Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.”</p> <p>“63. The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortisation should commence when the asset is available for use”.</p> <p>“68. The useful life of an</p>

Observations on Accounting Standard (AS) 26: Intangible Assets

	<p>earlier’.</p>	<p>intangible asset may be very long but it is always finite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.”</p> <p>“69. If control over the future economic benefits from an intangible asset is achieved through legal rights that have been granted for a finite period, the useful life of the intangible asset should not exceed the period of the legal rights unless:</p> <p>a. the legal rights are renewable; and</p> <p>b. renewal is virtually certain.”</p> <p>The following discrepancies have been noted with regard to Intangible Assets:</p> <p>i It was noted that the cost of right of way is capitalised as intangible item but is not being amortized considering it to be perpetual in nature. It was viewed that as per AS 26, the useful life of the right of way may be very long but it is not infinite; accordingly, the depreciable amount should be allocated on a</p>
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		<p>systematic basis over the best estimate of its useful life which can be determined based on technical, legal and economic factors. Accordingly, it was viewed that non- amortisation of the cost of right of way is not in line with AS 26. This is also supported by EAC opinion published in 'The Chartered Accountants', September 2013.</p> <p>ii It was noted that amongst the intangibles held, the company possess technical / process licenses which as per the stated policy are being depreciated over a period of 10 years or life of the underlying plant/ facility whichever is earlier. It was viewed that such policy indicates that the useful life of technical/ process license i.e. license period has not been considered for determination of its amortisation period, which is an important element to determine its amortisation policy as explained in paragraph 69 of AS 26. Accordingly, it was viewed that the accounting policy as adopted for amortizing intangible assets</p>
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Observations on Accounting Standard (AS) 26: Intangible Assets

		<p>specifically in context of technical/ process license is not in line with the requirement of AS 26.</p>
<p>15.</p>	<p>From the accounting policy relating to useful life of intangible assets given in the Annual Report of a company, it was noted that the Franchise Rights (useful life 25 years) were disclosed to continue in perpetuity. However, the useful life was determined as 25 years based on the expected term that franchise would continue to contribute to the net cash inflows of the company.</p>	<p>It may be noted that paragraph 94 (a) of AS 26, provides as follows:</p> <p>“94. The financial statements should also disclose:-</p> <p>(a) if an intangible asset is amortised over more than ten years, the reasons why it is presumed that the useful life of an intangible asset will exceed ten years from the date when the asset is available for use. In giving these reasons, the enterprise should describe the factor(s) that played a significant role in determining the useful life of the asset;”</p> <p>It has been noted that the company has simply stated that considering the fact that the franchise rights will continue in perpetuity, it has estimated the useful life of the franchise rights as 25 years. It was, further, observed from the franchisee agreement that the period of the said agreement will continue in perpetuity. The terms of the purchase agreement also</p>

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		<p>provide for additional consideration which will be payable after completion of 10 years i.e. 20XX onwards for an amount which will be equal to 20% of the franchisee income received in respect of those years.</p> <p>It was viewed that if the enterprise was of the firm view that it would be able to exercise such rights for 25 years and therefore, it has adopted an accounting policy of amortizing such rights over a period of 25 years, it should also estimate the amount of additional fees that would be payable by it for such rights and, accordingly, the total cost of such rights should be capitalised and amortized.</p> <p>However, in the given case, it appears that it has neither included the consideration payable for the period of 25 years in the cost of franchisee rights nor has it disclosed the amount of commitments payable against such franchisee rights for the additional 15 years. Thus, the treatment of franchisee fees as adopted by the enterprise is not in line with the requirements of AS 26.</p>
16.	It was noted from the Note on Intangible Assets given in the	It may be noted that the term 'intangible assets' has been

Observations on Accounting Standard (AS) 26: Intangible Assets

	<p>Annual Report of a company that these included the amount invested in “preference shares of subsidiaries.</p>	<p>defined in paragraph 6 of AS 26, as follows:</p> <p>“6. An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.”</p> <p>Accordingly, an asset without physical substance is classified as intangible asset. In the extant case, it was observed that while the right to hold and use an asset may be classified as ‘intangible asset’, payment made for investment in preference shares of subsidiary is not an intangible asset. It was felt that reason for its inclusion under the head intangible asset rather than investment should have been disclosed. It was further viewed that perhaps a different nomenclature would have better explained its nature.</p> <p>Accordingly, it was viewed that the classification of investments in preference shares of subsidiary company as ‘intangible assets’ is not in line with the requirements of AS 26.</p>
17.	<p>It was noted from the accounting policy relating to amortisation of intangible assets given in the Annual Report of a company that</p>	<p>It may be noted that paragraph 94 of AS 26, provides as follows:</p>

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	<p>“Indefeasible Right of Connectivity” is amortized over 15-20 years.</p>	<p>“94. The financial statements should also disclose:</p> <p><i>(a) if an intangible asset is amortised over more than ten years, the reasons why it is presumed that the useful life of an intangible asset will exceed ten years from the date when the asset is available for use. In giving these reasons, the enterprise should describe the factor(s) that played a significant role in determining the useful life of the asset;</i></p> <p>...”</p> <p>It was noted from the stated policy relating to amortisation of ‘Indefeasible Right of Connectivity’ that it has been amortized over a period exceeding 10 years; however, the reason for presuming such long useful life has not been disclosed.</p> <p>Accordingly, it was viewed that the requirements of AS 26 have not been complied with.</p>
<p>18.</p>	<p>It was observed from the accounting policy relating to fixed assets in the Annual Report of a company that Telecom Licenses are stated at</p>	<p>It may be noted that paragraph 62 of AS 26, provides as follows:</p> <p>“62. After initial recognition, an intangible asset should be</p>

Observations on Accounting Standard (AS) 26: Intangible Assets

	<p>the fair value less accumulated amortisation.</p>	<p><i>carried at its cost less any accumulated amortisation and any accumulated impairment losses.</i></p> <p>It was noted from the stated accounting policy that the telecom licenses have stated to be valued at fair value which is contrary to the requirement of paragraph 62 stated above.</p>
<p>19.</p>	<p>The Accounting policy relating to Research and Development expenses given in the Annual Report of a company reads as follows:</p> <p>‘Research & Development expenses incurred up-to the development stage are capitalised and will be written off over a period of five years from the year in which the plants bear fruits’.</p>	<p>It may be noted that paragraphs 40, 41 and 44 of AS 26, provide as follows:</p> <p>“40. If an enterprise cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the enterprise treats the expenditure on that project as if it were incurred in the research phase only.”</p> <p><i>“41. No intangible asset arising from research (or from research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred.”</i></p> <p><i>“44. An Intangible asset arising from development (or from the development phase of an internal project) should be recognised if, and only if,</i></p>

		<p><i>an enterprise can demonstrate all of the following:</i></p> <ul style="list-style-type: none"><i>(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;</i><i>(b) its intention to complete the intangible asset and use or sell it;</i><i>(c) its ability to use or sell the intangible asset;</i><i>(d) how the intangible asset will generate probable future economic benefits. Among other things, the enterprise should 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;</i><i>(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and</i><i>(f) its ability to measure the expenditure attributable to the intangible asset</i>
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Observations on Accounting Standard (AS) 26: Intangible Assets

		<p><i>during its development reliably.”</i></p> <p>From the above, it was noted that research and development expenditure should be classified into the expenditure on research phase and that on development phase. While the expenditure on research phase should be recognised as and when incurred, expenditure on development phase should be recognised as an intangible asset, only if the recognition criteria specified in paragraph 44 of AS 26 are satisfied.</p> <p>In the given case, it was noted that all research and development expenses have been capitalised without classifying them into research and development phase. Moreover, the criteria defined in paragraph 44 of AS 26 i.e. existences of technical feasibility of completing the intangible, ability to generate economic benefits in future are not at all applied to capitalize the expenditure.</p>
20.	It was observed from the significant accounting policy relating to Depreciation / Amortization as given in the Annual Report of a company that Brand Value is amortized over	<p>It may be noted that paragraphs 63 and 94(a) of AS 26, provides as follows:</p> <p><i>“63. The depreciable amount of an intangible asset should be allocated on a systematic</i></p>

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	<p>twenty years, being the useful life certified by independent valuer.</p>	<p><i>basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortisation should commence when the asset is available for use”.</i></p> <p><i>“94. The financial statements should also disclose:</i></p> <p><i>(a) if an intangible asset is amortised over more than ten years, the reasons why it is presumed that the useful life of an intangible asset will exceed ten years from the date when the asset is available for use. In giving these reasons, the enterprise should describe the factor(s) that played a significant role in determining the useful life of the asset;</i></p> <p>It was noted from the stated policy that the entity has adopted the policy of amortizing brand over a period of twenty years, being the useful life of brand certified by independent valuer. It was noted that Paragraph 63 of AS 26 prescribes adoption of rebuttable presumption that useful life of an</p>
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Observations on Accounting Standard (AS) 26: Intangible Assets

		<p>intangible asset cannot exceed ten years. It was further noted that in case, if the useful life of the intangible assets is presumed to exceed ten years, the reasons why it has been so presumed along with description of factors that played a significant role in determining the useful life of the asset should be disclosed.</p> <p>It was viewed that in given case, neither the reasons for such presumption nor the factors based on which the life of the brand was determined to be twenty years have been disclosed.</p> <p>According it was viewed that the requirements of AS 26 have not been complied with.</p>
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Observations on Accounting Standard (AS) 27: Financial Reporting of Interests in Joint Ventures

S. No	Matters contained in the Annual Report	Observations
1.	From the Annual Report of a company having interest in jointly controlled entities, it was noted that it had disclosed only its interest in the assets and liabilities of the jointly controlled entities.	<p>It may be noted that paragraph 53 of AS 27, provides as follows:</p> <p><i>“53. A venturer should disclose, in its separate financial statements, the aggregate amounts of each of the assets, liabilities, income and expenses related to its interests in the jointly controlled entities.”</i></p> <p>It was observed that although the interest in the assets and liabilities with respect to the jointly controlled entities has been disclosed, the aggregate amount of income and expenses related to such interests in jointly controlled entities have not been disclosed as per the above stated requirements.</p>
2.	Disclosure made by a company relating to Joint Ventures given in the Consolidated Financial Statements in its Annual Report, which is reproduced	<p>It may be noted that paragraphs 49 and 52 of AS 27, provides as follows:</p> <p><i>“49. A venture should disclose the information</i></p>

Observations on Accounting Standard (AS) 27: Financial Reporting of Interests ...

	<p>below:</p> <p>Interest in Joint Ventures</p> <table border="1" data-bbox="479 506 846 793"> <thead> <tr> <th data-bbox="479 506 535 667">S. No.</th> <th data-bbox="535 506 638 667">Name</th> <th data-bbox="638 506 742 667">Country of Incorporation</th> <th data-bbox="742 506 846 667">Percentage of Voting power</th> </tr> </thead> <tbody> <tr> <td data-bbox="479 667 535 793"></td> <td data-bbox="535 667 638 793">Joint Venture</td> <td data-bbox="638 667 742 793">XX</td> <td data-bbox="742 667 846 793">XX</td> </tr> </tbody> </table>	S. No.	Name	Country of Incorporation	Percentage of Voting power		Joint Venture	XX	XX	<p><i>required by paragraphs 50, 51 and 52 in its separate financial statements as well as in consolidated financial statements.</i></p> <p>“52. A venturer should disclose a list of all joint ventures and description of interests in significant joint ventures. In respect of jointly controlled entities, the venturer should also disclose the proportion of ownership interest, name and country of incorporation or residence.”</p> <p>It was noted that although a list of all joint ventures as well as percentage of voting power of the company has been disclosed in the Consolidated Financial Statements, however, no such information has been provided in the Standalone Financial Statements as specifically required under paragraph 49 of AS 27.</p>
S. No.	Name	Country of Incorporation	Percentage of Voting power							
	Joint Venture	XX	XX							
3.	<p>In the Annual Report of a company, from the note of Related Party Disclosures, it was noted that only the names of its joint ventures has been disclosed.</p>	<p>It may be noted that paragraphs 52 and 53 of AS 27, provides as follows:</p> <p>“52. A venturer should disclose a list of all joint ventures and description of interests in significant joint ventures. In respect of jointly</p>								

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		<p>controlled entities, the venturer should also disclose the proportion of ownership interest, name and country of incorporation or residence.</p> <p>53. A venturer should disclose, in its separate financial statements, the aggregate amounts of each of the assets, liabilities, income and expenses related to its interests in the jointly controlled entities.”</p> <p>It was noted that although, it has disclosed the names of the joint venture companies, however, description of the company’s interest in joint ventures has not been disclosed as required under paragraph 52 of AS 27. Further, the disclosures with regard to assets, liabilities, income and expenses as required under paragraph 53 of AS 27 have also not been made.</p>
4.	<p>In the Consolidated Financial Statements given in the Annual Report of a company, it had disclosed its interests in several joint ventures under the note of Non-current Investments.</p>	<p>It may be noted that paragraph 28, 32 and 36 of AS 27, provides as follows:</p> <p>“28. In its consolidated financial statements, a venturer should report its interest in a jointly controlled entity <u>using proportionate consolidation</u> except :</p> <p>(a) an interest in a jointly controlled entity which is</p>

		<p><i>acquired and held exclusively with a view to its subsequent disposal in the near future; and</i></p> <p><i>(b) an interest in a jointly controlled entity which operates under severe long-term restrictions that significantly impair its ability to transfer funds to the venturer.</i></p> <p><i>Interest in such a jointly controlled entity should be accounted for as an investment in accordance with Accounting Standard (AS) 13, Accounting for Investments.”</i></p> <p>“32. Under proportionate consolidation, <i>the venturer includes separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its consolidated financial statements.</i> For example, it shows its share of the inventory of the jointly controlled entity separately as part of the inventory of the consolidated group; it shows its share of the fixed assets of the jointly controlled entity separately as part of the same items of the consolidated group.”</p> <p>“36. Any excess of the cost to the venturer of its interest in a jointly controlled entity over its</p>
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		<p>share of net assets of the jointly controlled entity, at the date on which interest in the jointly controlled entity is acquired, is recognised as goodwill, and separately disclosed in the consolidated financial statements. When the cost to the venturer of its interest in a jointly controlled entity is less than its share of the net assets of the jointly controlled entity, at the date on which interest in the jointly controlled entity is acquired, the difference is treated as a capital reserve in the consolidated financial statements. Where the carrying amount of the venturer's interest in a jointly controlled entity is different from its cost, the carrying amount is considered for the purpose of above computations."</p> <p>From the above, it was noted that the interest in joint venture should be reported in the Consolidated Financial Statements using the proportionate consolidation method where the venturer should include separate line items for its share of the assets, liabilities, income and expenditure of joint venture and accordingly eliminates the corresponding investments in joint venture from the investment note. It was noted from the Consolidated Financial Statements that investments in</p>
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Observations on Accounting Standard (AS) 27: Financial Reporting of Interests ...

		the joint venture entities had not been eliminated, which indicates that such joint ventures were not proportionately consolidated as prescribed in the aforesaid requirements of AS 27.
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Observations on Accounting Standard (AS) 28: Impairment of Assets

S. No	Matters contained in the Annual Report	Observations
1.	<p>In the Annual Report of a company, the accounting policy for impairment of assets was given as follows:</p> <p>‘An asset is treated as impaired when the carrying cost of assets exceeds its recoverable value. An impairment loss is charged to the Statement of Profit and Loss in the year in which an asset is identified as impaired. The impairment loss recognised in prior accounting period is increased/ reversed where there has been change in the estimate of recoverable value. The recoverable value is the higher of the assets’ net selling price and value in use. (emphasis supplied)’</p>	<p>It may be noted that paragraph 101 of AS 28, provides as follows:</p> <p>“101. The increased carrying amount of an asset due to a reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior accounting periods.”</p> <p>It was noted from the stated accounting policy that the impairment loss was reversed when there was any change in the estimates of recoverable value. It was viewed that the accounting policy adopted for reversal of impairment loss earlier recognised was not disclosed. Accordingly, it was not clear whether the carrying amount was determined after providing amortisation/</p>

Observations on Accounting Standard (AS) 28: Impairment of Assets

		<p>depreciation as if no impairment loss was computed.</p> <p>Accordingly, it was viewed that the accounting policy for impairment of assets cannot be considered to be in line with the requirement of AS 28.</p>
2.	<p>One of the notes forming part of Accounts given in the Annual Report of a company, states as follows:</p> <p>'The impairment loss had been determined on the basis of net selling price (determined on the basis of expected salvage value) in respect of CGUs representing specific process plants and other individual assets. The impairment loss had been recognised owing to the prevalent market conditions of the product which was to be manufactured from specific process plants and conditions of the individual assets. (emphasis supplied)'</p>	<p>It may be noted that paragraph 22 of AS 28 states as follows:</p> <p>"22. If there is no binding sale agreement or active market for an asset, net selling price is based on the best information available to reflect the amount that an enterprise could obtain, at the balance sheet date, for the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an enterprise considers the outcome of recent transactions for similar assets within the same industry. Net selling price does not reflect a forced sale, unless management is compelled to sell immediately. (emphasis supplied)"</p> <p>It was noted from the stated note that in the given case, impairment loss has been determined on the basis of the net selling price which in turn has been derived based on the</p>

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		<p>expected salvage value. It was viewed that the term 'salvage value' is generally referred to as estimated value that an asset will realise upon its sale at the end of its useful life.</p> <p>It was viewed that as per aforesaid requirement of AS 28, net selling price should be determined based on the value that can be obtained as on the Balance Sheet date which cannot be considered to be an end of useful life of an asset until and unless the assets would not be in use after the reporting date. Accordingly, it was viewed that considering expected salvage value for determining impairment loss is not in accordance with the requirements of AS 28.</p>
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Observations on Accounting Standard (AS) 29: Provisions, Contingent Liabilities and Contingent Assets

S. No.	Matters contained in the Annual Report	Observations
1.	From the Annual Report of a company, it has been noted from accounting policy on Revenue Recognition that no provision has been made for possible returns or expenses during the warranty period.	<p>It may be noted that the definition of the term 'provision' as defined in paragraphs 10.1 and 10.2 of AS 29, provides as follows:</p> <p><i>“10.1 A provision is a liability which can be measured only by using a substantial degree of estimation.”</i></p> <p><i>“10.2 A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.”</i></p> <p>It was noted that obligation in respect of sales return can be estimated reliably on the basis of past experience and other relevant factors and a provision in respect of sales returns should be recognised;</p>

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		<p>otherwise, the company should postpone the recognition of revenue on such sales.</p> <p>In light of above, it was viewed that the requirements of either AS 29 or AS 9 have not been complied with.</p>
2.	<p>From the Annual Report of company, it has been noted that from notes relating to Long-term Provisions and Short-term Provisions that "Provision for Expenses" has been included under these heads.</p>	<p>It may be noted that paragraph 12 of AS 29 , provides as follows:</p> <p>"12. Provisions can be distinguished from other liabilities such as trade payables and accruals because in the measurement of provisions substantial degree of estimation is involved with regard to the future expenditure required in settlement. By contrast:</p> <p>(a) trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and</p> <p>(b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees. Although it is sometimes necessary to estimate the amount of</p>

Observations on Accounting Standard (AS) 29: Provisions, Contingent Liabilities.

		<p>accruals, the degree of estimation is generally much less than that for provisions.”</p> <p>From the above, it was noted that provisions are made for those liabilities, the measurement of which involves substantial degree of estimation and which will be settled in future. Expenses are generally considered as accrued against services that have been received but not settled. Therefore, it was viewed that the disclosure of unpaid expenses under the head of provisions is not in accordance with paragraph 12 of AS 29.</p>
3.	<p>Note relating to Contingent Liabilities given in the Annual Report of a company, states as follows :</p> <p>‘The Company has so far exported XXX MT of white sugar The Company is hopeful of fulfilling its balance export obligations. In the unlikely event of not fulfilling the export obligation, the Company has to pay the amount of duty concession availed in respect of its imports along with interest.’</p>	<p>It may be noted that paragraph 68 of AS 29, provides as follows:</p> <p>“68. Unless the possibility of any outflow in settlement is remote, an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable:</p> <p>(a) an estimate of its financial effect, measured under paragraphs 35-45;</p> <p>(b) an indication of the uncertainties relating to</p>

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		<p>any outflow; and</p> <p>(c) the possibility of any reimbursement.”</p> <p>It was noted that although the indication of uncertainties involved has been disclosed if export obligation was not met, however, the estimate of its financial effect as to the value of duty concession availed along with interest which it might have to repay has not been given. Accordingly, it was viewed that the requirements of paragraph 68 has not been complied with.</p>
4.	<p>One of the Significant Accounting Policies given in the Annual Report of a company state as follows:</p> <p>‘10: ELECTRICITY</p> <p>Fuel surcharge and electricity duty collected by the State Electricity Board provisionally are not ascertainable with reasonable certainty and as such not provided for in the accounts. The differential amount is accounted for as and when determined by the Board.’</p>	<p>It may be noted that paragraphs 10.2, 10.6, 14, 35 and 36 of AS 29, provide as follows:</p> <p>“10.2 A <u>liability</u> is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.”</p> <p>“10.6 <u>Present obligation</u> -an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not”.</p> <p>“14. A provision should be</p>

Observations on Accounting Standard (AS) 29: Provisions, Contingent Liabilities.

		<p>recognised when:</p> <p>(a) an enterprise has a present obligation as a result of a past event;</p> <p>(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and</p> <p>(c) a reliable estimate can be made of the amount of the obligation.</p> <p>If these conditions are not met, no provision should be recognised.”</p> <p>“35. The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The amount of a provision should not be discounted to its present value.”</p> <p>“36. The estimates of outcome and financial effect are determined by the judgment of the management of the enterprise, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any</p>
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		<p>additional evidence provided by events after the balance sheet date.”</p> <p>From the above, it may be noted that if there exists a present obligation, a reliable estimate of the amount of obligation can be made by the management based on past experience of similar transaction. Thus, for recognition of provision, it is a reliable estimate and not a certain estimate which is required.</p> <p>It was noted from stated accounting policy that since the company was not able to ascertain with reasonable certainty, the provisional fuel surcharge and electricity duty that would be collected by the State Electricity Board, same have not been provided for. It was viewed that fuel surcharge and electricity duty are present obligations of the company which should be provided for based on past experience as per AS 29.</p>
5.	<p>From the Annual Report of a company, a Note relating to Scheme of Arrangement reads as follows:</p> <p>‘Company has a liability of Rs xxx under Scheme of Arrangement, which has not</p>	<p>It may be noted that principles regarding reversal of provisions are stated in paragraph 52 of AS 29,states as follows;</p> <p>“52. If it is no longer probable that an outflow of resources embodying economic benefits</p>

Observations on Accounting Standard (AS) 29: Provisions, Contingent Liabilities.

	<p>been claimed by the parties. The liability has been written back to the Statement of Profit and Loss during the current financial year. This will be paid as and when claimed by the parties.'</p>	<p><i>will be required to settle the obligation, the provision should be reversed."</i></p> <p>From the above, it was noted that provision should be reversed when it is no longer probable that outflow of resources would be required to settle the obligation. However, in the given case, it was noted from the stated note that the liabilities will be paid as and when claimed which indicates that the probability of outflow of resources still exists. Hence, writing back of the provision is not in accordance with the requirements of AS 29.</p>
6.	<p>From the Annual Report of a company, it has been noted as follows:</p> <p>'The Company has not provided for moping up of subsidy on raw materials of fertilizer in terms of office Memorandum issued by the Ministry of Chemicals & Fertilizers, Govt. of India, which is being reconsidered and decided not to effect recovery till a policy in this regard is formulated. This has strengthened the management's view for not providing the same.'</p>	<p>It may be noted that paragraphs 68 and 71 of AS 29, state as follows:</p> <p><i>"68. Unless the possibility of any outflow in settlement is remote, an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable:</i></p> <p><i>a) an estimate of its financial effect, measured under paragraphs 35-45;</i></p> <p><i>b) an indication of the uncertainties relating to</i></p>

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		<p><i>any outflow; and</i></p> <p><i>c) the possibility of any reimbursement.”</i></p> <p><i>“71. where any of the information required by paragraph 68 is not disclosed because it is not practicable to do so, that fact should be stated.”</i></p> <p>From the above, it was noted that while disclosing details of contingent liabilities an estimate of its financial effect should be given unless it is not practical to do so. In the later case, the fact should be, accordingly, disclosed. It was noted from the stated note that although contingent liability has been disclosed, neither the financial effect of the same nor the fact that it is not practicable to quantify the same has been disclosed as required under paragraphs 68 and 71 of AS 29.</p>
7.	<p>In the Annual Report of a company, Clause (xv) given in Annexure to Auditor’s Report reads as follows:</p> <p>‘(xv) In our opinion, the company has given irrevocable guarantees for loans taken by others from the banks or financial institutions and a liability including interest of Rs.</p>	<p>It was noted from the reproduced abstract of CARO Report that the company had given irrevocable guarantees to bank/ financial institutions for loans taken by others. As on the Balance Sheet date, although the banks/ financial institutions had claimed a huge liability including interest against those guarantees, the company had</p>

Observations on Accounting Standard (AS) 29: Provisions, Contingent Liabilities.

	<p>xxx has been claimed which the company has not acknowledged as debt on the ground that the company was taken over by a buyer but the liability on this account has also been shown in Contingent Liability.’</p>	<p>not acknowledged it as debt on the ground that the company was taken over by a buyer. Such liabilities claimed had simply been shown as contingent liability. It was viewed that, in the given case, when the Balance Sheet was prepared by the enterprise as a going concern with no other disclosure that entity had been taken over by the third party, it <i>prima facie</i> indicates that the liabilities being claimed by banks or financial institutions are present obligations of the entity itself as on the Balance Sheet date as a result of past events. Hence, it was viewed that the provision for amounts claimed should have been recognised since it meets criteria of ‘provision’ laid in paragraph 14 of AS 29.</p>
<p>8.</p>	<p>In the Annual Report of a company, one of notes in Notes to Accounts states as follows :</p> <p>‘In accordance with Accounting Standard 29, the following are considered as Contingent Liabilities:</p> <p>a. Sales tax, service tax, customs, wealth tax, and income tax demands together with penalties under appeal.</p> <p>b. Guarantees given by</p>	<p>It may be noted that paragraph 68 of AS 29, provides as follows:</p> <p>“68. Unless the possibility of any outflow in settlement is remote, an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable:</p> <p>(a) an estimate of its financial effect, measured under</p>

Study on Compliance of Financial Reporting Requirements

	<p>bankers for performance of contracts & others.'</p>	<p>paragraphs 35-45;</p> <p>(b) an indication of the uncertainties relating to any outflow; and</p> <p>(c) the possibility of any reimbursement.”</p> <p>It was noted from the reproduced note that although the nature of various contingent liabilities as on the Balance Sheet date have been disclosed along with aggregate financial effect of all such liabilities, the aforesaid requirement also requires the disclosure of the financial effect of each class of nature of contingent liability, which has not been done. It has been further noted from Note b that guarantees given by bankers for the performance of contracts have been disclosed as contingent liabilities of the company. It was viewed that guarantees given against own performance of the company do not give rise to any contingent liability because the company in any case holds an obligation to perform the event against which guarantee is given which is also supported by paragraph 8.8.7.2 of Guidance Note on Revised Schedule VI to the Companies Act, 1956. Hence, such</p>
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Observations on Accounting Standard (AS) 29: Provisions, Contingent Liabilities.

		<p>performance guarantees do not meet the definition of 'Contingent Liabilities' given in paragraph 10.4 of AS 29.</p> <p>Accordingly, it was viewed that the requirements of AS 29 have not been complied with.</p>
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Observations on the Companies Act¹

S. No.	Matters contained in the Annual Report	Observations
1.	It was observed from the note relating to Finance Costs given in the Annual Report of a company that “interest income from trade dues” was deducted from Interest Expense. Further, the significant accounting policy to interest stated that “Interest Income earned on trade dues is netted against interest expense under finance cost.”	<p>It may be noted that Paragraph 3 and 4 of ‘General Instructions for preparation of Statement of Profit And Loss’ given in Part II of the Revised Schedule VI to the Companies Act, 1956, provides that:</p> <p>Finance costs shall be classified as:</p> <ul style="list-style-type: none"> (a) Interest expense; (b) Other borrowing costs; (c) Applicable net gain/loss on foreign currency transactions and translation.” <p>Other Income shall be classified as:</p> <ul style="list-style-type: none"> (a) Interest Income (in case of a company other than a finance company); (b) Dividend Income;

¹ Subsequent to the observations of the Board, Companies Act, 2013 has been notified. However, content is still relevant in terms of Companies Act, 2013.

Observations on the Companies Act

		<p>(c) Net gain/loss on sale of investments</p> <p>(d) Other non-operating income (net of expenses directly attributable to such income).”</p> <p>In view of above, it was felt that the interest expense and interest income should be disclosed separately, the interest income from trade dues should be disclosed under the head ‘other income’ rather than netting off it against finance cost.</p>												
2.	<p>In the Annual Report of a company Note on Finance w.r.t. reads as follows:</p> <p align="center">(Rs. in Lacs)</p> <table border="1"> <thead> <tr> <th>Particulars</th> <th>March 31, 20XX</th> <th>March 31, 20XX</th> </tr> </thead> <tbody> <tr> <td>Interest</td> <td align="center">---</td> <td align="center">---</td> </tr> <tr> <td>Debentures</td> <td align="center">---</td> <td align="center">---</td> </tr> <tr> <td>-Fixed Loans, Buyer's Credit, Short Term, etc.</td> <td align="center">---</td> <td align="center">---</td> </tr> </tbody> </table>	Particulars	March 31, 20XX	March 31, 20XX	Interest	---	---	Debentures	---	---	-Fixed Loans, Buyer's Credit, Short Term, etc.	---	---	<p>It may be noted that as per clause 3 of ‘General Instruction for the Preparation of Statement of Profit & Loss’ for Part II, Revised Schedule VI of the Companies Act, 1956, finance costs are to be bifurcated as follows:</p> <p>“(A) Interest expense</p> <p>(B) Other borrowing costs</p> <p>(C) Applicable net gain/loss on foreign currency transactions and Translation”</p> <p>It may further be noted from Paragraph 9.5.5 of Guidance note on Revised Schedule VI to the Companies Act, 1956 that ‘other borrowing costs’ refers to commitment charges, loan</p>
Particulars	March 31, 20XX	March 31, 20XX												
Interest	---	---												
Debentures	---	---												
-Fixed Loans, Buyer's Credit, Short Term, etc.	---	---												

Study on Compliance of Financial Reporting Requirements

	<p>- Others --- ---</p> <p>- Bank and other finance Charges --- ---</p>	<p>processing charges, guarantee charges, loan facilitation charges, discounts/premium on borrowings, other ancillary costs incurred in connection with borrowings, or amortization of such costs, etc.</p> <p>However, it was noted that 'bank and other finance charges' which are in the nature of 'other borrowing costs' have been classified as 'interest expense'.</p> <p>Accordingly, it was viewed that the classification of 'bank and other finance charges' is not strictly in line with the requirements of Part I, Revised Schedule VI to the Companies Act, 1956.</p>
3.	<p>It was observed from note relating to Related Party Disclosures given in the Annual Report of a company that the amounts of corporate guarantees given on behalf of related parties were disclosed in foreign currencies.</p>	<p>It may be noted that as per paragraph 4.1.7 of General Instruction for preparation of Balance Sheet as per Revised Schedule VI, there is an explicit requirement to use the same unit of measurement uniformly throughout the financial statements and notes thereon.</p> <p>It was observed that whereas in the given case the financial statements have been reported in rupees, certain transactions under related party disclosures have been reported in terms of US dollars (USD), Australian Dollars (AUD) and Japanese</p>

Observations on the Companies Act

		Yens (JPY). Accordingly, it was viewed that presentation of information is not in line with the requirements of Part I, Revised Schedule VI to the Companies Act, 1956.												
4.	<p>Note relating to Trade Receivables as given in the Annual Report of a company reads as follows:</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 60%;">More than 6 months</td> <td style="width: 10%; text-align: center;">--</td> <td style="width: 10%; text-align: center;">--</td> <td style="width: 10%;"></td> </tr> <tr> <td>Other Receivables</td> <td style="text-align: center;">--</td> <td style="text-align: center;">--</td> <td></td> </tr> <tr> <td>Total</td> <td style="text-align: center;">--</td> <td style="text-align: center;">--</td> <td></td> </tr> </table>	More than 6 months	--	--		Other Receivables	--	--		Total	--	--		<p>It may be noted that Note 6 (P) (i) of 'General Instructions for Preparation of Balance Sheet' given in Part I of the Revised Schedule VI to the Companies Act, 1956, <i>inter alia</i>, requires disclosure of trade receivables as follows:</p> <p>"(i) Aggregate amount of Trade Receivables outstanding for a period exceeding six months from the date they are due for payment should be separately stated."</p> <p>It was noted that as per the Revised Schedule VI to the Companies Act, 1956, aggregate amount of Trade Receivables outstanding for a period exceeding six months should be reported from the date when they become due for payment. However, it was observed from the note on trade receivables that the company has reported Trade Receivables for a period more than six months. It was viewed that it is not clear from the note whether the amount classified as six</p>
More than 6 months	--	--												
Other Receivables	--	--												
Total	--	--												

Study on Compliance of Financial Reporting Requirements

		<p>months is from the date of trade receivables or from the date the trade receivable is due for payment. In other words, it may be possible that at one point of time a transaction may be a trade receivable but amount may not be due on it. Hence, such transaction may be classified as a trade receivable for the above mentioned purpose of presentation in Part I, Revised Schedule VI without considering the time when payments fall due with them.</p> <p>Accordingly, it was viewed that the requirement of Part I, Revised Schedule VI to the Companies Act, 1956 has not been complied with.</p>
5.	<p>It was observed from the Notes relating to Long-term borrowings given in the Annual Report of a company that long term borrowings were comprised of vehicle loans and unsecured inter-corporate loans.</p>	<p>It may be noted that note 6 (c) (vi) of 'General Instructions for preparation of Balance Sheet', Part I, Revised Schedule VI to the Companies Act, 1956, requires following disclosures in respect of Long - Term Borrowings:</p> <p>"(vi) Terms of repayment of term loans and other loans shall be stated."</p> <p>It may further be noted that paragraph 8.3.1.18 of Guidance Note on the Revised Schedule VI to the Companies Act, 1956,</p>

Observations on the Companies Act

		<p>provides that:</p> <p>“8.3.1.18 Disclosure of repayment terms should include the period of maturity with respect to the Balance Sheet date, number and amount of instalments due, the applicable rate of interest and other significant relevant terms if any.”</p> <p>It was noted from the note on long-term borrowing that the company has taken vehicle loans as well as unsecured loans. It was viewed that vehicle loans are in the nature of term loans but the disclosures omit to mention the rate of interest at which such loans have been taken as required by Guidance Note on Revised Schedule VI.</p> <p>Similarly, in respect of unsecured loans from body corporate, it was noted that although the amount of outstanding liability as at the end of the year, the rate of interest on such loans have been disclosed, the repayment terms of the loan including the period of maturity, number and amount of installments have not been disclosed.</p>
6.	Note relating to Revenue in the Annual Report of a company reads as follows:	It may be noted that Note 4 of ‘General Instructions for preparation of Statement of Profit and Loss’, Part II, Revised

Study on Compliance of Financial Reporting Requirements

	<p>Sales of Products ---</p> <p>Other Sales & Services ---</p> <p>Other Income ---</p> <p>Total ===</p>	<p>Schedule VI of Companies Act, 1956, states as follows:</p> <p>“4. Other Income</p> <p>Other Income shall be classified as :</p> <p>a) Interest Income (in case of a company other than a finance company;</p> <p>b) Dividend Income;</p> <p>c) Net Gain or Loss on Sale of Investments;</p> <p>d) Other non-operating income (net of expenses directly attributable to such income).”</p> <p>It was noted from the note relating to Revenue that it includes significant amount of other income, the classification of which is not given as aforesaid. Thus, the nature of incomes comprising it, is not clear as to whether it includes interest, dividend or gain on sale of investments or any other non-operating income, if so, to what extent.</p>
7.	<p>The Note on other current liabilities given in the Annual Report of a company reads as follows: Abstracts of Note 2 relating to Other Current Liabilities as given on Page 81</p>	<p>It may be noted that note 6 (G) of ‘General Instructions for preparation of Balance Sheet’ of Part I, Revised Schedule VI to the Companies Act, 1956, requires Other Current Liabilities</p>

Observations on the Companies Act

	<p>of the Annual Report, which states as follows:</p> <p>Note-2</p> <p>Other Current Liabilities</p> <p align="right">As at to 31st March, 20XX</p> <p>Other Liabilities</p>	<p>to be presented in the format as prescribed below:</p> <p>“(G) Other Current Liabilities</p> <p>The amounts shall be classified as:</p> <ul style="list-style-type: none"> (a) Current maturities of long-term debt; (b) Current maturities of finance lease obligations; (c) Interest accrued but not due on borrowings; (d) Interest accrued and due on borrowings; (e) Income received in advance; (f) Unpaid dividends; (g) Application money received for allotment of securities and due for refund and interest accrued thereon; (h) Unpaid matured deposits and interest accrued thereon; (i) Unpaid matured debentures and interest accrued thereon; (j) Other payables (specify nature). <p>...”</p> <p>From the above it was viewed</p>
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Study on Compliance of Financial Reporting Requirements

		<p>that current liabilities should either be classified in one of the heads as suggested from (a) to (i) or the other payables may be shown specifying their nature.</p> <p>It was noted, from the stated abstract that the nature of 'other liabilities' has not been disclosed which is against the requirements of Revised Schedule VI to the Companies Act, 1956.</p>
8.	<p>It was observed from note relating to Current Investments given in the Annual Report of a company that investment in money market was disclosed as 'Trade Investment.'</p>	<p>It may be noted that Trade Investments has been defined in paragraph 8.7.2.1 of 'Guidance note on the Revised Schedule VI to the Companies Act, 1956' issued by ICAI as follows:</p> <p>"The term "trade investments" is defined neither in Revised Schedule VI nor in Accounting Standards. The term "trade investment" is, however, normally understood as an investment made by a company in shares or debentures of another company, to promote the trade or business of the first company."</p> <p>In view of above, it was viewed that investment in money market cannot be classified as 'Trade Investment' and accordingly, the classification adopted for money market investment was viewed to be incorrect.</p>

Observations on the Companies Act

9.	It was observed from the note relating to Share Capital in the Corporate Governance Report of a company that shareholders comprised non-residents and foreign institutional investors.	<p>It may be noted that Clause 5(viii)(d) of 'General Instructions for preparation of Statement of Profit and Loss' given in Part II of the Revised Schedule VI to the Companies Act, 1956, provides that:</p> <p>"5. Additional information</p> <p>A Company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items:-</p> <p>...</p> <p>(viii) (d) The amount remitted during the year in foreign currencies on account of dividends with a specific mention of the total number of non-resident shareholders, the total number of shares held by them on which the dividends were due and the year to which the dividends related;"</p> <p>It was noted from the 'Shareholding Pattern' given in the 'Corporate Governance Report' that shares are held by non- resident shareholders as well as foreign institutional investors also, which indicates that the dividend paid during the year my have been remitted in foreign currency also and as such the same should have</p>
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Study on Compliance of Financial Reporting Requirements

		<p>been disclosed as required by paragraph 5 (viii)(d) of General Instructions for preparation of Statement of Profit and Loss given in Part II of the Revised Schedule VI to the Companies Act, 1956.</p>
<p>10.</p>	<p>It was observed from Note on Short Term Provisions given in the Annual Report of a company that it included 'Provision for Excise Duty.'</p>	<p>It may be noted that note 6 (G) of 'General Instructions for preparation of Balance Sheet' of Part I, Revised Schedule VI to the Companies Act, 1956, requires Other Current Liabilities to be presented in the format prescribed below:</p> <p>“(G) Other Current Liabilities</p> <p>The amounts shall be classified as:</p> <ul style="list-style-type: none"> (a) Current maturities of long-term debt; (b) Current maturities of finance lease obligations; (c) Interest accrued but not due on borrowings; (d) Interest accrued and due on borrowings; (e) Income received in advance; (f) Unpaid dividends; (g) Application money received for allotment of securities and due for refund and

Observations on the Companies Act

		<p>interest accrued thereon;</p> <p>(h) Unpaid matured deposits and interest accrued thereon;</p> <p>(i) Unpaid matured debentures and interest accrued thereon;</p> <p>(j) Other payables (specify nature).</p> <p>Other Payables may be in the nature of statutory dues such as Withholding taxes, Service Tax, VAT, Excise Duty etc ”</p> <p>It was noted that the provision for excise duty has been disclosed as short term provision. It was viewed that the liability for excise duty arises when the manufacture of the goods is completed, although the recovery of the duty is deferred till the goods are removed from the factory or the bonded warehouse. Accordingly, it is in the nature of payable rather than a provision. Similar view is also supported by Note 6 (G) of ‘General Instructions for preparation of Balance Sheet’ of Part I Revised Schedule VI to the Companies Act, 1956 which prescribes to disclose statutory dues, including excise duty, under the head ‘other payables’.</p>
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Study on Compliance of Financial Reporting Requirements

11.	<p>From the Annual Report of a company it was noted that the cash flow statement and Note on Fixed Assets reads as follows:- Cash Flow Statement for the Year ended March 31, 20XX</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;">For the year ended 31.03.20 XX</td> <td style="text-align: center;">For the year ended 31.03.20 XX</td> </tr> <tr> <td style="text-align: center;">Rs.in lakhs</td> <td style="text-align: center;">Rs.in lakhs</td> </tr> </table> <p>B. Cash flow from investing activities</p> <p>Purchase of fixed assets</p> <p>Sale proceeds of fixed assets</p> <p>NOTE -12 – FIXED ASSETS</p> <p>Gross block</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;">Partic ulars</td> <td style="text-align: center;">Bala nce as at 01. 04. 20X</td> <td style="text-align: center;">Addit ions (Del etion s)</td> <td style="text-align: center;">Othe rs adju stme nts**</td> <td style="text-align: center;">Bala nce as at 31. 03.2 0XX</td> </tr> </table>	For the year ended 31.03.20 XX	For the year ended 31.03.20 XX	Rs.in lakhs	Rs.in lakhs	Partic ulars	Bala nce as at 01. 04. 20X	Addit ions (Del etion s)	Othe rs adju stme nts**	Bala nce as at 31. 03.2 0XX	<p>It may be noted that ‘General Instructions for Preparation of Balance Sheet’ given in Part I of the Revised Schedule VI to the Companies Act, 1956, requires disclosure of fixed assets as follows:</p> <p>“(1) Non-current assets</p> <p>(a) fixed assets</p> <p style="margin-left: 20px;">i Tangible assets</p> <p style="margin-left: 20px;">ii Intangible assets</p> <p style="margin-left: 20px;">iii Capital work-in-progress</p> <p style="margin-left: 20px;">iv Intangible assets under development</p> <p>It may also be noted that paragraph 8.7.1.1 of Guidance Note on the Revised Schedule VI to the Companies Act, 1956 states as follows:</p> <p>“8.7.1.1 Tangible Assets</p> <p>The company shall disclose the following in the Notes to Accounts as per 6(l) of Part I of the Revised Schedule VI.</p> <p>(i) ...</p> <p>(ii) ...</p> <p>(iii) A reconciliation of the gross and net carrying amounts of each class of</p>
For the year ended 31.03.20 XX	For the year ended 31.03.20 XX										
Rs.in lakhs	Rs.in lakhs										
Partic ulars	Bala nce as at 01. 04. 20X	Addit ions (Del etion s)	Othe rs adju stme nts**	Bala nce as at 31. 03.2 0XX							

Observations on the Companies Act

	X	
Tangible assets :		<p>assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.”</p> <p>i It was noted from the note on fixed assets that there is a single column indicating Additions / (Deletion) to fixed assets, thereby indicating that reported figures in column are net figures. It was noted from the Cash Flow Statement that during the year cash flows have occurred on purchase as well as sale of fixed assets. Accordingly, it was viewed that additions as well as deletion of fixed assets should have been reported separately. In the absence of such information the gross value of fixed assets purchased and sold cannot be ascertained.</p> <p>ii It may be noted that Paragraph 5 of General Instructions for Preparation of Balance Sheet and Statement of Profit and Loss of a Company in Addition to</p>
Land*		
Lease hold land		
Buildings		
Lease hold buildings		
Plant & machinery		
Furniture and fixtures		
Lease hold improvements		
Office equipments		
Vehicle	131. - - 104.	

Study on Compliance of Financial Reporting Requirements

	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;"></td> <td style="width: 15%;">es</td> <td style="width: 15%;">84</td> <td style="width: 15%;"></td> <td style="width: 15%;">59</td> </tr> <tr> <td>Total</td> <td>75,4</td> <td>420.</td> <td></td> <td>75.8</td> </tr> <tr> <td></td> <td>41.8</td> <td>33</td> <td>-</td> <td>62.1</td> </tr> <tr> <td></td> <td>4</td> <td></td> <td></td> <td>7</td> </tr> </table> <p>It was observed from the Note on Fixed Assets given in the Annual Report of a company that the following details were given in respect of cost of the various classes of fixed assets: (1) Opening Balance (2) Additions / (Deductions) (3) Other Adjustments and (4) Closing Balance.</p>		es	84		59	Total	75,4	420.		75.8		41.8	33	-	62.1		4			7	<p>the Notes Incorporated Above the Heading of Balance Sheet under, Given in Revised Schedule VI to the Companies Act, 1956, states as follows:</p> <p>“Except in the case of the first Financial Statements laid before the Company (after its incorporation) the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including notes shall also be given.”(emphasis added)</p> <p>It was noted that comparative figures of the previous year relating to opening balance of fixed assets, addition of fixed assets during the year, depreciation charged for each class of fixed assets have not been disclosed. Instead, such information is given on the aggregate for the previous year, which is not in line with the requirement of the Revised Schedule VI to the Companies Act, 1956.</p>
	es	84		59																		
Total	75,4	420.		75.8																		
	41.8	33	-	62.1																		
	4			7																		
12.	<p>The Note relating to Revenue from Operations given in the Annual Report of a company states as follows:</p>	<p>It may be noted that Paragraph 9.1.7 given under ‘Guidance Note on Revised Schedule VI to the Companies Act, 1956’ states</p>																				

Observations on the Companies Act

	<p>Revenue from Operations</p> <p>Sale of products (Gross)</p> <p>Sale of services - Job work, etc.,</p> <p>Other operating revenues</p> <p>Revenue from operations (Gross)</p> <p>Less: Excise Duty on revenue from operations</p> <p>Revenue from operations (Net)</p> <p>It was further noted that Note on details of product sold reads as follows:</p> <p align="right">(Rs. in Crores)</p> <table border="0"> <thead> <tr> <th align="left">Particulars</th> <th align="left">Year ended</th> </tr> <tr> <td></td> <td align="center">31-03- 20XX</td> </tr> </thead> <tbody> <tr> <td>Export benefit</td> <td align="center">---</td> </tr> </tbody> </table>	Particulars	Year ended		31-03- 20XX	Export benefit	---	<p>that :</p> <p>“9.1.7 The term “other operating revenue” is not defined. This would include Revenue arising from a company’s operating activities, i.e. either its principal or ancillary revenue –generating activities, but which is not revenue arising from sale of products or rendering of services...”</p> <p>It was noted that details of sale of product has been shown separately under Note of revenue from operation. It was further noted that under the details of products sold, export benefit has been shown as a separate line item. It was viewed that the revenue in the nature of export incentives is revenue that neither arise due to sale of product or by rendering of service but it is arising due to its operations. Hence, it was viewed that instead of disclosing it as a part of the sale of products, it should have been disclosed as other operating revenue.</p>
Particulars	Year ended							
	31-03- 20XX							
Export benefit	---							
13.	<p>From the Annual Report of a company it was noted that foreign currency gain/loss was considered as cost of material and as such debited in</p>	<p>It was noted that exchange difference on foreign currency transactions and translation has been included as material cost. It was viewed that foreign</p>						

Study on Compliance of Financial Reporting Requirements

	<p>statement of Profit & Loss.</p> <p>Net loss/(gain) on foreign currency transactions includes Rs. XXX considered as cost of material consumed charged to the Statement of Profit and Loss.</p>	<p>currency fluctuation, that arises after the foreign currency transaction took place, is an independent event. It does not arise due to purchases of raw material Hence, it should be shown separately instead of clubbing it with the cost of raw material consumed.</p> <p>Accordingly, it was viewed that the presentation of information is not in accordance with the requirements of Part II, Revised Schedule VI to the Companies Act, 1956.</p>												
14.	<p>It was observed that Note relating to Loans and advances given in the Annual Report of a company reads as follows :</p> <p>Unsecured (considered good unless otherwise stated)</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">Non-current</th> <th style="text-align: center;">Current</th> </tr> <tr> <th></th> <th style="text-align: center;">As at 31st March, 20XX</th> <th style="text-align: center;">As at 31st March, 20XX</th> </tr> </thead> <tbody> <tr> <td>Capital advances</td> <td style="text-align: center;">—</td> <td></td> </tr> <tr> <td>Advances recoverable in cash or in kind or for</td> <td style="text-align: center;">—</td> <td></td> </tr> </tbody> </table>		Non-current	Current		As at 31 st March, 20XX	As at 31 st March, 20XX	Capital advances	—		Advances recoverable in cash or in kind or for	—		<p>It may be noted that Paragraph 6 (L) of 'General instructions for the preparation of Balance Sheet' given under Part I of the Revised Schedule VI to the Companies Act, 1956, provides that:</p> <p>"6. A Company shall disclose the following in the Notes to Accounts:</p> <p>L. Long-term loans</p> <p>(i) Long-term loans and advances shall be classified as:</p> <p>(a) Capital Advances;</p> <p>(b) Security Deposits;</p> <p>(c) Loans and advances to related parties (giving</p>
	Non-current	Current												
	As at 31 st March, 20XX	As at 31 st March, 20XX												
Capital advances	—													
Advances recoverable in cash or in kind or for	—													

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	<p>value to be received</p> <p>Other loans — and advances</p> <p>Advance tax and tax deducted at source (net of provision)</p>	<p>details thereof);</p> <p>(d) Other loans and advances (specify nature).”</p> <p>It was noted from the Note of ‘Loans and advances’ that the heads like ‘Advance recoverable in cash or in kind or for value to be received’ and ‘other loans and advances’ have been used to show the aggregate dues under respective heads. It was viewed that various items included under each such head should have been disclosed nature wise as required under paragraph 6 (L) of General instructions for preparation of Balance Sheet as given under Part I of the Revised Schedule VI to the Companies Act, 1956.</p>
15.	<p>It was observed from a note relating to Other current liabilities given in the Annual Report of a company that it included “Trade Payables for goods and services.”</p>	<p>It may be noted that Part I of the Revised Schedule VI to the Companies Act, 1956, provides to disclose current liabilities in the following manner:</p> <p>(4) Current liabilities</p> <p>(a) Short-term borrowings</p> <p>(b) Trade payables</p> <p>(c) Other current liabilities</p> <p>(d) Short-term provisions</p> <p>It was noted that Trade Payable</p>

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		<p>for goods and services have been disclosed under the head 'other current liabilities' Instead of disclosing it as 'current liabilities' as per the requirement of Revised Schedule VI to the Companies Act, 1956.</p>
16.	<p>It was observed from a foot note given to Note on Long term Borrowings in the Annual Report of a company that these included amounts payable during the next financial year.</p>	<p>It may be noted that Paragraph 3 of 'General Instructions for preparation of Balance Sheet given in Part I of the Revised Schedule VI to the Companies Act, 1956, provides that:</p> <p>" 3. A liability shall be classified as current when it satisfies any of the following criteria:</p> <p>(a) ...</p> <p>(b) ...</p> <p>(c) It is due to be settled within twelve months after the reporting date; or</p> <p>(d) ...</p> <p>All other liabilities shall be classified as non-current."</p> <p>It was noted that from footnote given under note relating to long term borrowings, that these are obligations on principal of long term borrowings which are due to be repaid in the next financial year, i.e. within 12 months after the reporting date. Hence, it was viewed that the</p>

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		<p>said amount should have been disclosed as current liability rather than disclosing it by a foot note under Long term Borrowings.</p>
<p>17.</p>	<p>It was observed from note relating to Other Current Liabilities given in the Annual Report of a company that it includes 'Sundry Creditors for Goods.'</p>	<p>It may be noted that 'General Instructions for Preparation of Balance Sheet' given in Part I of the Revised Schedule VI to the Companies Act, 1956, requires disclosure of current liabilities as follows:</p> <p>“(4) Current liabilities</p> <ul style="list-style-type: none"> (a) Short-term borrowings (b) Trade payables (c) Other current liabilities (d) Short-term provisions” <p>It may also be noted that paragraph 8.4.1 of Guidance Note on the Revised Schedule VI to the Companies Act, 1956 states as follows:</p> <p>“A payable shall be classified as 'trade payable' if it is in respect of amount due on account of goods purchased or services received in the normal course of business. As per the Old Schedule VI, the term 'sundry creditors' included amounts due in respect of goods purchased or services received or in respect of other contractual</p>

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		<p>obligations as well. Hence, amounts due under contractual obligations can no longer be included within Trade payable...”</p> <p>It was noted that sundry creditors for goods have been classified under the broad head ‘other current liabilities’. It was viewed that sundry creditors for goods, being trade payables, should be shown separately from ‘other current liabilities’.</p>
18.	<p>It was observed from the note relating to Trade Receivables given in the Annual Report of a company that it included “Provisional Tariff Receivable.”</p>	<p>It may be noted that Note 6 (P) of ‘General Instructions for Preparation of Balance Sheet’ given in Part I of the Revised Schedule VI to the Companies Act, 1956, inter alia, requires disclosure of trade receivables as follows:</p> <ul style="list-style-type: none"> (i) Aggregate amount of Trade Receivables outstanding for a period exceeding six months from the date they are due for payment should be separately stated. (ii) Trade receivables shall be sub-classified as: <ul style="list-style-type: none"> (a) Secured, considered good; (b) Unsecured considered good; (c) Doubtful.

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		<p>...</p> <p>It was noted that "Provisional Tariff Receivable" has been shown as trade receivable, however, it has not been classified into those outstanding for a period exceeding six months or others as well as whether they are considered good or doubtful, secured or unsecured which is required to be disclosed as per Note 6 (P) of 'General instructions for the preparation of Balance Sheet' given under Part II, Revised Schedule VI to the Companies Act, 1956.</p>
19.	<p>It was observed from the note relating to Long Term Loans and Advances given in the Annual Report of a company that these included security deposits with Government Department and Public Bodies and Security Deposits with Others.</p>	<p>It may be noted that Note 6 (L) of 'General Instructions for Preparation of Balance Sheet' given in Part I of the Revised Schedule VI to the Companies Act, 1956, <i>inter alia</i> requires disclosure of Long-term loans and advances as follows:</p> <p>"L. Long-term loans and advances</p> <p>(i) Long-term loans and advances shall be classified as:</p> <p>(a) Capital Advances;</p> <p>(b) Security Deposits;</p> <p>(c) Loans and advances to related parties (giving</p>

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		<p>details thereof);</p> <p>(d) Other loans and advances (specify nature).</p> <p>(ii) The above shall also be separately sub-classified as:</p> <p>(a) Secured, considered good;</p> <p>(b) Unsecured, considered good;</p> <p>(c) Doubtful.</p> <p>...”</p> <p>It was noted that long term loans and advances have been classified into Security Deposit with Government Departments and Security Deposit with others. However, it is not clear as to whether they are considered good or doubtful which is required to be disclosed as per Note 6 (L) of ‘General instructions for the preparation of Balance Sheet’ given under Part II, Revised Schedule VI to the Companies Act, 1956.</p>
20.	<p>From the Annual Report of a company it was noted that Notes on ‘Revenue from operation’ and purchases as well as Director’s Reports reads as follows:-</p>	<p>The following discrepancies have been noted with regard to presentation and disclosure of ‘Revenue from operations’:</p> <p>i. Paragraph 2 of ‘General</p>

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Revenue from Operations			
Particulars	For the year ended March 31, 20XX	For the year ended March 31, 201XX	
Sales	---	---	<p>Instructions for preparation of Statement of Profit And Loss' given in Part II of the Revised Schedule VI to the Companies Act, 1956, provides that:</p> <p>"In respect of a company other than a finance company revenue from operations shall disclose separately in the notes revenue from :-</p> <p>(a) sale of products;</p> <p>(b) sale of services;</p> <p>(c) other operating revenues;</p> <p>It was noted from the Director's Report that the company is engaged in financial service activity as well as in consultancy business which <i>prima facie</i> indicates that it has income from services. Further, the note relating to 'Revenue from Operations' and note relating to 'Purchases' indicate that the company is engaged in selling as well as purchasing products which <i>prima facie</i> suggests that it has trading income from sale of products. However, it was noted from the bifurcation of 'Revenue from</p>
Commission Income	---	---	
Total	---	---	

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		<p>Operation' that the revenues from sale of products and from sale of services have been clubbed together and shown under the head 'Sales'.</p> <p>ii. It may be noted that Paragraph 5 (ii)(a) and (iii) of 'General instructions for the preparation of Statement of Profit and Loss' given under Part II, Revised Schedule VI to the Companies Act, 1956, provides as follows :</p> <p>"5. Additional Information</p> <p>A Company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items:-</p> <p>(i) ...</p> <p>(ii) a) ...</p> <p>b) In the case of trading companies, purchases in respect of goods traded in by the company under broad heads.</p> <p>c)...</p> <p>d)...</p>
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		<p>e)..."</p> <p>It was viewed that "broad heads" refers to broad categories of goods purchased in case of trading companies..</p> <p>However, in the given case, although the company was involved in trading activities no disclosure was given about the broad heads of trading goods held by it.</p>						
21.	<p>It was observed from the note related to Investments as given in the Annual Report of a company that Non-current Investments were classified under the head 'Investment in Subsidiaries' and 'Investment in Associates.'</p> <p>Non-Current Investments</p> <p align="right">(Rs in Lacs)</p> <table border="0"> <tr> <td>Particulars</td> <td>2011</td> <td>2010</td> </tr> <tr> <td></td> <td align="right">-12</td> <td align="right">-11</td> </tr> </table> <p>Unquoted Equity Instruments (Fully Paid up)</p> <p>Investment in Subsidiaries</p> <p>Investment in Associates</p>	Particulars	2011	2010		-12	-11	<p>Paragraph 6 (K)(i) of General Instructions for Preparation of Balance Sheet given under Part I of the Revised Schedule VI to the Companies Act, 1956 requires the investments to be disclosed as "Trade" or "Other." However, it was noted, in the given case, although equity instruments have been classified as investment in subsidiary and investment in associates, whether they are trade investment or other investment has not been disclosed as required by Part I of Revised Schedule VI to the Companies Act, 1956.</p>
Particulars	2011	2010						
	-12	-11						

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22.	It was observed from the note relating Cash and Bank Balances in the Annual Report of a company that it includes 'Deposits with maturity for more than 12 months.'	<p>It may be noted that paragraph 8.8.4 of 'Guidance Note on Revised Schedule VI to the Companies Act, 1956 <i>inter alia</i> provides that:</p> <p>"...Banks deposits with more than twelve months maturity will also need to be separately disclosed under the sub-head 'Other bank balances'. The non-current portion of each of the above balances will have to be classified under the head "Other Non-current assets" with separate disclosure thereof".</p> <p>It was noted from the given note that 'Deposits with maturity for more than 12 months' have been shown under the subhead 'Other Bank Balances' as 'Current Assets'. It was viewed that classification of such deposits under current assets indicates that it is realisable within a period of 12 months. However, if it includes certain deposits which are realisable after twelve months then the same should have been disclosed as "other non-current assets"</p>
23.	It was observed from the note relating to Revenue from Operations given in the Annual Report of a company that it included "Profit on sale of	It was noted from the note relating to Revenue from Operations that 'profit on sale of assets' has been disclosed under the head of 'other

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	Assets.”	<p>operating revenue’ rather than disclosing under the head ‘Other income’. It was viewed that sale of asset cannot be considered as operations of the company, same is also clarified in paragraph 9.1.8 of Guidance Note on the Revised Schedule VI to the Companies Act, 1956 reproduced below:</p> <p>“9.1.8 To take other examples, sale of Fixed Assets is not an operating activity of a company, and hence, profit on sale of fixed assets should be classified as other income and not other operating revenue...”</p>
24.	<p>It was observed from the note relating to Short term loans and advances, read with the note relating to Estimated amount of contracts remaining to be executed on capital and other account Assets, given in the Annual Report of a company which <i>prima facie</i> suggest that “capital advances” have been included in short term loans and advances.</p>	<p>It may be noted that Note 6(L)(a) of ‘General Instructions for preparation of Balance Sheet’ of Part I, Revised Schedule VI of Companies Act, 1956, states as follows;</p> <p>“L. Long term loans and advances:</p> <p align="center">(a) Capital Advances”</p> <p>It was noted from the note relating to ‘Capital Commitment’ Note that capital advances have <i>prima facie</i> been disclosed under as ‘short-term loans and advances.</p> <p>It was observed that capital advances are advances given</p>

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		<p>for procurement of fixed assets which are non-current assets. Generally, the companies do not expect to realise them in cash. Rather, over a period, these advances get converted into fixed assets which, by nature, are non-current assets. Hence, capital advances should be treated as non-current assets and not to be classified as short-term or current assets.</p> <p>Accordingly, it was viewed that the capital advances should have been shown under the head of long term loans and advances instead of disclosing under short term loans and advances, as required by Part I, Revised Schedule VI to Companies Act, 1956.</p>
25.	<p>The note relating to Long term loans and advances given in the Annual Report of a company reads as follows:</p> <p>Long term loans and advances</p> <p>Loans and advances to related parties</p> <p>Unsecured, considered good</p>	<p>It may be noted that Note 6(L)(c) of 'General Instructions for preparation of Balance Sheet' of Part I, Revised Schedule VI of Companies Act, 1956, states as follows;</p> <p>"L. Long term loans and advances:</p> <p>(c) Loans and advances to related parties (giving details thereof)"(emphasis added)</p> <p>It was noted from the note</p>

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		relating to Long term loans and advances that although loans and advances have been given to related parties, the details thereof have not been disclosed as required by Note 6(L)(c) of 'General Instructions for preparation of Balance Sheet' of Part I, Revised Schedule VI to Companies Act, 1956.			
26.	<p>In the Annual Report of a company, note on Trade payable and MSME Disclosure reads as follows:</p> <p>Trade Payables</p> <table border="0"> <tr> <td>Particulars</td> <td>XX- YYYY</td> <td>XX- YYYY</td> </tr> </table> <p>Due to Micro, Small and Medium Enterprises</p> <p>Due to Others</p> <p>MSME Disclosure: Details of dues to micro and small enterprises as defined under MSME Act, 2006:</p>	Particulars	XX- YYYY	XX- YYYY	<p>It may be noted that paragraph 3 of 'General Instructions for preparation of Balance Sheet and Statement of Profit and Loss of a Company in addition to the notes incorporated above the heading of balance sheet' as given in 'Guidance Note on the Revised Schedule VI to the Companies Act, 1956' states as follows:</p> <p>"...Each item on the face of the Balance Sheet and Statement of Profit and Loss shall be cross referenced to any related information in the Notes to Accounts."</p> <p>It was noted that both the appended notes contain information relating to Micro & Small & Medium Enterprises, no cross reference has been made in the related notes as required by the Revised Schedule VI</p>
Particulars	XX- YYYY	XX- YYYY			
27.	The statement of Profit and Loss	It may be noted that the format			

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of a company reads as follows:			of Statement of profit and loss account as prescribed under the Revised Schedule VI to the Companies Act, 1956 is as follows:		
Particulars	Current Year XX-YY	Previous Year XX-YY	Particulars	Current Year 20XX-YY	Previous Year 20XX-YY
EXPENSES					

Total Expenses					
Earning before Exceptional Items, Interest, Tax & Depreciation			I. Revenue from operations	XXX	XXX
Exceptional Items			II. Other income	XXX	XXX
Profit on Slump Sale			III. Total Revenue (I + II)	XXX	XXX
Earnings before Interest, Tax & Depreciation			IV. Expenses:	XXX	XXX
Depreciation and Amortization Expenses			Cost of materials consumed	XXX	XXX
Finance Costs			Purchases of Stock-in-Trade		
Profit Before Tax			Changes in inventories of finished goods work-in progress and Stock-in-Trade	XXX	XXX
			Employee benefits	XXX	XXX

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		<p>expense</p> <p>Finance costs</p> <p>Depreciation and amortization expense</p> <p>Other expenses</p> <p>Total expenses</p> <p>V. Profit before exceptional and extraordinary items and tax</p> <p>(III-IV)</p> <p>VI. XXX XXX Exceptional items</p> <p>VII. Profit XXX XXX before extraordinary items and tax (V - VI)</p> <p>It was observed from the above mentioned format that the depreciation cost and finance cost should be charged off before adjusting exceptional items. However, it was noted from the Statement of Profit and</p>
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		Loss that the exceptional item i.e. profit on slump sale has been adjusted before charging off depreciation cost and finance cost. Such presentation of information is considered to be not in line with the format prescribed under the Revised Schedule VI to the Companies Act, 1956.
28.	<p>Note on Cash and Cash Equivalents in the Annual Report of a company reads as follows:</p> <p>Cash and Cash Equivalents</p> <p style="text-align: center;">As at 31.03.20XX</p> <p>Balance with --- Banks</p> <p>Balance with banks include restricted bank balances of Rs XXX and time deposit with banks with a maturity of more than 12 months Rs. YYY</p>	<p>It may be noted that paragraph 6 (Q) of 'General Instructions for Preparation of Balance Sheet' given under Part I of the Revised Schedule VI to the Companies Act, 1956, <i>interalia</i>, provides that:</p> <p>"Cash and Cash Equivalents</p> <p>(i) Cash and Cash Equivalents shall be classified as:</p> <p>(a) Balances with banks;</p> <p>(b) Cheques, drafts on hand;</p> <p>(c) Cash on hand;</p> <p>(d) Others (specify nature).</p> <p>...</p> <p>(v) Bank deposits with more than 12 months maturity shall be disclosed separately."</p> <p>It may also be noted that</p>

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		<p>paragraphs 6.4 and 8.8.4 of Guidance Note on the Revised Schedule VI to the Companies Act, 1956 states as follows:</p> <p>“6.4 ... Accordingly, the conflict should be resolved by changing the caption “Cash and cash equivalents” to “Cash and bank balances,” which may have two sub-headings viz., “Cash and cash equivalents” and “Other bank balances.” The former should include only the items that constitute Cash and cash equivalents defined in accordance with AS 3 (and not the Revised Schedule VI), while the remaining line-items may be included under the latter heading.</p> <p>“8.8.4 ... Other bank balances” would comprise of items such as balances with banks to the extent of held as margin money or security against borrowings etc, and bank deposits with more than three months maturity. Banks deposits with more than twelve months maturity will also need to be separately disclosed under the sub-head ‘Other bank balances’. The non-current portion of each of the above balances will have to be classified under the head “Other Non-current assets” with separate disclosure thereof.”</p>
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		<p>It was noted that the balances with bank include time deposit with banks with a maturity of more than 12 months and disclosed under the head cash and cash equivalent instead of disclosing it under the head "Other bank balances". Further, it was observed that non-current portion of time deposits, if any, has not been disclosed separately under the head "Other Non-Current Assets."</p>
<p>29.</p>	<p>In the Annual Report of a company Note on share capital contained following description of preference shares:</p> <p>Description of the rights, preferences and restrictions attached to each class of shares</p> <p>Preference shares: The Preference Shares shall be, subject to profitability and at the discretion of the Board of Directors, entitled to a cumulative annual dividend @ 5%. These preference Shares carry preferential right in respect of dividends and also carry preferential right in regard to repayment of capital in case of winding up. Preference Shares are redeemable at the end of five years from XX May, 20XX--- -----at Rs. 150 per share."</p>	<p>It may be noted that Note 6 (U) of 'General Instructions for preparation of Balance Sheet' given in Part I of the Revised Schedule VI to the Companies Act, 1956, requires that;</p> <p>"The amount of dividends proposed to be distributed to equity and preference shareholders for the period and the related amount per share shall be disclosed separately. Arrears of fixed cumulative dividends on preference shares shall also be disclosed separately."</p> <p>It may further be noted that as per explanation given under section 87 (2) (b) of the Companies Act, 1956, dividend shall be deemed to be due on preference shares in respect of any period, whether or not</p>

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		<p>dividend has been declared by the company on the day immediately following such period.</p> <p>It was noted from note 3(d) that preference shareholders are entitled to a cumulative annual dividend @ 5 %. Accordingly, it was viewed that the dividend on cumulative preference shares were due on the day immediately on elapse of the respective periods irrespective of the fact that the dividend has been declared or not. Further, it was also noted that the company has been incurring losses since last 3 financial years (as evident from the director's report), however, it was viewed that the obligation to pay dividends on cumulative preference shares would still arise. Therefore, the arrears on cumulative preference shares should have been disclosed separately.</p>
30.	<p>It was noted from the Annual Report of a company that note on Long Term Borrowings reads as follows:</p> <p>Note no-3(Rs. In lakhs)</p> <p align="center"> 31st 31st March March , 20XX , 20XX </p>	<p>It may be noted that Note 6 (G) of 'General Instructions for Preparation of Balance Sheet' given in Part I of the Revised Schedule VI to the Companies Act, 1956, <i>inter alia</i> requires disclosure of other current liabilities as follows:</p> <p>"G. Other Current Liabilities</p>

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	<p>Long-Term Borrowings --- ---</p> <p>Secured:- --- ---</p> <p>From banks --- ---</p> <p>Indian rupees loan from HDFC Bank Ltd. --- ---</p> <p>Foreign Currency loan from DBS Bank Ltd. --- ---</p> <p style="text-align: center;">--- ---</p> <p>Note :</p> <p>(1) Rupee Loan from HDFC bank</p> <p style="padding-left: 40px;">Repayment terms : 20 equal quarterly Installments</p> <p>(2) Foreign Currency Loans from DBS Bank Ltd.</p> <p style="padding-left: 40px;">Repayment terms : 18 equal quarterly Installments</p>	<p>The amounts shall be classified as :</p> <p>(a) Current maturities of long term debt”</p> <p>It was noted from stated note that there were certain long term borrowings as on the balance sheet date; however, current maturity of such borrowings has not been disclosed under the head of ‘other current liability’. It was noted from repayment terms that such debts are repayable in quarterly installments. Therefore, it was viewed that a portion of long term borrowings is due for payment within twelve months of the reporting date which has not been distinctly shown under the head ‘Other current liabilities’.</p>
31.	<p>It was observed from the note relating to short term loans and advances given in the Annual Report of a company that the amount of the “MAT Credit Entitlement was the same in the current year as it was in the</p>	<p>It was noted that the MAT credit entitlement has been classified as current asset and the amount reported is same as that reported as at the end of the last year. It was viewed that the stagnant figure shows that</p>

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	<p>previous year.</p>	<p>MAT credit entitlement has not been classified as current or non-current based on expected period of its realisation. It was viewed that in case, if it is expected to be realised i.e. timing of its reversal is beyond one year then it should be disclosed as non- current asset.</p>
<p>32.</p>	<p>It was noted that Accounting Policy on fixed Assets of a company reads as follows:</p> <p>Tangible Fixed Assets</p> <p>All fixed assets are stated at cost less accumulated depreciation. Cost is inclusive of freight, duties, levies and any directly attributable cost of bringing the assets to their present working condition.</p> <p>Capital Work-in-Progress represents cost of fixed assets that are not yet ready for their intended use as at the Balance sheet date and includes advances paid. (emphasis added)</p>	<p>It may be noted that Note 6 (L) (i) of 'General Instructions for Preparation of Balance Sheet' given in Part I of the Revised Schedule VI to the Companies Act, 1956, <i>inter alia</i>, requires disclosure of Long-term loans and advances as follows:</p> <p>“L. Long-term loans and advances</p> <p>(i) Long-term loans and advances shall be classified as:</p> <p>(a) Capital Advances;</p> <p>(b) Security Deposits;</p> <p>(c) Loans and advances to related parties (giving details thereof);</p> <p>(d) Other loans and advances (specify nature). (emphasis added)”</p> <p>It was noted from the stated accounting policy that the capital</p>

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		<p>work-in-progress includes the capital advances paid.</p> <p>It was viewed that capital advances should be included in long-term loans & advances rather than the capital work in progress. Such inclusion is not in line with the requirement of Part I of the Revised Schedule VI to the Companies Act, 1956.</p>
33.	<p>From the accounting policy on intangible assets of a company it was noted that then Intellectual Property Rights (IPR) and Software Licenses which have been separately paid for and put to use are shown under “Fixed Assets” in the Balance sheet.</p> <p>Expenses incurred for software product development are expensed as incurred unless technical and commercial feasibility of the project is demonstrated, future economic benefits are probable, the Company has an intention and ability to complete and use or sell the software and the costs can be measured reliably. Such expenses and the advances paid for acquiring intellectual property rights & licenses for Projects under development on balance sheet date are shown under Capital Work in Process.</p>	<p>It may be noted that ‘General Instructions for Preparation of Balance Sheet’ given in Part I of the Revised Schedule VI to the Companies Act, 1956, requires disclosure of Fixed Assets as follows:</p> <p>(1) Non-current assets</p> <p>(a) Fixed assets</p> <p>(i) Tangible assets</p> <p>(ii) Intangible assets</p> <p>(iii) Capital work-in-progress</p> <p>(iv) Intangible assets under development</p> <p>It was noted from the accounting policy on Intangible Assets that expenses incurred for acquiring intellectual property rights & licenses for projects that are under development, have been shown under capital work-in-</p>

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	(emphasis added)	<p>process.</p> <p>It was viewed that the head 'Intangible assets under development' better represents such nature of assets rather than the head 'capital work-in-process', which is generally used to signify 'tangible assets'.</p>
34.	<p>Notes on 'operating cost' and 'Employee Benefits' given in the Annual Report of a company reads as follows:</p> <p>Operating Costs</p> <p>A. 1) Employee Cost 2) Other Manpower Cost</p> <p>B. Supplies & Services</p> <p>Employee Benefit expenses</p> <p>Salaries and wages</p> <p>Contribution to provident and Other funds</p> <p>Staff welfare expenses</p>	<p>It may be noted that Note 5 of General instructions for Preparations of Statement of Profit and Loss given under Part II, Revised Schedule VI to Companies Act, 1956 provides that:</p> <p>5. Additional Information</p> <p>A company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items:</p> <p>"(i) (a) Employee Benefits Expense [showing separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP), (iv) staff welfare expenses]."</p> <p>It was observed from the appended Notes of Operating cost and Employee Benefit expenses that under both heads</p>

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		<p>employee costs have been disclosed as a separate line item, thereby, indicating that these expenses have been functionally classified rather than on the basis of their nature.</p> <p>It was viewed that such presentation is not in line with the requirement of Part II, Revised Schedule VI to the Companies Act, 1956 which prescribes to classify various items of income and expenditure on the basis of their nature rather than functional classification.</p>
35.	<p>It was observed from the note relating to Trade Payables given in the Annual Report of a company that it includes the sub-heads "Current Liabilites" and "Sundry Creditors amongst others.</p>	<p>As per paragraph 6 (D) of 'General Instructions for Preparation of Balance Sheet' given under Part I of the Revised Schedule VI to the Companies Act, 1956 provides that:</p> <p>"Other Long Term Liabilities</p> <p>Other Long term Liabilities shall be classified as:</p> <p>(a) Trade payables</p> <p>(b) Others"</p> <p>It was noted that as per prescribed format of balance sheet, long term liabilities should be sub classified as trade payable</p>

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		<p>and others. It was observed that under the head trade payables a sub-head used is 'Sundry Creditors'. It was viewed that the head 'Sundry Creditors' may include dues other than that in the nature of trade payable. viz payables in respect of statutory obligations like contribution to provident fund or other contractual obligations that might not have resulted from purchase of goods or services Thus, the scope of sub-head 'sundry creditors' is wider than the broad head 'Trade payable' which is incorrect presentation of information.</p>
36.	<p>It was observed from a footnote to the Note relating to long-term borrowings given in the Annual Report of a company that it had made disclosures in respect of default in repayment and loan to various lenders in the aggregate.</p>	<p>It may be noted that note 6 (c) (vii) of 'General Instructions for preparation of Balance Sheet', Part I, Revised Schedule VI to the Companies Act, 1956, requires following disclosures in respect of Long - Term Borrowings:</p> <p>"(vi). Period and amount of continuing default as on the Balance Sheet date in repayment of loans and interest shall be specified separately in each case."</p> <p>It was noted from the note on</p>

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		<p>long term borrowing that the company has taken term loans from banks as well as from financial institution and defaulted in their repayment.</p> <p>However, disclosures with regard to default have not been separately given for each loan. Moreover, the loan and interest have been clubbed together. It was viewed that both components should have been separately disclosed for each case of continuing defaults as required under Part I, Revised Schedule VI to the Companies Act, 1956.</p>									
37.	<p>Note on Non-current Investment in the Annual Report of a company reads as under:</p> <p>Note : Non-Current Investments</p> <table data-bbox="646 1247 841 1381"> <thead> <tr> <th></th> <th>As at March 31, 20XX</th> <th>As at March 31, 20XX</th> </tr> </thead> <tbody> <tr> <td>Investment in Equity Shares of Subsidiary Companies</td> <td></td> <td></td> </tr> <tr> <td>(Unquoted, Fully Paid</td> <td></td> <td></td> </tr> </tbody> </table>		As at March 31, 20XX	As at March 31, 20XX	Investment in Equity Shares of Subsidiary Companies			(Unquoted, Fully Paid			<p>The following discrepancies have been noted with regard to disclosures and presentations of Investments:</p> <ol style="list-style-type: none"> Paragraph 6 (K) of 'General Instructions for Preparation of Balance Sheet' as given under Part I, the Revised Schedule VI to the Companies Act, 1956 provides that: <ul style="list-style-type: none"> "Non-current investments <ul style="list-style-type: none"> (i) Non-current investments shall be classified as trade investments and other investments and further classified as:
	As at March 31, 20XX	As at March 31, 20XX									
Investment in Equity Shares of Subsidiary Companies											
(Unquoted, Fully Paid											

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	<p>Up)</p> <p>...</p> <p>Investment in Preference Shares of Subsidiary Company (Unquoted, Fully Paid Up)</p> <p>...</p> <p>40,00,000, 1% Cumulative Redeemable Preference Shares of Rs. 10 each at a premium of Rs. 115 per share</p> <p>Investment in Equity Shares of Joint Venture (Unquoted, Fully Paid Up)</p> <p>...</p>	<p>(a) Investment property;</p> <p>(b) Investments in Equity Instruments;</p> <p>(c) Investments in preference shares</p> <p>(d) Investments in Government or trust securities;</p> <p>(e) Investments in debentures or bonds;</p> <p>(f) Investments in Mutual Funds;</p> <p>(g) Investments in partnership firms</p> <p>(h) Other non-current investments (specify nature)</p> <p>Under each classification, details shall be given of names of the bodies corporate (indicating separately whether such bodies are (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities) in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing</p>
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		<p>separately investments which are partly-paid).</p> <p>...(emphasis supplied)”</p> <ol style="list-style-type: none"> 1. It was noted that although the investments have been sub classified based on whether they are invested in equity/preference shares of subsidiary company, and/or joint venture, however, the nature of such investment has not been disclosed i.e. whether it is trade investments or other investments. 2. It was noted that the company has made investments in equity shares as well as preference shares of certain subsidiary companies. Although, the names of subsidiary companies in whose equity investments have been made have been disclosed, however, the names of subsidiary companies in whose preference share investments have been made have not been disclosed.
38.	It was observed from notes relating to Long-term Loans and Advances and Short-term Loans and Advances given in the Annual Report of a company	It may be noted that note 6 (L) and (R) of ‘General Instructions for preparation of Balance Sheet’, Part I, Revised Schedule VI to the Companies Act, 1956

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	<p>that these included “Other Loans and Advances.”</p>	<p>requires classification of long term as well as short term loans and advances as follows:</p> <p>“L. Long-term loans and advances</p> <p>(i) Long- term loans and advances shall be classified as:</p> <p>(a) Capital Advances</p> <p>(b) Security Deposits</p> <p>(c) Loans and advances to Related Parties</p> <p>(d) Other Loans and Advances (specify nature)</p> <p>...”</p> <p>“R. Short-term loans and advances</p> <p>(i) Short-term loans and advances shall be classified as:</p> <p>(a) Loans and Advances to related Parties (giving details thereof)</p> <p>(b) Others (specify nature)” (emphasis added)</p> <p>From the abovementioned requirements, it was noted that nature of loans and advances classified under the head</p>
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		<p>'others' needs to be specified. It was noted that although both the long-term loans and advances and the short-term loans and advances include 'Other loans and advances', their nature have not been disclosed.</p>
<p>39.</p>	<p>It was observed from Note on 'Long term Provisions' given in the Annual Report of a company that these included "Provision for Bad Debts." It was also observed that in the note relating to "Trade Receivables", no receivables were disclosed as doubtful.</p>	<p>It may be noted that Note 6 (P)(iii): Trade Receivables of 'General Instructions for Preparation of Balance Sheet', Part I, Revised Schedule VI to the Companies Act, 1956 <i>inter alia</i> prescribes adjustment of provision for bad and doubtful debt against the relevant head as stated below:</p> <p>"</p> <p>(iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.</p> <p>..."</p> <p>It was noted that in the given case, provision for bad debts has been shown under the head 'long term provision' instead of adjusting it against relevant head of trades receivable as prescribed in the aforesaid requirement. Further, although the Revised Schedule VI requires the disclosure of trade</p>

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		receivables considered doubtful of recovery, yet in the note relating to Trade Receivables all receivables were disclosed as good.
40.	From the Annual Report of a company it was noted that 'unclaimed dividend' was disclosed as 'Other Current Liabilities'	It may be noted that as per the Institute's "Guidance Note on the Revised Schedule VI to the Companies Act, 1956", the current liabilities towards dividend yet to be paid should be shown as 'Unpaid dividends' instead of 'Unclaimed dividend' as given in the extent case.
41.	It was observed from the Note on Short-term loans and advances given in the Annual Report of a company that these includes "Advance premium on foreign exchange options."	<p>It may be noted that paragraph 8.8.6 of the Institute's Guidance Note on the Revised Schedule VI to the Companies Act, 1956, states as follows:</p> <p>"8.8.6 Other current assets (specify nature)</p> <p>'This is an all-inclusive heading, which incorporates current assets that do not fit into any other category e.g. unbilled Revenue, unamortised premium on forward contracts, etc." (emphasis added)</p> <p>It was viewed that advance premium on foreign exchange options has been shown under the head "Short-term loans and advances" instead of "Other Current Assets" as prescribed under the aforesaid requirement.</p>

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42.	<p>It was observed from the Note on Other Current Liabilities given in the Annual Report of a company that these includes various provisions under the sub-head “Short-term provisions.”</p>	<p>It may be noted that note ‘Form of Balance Sheet’ given on Part I of Revised Schedule VI to the Companies Act, 1956 reads as follows:</p> <p>PART I – FORM OF BALANCE SHEET</p> <p>(4) Current liabilities</p> <p>(a) Short-term borrowings</p> <p>(b) Trade payables</p> <p>(c) Other current liabilities</p> <p>(d) Short-term provisions”</p> <p>It was noted that other current liabilities and short term provisions are two separate heads of Current Liabilities. However, it was noted that short term provisions have been disclosed under Note of Other Current Liabilities rather than showing it as a separate line item.</p>
43.	<p>It was observed from the note relating to Share Capital given in the Annual Report of a company that the information given was incomplete.</p>	<p>It may be noted that Paragraph 6(A) of ‘General Instructions for Preparation of Balance Sheet’ given in Part I, Revised Schedule VI to the Companies Act, 1956 requires to make certain disclosures with regard to Share Capital. It was noted that while some disclosures are given under the note relating to Share capital, neither any</p>

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		<p>disclosures relating to rights, preferences and restrictions attached to each class of share was disclosed nor information about the shareholders holding more than 5 percent of shares have been disclosed as required by Paragraph 6(A)(e) and 6(A)(g) which states as follows:</p> <p>“6. A Company shall disclose the following in the Notes to Accounts:</p> <p>(a) ...</p> <p>...</p> <p>(e) the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment capital.</p> <p>(g) shares in the company held by each shareholder holding more than 5 percent shares specifying the number of shares held.”</p>
44.	<p>It was observed from the Statement of Profit and Loss given in the Annual Report of a company that under the head Income, “Revenue from Operations and “Other operating revenues” were shown separately.</p>	<p>It was noted that on face of statement of Profit and Loss two separate line items ‘revenue from operations’ and ‘other operating revenues have been given whereas the format prescribed under Part II, Revised Schedule VI to Companies Act, 1956 requires</p>

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		<p>only one line item 'Revenue from Operations'. It was viewed that 'other operating income' should form part of 'revenue from operations' as prescribed in General Instructions for preparation of statement of Profit and Loss when its Paragraph 2(A) states as follows:</p> <p>"2. (A) In respect of a company other than a finance company revenue from operations shall disclose separately in the notes revenue from</p> <p>(a) sale of products;</p> <p>(b) sale of services;</p> <p>(c) other operating revenues;.</p> <p>Accordingly, it was viewed that the requirements of Part I, Revised Schedule VI to the Companies Act, 1956 have not been complied with.</p>
45.	<p>It was observed from a footnote to the note relating to Other Long Term Liabilities given in the Annual Report of a company that the "Other long-term liabilities" included a loan in respect of which the lender had forfeited the bank deposits due to a default.</p>	<p>It may be noted that paragraph 7.1.3 of Guidance note on Revised Scheduled VI to the Companies Act, 1956 states as follows:</p> <p>"7.1.3 A liability shall be classified as current when it satisfies any of the following criteria:</p>

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		<p>(a)</p> <p>(b)</p> <p>(c)</p> <p>(d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. 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.</p> <p>All other liabilities shall be classification as non-current.”</p> <p>It was noted that liabilities disclosed as ‘Others’ under ‘Other Long term Liabilities’ include a loan in respect of which certain Fixed Deposits have been forfeited due to default in payment. It was viewed that being the matter under dispute it is evident that in given case the company does not have unconditional right to defer the settlement of stated Liabilities and accordingly, its disclosure under long term liabilities is not in accordance with the requirements of the Revised Schedule VI to Companies Act , 1956.</p>
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46.	From the Annual Report of a company it was noted that 'Reserve and surplus includes the closing balance of 'Foreign Currency Monetary Item Translation Difference Account.'	<p>It may be noted that pursuant to the requirements of Note 6(B)(i) of General Instructions for preparing Balance Sheet' of Part I, Revised Schedule VI to the Companies Act, 1956, the movement under each specified head of 'Reserves & Surplus' is required to be disclosed when it states as follows:</p> <p>"6.</p> <p>B. Reserves & Surplus</p> <p>(i) ...</p> <p>(Additions and deductions since last Balance Sheet to be shown under each of the specified heads)"</p> <p>It was noted that in given case under the head 'Foreign Currency Monetary Item Translation Difference Account' only the closing balances have been disclosed. However, movements that led to change in such balance, as required by the Revised Schedule VI have not been disclosed.</p>
47.	It was observed from the note relating to Other "Long-term Liabilites" that these included "Trade Deposits and Others."	<p>It may be noted that Paragraph 6D of 'General Instructions for Preparation of Balance Sheet', Part - I of the, Revised Schedule VI to the Companies Act, 1956 requires following disclosure for Other Long-term</p>

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		<p>Liabilities:</p> <p>“D. Other Long term Liabilities:</p> <p>Other Long term Liabilities shall be classified as:</p> <p>(a) Trade Payable</p> <p>(b) Others”</p> <p>It was noted that under the head ‘Other Long term Liabilities’ dues of trade deposits have been clubbed with other dues which is against the requirements of Revised Schedule VI. Moreover, it was viewed that the other dues may include the amount of trade payables, dues payables in respect of statutory obligations like contribution to provident fund, purchase of fixed assets, contractually reimbursable expenses, interest accrued on trade payables which should have been disclosed separately on the basis of their nature as per the aforesaid requirement of the Revised Schedule VI to the Companies Act, 1956. Accordingly, the nature of dues included under the head ‘Others’ should have been specified separately from trade deposits.</p>
48.	It was observed from the note relating to Non-current Investments given in the Annual Report of a company that	It was noted from the note relating to ‘Non - Current Investments’ that Investments in subsidiaries have been

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	<p>investments in equity shares of subsidiaries were classified as "Non-trade ."</p>	<p>classified as non - trade investments. It was viewed that investment in subsidiary is generally made for expanding and facilitating the business of the company and as such, it cannot be regarded as non-trade investments It may be mentioned that similar view has been given in Paragraph 8.7.2.1 of 'Guidance note on the Revised Schedule VI to the Companies Act, 1956' issued by ICAI which defines 'trade investments' as follows:</p> <p>"...The term "trade investment" is, however, normally understood as an investment made by a company in shares or debentures of another company, to promote the trade or business of the first company."</p> <p>Accordingly, the investment in subsidiary companies should have been classified as trade investment instead of as non-trade investments.</p>
<p>49.</p>	<p>From the Note on other Expenses in the Annual Report of a company it was noted that 'Staff Welfare Expenses' were included in 'Other Expenses'.</p>	<p>Paragraph 5 of General instructions for Preparations of Statement of Profit and Loss given under Part II, Revised Schedule VI to Companies Act, 1956, provides that:</p>

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		<p>5. Additional Information</p> <p>A company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items:</p> <p>“(i) (a) Employee Benefits Expense [showing separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP), (iv) staff welfare expenses] (emphasis supplied).”</p> <p>It was noted that staff welfare expense has been shown under the head ‘other expense’ where as the Revised Schedule VI explicitly requires this to be disclosed under ‘employee benefit expense’.</p> <p>Accordingly, it was viewed that such presentation is not in line with the requirement of Part II, Revised Schedule VI to the Companies Act, 1956.</p>
50.	Footnote given under Note on Long-term Borrowings in the Annual Report of a company reads as follows:-	It may be noted that Paragraph 6(C)(ii) and (iii) of ‘General Instructions for preparation of Balance Sheet’, Part I, Revised Schedule VI to the Companies

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	<p>‘Term Loans availed from banks and others are secured by hypothecation of specific assets comprising plant and equipment and vehicles acquired out of the said loans and personal guarantee of a director.’</p>	<p>Act, 1956 requires the following disclosures in respect of Long Term Borrowings:</p> <p>“C. Long-Term Borrowings</p> <p>...</p> <p>(ii) ...Nature of security shall be specified separately in each case.</p> <p>(iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.”</p> <p>It was noted that in the given case, a general statement about the nature of security given against loans from banks and others has been given in aggregate rather than disclosing nature of security specifically for each case. It was further noted that the amount of loans guaranteed by director has also not been disclosed.</p>
51.	<p>Abstract of note relating to Short-term Borrowings as given in the Annual Report of a company, which states as follows:</p> <p>Short Term Borrowings</p> <p>Secured</p>	<p>It may be noted that note 6 (F) of ‘General Instructions for preparation of Balance Sheet’, Part I, Revised Schedule VI to the Companies Act, 1956, requires following disclosures in respect of Short-Term Borrowings:</p> <p>“F. Short Term Borrowings</p>

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	<p>Loans</p> <p>From Banks</p> <p>Unsecured Loans</p> <p>From Financial Institutions</p> <p>Inter Corporate Deposits</p> <p>Loans from Subsidiaries</p> <p>Inter Corporate Deposits from related parties</p> <p>Loan from others</p>	<p>(i) Short-term borrowings shall be classified as:</p> <p>(a) Loans repayable on demand</p> <p>from banks</p> <p>from others</p> <p>(b) Loans and advances from related parties</p> <p>(c) Deposits.</p> <p>(d) Other loans and advances (specify nature)</p> <p>(ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.”</p> <p>The following discrepancies were observed with regard to disclosures of short-term borrowings:</p> <ol style="list-style-type: none"> 1. It was noted that the nature of securities given against secured loans taken from banks have not been disclosed. 2. From the abovementioned requirement, it was viewed that the short term borrowings should either be classified in one of heads as
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		<p>suggested from (a) to (c) or it should be classified as 'other loans and advances' specifying their nature. It was noted from the given abstract that short term borrowings include 'loan from others'; however, the nature of such borrowings has not been specified.</p>
52.	<p>It was observed from the note relating Short-term loans and advances given in the Annual Report of a company that these included "Advance premium on foreign exchange options."</p>	<p>It may be noted that paragraph 8.8.6 of the Institute's Guidance Note on the Revised Schedule VI to the Companies Act, 1956, states as follows:</p> <p>"8.8.6 Other current assets (specify nature)</p> <p>'This is an all-inclusive heading, which incorporates current assets that do not fit into any other category e.g. unbilled Revenue, unamortised premium on forward contracts, etc." (emphasis added)</p> <p>It was viewed that advance premium on foreign exchange options has been shown under the head "Short-term loans and advances" instead of "Other Current Assets" as prescribed under the aforesaid requirement.</p>
53.	<p>It was observed from the note relating to Long term loans and advances given in the Annual</p>	<p>It may be noted that Note 6 (L) of 'General Instructions for Preparation of Balance Sheet'</p>

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	<p>Report of a company that these included "Balances with Government authorities."</p>	<p>given in Part I of the Revised Schedule VI to the Companies Act, 1956 <i>inter alii</i>, requires disclosure of Long-term loans and advances as follows:</p> <p>"L. Long-term loans and advances</p> <p>(iii) Long-term loans and advances shall be classified as:</p> <p>(a) Capital Advances;</p> <p>(b) Security Deposits;</p> <p>(c) Loans and advances to related parties (giving details thereof);</p> <p>(d) Other loans and advances (specify nature).</p> <p>It may also be noted that paragraph 8.7.3 of the Institute's Guidance Note on the Revised Schedule VI to the Companies Act, 1956 states as follows:</p> <p>"Other loans and advances should include all other items in the nature of advances recoverable in cash or kind such as Prepaid expenses, Advance Tax, CENVAT Credit receivable, etc, which are not expected to</p>
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		<p>be realized within the next twelve months or operating cycle whichever is longer from the Balance Sheet date.”</p> <p>It was noted from above that advances given to government authorities may comprise of different nature of balances held with different government authorities viz income tax, CENVAT, etc. Hence the breakup of the aggregate balance should be disclosed as per their nature rather than disclosing the aggregate balance with (different) government authorities.</p>
54.	<p>It was noted from the Balance Sheet of the company that there was “Share Application Money Pending the Allotment”</p>	<p>It may be noted that Note 6 (G) (g) of General Instructions for Preparation of Balance Sheet given in Part I of the Revised Schedule VI to the Companies Act, 1956, requires as follows:</p> <p>G. Other Current Liabilities</p> <p>...</p> <p>(g) Application money received for allotment of securities and due for refund and interest accrued thereon. Share application money includes advances towards allotment of share capital. The terms and conditions including the number of shares proposed to be issued, the amount of premium, if any,</p>

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		<p>and the period before which shares shall be allotted shall be disclosed. It shall also be disclosed whether the company has sufficient authorized capital to cover the share capital amount resulting from allotment of shares out of such share application money. Further, the period for which the share application money has been pending beyond the period for allotment as mentioned in document inviting application for shares along with the reason for such share application money being pending shall be disclosed. Share application money not exceeding the issued capital and to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable i.e., the amount in excess of subscription or in case the requirements of minimum subscription are not met, shall be separately shown under 'Other current liabilities'</p> <p>As regards presentation of information relating to share application money, it was noted that whereas share application money due for refund is shown as 'other current liabilities', those pending for allotment are shown as separate line item under the broad head</p>
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		<p>'Shareholders funds'. It was further noted that paragraph 6 (G) (g) also requires to disclose other information relating to share Application Money which is also applicable on that pending for allotment viz. terms and conditions, including the number of shares proposed to be issued, the amount of premium, if any, and the period before which shares shall be allotted, whether the company has sufficient authorized capital to cover the share capital amount resulting from allotment of shares out of such share application money and the period for which the share application money has been pending beyond the period for allotment as mentioned in document inviting application for shares along with the reason for such share application money being pending shall be disclosed.</p> <p>In the given case it was noted that there is share application money pending for allotment; however, none of the information relating to it.</p>
55.	<p>Note on 'Other Income' given in the Annual Report of a company reads as follows:</p> <p>Other Income</p>	<p>It may be noted that Paragraph 2(A) of General Instructions for Preparation of Statement of Profit and Loss of Part II, Revised Schedule VI to the</p>

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	<p>Profit/(Loss) on --- --- Trading of Shares/Mutual Fund</p> <p>Total === ===</p>	<p>Companies Act, 1956 provide as follows:</p> <p>“2(A). In respect of a company other than a finance company revenue from operations shall disclose separately in the notes revenue from</p> <p>(a) sale of products;</p> <p>(b) sale of services;</p> <p>(c) other operating revenues;</p> <p>Less:</p> <p>(d) Excise duty.”</p> <p>It was noted that the note relating to other income that it includes profit generated from trading of shares and mutual funds. It was noted from the Directors ‘Report that during the year, company was stated to be primarily engaged in real estate and investment activities. Accordingly, it was viewed that any revenue generated from investment activities viz. profit from trading of shares or mutual fund units is its principal activity. Hence, it should be disclosed as ‘other operating revenue’ rather than under ‘Other Income’.</p>
56.	It was observed from the footnote to the note relating to: ‘Short term loans and Advances’ given in the Annual Report of a	It may be noted that Paragraph 6R (i) of ‘General Instructions for Preparation of Balance Sheet’ given in Part I of the Revised

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	<p>company that “Other advances” includes amount receivable from related party.</p>	<p>Schedule VI to the Companies Act, 1956, provides as under:</p> <p>“Short-term loans and advances</p> <p>(i) Short-term loans and advances shall be classified as:</p> <p>(a) Loans and advances to related parties (giving details thereof);</p> <p>(b) Others (specify nature).”</p> <p>It was noted from that amount receivable from related party has been disclosed by way of footnote to it rather than showing it as a separate line item as per requirement of Revised Schedule VI.</p> <p>Accordingly, it was viewed that the presentation of short terms loans and advances is not in accordance with the requirements of Part I, Revised Schedule VI to the Companies Act, 1956</p>
57.	<p>It was observed from the note relating to Cash & Bank Balances given in the Annual Report of a company that “some of the fixed deposit receipts are deposited with Banks against borrowings and guarantees</p>	<p>It may be noted that paragraph 6(Q)(iii) of General Instructions for preparation of Balance Sheet of Revised Schedule VI to the Companies Act, 1956 states as follows:</p> <p>“Balances with banks to the</p>

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	issued.”	<p>extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.”</p> <p>It was noted that the fixed deposits pledged with banks against borrowings and guarantees issued have not been disclosed separately as per above mentioned requirement and the amount thereof has also not been disclosed in the note.</p>
58.	From the Annual Report of a company it was noted that Short Term Borrowings also includes interest bearing foreign currency loans.	<p>It may be noted that Note 5 (viii) (b) of ‘General Instructions for Preparation of Statement of Profit and Loss’ given in Part II, Revised Schedule VI to the Companies Act, 1956, requires certain additional disclosures stated as follows:</p> <p>“Additional Information</p> <p>A company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items:-</p> <p>...</p> <p>(viii) The profit and loss account shall also contain by way of a note the following information, namely:</p>

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		<p>a) ...</p> <p>b) Expenditure in foreign currency during the financial year on account of royalty, know-how, professional and consultation fees, interest, and others matters;”</p> <p>It was noted from note of short term borrowings that there were certain foreign currency loans both in previous year as well as at the end of current year. It was, accordingly, viewed that the interest must have been serviced on such loans either in the previous year or in the current year in foreign currency. However, in note relating to expenditure in foreign currency, no such interest payments have been disclosed.</p>
59.	<p>It was observed from the note relating to “Employment Expense” given in the Annual Report of a company that the aggregate amount of such expense was disclosed under the head “Salaries and other allowances.”</p>	<p>The following discrepancies were noted with regard to presentation of information relating to employee benefit expenses:</p> <p>i) It may be noted that Paragraph 5 of General Instructions for Preparation of Statement of Profit and Loss given under Part II, Revised Schedule VI to Companies Act, 1956, requires disclosure of additional information that,</p>

		<p><i>inter alia</i>, provides as follow:</p> <p>5. Additional Information</p> <p>A company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items:</p> <p>“(i) (a) Employee Benefits Expense [showing separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP), (iv) staff welfare expenses]</p> <p>It was noted from the stated accounting policy of ‘employee benefits’ that there were defined contribution plans as well as gratuity plan. However, it was noted from the note relating to ‘Employment expenses’ that only an aggregate amount has been shown under the head “salary and other allowances”. The expense incurred against defined</p>
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		<p>contribution plan & other funds, staff welfare, etc. as required by the Revised Schedule VI was neither disclosed by way of separate line item nor in notes to account.</p>
60.	<p>It was observed from the note relating to Trade Receivables given in the Annual Report of a company that these included Trade Receivables classified as "Others"</p>	<p>It may be noted that paragraph 6(P)(ii) of General Instructions for preparation of Balance Sheet of Revised Schedule VI to the Companies Act, 1956 states as follows</p> <p>"P. Trade Receivables</p> <p>(ii) Trade receivables shall be sub-classified as:</p> <p>(a) Secured, considered good;</p> <p>(b) Unsecured considered good</p> <p>(c) Doubtful."</p> <p>It was noted that trade receivables shown as 'Others' (i.e. due for a period of more than six months) have not been classified whether they are considered good or doubtful as per aforesaid requirement.</p>
61.	<p>The Balance Sheet of a company reads as follows:</p> <p>Balance Sheet as at 31st March</p>	<p>It may be noted that the format of Balance Sheet as prescribed in Part I, Revised Schedule VI to the Companies Act, 1956 prescribes the presentation of</p>

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20XX	Amount (Rs.)	Amount (Rs.)	
	As at	As at	
	31 st March, 20XX	31 st March, 20XX	
Non-current assets			<p>‘Deferred Tax Assets’ as follows:</p> <p>“II. ASSETS</p> <p>(1) Non-current assets</p> <p>(b) Non-current investments</p> <p>(c) Deferred tax assets (net)</p> <p>(d) Long-term loans and advances”</p>
...			Further, it may be noted that ‘Explanation’ to Paragraph 30 of AS 22 also prescribes the presentation of Deferred tax assets on face of balance sheet when it states as follows:
Non-current investments	---	---	Explanation:
Long-term loans and advances	---	---	“Deferred tax assets (net of the deferred tax liabilities, if any, in accordance with paragraph 29) is disclosed on the face of the balance sheet separately after the head ‘Investment’ and deferred tax liabilities (net of the deferred tax assets, if any, in accordance with paragraph 29) is disclosed on the face of the balance sheet separately after the head ‘Unsecured Loans’.”
Deferred tax assets (Net)	---	---	It was noted from the reproduced abstract of the Balance Sheet that ‘Deferred tax

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		<p>assets (net)' has been presented after the head 'Long-term loans and advances' instead of presenting it immediately after the Non-current investments.</p> <p>Accordingly, it was viewed that the presentation of 'Deferred tax assets (net)' and 'Long-term loans and advances' is not in line with the requirements of Part I, Revised Schedule VI to the Companies Act, 1956 and AS 22.</p>
62.	<p>It was observed from the note relating to Other non-current assets given in the Annual Report of a company that these included "Advance Tax."</p>	<p>It was noted from the appended note relating to Other non-current assets that advance tax has been disclosed under the head 'Other Non-Current Assets'. It was viewed that advance tax cannot be considered as 'non-current asset' as it is in substance advance which should be disclosed under 'loans and advances' instead of 'other non-currents'.</p>
63.	<p>From the Annual Report of a company it was observed from Notes on 'Other Income' that it includes 'Sales of Scrap'.</p>	<p>It may be noted that Note 2 (A) of 'General Instructions for preparation of Statement of Profit and Loss, Part II, Revised Schedule VI to the Companies Act, 1956, requires following disclosures in respect of Revenue from Operation:</p>

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		<p>“2. (A) In respect of a company other than a finance company revenue from operations shall disclose separately in the notes revenue from</p> <p>(a) Sale of products;</p> <p>(b) Sale of services’</p> <p>(c) Other operating revenues;</p> <p>Less:</p> <p>(d) Excise duty”</p> <p>It was noted from the note relating to “Other Income” that it included income from sale of scrap. It was viewed that the entity under review is a manufacturing enterprise. Thus, although such income does not arise on sale of enterprise’s products, it is ancillary to the company’s operating activity. Thus, revenue from scrap arises due to manufacturing operations and should, therefore, be classified as ‘other operating revenue’.</p>
64.	<p>Note relating to ‘Operating Cycle’ given in the Annual Report of a company reads as follows:</p> <p>Operating Cycle</p> <p>...In case of long-term contracts, the time between acquisition of</p>	<p>It may be noted that Paragraph 2 of General Instructions for Preparation of Balance Sheet of Revised Schedule VI to Companies Act, 1956 as follows:</p> <p>“2. An operating cycle is the time between the acquisition of assets for processing and their</p>

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	<p>assets for processing and realization of the entire proceeds under the contracts in cash or cash equivalent exceeds one year. Accordingly for classification of assets and liabilities related to such contracts as current, duration of each contract is considered as its operating cycle.</p>	<p>realization in Cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.”</p> <p>It was viewed that where an enterprise is engaged in multiple businesses, the operating cycle could be different for each line of business. Hence, an enterprise should assess operating cycle of each business and accordingly classify the assets and liabilities of the respective businesses into current and non-current.</p> <p>It was noted that in the given case, duration of each contract has been considered as operating cycle for that contract. It was, accordingly noted that, each contract was considered as a separate product line. It was viewed that operating cycle is determined for the enterprise as a whole and accordingly, its assets and liabilities are classified into current and non-current so that liquidity as well as solvency and revenue generating capacity of the enterprise is evident from the face of the Balance Sheet itself.</p> <p>It was viewed that the entity’s presumption that each contract constitutes separate product line indicates inadequate efforts</p>
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		<p>being made to determine operating cycle. Accordingly, it was viewed that the policy to determine operating cycle is not correct.</p> <p>It may be mentioned that the same view is also supported by Expert Advisory Opinion on Query no. 27 of Compendium of opinions Volume No. XXXIII.</p>
65.	<p>It was observed from the note relating to Long Term Borrowings given in the Annual Report of a company that these included "Trade Deposits."</p>	<p>It was noted from the appended notes that trade deposits have been classified as 'long term borrowings'. It was observed that trade deposits are not in the nature of borrowings; hence, showing them under the head 'long term borrowings' rather than as a part of "Other Non-current / Current liabilities" is not in line with the requirements of Revised Schedule VI to the Companies Act, 1956.</p>
66.	<p>It was observed from the note relating to Other Expenses given in the Annual Report of a company that these included "Directors' Remuneration."</p>	<p>It may be noted that 'director' has been defined as key management personnel in AS 18 when it states as follows:</p> <p>14. Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. For example, in the case of a company, the managing</p>

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		<p>director(s) whole time director(s), manager and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered key management personnel.</p> <p>Explanation</p> <p>A non-executive director of a company is not considered as a key management person under this Standard by virtue of merely his being a director unless he has the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. The requirements of this Standard are not applied in respect of a non-executive director even enterprise, unless he falls in any of the categories in paragraph 3 of this Standard.</p> <p>From the above, it was viewed that a non- executive director may not be an employee of an organization but a whole time or a part time director having authority and responsibility for planning, directing & controlling activities of an enterprise is considered as an employee of the organization and remuneration is paid to them.</p> <p>In the given case, it was</p>
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		<p>observed that Directors' Remuneration presented under the head 'Other Expenses' has been paid to managing director, whole time director of the enterprise. Accordingly, it was viewed that Directors' Remuneration is employees cost, which should have been included an 'employee benefit expenses' rather than 'other expenses' and the prescribed disclosures relating to "employee benefit expenses" should have been made.</p>
<p>67.</p>	<p>It was observed from the note relating to Other Expenses given in the Annual Report of a company that these included "Rent, Rates & Taxes.",</p>	<p>It may be noted that Paragraph 5 (vi)(d)&(e) of 'General instructions for the preparation of Statement of Profit and Loss' given under Part II, Revised Schedule VI to the Companies Act, 1956, requires separate disclosure of 'rent' and 'rates and taxes' when it states as follows:</p> <p>"5. Additional Information</p> <p>A Company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items:-</p> <p>...</p> <p>(vi) Expenditure incurred on each of the following items, separately for each</p>

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		<p>item:</p> <p>...</p> <p>(c) Rent</p> <p>(d) ...</p> <p>(e) ...</p> <p>(f) ...</p> <p>(g) ...</p> <p>(h) Rates and Taxes, excluding taxes on income.</p> <p>..."</p> <p>However, in the given case, it was observed that rent, rates and taxes were clubbed together as a single line item instead of being shown separately as required by the Revised Schedule VI.</p>
68.	<p>It was observed from the note relating to Short Term Loans and Advances given in the Annual Report of a company that these included 'Advances Recoverable in cash or in kind or for value to be received.':</p>	<p>It may be noted that Note 6 (R) of 'General Instructions for Preparation of Balance Sheet' given in Part I, Revised Schedule VI to the Companies Act, 1956 <i>inter alia</i> requires disclosure of Short-term loans and advances as follows:</p> <p>"R. Short-term loans and advances</p> <p>Short-term loans and advances shall be</p>

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		<p>classified as:</p> <ul style="list-style-type: none"> - Loans and advances to related parties (giving details thereof) - Others (specify nature).” <p>It was noted from the note that a significant amount of advance has been shown under a separate line item 'advances recoverable in cash or in kind or for value to be received'. It was viewed that this was a wider nomenclature which does not indicate the nature of advances included therein. It was viewed that the nature of loans and advances included under the stated line item need to be specified separately.</p>
69.	<p>In the Annual Report of a company it was observed from the Notes on 'Investments' that the fact whether investments are quoted or unquoted had not been disclosed.</p>	<p>It may be noted that Note 6(K)(iii) of 'General Instructions for preparation of Balance Sheet' given in Part I, Revised Schedule VI to the Companies Act, 1956 <i>inter alia</i> requires following disclosures in respect of non-current investments:</p> <p>“6.</p> <p>(K) Non- current Investments</p> <p>...</p> <p>(iii) The following shall</p>

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		<p>also be disclosed:</p> <p>(a) Aggregate amount of quoted investments and market value thereof;</p> <p>(b) Aggregate amount of unquoted investments;”</p> <p>It was noted that enterprise held long term investment in subsidiaries but whether these are quoted or unquoted was not disclosed.</p>
70.	<p>It was noted from the Annual Report of a company that the Director’s Report read with Note on Accounting Policies and Auditor’s Remuneration stated as follows:</p> <p>Director’s Report</p> <p>Your Company is in preoperative stage and has prepared statement of expenditure incurred on the project till 31st March, 20XX</p> <p>Accounting Policy on Fixed Assets</p> <p>Intangible Assets- Work in progress- EPC sub contract work done by EPC Contractors relating to the construction of project (BOT) and other direct expenditure / income (including</p>	<p>It was observed that the financial statements do not include any Statement of Profit and Loss.</p> <p>It may be noted that DCA Circular letter no. 2/17/64-PR dated 29-01-1964 issued by the Department of Company Affairs clearly states that “Every company should render to its shareholders an account of its expenditure and income even though they may have been incurred or received during the period of construction. It is no doubt true that a company does not really commence its business operations till the period of construction is over. There will of course be no objection if such account is called “Development Account”,</p>

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	<p>preliminary and pre-operative) relating to the Project are included in intangible assets-work-in-progress.”</p>	<p>“Expenditure During Construction Account” or by any other suitable name so long as these accounts give details of the revenue expenditure and income during the period covered, in the manner required by Part II of Schedule VI to the Act. Sub-section (3) of Section 210 makes it quite clear that it is mandatory for every company to prepare a “Profit and Loss Account” from the date of its incorporation.”</p> <p>Further, it was noted from note relating to auditor’s remuneration and accounting policy on intangible assets that the company has incurred certain expenses viz. audit fees, preliminary expenses during the period.</p> <p>It was viewed that preliminary expenses which are of revenue nature may provide economic benefits in the future but it does not give rise to any resource which can be controlled by the enterprise, and hence they do not meet the recognition criteria given under paragraph 56 of AS 26. Accordingly, these expenditure incurred should be expensed as and when it is incurred.</p> <p>In view of above, it was felt that although the company has</p>
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		incurred certain expenses which need to be recognised in the Statement of Profit and Loss, however, no Statement of Profit and Loss Account was prepared.
71.	<p>From the Annual Report of a company, Note 3 relating to Share Capital in the Annual Report of a company which stated as under:</p> <p>'d) Aggregate number of bonus shares issued, shares issued for consideration other than cash'</p> <p>Equity Shares allotted as fully paid bonus shares by capitalisation of general reserve</p> <p>Equity Shares allotted as fully paid up pursuant to scheme of amalgamation</p> <p>Equity shares allotted as fully paid up pursuant to scheme of arrangement</p>	<p>It may be noted that pursuant to the requirements of Note 6(A)(i) of 'General Instruction for preparing Balance Sheet' of Part I, Schedule III to the Companies Act, 2013, a company <i>inter alia</i> requires to disclose:</p> <p>"6. A company shall disclose the following in the Notes to Accounts:</p> <p>A. Share Capital</p> <p>For each class of share capital (different classes of preference shares to be treated separately);</p> <p>...</p> <p>(i) For the period of five years immediately preceding the date as at which the Balance Sheet is prepared:</p> <ul style="list-style-type: none"> • Aggregate number and class of shares allotted as fully paid up pursuant to contract(s) without payment being received in cash. • Aggregate number and class of shares allotted as fully paid up by way

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		<p style="text-align: center;">of bonus shares.</p> <ul style="list-style-type: none"> • Aggregate number and class of shares bought back.” <p>It was noted that the details of aggregate number of bonus shares, shares issued other than cash have been disclose;, however, it is not clear whether the aggregate number of bonus shares issued, shares issued for consideration other than cash pertains to period of five years immediately preceding the reporting date or not as required by the Companies Act, 2013. In the absence of such information, reader would not be able to understand whether the reported figures are related to previous five financial years or not.</p>
72.	<p>From the Note of Fixed Assets given in the Annual Report of a company, it has been noted that it has transferred all its fixed assets during the year pursuant to a Business Transfer Agreement.</p>	<p>It may be noted that Note 4 of Schedule XIV of the Companies Act, 1956 states that:</p> <p>“Where during any financial year, any addition has been made to any asset, or where any asset has been sold, discarded, demolished or destroyed, the depreciation on such asset shall be calculated on pro-rata basis from the date of such addition or, as the case may be, up to the date on which such a asset has been sold, discarded,</p>

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		<p>demolished or destroyed”.</p> <p>From the above, it was viewed that in case any fixed asset has been sold, during the year then the depreciation on such asset upto the date of such sale/transfer should be calculated on pro rata basis. However, in the given case, it was noted that although all the assets were transferred during the year, depreciation charged on such assets was reported as Rs. Nil in the Note of Fixed Assets.</p> <p>Accordingly, it was viewed that depreciation up to the date of transfer has not been provided for, which is not in line with the aforesaid requirements of Schedule XIV to the Companies Act, 1956.</p>
73.	<p>From Significant Accounting Policy relating to Depreciation given in the Annual Report of a company, the following has been noted:-.</p> <p>i. At pro-rata rates on the basis of assets put into use in the First /Second half of the year on Straight Line Method in accordance with Schedule XIV of the Companies Act, 1956.</p> <p>ii. In respect of new projects at</p>	<p>It may be noted that Note 4 of Schedule XIV to the Companies Act, 1956, provides that;</p> <p>“Where, during any financial year, any addition has been made to any asset, or where any asset has been sold, discarded, demolished or destroyed, the depreciation on such assets shall be calculated on a pro rata basis from the date of such addition or, as the case may be, up to the date on which such asset has been sold,</p>

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	<p>pro-rata rates from the month from which the assets are put into use on Straight Line Method in accordance with Schedule XIV of the Companies Act, 1956. (emphasis supplied)</p>	<p>discarded, demolished or destroyed.”</p> <p>From the above it was viewed that in case any fixed asset has been purchased during the year then the depreciation on such asset is charged from date of such addition on pro rata basis. However, in the given case, it was noted from the stated policy that depreciation on fixed assets purchased has been provided on a pro-rata basis depending upon whether it is purchased in the first/second half of the year and in respect of new projects based on the month when it is used.</p> <p>Accordingly, it was viewed that depreciation has not been provided as per the aforesaid requirements of AS 6.</p>
74.	<p>Significant accounting policy relating to depreciation given in the Annual Report of a company states as follows:-</p> <p>‘Depreciation on additions is calculated pro rata from the following month of addition. (emphasis supplied)’</p>	<p>It may be noted that Note 4 to Schedule XIV to Companies Act, 1956, provides that:</p> <p>“4. Where during any financial year, any addition has been made to any asset, or where any asset has been sold, discarded, demolished or destroyed, the depreciation on such asset shall be calculated on pro-rata basis from the date of such addition or, as the case may be, up to the date on which such a asset has been sold, discarded, demolished or</p>

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		<p>destroyed. (emphasis supplied)”</p> <p>It was noted that whereas Schedule XIV prescribes computation of depreciation from the date of addition, in the given case, depreciation has been calculated from the following month of addition.</p> <p>Accordingly, it was viewed that the computation of depreciation on additional fixed assets is not in line with the requirements of Schedule XIV of the Companies Act, 1956.</p>
75.	<p>It has been noted from the Annual Report of a company that the Balance Sheet, the Statement of Profit and Loss and the Notes to Accounts were neither signed by the Directors of the Company nor the Auditors.</p>	<p>It was noted that the Balance Sheet, the Statement of Profit and Loss and the Notes to Accounts have neither been signed by the Directors of the Company nor the Auditors.</p> <p>It may be noted that Section 215 of the Companies Act, 1956² <i>inter alia</i>, provides that:</p> <p>“215. Authentication of Balance Sheet and profit and loss account- (1) Save as provided by sub-section (2), every balance sheet and every profit and loss account of a company shall be signed on behalf of the Board of Directors-</p> <p>(i) ...</p>

²Observation is still relevant under Section 134 of Companies Act, 2013.

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		<p>(ii) in the case of any other company, by its manager or secretary, if any, and by not less than two directors of the company one of whom shall be a managing director where there is one.”</p> <p>It was viewed that since the Balance Sheet and the Statement of Profit and Loss are attached to the Auditor’s Report which contains opinion on them, the auditor should have also signed and authenticated these statements in a similar manner, i.e. signing and stating his membership number.</p> <p>Accordingly, it was viewed that the requirements of Section 215 (1) and 216 to the Companies Act, 1956 have not been complied with.</p>
76.	<p>From the Balance Sheet and Statement of Profit and Loss given in the Annual Report, the following has been noted:</p> <p align="center">Director Director</p>	<p>It may be noted that Section 215 (1) of the Companies Act, 1956³states as follows:</p> <p align="center">“215. Authentication of balance sheet and profit and loss account</p> <p>(1) Save as provided by sub- section (2), every balance sheet and every profit and loss account of a</p>

³Observation is still relevant under Section 134 of Companies Act, 2013

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		<p>company shall be signed on behalf of the Board of directors...”</p> <p>From the given abstract of the Balance Sheet and Statement of Profit and Loss, it was viewed that in the absence of statement “For & on behalf of the Board of Directors” it <i>prima facie</i> appears that the directors have signed the documents in their individual capacity which does not meet the requirements of section 215 (1) to the Companies Act, 1956 to get these documents signed on behalf of the Board of Directors.</p>
77.	<p>It has been noted from the Schedule relating to Reserves and Surplus given in the Annual Report of a company that it had written off expenses on issue of share, including exchange difference, from the Securities Premium account.</p>	<p>It may be noted that Section 78(2) of the Companies Act, 1956⁴ provides that :</p> <p>“The securities premium account may, notwithstanding anything in sub- section (1), be applied by the company-</p> <p>(a) in paying up unissued securities of the company to be issued to members of the company as fully paid bonus securities;</p> <p>(b) in writing off the preliminary expenses of the company;</p>

⁴ Observation is still relevant under section 52 of Companies Act, 2013

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		<p>(c) in writing off the expenses of, or the commission paid or discount allowed on, any issue of securities or debentures of the company; or</p> <p>(d) in providing for the premium payable on the redemption of any redeemable preference securities or of any debentures of the company.”</p> <p>It was noted that as per Section 78, securities premium account may be utilized <i>inter alia</i> for writing off expenses of issuing debentures and the premium payable on their redemption. Accordingly, it was noted that exchange difference arising on the same is not eligible for being written off. However, in the given case, the securities premium account has been utilized to write off the exchange difference which is in contravention of the provisions of Section 78 (2) of the Companies Act, 1956.</p>
78.	From the Annual Report of a company Significant Accounting Policy relating to ‘Accounting of Income/Expenditure’ reads as follows:	<p>It may be noted that Section 209(3)(b) of the Companies Act 1956⁵ <i>Inter alia</i> provides that:</p> <p>“Proper books of account shall not be deemed to be kept with</p>

⁵ Observation is still relevant under section 128 of Companies Act, 2013

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	<p>'All income and expenditure items having a material bearing on the financial statements are recognized on accrual basis except in the case of leave encashment, dividend income, debenture interest and interest receivable from/ payable to government on tax refunds/ late payment of taxes, duties/ levies which are accounted for on cash basis.(emphasis added)'</p>	<p>respect to the matters specified therein-</p> <p>(b) If such books are not kept on accrual basis and according to the double entry system of accounting."</p> <p>It was noted that certain items of income & expenditure such as leave encashment, dividend income, debenture interest, have been recognised on cash basis. It was viewed that recognizing income or expenses on cash basis is not in line with the requirement of Section 209 (3) (b) of the Companies Act, 1956 which requires maintenance of books of accounts on accrual basis.</p> <p>Hence, the stated policy is not in line with the requirements of Companies Act, 1956.</p>
79.	<p>It has been noted from the note relating to Managerial Remuneration given in the Annual Report of a company that it excludes benefit under Employee Stock Option Scheme of the Company.</p>	<p>It may be noted that as per explanation to subsection 4 of Section 198 of the Companies Act, 1956 "remuneration" shall <i>inter alia</i> includes;</p> <p>(a) ...</p> <p>(b) any expenditure incurred by the company in providing any other benefit or amenity free of charge or at</p>

⁶Observation is still relevant under section 2 (78) and section 197 of the Companies Act, 2013

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		<p>a concessional rate to any of the persons aforesaid.</p> <p>...”</p> <p>It was noted that the explanation to Section 198 provides to include in managerial remuneration any expenditure incurred by the company in providing any benefits or amenities to the employee either free of charge or at concessional rate.</p> <p>It was viewed that Employee Stock Option Scheme are issued to employees at concessional rate which involves expenditure on the part of the company; therefore, the balance should be included in ‘managerial remuneration.’ However, the given note indicates to have excluded the same. Accordingly, it was viewed that reported disclosure of managerial remuneration is not as per the provisions of Section 198 of the Companies Act, 1956.</p>
80.	It has been noted from the note relating to Managerial Remuneration given in the Annual Report of a company that it includes the gratuity to the extent of contribution and leave	<p>It may be noted that clause 1 of Section 309 of the Companies Act, 1956,⁷ provides that:</p> <p>“The remuneration payable to the directors of a company, including any managing or</p>

⁷Observation is still relevant under section 2 (78) and section 197 of the Companies Act, 2013

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	<p>encashment on payment basis.</p>	<p>whole-time director, shall be determined, in accordance with and subject to the provisions of section 198 and this section, either by the articles of the company, or by a resolution or, if the articles so required, by a special resolution, passed by the company in general meeting {and the remuneration payable to any such director determined as aforesaid shall be inclusive of the remuneration payable to such director for <i>services rendered</i> (by him in any other capacity).(emphasis supplied)”</p> <p>It was viewed that the said clause requires to include remuneration payable for the services rendered by the director of the company including managing or whole time director. Accordingly, remuneration to the directors should include gratuity and leave encashment on payable basis or accrual basis rather than on payment basis.</p> <p>Accordingly, it was viewed that the requirement of Part II of Schedule VI to the Companies Act, 1956 has not been strictly complied with.</p>
81.	<p>From the Annual Report of a company, it has been noted from Schedules of Liabilities and</p>	<p>It may be noted that sub-section (1) read with sub section (4) of Section 205A of the Companies</p>

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	<p>Cash and Bank Balances which states as follows:</p> <p>LIABILITIES</p> <p align="right">March 31, 20xx</p> <p>Unclaimed dividends* xxx</p> <p>*There are no amounts due and outstanding to be credited to the Investor Education and Protection Fund.”</p> <p>CASH AND BANK BALANCES</p> <p align="right">March 31, 20xx</p> <p>Cash on hand xx</p> <p>Balances with Scheduled Banks:</p> <p> On Current Accounts xx</p> <p> On Deposit Accounts xx</p> <p> On Margin Money</p>	<p>Act, 1956 ⁸provides that:</p> <p>“205A. (1) Where, after the commencement of the Companies (Amendment) Act, 1974, a dividend has been declared by a company but has not been paid [or claimed] within [thirty] days from the date of the declaration, to any shareholder entitled to the payment of the dividend, the company shall, within seven days from the date of expiry of the said period of [thirty] days, transfer the total amount of dividend which remains unpaid[or unclaimed] within the said period of [thirty] days, to a special account to be opened by the company in that behalf in any scheduled bank, to be called “Unpaid Dividend Account of... Company Limited / Company (Private) Limited”.</p> <p>[Explanation: In this sub-section, the expression “dividend which remains unpaid” means any dividend the warrant in respect thereof has not been encashed or which has otherwise not been paid or claimed.]”</p> <p>As per above, the dividend</p>
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⁸Observation is still relevant under section 123 and section 124 of the Companies Act, 2013

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	<p>Accounts xx</p> <p>Balances with non scheduled banks</p> <p>On Current Account xx</p>	<p>declared should be deposited in the separate bank account within 30 days of such declaration and in case if it is not deposited a penalty will be imposed on the company.</p> <p>It was noted from the schedule of liabilities that certain amount of dividend was unpaid and therefore, was shown as unclaimed dividend. However, it was further noted from the schedule of Cash and Bank balances that the said amount has not been separately disclosed. It indicates that either such amount has not been deposited in separate bank account and there is a non-compliance under section 205 A of the Companies Act, 1956.</p> <p>It was further viewed that in case, if the amount has been deposited but not separately shown in the Schedule of Cash and Bank Balances then again it is a non-compliance of paragraph 45 of AS 3 which requires that the amount of cash and cash equivalent balances held by the company that are not available for use by it should be disclosed separately along with commentary of management.</p>
82.	A Note relating to 'Basis of	It was observed that while

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	<p>preparation of significant accounting policies' given in the notes to financial statements in the Annual Report of a company states as under:</p> <p>'Basis of preparation of significant accounting policies</p> <p>The financial statements have been prepared under the historical cost convention on accrual basis in accordance with Generally Accepted Accounting Principles (GAAP). Accounting Standards and the relevant provisions of the Companies Act, 1956. (emphasis supplied)</p> <p>...</p>	<p>explaining the basis of preparing the financial statements a reference to the accounting standards has been made.</p> <p>It may be noted that the Accounting Standards have been notified vide Notification no. G.S.R. 739 (E) dated 7th December, 2006 by Central Government in exercise of power conferred by Section 642(1)(a) of Companies Act., 1956.⁹</p> <p>Accordingly, it was viewed that the accounting standards should be referred as notified under Companies (Accounting Standard) Rules 2006 rather than as issued by ICAI.</p>
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⁹Observations is still relevant under section 133 and section 469 of Companies Act, 2013

Observations on Companies (Auditor's Report) Order (CARO)¹

S. No.	Matters contained in the Annual Report	Observations
1.	<p>In pursuance to the requirement of paragraph 4 (i)(a) of CARO, 2003, the auditors have reported in one of the following ways:</p> <ul style="list-style-type: none"> • The Company has maintained reasonable records showing full particulars, including quantitative details and situation of fixed assets. • The Company has generally maintained proper records showing full particulars including quantitative details and situation of fixed assets (emphasis supplied). 	<p>It may be noted that clause 4(i)(a) of CARO, 2003, requires the auditors to comment on:</p> <p><i>“Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.”</i></p> <p>It was observed that in the first case, the auditor has reported that the company has maintained reasonable records. It was viewed that such reporting does not clearly indicate whether proper records are being maintained or not.</p> <p>In the second case, the usage of the word ‘generally’ by the auditor gives an impression that there might exist certain instances where proper records of fixed assets have not been maintained. It was viewed that in</p>

¹Subsequent to the observations of the Board, CARO,2003 has been withdrawn. However, content is still relevant in terms of Companies (Auditor's Report) Order, 2016.

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		<p>such conditions, the auditor is under the obligation to report the deficiencies.</p> <p>Accordingly, it was viewed that the stated reports are ambiguous and cannot be considered to be strictly in line with the requirements of clause 4(i)(a) of CARO, 2003.</p>
2.	<p>In certain other cases pursuant to the requirements of paragraphs 4(i)(b) and 4(i)(c) of CARO, 2003, the auditors have reported as follows:</p> <ul style="list-style-type: none"> • As explained to us, fixed assets are physically verified by the management at reasonable intervals in a phased manner in accordance with a programme of physical verification. • We are informed that no material discrepancies were noticed on such verification. • As informed, no material discrepancies were noticed on such verification. • The management, at the end of the year, has physically verified the fixed assets and we have been informed that no material discrepancies were noticed 	<p>It may be noted that Paragraph 4(i)(b) of CARO, 2003 requires the auditor to comment on:</p> <p><i>“Whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account.”</i></p> <p>Further, Paragraph 45(f) of the Statement on CARO, 2003, issued by the Institute, states that;</p> <p><i>“45(f) ...The Auditor has, therefore, to use his judgment to determine whether a discrepancy is material or not.”</i></p> <p>It was observed that the auditor has used the words ‘we are/ have been informed’ or ‘as informed ...’or ‘as explained to us’ or ‘as certified to us’, which indicates that he has not used</p>

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	<p>on such verification...</p> <ul style="list-style-type: none"> • As explained to us, the fixed assets have been physically verified by the management at reasonable intervals, which, in our opinion, is reasonable, looking to the size of the company and the nature of its business. • According to information and explanation given to us and as certified to us, the management during the year physically verified the assets... • As informed to us, the fixed assets have been physically verified by the management during the year as per phased programme of physical verification of fixed assets. As informed, no material discrepancies between the book records and the physical inventory have been noticed. 	<p>his judgement to determine whether a discrepancy is material or not. Keeping in view, the requirement of paragraph 45 (f), the duty is cast upon the auditor to express his opinion as to whether the discrepancy noticed is material or not. However, in the reported cases the auditors do not appear to have exercised their judgment to report on this paragraph.</p>
3.	<p>In pursuance to the requirement of paragraph 4 (i)(b) of CARO, 2003, the auditor has reported in either of the following ways:</p> <ul style="list-style-type: none"> • As informed to us, the management in accordance with a phased program of verification adopted by the company has physically verified a major portion of 	<p>It was observed in both the cases that the auditors have reported on the reasonableness of the frequency of physical verification of fixed assets but are silent about the result of such verification i.e. whether any material discrepancies have been noticed on such verification, and if so, whether</p>

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	<p>these assets. In our opinion the frequency of verification is reasonable.</p> <ul style="list-style-type: none"> We are informed that the company physically verifies its assets over a three year period, ... In our opinion, this periodicity of physical verification is reasonable having regard to the size of the company and the nature of its assets. In accordance with this policy, the company has physically verified certain fixed assets during the year. 	<p>the same have been properly dealt with in the books of account.</p> <p>Hence, it was viewed that the auditor has not strictly complied with the requirements of clause 4(i)(b) of CARO, 2003.</p>
<p>4.</p>	<p>In pursuance to the requirement of paragraph 4 (ii)(a) of CARO, 2003, the auditor has reported as follows:</p> <p>'The inventory (excluding stocks with third parties) has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.'</p>	<p>It may be noted that paragraph 23 of "Guidance Note on Audit of Inventories" issued by the Institute of Chartered Accountants of India, provides as under;</p> <p>"23. Where significant stocks of the entity are held by third parties, the auditor should examine that the third parties are not such with whom it is not proper that the stocks of the entity are held. The auditor should also directly obtain from the third parties written confirmation of the stocks held. Arrangements should be made with the entity for sending requests for confirmation to such third parties. Similarly, the auditor should also obtain</p>

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		<p>confirmation from such third parties for whom the entity is holding significant amount of stocks.”</p> <p>It was observed that the stocks lying with third parties have not been physically verified by the management and it was not clear from the report whether any confirmations have been obtained from third parties for the stocks held by them.</p> <p>Hence, it was viewed that the auditor’s reporting in pursuance to clause 4(ii)(a) of CARO, 2003 cannot be considered to be complete.</p>
5.	<p>In pursuance to the requirements of paragraph 4 (ii) of CARO, 2003, the auditor has reported as follows:</p> <p>‘As explained to us the stocks of work in progress has been physical verified by the management. According to the information & explanations given us, no discrepancies were noticed on physical verification of work in progress.’</p>	<p>It may be noted that paragraphs 4 (ii) (a) and (c) of CARO, 2003 require the auditor to comment on:</p> <p><i>“(a) whether physical verification of inventory has been conducted at reasonable intervals by the management.”</i></p> <p><i>“(c) Whether the company is maintaining proper records of inventory and whether any material discrepancies were noticed on physical verification and if so, whether the same have been properly dealt with in the books of account.”</i></p> <p>It was observed that though the auditor has commented that</p>

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		<p>inventories have been physically verified by the management, he has not commented as to whether such verification has been conducted at reasonable intervals.</p> <p>It was further observed that with regard to paragraph (c), the auditor has commented that no discrepancies have been noticed on physical verification; however, he has not commented as to whether the company was maintaining proper records of inventory.</p> <p>Accordingly, it was viewed that the reporting requirements of paragraphs 4(ii)(a) and 4(ii)(c) of CARO, 2003 have not been strictly complied with.</p>
6.	<p>In pursuance to the requirements of paragraphs 4(ii)(a) and 4(ii)(c) of CARO, 2003, the auditors have reported in either of the following ways:</p> <ul style="list-style-type: none"> • As explained to us, inventories were physically verified by the management at reasonable intervals during the year. In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories. As explained to us, no material 	<p>It may be noted that paragraph 47(c) of the Statement on CARO, 2003, issued by the Institute states that;</p> <p>“Physical verification of inventories is the responsibility of the management of the company which should verify all material items at least once in a year and more often in appropriate cases. It is, however, necessary that the auditor satisfies himself that the physical verification of inventories has been conducted at reasonable intervals by the</p>

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	<p>discrepancies were noticed on physical verification of inventories as compared to the book records.</p> <ul style="list-style-type: none"> As explained to us, the inventories of the Company at all its locations (except stock lying with third parties and in transit) have been physically verified by the management at reasonable intervals. 	<p>management and that there is adequate evidence on the basis of which the auditor can arrive at such a conclusion. For example, the auditor may examine the documents relating to physical verification conducted by the management during the year as also at the end of the financial year covered by the auditor's report."</p> <p>It was viewed from above paragraph that the duty is cast upon the auditor to satisfy himself that the physical verification of inventory has been done by the management and/ or no material discrepancies have been noticed on such verification. However, it was noted from the reported cases that the auditors have reported based on the explanation provided by the management. It was viewed that use of phrase 'as explained to us' indicates that the auditors have simply relied on the explanation of the management rather than using his own judgment to report under these paragraphs.</p> <p>Accordingly, it was viewed that the auditor's report in these cases is not in line with the requirements of paragraphs 4(ii)(a) and 4(ii)(c) of CARO, 2003.</p>
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7.	<p>In pursuance to the requirements of paragraph 4 (ii) of CARO, 2003, the auditors have reported in one of the following ways:</p> <ul style="list-style-type: none"> • The Company does not have any inventory. • The nature of the company does not require it to hold inventories and as such clause 4 (ii) of CARO is not applicable. 	<p>It was observed from the financial statements of these companies that in the first case, the company has held inventories at the beginning of the year and during the year while in the second case, the company has held inventories at the yearend as well.</p> <p>In view of the above observations, it was felt that the aforesaid clauses are applicable in all the reported cases. However, the auditors have either reported that the Company does not have any inventory or that these clauses are not applicable.</p> <p>Accordingly, it was viewed that the reporting requirements of clause 4 (ii) of CARO, 2003 have not been complied with.</p>
8.	<p>In pursuance to the requirement of paragraph 4 (ii)(c) of CARO, 2003, the auditor has reported as follows:</p> <p>'The Company has implemented inventory system w.e.f. 20xx and is in process of strengthening the same. Discrepancies noticed on physical verification have been properly dealt in the books of accounts.'</p>	<p>It may be noted that paragraph 4 (ii) (c) of CARO, 2003 requires the auditor to report on:</p> <p><i>"Whether the company is maintaining proper records of inventory and whether any material discrepancies were noticed on physical verification and if so, whether the same have been properly dealt with in the books of account";</i></p> <p>It may be noted from the above that there are two distinct</p>

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		<p>requirements. The auditor is required to report firstly on the maintenance of inventory records and secondly whether material discrepancies, if any, have been properly dealt with in the books of account.</p> <p>It was observed from stated report that an inventory system has been implemented; however, the auditor has not stated whether proper records of inventory are maintained under the implemented system.</p> <p>Further, with regard to discrepancies noticed on physical verification, it was observed that the auditor has not reported as to whether such discrepancies are material or not.</p> <p>Accordingly, it was viewed that the reporting requirements of paragraph 4(ii)(c) of CARO, 2003 have not been strictly complied with.</p>
9.	<p>In pursuance to the requirement of paragraph 4 (iii) of CARO, 2003, the auditor has reported as under:</p> <p>‘According to the information and explanation provided to us and as per the records examined by us, as at 31st March, 20xx, Company has granted interest free unsecured loans amounting</p>	<p>It may be noted that as per paragraph 4(iii) of CARO, 2003, the auditor is required to comment on:</p> <p><i>“(iii) (a) Has the company granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Act. If so, give</i></p>

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	<p>to Rs. xxx to two of its wholly owned subsidiaries covered in the register maintained under section 301 of the Companies Act, 1956. The maximum balance outstanding during the year amounting to Rs. xxx. In our opinion, other terms and conditions of such loan are prima facie not prejudicial to the interest of the company.'</p>	<p><i>the number of parties and amount involved in the transactions, and</i></p> <p><i>(b) Whether the rate of interest and other terms and conditions of loans given by the company, secured or unsecured, are prima facie prejudicial to the interest of the company; and</i></p> <p><i>(c) Whether receipt of the principal amount and interest are also regular; and</i></p> <p><i>(d) If overdue amount is more than rupees one lakh, whether reasonable steps have been taken by the company for recovery/payment of the principal and interest;"</i></p> <p>It was noted that although the auditor has reported in pursuance to paragraph 4(iii) (a) and (b) of CARO, 2003 he had omitted to comment on paragraphs (iii) (c) and (d) of the order.</p> <p>Accordingly, it was viewed that the reporting requirements of paragraph 4(iii) of CARO, 2003 have not been fully complied with.</p>
10.	<p>In pursuance to the requirement of paragraph 4 (iii)(a) of CARO, 2003, the auditor has reported as follows:</p>	<p>Paragraph 50 (b) of Statement on the Companies (Auditor's Report) Order, 2003 issued by the Institute states that :</p>

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	<p>'To the best of our knowledge and as per our verification of the books and records, the company has neither provided any guarantee nor taken any loan to/from companies, firms and other parties covered under section 301 of the Companies Act 1956.</p> <p>However, it has been noted from the related party disclosures that the loan given to the managing director during the previous year has been repaid during the year.'</p>	<p>"50. (b)...The clause covers not only the loan granted during the year but covers all loans including opening balances..."</p> <p>From the above, it was observed that repayment of loan by the managing director is a transaction covered under Section 299 of the Companies Act, 1956. Accordingly, the same should be reported in the register maintained under Section 301 of the Act. However, the auditor has reported that the company has neither provided any guarantee nor taken any loan to/from companies, firms and other parties covered under section 301 of the Companies Act, 1956.</p> <p>Accordingly, it was viewed that the reporting requirement of paragraph (iii) of CARO, 2003 has not been strictly complied with.</p>
11.	<p>In pursuance to the requirements of paragraph 4 (iii)(a) of CARO, 2003 the auditors have reported in one of the following ways:</p> <ul style="list-style-type: none"> • During the year the company had given unsecured loan to thirteen seven parties covered in the register maintained under Section 301 of the 	<p>Paragraph 50(f) of Statement on the Companies (Auditor's Report) Order, 2003 issued by the Institute, inter alia provides that:</p> <p>"...Since the Order does not clarify what constitutes "amount involved" it would be proper if the auditor discloses the maximum amount involved during the year in the</p>

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	<p>Companies Act, 1956. The maximum amount involved during the year was Rs. xxx.</p> <ul style="list-style-type: none"> • The Company has taken unsecured loans from one party covered in the register maintained under section 301 of the Act. The total amount involved is Rs. xxx. Further the Company has also granted unsecured loans to 4 companies covered in the register maintained under section 301 of the Act. The total amount involved is Rs. xxx. • The Company has given loans/advances to its wholly owned subsidiaries during the year. In respect of the said loans/advances, the maximum amount outstanding at any time during the year is Rs xxx and the year ending balance is Rs. xxx. 	<p>transactions covered by this clause. While commenting upon this clause, the auditor may also consider whether the year-end balance should also be disclosed in his audit report.”</p> <p>It was observed in first two cases that although the maximum amount/amount involved has been stated, the year-end balance has not been reported.</p> <p>It was viewed that the maximum balance as well as the year-end balance should be reported under this paragraph as recommended by the Institute.</p> <p>It was further observed in the first case that the number of parties has been stated to be thirteen seven. This appears to be a typographical error, which should be avoided.</p> <p>In the third case, though the auditor has reported maximum balance as well as year end balance, he has not reported the number of parties to whom loans have been given. Accordingly, it was viewed that the reporting requirement of paragraph 4(iii)(a) has not been fully complied with.</p>
12.	In pursuance to the requirement of paragraph 4 (iii) of CARO, 2003, the auditor has reported	The following discrepancies have been noted with regard to paragraph 4(iii) (a) (b) and (d) of

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	<p>as follows:</p> <p>'According to the information and explanations given to us, during the period under review, the company has granted loan to Subsidiaries listed in the Register maintained under Section 301 of the Companies Act, 1956. The outstanding balance as on 31st March 20xx is Rs xxx and the maximum amount involved during the period is Rs.xxx. <i>There are no stipulated terms and condition on either the interest rate or the repayment schedule.</i> However, the rate of interest and the interest free nature where applicable and other terms and conditions of such loans are not, prima facie, prejudicial to the interest of the company. As there is no written repayment schedule, <i>we are unable to comment as to whether the payment of principal amount is regular.</i>'</p>	<p>CARO, 2003:</p> <ul style="list-style-type: none"> (i) The auditor has not reported the number of parties to whom the loans have been granted which is against the requirement of paragraphs 4 (iii) (a) of CARO, 2003. (ii) It was noted that the auditor is silent on paragraph 4 (iii) (d) of CARO, 2003, which requires him to report on overdue amount, if any and whether reasonable steps have been taken by the company for recovery/payment of the principal and interest. In case there is no overdue amount, the auditor should have stated that fact. (iii) It was further noted that while reporting for paragraph 4 (iii) (b), the auditor has reported that since there are no written terms and conditions for repayment and interest on loans, terms and conditions of loan are prima facie not prejudicial to the interest of the company. It was viewed that merely because there are no written terms and conditions for repayment and interest, it may not be appropriate to conclude that loans granted are prima
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		<p>facie not prejudicial to the interest of the entity.</p> <p>Accordingly, it was viewed that the auditor has not complied with the reporting requirement of paragraph 4(iii) of CARO, 2003.</p>
13.	<p>In pursuance to the requirement of paragraph 4 (vi) of CARO, 2003 the auditor has reported as follows:</p> <p>'The Company has not accepted deposits from the public, under the directives issued by the Reserve Bank of India and the provisions of the section 58A and 58AA of the Act and the rules framed there under. However, temporary loans have been taken from employee welfare trust without adequate records.'</p>	<p>It may be noted that pursuant to paragraph 4(vi) of CARO, 2003, the auditor is required to report on:</p> <p><i>"In case the company has accepted deposits from the public, whether the directives issued by the Reserve Bank of India and the provisions of section 58A, 58AA or any other relevant provisions of the Act and the rules framed there under where applicable have been complied with. If not, the nature of contraventions should be stated; if an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other Tribunal, whether the same has been complied with or not."</i></p> <p>It was noted that while reporting on aforesaid requirement of CARO, 2003, the auditor has reported about inadequate records for temporary loans taken from employee welfare trust. The context in which such fact has been included in the</p>

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		<p>aforesaid clause is not clear. It was viewed that in case these temporary loans fall within the purview of sections 58A or 58AA of the Act, it should have been reported clearly. However, if these loans fall outside the purview of the said sections, the auditor should not have reported such loans under this clause.</p> <p>Accordingly, the auditor's report on the said clause is considered to be ambiguous.</p>
14.	<p>In pursuance to the requirement of paragraph 4 (viii) of CARO, 2003, the auditor has reported in either of the following ways:</p> <ul style="list-style-type: none"> • The Central Government has prescribed maintenance of cost records under section 209(1)(d) of the Companies Act, 1956. As explained to us such records are at the advance stage of preparation. • We have broadly reviewed the cost records maintained by the Company relating to Construction/BOT/manufacturing activities. We have not made an examination of the cost records required to be maintained under Companies (Cost 	<p>It may be noted that pursuant to the requirement of clause 4(viii) of CARO, 2003, the auditor requires to comment on:</p> <p><i>"Where maintenance of cost records has been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Act, whether such accounts and records have been made and maintained."</i></p> <p>In the first case, It was observed that while reporting in pursuance to clause 4 (viii), the auditor has given the status 'as explained to him' which indicates that he has not examined the facts being reported and had simply relied on the explanation of the management regarding the maintenance of cost records. Accordingly, it was viewed that the audit procedures as adopted</p>

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	<p>Accounting Records) Rules, 2011 in respect of their accuracy and completeness as the Company is in the process of obtaining the compliance report of the cost accountant.</p>	<p>by him are not adequate.</p> <p>In the second case, the auditor has only commented about the cost records but omitted to comment about the cost accounts whether it has been made and maintained or not.</p> <p>Accordingly, it was viewed that the reporting obligations of paragraph 4(viii) of CARO, 2003 has not been properly complied with.</p>
<p>15.</p>	<p>In the Annexures to the auditors' reports of some companies, it has been noted from the reports given pursuant to paragraph 4(ix)(b) of CARO, 2003 that while commenting on the statutory dues which have not been paid on account of dispute the auditors in certain cases have not reported the period to which such dues relate. Further, in a few cases the forum where the dispute is pending has not been reported.</p>	<p>It may be noted that paragraph 4(ix)(b) of CARO, 2003 requires the auditor to report on:</p> <p><i>"In case dues of Income Tax/ Sales Tax/ Service Tax/ Customs Duty/ Wealth Tax/ Excise Duty/ Cess have not been deposited on account of any dispute, then the amount involved and the forum where dispute is pending shall be mentioned."</i></p> <p>Further, paragraph 64(g) of Statement on the Companies (Auditor's Report) Order, 2003, issued by the Institute states that the information required under this clause may be reported in the following format:</p> <p align="center">Statement of Disputed Dues</p>

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		Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
						<p>It was observed that although the statute, forum where dispute is pending and the amount of dues which were not deposited on account of any dispute has been disclosed but the period to which the amount relates has not been disclosed as required under paragraph 64(g) of Statement on the Companies (Auditor's Report) Order, 2003, issued by the Institute.</p> <p>Accordingly, it was viewed that the auditor has not complied with the reporting requirements of clause 4(ix)(b) of CARO, 2003.</p>
16.	<p>In pursuance to the requirement of paragraph 4 (ix) of CARO, 2003 the auditor has reported as follows:</p> <p>"According to the information and explanations given to us, no disputed amounts payable in respect of income tax, wealth tax, sales tax custom duty,</p>					<p>It was noted that the auditor has reported on statutory dues in arrears for a period of more than six months; however, as per the requirement of paragraph 4 (ix) (b) the auditor is required to report on all disputed statutory dues irrespective of the period of outstanding.</p>

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	<p>excise duty and cess were in arrears, as at 31st March 20xx for a period of more than six months from the date on which they are payable.”</p> <p>In another case also the auditor has reported disputed dues (though wrongly stated as undisputed dues), which are in arrears for a period of more than six months.</p>	<p>Hence, it was viewed that the reporting requirement of paragraph 4(ix)(b) of CARO, 2003 has not been complied with.</p>
17.	<p>In pursuance to the requirements of paragraph 4(ix)(a) of CARO, 2003, some auditors have reported as follows:</p> <ul style="list-style-type: none"> • Undisputed statutory dues including Provident Fund, Income tax and Service tax, Works Contract Tax & Employers contribution to ESIC (ESIC) have been generally regularly deposited in many cases with the appropriate authorities except that there have been delays in payments of Works Contract Tax Act in few cases. • The company is not regular in depositing with appropriate authorities undisputed statutory dues such as provident fund, ESI, income tax, sales tax, customs duty, excise duty 	<p>Pursuant to the requirement of paragraph 4(ix)(a) of CARO, 2003, an auditor is required to report on:</p> <p><i>“Is the company regular in depositing undisputed statutory dues including provident fund, investor education protection fund, employees’ State Insurance, Income tax, sales tax, wealth tax, service tax, customs duty, excise duty, cess and other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor.”</i></p> <p>It was observed that in the first case the auditor has not reported on the regularity of depositing Investor Education</p>

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	<p>and other material statutory dues applicable to it.</p> <ul style="list-style-type: none"> • According to the information and explanations given to us, the company has been generally depositing undisputed statutory dues with few delays including Employees Provident Fund, Employees' State Insurance, Investor Protection fund, Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, TDS, Professional Tax and any other statutory dues with the appropriate authorities during the year. There have been significant delays in large number of cases. 	<p>and Protection Fund, Wealth tax, Customs duty, Sales Tax, Excise duty and Cess. In the second case the auditor has not commented on wealth tax and service tax while in the third case he has not commented on excise duty and cess.</p> <p>It was viewed that the auditor should specifically comment on each of the stated statutory dues. In case some of these statutes are not applicable, that fact should be mentioned in the report.</p> <p>Hence, it was viewed that the reporting requirement of paragraph 4(ix)(a) of CARO, 2003 has not been complied with.</p>
18.	<p>In pursuance to the requirements of paragraph 4(ix)(b) of CARO, 2003 some auditors have reported in one of the following ways:</p> <ul style="list-style-type: none"> • According to information and explanation given to us there are no dues relating to sales tax, wealth tax, income tax, service tax etc. which have not been deposited on account of any dispute. • According to the information and explanations made available to us and on 	<p>Pursuant to the requirement of paragraph 4(ix)(b) of CARO, 2003, an auditor is required to report on:</p> <p><i>“(b) In case dues of Income Tax/ Sales Tax/ Service Tax/ Customs Duty/ Wealth Tax/ Excise Duty/ Cess have not been deposited on account of any dispute, then the amount involved and the forum where dispute is pending shall be mentioned.”</i></p> <p>It was observed that in the first case, the auditor has not reported whether there have</p>

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	<p>the basis of examination of records of the Company, the dues of Excise Duty, Sales Tax and Income Tax as at 31st March 20xx which have not been deposited on account of any dispute are as follows ...</p> <ul style="list-style-type: none"> • According to the information and explanation given to us there are no dues of sales tax, customs duty, wealth tax, excise duty and cess which have not been deposited as on 31st March, 20xx with the appropriate authorities on account of any dispute ... • According to information and explanations given to us and the records of the company examined by us, the particulars of dues of sales tax as at 31st March 20xx which have not been deposited on account of a dispute are ... 	<p>been any dues relating to customs duty, excise duty and cess while in the second case, he has not commented on dues relating to service tax, customs duty and wealth tax. In the third case, the auditor has not commented on income tax dues though disputed income tax cases have been separately reported. In the fourth case, the auditor has commented only on sales tax dues.</p> <p>It was viewed that the stated clause requires the auditor to report on all statutory dues stated therein. In case, some of these statutes are not applicable that fact should be mentioned in the report.</p> <p>Hence, it was viewed that the reporting requirement of paragraph 4(ix)(b) of CARO, 2003 has not been complied with.</p>
19.	<p>In the Annexures to the auditors' reports of some companies, it has been noted from the reports given pursuant to paragraph 4(ix)(a) of CARO, 2003 that while commenting on the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six</p>	<p>Pursuant to paragraph 4(ix)(a) of CARO, 2003 an auditor is required to comment on:</p> <p><i>"Is the company regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax,</i></p>

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	<p>months from the date they became payable the auditors have not reported the period to which such dues relate, due date and date of payment of such arrear dues.</p>	<p><i>Sales Tax, Wealth Tax, Custom Duty, Excise Duty, Cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor."</i></p> <p>Further, paragraph 63(r) of Statement on the Companies (Auditor's Report) Order, 2003, issued by the Institute, provides that the information required under the said clause may be reported in the following format:</p> <p>Statement of Arrears of Statutory Dues Outstanding for More than Six Months</p> <table border="1" data-bbox="873 1163 1240 1747"> <thead> <tr> <th data-bbox="873 1163 935 1747"><i>Na m e of th e St at ut e</i></th> <th data-bbox="935 1163 997 1747"><i>Na tur e of th e Du es</i></th> <th data-bbox="997 1163 1058 1747"><i>A m ou nt (R s.)</i></th> <th data-bbox="1058 1163 1120 1747"><i>Pe rio d to wh ic h th e a m ou nt rel at es</i></th> <th data-bbox="1120 1163 1182 1747"><i>Du e Da te</i></th> <th data-bbox="1182 1163 1240 1747"><i>Da te of Pa y m en t</i></th> </tr> </thead> </table>	<i>Na m e of th e St at ut e</i>	<i>Na tur e of th e Du es</i>	<i>A m ou nt (R s.)</i>	<i>Pe rio d to wh ic h th e a m ou nt rel at es</i>	<i>Du e Da te</i>	<i>Da te of Pa y m en t</i>
<i>Na m e of th e St at ut e</i>	<i>Na tur e of th e Du es</i>	<i>A m ou nt (R s.)</i>	<i>Pe rio d to wh ic h th e a m ou nt rel at es</i>	<i>Du e Da te</i>	<i>Da te of Pa y m en t</i>			

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		<p>It has been noted from the auditor's report that although the name of the statute, nature of dues and the amount outstanding have been stated the period to which the dues relate, due date and date of payment (if any) have not been reported.</p> <p>Hence, it was viewed that the auditors have not strictly complied with the reporting requirements of paragraph 4(ix)(a) of CARO, 2003.</p>
20.	<p>In pursuance to the requirement of paragraph 4 (ix) of CARO, 2003 the auditor has reported as follows:</p> <ul style="list-style-type: none"> • According to the records of the Company, undisputed statutory dues including Provident Fund, Investor Education and Protection fund, Employees State Insurance, Income tax, Sales Tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Cess and other statutory dues have been generally regularly deposited with appropriate authorities. • According to the information and explanations given to us, no undisputed amounts payable in respect of the 	<p>It was observed that the auditor has reported only about the undisputed statutory dues as required under paragraph 4(ix) (a) of CARO, 2003 but has omitted to report on disputed statutory dues as is required vide clause 4 (ix) (b) of CARO, 2003. In case there are no disputed statutory dues, the auditor should state that fact in the report.</p> <p>Accordingly, it was viewed that the auditor has not complied with the reporting requirement of paragraph 4(ix) of CARO, 2003.</p>

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	<p>aforesaid dues were outstanding as at March 31, 20XX for a period of more than six months from the date of becoming payable.</p>	
<p>21.</p>	<p>The Accounting Policy on 'Employee Benefits' as given in the Annual Report of a company states as follows:</p> <p>a. The company does not contribute to provident fund.</p> <p>b...</p> <p>c. Long Term Employee benefits and retirement benefits are not accrued. The expense will be recognised in the year of payment.</p> <p>It has been noted that the auditor has not given any report in context of paragraph 4 (ix) (a) of CARO, 2003, which is in context of regularity in depositing the undisputed statutory dues including provident fund, investor education protection fund, and employees' State Insurance laws, even though the company has not contributed to provident fund.</p>	<p>Paragraph (ix)(a) of CARO, 2003 requires an auditor to report on:</p> <p><i>"Is the company regular in depositing undisputed statutory dues including provident fund, investor education protection fund, employees' State Insurance, Income tax, sales tax, wealth tax, service tax, custom duty, excise duty, cess and other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable , shall be indicated by the auditor."</i></p> <p>It was noted that the auditor has not commented on the above clause. The fact that the company does not contribute to provident fund itself is a violation of the relevant statute, which should have been reported by the auditor.</p> <p>Accordingly, it was viewed that the reporting requirement of</p>

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		<p>paragraph 4(ix)(a) of CARO, 2003 has not been complied with.</p>
<p>22.</p>	<p>In pursuance to the requirement of paragraph 4 (ix)(a) of CARO, 2003 the auditor has reported as follows:</p> <p>'(ix) According to the information & explanation given to us, during the year the company is not having any statutory liabilities whether undisputed or disputed as regards to the Provident Fund, Investor Education & Protection Fund, Employees State Insurance, Wealth Tax, Service Tax, Income Tax, Sales Tax, Custom Duty, Excise Duty, Cess and other material statutory dues, therefore, the provisions of clause 4(ix) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.'</p>	<p>It may be noted that paragraph 63 (c) of the Statement on Companies (Auditors Report) Order, 2003 issued by the Institute states as follows;</p> <p>"63. (c) ...Any sum, which is to be regularly paid to an appropriate authority under a statute (whether Central, State or Local or foreign) applicable to the company, should be considered as a "statutory due" for the purpose of this clause. In other words, obligation to pay a statutory due is created or arises out of a statute, rather than being based on an independent contractual or legal relationship..."</p> <p>Though the auditor has reported that clause 4(ix) (a) of CARO, 2003, is not applicable to the company, it has been observed from the financial statements that the company has contributed to provident and other funds of employees. It has also incurred expenditure on rent, professional fees and audit fees, which are liable for tax deduction at source. Therefore, it may not be correct to state that the company is not liable to</p>

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		<p>pay such statutory dues.</p> <p>Hence, it was viewed that the reporting requirement of clause 4(ix) (a) of CARO, 2003 has not been complied with.</p>					
23.	<p>In pursuance to the requirement of paragraph 4 (ix)(b) of CARO, 2003, the auditor has reported service tax demands relating to various years, which have not been deposited on account of dispute.</p>	<p>It may be noted that paragraph 64(g) of Statement on the Companies (Auditor's Report) Order, 2003, issued by the Institute states that the information required under this clause may be reported in the following format:</p> <p style="text-align: center;">Statement of Disputed Dues</p> <table border="1" data-bbox="873 947 1247 1360"> <thead> <tr> <th data-bbox="873 947 951 1360">Name of the Statute</th> <th data-bbox="951 947 1029 1360">Nature of the Dues</th> <th data-bbox="1029 947 1107 1360">Amount (Rs.)</th> <th data-bbox="1107 947 1185 1360">Period to which the amount relates</th> <th data-bbox="1185 947 1247 1360">Forum where dispute is pending</th> </tr> </thead> </table> <p>It was noted that the auditor has reported that the service tax demands relate to various years instead of stating the specific period to which such demands relate as required by the suggested format.</p> <p>Accordingly it was viewed that the reporting requirement of paragraph 4 (ix) (b) of CARO,</p>	Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending
Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending			

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		2003 has not been strictly complied with.
24.	<p>In pursuance to the requirement of paragraph 4 (ix) of CARO, 2003 the auditor has reported income tax demands of Rs xxx not deposited on account of dispute; however, no such income tax demands have been disclosed as contingent liability nor any provision has been made therefore.</p> <p>In another case, the auditor has reported that the company has generally been regular in depositing undisputed dues, including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, etc. although there are no employee costs recognised in the Statement of Profit and Loss.</p>	<p>In both the cases, it was observed that the information provided in the financial statements contradicts with that reported by the auditors under CARO, which should be avoided.</p>
25.	<p>In pursuance to the requirement of paragraph 4 (xi) of CARO, 2003, the auditors have reported in either of the following ways:</p> <ul style="list-style-type: none"> Based on our audit procedure and on the information and explanation given by the management, the company has not provided for payment of interest on the dues payable to banks and financial institutions. As informed to 	<p>It may be noted that pursuant to paragraph 4 (xi) of CARO, 2003 an auditor is required to report on the following:</p> <p><i>"Whether the company has defaulted in repayment of dues to a financial institution or bank or debenture holders? If yes, the period and amount of default to be reported."</i></p> <p>It was observed in the first case that although the auditor has</p>

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	<p>us, the company is in process of one time settlement with the said banks and financial institutions.</p> <ul style="list-style-type: none"> As per the information and explanations made available to us, the Company has been generally regular in repayment of dues to financial institutions or banks for the period ending 31st March, 20XX. 	<p>stated that the company has defaulted in repayment of dues to banks and financial institutions he has not reported the period and amount of default as required by the above paragraph.</p> <p>In the second case, it was noted that the auditor has used the phrase 'generally regular' while reporting on repayment of dues. It was viewed that usage of such phrase indicates that there have been instances of defaults. However, the auditor has neither reported the period nor the amount of default.</p> <p>Accordingly, it was viewed that the reporting requirements of clause 4 (xi) of CARO, 2003 have not been complied with.</p>
26.	<p>In pursuance to the requirement of paragraph 4 (xvi) of CARO, 2003 the auditors have reported in either of the following ways:</p> <ul style="list-style-type: none"> Based on our audit procedures and on the information given by the management, we report that company has not raised any term loans during the year. Other clauses of the order are not applicable to the company. 	<p>Pursuant to the requirement of paragraph 4 (xvi) of the Companies (Auditor's Report) Order 2003, an auditor is required to report on:</p> <p><i>"Whether the term loans were applied for the purpose for which the loans were obtained."</i></p> <p>It was noted that in the first case, the auditor has reported that the company has not raised any term loans during the year while in the second case, he has</p>

Companies (Auditor's Report) Order (CARO)

		<p>reported that the said clause is not applicable to the company. However, it was observed from the note on borrowings that both the companies have obtained term loans from banks.</p> <p>Accordingly, it was felt that the auditors have not complied with the reporting requirements of paragraph 4(xvi) of CARO, 2003.</p>
27.	<p>In pursuance to the requirement of paragraph 4 (xv) of CARO, 2003 the auditor has reported as follows:</p> <p>'According to the information given to us, the company has given corporate guarantee to Banks for the loans taken by group companies. Further, we have been informed by the Company that the same is not prejudicial to the interest of the Company.'</p>	<p>Paragraph 3 of the Statement on the Companies (Auditor's Report) Order, 2003, issued by the Institute, states that:</p> <p>"3...the auditors should exercise their professional judgement and experience on various matters on which they are required to report under the Order."</p> <p>It was observed that while reporting in pursuance to the requirements of clause 4 (xv) of CARO, 2003, the auditor has reported based on what he has been informed by the management rather than exercising his own judgment.</p> <p>It was viewed that use of the phrase 'informed by the Company' does not relieve him from his duty to adopt suitable verification procedures for the stated clause and to exercise his judgment in order to report on</p>

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		<p>the said requirement of CARO, 2003.</p> <p>Accordingly, it was viewed that the reporting requirement of paragraph 4(xv) of CARO, 2003 has not been complied with.</p>
28.	<p>In the Annexure to the auditors' report in the Annual Reports of a couple of companies the auditors have reported as follows:</p> <ul style="list-style-type: none"> • As required by the Companies (Auditors' Report) Order 2003, as amended by Companies Auditors' Report) Order 2004, issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956. • As required by the Companies (Auditors Report) (Amendment) Order, 2004 issued by the Central Govt. of India 	<p>In the first case, it should be noted that CARO, 2003 has been issued by the Central Government and not by the Company Law Board.</p> <p>In the second case, it should be noted that the 2004 order is only an amendment order which suggest some changes in the Companies (Auditor's Report) Order, 2003. Accordingly, the auditor should refer to Companies (Auditor's Report) Order, 2003 instead of Companies (Auditor's Report) (Amendment) Order, 2004.</p> <p>Accordingly, it was viewed that such types of mistakes should be avoided.</p>
29.	<p>In pursuance to the requirement of paragraph 4 (xxi) of CARO, 2003 the auditor has reported as follows:</p> <p>"The Company is not sick company under the Provision of the Sick Industrial Companies (Special Provisions) Act, 1985."</p>	<p>Paragraph 4(xxii) of CARO, 2003 requires the auditor to report on:</p> <p><i>"(xxi) Whether any fraud on or by the Company has been noticed or reported during the year. If yes, then the nature and the amount involved is to be indicated."</i></p>

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		<p>It was observed that the auditor has reported pursuant to the requirements of MAOCARO, 1988 and not as per the requirements of CARO, 2003.</p> <p>Accordingly, it was viewed that the auditor has not complied with the reporting requirements of CARO, 2003.</p>
30	<p>From the Annexure to the auditors' reports as given in the Annual Reports of some companies, it has been noted that:</p> <ul style="list-style-type: none"> • While reporting pursuant to clause (ix) (b) of CARO, 2003, the auditor has reported some disputed dues which have already been paid. • Pursuant to clause (iii)(a) of CARO, 2003 the company has granted loan to one party covered in the register maintained under section 301 of the Act However, in the details, he has reported two parties who have been given loans. • The Company has granted loan to company covered in the Register maintained under section 301 of the 	<p>Set out below are the observations with regard to the reported cases:</p> <p>(i) Clause 4 (ix) (b) requires the auditor to report only those dues that have not been deposited on account of dispute. However, in this case the auditor has reported some disputed dues, which have already been paid.</p> <p>(ii) The auditor has reported that the company has granted loans to one party instead of two parties.</p> <p>(iii) Here again the auditor has reported that the company has granted loans to companies covered in the Register maintained under section 301 although the company has granted loans to a non - company also.</p> <p>(iv) Paragraph reference has</p>

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	<p>Companies Act, 1956.</p> <ul style="list-style-type: none"> Annexure referred to in Paragraph 4 of our Report of even date. – is the title used for the CARO report. 	<p>been wrongly given as 4 instead of 3.</p> <p>In all the reported cases, it was viewed that although these appear to be typographical errors or errors of oversight, such errors should be avoided while drafting the report under CARO, 2003.</p>
31.	<p>In pursuance to the requirement of paragraph 4 (iii) (a) of CARO, 2003, the auditor has reported as follows:</p> <p>‘In our opinion and according to the information and explanation given to us, the Company has not entered loan transactions to which provisions of Section 297 and 299 of Companies Act, 1956 are applicable. Therefore, the provisions of clause (iii) of paragraph 4 of the Order are not applicable to the Company.’</p>	<p>Paragraph 4(iii) (a) of CARO, 2003 requires an auditor to report on:</p> <p><i>“Has the company either granted or taken any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under section 301 of the Act. If so, give the number of parties and amount involved in the transactions.”</i></p> <p>It was observed that the auditor has reported loan transaction to which provisions of Section 297 and 299 of the Companies Act, 1956 are applicable. In other words, the auditor has reported loans covered by Sections 297 and 299 whereas CARO requires the auditor to report whether loans have been granted or taken to/from parties covered in the register maintained under section 301 of the Companies Act, 1956. It may</p>

Companies (Auditor's Report) Order (CARO)

		<p>be further noted that Section 297 does not cover any loan transaction.</p> <p>Hence, it was viewed that reporting requirements of clause 4(iii) of CARO, 2003 has not been complied with.</p>
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Observations on Standards on Auditing

S.N.	Matters contained in the Annual Report	Observations
1.	From the Auditors' Report as given in the Annual Report of a company, it has been noted that the auditor has not given the firm's registration number in the audit report signed on 31 August, 201X.	<p>It may be noted that footnote 26 given with reference to Paragraph A 36 of SA 700 (Revised), Forming an Opinion and Reporting on Financial Statements, inter alia provides that :</p> <p>"The Council of the ICAI, at its 292nd meeting held in January 2010, decided to require the members of the ICAI to include, in addition to the other requirements relating to signature on the audit report, as prescribed under the relevant Standard on Auditing, the registration number of the firm as allotted by ICAI, in the audit reports signed by them... The Council further decided to make this requirement effective for all attestation reports/ certificates issued on or after 1st October, 2010."</p> <p>From the above, it has been noted that the firm's registration number should be mentioned in the audit report signed on or</p>

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		<p>after 1st October, 2010. However, in the reported case it was observed that the firm registration number has not been mentioned in the audit report though signed on 31 August 2011.</p> <p>Accordingly, it was viewed that the requirement of SA 700 has not been complied with.</p>
2.	<p>Abstract of the Auditor's Report as given in the Annual Report of a company reads as follows:</p> <p>"We have audited the accompanying financial statements of XXX Ltd...</p> <p>Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position and financial performance of the Company...</p> <p>Our responsibility is to express an opinion on these financial statements based on our audit...</p> <p>An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements...</p> <p>We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit</p>	<p>It may be noted that Standard on Auditing (SA) 700 (Revised), Forming an Opinion and Reporting on Financial Statements is applicable from the period beginning on or after April 1, 2011. Further, as per the illustrative format of Auditor's Reports on Financial Statements an auditor is required to present the audit report duly divided under different headings viz 'management responsibility for the financial statements', 'Auditor's Responsibility', 'Opinion', 'Report on other legal and regulatory requirements'.</p> <p>It was noted in the given case that the suggested headings of different paragraphs defining separate elements of the audit report have not been given though the audit report relates to financial year 2012-13.</p> <p>Accordingly, it was viewed that the requirement of SA 700 has</p>

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	<p>opinion.</p> <p>In our opinion and to the best of our information and according to the explanations given to us...”</p>	<p>not been complied with.</p>
3.	<p>Abstract of Auditor's Report given in the Annual Report of a banking company reads as follows:</p> <p>“6. In our opinion and to the best of our information and according to the explanation given to us, the said accounts together with the notes thereon give the information required by the Banking Regulations Act, 1949 as well as Companies Act, 1956, in the manner so required for the banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India:</p> <p>...</p> <p>(ii) In the case of the Profit and Loss Account of the profit/loss for the year ended on that date; (emphasis supplied)”</p>	<p>It may be noted that in the Opinion Paragraph of Appendix to SA 700, 'Forming an opinion and Reporting on Financial Statements', the phrase 'profit/loss' has been used to indicate the situations when the given format may be used. However, in practice the enterprise either earns profit or incurs loss in any financial year. Therefore, the auditor should express his opinion either on profit or loss, as the case may be. A reader of the financial statements may get confused on reading 'profit/loss'.</p> <p>Accordingly it was viewed that such type of reporting should be avoided.</p>
4.	<p>Paragraph 4(d) of the Auditor's Report as given in the Annual Report of a company reads as under:</p> <p>“4. As required by section 227(3) of the Act, we report</p>	<p>It may be noted that Paragraph 36 of SA 700, Forming an Opinion and Reporting on Financial Statements, provides as follows:</p> <p>“36. When expressing an unmodified opinion on financial</p>

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	<p>that:</p> <p>(a) In our opinion, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956.”</p>	<p>statements prepared in accordance with a compliance framework, the auditor’s opinion shall be that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.”</p> <p>From the above, it was noted that an auditor can express unmodified opinion on the financial statements only if its financial statements have been prepared in accordance with applicable financial reporting framework. However, in this case, it was noted that the financial statements do not comply with the requirements of various accounting standards as notified under the Companies (Accounting Standards) Rules, 2006, viz, AS 3, AS 10, AS 11, AS 15, AS 16, AS 18, AS 19, AS 28 and AS 29. Despite so many non-compliances, the auditor has expressed an unmodified opinion.</p> <p>Accordingly, it was viewed that the requirements of Section 227(3) of Companies Act, 1956¹ as well as SA 700 have not been complied with.</p>
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¹Subsequent to the observations of the Board, the Companies Act, 2013 came into force which replaced the erstwhile Companies Act, 1956. However, content is still relevant in terms of Companies Act, 2013.

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5.	<p>In the Annual Report of a bank the title of the Audit Report has been stated as "AUDITOR'S REPORT".</p>	<p>It may be noted that Paragraph 21 of SA 700, Forming an Opinion and Reporting on Financial Statements, reads as follows:</p> <p>"21. The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor."</p> <p>It was observed that the auditor has given the report without stating whether it is an independent auditor's report or not.</p> <p>Accordingly, it was viewed that the requirement of paragraph 21 of SA 700 has not been complied with.</p>
6.	<p>From the Auditor's Report given in the Annual Report of a company, it has been noted that although the auditor has expressed his opinion on the true and fair view of the Cash Flow Statement he has not referred the Cash Flow Statement in his opening or introductory paragraph which reads as follows:</p> <p>"We have audited the accompanying financial statements of XXX Ltd which comprise the Balance Sheet as at March 31, 20XX, and the Statement of Profit and Loss for the year ended, and a summary</p>	<p>It was noted from the introductory paragraph that the financial statements comprise of the Balance Sheet, Statement of Profit and Loss, summary of significant accounting policies and other explanatory information. In other words, Cash Flow Statement has not been referred to as part of the financial statements.</p> <p>Paragraph 23 of SA 700 states that the opinion section (i.e. the first section) of the auditor's report shall identify the title of each statement that comprises the financial statements.</p> <p>It may be further noted that</p>

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	<p>of significant accounting policies and other explanatory information.”</p>	<p>Paragraph 3.4 of Revised Preface to the Statements of Accounting Standards issued by the Institute of Chartered Accountants of India in 2004 states as follows:</p> <p>The term "General Purpose Financial Statements" includes balance sheet, statement of profit and loss, a cash flow statement (wherever applicable) and statements and explanatory notes which form part thereof, issued for the use of various stakeholders, Governments and their agencies and the public...”</p> <p>From the above, it was viewed that in the introductory paragraph the auditor should have included Cash Flow Statement as part of the financial statements to comply with the reporting requirements of SA 700.</p>
<p>7.</p>	<p>Paragraph (1) of the auditor’s report as given in the Annual Report of a company states as follows:</p> <p>“We have audited the attached Balance Sheet of XXX Limited as at March 31, 20XX and the relative Profit and Loss Account and the Cash Flow Statement for the year ended on that date all of which we have signed under reference to this report.”</p>	<p>It was noted from the auditor’s report that the auditor has referred to Statement of Profit and Loss as “relative Profit and Loss Account. It was viewed that there is no such term either in the Companies Act or in the Standards on Auditing and that use of such term in the audit report should be avoided.</p>

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8.	<p>In the Annual Report of a company, it has been noted that the Significant Accounting Policies and Notes to Accounts have been given on the letterhead of the audit firm.</p>	<p>It may be noted that “Guidance Note on Preparation of Financial Statements on Letter-heads and stationery of Auditors” issued by the Institute of Chartered Accountants of India, clarifies as follows:</p> <p>“The Research Committee’s attention has been drawn to the fact that financial statements of some enterprises are prepared on letter-heads and stationery of their auditor carrying the latter’s names and address. The Committee wishes to point out that the above practice is liable to be misinterpreted and, as such, should be avoided. The members are, therefore, requested to note and follow the above recommendation.”</p> <p>It was observed that the accounting policies followed and notes to accounts have been given on the letter head of the audit firm.</p> <p>The practice of preparing the financial Statements on the stationery of the firm is against the aforesaid recommendation of the Institute.</p>
9.	<p>From the Annual Report of a company, it has been noted that the auditor has signed the audit report at one place while he has signed the financial statements</p>	<p>It was noted that the place of signature of the auditor’s report is different from the place of signature of the financial statements. It was possible that</p>

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	<p>on the same day at a different place.</p>	<p>the financial statements are signed by the directors at a different location. It was viewed that when these are signed by the auditors along with the audit report both should be signed at the same location.</p> <p>Hence, signing auditor's report at one place and financial statement at another place is not appropriate.</p>
<p>10.</p>	<p>In the Annual Report of a company the note regarding related party disclosures has been stated as follows:</p> <p>“Related Parties and transactions with them as specified in Accounting Standard 18 “Related Parties Disclosures” issued by ICAI has been identified and given below on the basis of information available with the company and the same have been relied upon by the auditors.”</p>	<p>It appears from the above that the identification of related parties and the existence of their relationship as well as the transactions that have taken place with them have been reported on the basis of the information available with the company and that the same have been relied upon by the auditor. It was viewed that usage of the phrase ‘relied upon by the auditor’ may lead the users of financial statements to believe that the auditor has merely relied on the information provided by the management without applying appropriate audit procedures to verify the existence of such relationship and the transactions with such parties.</p> <p>It may be noted that paragraph 7 of SA 500, Related Parties requires the auditor to perform</p>

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		<p>certain procedures for identifying the names of all known related parties while reviewing the information provided by the management rather than only relying on the information provided by the management.</p> <p>It was viewed that if the auditor has performed all the necessary audit procedures to conclude that the related party relationship disclosed is correct then the auditor should not use such phrases. Accordingly, it was viewed that the requirement of SA 500 has not been complied with.</p>
11.	<p>The 'Opinion' paragraph and 'Report on other Legal and Regulatory Requirements' in the Auditor's Report as given in the Annual Report of a company read as follows:</p> <p>Opinion</p> <p>"In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:</p>	<p>The facts stated in the audit report clearly indicate that the financial statements have not been prepared in accordance with applicable financial reporting framework. For instance, non-provision of interest is a non-compliance with AS 16 and amounts involved are material. Hence, expressing unqualified opinion in this case is not in line with the requirement of paragraph 16 of SA 700, Forming an Opinion and Reporting on Financial Statements, which states as follows:</p> <p>"16. The auditor shall express</p>

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<p>(b) In the case of the Balance Sheet, the state of affairs of the Company as at March 31, 20xx;</p> <p>(c) In the case of the Profit and Loss Account, the loss for the year ended on that date; and</p> <p>(d) In the case of the Cash Flow Statement, the cash flows for the year ended on that date.</p> <p>Report on Other Legal and Regulatory Requirements:</p> <p>“2. The banks, financial institutions and other lenders have filed legal cases against the company for recovery of outstanding loans and interest thereon. No provision has been made in these accounts for additional interest, penal interest, liquidated damages etc. amounting to Rs. xxx as claimed by the above lenders at various legal forums. The same has been shown as contingent liability in notes to accounts attached to the said accounts. Company however had been providing interest on the above loans on a basis as considered appropriate by the</p>	<p>an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.”</p> <p>It was further noted that the auditor has expressed unqualified opinion and has raised issue in the paragraph ‘Report on other Legal and Regulatory requirements’ with regard to adopting going concern basis for preparing financial statements. It was viewed that the company was primarily governed by the Companies Act 1956; hence reporting such important fact under ‘Report on other Legal and Regulatory requirements’ is neither in line with paragraph 19 and 20 of SA 570 going concern nor with SA 700, which is reproduced below:-.</p> <p>“19. If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion and include an Emphasis of Matter paragraph in the auditor’s report to:</p> <p>(a) Highlight the existence of a material uncertainty relating</p>
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Study on Compliance of Financial Reporting Requirements

	<p>management but up to 31st March, 20xx. However, the company has stopped providing interest on all loans from banks and financial institutions whether secured or unsecured w.e.f. 01.04.20XX on the ground that these loans would have been declared NPA by them. Interest amounting to Rs. xxx up to the current year ended 31st March, 20XX has not been provided but the same has also been included in contingent liability (emphasis supplied).</p> <p>3. These financial statements have been prepared on a going concern basis. The Company has incurred an operating loss during the year. The company is passing through a severe liquidity crisis and is unable to honour its commitment to lenders, preference shareholders, suppliers and employees. The bankers, financial institutions and other lenders have taken legal action for recovery of their dues. Several petitions for winding up of the company have been filed by</p>	<p>to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and to</p> <p>(b) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 18.</p> <p>20. If adequate disclosure is not made in the financial statements, the auditor shall express a qualified or adverse opinion, as appropriate (See SA 705 9). The auditor shall state in the auditor's report that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern. "</p> <p>It was observed that the auditor has neither included the going concern issue as an 'Emphasis of Matter' nor expressed any 'qualified opinion'.</p> <p>Accordingly, it was viewed that the requirements of SA 700 have not been complied with.</p>
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Observations on Standards on Auditing

	<p>the creditors and lenders. The company is contesting these petitions or is settling such petitions out of courts. The company is in the process of restructuring its business and also trying to identify alternative source of finance. In the absence of adequate financial support this basis would be invalid. Provision would then have to be made for any loss that might arise when the company's assets are realised.</p> <p>We further report that, the effect of our remarks in paragraph 2 and 3 could not be readily ascertained.”</p>	
12.	<p>From the Annual Report of a company, it has been noted that the auditor has expressed his opinion on the financial statements under the heading “Auditor’s Responsibility’. It has been further noted that under the heading ‘Report on other Legal and Regulatory Requirements’ the auditor has reported as under:</p> <p>...</p> <p>“Accounting Standard 15 on Employee Benefits, the company has been providing for gratuity liability on an ad-hoc basis but not as stipulated by</p>	<p>The following discrepancies have been observed with respect to Auditor’s Report:</p> <p>i) The opinion on the financial statements has been given under ‘Auditor’s Responsibility’ paragraph. It may be noted that an auditor is required to express opinion in a separate section as per paragraph 34 of SA 700, which states as follows:</p> <p>“34. The auditor’s report shall include a section with the heading “Opinion”.</p>

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	<p>the standard (Refer Note 29.2.ii)”</p>	<p>In case the auditor modifies the audit opinion he should use the heading “Qualified Opinion”, “Adverse Opinion” or “Disclaimer of Opinion”, as appropriate, for the opinion paragraph. (Paragraph 22 of SA 705)</p> <p>Accordingly it was viewed that expressing opinion under ‘Auditor’s Responsibility’ paragraph is not in line with the requirements of SA 700 (Revised) and SA 705.</p> <p>ii) The auditor has reported that the gratuity liability recognised is not as per AS 15. It was viewed that it is a vague information for the reader, since it is not clear whether the auditor only intends to report it as an emphasis of matter or to modify his report. It may be noted that Paragraph 6(a) of SA 705, Modifications to the Opinion in the Independent Auditor’s Report, states as follows:</p> <p>“6 The auditor shall modify the opinion in the auditor’s report when:</p> <p>(a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole</p>
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Observations on Standards on Auditing

		<p>are not free from material misstatement.”</p> <p>It may also be noted that while explaining nature of material misstatements paragraph A4 of 'Application and Other Explanatory Material' to SA 705 states as follows:</p> <p>“A4. In relation to the appropriateness of the accounting policies management has selected, material misstatements of the financial statements may arise when:</p> <p>(a) The selected accounting policies are not consistent with the applicable financial reporting framework.”</p> <p>In view of the non-compliance with AS 15, the auditor should have modified his opinion.</p> <p>Accordingly, it was viewed that the auditor has not complied with the requirements of SA 700 (Revised) and SA 705 while expressing opinion on the financial statements.</p>
13.	<p>One of the paragraph of Auditor's Report and Notes to the accounts as given in the Annual Report of a bank respectively read as follows:</p>	<p>It was noted from the Auditor's Report that without qualifying opinion, the auditor has referred to certain matters. In other words, the auditor has laid emphasis on those matters. It</p>

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	<p>“Auditor’s Responsibility</p> <p>6. Without qualifying our opinion, we refer to:-</p> <p>c) Note no. XX regarding provision of Pension and Gratuity.”</p> <p>Notes to Accounts</p> <p>XX. Unamortised Pension and Gratuity Liabilities</p> <p>During the FY 20XX-XX, the Bank has incurred a liability amounting Rs. xxx on account of reopening of pension option Rs. xxx and enhancement of Gratuity Ceiling Rs. xxx. The Bank has amortised the said liability over a period of five years commencing from FY 20XX-XX in terms of RBI circular no. DBOD. BP.BC.80/21.04.018/2010-11 dated 9th February 2011. Accordingly, Rs. xxx (Representing one fifth of Rs. xxx) has been charged to Statement of Profit and Loss during the current financial year. The detailed break-up is as under</p>	<p>may be noted that Paragraph 7 of SA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report, states as follows :</p> <p>“9. When the auditor includes an Emphasis of Matter paragraph in the auditor’s report, the auditor shall:</p> <p>(a) Use the heading “Emphasis of Matter”, or other appropriate heading;</p> <p>(b) Include in the paragraph a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial statement; and</p> <p>(c) Indicate that the auditor’s opinion not modified in respect of the matter emphasised.”</p> <p>It was further noted that Paragraphs 3 and 4 of the Announcement on ‘Manner of Reporting by the Auditors on Prudential Regulatory Treatment Prescribed by RBI in Respect of Pension and Gratuity Liability of Public Sector Banks’ issued by ICAI on March 23,2011 specifically relating to matters emphasised by Auditor</p>
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Observations on Standards on Auditing

		<p>states as follows:</p> <p>“3. On a consideration of the matter, the Council of the Institute decided that since the accounting treatment for such expenditure is prescribed under the prudential regulatory framework of the Regulator, the auditors need not qualify their audit report on account of this. The matter should, however, be brought out by the auditors in the audit report by way of an “ Emphasis of Matter Paragraph” in accordance with the Standard on Audit (SA) 706, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report, provided the matter of departure from the requirements of AS 15 pursuant to the aforesaid circular of RBI is appropriately disclosed, with quantification, by the bank by way of the notes to the accounts in the financial statements(emphasis supplied).</p> <p>“4. An illustrative Emphasis of Matter Paragraph in the audit report is as follows:</p> <p>“Emphasis of Matter</p>
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		<p><i>Without qualifying our opinion, we draw attention to Note X to the financial statements, which describes deferment of pension and gratuity liability of the bank to the extent of Rs. YYY pursuant to the exemption granted by the Reserve Bank of India to the public sector banks from the application of the provisions of Accounting Standard (AS) 15, Employee Benefits vide its circular no. DBOD. BP.BC/80/21.04.018/2010-11 on Re-opening of Pension Option to Employees of Public Sector Banks and Enhancement in Gratuity Limits – Prudential Regulatory Treatment.”</i></p> <p>In view of the above, it was observed that in the reported case, the auditor has not reported emphasis of matters as required in SA 706. He has also not followed the Announcement issued by the Institute and has neither quantified the pension and gratuity liabilities nor has mentioned anything about the exemption granted by RBI/departure from AS 15 in his report.</p> <p>Accordingly, it was viewed that the requirements of SA 706 have not been complied with.</p>
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Observations Relating to Banking & Insurance Companies

S. No.	Matter contained in Annual Report	Observations									
1.	<p>Balance Sheet of a Bank reads as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Previous Year</th> <th style="text-align: center;">Property and Assets</th> <th style="text-align: center;">Current Year</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">---</td> <td style="text-align: center;">1-Cash and Bank Balances</td> <td style="text-align: center;">---</td> </tr> <tr> <td></td> <td style="text-align: center;">2-Balances with Other Banks</td> <td></td> </tr> </tbody> </table>	Previous Year	Property and Assets	Current Year	---	1-Cash and Bank Balances	---		2-Balances with Other Banks		<p>It may be noted that as per Section 56(s) of the Banking Regulation Act, 1949, Balance Sheet and Profit and Loss Account of the co-operative bank should be prepared in the forms set out in the Third Schedule to Banking Regulation Act, 1949.</p> <p>Further, it may be noted that section 56(w)(zi) of Banking Regulation Act, lays down the format of the Third Schedule applicable on co-operative banks which prescribe that Cash and Balance with other banks should be shown in the following format:</p> <p>“PROPERTY AND ASSETS</p> <p>1. Cash</p> <p style="padding-left: 20px;">In hand and with Reserve Bank [the National Bank], State Bank of India, State Co-operative Bank and Central Co-operative Bank</p>
Previous Year	Property and Assets	Current Year									
---	1-Cash and Bank Balances	---									
	2-Balances with Other Banks										

		<p>.....</p> <p>2. Balances with other banks</p> <p>(i) Current deposits</p> <p>(ii) Savings bank deposits</p> <p>(iii) Fixed deposits”</p> <p>The following discrepancies were noticed with respect to presentation of ‘Cash’ and ‘Balances with other banks’:</p> <ol style="list-style-type: none"> 1. It was noted that an aggregate balance of cash and bank balances has been disclosed without sub-classifying it for giving details of cash balances with RBI, SBI, State Co-operative Bank and Central Co-operative Bank. 2. It was further noted that an aggregate balance of ‘balances with other banks’ has been disclosed without classifying it as given in prescribed format viz. current deposits, Saving bank deposits and Fixed deposits. <p>Accordingly, it was viewed that presentation of ‘cash and bank balance’ and ‘balances with other banks’ is not in line with the format prescribed in ‘The Third Schedule’ given under Part V of the Banking Regulation Act, 1949.</p>
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Observations Relating to Banking & Insurance Companies

2.	<p>The Schedule on Investments given in the Annual Report of a bank is as follows:</p> <p>INVESTMENTS</p> <table border="1"> <thead> <tr> <th>Previous Year</th> <th>Particulars</th> <th>Current Year</th> </tr> </thead> <tbody> <tr> <td align="center">---</td> <td>vi) In Central & State Govt. Securities</td> <td align="center">---</td> </tr> <tr> <td></td> <td>vii) Other Investments</td> <td></td> </tr> </tbody> </table>	Previous Year	Particulars	Current Year	---	vi) In Central & State Govt. Securities	---		vii) Other Investments		<p>It may be noted from Form A: Form of balance-sheet of the Third Schedule given in Part V of the Banking Regulation Act, 1949 that Investments should be shown in following format:</p> <p>PROPERTY AND ASSETS</p> <p align="right">Rs. P. Rs. P.</p> <p>4. Investments</p> <p>(i) In Central and State Government securities (at book value).....</p> <p>Face value Rs</p> <p>Market value Rs.</p> <p>...</p> <p>(iv) Other investments (to be Specified)</p> <p>The following discrepancies have been noted with regard to format followed for disclosure of Investments:</p> <p>1. It was noted from the schedule of Investments that Investments in Central and State Government securities have been disclosed, however, the face value and market value of the same as per the prescribed format have not been given.</p> <p>2. It was noted from the schedule of Investments that as per the prescribed format the nature of</p>
Previous Year	Particulars	Current Year									
---	vi) In Central & State Govt. Securities	---									
	vii) Other Investments										

Study on Compliance of Financial Reporting Requirements

		other investments is to be specified, however, such details have not been disclosed.																											
3.	<p>Schedule on Deposits and Other Accounts given in the Annual Report a Co-operative Bank reads as follows:</p> <p>DEPOSITS AND OTHER ACCOUNTS</p> <table border="1"> <thead> <tr> <th>Previous Year</th> <th>Particulars</th> <th>Current Year</th> </tr> </thead> <tbody> <tr> <td>---</td> <td>1) TERM DEPOSITS</td> <td>---</td> </tr> <tr> <td></td> <td>a) From Individuals</td> <td></td> </tr> <tr> <td></td> <td>b) From Institutions</td> <td></td> </tr> <tr> <td></td> <td>2) SAVINGS BANK DEPOSITS</td> <td></td> </tr> <tr> <td></td> <td>a) From Individuals</td> <td></td> </tr> <tr> <td></td> <td>b) From Institutions</td> <td></td> </tr> <tr> <td></td> <td>3) TERM DEPOSITS</td> <td></td> </tr> <tr> <td></td> <td>a) From Individuals</td> <td></td> </tr> </tbody> </table>	Previous Year	Particulars	Current Year	---	1) TERM DEPOSITS	---		a) From Individuals			b) From Institutions			2) SAVINGS BANK DEPOSITS			a) From Individuals			b) From Institutions			3) TERM DEPOSITS			a) From Individuals		<p>It may be noted from Form A: Form of balance-sheet of the Third Schedule given in Part V of the Banking Regulation Act, 1949 that Deposits and other accounts should be shown in following format:</p> <p style="text-align: center;">CAPITAL AND LIABILITIES</p> <p style="text-align: right;">Rs. P. Rs. P.</p> <p>4. Deposits and other accounts:</p> <p>(i) Fixed deposits*</p> <p style="padding-left: 20px;">(a) Individuals"</p> <p style="padding-left: 20px;">(b) Central Co-operative Banks.....</p> <p style="padding-left: 20px;">(c) Other societies.....</p> <p>(ii) Savings bank deposits-</p> <p style="padding-left: 20px;">(a) Individuals**</p> <p style="padding-left: 20px;">(b) Central Co-operative Banks.....</p> <p style="padding-left: 20px;">(c) Other societies.....</p> <p>(iii) Current deposits.....</p> <p style="padding-left: 20px;">(a) Individuals**</p> <p style="padding-left: 20px;">(b) Central Co-operative Banks.....</p>
Previous Year	Particulars	Current Year																											
---	1) TERM DEPOSITS	---																											
	a) From Individuals																												
	b) From Institutions																												
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	a) From Individuals																												
	b) From Institutions																												
	3) TERM DEPOSITS																												
	a) From Individuals																												

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	<p>b) From Institutions</p>	<p>(c) Other societies.....</p> <p>(iv) Money at call and short Notice</p> <p>It was noted that deposits and other account in Schedule C have been classified as those taken from Individuals and Institutions. It was viewed that as per prescribed format different nature of deposits need to be classified into received from Individuals, Central Co-operative Banks and Other societies. However, from the given abstract, it is not clear whether deposits received from Institutions includes deposits received from Central Co-operative Banks or from Other society or else.</p>												
<p>4.</p>	<p>Schedule on Borrowings as given in the Annual Report of a Co-operative Bank reads as follows:</p> <p>BORROWINGS</p> <table border="1"> <thead> <tr> <th>Prev ious Year</th> <th>Particular s</th> <th>Curren t Year</th> </tr> </thead> <tbody> <tr> <td align="center">---</td> <td>1) SIDBI Refinance</td> <td align="center">---</td> </tr> <tr> <td></td> <td>2) FCY Borrowings -USD</td> <td></td> </tr> <tr> <td></td> <td>3) Long Term</td> <td></td> </tr> </tbody> </table>	Prev ious Year	Particular s	Curren t Year	---	1) SIDBI Refinance	---		2) FCY Borrowings -USD			3) Long Term		<p>It may be noted from Form A: Form of balance-sheet of the Third Schedule given in Part V of the Banking Regulation Act, 1949 that Borrowings should be shown in following format:</p> <p>“CAPITAL AND LIABILITIES</p> <p align="right">Rs. P. Rs. P.</p> <p>5. Borrowings</p> <p>(i) From Reserve Bank [the National Bank] of India/State/Central Co-operative Bank</p> <p>(a) Short-term loans, cash credits and over-drafts-...</p>
Prev ious Year	Particular s	Curren t Year												
---	1) SIDBI Refinance	---												
	2) FCY Borrowings -USD													
	3) Long Term													

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	(Subordinated) Deposits	<p>(b) Medium-term loans ... (c) Long-term loans ... (ii) From the State Bank of India (a) Short-term loans, cash credits and over-drafts-... (b) Medium-term loans ... (c) Long-term loans ... (ii) From the State Government (a) Short-term loans, cash credits and over-drafts-... (b) Medium-term loans ... (c) Long-term loans ..."</p> <p>It was noted that borrowings have not been classified as per the format prescribed in Form A- form of Balance Sheet, 'The Third Schedule of Banking Regulation Act, 1949'.</p>
5.	Note relating to 'Corporate Information' given in the Annual Report of an NBFC states as	It may be noted that paragraph 10(5) of Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential

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	<p>follows:</p> <p>“The company is classified with effect from XX-XX-XXXX as Non-Deposit taking Asset Financing Company.”</p>	<p>Norms (Reserve Bank) Directions, 2007 requires as follows:</p> <p><i>“(5) Every systemically important non-deposit taking non-banking financial company shall disclose the following particulars in its Balance Sheet</i></p> <ul style="list-style-type: none"> • <i>Capital to Risk Asset Ratio (CRAR)</i> • <i>Exposure to real estate sector, both direct and indirect, and</i> • <i>Maturity pattern of assets and liabilities”</i> <p>It was noted from the appended note the company has been classified as Non-Deposit taking Asset Financing during the year and hence above Paragraph was applicable to it as at the Balance Sheet date. However, no such disclosures were found in the financial statements of the said period. Accordingly, it was viewed that the requirements of Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 have not been complied with.</p>
6.	<p>Schedule on Other Income given in the Annual Report of a bank reads as follows:</p> <p>OTHER INCOME</p>	<p>It may be noted that Schedule 14 of Form B: Form of Profit and Loss Account of the ‘Third Schedule’ given in Part V of the Banking Regulation Act, 1949 prescribes</p>

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	<p>Profit on sale of investments (net) --- ---</p> <p>Profit on exchange transactions (net) --- ---</p>	<p>presentation of 'Other Income' in the following format:</p> <p style="text-align: center;">SCHEDULE 14</p> <p style="text-align: center;">Other Income</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;">Year ended on 31-3.....(Current Year)</td> <td style="text-align: center;">Year ended on 31-3.....(Previous Year)</td> </tr> </table> <p>II. Profit on sale of investment</p> <p>Less: Loss on sale of investments</p> <p>V. Profit on exchange transactions Less: Loss on exchange transactions</p> <p>From the above, it was noted that both profit and loss on sale of investments or exchange transactions are required to be shown separately. It was noted from reproduced details of 'other income' that profit from sale of investments and exchange</p>	Year ended on 31-3.....(Current Year)	Year ended on 31-3.....(Previous Year)
Year ended on 31-3.....(Current Year)	Year ended on 31-3.....(Previous Year)			

Observations Relating to Banking & Insurance Companies

		transactions have been disclosed on net basis instead of disclosing profit and loss on such transactions on gross basis.				
7.	<p>Schedule on Borrowings given in the Annual Report of a Bank reads as follows:</p> <p align="center">“SCHEDULE 4 Borrowings</p> <p>I. Borrowings in India</p> <p>II. Borrowings outside India</p> <p>III. Perpetual Tier – I (IPDI) Bonds Series - 1</p> <p>IV. Subordinated Debts</p> <p>A. i) Subordinate Debts/Bonds Forming Tier-II Capital</p> <p>ii) Hybrid Debts/Bonds Forming Tier – II Capital</p> <p>Secured borrowings included in above”</p>	<p>It may be noted that Schedule 4 of Form A: Form of Profit and Loss Account of the Third Schedule, Part V, Banking Regulation Act, 1949 prescribes to present Borrowings in the following format:</p> <p align="center">SCHEDULE 4: Borrowings</p> <table border="0"> <tr> <td>Year ended on 31-3.....</td> <td>Year ended on 31-3.....</td> </tr> <tr> <td>(Current Year)</td> <td>(Previous Year)</td> </tr> </table> <p>I. Borrowings in India</p> <p>(i) Reserve Bank of India</p> <p>(ii) Other Banks</p> <p>(iii) Other Institutions and agencies</p> <p>II. Borrowing</p>	Year ended on 31-3.....	Year ended on 31-3.....	(Current Year)	(Previous Year)
Year ended on 31-3.....	Year ended on 31-3.....					
(Current Year)	(Previous Year)					

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		<p>s outside India</p> <p>Total</p> <p>Secured borrowings included in I & II above – Rs.</p> <p>It was noted from reproduced note that borrowings have been divided into four categories viz. Borrowings in India, Borrowings outside India, Perpetual Tier-I (IPDI) Bonds Series-1 and Subordinated Debts. It was viewed that above-mentioned format requires to classify borrowings into two broad categories i.e. Borrowings in India and Borrowings outside India and different nature of debts are required to be sub-classified depending on its source. Accordingly, it was viewed that Perpetual Tier – I Bonds and Subordinated Debts would have been taken either in India or from outside India. Hence, those debts should have been appropriately classified rather than showing them as separate categories.</p>
8.	From the Accounting Policy on 'Income' read with the Note on 'Income from Operations' given in the Annual Report of an NBFC it was noted that	It may be noted that Paragraph 4(1) of Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions,

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	<p>Incomes have been accounted for on accrual basis except in the case where amount receivable could not be determined with reasonable accuracy.</p>	<p>2007 requires as follows:</p> <p>“Income from investments</p> <p>4. (1) Income from dividend on shares of corporate bodies and units of mutual funds shall be taken into account on cash basis”</p> <p>It was noted that income from operations includes ‘Dividend from shares’ and ‘Dividend from Mutual funds’ which as per stated policy has been recognized on accrual basis. It was noted from the aforesaid requirement that as per specific regulation governing the recognition principle of enterprises; it should be recognized on cash basis.</p>
<p>9.</p>	<p>The Accounting Policy on Investment given in the Annual Report of a Bank stated as follows:</p> <p>Long Term Investments are stated at cost less provision for diminution in value other than temporary if any. Current investments are valued at cost or below cost as the case may be.</p>	<p>It may be noted that Paragraph 6(2) of Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 requires as follows:</p> <p>“Accounting of investments</p> <p>6.</p> <p>(2) Quoted current investments shall, for the purposes of valuation, be grouped into the following categories, viz...</p> <p>(a) equity shares,</p> <p>(b) preference shares,</p> <p>(c) debentures and bonds,</p> <p>(d) Government securities</p>

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		<p>including treasury bills, (e) units of mutual fund, and (f) others.</p> <p>Quoted current investment for each category shall be valued at cost or market value whichever is lower.”</p> <p>It was noted from the stated policy that current investments are stated to be valued at cost or below cost as the case may be. It was viewed that in the given case appropriate nomenclature was not used for disclosure of method of valuation of investment.</p>
10.	<p>The Directors’ Report given in the Annual Report of a bank states that the Provision Coverage Ratio increased sharply from 47% in the previous year to 61% in the current year.</p>	<p>It was noted that paragraph 5.6 of Master Circular dated July 2, 2012 on Disclosure in Financial Statements - Notes to Accounts issued by RBI states as follows:</p> <p>“5.6 Provisioning Coverage Ratio (PCR)</p> <p>The PCR (ratio of provisioning to gross non-performing assets) should be disclosed in the Notes to Accounts to the Balance Sheet.”</p> <p>It was noted that although the Directors’ report provides the information about sharp increase in Provision Coverage Ratios, no such information has been disclosed about the same in Note to Accounts as per above mentioned requirement.</p>

Observations Relating to Banking & Insurance Companies

11.	<p>From the Annual Report of a General Insurance Company, it was noted that Schedule on Investment, Schedule on Loans and Cash Receipt and Payment Account reads as follows:</p> <p>Schedule -8- Investments</p> <p>Long Term Investments</p> <p>Government securities and Government guaranteed bonds including Treasury Bills --- ---</p> <p>Other Approved Securities --- ---</p> <p>...</p> <p>Schedule 9: Loans</p> <p>Loans</p> <p>Security-Wise-Classification</p> <p>Secured</p> <p>(a) On mortgage of Property</p>	<p>It may be noted that as per Paragraph 2.2 of the Master Circular on Preparation of Financial Statements General Insurance Business dated October 2012 states as follows;</p> <p>“All insurers are required to furnish the Cash Flow Statement as per the Direct Method...” An abstract of the Performa Cash Flow Statement is given in Annexure as below:</p> <p>A. Cash Flows from the Operating Activities:</p> <p>B. Cash Flows from the Investing Activities:</p> <ol style="list-style-type: none"> 1. Purchase of fixed assets 2. Proceeds from sale of fixed assets 3. Purchases of investments 4. Loans disbursed 5. Sales of investments 6. Repayments received 7. Rents/Interests/ Dividends received 8. Investments in money market instruments and in liquid mutual funds 9. Expenses related to investments
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	(aa) In India	---	---	10. Net cash flow from investing activities
	(bb) Outside India	---	---	C. Cash Flows from the Financings Activities:
	(b) On Shares Bonds Govt. Securities	---	---	...
	(c) On Others (Govt. Guaranteed Loans)	---	---	(emphasis added) "
	Unsecured	---	---	From the above, it was noted that if cash flow statement is prepared under Direct method then cash flows arising due to loan disbursement or investment made in money market instruments and in liquid mutual funds are to be shown as a part of cash flow from investing activities.
	Total	---	---	
	Receipt and Payment Account (Cash Statement) and Flow			
	Cash Flow from the Investing Activities			It was observed from the schedule of investments and that the entity held investments in money market instruments namely government securities and Government guaranteed bonds including Treasury Bills. However, it was observed that they were not shown separately in the cash flow statement as a part of cash flow from investing activities as per the format prescribed in Annexure III given under Master circular on preparation of financial statements- General Insurance business.
	Purchase of fixed assets	---	---	
	Proceeds from sale of fixed assets	---	---	
	Purchase of investments (net)	---	---	
	Sale Value of Investments	---	---	

Observations Relating to Banking & Insurance Companies

	<p>Rents/Interests/ Dividends received --- ---</p> <p>Expenses relating to investment --- ---</p> <p>Net Cash Flow from the Investing Activities --- ---</p>	
12.	<p>It was noted from Schedule on Premium Earned (Net) given in the Annual Report of an Insurance company that it had earned "Premium from Reinsurance Accepted outside India" and "Commission on Reinsurance Accepted outside India".</p>	<p>It was noted that as per the format prescribed under Part V, Schedule B given under IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002, Schedule 12: 'Advances and Other Assets', <i>inter alia</i> prescribe to include the following:</p> <p>"Advances</p> <p>...</p> <p>Other Assets</p> <p>...</p> <p>Agents' Balances</p> <p>Foreign Agencies Balances</p> <p>..."</p> <p>It was noted that whereas schedule of premium earned and commission indicates business taking place from outside India still foreign agencies balances have</p>

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		<p>not been shown separately.</p> <p>Accordingly, it was viewed that the requirements of Part V, Schedule B given under IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 have not been complied with.</p>
13.	<p>Note relating to Premium Deficiency given in the Annual Report of an Insurance company, which reads as below:</p> <p>The Gross Direct unearned premium is arrived at 1/12 basis and the same is applied on Net Premium to arrive at Net Unearned Premium. The net premium is compared with the Net incurred claims (including claims related cost) and where the net incurred claims is more than 100% the premium deficiency is calculated on the excess over 100% of Net incurred Claims on Net Unearned Premium and the same is calculated for each portfolio and is recognized in the books only when there is an overall deficiency on all portfolios.</p>	<p>It may be noted that Paragraph 2.5 of the Master Circular on Preparation of Financial Statements General Insurance Business dated October 2012, provides that:</p> <p>"Premium deficiency shall be shown as a separate line item in the reportable segmental revenue account."</p> <p>It was noted from reproduced note that in extant case there was premium deficiency in respect of Motor DR pool and Aviation segments. However, no such separate line item is evident from segmental revenue account of Motor DR pool and Aviation segments.</p> <p>Accordingly, it was viewed that the requirements of Master Circular on Preparation of Financial Statements General Insurance Business dated October 2012 have not been complied with.</p>

Other Observations

S. No	Matters contained in the Annual Report	Observations
1.	<p>In the Annual Report of a company, a note relating to MSMED reads as under:</p> <p>'Based on available information, presently, there are no amounts payable to parties mentioned in the Micro, Small and Medium Enterprises Development Act, 2006.'</p>	<p>It may be noted that Section 22 of Micro, Small and Medium Enterprise Development (MSMED) Act, 2006 while laying disclosure requirements with respect to amount due to micro, small and medium enterprises reads as follows:</p> <p>"Where any buyer is required to get his annual accounts audited under any law for the time being in force, such buyer shall furnish the following additional information in his annual statement of accounts, namely:</p> <ol style="list-style-type: none"> i. the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier as at the end of each accounting year; ii. the amount of interest paid by the buyer in terms of section 18, along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year;"

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		<p>iii. 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 this Act;</p> <p>..."</p> <p>From the above, it was noted that apart from giving information about the dues at the year end, the disclosure with regard to clause (ii) and (iii) of section 22 of Micro, Small and Medium Enterprise Development Act, 2006 are also required.</p>
2.	<p>In the Annual Report of a company, a note on Current Liabilities & Provisions stated as under:</p> <p>CURRENT LIABILITIES & PROVISIONS</p> <p>Creditors for Capital Goods</p> <p>Creditors for Materials</p> <p>Creditors for Expenses</p> <p>Creditors for Others</p>	<p>It may be noted that Section 22 of Micro, Small and Medium Enterprise Development Act, 2006 provides as follows:</p> <p>"Where any buyer is required to get his annual accounts audited under any law for the time being in force, such buyer shall furnish the following additional information in his annual statement of accounts, namely:-</p> <p>(i) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier as at the end of each accounting year;</p> <p>(ii) the amount of interest paid by the buyer in terms of</p>

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		<p>section 18, along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year;</p> <p>(iii) 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 this Act;</p> <p>(iv) the amount of interest accrued and remaining unpaid at the end of each accounting year; and</p> <p>(v) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of disallowance as a deductible expenditure under section 23.”</p> <p>It was noted that the amount outstanding to Micro, Small and Medium Enterprise and related disclosures are required to be shown separately under the Note of Current liabilities and Provisions as per Part I,</p>
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		Schedule VI to the Companies Act, 1956 ¹ . However, it was noted that various disclosures as required under Section 22 of MSMED Act have not been reflected in Notes to Accounts.
3.	In the Annual Report of company, a note relating to Trade Payable stated as under: TRADE PAYABLES Due to Micro Small and Medium Enterprise	It was noted that although principal amount due was disclosed but other aforesaid disclosures from (i) to (v) of section 22 of MSMED Act, 2006. were not disclosed. Accordingly, there is a non compliance of MSMED Act, 2006.
4.	In the Annual Report of a company, there was no mention of any dues to Micro, Small and Medium Enterprises.	It may be noted that the disclosures required by section 22 of MSMED Act, 2006. stand at nil then the fact should be disclosed in the financial statements so that the reader may appreciate the dues to MSMED enterprises. It was noted that none of the aforesaid information is given in relation to MSMED enterprises in Notes to Accounts.
5.	In the Annual Report of company, Note relating to Finance Cost stated as under:	It was noted from the note relating to Finance Cost that interest received from Banks and Others has been deducted from

¹ Subsequent to the observations of the Board, Revised Schedule VI has been withdrawn. However, content is still relevant in terms of Schedule III to Companies Act, 2013.

Other Observations

	<p>Finance Costs</p> <p>Interest Expenses on</p> <p>-Working Capital</p> <p>-Term Loans</p> <p>-Suppliers Credit</p> <p>-Advance from Directors</p> <p>Less: Interest received from Banks and Others(emphasis supplied)</p>	<p>interest expenses. It was viewed that such set off is possible only if interest expenses and interest incomes being set off relates to same fund. It was observed from reproduced note that while interest expenses are incurred on various nature of loans which will not generate any interest income. Hence, it was viewed that the stated interest income cannot be considered to belong to same source on which borrowing costs have been incurred. Accordingly, it was viewed that interest expense and interest income should be disclosed separately.</p>
<p>6.</p>	<p>In the Annual Report of a Company, note on Investments, Loans & Advances and Employee Stock Compensation respectively, which reads as under:</p> <p><u>Note on Investments:</u></p> <p>Shares of the company held by ESOP trust (quoted)</p> <p>(a) Other Investments include current and unquoted investments of the ESOP Trust of Rs. XXX.</p> <p><u>Note on Loans and advances (Unsecured and considered good, unless otherwise stated):</u></p>	<p>It was noted from the appended notes that there are employee stock option plans which are being administered through ESOP Trust.</p> <p>It may be noted that SEBI (Employee Stock Option Scheme And Employee Stock Purchase Scheme) Guidelines, 1999, states as follows:</p> <p>“22A.1 In case of ESOS/ESPS administered through a Trust, the accounts of the company shall be prepared as if the company itself is administering the ESOS/ESPS.”</p> <p>From the above, it was viewed that such ESOS trust should be</p>

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<p>Advances recoverable in cash or in kind or for value to be received</p> <p>(a) Advances recoverable in cash or in kind or for value to be received include amounts due from employees to the ESOP Trust.</p> <p><u>Note on Employee stock compensation:</u></p> <p>The Board of Directors approved the Employee Stock Option Plan ('ESOP Plan 2000') for the grant of stock options to the employees of the Company and its subsidiaries/joint venture company. <i>A Compensation Committee has been constituted to administer the plan through a trust established specifically for this purpose, called the ABC Limited Employee Welfare Trust (ESOP Trust).</i></p> <p><i>The ESOP Trust shall make additional purchase of equity shares of the Company using the proceeds from the loan obtained from the Company,</i> other cash inflows from allotment of shares to employees under the ESOP Plan and shall subscribe, when allotted to such number of shares as is necessary for transferring to the</p>	<p>considered to be administered by the company itself. However, it was noted that certain advances have been given to the Trust, which have been utilised to purchase equity shares of the company and such advances given are shown under the head 'advances' as if given to third party. Further, it was noted that the shares of the company held by the Trust have been disclosed as 'Investments'. It was viewed that since considering trust being administered by the Company, it cannot be considered as a separate entity. Hence, advances given to Trust should be eliminated against the advances taken from the company in the books of Trust and the shares held by the Trust should be described as Shares held in trust for employees under ESOP Scheme under the head 'Investment in shares of the company and it should be presented as a deduction from Share capital as also suggested in the Expert Advisory Opinion - Query no. 2, Compendium of Opinions, Volume No. XXXIII.</p> <p>Accordingly, it was viewed that the accounting treatment followed for presentation of ESOP plans is not in line with SEBI guidelines.</p>
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	employees. The ESOP Trust may also receive shares from the promoters for the purpose of issuance to the employees under the ESOP Plan. The Compensation Committee shall determine the exercise price which will not be less than the face value of the shares... (emphasis supplied)	
7.	From the Annual Report of a company, it was observed from a note relating to 'Unhedged foreign currency exposure' that the amount was disclosed in Indian Rupees.	It was noted from the appended note that the company has disclosed the details of unhedged foreign currency exposure in rupee terms only. It was viewed that the underlying foreign currency amount should also be disclosed alongwith the same.
8.	From the Annual Report of a company, the note relating to Other current liabilities is reproduced as under: Statutory liabilities -Salary Payable -Advances from Customers	It was noted that salary payable and advance from customers have been disclosed under the head of 'statutory liabilities'. It was viewed that salary payable is a liability against services received from employee but not yet settled and advances from customer are liabilities against which either services or goods would be provided in the future. Accordingly, it was viewed that nature of liabilities cannot be considered to be in the nature of statutory liabilities.
9.	From the Annual Report of a company, Note on Fixed Assets	It was noted from the appended note on Fixed Assets that it includes Capital work-in-

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	<p>is reproduced as under:</p> <p>Fixed Assets</p> <p>a) Tangible Assets</p> <p>b) Intangible Assets</p> <p>c) Capital work – in – progress</p>	<p>progress the nature of which has not been disclosed as to whether it is tangible or intangible.</p> <p>It was observed from the directors' report wherein it has been stated that the company has developed 4 laning of highway on Design, Build, Finance, Operate and Transfer (DBFOT) basis. It was accordingly, noted that the company has entered into service concession agreement. It was viewed that under service concession agreement, the company does not possess ownership rights to the assets. In fact, they receive the right to use the assets for certain stipulated period. It was viewed that such construction, is undertaken by the company, as an obligation to acquire right to use such asset. Hence, costs incurred on construction of lanes is the cost incurred to acquire those rights.</p> <p>Accordingly, it was viewed that the right to use asset should be shown as intangible assets under development instead of disclosing the same as Capital work-in-progress.</p>
10.	<p>From the Note relating to 'Non-current Investments' given in the Annual Report of a company, it was observed that investments in 'National Savings Scheme'</p>	<p>It was noted from the appended note relating to 'Non-Current Investments' that Investments in National Savings Scheme have been classified as trade</p>

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	were disclosed as being in the nature of 'Trade Investments.'	<p>investments. It was viewed that trade investments are normally the investment in share or debenture of another company to promote the trade or business of the investor entity.</p> <p>It was viewed that investment in National Saving Scheme cannot be considered to promote trade or business. Hence, its classification as trade investment is not correct.</p>
11.	<p>In the Annual Report of a company, the note relating to Reserves and Surplus reads as follows:</p> <p>'Capital Reserve represents unclaimed amount due on redemption of Preference shares.'</p>	<p>It was noted from the Note relating to Reserve and Surplus that the unclaimed amount due on redemption of preference shares has been disclosed as Capital Reserve. It was viewed that unclaimed liability is payable on demand, company does not have any right to defer its settlement. Further, balance held as capital reserve is not available for distribution.</p> <p>Hence, classification of unclaimed amount due on redemption of preference shares as 'capital reserve' is not correct.</p>
12.	<p>In the Annual Report of a company, Note on Other Income stated as follows:</p> <p>Other Income</p> <p>Income from current investment in mutual funds</p>	<p>It was noted that the foreign exchange loss in the current and the previous year was reported under the head 'other income' as negative figure. It was further noted that the reported foreign exchange loss was a significant loss due to which aggregate amount of 'other income' was</p>

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	<p>Profit on sale of fixed assets</p> <p>Interest received</p> <p>Foreign exchange gain/(loss)</p> <p>Miscellaneous income</p>	<p>also, reported in negative. It was viewed that a loss is an expense by nature as explained in Paragraph 78 of 'Framework for the Preparation and Presentation of Financial Statements', as reproduced below:</p> <p>"78. Losses represent other items that meet the definition of expenses and may, or may not, arise in the course of the ordinary activities of the enterprise. Losses represent decrease in economic benefits and as such they are no different in nature from other expenses. Hence, they are not regarded as a separate element in this Framework.</p> <p>Accordingly, it was viewed that the foreign exchange losses should have been disclosed as an expense in the Statement of Profit and Loss instead of clubbing it with other incomes.</p>
<p>13.</p>	<p>It was noted from note on inventories that inventory balance has been determined after adjusting advances paid against them.</p>	<p>It was viewed that advances paid against any inventory does not give rise to inventory which may be recognised in books. Accordingly, if inventory has been increased by the amount of advances given, is an incorrect accounting treatment. Further, the amount involved was significant as compared to the size of the company. Hence a</p>

Other Observations

		<p>proper note should have been given to support such adjustment.</p> <p>Accordingly, it was observed that neither the treatment adopted is as per Indian GAAPs nor the financial statement contains relevant information for reader to understand the nature of transaction.</p>
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