Educational Material on Indian Accounting Standard (Ind AS) 1 Presentation of Financial Statements

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

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Foreword

In the present era of globalisation and liberalisation, where companies are establishing their businesses in various countries and cross border movements of capital is increasing, the users of the financial statements of an entity are no longer limited to single country. Therefore, it is necessary that as far as possible, the accounting principles for reporting financial information should be identical in all the countries. All this has necessitated the establishment of a single set of globally accepted financial reporting system. The International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) are increasingly being recognised as global financial reporting standards. Substantial benefits have been proposed by the adoption of IFRS, including a decreased cost of capital, greater mobility of capital, greater efficiency in the allocation of resources, improved and more comparable financial reporting. Considering all these global developments, convergence with IFRS in India was decided. The ICAI had formulated IFRS-converged Indian Accounting Standards corresponding to IFRS, which were considered relevant as on 1st April, 2011. The same had been placed by the MCA on its website after the recommendation of the NACAS.

Considering these major developments in India with regard to convergence with IFRS and global developments with regard to IFRS, immense need is being felt to get the members and other stakeholders ready for proper implementation of IFRS-converged Indian Accounting Standards. For this purpose, a new Committee, namely, Ind AS (IFRS) Implementation Committee has been constituted this year. One of the primary objectives of the Committee is to support the members and other stakeholders in proper implementation of IFRS-converged Indian Accounting Standards (Ind ASs) by providing guidance on the same.

In this direction, the Ind AS (IFRS) Implementation Committee of ICAI has formulated Educational Material on Ind AS 1, *Presentation of Financial Statements*. The purpose of this Educational Material is to provide guidance by way of Frequently Asked Questions (FAQs) explaining the principles enunciated in the Standard.

I am confident that this Educational Material will be very useful not only to the members of the profession but also to other concerned stakeholders in proper understanding and implementation of the Standard.

New Delhi
January 2, 2012

G. Ramaswamy
President

Preface

In view of global developments and expected benefits of convergence with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which are widely recognised as global financial reporting standards, India decided to converge with IFRSs. For this purpose, IFRS-converged Indian Accounting Standards corresponding to IFRS considered relevant for Indian entities as on 1st April, 2011, had been formulated.

While formulating IFRS-converged Indian Accounting Standards, it was realised that in order to ensure that these Standards are implemented in the same spirit in which these had been formulated, some kind of guidance on these Standards should be issued. This task of providing guidance was entrusted to Ind AS (IFRS) Implementation Committee. Working in this direction, the Committee has come out with Educational Material on Indian Accounting Standard (Ind AS) 1, *Presentation of Financial Statements*.

Ind AS 1 is a basic Standard, which prescribes the overall requirements for the presentation of financial statements and guidelines for their structure, i.e., components of financial statements, viz., balance sheet, statement of profit and loss, statement of cash flows and notes comprising significant accounting policies, etc. Further, the Standard prescribes the minimum disclosures that are to be made in the financial statements and explains the general features of the financial statements. The presentation requirements prescribed in the Standard are supplemented by the recognition, measurement and disclosure requirements set out in other Ind ASs for specific transactions and other events.

This Educational Material contains summary of Ind AS 1 discussing the key requirements of the Standard in brief and the Frequently Asked Questions (FAQs) covering the issues, which are expected to be encountered frequently while implementing this Standard. The text of Ind AS 1 has been included as an Appendix to make this publication comprehensive.

I may bring to the kind attention of the readers that the views expressed in this publication are the views of the Ind AS (IFRS) Implementation Committee and are not necessarily the views of the Council of the Institute. The purpose of this publication is to provide guidance for implementing this Ind AS effectively by explaining the principles enunciated in the Standard with the help of examples. However, while applying Ind ASs in a practical situation, reference should be made to the text of the Standards.

I wish to place on record my sincere appreciation of CA. Samir R. Shah, CA. Sampada S. Narvankar and their team, for preparing the draft of this Educational Material. I would also like to thank CA. Sanjeev Kumar Singhal, CA. Jag Mohan Seth, CA Archana Bhutani and all other members of the Ind AS (IFRS) Implementation Committee for their valuable inputs for finalising this publication.

I would like to thank Dr. Avinash Chander, Technical Director, CA. Parminder Kaur, Secretary, Ind AS (IFRS) Implementation Committee for their efforts and support for finalising this publication.

I hope this Educational Material will be of immense use in understanding the provisions of Ind AS 1 and in implementation of the same.

New Delhi
January 13, 2012

CA. Amarjit Chopra
Chairman
Ind AS (IFRS) Implementation Committee

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I Ind AS 1 - Summary

Objective of Ind AS 1

Indian Accounting Standard (Ind AS) 1, *Presentation of Financial Statements,* prescribes the basis for presentation of general purpose financial statements. The basic purpose of this Standard is to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Scope

Every entity preparing and presenting general purpose financial statements in accordance with Ind AS should apply this Standard.

Other Accounting Standards supplement the requirements of Ind AS 1 by setting out the recognition, measurement and disclosure requirements for specific transactions and other events.

Purpose of Financial Statements

The objective of general purpose financial statements is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making economic decisions. To meet the objective, financial statements provide information about an entity's:

- assets;

- liabilities;
- equity;
- income and expenses, including gains and losses;
- contributions by and distributions to owners in their capacity as owners; and
- cash flows.

That information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Complete set of Financial Statements

A complete set of financial statements comprises:

- a balance sheet as at the end of the period (including a statement of changes in equity which is presented as a part of the balance sheet);
- a statement of profit and loss for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information; and
- a balance sheet as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatements of items in its financial statements, or when it reclassifies items in its financial statements.

Many entities present reports and statements such as financial reviews by management, environmental reports, and value added statements that are outside the financial statements. Such reports and statements that are outside the financial statements are outside the scope of Ind ASs.

General Features

Presentation of true and fair view and compliance with Ind ASs

The financial statements must present a true and fair view of the financial position, financial performance and cash flows of an entity. Presentation of true and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework.* The application of Ind ASs, with additional disclosure when necessary, is presumed to result in financial statements that present a true and fair view.

An entity whose financial statements comply with Ind AS is required to make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with Ind AS unless they comply with all the requirements of Ind ASs.

It is not permissible for an entity to rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

Following exception has been given in the Standard where an entity can depart from requirement of an Ind AS:

In extremely rare circumstances, management may conclude that compliance with an Ind AS requirement would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*. In such circumstances, the entity should depart from the Ind AS, if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure. In that case disclosures as required by the Standard should be made.

The Standard further provides that in the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by making certain disclosures.

Going Concern

Financial statements prepared under Ind AS should be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. If management has significant doubt of the entity's ability to continue as a going concern, the uncertainties should be disclosed. In case the financial statements are not prepared on a going concern basis, the entity should disclose the basis of preparation of financial statements and also the reason why the entity is not regarded as a going concern.

Accrual Basis of Accounting

An entity is required to prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

Materiality and Aggregation

An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial except when required by law.

Offsetting

Assets and liabilities, and income and expenses, may not be offset unless required or permitted by an Ind AS.

Frequency of Reporting

An entity should present a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than one year, an entity should disclose, in addition to the period covered by the financial statements, the reason for using a longer or shorter period, and the fact that amounts presented in the financial statements are not entirely comparable.

Comparative Information

An entity should disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements except when Ind ASs permit or require otherwise. Comparative information for narrative and descriptive information should be included when it is relevant to an understanding of the current period's financial statements.

Additional disclosures are required in case of reclassification of comparative amounts because of change in the presentation or reclassification of items in the financial statements.

Consistency of Presentation

Ind AS 1 requires that presentation and classification of items in the financial statements shall be retained from one period to the next unless a change is justified either by a change in situations or a requirement of another Ind AS.

Structure and Content

An entity should clearly identify the financial statements and distinguish them from other information in the same published document.

Balance Sheet

Ind AS 1 does not prescribe the order or format for presentation of balance sheet. However, Ind AS 1 requires the following minimum line items to be included in the balance sheet:

(a) property, plant and equipment;

(b) investment property;

(c) intangible assets;

(d) financial assets (excluding amounts shown under (e), (h), and (i));

(e) investments accounted for using the equity method;

(f) biological assets;

(g) inventories;

(h) trade and other receivables;

(i) cash and cash equivalents;

(j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*;

(k) trade and other payables;

(l) provisions;

(m) financial liabilities (excluding amounts shown under (k) and (l));

(n) liabilities and assets for current tax, as defined in Ind AS 12;

(o) deferred tax liabilities and deferred tax assets, as defined in Ind AS 12;

(p) liabilities included in disposal groups classified as held for sale in accordance with Ind AS 105;

(q) non-controlling interests, presented within equity; and

(r) issued capital and reserves attributable to owners of the parent.

It is permissible to present additional line items, headings and sub totals, as relevant, to understand the entity's financial position.

Current/non-current distinction

Ind AS 1 provides that an entity should present current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet except when a presentation based on liquidity provides information that is reliable and more relevant.

Whichever method of presentation is adopted, an entity should disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) no more than twelve months after the reporting period, and

(b) more than twelve months after the reporting period.

Ind AS 1 provides that an entity should classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting period; or

(d) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity should classify all other assets as non-current.

Ind AS 1 provides that an entity should classify a liability as current when:

(a) it expects to settle the liability in its normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting period; or

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

An entity should classify all other liabilities as non-current.

If an entity expects, and has the discretion, to refinance or roll over an existing loan obligation for at least twelve months after the reporting period, the debt is classified as non-current, even if it would otherwise be due within 12 months.

If a long term loan arrangement has become payable on demand because an entity has breached a covenant/provision of the agreement on or before the reporting date, the liability should be classified as current, even if the lender has agreed, after the reporting date and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

However, the liability is classified as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least 12 months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

With regard to share capital, an entity shall disclose the following, either in the balance sheet or in the statement of changes in equity which is part of the balance sheet, or in the notes:

(a) for each class of share capital:

   (i) the number of shares authorised;

   (ii) the number of shares issued and fully paid, and issued but not fully paid;

   (iii) par value per share, or that the shares have no par value;

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;

(vi) shares in the entity held by the entity or by its subsidiaries or associates; and

(vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and

(b) a description of the nature and purpose of each reserve.

Statement of Profit and Loss

An entity should present, in a single statement of profit and loss, all items of income and expense including components of other comprehensive income.

Minimum line items to be included in the statement of profit and loss are:

(a) revenue;

(b) finance costs;

(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(d) tax expense;

(e) a single amount comprising the total of (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;

(f) profit or loss;

(g) each component of other comprehensive income classified by nature (excluding amount in (h));

(h) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and

(i) total comprehensive income.

The following items should be disclosed in the statement of profit and loss as allocations for the period:

(a) profit or loss for the period attributable to:

   (i) non-controlling interests, and

   (ii) owners of the parent.

(b) total comprehensive income for the period attributable to:

   (i) non-controlling interests, and

   (ii) owners of the parent.

Additional line items, headings and sub totals as may be relevant for an understanding of the entity's results of operations should be presented.

No items may be presented in the statement of profit and loss or in the notes as 'extraordinary items'.

With regard to profit or loss for the period, the Standard requires the recognition of all items of income and expense in a period in profit or loss unless an Ind AS requires or permits otherwise.

With regard to other comprehensive income for the period, the Standard requires to disclose the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments, either in the statement of profit and loss or in the notes.

The Standard further prescribes that an entity should disclose reclassification adjustments relating to components of other comprehensive income.

When items of income or expense are material, the same should be disclosed separately. Circumstances that may require separate disclosure of items of income and expense may include the following:

- write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
- restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
- disposals of items of property, plant and equipment;
- disposals of investments;
- discontinuing operations;
- litigation settlements; and
- other reversals of provisions.

The Standard requires an entity to present an analysis of expenses recognised in profit or loss using a classification based on the nature of expense method. Entities are encouraged to present this analysis in the statement of profit and loss.

Statement of Changes in Equity

Ind AS 1 requires an entity to present a statement of changes in equity as a part of balance sheet. The statement includes the following information:

(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;

(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with Ind AS 8;

(c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each changes resulting from:

  (i) profit or loss;

  (ii) each item of other comprehensive income;

  (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control; and

  (iv) any item recognised directly in equity such as amount recognised directly in equity as capital reserve in accordance with Ind AS 103.

Statement of Cash Flows

An entity should present a statement of cash flows in accordance with Ind AS 7, *Statement of Cash Flows*.

Notes

The notes should:

- present information about the basis of preparation of the financial statements and the specific accounting policies used;
- disclose any information required by Ind ASs that is not presented elsewhere in the financial statements; and
- provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of them.

An entity should cross-reference each item in the financial statements to the related information in the relevant note.

An entity must disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

An entity must disclose, in the notes, information about the assumptions made concerning the future, and other important sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Disclosures about nature of such assets and their carrying amount as at the end of the reporting period should also be made.

Capital Disclosures

An entity should disclose information about its objectives, policies and processes for managing capital.

Puttable Financial Instruments classified as equity

The following additional disclosures should be made, if not already disclosed elsewhere in the financial statements, if an entity has a puttable financial instrument classified as an equity instrument:

- summary quantitative data about the amount classified as equity;
- the entity's objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;
- the expected cash outflow on redemption or repurchase of that class of financial instruments; and
- information about how the expected cash outflow on redemption or repurchase was determined.

Other Disclosures

An entity must disclose the amount of dividends proposed or declared before the financial statements were approved for issue but not recognised as a distribution to owners during the period, and the related amount per share and the amount of any cumulative preference dividends not recognised.

Ind AS 1 requires certain other disclosures, if not disclosed elsewhere in information published with the financial statements, such as, the domicile and legal form of the entity, its country of incorporation and the address of its registered office, a description of the nature of the entity's operations and its principal activities, the name of the parent and the ultimate parent of the group, if it is a limited life entity, information regarding the length of its life.

II Frequently Asked Questions

Objective and Scope

Question 1

Does Ind AS 1 prescribe any format for the presentation of the general purpose financial statements? [Ind AS 1 Paragraph 2]

Response

No. Ind AS 1 does not prescribe any format for presentation of general purpose financial statements but prescribes the minimum disclosures required to be made. However, Ind AS 27, *Consolidated and Separate Financial Statements*, lays down the formats of consolidated financial statements for companies.

In addition to the above, it may be noted that formats for presentation will be governed by the applicable laws and regulations.

Financial Statements

Question 2

Para 10 (a) of Ind AS 1 requires the statement of changes in equity to be shown as part of the balance sheet. How should such presentation be made? [Ind AS 1 Paragraph 10(a)]

Response

It will be appropriate to present separately from the balance sheet, a statement titled "statement of changes in equity forming part of balance sheet".

Question 3

Is it acceptable to disclose information required by Ind AS 1 in management/directors' Report forming part of annual report without making such disclosures in the financial statements? [Ind AS 1 Paragraphs 13 and 14]

Response

No. Paragraphs 13 and 14 of Ind AS 1 give examples of various reports that entities present outside the financial statements, e.g., financial review by management, environmental reports, value added statements, etc. Paragraph 14 of Ind AS 1 states "reports and statements presented outside the financial statements are outside the scope of Ind AS". Information appearing in reports presented outside the financial statements may repeat information given in the financial statements or draw reference to the same. However, financial statements cannot omit any disclosures required by Ind ASs because it is included in other reports outside the financial statements. Even drawing reference to the information given in the reports outside the financial statements would not be sufficient unless permitted by an Ind AS.

Question 4

Can an entity claim compliance with Ind ASs if it has not complied with one or more Ind ASs and its financial statements state the fact that the entity complies with Ind ASs, except for compliance with one or more Standards? [Ind AS 1 Paragraph 16]

Response

Paragraph 16 of Ind AS 1 states that an entity whose financial statements comply with Ind ASs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with Ind ASs unless they comply *with all the requirements of Ind ASs.* Therefore, unless all the requirements of Ind ASs are complied with, the entity cannot claim compliance with the Ind ASs.

Question 5

An entity prepares its financial statements that contain an explicit and unreserved statement of compliance with Ind ASs. However, the auditor's report on those financial statements contains a qualification because of disagreement on application of one Accounting Standard.

In such case, is it acceptable for the entity to make an explicit and unreserved statement of compliance with Ind ASs?

Response

Yes, it is possible for an entity to make an unreserved and explicit statement of compliance with Ind ASs, even though the auditor's report contains a qualification because of disagreement on application of accounting standard(s), as the preparation of financial statements is the prerogative of the management.

Question 6

Is offsetting of revenue against expenses, permissible in case of a company acting as an agent and having sub agents, where commission is paid to sub agents from the commission received as an agent? [Ind AS 1 Paragraphs 32, 33 and 35]

Response

Para 32, 33 and 35 of Ind AS 1 state as follows with respect to offsetting:

"**32 An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.**

33 An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statements of profit and loss or balance sheet, except when offsetting reflects the substance of the transaction

or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.

35 In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, an entity presents such gains and losses separately if they are material."

On the basis of the above, net presentation in the given case would not be appropriate, as it would not reflect substance of the transaction and would detract from the ability of users to understand the transaction. Therefore, commission paid to sub agent should not be offset against commission earned by the company.

Question 7

Is offsetting permitted under the following circumstances?

a) Expenses incurred by a holding company on behalf of subsidiary, which is reimbursed by the subsidiary- whether in the separate books of the holding company, the expenditure and related reimbursement of expenses can be offset?

b) Whether profit on sale of an asset against loss on sale of other asset can be offset?

c) When services are rendered in a transaction with an entity and services are received from the same entity in two different arrangements, can the receivable and payable be off set?

[Ind AS 1 Pargaraphs 33 and 35]

Response

a) As per Paragraph 33 of Ind AS 1, offsetting is permitted only when the offsetting reflects the substance of the transaction.

In this case, the agreement/arrangement, if any, between the holding and subsidiary company needs to be considered. Only if the arrangement is to reimburse the cost incurred by the holding company on behalf of the subsidiary company, the same may be presented net. It should be ensured that the substance of the arrangement is that the payments are actually in the nature of reimbursement.

b) Paragraph 35 of Ind AS 1 requires an entity to present on a net basis gains and losses arising from a group of similar transactions. Accordingly, gains or losses arising on disposal of various items of property, plant and equipment shall be presented on net basis. However, gains or losses should be presented separately if they are material.

c) Ind AS 1 prescribes that assets and liabilities, and income and expenses should be reported separately, unless offsetting reflects the substance of the transaction. In addition to this, as per paragraph 42 of Ind AS 32, a financial asset and a financial liability should be offset if the entity has legally enforceable right to set off and the entity intends either to settle on net basis or to realise the asset and settle the liability simultaneously.

   In accordance with the above, the receivable and payable should be offset against each other assuming that the entity has a legal right to set off and the entity intends to do so. Else, the receivable and payable should be reported separately.

Question 8

Is it appropriate to conclude that restatement of comparative amounts is impracticable on the basis that it would involve undue cost? [Ind AS 1 Paragraphs 7 and 41]

Response

No, it is not appropriate to conclude that restatement is impracticable merely because of the cost involved.

As per paragraph 7 of Ind AS 1 applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. What are reasonable efforts to conclude that it is impracticable to restate the comparative amounts depend on the facts and circumstances of each case.

Structure and Content : Financial Statements

Question 9

Paragraph 53 of Ind AS 1 states "An entity often makes financial statements more understandable by presenting information in thousands, lakhs, millions or crores of units of the presentation currency". Can an entity adopt different levels of rounding for different disclosures that are made in the financial statements? [Ind AS 1 Paragraph 53]

Response

Paragraph 53 of Ind AS 1 permits the use of rounding off provided an entity discloses the level of rounding and does not omit material information. To maintain consistency within the financial statements, the same unit of measurement should be used throughout the financial statements. Moreover, the revised Schedule VI contains an explicit requirement to use the same unit of measurement consistently for presentation of financial statements. Consequently, an entity should use a uniform unit of measurement.

However, to ensure that any material information is not omitted, additional information containing exact figures can be provided for the items considered necessary.

Structure and Content : Balance Sheet

Question 10

Does cash and cash equivalent under Ind AS 1 have the same meaning as cash and cash equivalent as per Ind AS 7, *Statement of Cash Flows* ?

[Ind AS 1 Paragraph 54]

Response

Generally, there should not be a difference in the amount of cash and cash equivalent as per Ind AS 1 and as per Ind AS 7. However, as per paragraph 8 of Ind AS 7 "where bank overdrafts which are repayable on demand form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn." Although Ind AS 7 permits bank overdrafts to be included as cash and cash equivalent, for the purpose of presentation in the balance sheet, it would not be appropriate to include bank overdraft in the line item cash and cash equivalents unless the netting off conditions as given in paragraph 42 of Ind AS 32, *Financial Instruments: Presentation,* are complied with. Bank overdraft, in the balance sheet, will be included within financial liabilities. Just because the bank overdraft is included in cash and cash equivalents for the purpose of Ind AS 7, does not mean that the same should be netted off against the cash and cash equivalent balance in the balance sheet. Instead Paragraph 45 of Ind AS 7 requires a disclosure of the components of cash and cash equivalent and a reconciliation of amounts presented in the cash flow statements with the equivalent items reported in the balance sheet.

Another element on account of which there could be difference between the cash and cash equivalents presented in the balance sheet and the statement of cash flows is unrealised gains or losses arising from changes in foreign currency exchange rates, which are not considered to be cash flows. For example, an entity has bank balance in foreign currency aggregating to USD 100 (equivalent to INR 4500). Presuming no other transaction taking place, the entity reported a profit before tax of Rs 100 on account of exchange gain on the bank balance in foreign currency. As such, the closing cash and cash equivalents as per the balance sheet should be INR 4600 (i.e. USD 100 × 46)

For the purpose of statement of cash flows, the entity shall present the following:

Profit before tax	100
Less: unrealised exchange gain	100

Cash flow from operating activities	0
Cash flow from investing activities	0
Cash flow from financing activities	0
Net increase in cash and cash equivalents during the year	0
Add: Opening balance of cash and cash equivalents	4,500
Cash and cash equivalents as at the year end	4,500

Reconciliation of cash and cash equivalents

Cash and cash equivalents as per statement of cash flows	4,500
Add: Unrealised gain on cash and cash equivalents	100
Cash and cash equivalents as per the balance sheet	4,600

Question 11

Is it mandatory for an entity to present current and non-current assets, and current and non-current liabilities, as separate classification in its balance sheet even if such classification is difficult? [Ind AS 1 Paragraph 60]

Response

Yes, it is mandatory for entities to present the current/non-current classification of assets and liabilities as required by paragraph 60 of Ind AS 1, except when a presentation based on liquidity provides information that is relevant and reliable. Non-classification of assets and liabilities as current/non-current on grounds of difficulty is not permissible.

Question 12

What is the basis for classification of assets as current or non current? [Ind AS 1 Paragraph 66]

Response

Paragraph 66 of Ind AS 1 lists the criteria for classification of an asset as current. Accordingly, an asset will be classified as current when:

a) an entity expects to realise the asset or intends to sell or consume it in the normal operating cycle;

b) the entity holds the asset primarily for the purpose of trading;

c) the entity expects to realise the asset within twelve months after the reporting period; or

d) the asset is a cash or cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

For this purpose, operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. In case the normal operating cycle cannot be identified, it is assumed to be twelve months.

Thus for the purpose of classification, each asset as at the reporting date has to be assessed as current or non current on the basis of the relevant criteria as mentioned above, e.g.:

Balance Sheet Item	**Basis for Classification of an asset as current or non current**
Inventory, Receivables	Normal operating cycle (Assuming these will be realised within the normal operating cycle)
Loans recoverable on demand	Expectation of the entity to realise the same within twelve months after the reporting period.
Securities	Intention of the entity as to whether held for trading or not. If not, the expectation of the entity to realise the same within twelve months after the reporting period.

Question 13

An entity manufactures passenger vehicles. The time between purchasing of underlying raw materials to manufacture the passenger vehicles and the date the entity completes the production and delivers to its customers is 11 months. Customers settle the dues after a period of 8 months from the date of sale.

(a) Will the inventory and the trade receivables be current in nature?

(b) Assuming that the production time was say 15 months and the time lag between the date of sale and collection from customers is 13 months, will the answer be different?

[Ind AS 1 Paragraph 66]

Response

Inventory and debtors need to be classified in accordance with the requirement of paragraph 66(a) of Ind AS 1, which provides that an asset shall be classified as current if an entity expects to realise the same, or intends to sell or consume it in its normal operating cycle.

(a) In this case, time lag between the purchase of inventory and its realisation into cash is 19 months [11 months + 8 months]. Both inventory and the debtors would be classified as current if the entity expects to realise these assets in its normal operating cycle.

(b) No, the answer will be the same as the classification of debtors and inventory depends on the expectation of the entity to realise the same in the normal operating cycle. In this case, time lag between the purchase of inventory and its realisation into cash is 28 months [15 months + 13 months]. Both inventory and debtors would be classified as current if the entity expects to realise these assets in the normal operating cycle.

Additional information as required by paragraph 61 of Ind AS 1 will be required to be made by the entity, which provides "Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) No more than twelve months after the reporting period, and

(b) More than twelve months after the reporting period."

Question 14

An entity is in the real estate business. As per the industry under which it operates, the entity constructs residential apartments for customers and the construction normally takes three to four years.

How should the entity classify its construction work in progress - current/ non-current? [Ind AS 1 Paragraph 68]

Response

As per paragraph 68 of Ind AS 1, where an entity's normal operating cycle is such that its assets, such as, inventory/trade receivables are not realised in cash within a period of twelve months, these assets would still be current in nature.

Since the entity expects to realise the construction work in progress through sale to its customers, in its normal operating cycle, the construction work in progress will be current in nature. Additional information as required by paragraph 61 of Ind AS 1 will be required to be made by the entity, which provides "Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) No more than twelve months after the reporting period, and

(b) More than twelve months after the reporting period."

Question 15

Entity A has two different businesses, real estate and manufacture of passenger vehicles. With respect to the real estate business, the entity constructs residential apartments for customers and the normal operating cycle is three to four years.

With respect to the business of manufacture of passenger vehicles, normal operating cycle is 19 months.

Under such circumstance where an entity has different operating cycles for different types of businesses, how classification into current and non current be made?

Response

As per paragraph 66(a) of Ind AS 1, an asset shall be classified as current if an entity expects to realise the same, or intends to sell or consume it in its normal operating cycle. Similarly, as per paragraph 69 (a) of Ind AS 1, a liability shall be classified as current if an entity expects to settle the liability in its normal operating cycle.

In this situation, where businesses have different operating cycles, classification of asset/liability as current/non-current would be in relation to the normal operating cycle that is relevant to that particular asset/liability.

It is advisable to disclose the normal operating cycles relevant to different types of businesses for better understanding.

Question 16

As per paragraph 68 of Ind AS 1, where an entity's normal operating cycle is such that its assets, such as, inventory/trade receivables are not realised in cash within a period of twelve months, these assets would still be current in nature.

An entity has in its balance sheet line item of trade receivables, combination of assets that are expected to be realised before twelve months and after twelve months from the end of the reporting period. Under such situation, what are the disclosure requirements? [Ind AS 1 Paragraphs 61, 66 and 68]

Response

Assuming that the trade receivables are expected to be realised within the normal operating cycle, the entire trade receivables will be disclosed as current in the balance sheet. However, in the notes, the entity will be required to give additional disclosure of amounts expected to be recovered no more than twelve months after the reporting period and in more than twelve months after the reporting period. This is in accordance with paragraph 61 of Ind AS 1, which provides that an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) No more than twelve months after the reporting period, and

(b) More than twelve months after the reporting period.

Question 17

A holding company [being the entity under consideration] gives a loan/ inter-corporate deposit to a subsidiary that is recoverable on demand, at a rate of interest at 10%.

(a) Should such loan be disclosed as a current/non-current asset in the books of the holding company?

How relevant would the commercial reality of the transaction be in comparison to the legal terms of the transaction? [Ind AS 1 Paragraph 66 (c)]

(b) How this loan/inter-corporate deposit that is repayable on demand would be classified in the books of the subsidiary? [Ind AS 1 Paragraph 69 (c)]

Response

(a) Paragraph 66 (c) of Ind AS 1 provides that an asset shall be classified as current when an entity expects to realise the asset within a period of twelve months after the reporting period. To determine the expectation of the entity, the commercial reality of the transaction should also be considered. If the loans have been given with an understanding that these loans would not be called for repayment even though a clause may have been added that these are recoverable on demand, it should be classified as a non-current asset.

(b) Paragraph 69(c) of Ind AS 1 provides that a liability should be classified as current if the liability is due to be settled within twelve months after the reporting period. Since the loan/inter-corporate deposit would become due immediately as and when demanded and presuming that the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, it should be classified as current liability.

Question 18

An entity has placed certain deposits with various parties. How the following deposits should be classified, i.e., current or non-current?

(a) Electricity Deposit

(b) Tender Deposit/Earnest Money Deposit [EMD]

(c) Sales Tax/Excise Deposit paid under dispute

[Ind AS 1 Paragraph 66]

Response

(a) An entity pays electricity deposit for the purposes of receiving an electricity connection. At all points of time, such deposit is recoverable on demand, when the connection is not required. However, practically, such electric connection is required as long as the entity exists. Hence from a commercial reality perspective, an entity does not expect to realise the asset within twelve months from the end of the reporting period. Further, this has no relation to the operating cycle and is not held for the purpose of trading. Hence, electricity deposit should be classified as a non-current asset.

(b) Generally, tender deposit/EMD are paid for participation in various bids. They normally become recoverable if the entity does not win the bid. Bid dates are known at the time of tendering the deposit. But until the date of the actual bid, one is not in a position to know if the entity is winning the bid or otherwise. Accordingly, depending on the terms of the deposit if entity expects to realise the deposit within a period of twelve months, it should be classified as current otherwise non-current.

(c) Classification of sales tax/excise deposits paid to the Government authorities in the event of any legal dispute, which is under protest would depend on the facts of the case and the expectation of the entity to realise the same within a period of twelve months.

Question 19

An entity has the following trial balance line items. How should these items be classified, i.e., current or non-current?

(a) Contract Receivables (viz., receivable under a contract of sale goods in which an entity deals)

(b) Advance to suppliers

(c) Income tax receivables [other than deferred tax]

(d) Insurance spares

(e) Pipeline fill

[Ind AS 1 Paragraph 66]

Response

(a) Receivables under a contract of sale of goods in which an entity deals will be classified in accordance with its expectation of the entity to realise the same within its normal operating cycle. If the entity expects to realise it within the normal operating cycle, it should be classified as current asset. If the operating cycle exceeds twelve months, then additional disclosure as required by paragraph 61 of Ind AS 1 is required to be given in the notes.

(b) Advances to suppliers for goods and services would be classified in accordance with normal operating cycle if it is given in relation to the goods or services in which the entity normally deals. If the entity expects to realise it within the normal operating cycle, it would be classified as a current asset. If the operating cycle exceeds twelve months, then additional disclosure as required by paragraph 61 of Ind AS 1 is required to be given in the notes.

(c) Classification of income tax receivables [other than deferred tax] will be driven by paragraph 66 (c) of Ind AS 1, i.e., based on the expectation of the entity to realise the asset. If the receivable is expected to be realised within twelve months after the reporting period, then it will be classified as current else non-current.

(d) Insurance spares: paragraph 8 of Ind AS 16 provides "Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts, stand-by equipment and servicing equipment qualify as property, plant and equipment when an entity expects to use them during more than one period."

In accordance with the above, if insurance spares are expected to be used during more than one period, these should be treated as an item of property, plant and equipment, otherwise inventory.

(d) Pipeline fill refers to inventory in the pipeline. This would be expected to be consumed in the normal operating cycle and hence would classified as current asset.

Question 20

How should an entity classify derivative assets/liabilities?

[Ind AS 1 Paragraphs 66 and 68]

Response

As per paragraph 66 (b) of Ind AS 1, assets primarily held for the purpose of trading are current assets. Further paragraph 68 of the Ind AS 1 links the presentation requirement to the classification requirement of Ind AS 39. While, in accordance with Ind AS 39, derivatives are always categorised as held for trading, unless designated in a hedge relationship, the classification is done primarily to drive measurement. With respect to presentation, it may not be appropriate to treat all derivatives as held for trading. The purpose of the derivatives should also be taken into consideration. Some derivatives that have been designated in a hedge relationship, are not necessarily current and it will be appropriate to classify the same on the basis of duration of the hedge relationship. In case of derivatives to which hedge accounting under Ind AS 39 does not apply but are otherwise considered as economic hedge. Keeping in view the economic hedge, it will be appropriate to classify these derivatives as current or non-current based on the contractual maturity/date of settlement of derivatives.

Question 21

Paragraph 69(d) of Ind AS 1 states "An entity shall classify a liability as current when it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification."

A Gas Agency requires an amount to be deposited as security deposit, which is refundable when the gas connection is surrendered. How should the Gas Agency classify such deposits received, i.e., current or non-current? [Ind AS 1 Paragraph 69]

Response

Although it is expected that most of the customers will not surrender their connection and the deposit will need not to be refunded, but surrendering of gas connection by the customer is a condition that is not within the control of the entity. Hence the Gas Agency does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Accordingly, the deposit will have to be classified as current liability.

Question 22

Paragraph 69 (a) of Ind AS 1 states "An entity shall classify a liability as current when it expects to settle the liability in its normal operating cycle". An entity develops tools for customers and this normally takes a period of around 2 years for completion. The material is supplied by the customer and hence the entity only renders a service. For this, the entity receives payments upfront and credits the amount so received to "Income Received in Advance". How should this "Income Received in Advance" be classified, i.e. current or non-current? [Ind AS 1 Paragraphs 69 and 70]

Response

Paragraph 70 of Ind AS 1 provides "Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period."

In accordance with the above, income received in advance would be classified as current liability since it is a part of the working capital, which the entity expects to earn within its normal operating cycle.

Question 23

How should sales tax deferrals be classified? [Ind AS 1 Paragraph 69]

Response

Sales tax deferrals are in the nature of interest free/very low rate of interest sales tax loan from the Government. Classification into current or non-current is driven by the terms of repayment, as agreed with the Government. For example, in a sales tax deferment scheme, an entity is entitled to defer the payment of sales tax collected for a period of 10 years. In the 11^{th} year, the entity is required to pay the outstanding amount equally over a period of three years. If the balance deferred at the beginning of the 11^{th} year is Rs. 30 millions, then as at the end of year 11, an amount of Rs. 10 millions will be disclosed as current which is due to be settled within twelve months after the reporting period and remaining Rs. 10 millions will be disclosed as non-current.

Question 24

An entity manufactures batteries for the automobile industry. Based on terms of warranty, a provision is made by the entity. How should the warranty provision be presented in the balance sheet, i.e., current or non-current? [Ind AS 1 Paragraph 69]

Response

Terms of the warranty will determine its classification i.e., current or non-current. Warranties that are due for more than twelve months from the reporting date, should be classified as non-current. However, in accordance with paragraph 61 of Ind AS 1, the entity shall disclose separately the warranty provision expected to be settled/expired no more than twelve months, and more than twelve months after the reporting period.

Question 25

An entity has taken a loan facility from a bank that is to be repaid within a period of 9 months from the end of the reporting period. Prior to the end of the reporting period, the entity and the bank enter into an arrangement, whereby the existing outstanding loan will, unconditionally, roll into the new facility which expires after a period of 5 years.

(a) How should such loan be classified in the balance sheet of the entity?

(b) Will the answer be different if the new facility is agreed upon after the end of the reporting period?

(c) Will the answer to (a) be different if the existing facility is from one bank and the new facility is from another bank?

(d) Will the answer to (a) be different if the new facility is not yet tied up with the existing bank, but the entity has the potential to refinance the obligation?

[Ind AS 1 Paragraphs 72-76]

Response

(a) The loan is not due for payment at the end of the reporting period. The entity and the bank have agreed for the said roll over prior to the end of the reporting period for a period of 5 years. Since the entity has an unconditional right to defer the settlement of the liability for at least twelve months after the reporting period, the loan should be classified as non-current.

(b) Yes, the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period, since assessment is required to be made based on terms of the existing loan facility. As at the end of the reporting period, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Hence the loan is to be classified as current.

(c) Yes, loan facility arranged with new bank cannot be treated as refinancing, as the loan with the earlier bank would have to be settled which may coincide with loan facility arranged with a new bank. In this case, loan has to be repaid within a period of 9 months from the end of the reporting period, therefore, it will be classified as current liability.

(d) Yes, the answer will be different and the loan should be classified as current. This is because, as per paragraph 73 of Ind AS 1, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

Question 26

An entity enters into a loan arrangement with a banker and is subject to compliance with various covenants — some are financial and some are non-financial covenants. The entity commits a breach of covenant prior to the end of the reporting period. As a result of such breach, as per terms of the arrangement, the loan becomes payable on demand. Assuming that as per the original terms, the loan is payable after a period of 24 months from the reporting date —

(a) How should the liability be classified in the balance sheet — current/non-current, if subsequent to the end of the reporting period, the banker has agreed not to demand payment?

(b) Will the answer be different, if the banker has condoned the breach prior to the reporting period and provided a time period of more than twelve months after the reporting period to rectify the breach?

(c) What will be the classification, if the banker has condoned the breach prior to the reporting period but provided a time period of only less than twelve months after the reporting period to rectify the breach?

[Ind AS 1 Paragraphs 72-76]

Response

a) The loan should be reclassified as current by virtue of paragraph 74 of Ind AS 1, which states "When an entity breaches a provision of a long term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach."

b) Yes, the loan can retain its classification as non-current by virtue of paragraph 75 of Ind AS 1, which, inter alia, states, "An entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment."

c) The loan will require a reclassification to current by virtue of paragraph 75 of Ind AS 1 as stated above, since the period of grace is less than twelve months after the reporting period.

Question 27

An entity has a long term loan facility with a bank. As per the loan facility, certain financial ratios are required to be maintained on a quarterly basis. Information regarding such compliance is required to be submitted to the bankers after a period of 1 month from the end of every quarter. Determination of such ratios requires the drawing up of the financial statements of the entity. The entity did not have any breach until the 3rd quarter. With respect to the 4th quarter, the entity realised that there was a breach, only after the financials were drawn up after the end of the reporting period. Reporting of the compliance is required to be made after a period of 1 month from the end of the 4th quarter.

(a) How should the loan be classified, current or non-current, consequent to the breach of the loan covenant?

(b) If there is a cross default clause, whereby breach emanating from one loan gets linked to other borrowings, how should the underlying loans be presented?

(c) If there is a cross default clause by a group company which impacts the reporting entity's loan and there has been a default, how should the same be classified, current or non-current?

(d) Does the requirement for submission of compliance reporting to the bank after 1 month period change the said classification as stated in (a)?

(e) How should the loan be classified assuming that the financial covenants have not been temporarily met with [since the testing date did not fall due during such temporary period], but the same have been met on the testing date?

[Ind AS 1 Paragraphs 72-76]

Response

a) The loan should be classified as current. Circumstances will always arise when a loan covenant can be assessed only after the end of the reporting period, which are based on financial information as at the end of the reporting period. In this case, even though the breach has been identified after the reporting period, the loan should be classified as current since the conditions resulting into breach existed at the reporting date.

b) There can be cross default clause attached to some borrowings. Under such circumstances, compliance with the loan covenants of the other borrowings is also considered for assessment. Breach of a loan covenant would immediately have an effect on those borrowings that have a cross default clause attached to it. Accordingly, all the borrowings that are linked through the said clause will be repayable immediately and hence require a current classification.

c) Same as point (b) above.

d) No, the period given for reporting compliance has no impact on the determination of classification since the loan has become repayable due to non-compliance with the requirements of the loan agreement at the end of the 4^{th} quarter.

e) Trigger for breach of covenant arises only on a breach that occurs on the testing date. The entity can perform its test for purposes of monitoring compliances, which will be purely an internal matter. If on the testing date, there is no breach of covenant, then there is no requirement for reclassification to current.

Question 28

In December 2XX1 an entity entered into a loan agreement with a bank. The loan is repayable in three equal annual instalments starting from December 2XX5. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by promoters by March 24 2XX2, failing which the loan becomes payable on demand. As on March 24, 2XX2, the entity has not been able to get the promoter's contribution. On March 25, 2XX2, the entity approached the bank and obtained a grace period upto June 30, 2XX2 to get the promoter's contribution.

The bank cannot demand immediate repayment during the grace period. The annual reporting period of the entity ends on March 31, 2XX2.

(a) As on March 31, 2XX2, how should the entity classify the loan?

(b) Assume that in anticipation that it may not be able to get the promoter's contribution by due date, in February 2XX2, the entity approached the bank and got the compliance date extended upto June 30, 2XX2 for getting promoter's contribution. In this case will the loan classification as on March 31, 2XX2 be different from (a) above?

[Ind AS 1 Paragraphs 72-76]

Response

a) Paragraph 75 of Ind AS 1, inter alia, provides, "An entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment." In the present case, following the default, grace period within which an entity can rectify the breach is less than twelve months after the reporting period. Hence as on March 31, 2XX2, the loan will be classified as current.

b) Ind AS 1 deals with classification of liability as current or non-current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach. In this case, whether actual breach has taken place or not is to be assessed on June 30, 2XX2, i.e., after the reporting date. Consequently, in the absence of actual breach of the loan covenant as on March 31, 2XX2, the loan will retain its classification as non-current.

Question 29

An entity has taken a long term loan which has numerous covenants associated for compliance. Although as at the end of reporting period, there has been no default, the entity does not expect to meet the financial covenants in next twelve months after reporting period. Should the loan be classified as current on reporting date? [Ind AS 1 Paragraphs 72-76]

Response

Ind AS 1 deals with classification of liability as current or non-current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach. In this case, actual breach has not taken place at the end of the reporting period. Therefore, in the absence of actual breach of the loan covenant as at the end of the reporting period, the loan will retain its classification as non-current.

If there is a breach that occurs between the end of the reporting period and the date of approval of the financial statements, it will be a non-adjusting post balance sheet event requiring disclosure in accordance with Ind AS 10, *Events After the Reporting Period.*

Paragraph 21 of Ind AS 10 states as follows:

"If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

(a) the nature of the event; and

(b) an estimate of its financial effect or a statement that such an estimate cannot be made."

Question 30

Paragraph 79 (a) (vi) of Ind AS 1 requires an entity to disclose shares in the entity held by the entity or by its subsidiaries or associates. What is the disclosure requirement — number of shares or the amount to be deducted from equity consequent to such holdings? [Ind AS 1 Paragraph 79]

Response

The Standard is not very clear on what is required to be disclosed. From a plain reading of paragraph 79(a) (vi) of Ind AS 1, it appears that the number of shares is to be disclosed, for shares in the entity held by the entity or by its subsidiaries or associates.

Structure and Content: Statement of Profit and Loss

Question 31

Is it required to disclose the share of the profit or loss of associates and joint ventures accounted for using the equity method above the tax expense in the Statement of Profit and Loss? [Ind AS 1 Paragraph 82]

Response

Paragraph 82 of Ind AS 1 lists the items that as a minimum should be presented in the Statement of Profit and Loss. However, the Standard does not prescribe any order for their presentation.

However, keeping in view the nature of the item, it should be disclosed before tax expense.

Question 32

How investment income should be presented in the Statement of Profit and Loss in case of entities whose principal activity is not investment? [Ind AS 1 Paragraphs 82 and 85]

Response

Paragraph 82 of Ind AS 1 requires the disclosure of revenue in the Statement of Profit and Loss. Paragraph 85 requires the presentation of additional line items, heading and subtotals, when necessary, to describe the financial performance of the entity. Further, as per Paragraph 35(b) of Ind AS 18, an entity is required to disclose the amount of each significant category of revenue recognised during the period, including revenue arising from interest and revenue arising from dividends. Considering all these requirements, in case of entities, whose principal activity is not investment, income from investments should be shown as a separate line item to describe the entity's financial performance.

Appendix

Indian Accounting Standard (Ind AS) 1

Presentation of Financial Statements

Contents

Indian Accounting Standard (Ind AS) 1

Presentation of Financial Statements

(This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles).

Objective

1 This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Scope

2 An entity shall apply this Standard in preparing and presenting general purpose financial statements in accordance with Indian Accounting Standards (Ind ASs).

3 Other Ind ASs set out the recognition, measurement and disclosure requirements for specific transactions and other events.

4 This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with Ind AS 34 *Interim Financial Reporting*. However, paragraphs 15–35 apply to such financial statements. This Standard applies equally to all entities, including those that present consolidated financial statements and those that present separate financial statements as defined in Ind AS 27 *Consolidated and Separate Financial Statements*.

5 This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this Standard, they may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves.

6 Similarly, entities whose share capital is not equity may need to adapt the financial statement presentation of members' interests.

Definitions

7 The following terms are used in this Standard with the meanings specified:

***General purpose financial statements* (referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.**

***Impracticable* Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.**

***Indian Accounting Standards (Ind ASs)* are Standards prescribed under Section 211(3C) of the Companies Act, 1956.**

***Material* Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.**

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation* *and Presentation of Financial Statements* issued by the Institute of Chartered Accountants of India states in paragraph 25 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

Notes **contain information in addition to that presented in the balance sheet (including statement of changes in equity which is a part of the balance sheet), statement of profit and loss and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.**

Other comprehensive income **comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Ind ASs.**

The components of other comprehensive income include:

(a) changes in revaluation surplus (see Ind AS 16 *Property, Plant and Equipment* and Ind AS 38 *Intangible Assets)*;

(b) actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 92 and 129A of Ind AS 19 *Employee Benefits*;

(c) gains and losses arising from translating the financial statements of a foreign operation (see Ind AS 21 *The Effects of Changes in Foreign Exchange Rates*);

(d) gains and losses on remeasuring available-for-sale financial assets (see Ind AS 39 *Financial Instruments: Recognition and Measurement*);

(e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see Ind AS 39).

***Owners* are holders of instruments classified as equity.**

***Profit or loss* is the total of income less expenses, excluding the components of other comprehensive income.**

***Reclassification adjustments* are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.**

***Total comprehensive income* is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.**

Total comprehensive income comprises all components of 'profit or loss' and of 'other comprehensive income'.

8 [Refer to Appendix 1]

8A The following terms are described in Ind AS 32 *Financial Instruments: Presentation* and are used in this Standard with the meaning specified in Ind AS 32:

(a) puttable financial instrument classified as an equity instrument (described in paragraphs 16A and 16B of Ind AS 32).

(b) an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument (described in paragraphs 16C and 16D of Ind AS 32).

Financial statements

Purpose of financial statements

9 Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful

to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:

(a) assets;

(b) liabilities;

(c) equity;

(d) income and expenses, including gains and losses;

(e) contributions by and distributions to owners in their capacity as owners; and

(f) cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Complete set of financial statements

10 A complete set of financial statements comprises:

(a) a balance sheet as at the end of the period (including statement of changes in equity which is presented as a part of the balance sheet);

(b) a statement of profit and loss for the period;

(c) [Refer to Appendix 1];

(d) a statement of cash flows for the period;

(e) notes, comprising a summary of significant accounting policies and other explanatory information; and

(f) a balance sheet as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

11 An entity shall present with equal prominence all of the financial statements in a complete set of financial statements.

12 As per paragraph 81, an entity shall present the components of profit or loss and components of other comprehensive income as part of a single statement of profit and loss.

13 Many entities present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties it faces. Such a report may include a review of:

(a) the main factors and influences determining financial performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance financial performance, including its dividend policy;

(b) the entity's sources of funding and its targeted ratio of liabilities to equity; and

(c) the entity's resources not recognised in the balance sheet in accordance with Ind ASs.

14 Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of Ind ASs.

General features

Presentation of True and Fair View and compliance with Ind ASs

15 Financial statements shall present a true and fair view of the financial position, financial performance and cash flows of an entity. Presentation of true and fair view requires the faithful

representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework*. The application of Ind ASs, with additional disclosure when necessary, is presumed to result in financial statements that present a true and fair view.

16 An entity whose financial statements comply with Ind ASs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with Ind ASs unless they comply with all the requirements of Ind ASs.

17 In virtually all circumstances, presentation of a true and fair view is achieved by compliance with applicable Ind ASs. Presentation of a true and fair view also requires an entity:

(a) to select and apply accounting policies in accordance with Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Ind AS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an Ind AS that specifically applies to an item.

(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) to provide additional disclosures when compliance with the specific requirements in Ind ASs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

18 An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

19 In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, the entity shall depart from

that requirement in the manner set out in paragraph 20 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

20 When an entity departs from a requirement of an Ind AS in accordance with paragraph 19, it shall disclose:

(a) that management has concluded that the financial statements present a true and fair view of the entity's financial position, financial performance and cash flows;

(b) that it has complied with applicable Ind ASs, except that it has departed from a particular requirement to present a true and fair view;

(c) the title of the Ind AS from which the entity has departed, the nature of the departure, including the treatment that the Ind AS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Framework*, and the treatment adopted; and

(d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

21 When an entity has departed from a requirement of an Ind AS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 20(c) and (d).

22 Paragraph 21 applies, for example, when an entity departed in a prior period from a requirement in an Ind AS for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

23 In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

- **(a) the title of the Ind AS in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the *Framework*; and**
- **(b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to present a true and fair view.**

24 For the purpose of paragraphs 19–23, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, management considers:

- (a) why the objective of financial statements is not achieved in the particular circumstances; and
- (b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Framework*.

Going concern

25 When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

26 In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Accrual basis of accounting

27 An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

28 When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the *Framework*.

Materiality and aggregation

29 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial except when required by law.

30 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.

31 An entity need not provide a specific disclosure required by an Ind AS if the information is not material except when required by law.

Offsetting

32 An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.

33 An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statements of profit and loss or balance sheet, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.

34 Ind AS 18 *Revenue* defines revenue and requires an entity to measure it at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates the entity allows. An entity undertakes, in the course of its

ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. An entity presents the results of such transactions, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:

(a) an entity presents gains and losses on the disposal of non-current assets, including investments and operating assets, by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and

(b) an entity may net expenditure related to a provision that is recognised in accordance with Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets* and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) against the related reimbursement.

35 In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, an entity presents such gains and losses separately if they are material.

Frequency of reporting

36 An entity shall present a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

(a) the reason for using a longer or shorter period, and

(b) the fact that amounts presented in the financial statements are not entirely comparable.

37 [Refer to Appendix 1]

Comparative information

38 Except when Ind ASs permit or require otherwise, an entity shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

39 An entity disclosing comparative information shall present, as a minimum, two balance sheets, two of each of the other statements, and related notes. When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, it shall present, as a minimum, three balance sheets, two of each of the other statements, and related notes. An entity presents balance sheets as at:

(a) the end of the current period,

(b) the end of the previous period (which is the same as the beginning of the current period), and

(c) the beginning of the earliest comparative period.

40 In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute whose outcome was uncertain at the end of the immediately preceding reporting period and that is yet to be resolved. Users benefit from information that the uncertainty existed at the end of the immediately preceding reporting period, and about the steps that have been taken during the period to resolve the uncertainty.

41 When the entity changes the presentation or classification of items in its financial statements, the entity shall reclassify comparative amounts unless reclassification is impracticable.

When the entity reclassifies comparative amounts, the entity shall disclose:

- **(a) the nature of the reclassification;**
- **(b) the amount of each item or class of items that is reclassified; and**
- **(c) the reason for the reclassification.**

42 When it is impracticable to reclassify comparative amounts, an entity shall disclose:

- **(a) the reason for not reclassifying the amounts, and**
- **(b) the nature of the adjustments that would have been made if the amounts had been reclassified.**

43 Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, an entity may not have collected data in the prior period(s) in a way that allows reclassification, and it may be impracticable to recreate the information.

44 Ind AS 8 sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Consistency of presentation

45 An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:

- **(a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in Ind AS 8; or**
- **(b) an Ind AS requires a change in presentation.**

46 For example, a significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 41 and 42.

Structure and content

Introduction

47 This Standard requires particular disclosures in the balance sheet (including statement of changes in equity which is a part of the balance sheet) or in the statement of profit and loss and requires disclosure of other line items either in those statements or in the notes. Ind AS 7 *Statement of Cash Flows* sets out requirements for the presentation of cash flow information.

48 This Standard sometimes uses the term 'disclosure' in a broad sense, encompassing items presented in the financial statements. Disclosures are also required by other Ind ASs. Unless specified to the contrary elsewhere in this Standard or in another Ind AS, such disclosures may be made in the financial statements.

Identification of the financial statements

49 An entity shall clearly identify the financial statements and distinguish them from other information in the same published document.

50 Ind ASs apply only to financial statements, and not necessarily to other information presented in an annual report, a regulatory filing, or another document. Therefore, it is important that users can distinguish information that is prepared using Ind ASs from other information that may be useful to users but is not the subject of those requirements.

51 An entity shall clearly identify each financial statement and the notes. In addition, an entity shall display the following information prominently, and repeat it when necessary for the information presented to be understandable:

- **(a) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;**
- **(b) whether the financial statements are of an individual entity or a group of entities;**
- **(c) the date of the end of the reporting period or the period covered by the set of financial statements or notes;**
- **(d) the presentation currency, as defined in Ind AS 21; and**
- **(e) the level of rounding used in presenting amounts in the financial statements.**

52 An entity meets the requirements in paragraph 51 by presenting appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of presenting such information. For example, when an entity presents the financial statements electronically, separate pages are not always used; an entity then presents the above items to ensure that the information included in the financial statements can be understood.

53 An entity often makes financial statements more understandable by presenting information in thousands, lakhs, millions or crores of units of the presentation currency. This is acceptable as long as the entity discloses the level of rounding and does not omit material information.

Balance Sheet

Information to be presented in the balance sheet

54 As a minimum, the balance sheet shall include line items that present the following amounts:

- **(a) property, plant and equipment;**

(b) investment property;

(c) intangible assets;

(d) financial assets (excluding amounts shown under (e), (h) and (i));

(e) investments accounted for using the equity method;

(f) biological assets;

(g) inventories;

(h) trade and other receivables;

(i) cash and cash equivalents;

(j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*;

(k) trade and other payables;

(l) provisions;

(m) financial liabilities (excluding amounts shown under (k) and (l));

(n) liabilities and assets for current tax, as defined in Ind AS 12 *Income Taxes*;

(o) deferred tax liabilities and deferred tax assets, as defined in Ind AS 12;

(p) liabilities included in disposal groups classified as held for sale in accordance with Ind AS 105;

(q) non-controlling interests, presented within equity; and

(r) issued capital and reserves attributable to owners of the parent.

55 An entity shall present additional line items, headings and subtotals in the balance sheet when such presentation is relevant to an understanding of the entity's financial position.

56 When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in

its balance sheet, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).

57 This Standard does not prescribe the order or format in which an entity presents items. Paragraph 54 simply lists items that are sufficiently different in nature or function to warrant separate presentation in the balance sheet. In addition:

(a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and

(b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position. For example, a financial institution may amend the above descriptions to provide information that is relevant to the operations of a financial institution.

58 An entity makes the judgement about whether to present additional items separately on the basis of an assessment of:

(a) the nature and liquidity of assets;

(b) the function of assets within the entity; and

(c) the amounts, nature and timing of liabilities.

59 The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that an entity presents them as separate line items. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with Ind AS 16.

Current/non-current distinction

60 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in

its balance sheet in accordance with paragraphs 66–76 except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.

61 Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

- **(a) no more than twelve months after the reporting period, and**
- **(b) more than twelve months after the reporting period.**

62 When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the balance sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.

63 For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

64 In applying paragraph 60, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

65 Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. Ind AS 107 *Financial Instruments: Disclosures* requires disclosure of the maturity dates of financial assets and financial liabilities. Financial

assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets such as inventories and expected date of settlement for liabilities such as provisions is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the reporting period.

Current assets

66 An entity shall classify an asset as current when:

- **(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;**
- **(b) it holds the asset primarily for the purpose of trading;**
- **(c) it expects to realise the asset within twelve months after the reporting period; or**
- **(d) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.**

An entity shall classify all other assets as non-current.

67 This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

68 The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets classified as held for trading in accordance with Ind AS 39) and the current portion of non-current financial assets.

Current liabilities

69 An entity shall classify a liability as current when:

(a) it expects to settle the liability in its normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting period; or

(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73). 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.

An entity shall classify all other liabilities as non-current.

70 Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities classified as held for trading in accordance with Ind AS 39, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (i.e. are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75.

72 An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:

(a) the original term was for a period longer than twelve months, and

(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are approved for issue.

73 If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

74 When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

75 However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

76 In respect of loans classified as current liabilities, if the following events occur between the end of the reporting period and the date the financial statements are approved for issue, those events are disclosed

as non-adjusting events in accordance with Ind AS 10 *Events after the Reporting Period*:

(a) refinancing on a long-term basis;

(b) rectification of a breach of a long-term loan arrangement; and

(c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the reporting period.

Information to be presented either in the balance sheet or in the notes

77 An entity shall disclose, either in the balance sheet or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.

78 The detail provided in subclassifications depends on the requirements of Ind ASs and on the size, nature and function of the amounts involved. An entity also uses the factors set out in paragraph 58 to decide the basis of subclassification. The disclosures vary for each item, for example:

(a) items of property, plant and equipment are disaggregated into classes in accordance with Ind AS 16;

(b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;

(c) inventories are disaggregated, in accordance with Ind AS 2 *Inventories*, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;

(d) provisions are disaggregated into provisions for employee benefits and other items; and

(e) equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.

79 An entity shall disclose the following, either in the balance sheet or in the statement of changes in equity which is part of the balance sheet, or in the notes:

- **(a) for each class of share capital:**
  - **(i) the number of shares authorised;**
  - **(ii) the number of shares issued and fully paid, and issued but not fully paid;**
  - **(iii) par value per share, or that the shares have no par value;**
  - **(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;**
  - **(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;**
  - **(vi) shares in the entity held by the entity or by its subsidiaries or associates; and**
  - **(vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and**
- **(b) a description of the nature and purpose of each reserve.**

80 An entity whose capital is not limited by shares e.g., a company limited by guarantee, shall disclose information equivalent to that required by paragraph 79(a), showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.

80A If an entity has reclassified

- **(a) a puttable financial instrument classified as an equity instrument, or**

(b) an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument

between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification.

Statement of Profit and Loss

81 An entity shall present all items of income and expense including components of other comprehensive income recognised in a period in a single statement of profit and loss.

Information to be presented in the statement of profit and loss

82 As a minimum, the statement of profit and loss shall include line items that present the following amounts for the period:

(a) revenue;

(b) finance costs;

(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(d) tax expense;

(e) a single amount comprising the total of:

(i) the post-tax profit or loss of discontinued operations and

(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;

(f) profit or loss;

(g) each component of other comprehensive income classified by nature (excluding amounts in (h));

(h) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and

(i) total comprehensive income.

83 An entity shall disclose the following items in the statement of profit and loss as allocations for the period:

(a) profit or loss for the period attributable to:

(i) non-controlling interests, and

(ii) owners of the parent.

(b) total comprehensive income for the period attributable to:

(i) non-controlling interests, and

(ii) owners of the parent.

84 [Refer to Appendix 1]

85 An entity shall present additional line items, headings and subtotals in the statement of profit and loss, when such presentation is relevant to an understanding of the entity's financial performance.

86 Because the effects of an entity's various activities, transactions and other events differ in frequency, potential for gain or loss and predictability, disclosing the components of financial performance assists users in understanding the financial performance achieved and in making projections of future financial performance. An entity includes additional line items in the statement of profit and loss, and it amends the descriptions used and the ordering of items when this is necessary to explain the elements of financial performance. An entity considers factors including materiality and the nature and function of the items of income and expense. For example, a financial institution may amend the

descriptions to provide information that is relevant to the operations of a financial institution. An entity does not offset income and expense items unless the criteria in paragraph 32 are met.

87 An entity shall not present any items of income or expense as extraordinary items, in the statement of profit and loss or in the notes.

Profit or loss for the period

88 An entity shall recognise all items of income and expense in a period in profit or loss unless an Ind AS requires or permits otherwise.

89 Some Ind ASs specify circumstances when an entity recognises particular items outside profit or loss in the current period. Ind AS 8 specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other Ind ASs require or permit components of other comprehensive income that meet the *Framework*'s definition of income or expense to be excluded from profit or loss (see paragraph 7).

Other comprehensive income for the period

90 An entity shall disclose the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments, either in the statement of profit and loss or in the notes.

91 An entity may present components of other comprehensive income either:

(a) net of related tax effects, or

(b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those components.

92 An entity shall disclose reclassification adjustments relating to components of other comprehensive income.

93 Other Ind ASs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. For example, gains realised on the disposal of available-for-sale financial assets are included in profit or loss of the current period. These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.

94 An entity may present reclassification adjustments in the statement of profit and loss or in the notes. An entity presenting reclassification adjustments in the notes presents the components of other comprehensive income after any related reclassification adjustments.

95 Reclassification adjustments arise, for example, on disposal of a foreign operation (see Ind AS 21), on derecognition of available-for-sale financial assets (see Ind AS 39) and when a hedged forecast transaction affects profit or loss (see paragraph 100 of Ind AS 39 in relation to cash flow hedges).

96 Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with Ind AS 16 or Ind AS 38 or on actuarial gains and losses on defined benefit plans recognised in accordance with paragraphs 92 and 129A of Ind AS 19. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see Ind AS 16 and Ind AS 38). Actuarial gains and losses are reported in retained earnings in the period that they are recognised as other comprehensive income (see Ind AS 19).

Information to be presented in the statement of profit and loss or in the notes

97 When items of income or expense are material, an entity shall disclose their nature and amount separately.

98 Circumstances that would give rise to the separate disclosure of items of income and expense include:

(a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) disposals of investments;

(e) discontinued operations;

(f) litigation settlements; and

(g) other reversals of provisions.

99 An entity shall present an analysis of expenses recognised in profit or loss using a classification based on the nature of expense method.

100 Entities are encouraged to present the analysis in paragraph 99 in the statement of profit and loss.

101 Expenses are subclassified to highlight components of financial performance that may differ in terms of frequency, potential for gain or loss and predictability. This analysis is provided in the form as described in paragraph 102.

102 In the analysis based on the 'nature of expense' method, an entity aggregates expenses within profit or loss according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and does not reallocate them among functions within the entity. This method is simple to apply

because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Other income		X
Changes in inventories of finished goods and work in progress	X	
Raw materials and consumables used	X	
Employee benefits expense	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Profit before tax		X

103 [Refer to Appendix 1]

104 [Refer to Appendix 1]

105 [Refer to Appendix 1]

Statement of changes in equity

106 An entity shall present a statement of changes in equity as a part of balance sheet as required by paragraph 10. The statement of changes in equity includes the following information:

- **(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;**
- **(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with Ind AS 8;**
- **(c) [Refer to Appendix 1]**

(d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each changes resulting from:

(i) profit or loss;

(ii) each item of other comprehensive income;

(iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control; and

(iv) any item recognised directly in equity such as amount recognised directly in equity as capital reserve with paragraph 36A of Ind AS 103.

Information to be presented in the statement of changes in equity which is a part of the balance sheet or in the notes.

106A For each component of equity an entity shall present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item (see paragraph 106 (d) (ii)).

107 An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.

108 In paragraph 106, the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.

109 Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and

expense, including gains and losses, generated by the entity's activities during that period.

110 Ind AS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another Ind AS require otherwise. Ind AS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity but they are adjustments to the opening balance of retained earnings, except when an Ind AS requires retrospective adjustment of another component of equity. Paragraph 106(b) requires disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

Statement of cash flows

111 Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. Ind AS 7 sets out requirements for the presentation and disclosure of cash flow information.

Notes

Structure

112 The notes shall:

- **(a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117–124;**
- **(b) disclose the information required by Ind ASs that is not presented elsewhere in the financial statements; and**
- **(c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.**

113 An entity shall present notes in a systematic manner. An entity shall cross-reference each item in the balance sheet, in the statement of changes in equity which is a part of the balance sheet and in the statement of profit and loss, and statement of cash flows to any related information in the notes.

114 An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:

(a) statement of compliance with Ind ASs (see paragraph 16);

(b) summary of significant accounting policies applied (see paragraph 117);

(c) supporting information for items presented in the balance sheet, in the statement of changes in equity which is a part of the balance sheet, in the statement of profit and loss, and statement cash flows, in the order in which each statement and each line item is presented; and

(d) other disclosures, including:

   (i) contingent liabilities (see Ind AS 37) and unrecognised contractual commitments, and

   (ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see Ind AS 107).

115 In some circumstances, it may be necessary or desirable to vary the order of specific items within the notes. For example, an entity may combine information on changes in fair value recognised in profit or loss with information on maturities of financial instruments, although the former disclosures relate to the statement of profit and loss and the latter relate to the balance sheet. Nevertheless, an entity retains a systematic structure for the notes as far as practicable.

116 An entity may present notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.

Disclosure of accounting policies

117 An entity shall disclose in the summary of significant accounting policies:

- **(a) the measurement basis (or bases) used in preparing the financial statements, and**
- **(b) the other accounting policies used that are relevant to an understanding of the financial statements.**

118 It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

119 In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in Ind ASs. An example is disclosure of whether a venturer recognises its interest in a jointly controlled entity using proportionate consolidation or the equity method (see Ind AS 31 *Interests in Joint Ventures*). Some Ind ASs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, Ind AS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.

120 Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, users would expect an entity subject to income taxes to disclose its accounting policies for income taxes,

including those applicable to deferred tax liabilities and assets. When an entity has significant foreign operations or transactions in foreign currencies, users would expect disclosure of accounting policies for the recognition of foreign exchange gains and losses.

121 An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by Ind ASs but the entity selects and applies in accordance with Ind AS 8.

122 An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

123 In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:

(a) whether financial assets are held-to-maturity investments;

(b) when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;

(c) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and

(d) whether the substance of the relationship between the entity and a special purpose entity indicates that the entity controls the special purpose entity.

124 Some of the disclosures made in accordance with paragraph 122 are required by other Ind ASs. For example, Ind AS 27 requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a subsidiary even though more than half of its voting or potential voting power is owned directly or indirectly through subsidiaries. Ind AS 40 *Investment Property* requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Sources of estimation uncertainty

125 An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- **(a) their nature, and**
- **(b) their carrying amount as at the end of the reporting period.**

126 Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs.

127 The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 125 relate to the estimates that

require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

128 The disclosures in paragraph 125 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on recently observed market prices. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

129 An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:

(a) the nature of the assumption or other estimation uncertainty;

(b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

(c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

130 This Standard does not require an entity to disclose budget information or forecasts in making the disclosures in paragraph 125.

131 Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at

the end of the reporting period. In such cases, the entity discloses that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

132 The disclosures in paragraph 122 of particular judgements that management made in the process of applying the entity's accounting policies do not relate to the disclosures of sources of estimation uncertainty in paragraph 125.

133 Other Ind ASs require the disclosure of some of the assumptions that would otherwise be required in accordance with paragraph 125. For example, Ind AS 37 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. Ind AS 107 requires disclosure of significant assumptions the entity uses in estimating the fair values of financial assets and financial liabilities that are carried at fair value. Ind AS 16 requires disclosure of significant assumptions that the entity uses in estimating the fair values of revalued items of property, plant and equipment.

Capital

134 An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

135 To comply with paragraph 134, the entity discloses the following:

(a) qualitative information about its objectives, policies and processes for managing capital, including:

  (i) a description of what it manages as capital;

  (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

  (iii) how it is meeting its objectives for managing capital.

(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (e.g. some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e.g. components arising from cash flow hedges).

(c) any changes in (a) and (b) from the previous period.

(d) whether during the period it complied with any externally imposed capital requirements to which it is subject.

(e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The entity bases these disclosures on the information provided internally to key management personnel.

136 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Puttable financial instruments classified as equity

136A For puttable financial instruments classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):

(a) summary quantitative data about the amount classified as equity;

(b) its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;

(c) the expected cash outflow on redemption or repurchase of that class of financial instruments; and

(d) information about how the expected cash outflow on redemption or repurchase was determined.

Other disclosures

137 An entity shall disclose in the notes:

(a) the amount of dividends proposed or declared before the financial statements were approved for issue but not recognised as a distribution to owners during the period, and the related amount per share; and

(b) the amount of any cumulative preference dividends not recognised.

138 An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

(a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);

(b) a description of the nature of the entity's operations and its principal activities;

(c) the name of the parent and the ultimate parent of the group; and

(d) if it is a limited life entity, information regarding the length of its life.

Appendix A

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of Indian Accounting Standard (Ind AS) 1.

This appendix lists the different appendices which are the part of other Indian Accounting Standards and make reference to Ind AS 1:

1 Appendix A *Distributions of Non-cash Assets to Owners* contained in *Ind AS 10 Events after the Reporting Period*

2 Appendix A *Changes in Existing Decommissioning, Restoration and Similar Liabilities* contained in Ind AS 16, *Property, Plant and Equipment*

3 Appendix A *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* contained in Ind AS 19 *Employee Benefits*

4 Appendix A *Intangible Assets—Web Site Costs* contained in Ind AS 38, *Intangible Assets*

5 Appendix E *Extinguishing Financial Liabilities with Equity Instruments* contained in *Ind AS 39 Financial Instruments: Recognition and Measurement.*

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard (Ind AS) 1 and the corresponding International Accounting Standard (IAS) 1, Presentation of Financial Statements.

Comparison with IAS 1, *Presentation of Financial Statements*

1 With regard to preparation of Statement of profit and loss, International Accounting Standard (IAS) 1, *Presentation of Financial Statements*, provides an option either to follow the single statement approach or to follow the two statement approach. While in the single statement approach, all items of income and expense are recognised in the statement of profit and loss, in the two statements approach, two statements are prepared, one displaying components of profit or loss (separate income statement) and the other beginning with profit or loss and displaying components of other comprehensive income. Ind AS 1 allows only the single statement approach. Paragraph 84 of IAS 1 is with reference to the two statement approach. As Ind AS 1 does not allow the aforesaid option, the paragraph 84 is deleted. However, paragraph number 84 has been retained in Ind AS 1 to maintain consistency with paragraph numbers of IAS 1.

2 IAS 1 requires preparation of a Statement of Changes in Equity as a separate statement. Ind AS 1 requires the statement of changes in equity to be shown as a part of the balance sheet. Paragraph 10(c) of IAS 1 is with reference to the separate statement of changes in equity. . As Ind AS 1 does not require it, the same is deleted. However, paragraph number 10(c) has been retained in Ind AS 1 to maintain consistency with paragraph numbers of IAS 1

3 Different terminology is used in Ind AS 1 e.g., the term 'balance sheet' is used instead of 'Statement of financial position' and

'Statement of Profit and Loss' is used instead of 'Statement of comprehensive income'. The words 'approval of the financial statements for issue' have been used instead of 'authorisation of the financial statements for issue' in the context of financial statements considered for the purpose of events after the reporting period.

4 Paragraph 8 of IAS 1 gives the option to individual entities to follow different terminology for the titles of financial statements. Ind AS 1 is changed to remove alternatives by giving one terminology to be used by all entities. However, paragraph number 8 has been retained in Ind AS 1 to maintain consistency with paragraph numbers of IAS 1.

5 Paragraph 37 of IAS 1 permits the periodicity, for example, of 52 weeks for preparation of financial statements. As Ind AS 1 does not permit it,the same is deleted. However, paragraph number 37 has been retained in Ind AS 1 to maintain consistency with paragraph numbers of IAS 1.

6 Paragraph 99 of IAS 1 requires an entity to present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the equity. Ind AS 1 requires only nature-wise classification of expenses. In IAS 1 the following paragraphs are with reference to function-wise classification of expense. In order to maintain consistency with paragraph numbers of IAS 1, the paragraph numbers are retained in Ind AS 1 :

(i) Paragraph 103

(ii) Paragraph 104

(iii) Paragraph 105

7 IAS 1 contains Implementation Guidance. Ind AS 1 does not include the same because various enactments have prescribed formats, e.g., Schedule VI to the Companies Act, 1956.

8 Paragraph number 106(c) appears as 'Deleted 'in IAS 1. In order to maintain consistency with paragraph numbers of IAS 1, the paragraph number is retained in Ind AS 1.

9 Cross-reference to paragraph 93A of of IAS 19 has been modified as cross reference to paragraphs 92 and 129A of Ind AS 19 as a result of certain changes in Ind AS19 as compared to IAS 19.