Excellence in Financial Reporting

Illustrative Guide to Presentation and Disclosures

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

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FOREWORD

Financial reporting has always been an important tool for entities to communicate with their stakeholders. Its significance has exponentially increased in the recent past owing to various changes both in the environment in which entities operate and the requirements mandated by the regulators. It has now become imperative for entities to keep pace with the fast evolving requirements in the area of financial reporting.

In this scenario, it was felt that a publication which brings out best practices in financial reporting could be of great use to the preparers of financial statements. It is heartening to note that the Research Committee has compiled this publication 'Excellence in Financial Reporting: Illustrative Guide to Presentation and Disclosures', which enumerates some of the practices currently followed in financial reporting as noted during review of the financial reports and sets out suggested 'best practice' to enhance the quality of financial reporting. I would like to thank CA. Bhavna G. Doshi, Chairperson, Research Committee and other members of the Research Committee for their efforts.

I hope that this endeavor of the Research Committee will go a long way in achieving sound accounting practices in relation to presentation and disclosures and provide guidance to the members as well as others concerned with the financial reporting.

New Delhi
December 20, 2010

CA. Amarjit Chopra
President

PREFACE

The importance of robust financial reporting cannot be emphasised enough. As India and Indian enterprises move ahead in the growth path at much faster pace and exposure of Indian entities to global environment expands, ever increasing complexities of transactions throws up newer challenges in financial reporting and related authoritative guidance. Presentation and disclosures, in this context, are assuming greater significance as enterprises aim to achieve excellence in financial reporting.

Large number of entities participate in the competition for 'ICAI Awards for Excellence in Financial Reporting' and show case the best practices adopted by them. The annual financial reports received for this competition are reviewed with a fine comb and very detailed analysis of various aspects is carried out. Considering significance of these observations and with a view to assist entities in understanding the areas where they could adopt better practices, the Committee decided to collate key observations made during the review of the annual reports for past two competitions and publish them. This publication endeavors to list the best practices in various aspects of financial reporting to enable preparers of financial statements in benchmarking their own practices.

I would like to place on record my sincere appreciation for the contribution made by CA. Harinderjit Singh, the past Chairman of Research Committee and CA. Madhuri Shahapure, in preparing the basic draft of this publication. I would also like to place on record the contribution made in this initiative by CA. Sumantra Guha, the Vice Chairman of the Committee, other members of the Committee and the technical team of the Research Committee, Dr. Avinash Chander, CA. Anuradha Jain and CA. Deepali Garg.

This publication could not have been possible but for the support and encouragement of CA. Amarjit Chopra, President, ICAI and CA. G. Ramaswamy, Vice President, ICAI and I would like to place my sincere appreciation for their guidance during the course of this work.

I trust this publication acts as an aid to the preparers of financial statements and others and will assist in enhancing the quality of financial reporting.

New Delhi
December 20, 2010

CA. Bhavna G. Doshi
Chairperson
Research Committee

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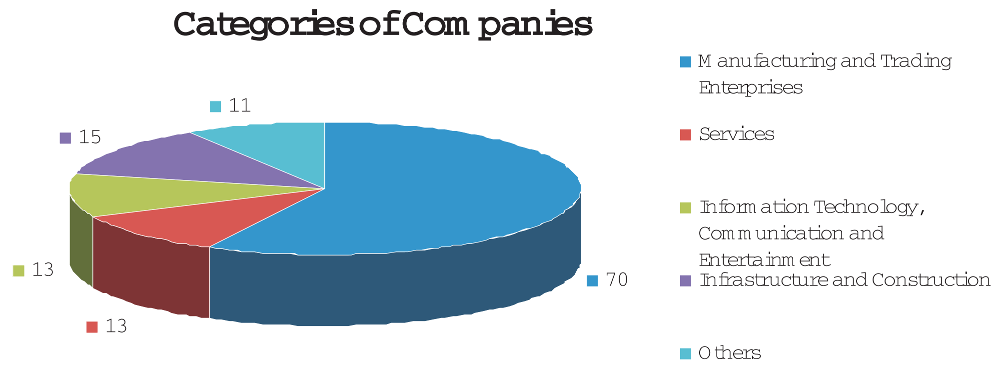
Introduction

Financial statements contained in annual reports provide a comprehensive overview of the financial state of the company and its performance. It is one of the most important means of communication between the company and the outside world and therefore it is imperative that these financial statements contain information which is relevant, reliable and understandable. Members, both as preparers of financial statements and as auditors contribute significantly in improving the quality of these disclosures.

In order to recognise excellence in financial reporting, the Institute of Chartered Accountants of India (ICAI) has instituted awards for excellence in financial reporting which honour the contribution of entities in enhancing quality of information both financial and non-financial contained in their Annual Reports.

This publication is the result of review of annual reports of 122 listed and unlisted companies across various sectors (other than banking and insurance companies[1]) for the years 2007-08 and 2008-09 received by ICAI for these awards, the sectoral break-up of which is as under:



These annual reports were assessed for best practices relating to:

- Compliance with Accounting Standards[2],
- Disclosure requirements of the Companies Act, 1956 and other laws and regulations applicable to those entities, for e.g., Securities Exchange Board of India

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1 Since they are covered by specific Acts

2 All references (including paragraph references) in this Guide to accounting standards are to the accounting standards notified under Companies (Accounting Standards) Rules, 2006, as amended.

- ICAI Pronouncements (Authoritative and Non-Authoritative)
  - Guidance Notes
  - Expert Advisory Committee Opinions.

Each section of this publication lists common observations/findings relating to a particular area, provides related requirements of the relevant statute, guidance or other literature, leading to suggestions regarding best practices.

This publication is divided in four main sections and observations/findings are organised based on the relevant section of the financial statements which it affects:

- **Section I:** Balance Sheet
- **Section II:** Profit and Loss Account
- **Section III:** Other Disclosures
- **Section IV:** Subsidiaries, Associates and Joint Ventures

Under each of these sections, the observations have been categorised into chapters which are based on the financial statement classification, viz., Fixed Assets, Intangible Assets, Investments, etc. where presentation or disclosures were found to be inadequate or unclear or not understandable.

Limitation

This Guide is intended to be a ready referencer, to be used by both preparers and auditors and is an attempt to supplement and aid the preparers and reviewers of the financial statements in avoiding such common errors or omissions. **This Guide is not meant to be used as a substitute for the accounting and regulatory guidance**. **Accordingly, all relevant authoritative pronouncements should be referred to.** This Guide is not a comprehensive guidance on the subject and there could be instances of non-compliances or errors, other than those identified and included herein.

Section I : Balance Sheet

The format and content of the financial statements for companies is required to be in accordance with Schedule VI to the Companies Act, 1956 ('Schedule VI'). Unlike with the Profit and Loss account, for which Schedule VI prescribes the disclosures, with the balance sheet, it also mandates the exact format. Companies have an option either to follow the horizontal or the vertical form prescribed in the said schedule. Further, there are several additional disclosure requirements both with respect to the balance sheet and profit and loss account. Certain industries have formats specified by their industry regulators, which need to be followed by them. This fact has also been recognised in the Companies Act, 1956 in the proviso to Section 211(1) which states that the format set out in Part I of Schedule VI will not be applicable to insurance companies, banking companies and companies engaged in the generation or supply of electricity. The formats for these companies are prescribed by specific regulators. The balance sheet in its vertical form is the most preferred choice with companies. The vertical form of balance sheet as per Schedule VI is as follows:

B. Vertical Form

Name of the Company.........................

Balance Sheet as at ....

		Schedule No.	**Figures as at the end of the current financial year**	**Figures as at the end of previous financial year**
1	2	3	4	5
I.	**Sources of Funds**			
	(1) Shareholders' Funds:			
	(a) Share Capital			
	(b) Reserves and surplus			
	(2) Loan Funds:			
	(a) Secured loans			
	(b) Unsecured loans			

		Schedule No.	Figures as at the end of the current financial year	Figures as at the end of previous financial year
	TOTAL			
II.	**Application of Funds**			
	(1) Fixed Assets:			
	(a) Gross block			
	(b) *Less:* Depreciation			
	(c) Net block			
	(d) Capital work-in-progress			
	(2) Investments			
	(3) Current assets, loans and advances			
	(a) Inventories			
	(b) Sundry Debtors			
	(c) Cash and bank balances			
	(d) Other current assets			
	(e) Loans and advances			
	Less: Current liabilities and provisions:			
	(a) Liabilities			
	(b) Provisions			
	Net Current assets			
	(4) (a) Miscellaneous expenditure to the extent not written off or adjusted			
	(b) Profit and Loss account			
	TOTAL			

Apart from the presentation and disclosure requirements mandated by Schedule VI, the accounting standards notified under the Companies (Accounting Standards) Rules, 2006 as per Section 211(3C) of the Companies Act, 1956 also mandate disclosure/presentation requirements.

General Observations

One of the pertinent aspects which need to be considered in the preparation of financial statements with regard to Schedule VI is that it does not prescribe the accounting treatment to be adopted by the entity; it only prescribes the format and content. Consequently, the fact that a particular item has been included in the format of the balance sheet in Schedule VI does not imply that the particular item can be recognised in the balance sheet. Schedule VI prescribes only presentation and not treatment which is a subject matter of Accounting Standards.

Schedule VI disclosures

Observation(s)	What should one remember?
It was noticed that cross references to the schedule(s)/notes to accounts were not given in some cases which makes it difficult to understand whether the related disclosures are made. Schedule VI permits giving information in Schedules and Notes to the accounts, if any.	Against each item, give the appropriate cross reference to the respective schedule and the note in the notes to accounts, if any.

Previous year numbers

Observation(s)	What should one remember?
It was observed that, at times, the previous year numbers were not presented, particularly in footnotes/notes to accounts, which is not in compliance with the requirements of Schedule VI.	Note (n) in the general instructions for preparation of balance sheet in Schedule VI – Part I, states *'Except in the case of the first balance sheet laid before the company after the commencement of the Act, the corresponding amounts for the immediately preceding financial year for all items shown in the balance sheet shall be also given in the balance sheet. The requirement in this behalf shall, in the case of companies preparing quarterly or half-yearly accounts, etc., relate to the balance sheet for the corresponding date in the previous year.'* Similar requirement exists with respect to the profit and loss account as per Part II of Schedule VI. For all the numbers disclosed in the financial statements including those in the schedules and notes to accounts, disclose the corresponding previous period numbers as well.

Rounding off

Observation(s)	What should one remember?
• In some cases, it was observed that the financial statements did not include any reference regarding 'rounding off' adopted by the company (For example, Rs. in '00s, '000s, etc.) • Further, in some cases, it was observed that different rounding off was adopted in different places (For example, the figures were rounded off to millions in balance sheet and profit and loss account, but there was no rounding off at all in the notes to accounts).	The specific rule for rounding off as per Schedule VI based on 'turnover' is: • *Less than Rs.100 crore: to the nearest hundreds or thousands or decimals thereof* • *Rs.100 crore or more but less than Rs.500 crore: to the nearest hundreds, thousands, lakhs, millions or decimals thereof* • *Rs.500 crores or more: to the nearest hundreds, thousands, lakhs, millions, or crores, or decimals thereof.* • Mention the rounding off practice adopted – at the beginning or on each page of the balance sheet, profit and loss account, cash flow statement and schedule. Also mention it on the first page of the notes to accounts (For example, Rs. in hundreds, Rs.'000s, etc). It could be placed at the top right hand corner of the page. • Ensure consistency across the financial statements. • Where the numbers to be disclosed are smaller than the rounding off adopted by the company, the practice is to present an asterix '*' in the relevant column with the number in full disclosed as a note or in the inner column.

Other aspects to be considered include:

- Ensuring appropriate reference to the accounting standards - the 'basis of preparation' given at the beginning in the notes to accounts normally include a reference to the accounting standards used by the entity in preparation of the financial statements. In case of companies, reference should be made to accounting standards as notified under

Section 211(3C) of the Companies Act and not to standards issued by the Institute of Chartered Accountants ('ICAI'). Other entities, which are not covered by the Companies Act, 1956, which use the accounting standards as issued by the ICAI should disclose accordingly. Further, where reference is made to the standards issued by the ICAI, it should be remembered that ICAI 'issues' accounting standards and does not 'notify' them. The terms used should be appropriate.

- Ensuring appropriate reference to use of guidance notes issued by ICAI in preparation of financial statements. The ICAI has issued guidance notes specifically applicable to certain industries such as dot.com-companies, oil and natural gas producing companies, real estate developers, etc. Where a company complies with such a pronouncement, it would be relevant to include such fact in the 'basis of preparation' paragraph of the notes to accounts.
- Ensuring correct schedule/note references.
- Ensuring that the total of schedules tie up with the balance in the balance sheet or profit or loss account.
- Avoiding casting errors.
- Avoiding retention of accounting policies while the transactions to which they relate are no longer entered into by the company for a considerable number of years.
- Ensuring that accounting policies are given for all significant items. It has been observed that at times, the entity may have certain transactions/events which do not have any further explanation of how they are accounted for. For example, the fixed assets schedule may include a significant new addition under intangible assets as 'clean development mechanism', but there is no reference to the accounting policy related to intangible assets in the notes to account. It should be remembered that Accounting Standard (AS) 1, *Disclosure of Accounting Policies*, requires all significant accounting policies adopted in the preparation and presentation of financial statements to be disclosed. *[Paragraph 24 of AS 1]*
- Ensuring that there are no vague or ambiguous notes, with no further information or explanation which may lead to even misinterpretation of the information. For example, a note stated "Land not registered in the name of the company has been given for the use of group companies" but there are no disclosures regarding such lease elsewhere in the financial statements. This leads to ambiguity regarding whether the land has been capitalised in the books of account or not. A better disclosure would be to include this note in the fixed assets schedule with an asterix against land and a note which states "Land includes certain area measuring XX acres, towards which the registration process is still in progress. This land has been given on lease to group companies."

- Ensuring that accounting policies and other notes in the notes to accounts are worded in simple and understandable language and in compliance with the accounting standards/other relevant pronouncements. The accounting policy should be drafted considering the relevance of the terminology used in the accounting standard. For example, it would not be appropriate to term 'other than temporary diminution' as 'permanent diminution' in case of investments in line with the requirements of Accounting Standard (AS) 13, *Accounting for Investments*.
- Providing a detailed note explaining both the nature of transaction and the accounting treatment thereof in respect of certain transactions/events that are unique to a specific industry. This aspect should be given due consideration in drafting the accounting policies. For example, in case of extractive industry the treatment of exploratory wells, overburden removal costs, etc.
- Ensuring that negative numbers are consistently disclosed either within brackets or with a minus ('-') sign preceding the number.

Shareholders' Funds

Share Capital

Authorised, issued, subscribed, called up and paid-up share capital

Observation(s)	What should one remember?
• In one of the cases, it was observed that the subscribed, called and paid up capital was greater than issued capital. • Similarly, in another case, paid up capital was found to be greater than the authorised capital.	The disclosures are in line with changes, if any, made to the authorised/issued share capital.

Share application money received pending allotment/calls received in advance

Observation(s)	What should one remember?
It was observed that share application money received pending allotment was included in paid up capital disclosed on the face of the balance sheet. Only the schedule of share capital disclosed the share application money separately as being added to the share capital.	Schedule VI does not have specific requirements in this case. However, reference can be made to an opinion of the Expert Advisory Committee ('EAC'), which suggests that share application money received pending allotment/calls received in advance should be shown in the balance sheet under a separate heading, between "Share Capital" and "Reserves & Surplus". ***[EAC Volume XV, Query 1.14 finalised on October 10, 1995]*** Disclose share application money received pending allotment separately on the face of the balance sheet, between "Share Capital" and "Reserves & Surplus". Exceptions to this requirement are: a) invalid or revoked applications (b) excess application moneys received due to over subscription. In these cases, the amounts involved may be shown as part of Current Liabilities.

Redeemable preference shares

Observation(s)	What should one remember?
In some cases, it was observed that either the terms of redemption/conversion or the earliest date of redemption/conversion were not disclosed.	The requirement of Schedule VI is: '*Terms of redemption or conversion (if any) of any redeemable preference capital to be stated, together with the earliest date of redemption or conversion'.* Disclose all data relating to redeemable preference shares as required by Schedule VI.

Options outstanding

Observation(s)	What should one remember?
In a few cases, where the company had outstanding employee stock options, no disclosure was made regarding outstanding options in terms of Schedule VI in the share capital schedule.	The requirement of Schedule VI is: *'Particulars of any option on un-issued share capital to be specified'.* Where a company has options such as employee stock options or options under a shareholders agreement, disclose such options in the share capital schedule.

Bonus Shares

Observation(s)	What should one remember?
It was observed that where a company had issued bonus shares, this fact was disclosed however the source from which they had been issued was not disclosed.	Schedule VI requirement: *'Specify the source from which bonus shares are issued, e.g., capitalisation of profits or reserves or from share premium account'.* If the company has issued bonus shares, remember to disclose the source.

Shareholdings of the ultimate holding company and its subsidiaries

Observation(s)	What should one remember?
In some cases, the number of shares held by the ultimate holding company and its subsidiaries was disclosed as an aggregate number.	General instructions for preparation of balance sheet to Schedule VI refers to 'separate' disclosure for the number of shares held by these entities. Shareholding of the ultimate holding company and its subsidiaries need to be disclosed separately.

Reserves and surplus:

Movement in reserves

Observation(s)	What should one remember?
It was observed, in some cases, that the balances for current and previous year were different for certain reserves, however movement of the reserves was not given.	The requirement of Schedule VI is: *'Additions and deductions since last balance sheet to be shown, under each of the specific heads'.* When there has been a change in the balance of any reserve as compared to the last year, disclose the movement in reserve.

Adjustments in share premium/other reserves

Observation(s)	What should one remember?
Where certain amounts were adjusted directly in the share premium or other reserves, it was observed that there was no reference to the treatment of tax impact on account of the same.	In an announcement, titled 'Tax effect of expenses/income adjusted directly against the reserves and/or Securities Premium Account'[3], the ICAI has recommended that *'any expense charged directly to reserves and/or Securities Premium Account should be net of tax benefits expected to arise*

[3] Published in 'The Chartered Accountant', September 2005 (pp. 495-496).

	from the admissibility of such expenses for tax purposes'. Similarly, any income credited directly to a reserve account or a similar account should be net of its tax effect. If any adjustment is made directly in reserves or share premium, ensure that the tax impact of the same is also considered.

Debit balance in profit and loss account

Observation(s)	What should one remember?
Where the company had adequate general reserves, it was observed that the debit balance in profit and loss account was disclosed under 'Application of Funds' rather than presenting such debit balance as a reduction from general reserve.	The requirement of Schedule VI is: *The horizontal form of Schedule VI under the head Reserve and Surplus includes a line for deduction of debit balance of profit and loss account. Further, note (h) to Schedule VI states 'The debit balance in the profit and loss account shall be shown as a deduction from the uncommitted reserves, if any.'* Also refer Letter No. 8/16(1)/61 – PR, dated 9-5-1961 issued by the Department of Company Affairs, which states: *'As the balance sheet is required to give a true and fair view of the state of affairs of a company, it is necessary to adjust all uncommitted reserves against the debit balance of profit and loss account'.* Where debit balance of profit and loss account exists, it should first be deducted from general reserves, where available, and only the balance be disclosed under Application of Funds.

Loan Funds

Secured Loans

Debentures: Terms of redemption/conversion

Observation(s)	What should one remember?
It has been observed in a few cases that the disclosures are incomplete – either terms of redemption/conversion or the earliest date of redemption/conversion were not disclosed.	Schedule VI requirement: '*Terms of redemption or conversion (if any) of debentures issued to be stated, together with the earliest date of redemption or conversion'.* The disclosures relating to debentures such as terms of redemption or conversion should be included. The earliest date on which such debentures can either be redeemed or converted should also be included.

Nature of security

Observation(s)	What should one remember?
In some cases, it was noted that the nature of security was not disclosed for all loans, particularly where there were a large number of loans from various sources.	The requirement of Schedule VI is: '*The nature of security to be specified in each case'.* The nature of security should be disclosed in case of each loan from every source.

Interest accrued and due

Observation (s)	What should one remember?
It was observed in some cases, that no distinction was made between interest accrued and due and interest accrued but not due, which is necessary in order to ensure appropriate classification between secured/ unsecured loans and current liabilities.	The Schedule VI requirement in this case is: Interest accrued and due on secured and unsecured loans should be included under appropriate sub-heads, under the heads Secured Loans/Unsecured Loans and current liabilities respectively. Interest accrued and due should be shown under the respective heads – secured or unsecured whereas interest accrued but not due should be shown under current liabilities.

Tax related assets/liabilities

General Comments: One of the heads not included in the balance sheet format prescribed under Schedule VI is deferred tax asset/liability. The presentation of deferred tax has been mandated by Accounting Standard (AS) 22, *Accounting for Taxes on Income*, which states in paragraph 30:

30. Deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities.

Explanation:

Deferred tax assets (net of the deferred tax liabilities, if any, in accordance with paragraph 29) is disclosed on the face of the balance sheet separately after the head 'Investments' and deferred tax liabilities (net of the deferred tax assets, if any, in accordance with paragraph 29) is disclosed on the face of the balance sheet separately after the head 'Unsecured Loans'.

Tax related assets/liabilities: Presentation

Presenting advance for tax and provision for tax

Observation(s)	What should one remember?
In many cases, it was observed that advance taxes were presented under the head 'loans and advances' and provision for tax under the head 'provisions' without offsetting the two amounts.	AS 22 has a specific requirement with respect to offsetting. As per paragraph 27, an enterprise should offset current tax assets and current tax liabilities if the enterprise: ***(a) has a legally enforceable right to set off the recognised amounts; and*** ***(b) intends to settle the asset and the liability on a net basis*.** • Where the enterprise can infact fulfill the criteria set out in paragraph 27 of AS 22, disclose the advance tax/provision for tax on a net basis. • Do remember to mention the adjusted amount as well. Where advance tax is greater than provision for tax: Loans and Advances (in Rs.) Advance tax (net of provision for tax: Rs.XX) XXX OR Where provision for tax is greater than for advance tax: Provisions (in Rs.) Provision for taxes (net of advance tax: Rs.XX). XXX

Presentation of deferred tax liability/asset in the balance sheet

Observation(s)	What should one remember?
A few instances of presenting deferred tax asset/liability in the order other than that prescribed by the AS 22 have been observed.	As stated in the explanation to paragraph 30 of AS 22, the disclosure of deferred tax asset and liability needs to be specifically after the head 'Investments' in case of a deferred tax asset and after the head 'Unsecured Loans' in case of a deferred tax liability.

Presentation of deferred tax liability/asset in the balance sheet

Observation(s)	What should one remember?
In some cases, it was observed that deferred tax liability and deferred tax asset were shown separately by a standalone entity located in India with no branches outside India.	AS 22 has a specific requirement with respect to offsetting. As per paragraph 29 of AS 22, an enterprise should offset deferred tax assets and deferred tax liabilities if: ***'(a) the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and*** ***(b) the deferred tax assets and the deferred tax liabilities relate to taxes on income levied by the same governing taxation laws.'*** Where the conditions of paragraph 29 of AS 22 are fulfilled, deferred tax asset and deferred tax liability should be offset and disclosed net in the financial statements to the extent they are in the same jurisdiction.

Reference to temporary difference

<table>
<tr><th>Observation(s)</th><th>What should one remember?</th></tr>
<tr><td>In some cases, it was observed that the accounting policies included reference to 'temporary' differences rather than 'timing' differences as defined in AS 22. For example, the policy stated that:
• 'The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities are…'
OR
• '….will have profits against which the temporary differences will be utilized'.</td><td>AS 22 does not give cognizance to the concept of 'temporary difference'. Rather it defines the phrase 'timing difference' and deferred tax assets and liabilities are recognised on the basis of such timing differences.

The words/phrases used in describing the accounting policy should be as per the respective accounting standard – in case deferred taxes, the term to be used is 'timing difference' and not 'temporary difference'.</td></tr>
</table>

Virtual or reasonable certainty

<table>
<tr><th>Observation(s)</th><th>What should one remember?</th></tr>
<tr><td>• It was observed in some cases, that where the company no longer had unabsorbed depreciation/brought forward business losses, the policy for deferred tax continued to state 'virtual certainty' rather than referring to reasonable certainty.
• In certain other cases, it was observed that the company did have a situation of either unabsorbed depreciation or brought forward business losses or both, and yet the accounting policy had no reference to virtual certainty.</td><td>The standard clearly set outs that in situations where unabsorbed depreciation/ business losses exists, deferred tax assets need to be tested against the principle of virtual certainty supported by convincing evidence. In all other cases, reasonable certainty would suffice.

The accounting policies should be reviewed each year to evaluate whether it remains relevant and represents the current assessment of the company. The accounting policy should reflect the actual principle used by it – virtual certainty or reasonable certainty.</td></tr>
</table>

Virtual or reasonable certainty

Observation(s)	What should one remember?
It was observed that, in certain cases, the accounting policy relating to deferred taxes indicated that only deferred tax assets arising from brought forward loss or unabsorbed depreciation were tested against the virtual certainty principle, while deferred tax assets arising on account of other components were tested only against the reasonable certainty principle. For example, the accounting policy stated as under: *"Deferred tax assets are recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.* ***However, deferred tax assets arising from brought forward losses and depreciation*** *are recognised only when there is virtual certainty supported by convincing evidence that such assets will be realised in foreseeable future."*	The requirement of AS 22 when the company has either brought business losses or unabsorbed depreciation, or both, is that all deferred tax assets need to be tested against the principle of virtual certainty supported by convincing evidence and not just the deferred tax asset pertaining to brought business losses or unabsorbed depreciation, or both. Reference should be made to paragraph 17 and 18 of AS 22 in this regard.

Tax related assets/liabilities: Other Disclosures

Break-up of components

Observation(s)	What should one remember?
It was noticed in some cases that although the total deferred tax asset/liability was disclosed, the break-up into the various components was not disclosed.	Paragraph 31 of AS 22 states: '***The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.***' Ensure that the components of deferred tax asset/liability are disclosed separately.

What is the convincing evidence?

Observation(s)	What should one remember?
In certain cases, it was observed that the notes to accounts included a note that deferred tax assets have been recognised on unabsorbed depreciation/carried forward business losses using the principle of virtual certainty. However no disclosures were made as to what is the convincing evidence supporting the virtual certainty test as required by AS 22.	Paragraph 32 of AS 22 has a specific disclosure requirement relating to convincing evidence which reads as follows: ***'The nature of the evidence supporting the recognition of deferred tax assets should be disclosed, if an enterprise has unabsorbed depreciation or carry forward of losses under tax laws'.*** Ensure that the nature of convincing evidence is also disclosed in this regard.

Fixed Assets

General Comments: Assets – both tangible and intangible, require significant disclosures and there are multiple pronouncements governing such disclosures. Although Schedule VI includes goodwill and patents, trademarks and designs as classes of fixed assets, it does not make a distinction between tangible and intangible assets.

In terms of accounting standards, while tangible assets are covered by Accounting Standard (AS) 10, *Accounting for Fixed Assets* and Accounting Standard (AS) 6, *Depreciation Accounting*, intangible assets are covered under Accounting Standard (AS) 26, *Intangible Assets*. Further Accounting Standard (AS) 16, *Borrowing Costs*, Accounting Standard (AS) 19, *Leases* and Accounting Standard (AS) 28, *Impairment of Assets* are also applicable.

Fixed Assets: Presentation

Fixed assets schedule

Observation(s)	What should one remember?
The fixed asset schedule, in certain cases, did not include all the columns required to present the information specified by both Schedule VI and AS 6 and AS 10. For example, the opening balance column for depreciation was not disclosed.	The requirement of both the Schedule VI and the accounting standards is to disclose the gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements. **Refer note 1 for illustration*

Impairment

Observation(s)	What should one remember?
In certain instances, it was noticed, that the column of depreciation was presented, as 'depreciation/impairment' implying that the figures disclosed in that column are an aggregation of both depreciation and impairment loss.	AS 28 requires disclosures of information as required under paragraph 117 to be made for each 'class of assets'. Impairment loss should be presented separately in Fixed Assets Schedule as per requirement of AS 28. **Refer note 1 for illustration*

Revaluation

Observation(s)	What should one remember?
In some cases where certain assets had been revalued, the disclosures regarding such revaluation were not complete – although the fact of revaluation having been done was mentioned and revised numbers were used in place of the original cost, the disclosures as required by Schedule VI were not made.	The requirement of Schedule VI is: In case of an upward revaluation - every balance sheet subsequent to such writing up shall show the increased figures with the date of the increase in place of the original cost. Each balance sheet for the first five years subsequent to the date of writing up shall also show the amount of increase made. In case of downward revaluation – Every balance sheet subsequent to the reduction or revaluation shall show the reduced figures and with the date of the reduction in place of the original cost. Each balance sheet for the first five years subsequent to the date of the reduction shall show also the amount of reduction made.

Revaluation

Observation(s)	What should one remember?
In some cases, where revaluation was done, it was observed, that the disclosure of the manner in which valuation was done was not mentioned.	In case of revaluation, the method used for revaluation, for example, external valuers used, should be specified as required per paragraph 37 of AS 10: ***'(iii) revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.'*** The method of valuation should be specifically mentioned (For example, by registered valuers using the current reinstatement cost/the market price, etc).

Intangible assets

Observation(s)	What should one remember?
Intangible assets are disclosed as a single line item with no description of the nature of the intangible asset.	The disclosures as per paragraph 90 of AS 26 are required for 'each class of intangible assets'. The description of the nature of the intangible asset should be given in order to provide an understanding of the class of assets being disclosed (Example: Trademarks, Brand, etc).

Assets held for disposal

Observation(s)	What should one remember?
In cases, where the entity had assets held for disposal, such assets were not separately presented in the financial statements. Further they were presented at net book value.	Paragraph 14.2 of AS 10 specifically deals with assets held for disposal and states: *'Items of fixed assets that have been retired from active use and are held for disposal are stated at the lower of their net book value and net realisable value and are shown separately in the financial statements. Any expected loss is recognised immediately in the profit and loss statement.'* Ensure that assets held for disposal are separately presented at values specified per above paragraph.

Other commonly observed inconsistencies are:

- Tangible assets (such as leasehold land) disclosed under intangible assets, with no further explanation as to the reason for such disclosure.
- Intangible assets disclosed as a part of fixed assets with no distinction between tangible and intangible assets.
- 'Nil' depreciation/amortisation cost disclosed for certain class of assets with no explanation as to the reason for not depreciating/amortising that class of asset.
- No distinction made between own assets and leased assets.
- Non-disclosure of major components of capital work in progress especially in case of significant capitalisation projects.
- Disclosure of capital advances under 'Loans and Advances' rather than as a part of capital work-in-progress under 'Fixed Assets'.

Note 1: Illustration of fixed assets schedule:

Class of Assets	Original Cost					Depreciation and amortisation				Net Book Value	
	As at April 1, 2009	Additions/ Adjustments * for the year	Disposals / Retirement during the year	Impairment loss/(reversal) during the year	As at March 31, 2010	As at April 1, 2009	Additions for the year	Disposals/ Retirement during the year	As at March 31, 2010	As at March 31, 2010	As at March 31, 2009
Owned Assets: Tangible Assets											
Land: Freehold											
Land: Leasehold											
Plant and Machinery											
Furniture and Fixtures											
Vehicles											

Owned Assets: Intangible Assets											
Computer Software											
Patents											
Assets taken on lease: Tangible Assets											
Vehicles											
Assets taken on lease: Intangible Assets											
Technology Know-how											
TOTAL											
March 31, 2009											

*Include relevant note providing an explanation for the adjustments made, for example, foreign exchange fluctuation differences

Fixed Assets: Accounting Policies

Leased assets/Leasehold assets

Observation(s)	What should one remember?
In certain cases, it was observed that the accounting policy stated that the leased assets are amortised over the period of lease with no reference to the useful life of the asset. For example, in one case, it stated as under: • 'Leased assets are amortised over the period of lease' • 'Leasehold assets viz land and vehicles are amortised over the period of lease.'	In case of leased assets, paragraph 18 of AS 19 specifically states ***'The depreciation policy for a leased asset should be consistent with that for depreciable assets which are owned, and the depreciation recognised should be calculated on the basis set out in Accounting Standard (AS) 6, Depreciation Accounting. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the lease term or its useful life, whichever is shorter.'*** Similar treatment is also applicable in case of leasehold assets which commonly comprise leasehold improvements.

Leasehold assets

Observation(s)	What should one remember?
In certain cases, it was observed that there was no amortisation recognised with respect to leasehold assets.	An asset acquired on lease indicates a finite useful life of the asset limited contractually, unless the lease is a perpetual lease. Accordingly, there should be an amortisation charge pertaining to such leased asset over the period of the lease. The amortisation policy used for leasehold assets should be disclosed. Where the lease is infact a perpetual lease, this fact should also be specified in the accounting policy.

Depreciation Rates

Observation(s)	What should one remember?
In certain cases, it was observed, that the policy states that the depreciation rates used are rates as prescribed under Schedule XIV or rates determined on the basis of useful lives, whichever is higher, without specifying what were the actual depreciation rates used.	Paragraph 29 of AS 6 states: ***"The following information should also be disclosed in the financial statements alongwith the disclosure of other accounting policies:*** ***(i) depreciation methods used; and*** ***(ii) depreciation rates or the useful lives of the assets, if they are different from the principal rates specified in the statute governing the enterprise."***

Intangible assets – Useful life beyond ten years

Observation(s)	What should one remember?
In certain cases, it was observed, that there was no explanation regarding the rationale behind amortising a specific intangible asset beyond the rebuttable assumption of ten years as required by AS 26.	Paragraph 94(a) of AS 26 requires the following to be disclosed: ***"if an intangible asset is amortised over more than ten years, the reasons why it is presumed that the useful life of an intangible asset will exceed ten years from the date when the asset is available for use. In giving these reasons, the enterprise should describe the factor(s) that played a significant role in determining the useful life of the asset".***

Intangible assets – Assets with indefinite life

Observation(s)	What should one remember?
In certain cases, it was noticed, that the entities disclosed certain intangible assets – particularly, right of use, as perpetual assets with no amortisation being provided on the same.	Paragraph 63 of AS 26 requires: ***"The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortisation should commence when the asset is available for use."*** Accordingly, AS 26 does not envisage a situation where the asset has indefinite life and hence no amortisation is recognised.

Amortisation of intangible assets

Observation(s)	What should one remember?
In relation to intangibles, in some cases, it was noticed that the accounting policy states the 'depreciation' rates rather than specifying the same as 'amortisation' rates.	In case of intangible assets, the term to be used is 'amortisation' and not 'depreciation' in line with AS 26.

Borrowing costs

Observation(s)	What should one remember?
In certain cases, it was observed that the accounting policy disclosed with respect to borrowing costs states: *"Finance costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready for intended use"*. Such accounting policy gives an impression that finance costs on acquisition of all fixed assets are capitalised rather than just qualifying assets.	AS 16 permits capitalisation of borrowing costs only when they relate to qualifying assets as specified in paragraph 6: ***"Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset."***

Research and Development Expenses

Observation(s)	What should one remember?
It was also noticed that no distinction was made between "research" and "development" phases in drafting the related accounting policies leading to inappropriate accounting policies: For example, policies read as under: • "Capital expenditure on research and development is shown as an addition to fixed assets and depreciated accordingly." • "Capital expenditure relating to Research and Development amounting to Rs. XX (previous year Rs.XX) has been included in fixed assets". Such accounting policies convey an impression that expenses pertaining to the 'research phase' are also considered for capitalisation.	Paragraph 41 of AS 26 very clearly states: ***'No intangible asset arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred.'*** The words/phrases used in describing the accounting policy should be as per the respective accounting standard.

Fixed Assets: Disclosures

Borrowing costs

Observation(s)	What should one remember?
In most cases, it was observed that borrowing costs on qualifying assets were capitalised and an accounting policy for the same was also disclosed. However, the amount of borrowing costs during the year was not disclosed.	Paragraph 23 of AS 16 requires the disclosure of *'the amount of borrowing costs capitalised during the period'.*

Discount rate used computing value in use

Observation(s)	What should one remember?
In a few cases, where the company had recognised impairment loss and had computed value in use, the disclosure made with regard to discount rate was "....based on an "appropriate discounting factor" rather than specifically stating the discount rate used.	The disclosure requirement in this regard as per paragraph 121 of AS 28 is: *"(g) if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use."*

Investments

Apart from the disclosure requirements of Schedule VI, investments are covered under Accounting Standard (AS) 13, *Accounting for Investments*.

Investments: Presentation

Categorisation of investments

Observation(s)	What should one remember?
In certain cases, it was observed that in the schedule of investments: • Disclosure of whether investments are long term investments or current investments was not made.	AS 13 has two requirements in case of categorisation of investments: Paragraph 26: ***An enterprise should disclose current investments and long-term investments distinctly in its financial statements.***

- Also segregation between quoted and unquoted investments were not made.

Paragraph 27: ***Further classification of current and long-term investments should be as specified in the statute governing the enterprise. In the absence of a statutory requirement, such further classification should disclose, where applicable, investments in:***

(a) Government or Trust securities

(b) Shares, debentures or bonds

(c) Investment properties

(d) Others—specifying nature.

Further apart from the classification on similar lines as in paragraph 27 above, part I of Schedule VI also requires a distinction by way of 'trade' and 'non-trade' investments.

- It was also noticed that same figure in both, the current and previous years was shown as market value of quoted investments giving an impression that the values are not updated.

- This disclosure requirement stems from both the Schedule VI as well as AS 13.

Ensure that the categorisation is as per the requirements of both the Schedule VI as well as AS 13.

The Schedule VI requirement is:

- Aggregate amount of quoted investments
- Aggregate amount of unquoted investments
- Market value of quoted investments

AS 13 requirement is:

Paragraph 35 (e) – **'the aggregate amount of quoted and unquoted investments, giving the aggregate of market value of quoted investments'**.

Purchase and sale of investments

Observation(s)	What should one remember?
It was observed that some companies had not separately disclosed the purchase and sale of investments.	Reference should be made to note (I) of general instruction for preparation of balance sheet of Schedule VI which requires a statement disclosing the purchase and sale of investments.

Investments made out of money received from a fresh issue

Observation(s)	What should one remember?
Where the company had made a fresh issue of shares during the year, there are no disclosures relating to unutilized monies as required by Schedule VI.	Part I of Schedule VI requires that all unutilized monies out of the issue must be separately disclosed in the balance sheet of the company indicating the form in which such unutilized funds have been invested. Where the company has made an issue, and there are unutilized monies, ensure disclosure in accordance with the Schedule VI requirement (For example, in mutual funds, short term deposits, etc).

Diminution in the value of investment

Observation(s)	What should one remember?
In some cases, it was observed that the provision for diminution in the value of investment was disclosed under the sub-head 'provisions' rather than reducing the same from the carrying value of investment.	As per paragraph 17 of AS 13, "*However, when there is decline other than temporary, in the value of a long term investment, the carrying amount is reduced to recognise the value decline".*

Investments: Accounting Policies

Diminution in the value of investment

Observation(s)	What should one remember?
It was observed that the accounting policy in relation to diminution in the value of investment referred to 'permanent diminution' rather than 'other than temporary decline'. For example, the policy read as under: • Long-term investments are valued at cost except in the case of a ***permanent diminution*** in their value, in which case the necessary provision is made. 'Provision for diminution in value of investments is made if management perceives that there is significant ***permanent diminution*** in value of investments or in accordance with the ....Accounting Standard 13 issued by the Institute of Chartered Accountants of India'.	There is no reference to the phrase 'permanent diminution' in AS 13. The standard states: *"However, when there is decline other than temporary, in the value of a long term investment, the carrying amount is reduced to recognise the value decline."* Accordingly, a provision can be recognised in case of 'other than temporary decline'. There is a difference between what is 'permanent' and what is 'other than temporary'. The words/phrases used in describing the accounting policy should be as per the respective accounting standard.

Current Assets, Loans and Advances

General Comments: Current assets comprise various sub-heads as mentioned in the format of balance sheet. While some components are covered by specific accounting standards such as inventories covered by Accounting Standard (AS) 2, *Valuation of Inventories* and provisions covered by Accounting Standard (AS) 29, *Provisions, Contingent Liabilities and Contingent Assets*, other components do not have a specific standard governing them. Consequently, the disclosures under those components are primarily driven by the requirements of Schedule VI.

Inventory

Disclosure in the balance sheet

Observation(s)	What should one remember?
It was observed, that the schedule for inventories, in many cases, included the following statement immediately below the heading inventories: "(As taken, valued and certified by the Management)".	A clarification has been inserted in the Guidance Note on Audit of Inventories, issued by ICAI, relating to this aspect, whereby it has been clarified that such an expression may lead the users of the financial statements to believe that the auditor merely relies on the management's certificate without carrying out any other appropriate audit procedures to satisfy himself about the existence and valuation of inventories. Further, the clarification also suggests that the auditor may advise clients to omit the words "as valued and certified by the management", when describing inventories in the financial statements.

Valuation (Accounting Policy)

Observation(s)	What should one remember?
It has been observed, in some cases, that the accounting policy relating to valuation of inventories specified that certain categories of inventories, usually raw materials stores and spares or work in progress, were valued only at cost with no reference to net realisable value.	With regard to measurement, AS 2 requires that *"**Inventories should be valued at the lower of cost and net realisable value.**"* Inventories refer to all categories of inventories and requirements apply to all categories of inventories including raw materials, stores and spares, etc.

Cost formula (Accounting Policy)

Observation(s)	What should one remember?
It was observed that most companies did not disclose the cost formula as required by AS 2.	Paragraph 26 of AS 2 specifically requires disclosure of *"**accounting policies adopted in measuring inventories, including the cost formula used**."* The cost formula used should be included in the accounting policy of inventories (For example, FIFO, weighted average method, specific identification, etc).

Stock in transit

Observation(s)	What should one remember?
It was noted, in some cases, that there was no separate disclosure of stock in transit in the inventories schedule which is necessary to gain an understanding of the different classes of inventories.	Paragraph 26 of AS 2 states: **"The financial statements should disclose:** **(a) the accounting policies adopted in measuring inventories, including the cost formula used; and** **(b) the total carrying amount of inventories and its classification appropriate to the enterprise."**

Sundry Debtors

Provision for doubtful debts

Observation(s)	What should one remember?
In a few cases, it was observed that the amount of provision for doubtful debts exceeded the amount of debtors classified as bad/doubtful.	The requirement of Schedule VI is that the provisions shown under this head should not exceed the amount of debts considered doubtful or bad and any surplus of such provision, if already created, should be shown at every closing under "Reserves and

<table>
<tr><th>Observation(s)</th><th>What should one remember?</th></tr>
<tr><td></td><td>Surplus” (in the Liabilities side) under a separate sub-head “Reserve for Doubtful or Bad Debts”.
<table><tr><td>> 6 Months</td><td>Other Debts</td></tr><tr><td>Good</td><td>Good</td></tr><tr><td>Bad/Doubtful</td><td>Bad/Doubtful</td></tr><tr><td colspan="2">Less: Provision</td></tr><tr><td colspan="2">Provision cannot be greater than bad/doubtful debts</td></tr></table>
Also reconciliation/movement of provision for doubtful debts need to be disclosed.</td></tr>
</table>

Debts due from companies under same management

<table>
<tr><th>Observation(s)</th><th>What should one remember?</th></tr>
<tr><td>It was observed that there were inconsistent practices with regard to this disclosure. While some companies gave the required disclosures, others did not give these disclosures.

This inconsistency appears to be due to the insertion of sub-section (6) to section 370 of the Companies Act, 1956 which states that the section will not be applicable on or after the commencement of the Companies (Amendment) Act, 1999. However, the requirement of Schedule VI relating to the disclosures has not been amended.</td><td>In this regard, the EAC has stated that the intention of the legislature seems to be that definition/meaning of companies under the same management as per section 370(1B) shall continue to be applicable for the aforesaid purposes.
It has consequently opined that the disclosures as per Schedule VI should continued to be made.
[EAC Volume XXI, Query 1.51 finalised on January 30, 2002]

Debts due from companies under same management as defined under Section 370 (IB) of the Companies Act, 1956, if any, should be disclosed.</td></tr>
</table>

Debts due from directors or other officers of the company

Observation(s)	What should one remember?
In some cases, it was observed that, while the year-end balance of debts due from directors or other officers of the company were disclosed, the maximum balance at any time during the year was not disclosed.	The requirement of Schedule VI is: *'The maximum amount due by directors or other officers of the company at any time during the year to be shown by way of a note.'*

Cash and Bank balances

Overdrafts

Observation(s)	What should one remember?
It was observed in some cases that, the bank overdrafts were disclosed as a reduction from fixed deposits or from balances with banks rather than disclosing them separately under current liabilites.	An overdraft is not ordinarily offset with the bank balance, unless there is a legal right with the company to do so. In such cases, it would be more appropriate to disclose the overdraft under current liabilities. This view has also been taken by the EAC in an opinion, where it opines that *"On the question whether the overdraft balance could be included under sundry creditors, here again if such a course is adopted under exceptional circumstances as mentioned above, it can be done with an appropriate note that the sundry creditors include book overdraft amounting to Rs........"* ***[EAC Volume I, Query 1.31 finalised on December 31, 1975]***

Loans and advances

Capital Advances

Observation(s)	What should one remember?
It was observed that capital advances were disclosed under loans and advances rather than including the same as a part of capital work in progress.	It would be appropriate to disclose capital advances as a part of capital work-in-progress to be included under Fixed Assets Schedule.

Distinction between considered good and considered doubtful

Observation(s)	What should one remember?
In some cases, it was noticed that loans and advances were not bifurcated based on whether they are considered good or considered doubtful.	Part I of Schedule VI specifies *"The above instructions regarding "Sundry Debtors" apply to "Loans and Advances" also."* Loans and advances need to be categorised into: • Loans and advances considered good and in respect of which the company is fully secured; and • Loans and advances considered good for which the company holds no security other than the other party's personal security; and • Loans and advances considered doubtful or bad less provision, if any. Also movement of provision for doubtful advances is required to be disclosed.

Dues from directors

Observation(s)	What should one remember?
It was observed that in many cases, the dues from directors were not disclosed in the loans and advances schedule, although a reference to such dues was made elsewhere in the financial statements.	Part I of Schedule VI requires disclosure of the maximum amount due by directors or other officers of the company at any time during the year to be shown by way of a note.

Current Liabilities and Provisions:

Liabilities:

General Comments: Liabilities, in general, are not covered under any specific accounting standard and are primarily governed by the disclosure requirements of Schedule VI.

Dues to micro and small enterprises

Observation(s)	What should one remember?
It has been noted in some cases, that creditors were not bifurcated into: dues towards micro and small enterprises and dues towards others.	An additional disclosure requirement has been added to Schedule VI consequent to the introduction of the Micro, Small and Medium Act, 2006. The related disclosure requirements, *inter-alia*, require bifurcation of sundry creditors into: a) Total outstanding dues of micro enterprises and small enterprises; and b) Total outstanding dues of creditors other than micro enterprises and small enterprises.

Acceptances

Observation(s)	What should one remember?
It is observed that in some cases the acceptances were included in the sundry creditors rather than disclosing the same as a separate sub-heading under liabilities.	Schedule VI includes a separate sub-head 'Acceptances' and it would not be appropriate to include amounts pertaining to acceptances in sundry creditors.

Amounts due to subsidiaries

Observation(s)	What should one remember?
Certain amounts were disclosed as being due to subsidiaries (other than loans) under related party disclosures. However, there were no separate disclosures made in the schedule for liabilities.	Schedule VI includes a separate sub-head 'Subsidiary companies' and it would not be appropriate to include such amounts in sundry creditors or any other sub-head.

Provisions

General Comments: Accounting Standard (AS) 29, *Provisions, Contingent Liabilities and Contingent Assets* covers provisions, contingent liabilities and contingent assets. Further, certain specific standards such as Accounting Standard (AS) 15, *Employee Benefits* and Accounting Standard (AS) 22, *Accounting for Taxes on Income*, prescribe the principles for areas covered in these standards.

Warranty provision

Observation(s)	What should one remember?
In certain cases, it was observed that the schedule for provisions disclosed provision towards warranty expenses, but there were no further disclosures made in the financial statements in line with the requirements of AS 29.	With respect to provisions, AS 29 requires disclosures as contained in paragraph 66 and 67 which state: ***"66. For each class of provision, an enterprise should disclose:*** ***(a) the carrying amount at the beginning and end of the period;***

(b) additional provisions made in the period, including increases to existing provisions;

(c) amounts used (i.e. incurred and charged against the provision) during the period; and

(d) unused amounts reversed during the period.

67. An enterprise should disclose the following for each class of provision:

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

(b) an indication of the uncertainties about those outflows. Where necessary to provide adequate information, an enterprise should disclose the major assumptions made concerning future events, as addressed in paragraph 41; and

(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement".

Miscellaneous Expenditure/Deferred Revenue Expenditure

General Comments: Miscellaneous Expenditure primarily refers to those expenses which are not immediately recognised in the profit and loss account, rather it is charged to the profit and loss account over a period of time. Such expenses are categorised as miscellaneous expenditure since they cannot be capitalised as an asset and nor can they be treated as a current asset.

After introduction of AS 26 and withdrawal of the Guidance Note on Treatment of Expenditure during Construction Period (in August 2008), there are very few expenses which can be treated as miscellaneous expenditure.

As stated earlier, it is pertinent to note that Schedule VI only lays down the format of the balance sheet and does not prescribe the accounting treatment of various items included therein. Accordingly, the mere fact that miscellaneous expenditure continues to be an item in the balance sheet as per Schedule VI, does not imply that the accounting for any expense will be guided by Schedule VI rather than the application of the relevant accounting standard.

Section II : Profit and Loss Account

As mentioned earlier in this document, with regard to profit and loss account, Schedule VI only prescribes the content to be included and does not prescribe any specific format. On an overall basis Schedule VI requires the profit and loss account to be made out in a manner which clearly discloses the result of the working of the company during the period and disclose all material features including credits or receipts and debits and expenses in respect of non-recurring transactions or transactions of an exceptional nature.

With respect to applicable accounting standards, while there are no specific accounting standards dealing with all the components in the profit and loss account, some of the standards relating to profit and loss account such as depreciation and borrowing costs have been covered in the relevant t [illegible] t. The standards not covered earlier and which specifically relate to certain components of profit and loss account included in this section are:

Aspects	Accounting Standards
Revenue	AS 7 – Construction Contracts and AS 9 – Revenue recognition
Employee Costs	AS 15 – Employee Benefits
Profit and loss for the period, prior period items	AS 5 – Net Profit or Loss for the period, prior period items and changes in accounting policies
Foreign currency transactions	AS 11 – The effects of changes in foreign exchange rates
Government grants	AS 12 – Accounting for Government Grants

Revenue Recognition

General Comments: Revenue is one of the extremely crucial areas which require considerable attention and is covered by Accounting Standard (AS) 7, *Construction Contracts* and Accounting Standard (AS) 9, *Revenue Recognition*, apart from the requirements of Schedule VI to the Companies Act.

Captive consumption/Inter unit sale

Observation(s)	What should one remember?
It was observed in some cases, that captive consumption of internally generated product was added to sales.	Captive consumption of any product by a company does not fall under the definition of revenue as envisaged by AS 9 which states: *'<u>Revenue</u> is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.'* Similar view has also been expressed in the Announcement on **Treatment of Inter-divisional Transfers** of the Council of the Institute published in the May 2005 edition of the Institute's Journal, i.e., 'The Chartered Accountant'.

Income disclosed net of expenses

Observation(s)	What should one remember?
It was noticed in some cases that the revenue from sale of goods was disclosed net of the related expenses. For example, in one case, sale of goods was disclosed after reducing expenses relating to ocean freight.	The definition of 'revenue' as per AS 9 as stated above refers to 'gross inflows'. Revenue should be disclosed as the gross inflows rather than reducing related expenses such as ocean freight, etc from such gross inflows.

Excise duty

Observation(s)	What should one remember?
In certain cases, it was observed that the disclosures as per requirements of AS 9 were not fully complied with. For example, • Excise duty was disclosed as an expense and not reduced from sales • No disclosure was made to explain the nature of excise duty.	Explanation to paragraph 10 of AS 9 states: ***The amount of revenue from sales transactions (turnover) should be disclosed in the following manner on the face of the statement of profit and loss:*** ***Turnover (Gross) XX*** ***Less: Excise Duty XX*** ***Turnover (Net) XX*** ***The amount of excise duty to be deducted from the turnover should be the total excise duty for the year except the excise duty related to the difference between the closing stock and opening stock. The excise duty related to the difference between the closing stock and opening stock should be recognised separately in the statement of profit and loss, with an explanatory note in the notes to accounts to explain the nature of the two amounts of excise duty.***

Service revenue – Method of accounting

Observation(s)	What should one remember?
The accounting policy in case of service revenue, in some cases, did not specify the method used for recognising revenue – proportionate completion method or completed service contract method.	AS 9 provides for accounting for service revenue by the proportionate completion method or by the completed service contract method, whichever relates the revenue to the work accomplished. [Paragraph 7 of AS 9]. In order to get an understanding of how revenue has been recognised, it would be appropriate to specify the method of revenue recognition used by the company. Example: 'Revenue from fixed price contracts is recognised as per the proportionate completion method with contract cost determining the degree of completion.'

Discounts: Accounting policy

Observation(s)	What should one remember?
It was noted that in certain cases, the accounting policy disclosed that the sales were net of discounts, without specifying the nature of discount as to whether they were cash discounts or trade discounts. For example, a policy read as under: "Gross sales are inclusive of excise duty and are net of discounts/sales returns/VAT." Where the accounting policy specifies the reduction as only 'discount', it becomes ambiguous in terms of whether it is trade	In line with Schedule VI, discount on sale is required to be disclosed separately as an expense, except in the case of trade discounts which can be reduced from gross sales. Further, the Statement on the Amendments to the Schedule VI to the Companies Act, 1956 issued by ICAI specifies: *"Following well established accounting conventions, credits relating to cash discount should be accounted for separately and should not*

discount or not and whether the accounting policy is appropriate.	*reduce the value of turnover. On the other hand, trade discount and various rebates given to a customer may, depending on circumstances, be adjusted against the value of turnover."*

Other Income

General Comments: Disclosure of other income requires careful assessment of the facts and circumstances in each individual case rather than applying generalisations. A source of income which can be considered as the main revenue generating activity for one enterprise, may only be a peripheral or ancillary source for another enterprise.

Dividend income

Observation(s)	What should one remember?
In certain instances, it was observed that while the investment schedule disclosed trade and non-trade investments separately, the aggregate dividend income was disclosed as single sub-head under the schedule for 'Other Income' without any distinction between income from trade and non-trade investments.	Part II of Schedule VI requires a separate disclosure of the amount of income from investments, distinguishing between trade and other investments. Further dividend from subsidiary also needs to be disclosed separately.

Interest income

Observation(s)	What should one remember?
In certain instances, it was observed that interest income was disclosed in aggregate as simply 'interest income' under the schedule for 'Other Income' without further description of the nature of interest income.	Part II of Schedule VI requires disclosure of the nature of interest income – *"Other income by way of interest, specifying the nature of income".* Example: 'interest on fixed deposits, interest received from customers, etc'.

Tax deducted at source

Observation(s)	What should one remember?
In some cases, it was noticed that the amount of tax deducted at source from interest income was not specified as required by Schedule VI.	Schedule VI requirement (Part II): *The amount of income-tax deducted if the gross income is stated under sub-paragraphs (a) and (b) above.* (a) and (b) refer to income from investments and interest income respectively.

Government Grants

General Comments: Governments grants are of varied nature and accordingly, there are different accounting treatments prescribed by Accounting Standard (AS) 12, *Accounting for Government Grants* based on the nature of such grants.

Accounting policy

Observation(s)	What should one remember?
In certain cases, it was noticed that the accounting policy for government grants was generic without specifying the nature of the grants leading to ambiguity in terms of appropriateness of the accounting treatment. For example, a policy read as under: "Government grants are recognised in the profit and loss account in accordance with the related scheme and in the period in which these are accrued."	The requirement of AS 12 is to account for grants based on their nature, viz., grants related to assets, grants related to revenue or grants in the nature of promoter's contribution. Accordingly, both the nature of grant as well as the consequent accounting treatment will need to be provided in the accounting policy in order to give a complete understanding.

Specific assets

Observation(s)	What should one remember?
Where grants were received for specific assets, it was observed, that no disclosures were made regarding the amount of grant received, the manner of adjustments, etc.	Paragraph 23 (ii) of AS 12 requires the disclosure of ***"the nature and extent of government grants recognised in the financial statements, including grants of non-monetary assets given at a concessional rate or free of cost"***.

Conditions to be fulfilled

Observation(s)	What should one remember?
In most cases, government grants are received by entities subject to fulfillment of certain conditions. It was observed, that while some entities disclosed the existence of such conditions, they did not disclose whether and to what extent the entity had complied with those conditions and implications thereof.	Paragraph 23 (i) of AS 12 requires disclosure of ***"the accounting policy adopted for government grants, including the methods of presentation in the financial statements".*** Where any conditions are attached to a government grant, the disclosure of such conditions is relevant in order to understand the accounting treatment of such grants.

Employee Benefits

General Comments: The requirement of Part II of Schedule VI with regard to employee benefits (other than managerial remuneration) is to disclose the expense in following heads:

(1) Salaries, wages and bonus

(2) Contribution to provident and other funds

(3) Workmen and staff welfare expenses (to the extent not adjusted from any previous provision or reserve)

The accounting standard on employee benefits, AS 15, *Employee Benefits*, prescribes extensive and detailed disclosures, particularly with respect to defined benefit plans. AS 15 is applicable to all employee benefits other than employee share-based payments, which are covered by the Guidance Note on Employee Share-Based Payments.

Actuarial gains and losses

Observation(s)	What should one remember?
In many cases, it was observed that there was no accounting policy disclosed regarding treatment of actuarial gains and losses.	Paragraph 120 (a) of AS 15 requires disclosure of accounting policy for recognising actuarial gains and losses.

Defined contribution plans

Observation(s)	What should one remember?
Where the company had defined contribution schemes in the form of provident fund or superannuation fund, it was noticed that, it did not make a separate disclosure of what was the amount recognised in this regard in the profit and loss account during the year.	Paragraph 47 of AS 15 states: ***"An enterprise should disclose the amount recognised as an expense for defined contribution plans".***

Classification between defined contribution and defined benefit plans – Provident Fund administered through Trusts

Observation(s)	What should one remember?
In a few cases, it was observed that, where provident fund was administered through a Trust set up for the purpose, entities had bifurcated a single provident fund plan into two: a) amount pertaining to contributions (employer and employee) made to provident fund as 'Defined Contribution Plan' and b) amount pertaining to interest on the above contributions as 'Defined Benefit Plan'.	With regard to classification, reference should be made to paragraphs 25 to 27 of AS 15. Where an entity sets up a Trust to administer the provident fund plan, it undertakes the actuarial and investment risk for the entire amount, i.e., the principal and the interest and not just the interest element alone. Accordingly, the plan falls under the classification of a 'defined benefit plan'. Further, the treatment of the plans administered through Trusts has been clarified in the Guidance on Implementing AS 15, (Revised 2005), issued by the Accounting Standards Board ('ASB') of the ICAI. Where a provident fund plan is administered through Trust, the classification criteria should be evaluated for the entire plan and not separately for principal and interest portions. Accordingly, if the investment and actuarial risk fall on the employer as per the terms of setting up the Trust, it should be classified and presented entirely as a defined benefit plan.

Defined benefit plans – Provident Fund administered through Trusts

Observation(s)	What should one remember?
It has been observed in a few cases that where the company had set up a Trust to manage provident fund, it classified the same correctly as a defined benefit plan. However, the measurement and disclosure requirements as applicable to defined benefit plans were not followed. Further, in such cases, the disclosures stated "*Pending the issuance of guidance note from the Actuarial Society of India, the Company's actuary has expressed an inability to reliably measure the provident fund liabilities and hence the company is unable to provide the necessary disclosures*".	There are no exemptions with regard to the requirements of the standard as applicable to provident fund trusts which are classified as defined benefit plans. The recognition, measurement and disclosure requirements of AS 15 should be followed even where the company has set up a trust to manage the provident fund benefit.

Defined benefit plans

Observation(s)	What should one remember?
In some cases, the estimates of future contribution to be made were not disclosed.	Paragraph 120 (o) of AS 15 requires the estimate of contribution to be made for next period to be disclosed.
In some cases, the category of plan assets was not disclosed.	Paragraph 120 (h) of AS 15, requires the disclosure of the category of plan assets.

Distinction between wholly unfunded plans and wholly or partly funded plans

Observation(s)	What should one remember?
In some cases, the disclosures stated that the plans for certain groups of employees were funded and other groups were unfunded. However, the analysis of defined benefit obligation was presented on an aggregate basis.	Paragraph 120 (a) of AS 15 requires an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded. Where the entity has multiple plans with some being funded and others unfunded, the disclosures should be made separately based on the funding status of the plan.

Employee share-based payments

Observation(s)	What should one remember?
It was observed in some cases that either one or a combination of the following disclosures were found to be lacking: ▪ weighted average share price for stock options exercised during the period. ▪ the range of exercise prices and weighted average remaining contractual life for outstanding stock options. ▪ effect of employee share based plans on the profit or loss for the period and on its financial position.	Disclosure requirements for employee stock option plans are specified under paragraphs 48 to 52 of the Guidance Note which need to be complied with in its entirety.

Foreign currency transactions

Monetary assets and liabilities

Observation(s)	What should one remember?
It was observed that the accounting policy in relation to foreign currency transactions stated that "current assets and current liabilities" denominated in foreign currencies as at the balance sheet date are translated at the rate of exchange prevailing at the year-end" rather than referring to "monetary assets and monetary liabilities".	The requirement of translation by AS 11 is with regard to monetary assets and liabilities and not with respect to current assets and current liabilities.

Foreign currency translation reserve

Observation(s)	What should one remember?
It was observed in some cases that, where the company had foreign currency translation reserve, it had not disclosed the movement in such reserve as required by	Apart from the requirement of Schedule VI to disclose movement in reserves, paragraph 40 (b) of AS 11 requires ***"net exchange differences accumulated in foreign***

AS 11 as well as Schedule VI.	***currency translation reserve as a separate component of shareholders' funds, and a reconciliation of the amount of such exchange differences at the beginning and end of the period"*** to be disclosed.

Prior Period Expenses, Change in Accounting Policies

Prior period expenses

Observation(s)	What should one remember?
In certain cases, where the profit and loss account included a prior period expense, it was observed that, there was no disclosure regarding the nature of expense either in the profit and loss account or in the notes to accounts.	In case of prior period expenses, as per Paragraph 15 of AS 5, *"**the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived**."*

Section III : Other Disclosures

Apart from the disclosure requirements discussed earlier, there are certain standards which deal exclusively with disclosures. These standards include:

- AS 3 - Cash Flow Statement (AS 3)
- AS 17 - Segment Reporting (AS 17)
- AS 18 - Related Party Disclosures (AS 18)
- AS 20 - Earnings Per Share (AS 20)
- AS 24 - Discontinuing Operations (AS 24)

Further, Part II of Schedule VI also requires certain disclosures other than the components which have been dealt with earlier. These include the aspects such as the following, among others:

- Managerial remuneration
- Quantitative information
- Fee paid to Auditors
- CIF Value of imports
- Earnings and expenditure in foreign currency

Additionally, the listing agreement entered into between the stock exchanges and listed companies also require certain information to be disclosed in the financial statements of the listed company.

Cash Flow Statement

General Comments: Schedule VI does not specify either the content or form of the cash flow statement. Under the accounting standards, AS 3 specifies the content and the different methods of presenting the cash flow statement.

Non-cash adjustments

Observation(s)	What should one remember?
In certain cases, it was noted that export incentives accrued were disclosed as a non-cash adjustment in arriving at the operating profit before working capital changes.	The requirement of AS 3 with regard to non-cash adjustments is as prescribed in paragraph 20, which states: "*Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:* *a) changes during the period in inventories and operating receivables and payables;* *b) non-cash items such as depreciation, provisions, deferred taxes, and unrealised foreign exchange gains and losses; and* *(c) all other items for which the cash effects are investing or financing cash flows".* In view of the above, it is clear that export incentives are cash transactions, as cash will be received in future and accordingly, it would have to be disclosed as a change in operating receivable rather than as a non-cash transaction.

Dividend distribution tax

Observation(s)	What should one remember?
In certain cases, it was observed that, there was no specific mention of dividend distribution tax although the cash flows from financing activities included dividend paid.	Dividends paid are to be disclosed as cash flows from financing activities. It follows that tax on dividend should also be disclosed along with the dividends paid.

Reporting cash flows on a net basis

Observation(s)	What should one remember?
It was observed that in several cases, proceeds and repayment of term loans, etc. were disclosed on a net basis in the cash flow statement.	AS 3 has specific conditions to be fulfilled in order to report cash flows on a net basis which have been specified in paragraph 22 as: "***Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:*** ***(a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise; and*** ***(b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short***". Unless the above conditions are fulfilled, ensure that disclosures are made on a gross basis rather than net basis.

Extraordinary Items

Observation(s)	What should one remember?
It was observed that in some cases, the profit and loss account included disclosure of an extraordinary item with a note which indicated that it would have led to cash flows. However, the cash flow statement did not include a separate disclosure of cash flows from such extraordinary item.	Paragraph 28 of AS 3 requires the disclosure of the following in order to understand nature and effect of extraordinary items on the current and future cash flows of the entity: ***"The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed."***

Segment Reporting

Segment disclosures made in consolidated financial statements

Observation(s)	What should one remember?
Where companies opted to present segment disclosures only in the consolidated financial statements, it was observed that no reference to this fact was made in the standalone financial statements.	While AS 17, paragraph 4, allows enterprises to present segment disclosures only in consolidated financial statements, it would be appropriate to disclose the fact in the standalone financial statements that the disclosures are being made, in the consolidated financial statements where both, standalone and consolidated financial statements are part of a single financial report.

Single primary and secondary segment

Observation(s)	What should one remember?
Where the entity has a single primary and secondary segment, it was observed that there was no disclosure with respect to such fact.	In certain cases, where there are no reportable segments, it would be appropriate for the entity to clearly disclose such fact in the financial statements.

Segment assets

Observation(s)	What should one remember?
It was observed that, in some cases, where the entity had secondary segment (geographical segment), the segment assets and additions to segment assets were not disclosed.	The disclosure requirement of AS 17 for a geographical segment, where it is the secondary segment requires the following disclosures as per paragraph 48 among other disclosures: *"(b) the total carrying amount of segment assets by geographical location of assets, for each geographical segment whose segment assets are 10 percent or more of the total assets of all geographical segments; and*

	(c) the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets) by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all segments."

Leases

Cancelable operating leases in the books of the lessee

Observation(s)	What should one remember?
In some cases where the company had specifically mentioned that the operating leases were cancelable leases, it was observed that, there were no further disclosures as required by AS 19.	While certain disclosure requirements under paragraph 25 of AS 19 are specifically mandated for non-cancelable leases, certain disclosures are mandated without any distinction between cancelable or non-cancelable leases, which include: *'......(c) lease payments recognised in the statement of profit and loss for the period,* *with separate amounts for minimum lease payments and contingent rents;* *(d) sub-lease payments received (or receivable) recognised in the statement of profit and loss for the period;* *(e) a general description of the lessee's significant leasing arrangements including,* *but not limited to, the following:* *......'* Accordingly, for cancelable operating leases also, disclosure of the amounts recognised in the profit and loss account and a general description of the leasing arrangements is required as per AS 19.

Earnings per share

Nominal Value of shares

Observation(s)	What should one remember?
• In several instances, it was observed that the nominal value of the shares was not disclosed along with the basic and diluted earnings per share on the face of the profit and loss account, although the same was mentioned in the relevant note on earnings per share in the notes to accounts. • In certain cases, it was observed that, the nominal value of shares was not disclosed either on the face of the profit and loss account or in the relevant note.	The requirement of paragraph 48 of AS 20 is to disclose "the nominal value of shares ***along with the earnings per share figures***." As per paragraph 8 of AS 20, the earnings per share figures are to be disclosed on the face of the profit and loss account ***"An enterprise should present basic and diluted earnings per share on the face of the statement of profit and loss for each class of equity shares that has a different right to share in the net profit for the period."*** In order to appreciate the earnings per share figure, it is also essential to know what the nominal value of the shares are, and hence it is necessary to disclose the nominal value of the share along with the basic and diluted earnings per share disclosures on the face of the profit and loss account.

Contingent liabilities

Contingent liability disclosure

Observation(s)	What should one remember?
In most cases, while companies provide the list of contingent liabilities along with the amount, some of them do not give a description of the nature of the liability – they are merely stated as 'sales related obligations' or 'claims against the company not acknowledged as debt' with no further explanation.	Paragraph 68 of AS 29, requires the disclosure of ***'a brief description of the nature of contingent liability'***. For example, the nature of contingent liability can be disclosed as Guarantees given by the Entity, Unexpired Letters of Credit.

Schedule VI disclosures

Quantitative disclosures

Observation(s)	What should one remember?
It is observed from some of the financial statements, that the company had earned revenue from trading activities apart from the manufacturing activities, but there were no quantitative disclosures regarding trading activities.	Schedule VI (Part II) requirement: "*In the case of trading companies, the purchases made and the opening and closing stocks, giving break-up in respect of each class of goods traded in by the company and indicating the quantities thereof".* Further, Schedule VI also requires: "*In the case of a company, which falls under more than one of the categories mentioned in (a), (b) and (c) above, it shall be sufficient compliance with the requirements herein if the total amounts are shown in respect of the opening and closing stocks, purchases, sales and consumption of raw material with value and quantitative break-up and the gross income from services rendered is shown."*

Quantitative disclosures not made

Observation(s)	What should one remember?
In some cases, it was observed that, quantitative disclosures were not made by the company presumably on account of exemptions granted by the relevant authorities, but such fact was not mentioned in the notes to accounts which gives an impression that the company had not complied with the requirements of Part II of Schedule VI.	As quantitative disclosures are mandated by Part II of Schedule VI, non-disclosure of the same would raise questions regarding compliance with the same. Consequently, it would be appropriate to explain reasons for non-disclosures thus making it clear to the reader of the financial statements that exemptions have been obtained in this regard.

Dividend remittance

Observation(s)	What should one remember?
In certain cases, it was observed that, the year to which the dividend pertains to has not been specified in the disclosures relating to dividend remittance.	Schedule VI (Part II) requirement: "*the amount remitted during the year in foreign currencies on account of dividends, with a specific mention of the number of non-resident shareholders, the number of shares held by them on which the dividends were due and the **year** to which the dividends related*".

Disclosures in terms of the listing agreement

Clause 32 disclosures

Observation(s)	What should one remember?
In some cases, it was observed that, although there were transactions of loans/advances or investments between the parent, subsidiary company, associates, and others as evident from the schedules to the balance sheet, there were no separate disclosure in compliance with Clause 32.	Clause 32 mandates the disclosure of amounts at the year end and the maximum amount of loans/advances/investments outstanding during the year. *Refer to Note 1 below for the details of the disclosures to be made.*

Note 1: Extracts from listing agreement

32. ..... (iv) The following disclosure requirements are prescribed for the listed companies in the annual accounts of the company.

S. No	In the accounts of	Disclosures of amounts at the year end and the maximum amount of loans/advances/investments outstanding during the year.
1.	Parent	• Loans and advances in the nature of loans to subsidiaries by name and amount. • Loans and advances in the nature of loans to associates by name and amount. • Loans and advances in the nature of loans where there is (i) no repayment schedule or repayment beyond seven years or (ii) no interest or interest below section 372A of Companies Act by name and amount. • Loans and advances in the nature of loans to firms/companies in which directors are interested by name and amount.
2.	Subsidiary	Same disclosures as applicable to the parent company in the accounts of subsidiary company.
3.	Parent	Investments by the loanee in the shares of parent company and subsidiary company, when the company has made a loan or advance in the nature of loan.

Section IV : Subsidiaries, Associates and Joint Ventures

Schedule VI has certain disclosure requirements with regard to dues to/from and certain other transactions with subsidiaries, which have been dealt with in Sections I and II. The accounting standards relevant in this regard are:

- AS 21 - Consolidated Financial Statements (AS 21)
- AS 23 - Accounting for Investments in Associates in Consolidated Financial Statements (AS 23)
- AS 27 - Financial Reporting of Interests in Joint Ventures (AS 27)

It needs to be noted that while AS 21 and AS 23 do not include any disclosures to be made in the standalone financial statements, AS 27 does have accounting as well as disclosure requirements which are required to be included in the standalone financial statements of the reporting entity.

Some of the general observations regarding consolidated financial statements are:

- Disclosure of selective accounting policies – Some companies do not include all the material and significant accounting policies disclosed in the standalone financial statements in the consolidated financial statements. While AS 21 exempts the additional disclosures of statutory information, it does not exempt disclosure of accounting policies which are required to be disclosed as per Accounting Standard (AS) 1, *Disclosure of Accounting Policies.* Accordingly, it is not appropriate to remove all the accounting policies disclosed in standalone financial statements from the consolidated financial statements.
- Also, the exemption as stated above, is limited only to disclosures required by statutes and not extended to accounting standards and accordingly all disclosures required by applicable accounting standards will need to be complied with.
- Certain accounting policies may be applicable in case of subsidiaries on account of transactions not present in the holding company. It needs to be ensured that such accounting policies are included in the consolidated financial statements.

Subsidiaries

Goodwill

Observation(s)	What should one remember?
In certain cases, it was observed that the accounting policy was disclosed as: "Goodwill arising on consolidation is charged to profit and loss account", which is not in compliance with the requirements of AS 21.	The requirement with respect to goodwill as specified in paragraph 13 (b) of AS 21 is ***"any excess of the cost to the parent of its investment in a subsidiary over the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, should be described as goodwill to be recognised as an asset in the consolidated financial statements"***.

Discontinued Operations

Observation(s)	What should one remember?
Where a 100% subsidiary had discontinued operations, the disclosures required on the face of the profit and loss account were not made, despite a detailed note in the notes to accounts.	Except for transactions between the holding and subsidiary companies, there should not be any other eliminations (refer paragraph 13 of AS 21) and all disclosures made by the subsidiary would also need to be made in the consolidated financial statements except on the grounds of materiality.

Associates

Goodwill/Capital Reserve

Observation(s)	What should one remember?
While the accounting policy had disclosed that the goodwill/capital reserve arising on acquisition of an associate is adjusted in the carrying amount of the investment, there was no separate disclosure of the amount of goodwill/capital reserve.	Paragraph 12 of AS 23 states, ***"Goodwill/ capital reserve arising on the acquisition of an associate by an investor should be included in the carrying amount of investment in the associate but should be disclosed separately".***

	Non-disclosure of goodwill/capital reserve separately does not convey the status of the investment appropriately.

Joint Ventures

Jointly Controlled Entities: Disclosures in separate financial statements

Observation(s)	What should one remember?
In most cases, it was observed that while detailed disclosures were given in the consolidated financial statements with regard to jointly controlled entities, such disclosure were not made in the standalone financial statements.	It needs to be noted that as per paragraph 49 of AS 27, a venturer should disclose the information required by paragraphs 50, 51 and 52 in both the standalone and consolidated financial statements.
In disclosing the information as per paragraph 52 of AS 27, in a number of cases, it was observed that, the country of incorporation or residence was not disclosed.	Paragraph 52 states ***"A venturer should disclose a list of all joint ventures and description of interests in significant joint ventures. In respect of jointly controlled entities, the venturer should also disclose the proportion of ownership interest, name and country of incorporation or residence".***

Jointly Controlled Entities: Proportionate Consolidation in consolidated financial statements

Observation(s)	What should one remember?
Separate financial statements included disclosure of investments in joint venture entities. However, in the consolidated financial statements, there was no reference either in the accounting policy relating to consolidation procedures or disclosures as share of joint ventures in the respective account heads in the balance sheet and profit and loss account.	Paragraph 28 of AS 27 requires a venturer to report its interest in jointly controlled entity using proportionate consolidation with only two specific exemptions. Consequently, where the investment in the jointly controlled entity does not satisfy the two conditions, it should be accounted for on proportionate consolidation basis.
In a few instances, it was noted that while the fact that a jointly controlled entity existed was disclosed, there was no separate disclosure regarding the share of assets, liabilities, expenses and income of the joint venture as required to be done by AS 27.	Paragraph 32 of AS 27, specifically requires the share in joint venture to be disclosed separately with each line item: *'Under proportionate consolidation, the venturer includes separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its consolidated financial statements. For example, it shows its share of the inventory of the jointly controlled entity separately as part of the inventory of the consolidated group; it shows its share of the fixed assets of the jointly controlled entity separately as part of the same items of the consolidated group.'*