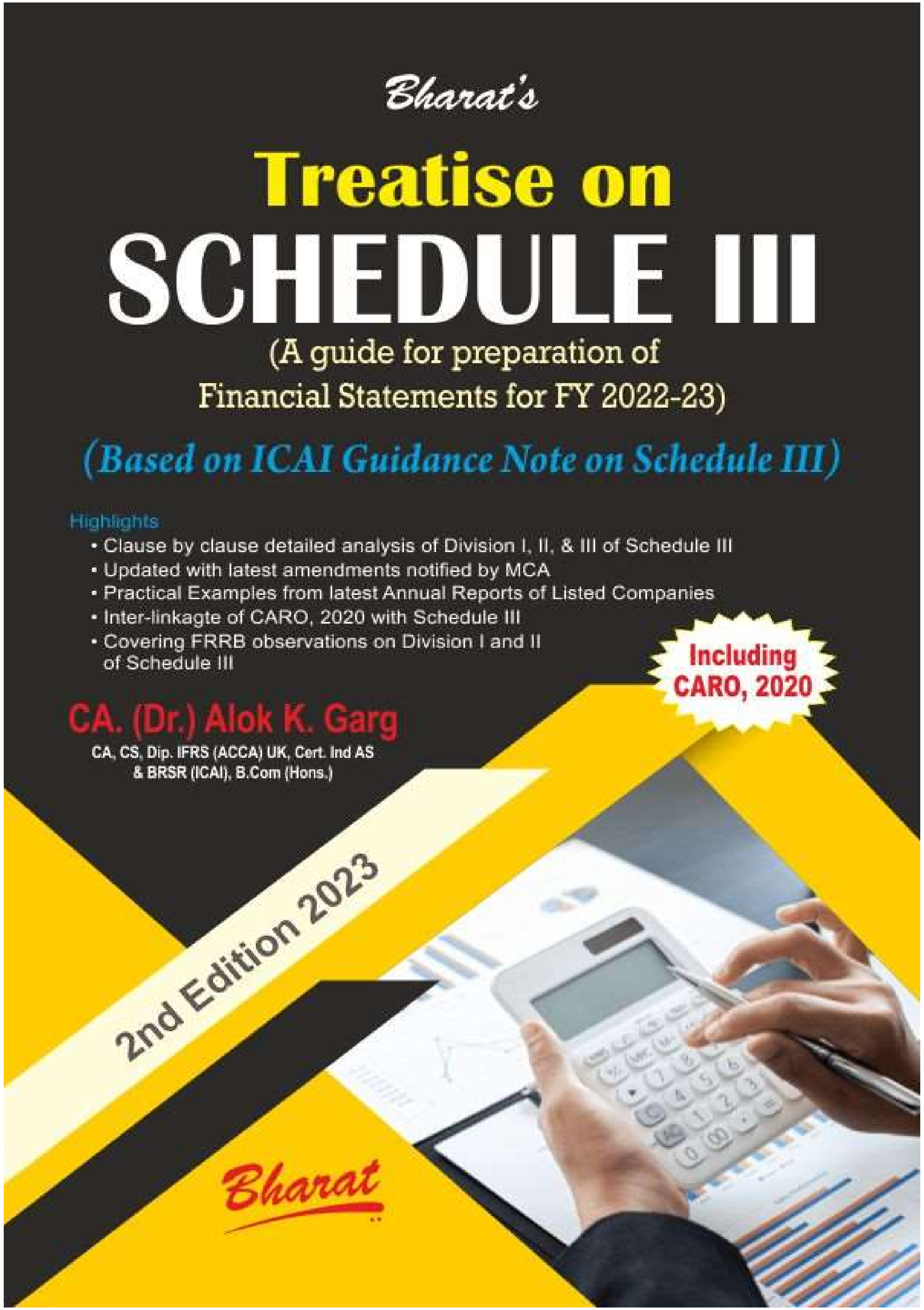

Commonly found Non Compliance in Schedule III and Accounting Standards

Organized By:
Jaipur Branch of CIRC of ICAI

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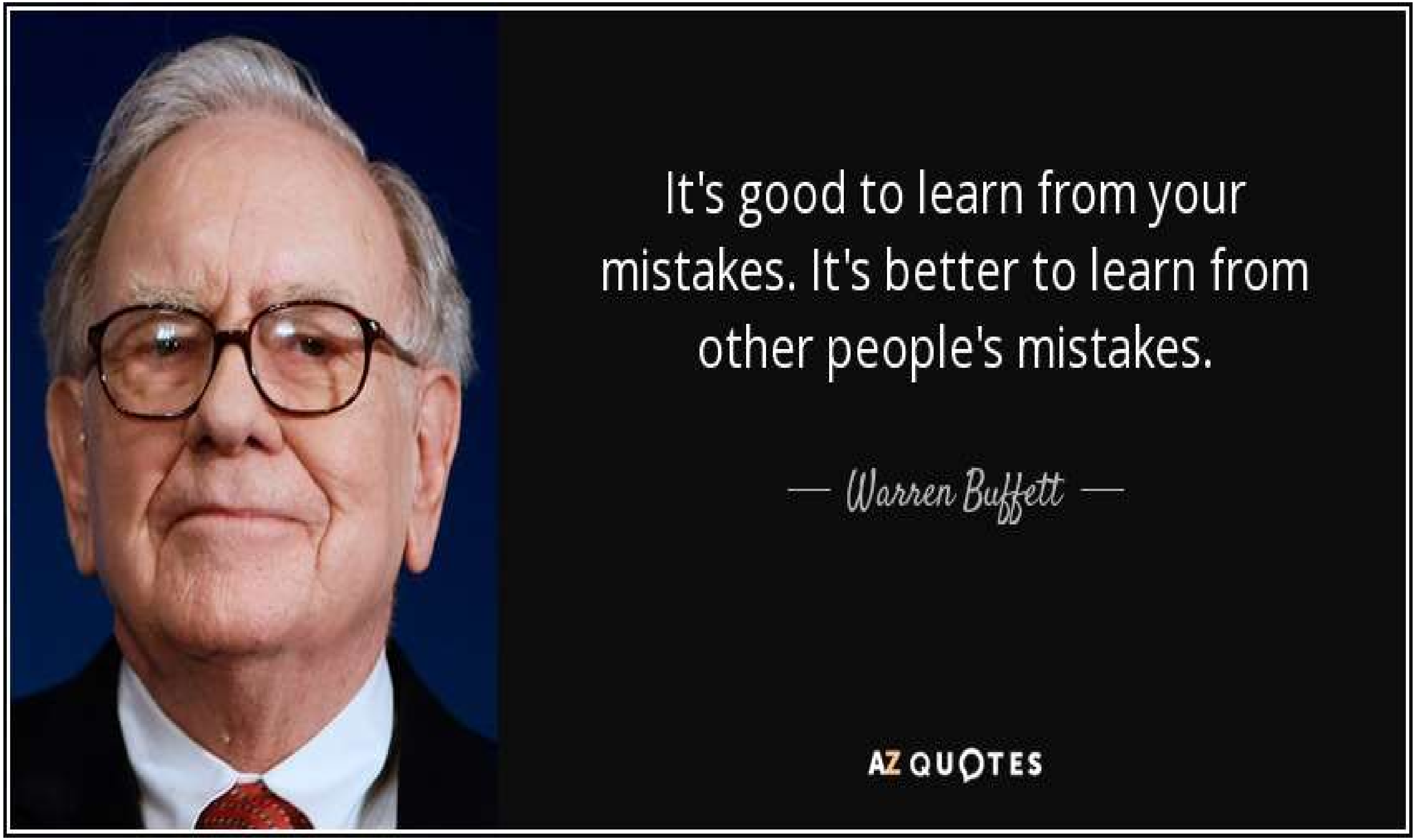
Dr Garg has a long-standing industry experience of more than 16 years in the field of Finance and Accounts. He is a renowned author with three Comprehensive books in his credits. He has recently launched Third edition of his iconic book **"Treatise on Ind AS" and "Treatise on Schedule III"** which is one of the **largest and best-selling books in Ind AS & Schedule III** and highly appreciated by the readers. He is a prolific speaker having delivered more than 800 lectures on Ind AS, IFRS, IGAAP, Schedule III & Auditing Standards at various National and International platforms. He has been a special invitee to prestigious Accounting Standard Board (ASB) of ICAI for FY 2019-20 and 2020-21. He has been honored with **National Education Leadership Award** awarded by Delhi University and Indian Accounting Association. He has been accorded as a Subject Matter Expert in the field of Financial Reporting multiple times during his professional stint.

He has contributed extensively in academic and professional activities at esteemed institutions including ICAI, ICSI and various Universities. He has immensely contributed in development of Study material for CA final students and education material for members of ICAI. He has also reviewed the accounting standards drafted by ICAI for Bhutan. His articles have been regularly published in leading print and online journals. He has been consistently rated as a best faculty at ICAI and other forums. He is instrumental in giving back to the society and has mentored many students and professionals.

NON COMPLIANCES OR KNOWN COMPLIANCE

NON-COMPLIANCES MEANS NO COMPLIANCE OR WRONG COMPLIANCE AS WELL


It's good to learn from your mistakes. It's better to learn from other people's mistakes.
— Warren Buffett —
AZ QUOTES

What's your view?

The financial statements of Dhoni Private Limited has been prepared in accordance with Accounting standards notified under Companies (Accounting Standards) Rules, 2006. The accounts are prepared under historical cost convention and on accrual basis.

What's your view?

The financial statements of M/s Dhoni & Sons has been prepared in accordance with Accounting standards notified under Companies (Accounting Standards) Rules, 2021. The accounts are prepared under historical cost convention and on accrual basis.

Aerial View

Summary of applicability and exemptions. All AS are applicable to Level I NCEs

Level >	II	III	IV
Fully Applicable	16	12	8
Not Applicable	7	9	11
*Applicable with disclosures exemption	3	5	6
Applicable with exemptions AS 15	1	1	1
Applicable Partially AS 22	0	0	1
Total	**27**	**27**	**27**

**** Except AS 22 (only for level IV NCEs) and AS 28***

Criteria for classification of Non-company entities for applicability of Accounting Standards

Summary of change in criteria of classification of levels of entities on basis of Turnover and Borrowings				
				(Rs. in crore)
	Turnover		**Borrowings**	
	Existing	**Revised**	**Existing**	**Revised**
Level I	exceeds 50	**exceeds 250**	exceeds 10	**exceeds 50**
Level II	exceeds 1 but does not exceed 50	**exceeds 50 but does not exceed 250**	exceeds 1 but does not exceed 10	**exceeds 10 but does not exceed 50**
Level III	equal to or less than 1	**exceeds 10 but does not exceed 50**	equal to or less than 1	**exceeds 2 but does not exceed 10**
Level IV	-	**does not exceed 10**	-	**does not exceed 2**

Mr. Goyal has below clients. Advise him what to refer and what not to refer ?

Client	Format of Financial Statement	AS / Ind AS
Ramlal & Sons (Partnership Firm)		
Ramlal India Pvt Ltd *(NW less than 250 crores)*		
Shyamlal India Pvt Ltd *(NW more than 250 crores)*		
Sohanlal Leasing Pvt Ltd *(NW less than 250 crores)*		
Mohanlal Leasing Pvt Ltd *(NW more than 250 crores)*		
Rohanlal Bank Ltd		
Lakshman Insurance Co. Ltd		

Applicability of Accounting Standards to Non-company Entities

AS	Level II Entities	Level III Entities	Level IV Entities
AS 1	Applicable	Applicable	Applicable
AS 2	Applicable	Applicable	Applicable
AS 3	**Not Applicable**	**Not Applicable**	**Not Applicable**
AS 4	Applicable	Applicable	Applicable
AS 5	Applicable	Applicable	Applicable
AS 7	Applicable	Applicable	Applicable
AS 9	Applicable	Applicable	Applicable
AS 10	Applicable	**Applicable with disclosures exemption**	**Applicable with disclosures exemption**
AS 11	Applicable	**Applicable with disclosures exemption**	**Applicable with disclosures exemption**
AS 12	Applicable	Applicable	Applicable
AS 13	Applicable	Applicable	Applicable with disclosures exemption
AS 14	Applicable	Applicable	**Not Applicable (refer subsequent slide)**
AS 15	**Applicable with exemptions**	**Applicable with exemptions**	**Applicable with exemptions**

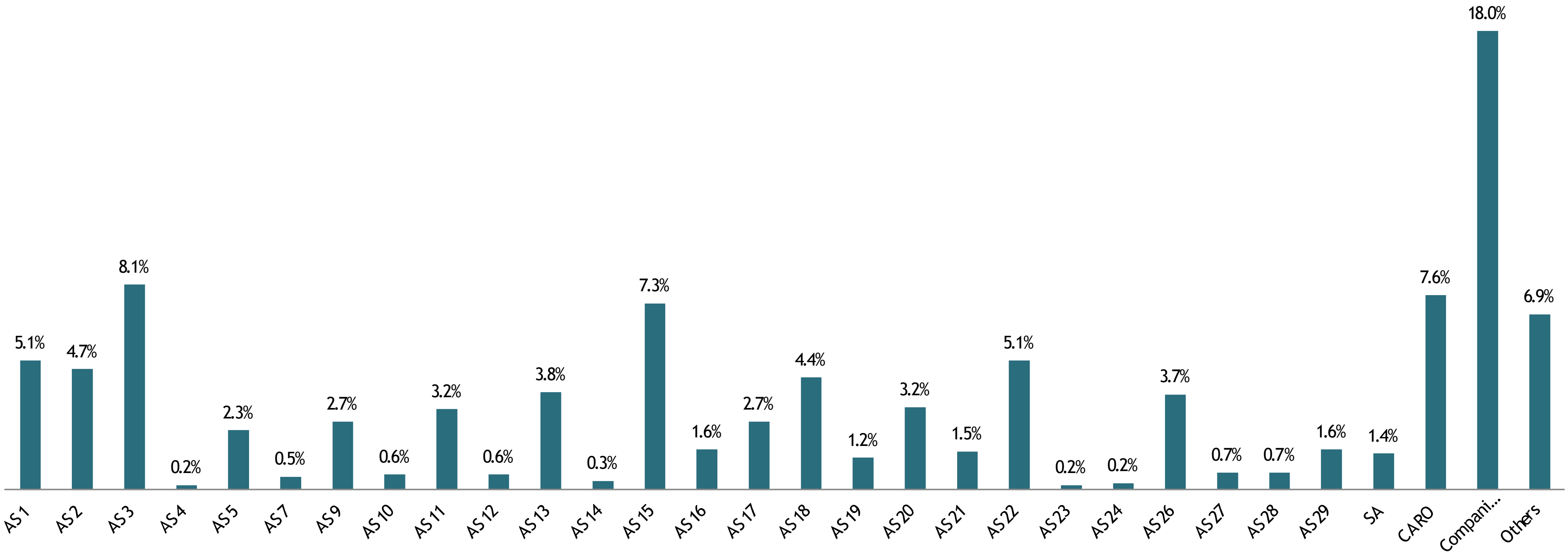
Applicability of Accounting Standards to Non-company Entities

AS	Level II Entities	Level III Entities	Level IV Entities
AS 16	Applicable	Applicable	Applicable
AS 17	Not Applicable	Not Applicable	Not Applicable
AS 18	Applicable	Not Applicable	Not Applicable
AS 19	Applicable with disclosures exemption	Applicable with disclosures exemption	Applicable with disclosures exemption
AS 20	Not Applicable	Not Applicable	Not Applicable
AS 21	Not Applicable	Not Applicable	Not Applicable (refer subsequent slide
AS 22	Applicable	Applicable	Applicable only for current tax related provisions (refer subsequent slide)
AS 23	Not Applicable(refer subsequent slide)	Not Applicable (refer subsequent slide)	Not Applicable (refer subsequent slide)
AS 24	Applicable	Not Applicable	Not Applicable
AS 25	Not Applicable (refer subsequent slide)	Not Applicable (refer subsequent slide)	Not Applicable (refer subsequent slide
AS 26	Applicable	Applicable	Applicable with disclosures exemption
AS 27	Not Applicable (refer subsequent slide)	Not Applicable (refer subsequent slide)	Not Applicable (refer subsequent slide
AS 28	Applicable with disclosures exemption	Applicable with disclosures exemption	Not Applicable
AS 29	Applicable with disclosures exemption	Applicable with disclosures exemption	Applicable with disclosures exemption

Schedule III – To think and Re-think

- PPE – Revaluation
- Promoter's shareholding & Share capital>5%
- Deferred Tax Assets/Liability
- Security Deposits
- Current maturity of long term debt
- Capital Advances and Advance to Suppliers
- Rounding off
- MSME disclosure
- Trade receivables & Payables ageing
- Disclosure w.r.t borrowings from banks or financial institutions

Deficiency Observed-AS



AS 1 - Disclosure of Accounting Policies

Case:

Certain companies omit to disclose significant accounting policies with regard to the following:

- Borrowing Costs
- Valuation of Inventories
- Accounting for Investments
- Employee Benefits
- Accounting for taxes on income
- Impairment of Assets
- Provisions, Contingent liabilities and Contingent Assets

Principle:

Paragraph 24 of AS 1

Observation:

It was observed that company in general, may have borrowed funds, inventories, investments, employees, taxes on income and assets which may be subject to impairment. Further, there is always a need to carry certain provisions for meeting the contingent liabilities**. As per Paragraph 24 of AS 1, all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. Accordingly, subject to circumstances, a company is expected to disclose the accounting policies as adopted by it with regard to each of them.**

AS 3 – Cash Flow Statements

Case:

In the Cash Flow Statement of a non financial enterprise, under the heading of financing activities, an item interest (net) amounting to Rs. XXX has been reported.

Principle:

Paragraph 30 of AS 3

Observation:

It was viewed that the **cash flows from interest income has arisen due to investing activity while the cash flows from interest expense, has arisen due to financing activity hence, they can not be netted off against each other.**

AS 3 – Cash Flow Statements

Case:

In one of the enterprise, the components of Cash and Cash equivalents as reported in the balance sheet includes Cash in Hand, Cash at Bank, Earmarked Balance against LC, Gratuity & Superannuation etc., Unpaid Dividend Account, Interest accrued on Fixed Deposits and the total of these components matches with the closing cash & cash equivalents as reported in the cash flow statement.

Principle:

Paragraph 5.2 of AS 3

Observation:

It was observed that the balance of 'Cash and cash equivalents' as reported in the Cash Flow Statement is same as that in the balance sheet i.e. Rs. XXX. Further, it was noted from the components of cash and cash equivalents that it includes **balances of unpaid dividend, accrued interest on FDs and earmarked balances against LC, Gratuity & Superannuation etc. which are not readily available with the enterprise for its use, thus, the same cannot be included in 'Cash and Cash Equivalents'.**

AS 4 - Contingencies and Events Occurring After the Balance Sheet Date

Case:

One of the Notes to Accounts states that it is the Company's Policy to take into account the impact of any significant event that occurs after Balance Sheet date but before the ***finalisation of accounts (emphasis supplied)***.

Principle:

Paragraph 3.2 of AS 4

Observation:

It was viewed that events occurring after the balance sheet date are those significant events that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors/ corresponding approved authority. It was viewed that **the date of finalisation of accounts could not be construed as the date when the financial statements have been approved by the Board unless the date of signing the Auditors' Report is same as the date of finalisation of accounts.**

AS 7 – Construction Contracts

Case:

The significant accounting policy relating to construction contracts states as below:

"Job work revenue is accounted on the basis of running bills raised and approved by the clients. Revenue Expenditure is accounted on accrual basis as and when it is incurred."

Principle:

Paragraph 21 of AS 7

Observation:

It was observed that revenue has been recognised based on bills raised and cost has been accounted, as and when incurred, whereas **paragraph 21 of AS 7 requires to recognise revenue and costs based on the stage of completion of the contract activity as on the reporting date**. Thus, the policy regarding construction contracts is not in line with the requirement of AS 7, Construction Contracts.

AS 7 – Construction Contracts

Case:

From the Annual Report of a company, it was noted that the company is involved in construction business and its Schedule of inventory also include an item of Job in progress. However, no other disclosure was made in the financial statements.

Principle:

Paragraph 39 of AS 7

Observation:

It was observed that **though involved in construction business, company had not made the following disclosures, as is required by Paragraph 39 of AS 7**:

the aggregate amount of costs incurred and recognised profits (less recognised loses) up to the reporting date;

the amount of advances received ; and

the amount of retentions.

Accordingly, it was viewed that the company has not complied with the requirement of AS 7.

AS 9 – Revenue Recognition

Case:

Extract of accounting policy on revenue from advertisement and sale of tickets:

'Revenue from sale of tickets is recognised when the tickets have been sold. Advertisement revenue is recognised when advertisements and net realisation are confirmed.'

Principle:

Paragraph 12 of AS 9

Observation:

It was noted that the enterprise under review render services. Therefore, revenue from sale of tickets should be recognised as per the completed contract method. However, as per the 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 is always a 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.** If the event doesn't taken place, it may be necessary even to refund the amount. 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. The revenue from advertisements should be recognised when the advertisements is accepted and not on realisation of bills. Thus, recognising revenue when advertisement and net realisations are confirmed is not in line with the requirements of AS 9.

AS 9 – Revenue Recognition

Case:

The accounting policy of revenue recognition as given in the Annual Report of a company *inter alia* 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 subscription period. In the Annual Report of another company, the following accounting policy has been disclosed:

"Revenue from online educational services is recognised upon receipt of subscription fees."

Principle:

Paragraph 7.1 of AS 9

Observation:

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.

It was further viewed that **the subscription fee for online educational services should be recognised apportioned over the service period.**

Accordingly, it was viewed that the accounting policy followed in these cases is not in line with the requirements of AS 9

AS 9 – Revenue Recognition

Case:

The accounting policies regarding recognition of dividend income has been disclosed as follows in the Annual Reports of some companies:

- Dividend is accounted as and when received.
- Income & Expenditures are recognised on accrual basis except dividend on shares and units of Mutual Funds, which are recognised on cash basis

Principle:

Paragraph 13 of AS 9

Observation:

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.**

Accordingly, it was viewed that the recognition of dividend income on receipt basis is not in line with the requirements of AS 9.

AS 11 - The Effects of Changes in Foreign Exchange Rates

Case:

It was observed from the accounting policy given in the Financial Statement of a company, that current assets and liabilities as at the end of the year are translated at exchange rate ruling on the date of Balance Sheet.

Principle:

Paragraph 11(a) of AS 11

Observation:

As per above referred 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.** Accordingly, it was viewed that stated policy of translation of all current assets and liabilities at the year end exchange rate is not correct.

AS 11 - The Effects of Changes in Foreign Exchange Rates

Case:

In the Annual Report of a Company, accounting policy for foreign currency transactions for monetary items only have been disclosed.

Principle:

Paragraph 11 of AS 11

Observation:

It was viewed that foreign exchange fluctuation in relation to any asset and liability should be recognized based on their classification as monetary and non-monetary items. It was noted that policy adopted for monetary item was clearly disclosed. However, it **omitted to disclose policy for non-monetary items such as investment in equity shares, inventory and fixed assets which were present in the Balance Sheet.**

AS 11 - The Effects of Changes in Foreign Exchange Rates

Case:

From Notes to Accounts given in the Annual Report of a Company, it was noted that certain foreign exchange transactions have been entered during the year.

Principle:

Paragraph 40(a) of AS 11

Observation:

It was noted that the enterprise has entered into various foreign exchange transactions during the year, however, no exchange gain or loss arising on account of foreign exchange fluctuation has been disclosed separately in the Statement of Profit and Loss or in the notes to accounts, which is not in line with the above stated requirement of AS 11.

AS 11 - The Effects of Changes in Foreign Exchange Rates

Case:

From the accounting policy given in the Annual Report of a Company, it was noted that the export sales have been recorded at the rate notified by the customs for invoice purposes.

Principle:

Paragraph 9 of AS 11

Observation:

It was noted from the stated accounting policy that the export sales have been recorded at the rate notified by the customs for invoice purposes instead of translating the same on the basis of exchange rate prevailing on the date of transaction. This is not in line with the principles enunciated in paragraph 9 of AS 11.

AS 11 - The Effects of Changes in Foreign Exchange Rates

Case:

In the accounting policy of foreign currency transactions given in the Annual Report of a Company, it was stated that foreign currency monetary items have been recognised at contracted rates, as those are covered by forward contracts.

Principle:

Paragraph 11(a) of AS 11

Observation:

It was viewed that hedging contracts (i.e. forward contracts) are independent of underlying contracts and therefore both these contracts should be recognised independent of each other. Accordingly, monetary items should have been recognised at the closing exchange rate irrespective of the fact whether risk against such items have been hedged by forward contracts. Hence, recognizing monetary item at contract rates is against the principles of AS 11.

AS 11 - The Effects of Changes in Foreign Exchange Rates

Case:

In the accounting policy of foreign exchange, it was stated that if foreign exchange transactions relates to acquisition of fixed assets, they are adjusted to the carrying cost of such assets.

Principle:

Paragraph 46A of AS 11

Observation:

It was noted from the stated accounting policy that the foreign exchange differences related to acquisition of any fixed asset are adjusted to the cost of such assets. 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 long term foreign currency monetary item. Hence, adjustment of any foreign exchange rate variation to the cost of fixed asset was not in line with the requirements of AS 11.

AS 15- Employee Benefits

Case:

In some of the cases the amount of expense for defined contribution were not disclosed by the enterprises.

Principle:

Paragraph 47 of AS 15

"An enterprise should disclose the amount recognized as an expense for defined contribution plan."

Observation:

It was viewed, since paragraph 47 explicitly requires the **disclosure of amount recognized as an expense for defined contribution plan**, the same should be disclosed by way of notes to the accounts.

AS 15- Employee Benefits

Case:

In some of the cases although the accounting policy on employee benefits stated that defined benefit obligations has been determined using the services of qualified actuary, however, no disclosure was made regarding whether the projected unit credit method was followed in determination of defined benefit obligations or not.

Principle:

Paragraph 65 of AS 15

"An enterprise should use the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost."

Observation:

It was viewed that accounting **policy on employee benefits should explicitly mention the fact that projected unit credit method was followed** for determination of defined benefit obligations.

AS 16- Borrowing Cost

Case:

Accounting policy on Valuation of Inventories states that – Finished goods are valued at lower of cost or net realisable value; cost includes depreciation, *interest* (excluding interest on discounting of bills) and direct expenses to the point of stocking, excise duty but excludes administration and selling expenses.

Principle:

AS 2 and AS 16

Observation:

It was noted that interest cost was included in the cost of inventories. **Para 12 of AS 2**,'Valuation of Inventories' provides that interest and other borrowing costs are usually considered as not relating to bringing the inventories to their present location and condition and are, therefore, usually not included in the cost of inventories. **Para 5 of AS 16,** 'Borrowing Costs' provides that those inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time, are not qualifying assets. Accordingly**, it was viewed that as per AS 16, no borrowing cost (interest) can be capitalised unless such inventories take a substantial period of time to get ready for sale**. Thus there is a non compliance of AS 2 as well as AS 16.

AS 16- Borrowing Cost

Case:

Schedule of secured loans as well as related information as given in notes to accounts of a Company, reflects that certain borrowing cost has been incurred during the year, a portion of which has been capitalised to the value of fixed assets and rest of portion has been expensed.

Principle:

Paragraph 23 of AS 16

Observation:

It may be noted that Paragraph 23 of AS 16, requires that the financial statements should disclose:

a)the accounting policy adopted for borrowing costs; and

b)the amount of borrowing costs capitalised during the period."

It was observed **that although the company had capitalized a significant portion of financial charges to the value of fixed assets but omitted to disclose the accounting policy as adopted by it for borrowing cost**. It is not in line with the requirement of paragraph 23 of AS 16.

AS 18- Related Party Disclosures

Case:

Non Disclosure of description of relationship

Principle:

Paragraph 23 (ii) of AS 18

Observation:

From the 'Related Party Disclosures' given in the Annual Report of some companies, it was observed:

- 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**.
- The **phrase 'Other Related parties' has been used** rather than giving, specific relationship details for parties with whom transactions have taken place.

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.

AS 18- Related Party Disclosures

Case:

Non Disclosure of certain related parties

Principle:

Paragraph 21 of AS 18

Observation:

From the information given in the Annual Report of some companies, the following discrepancies have been noted:

- It has been noted that certain companies are subsidiaries of other companies. However, the name of the holding company was not disclosed in the Related Party Disclosures.

- From the Annual Report of a 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.

It was viewed that non-disclosure of the names of the holding company or the subsidiary company in the 'Related Party Disclosures' is not in compliance with the requirements of paragraph 21 of AS 18.

AS 18- Related Party Disclosures

Case:

Non compliances relating to KMP

Principle:

Paragraph 14 of AS 18

Observation:

From the information given in Annual Reports of some companies, following has been noted:

- 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'.
- The Chief Operating Officer (COO) has been reported as KMP, however, **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 KMP**.
- The transactions (i.e. remuneration) with the KMP have not been disclosed under Related Party Disclosures, instead **only a reference to the note on managerial remuneration has been given**.

It was viewed that in the given cases, the disclosure requirements of AS 18 with regard to key management personnel have not been complied with.

AS 18- Related Party Disclosures

Case:

Non-Disclosure of material transactions

Principle:

Paragraph 27 of AS 18 read with explanation thereon

Observation:

From the Annual Reports of some companies, it has been noted that under 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.

It was viewed that, **if any transaction with an individual party constitutes 10% or more of the total related party transactions of same nature then it is a material transaction with that party**, accordingly, the names of the related parties with whom such transactions have taken place and the volume of each such material transaction need to be disclosed separately.

AS 18- Related Party Disclosures

Case:

Incorrect disclosure of nature of Related Parties

Principle:

Paragraph 3 of AS 18

Observation:

From the 'Related Party Disclosures' as given in the Annual Reports of some companies, following nature of the relationships were noted:

- Common Director;
- Affiliates

It may be, 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.

AS 18- Related Party Disclosures

Case:

Non Disclosure of outstanding items pertaining to related parties at the balance sheet date

Principle:

Paragraph 23(vi) of AS 18

Observation:

From the 'Related Party Disclosures' in the Annual Report 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.**

It was viewed that the amounts outstanding at the balance sheet date should be disclosed as part of the related party disclosure.

AS 18- Related Party Disclosures

Case:

Disclosure of two related parties under single column

Principle:

Paragraph 23(vi) of AS 18

Observation:

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. It was viewed that transactions for each type of relationship should be separately disclosed under the related party disclosures.**

AS 18- Related Party Disclosures

Case:

Disclosure of lessor as Related Party

Principle:

Paragraph 3 of AS 18

Observation:

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'.**

It was viewed that an individual in the capacity of a lessor cannot exercise control or significant influence over the company. Accordingly, such description of relationship is not in line with the requirements of AS 18.

AS 19- Leases

Case:

Use of ad-hoc rate of depreciation for leased asset.

Principle:

Paragraph 18 of AS 19

Observation:

The Statement of Significant Accounting Policies as given in the Annual Report of a company includes the following:

"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."

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. Accordingly, it was viewed that the requirements of paragraph 18 of AS 19 have not been complied with.

AS 19- Leases

Case:

It was noted from the financial statements of enterprises that although assets were acquired on non-cancellable lease, however, disclosures of paragraph 25 were not made.

Principle:

Paragraph 25 of AS 19

Observation:

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.

It was observed that **it is evident from the disclosures made in the financial statements, including notes to accounts, that these companies have taken certain assets under operating lease. However, disclosures required under paragraph 25 have not been made.**

AS 19- Leases

Case:

Asset given under leases but disclosure of paragraph 40 and 46 were not made.

Principle:

Paragraph 40 and 46 of AS 19

Observation:

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. It was noted in one of the cases that the accounting policy adopted by the company with regard to leases has been disclosed and following disclosure has been made in the notes to accounts:

Lease rental income :	
Not later than one year	xxx
Later than one year but not later than five years	xxx
Later than five years	xxx

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 neither been disclosed in the Statement of Profit and Loss nor in the related notes to accounts, which is not in line with the requirement of paragraph 40 of AS 19.**

AS 20- Earnings Per Share

Case:

From the financial statement of a company, it was noted that on the face of Statement of profit and loss as well as under notes to accounts, only 'earning per share' has been disclosed, without stating whether it is basic EPS or diluted EPS.

Principle:

Paragraph 8 of AS 20

Observation:

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.** Merely stating 'earning per share' is not in compliance with the requirements of AS 20.

AS 22- Accounting for Taxes on Income

Case:

Certain companies do not disclose the break-up of the Deferred Tax Liability/ Deferred Tax Asset either in the schedule or notes to accounts.

Principle:

Para 31 of AS 22

Observation:

Para 31 of AS 22, Accounting for Taxes on Income, requires that " 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."

Non disclosure of break-up of deferred tax assets or deferred tax liability is in contravention of AS 22.

AS 22- Accounting for Taxes on Income

Case:

A company had the carry forward of losses and its accounting policy with regard to Deferred tax , inter alia , states that "….The management is of the opinion that sufficient future taxable income will be available against which, such deferred tax assets will be realised……."

Principle:

Para 17 of AS 22

Observation:

Paragraph 17 of AS 22 requires that "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". **It has been noted that the company had carried forward unabsorbed losses and as such Paragraph 17 was applicable. It was viewed that although the management was of opinion that the sufficient future taxable income will be available against which such deferred tax assets will be realised, however, it has failed to state that whether there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available. Accordingly, the stated accounting policy is not as per AS 22.**

AS 23 - Accounting for Investments in Associates in Consolidated Financial Statements

Case:

It was noted from the schedule of Related Party Disclosures that the Company has an associate company.

Observation:

It may be noted that Paragraph 23 of AS 23, requires that "Investments in associates accounted for using the equity method should be classified as long-term investments and disclosed separately in the consolidated balance sheet. The investor's share of the profits or losses of such investments should be disclosed separately in the consolidated statement of profit and loss. The investor's share of any extraordinary or prior period items should also be separately disclosed.

From the auditor's report, it was noted that the financial statements of associate company had not been included in the Consolidated Financial Statements. Further, it was noted that neither the investors' share of the profits or losses in such associate company had been separately disclosed in the Consolidated Statement of Profit & Loss nor the auditors' report provide any reference on the same. Accordingly, it was viewed that the requirement of AS 23 had not been strictly complied with.

AS 26 – Intangible Assets

Case:

It was noted from the accounting policy on R&D of a company that the expenditure on proposed projects has been accumulated and it is amortized over a period of 5 years. It was further noted from the accounting policy that the expenditure on software development, product development, product testing, etc. has been charged to the P&L.

Principle:

Paragraph 44 of AS 26

Observation:

AS 26 requires classification of expenses incurred on R&D 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'. The 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. Accordingly, it was viewed that R&D expenditure that meets the criteria of paragraph 44 of AS 26 should be recognised as an 'intangible assets'.

However, in the given case, **R&D expenditures have not been classified between research phase and development phase** as required by AS 26. Further, the stated policy indicates that R&D expenditures **have been treated as 'deferred revenue expenditure'** which is again contrary to AS 26.

AS 27 – Financial Reporting of Interests in Joint Ventures

Case:

From the Related Party Disclosures of a company, it has been found that the company has a joint venture with A Ltd.

Principle:

Paragraph 53 of AS 27

Observation:

As per Paragraph 53 of AS 27, a venturer should disclose a list of all joint ventures and description of interest in significant joint ventures.

It was noted that although there exists a relationship in the nature of joint venture but the company omits to provide the description of interest in such joint venture, which is against the requirement of paragraph 53 of AS 27.

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