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- Consolidated FS

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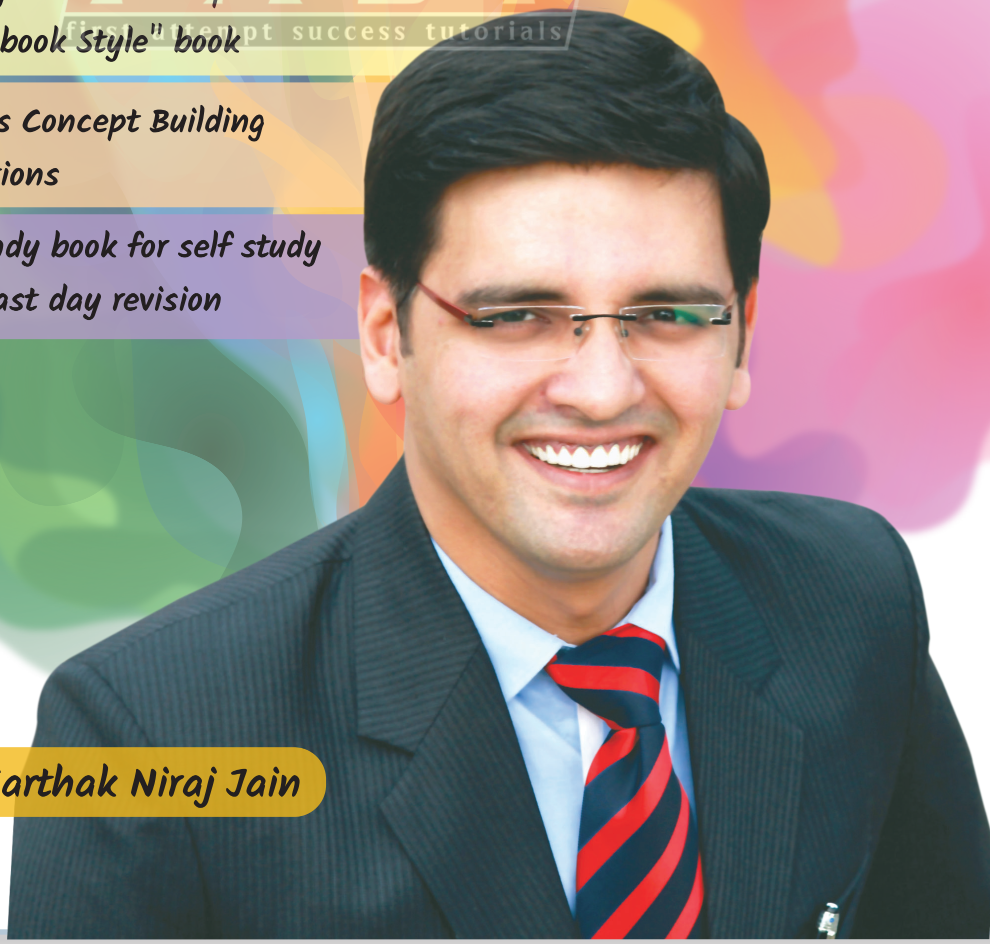

Author : CA. Sarthak Niraj Jain

Advanced Accounting BRAHMASTRA

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AUTHOR
CA. SARTHAK NIRAJ JAIN

(Refer AS Brahmastra for Chapter 1 to 9)

CHAPTER 11 FINANCIAL STATEMENTS OF COMPANIES

A FINANCIAL STATEMENTS

- Balance sheet
- Statement of Profit and Loss
- Cash Flow Statement
- Statement of changes of Equity (if applicable)
- Notes and other statements

Provisions to be followed while preparing final accounts:

- Requirements of Schedule III to the Companies Act;
- Other statutory requirements;
- Accounting Standards notified by Ministry of Corporate Affairs (MCA) (AS 1 to AS 29);
- Statements and Guidance Notes issued by the Institute of Chartered Accountants of India (ICAI) which are necessary for understanding the accounting treatment/ valuation/ disclosure suggested by the ICAI.

B SCHEDULE III – DIVISION I: AS BASED FINANCIAL STATEMENT (FS)

(FS of a company required to comply with the Companies (AS) Rules, 2006)

I. Divisions to Schedule III & Applicability (Section 129 of Companies Act, 2013):

a) Schedule III, Division I applies to companies following AS;
Schedule III, Division II applies to companies following Ind-AS; &
Division III to NBFCs.

b) **Schedule III is not applicable to:**
- Banking Companies
- Insurance Companies
- Companies exempted by CG from S.III requirements

d) **Applies to:**
- NBFCs
- Section 8 Companies (except Statement of Income & Expenditure in place of Statement of Profit & Loss is prepared)
- Govt. Companies

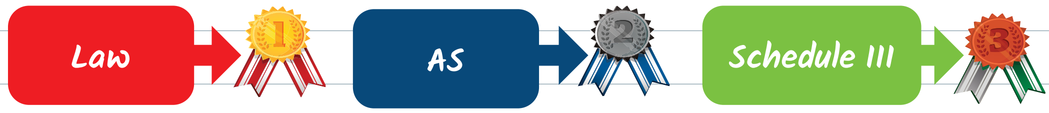
e) Company having Subsidiary/JV/Associate to prepare and present 'Consolidated FS' as well, as per schedule III, unless exempted.

2. Authority:

a) Law prevails over AS as well as Schedule III

b) AS prevail over Schedule III

c) When AS has an option wherein one option is in line with Schedule III & other contradicts schedule III, then follow the former option.



3. Structure of Schedule III:

I. General Instructions (G.I.)	IV. **Part II :** Statement of Profit & Loss-Format (SPL)
II. **Part I:** Format of Balance Sheet	V. General Instruction on Statement of Profit & Loss
III. General Instruction on Balance Sheet	VI. General Instruction on Consolidated F.S.

* Section 2(27) Financial Statements includes:

Balance Sheet	Format & G.I. given in Schedule III
Statement of Profit & Loss	Format & G.I. given in Schedule III
Cash Flow Statement	Refer AS 3 as no format or G.I. given in Schedule III for Cash Flow Statement
Notes to Accounts	Explanatory Notes and Significant Accounting Policies

4. General Instructions overall for FS:

- Flexible format of Schedule III, changing line items, names etc. for better presentation permitted.
- **Rounding off: (mandatory)**

  Total Income ≥ 100 Cr., round off nearest Lakhs (00000), Millions (000000) or Crores (0000000)

  Total Income < 100 crores to nearest hundreds, thousand, lakhs or millions.
- **Notes to Accounts: (can be in form of)**

  I. Narrative Descriptions – E.g. Contingent Liabilities

  II. Disaggregation of items presented in FS-
  E.g. BS-PPE-Notes to PPE-Disaggregation

  III. Disclosure of items not otherwise presented in FS.
  E.g. Charge on assets

5. Balance Sheet: General Instructions: CURRENT & NON CURRENT ASSETS & LIABILITIES

5.1 Current Assets (Para 1 to General Instructions for preparing BS):

Lets Say

When asset satisfies any of the following criteria it is classified as current Asset:

Rule (i) it is expected to be **realised** or intended to be **sold or consumed** within entity's **normal operating cycle** (OC); or

Rule (ii) it is held primarily for the purpose **held for trading**; or

Rule (iii) it is expected to be **realised within 12 months** after the reporting date; or

Rule (iv) it is **Cash or cash equivalent**, unless it is restricted from being used/ exchanged to settle a liability for atleast 12 months after the reporting date

Any asset that is not a current Asset, will be classified as a Non-Current Asset

Examples:-

(1)

Date	Particulars	Case i	Case ii
01.01.25	Credit sales-Debtor	16 months	16 months
	Operating Cycle	16 months	15 months
31.03.25	Classification	Current	Non-Current

(2)

Date	Particulars	Case I	Case ii
01.01.25	Machine purchased	15 months (Life)	15 months (Life)
	Operating Cycle	12 months	15 months
31.03.25	Classification	Non-Current	Non-Current

(3)

31.03.25	Goods expected to be sold in 15 months and will be realised after 3 months of sale.	
Cases	**Particulars**	**Classification**
1	Operating Cycle- 12 months	~~Non-Current~~ Current
2	Operating Cycle- 15 months	Current
3	Operating Cycle- 18 months	Current

Generalisation of above definition of Current Asset:

- **Rule (i)**

a) Only relevant for operating (working capital) items like Raw material, WIP, Finished goods, Debtors, Prepaid expenses, Advance to supplier of goods etc.

b) If above items are expected/intended to be **realised or consumed or sold** (any of these and not just realised) with operating cycle then classification to be current

c) To be tested not on Balance Sheet date but on date when asset is recognised in F.S.

- **Rule (ii)**

a) Applies to all inventory items like stock of raw material, WIP, Finished Goods, By-products, Spares classifiable as inventory

b) Spare parts classifiable as Fixed Assets/PPE will not be covered under this rule

c) Inventory is **Always Current** whether it is slow-moving or not

* **Slow moving or Non moving but if it is inventory, classify it as current**

- **Rule(iii)**

a) Relevant for all assets

b) Realised means encashed (under this rule)

c) Any asset, expected to be encashed within 12 month from balance sheet date will be 'Current'

Eg. A 6 months capital advance for Fixed Asset with 10 months life will not necessarily classified as current, as they are not expected to be realised (encashed) within 12 months

d) Fixed Assets will only be classified as current:

(i) When they have been **classified as held for sale**, and

(ii) Are expected to be **sold and realised within 12 month of balance sheet date**

e) Prepaid expense, Advance to supplier etc. are not classifiable under this rule as such assets are not encashed, unless contract is cancelled & money becomes refundable (as we will receive services/goods against these and not cash)

An Asset may be Partly classified as **Current** and partly as **Non-current**

Eg. Loan given to borrower for 50 lacs, repayable 10 lacs p.a., what will be classification?

Hint: Classification:

- 10 lacs- Current maturities of long-term loans will be classified as current
- 40 lacs- Non-Current

Expected to be realised is more important than contractual right to realise

g) **Eg. Debtors on balance sheet date:**

As per contract- credit period remaining is 10 months, but as per practise, expected to be realised in 15 months, what will be the classification?

Hint: Classification: Non-current, as expected to be realised after 12 months

Fictitious Assets, if any, are always Non-Current.

h) **Eg. 31.03.2018 share issue expenses (Asset) 30,000 to be written off eventually in next 3 years (assume shown under asset for illustration purpose)**

Balance Sheet (extract)

Particulars	Amount
Non-Current Assets	
Other Non-Current Assets: Share issue expenses	30000

- **Rule (iv)**

Cash & Cash equivalents means: (as per AS-3)

- Alternate form of keeping cash, and + In **readily realisable asset +**Having insignificant risk of changes in value
- Readily realisable asset means realisable within 3 months (ICAI Clarification)

5.11. Current & Non-Current Liabilities

Current liabilities: (Para 2) when any of the following condition met classify liability as a current liability. Else, if will be a non-current liability:

(a) It is expected to be settled **within entity's normal operating cycle; or**

(b) It is primarily **held for the purpose of being traded** (eg. Derivative Financial Liability); or

(c) It is **due to be settled within 12 months after the reporting date** (i.e. Due date is to be seen and not expected settlement date); or

(d) The company does not have an **unconditional right to defer settlement** of a liability for atleast 12 months after the reporting date.

- **Classification is not affected by the fact that settlement is to be made in Cash or through Equity shares**

- **Eg.** Debentures issued, redeemable in 12 months from balance sheet date and holder can convert the debentures into equity shares instead of redeeming.

What will be the classification?

Hint: Current, as it does not matter whether settlement is in cash or equity shares.

5.III. Operating Cycle:

- **Means time taken from acquisition of assets for processing to realisation in cash or cash equivalents;**
- Operating Cycle:

Order Given → Raw material Received and stored → Manufacturing and Finished goods store → Sales/ Debtors → Cash Realisation

<table>
<tr><td>Lead time for acquisition of goods
+ Storage time of Raw material
+ Processing time
+ Storage time for Finished Goods before sale
+ Credit period given to Trade Receivables on sale of goods</td><td>Gross* Operating Cycle (This to be considered)</td><td rowspan="2">Net Operating Cycle (Not Considered)</td></tr>
<tr><td>- Credit Period received from supplier of goods</td><td></td></tr>
</table>

* **As the obligation is to determine time taken to complete one cycle of business and not to determine working capital blocked in business**

- **Normal Operating Cycle is to be considered :**
  - Normal or Average operating cycle is considered and not contract specific operating cycle

- **One business to have one Operating Cycle only**
  - But if Company has **Multiple Business,** then it can have **separate normal Operating Cycle for each business** and accordingly current/non-current classification of asset/liabilities of each business will be determined

- **If Operating Cycle is not determinable, then assume to be 12 months**

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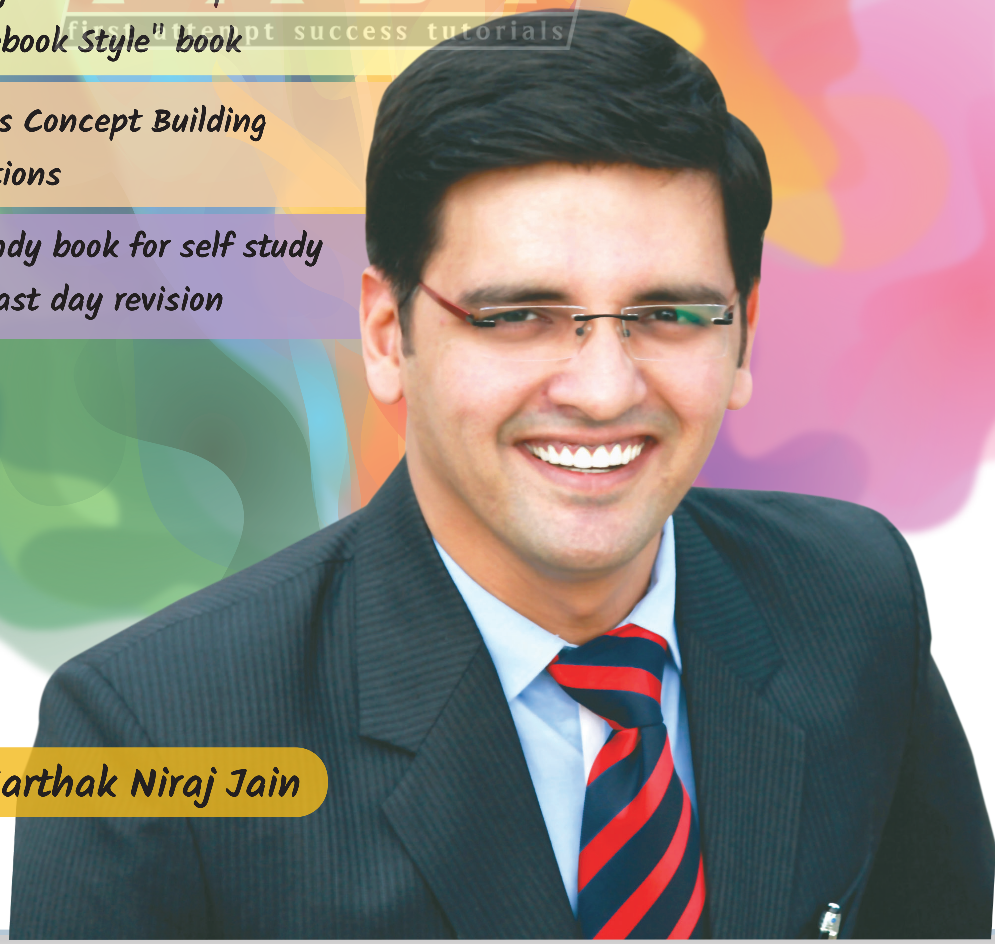

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CA. SARTHAK NIRAJ JAIN

CH 1 INTRODUCTION TO ACCOUNTING STANDARDS

I. INTRODUCTION

- A GAAP
  - Meaning
- B Accounting Standards
  - (i) Meaning
  - (ii) Purpose of ASs
  - (iii) Aspects of ASs
  - (iv) Benefits
  - (v) Objectives
  - (vi) Advantages

A Generally Accepted Accounting Principles (GAAP)

Meaning

a) A **common** set of **accepted**:

Accounting Principles | Standards | Procedures

that business reporting enterprise must follow when it prepares & presents its FSs.

b) It is a **combination of authoritative standards★ (set by policy boards) and**

commonly accepted ways of:

Recording & **Reporting**

→ **accounting info.**

★ Authoritative standards named as:

- Internationally → IFRS
- In India → AS and Ind AS

B Accounting Standards

(i) Meaning → AS are **written policy documents** → **issued by government** → with the support of other regulatory bodies.

Eg: MCA issuing ASs for corporates (in consultation with NFRA) covering following aspects of a/cing transactions/events in FS:

- Recognition
- Measurement
- Presentation
- Disclosure

(ii) Purpose of ASs

- **Promote dissemination of timely and useful financial info.** to investors & other stakeholders.
- **Reduce accounting alternatives,** thereby **ensuring comparability** of FSs of different enterprises.

(iii) Aspects of ASs

(a) **Recognition & Measurement** of transactions & events in FSs.

(b) **Presentation of:** transactions & events in meaningful & understandable manner.

(c) **Disclosures of:** transactions & events to facilitate economic users to take: prudent & informed business decisions.

(iv) Benefits

Standardization of alternative accounting treatments

a. **Reduce / eliminate confusing variations** in: A/Cing treatment and Presentation of economic events.

b. **Reflect consensus on a/cing policies** to be used in different identified areas.
Eg:- Inventory valuation, Capitalisation of costs, etc.

c. **Disclosure of a/cing policies** used in preparation of FSs → must be made.

Requirements for additional disclosures

ASs may call for **additional disclosures of:** **A/Cing policies** followed & Other required **info.** which would be **helpful for readers** to better understand FSs items.

Comparability of FS

Standardization of a/cing procedures → **improves comparability** of FS, **both: Intra & Inter enterprise.**

(v) Objective

- **Harmonize**: Diverse a/cing policies & practices.
- **Facilitate**: Preparation of FSs and make them comparable.
- **Give**: A sense of: faith and reliablility to users.

(vi) Advantages

- **a**: Makes FSs of different companies → comparable → which helps investors in decision making.
- **b**: Prevent: misleading a/cing treatment and manipulation of data by mgt.

2. STANDARDS SETTING PROCESS

Background

- **ICAI constituted** Accounting Standards Board (**ASB**) in 1977.
- **ASB considered IASs / IFRSs** while framing ASs in India and integrated them, as per applicable laws, customs, usages and business environment in the country.
- **Composition of ASB includes** representatives of industries, associations of industries (namely, ASSOCHAM, CII, FICCI), regulators, academicians, government departments, etc.
- ASB is **independent in the formulation of ASs.**
- **NFRA recommend these standards to the MCA.**
- **MCA has to spell out** the **ASs applicable for companies** in India.

The standard-setting procedure of ASB can be briefly outlined as follows:

Step I — **Identification of area:** Identification of broad areas by ASB for formulation of AS.

Step II — **Constitution of study groups:** Constitution of study groups by ASB to consider specific projects and to prepare preliminary drafts of the proposed ASs.

Draft includes:

- **Objective and scope** of the standard,
- **Definitions** of the terms used in the standard,
- **Recognition and measurement principles** wherever applicable, and
- **Presentation and disclosure requirements.**

Consideration of preliminary draft prepared by the study group of ASB and revision, if any, of the draft on the basis of deliberations.

Step III **Preparation of draft and its circulation:**

Circulation of draft AS (after revision by ASB) **to the ICAI Council members and specified outside bodies** such as MCA, SEBI, C&AG, CBDT, SCOPE, etc. for comments.

Step IV **Ascertainment of views of different bodies on draft:**

Meeting with representatives of the specified outside bodies to ascertain their views on the draft of the proposed AS.

Step V **Finalisation of exposure draft :**

Finalisation of exposure draft of the proposed AS and its issuance inviting public comments.

Step VI **Comments received on exposure draft:**

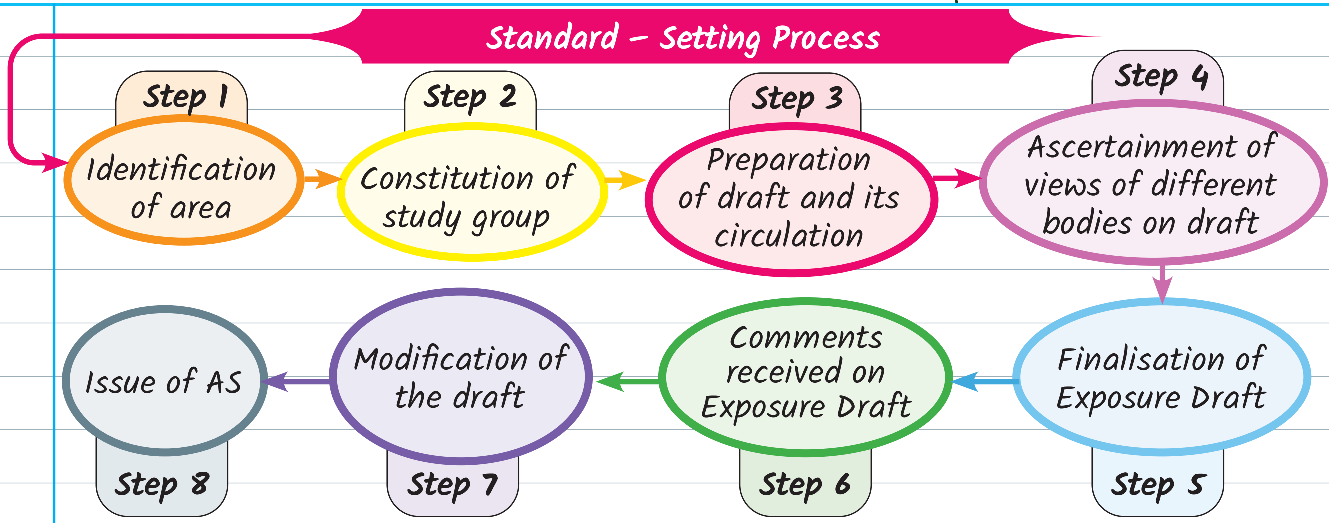
Consideration of comments received on exposure draft and finalisation of the draft AS by the ASB for submission to the Council of the ICAI for its consideration and approval for issuance.

Step VII **Modification of the draft:**

Consideration of the final draft by the Council of the ICAI and if found necessary, modification of the draft in consultation with the ASB is done.

Step VIII **Issue of AS:**

The AS on the relevant subject (for non-corporate entities) is then issued by ICAI. For corporate entities the AS are issued by MCA in consultation with NFRA.



Sec. 133 of Companies Act, 2013

The Central Government may prescribe ASs or any addendum thereto, as recommended by ICAI, constituted u/s 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of recommendations made by NFRA.

3. HOW MANY ACCOUNTING STANDARDS?

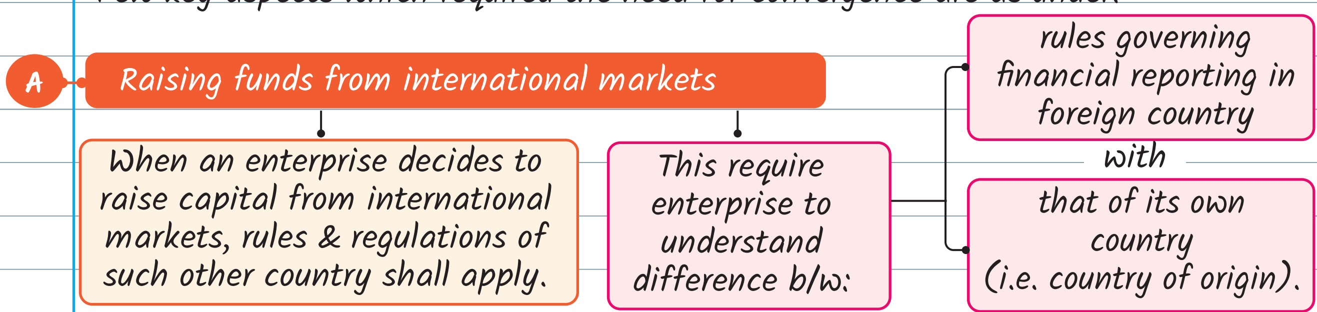
The ICAI has, so far, issued 29 ASs. However, **AS-6** on 'Depreciation Accounting' has been **withdrawn on revision of AS-10** 'Property, Plant and Equipment' and **AS-8** on 'Accounting for Research and Development' has been **withdrawn consequent to the issuance of AS-26** on 'Intangible Assets'. Thus **effectively, there are 27 ASs at present.**

4. STATUS OF ACCOUNTING STANDARDS

The ASs are made **mandatory from** the **dates specified in respective standards and** are **generally applicable to all enterprises, subject to certain exceptions**. Mandatory status of an AS also depends on statute governing the enterprise.

5. NEED FOR CONVERGENCE TOWARDS GLOBAL STANDARDS

Few key aspects which required the need for convergence are as under:



B

Comparability of

- International analysts and investors compare FS based on similar ASs.
- Harmonization of financial reporting around the world raises investors confidence.

C

Uniformity, Comparability Transparency, etc

To Bring:

- Uniformity,
- Rationalization,
- Transparency,
- Comparability,
- Adaptability

in FS, a single set of global standards (of highest quality), set in public interest is required.

Global standards facilitate:

- cross border flow of money.
- comparability of FSs.
- global listing in different stock market.

D

Global Investment

- Enable investors to compare investments globally.
- Facilitates a/cing & reporting for global companies.
- Eliminates costly requirements like reinstatement of FSs.
- Creates new standard of accountability & greater transparency.
- Improves reporting model.

6. INTERNATIONAL ACCOUNTING STANDARD BOARD (IASB)

1 For setting global standards, International Accounting Standards Committee **(IASC)**, presently known as International Accounting Standards Board **(IASB)**, responsible for developing International Accounting Standards **(IAS)**, was established in **June, 1973.**

2 IASs were issued to promote acceptance and observance of IASs **worldwide.**

3 The members of IASC undertook a responsibility to support the standards developed by IASC and to **propagate** those standards in their **respective countries.**

4 Between **1973 and 2001**, the IASC released **IASs.**

5 Between **1997 and 1999**, IASC restructured their organization, which resulted in formation of **IASB**. These changes came into effect on **1st April, 2001.**

6 Subsequently, IASB issued statements called **IFRS.** However, IASB has not rejected the standards issued by the IASC.

7 Those pronouncements continue to be designated as "International Accounting Standards" (IAS). The standards issued by IASC till 31.03.2001 are known as IASs and the standards issued by IASB since 01.04.2001 are known as IFRSs.

7. International Financial Reporting Standards (IFRS) as Global Standards

IFRS

- IFRS issued by IASB
- IAS issued by IASC and adopted by IASB
- Interpretation on IAS issued by SIC
- Interpretations on IAS/IFRS issued by IFRS Interpretation Commitee

The term IFRS comprises:

1. IFRS issued by IASB;
2. IAS issued by IASC;
3. Interpretations issued by Standard Interpretations Committee (SIC); and IFRS Interpretations Committee of the IASB (called IFRIC – International Financial Reporting Standards Interpretation Committee).

8. BECOMING IFRS COMPLIANT

Any country can become IFRS compliant either:

by adoption process or by convergence process

▶ **Adoption process:** It means that the country sets a

specific timetable → when **specific entities** would be **required to use IFRS** → as **issued by IASB.**

▶ **Convergence process :** It means that the country will:

- Develop high quality, **compatible ASs**

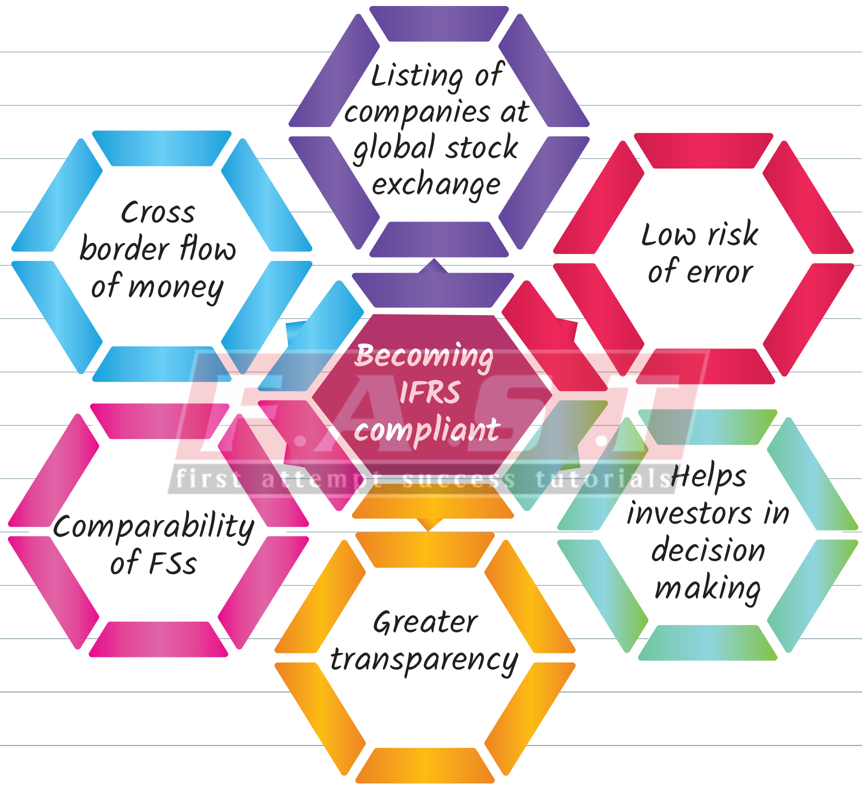
and

- Alignment of standards of different standard setters with a certain rate of compromise
- By adopting the standards requirement (either fully/partially)

Note: Ind ASs → almost similar to IFRS but with few carve outs.

Benefits of convergence with IFRS

- **Improves**
  - **Investor confidence** across globe with
  - Inter-unit/ Inter-firm/ Inter-industry comparison
  - Transparency & Comparability
- **Group consolidation** will be easy with same standards used by all companies.
- **Acceptability of FSs by stock exchanges** across globe, facilitate listing of Indian companies to international stock exchanges.



9. WHAT ARE CARVE OUTs / INs IN IND AS?

1. **GOI (in consultation with ICAI) decided to:**

Converge and Not to adopt IFRS issued by IASB.

2 Ind AS made in line with:
- **corresponding IAS / IFRS**
  and
- **departures** have been made **where essential.**

These changes have been made considering various factors, such as:

a) Terminology differences
- To make it **consistent with terminology used in law.**
- **Eg:** Statement of PorL ↓ in place of ↓ Statement Of Comprehensive Income (SOCI) and Balance Sheet ↓ in place of ↓ Statement Of Financial Position (SOFP).

b) Removal of options in accounting principles and practices
- in Ind AS vis-à-vis IFRS
- to maintain:
  - **Consistency** & **Comparability**
- of the FSs to be prepared by following Ind AS.
- However, these **changes** will **not result into carve outs.**

c) Difference in economic environment
- **Economic environment** of the country, ↓ is **different** as compared to ↓ **economic environment presumed** to be in **existence by IFRS.** ↓
- These differences are due to differences in economic conditions prevailing in India.

d) Curve In/Outs
- **Carve-Outs:** These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as 'Carve-outs'.
- **Carve-in:** Additional guidance given in Ind AS over and above what is given in IFRS, is termed as 'Carve-in'.

Formulation of Ind AS

Departures
- Resulting into Carve-outs
  - Deviation from the accounting principles stated in IFRS.
- Not resulting into carve-outs
  - Removal of options in accounting principles and practices in Ind AS vis-a- vis IFRS.

10. CONVERGENCE TO IFRS IN INDIA

1 Aim

- To **comply with IFRS** (to the extent possible)
  - to formulate sound **financial reporting standards.**
  - to **prepare globally accepted FSs.**

2 For convergence of Ind AS with IFRS

- ASB (in consultation with MCA)
- decided to have two separate sets of AS viz.
  - (i) Ind AS converged with IFRS
  - (ii) Existing notified AS.

ICAI → convergence to IFRS; not adoption → Application of IFRS in India considering legal and other conditions prevailing in India →
- Deviation from corresponding IFRS, if required
- Decision to have two set of ASs →
  - Indian Accounting Standards (Ind AS)
  - Existing Accounting Standards (ASs)

3 Significance of emergence of IFRS as Global Standards

(i) *Facilitate:*
- **Cross border flow of money.**
- **Global listing** in different bourses (stock exchanges)
- **Comparability** of FSs.
- **A/Cing & reporting** for companies with global operations.

(ii) Improves **investor's ability to compare** investments globally.

(iii) Therefore, **lowers** the **risks of errors of judgment.**

(iv) **Eliminates costly requirements,** say, reinstatement of FSs.