SUPPLEMENTARY

Paper-17

CORPORATE FINANCIAL REPORTING

(Syllabus - 2016)

Applicable for June 2022 Term of Examination

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)
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Study Note - 1

ACCOUNTING STANDARDS

This Study Note includes

1.1 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN INDIA **(Amendments)**

QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS AS PER IFRS CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING 2018:

The qualitative characteristics of useful financial reporting identify the types of information are likely to be most useful to users in making decisions about the reporting entity on the basis of information in its financial report.

Financial information is useful when it is relevant and represents faithfully what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

- **The fundamental qualitative characteristics are relevance and faithful representation.**

- **Relevance:** Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both. **(Predictive value** helps users in **predicting** or anticipating future outcomes. **Confirmatory value** enables users to check and confirm earlier predictions or evaluations).

  Materiality is an entity-specific aspect of relevance based on the nature or magnitude (or both) of the items to which the information relates in the context of an individual entity's financial report.

- **Faithful representation:** It would be **complete, neutral and free from error**. A neutral depiction is supported by the exercise of prudence. **Prudence** is the exercise of caution when making judgements under conditions of uncertainty.

- **Enhancing Qualitative Characteristics: Comparability, verifiability, timeliness and understandability** are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented.

- **Comparability:** Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.

- **Verifiability:** Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

- **Understandability:** Classifying, characterising and presenting information clearly and concisely makes it understandable. While some phenomena are inherently complex and cannot be made easy to understand, to exclude such information would make financial reports incomplete and potentially misleading. Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information with diligence.

  Applying the enhancing qualitative characteristics: Enhancing qualitative characteristics should be maximised to the extent necessary. However, enhancing qualitative characteristics (either individually or collectively) cannot render information useful if that information is irrelevant or not represented faithfully.

1.2 OVERVIEW OF ACCOUNTING STANDARDS (Amendments)

Applicability of Accounting Standards:

The Companies (Indian Accounting Standards) Rules, 2015 (and subsequent amendments to the Rules) made Ind AS applicable to the specified entities, leaving AS [as per the Companies (Accounting Standards) Rules, 2021 (replacing the Companies (Accounting Standards) Rules, 2006)] applicable to other entities.

Accounting Standards. - (1) The Central Government hereby specifies Accounting Standards 1 to 5, 7 and 9 to 29 as recommended by the Institute of Chartered Accountants of India, which are specified in the Annexure to these rules. (2) The Accounting Standards shall come into effect in respect of accounting periods commencing on or after the 1st day of April, 2021.

Obligation to comply with Accounting Standards. - (1) Every company, other than companies on which Indian Accounting Standards as notified under Companies (Indian Accounting Standards) Rules, 2015 are applicable, and its auditor(s) shall comply with the Accounting Standards in the manner specified in the Annexure. (2) The Accounting Standards shall be applied in the preparation of Financial Statements.

As notified by the Central Government in consultation with the National Advisory Committee on Accounting Standards, the Central Government issued the 'Criteria for Classification of Entities and Applicability of Accounting Standards' **for the companies**. The Government classified the companies into two levels: Small and Medium-sized Companies (SMCs) as defined in the Companies (Accounting Standards) Rules, 2021 and companies other than SMCs (Non-SMCs). Non-SMCs are required to comply with all the Accounting Standards in their entirety, while exemptions/relaxations have been granted to SMCs.

Under the new Companies (Accounting Standards) Rules, 2021, a Small and Medium-Sized Company (SMC) is defined as follows:

An SMC is a company:

1. Whose equity/debt securities aren't listed or not in the process of being listed on any stock market in India or abroad,
2. Which is neither a bank, a financial institution, nor an insurance firm,
3. Whose turnover (excluding other income) in the previous accounting year was not more than 250 crore rupees,
4. Which does not have any loans/borrowings (including public deposits) in excess of 50 crore rupees at any point during the previous accounting year, and
5. Which is not a holding company or a subsidiary of a company that is not a small or medium-sized company.

According to law, a company qualifies as a Small and Medium-Sized Company if all of the conditions listed above are met at the end of the relevant accounting period.

Exemption or relaxation to SMCs

There are many exemptions available to small & medium-sized companies that are not available to other companies.

Accounting Standard – 3 'Cash flow statement' and Accounting Standard – 17 'Segment reporting' are not applicable to SMCs. SMCs are exempt from them. However, the exemption of Accounting Standard 3 will apply only to companies with a paid-up capital of up to Rs. 50 lacs and a turnover of up to Rs. 2 crores. Beyond these limits, Section 2(40) of the Companies Act 2013 requires the preparation of a cash flow statement.

SMCs are also given some relaxation from detailed disclosures that are required to be made by the Accounting Standard 15 – 'Employee Benefits'. Further, they are also granted certain relaxations from detailed disclosures with regards to an operating lease as well as a finance lease.

In addition, the disclosure of diluted earnings per share (DPS) is not needed for SMCs. If all options to convert other securities into shares are executed, diluted earnings per share reflect a company's earnings per share.

SMCs can also give an estimated value in the use of assets on their balance sheets, and they aren't obligated to employ present value procedures to do so. The present value of future cash flow flowing from the continuous use of an asset & its disposal at the end of its useful life is referred to as the asset's value in use. Larger enterprises, on the other hand, must utilize present value approaches and disclose the discount rates used to calculate an asset's worth in use.

Management estimates might be used instead of present value methodologies for the purposes of impairment provision. In many circumstances, this will also save money on the services of an expert or a valuer.

[Note: For Non-company entities (Enterprises) the Council of the ICAI considered applicability of Accounting Standards by classifying them into four categories. Level I entities are large size entities, which are required to comply in full with all the Accounting Standards. Level II entities are medium size, Level III small size and Level IV are micro entities, [referred to as Micro, Small and Medium size entities (MSMEs), for which certain relaxations/ exemptions have been granted.]

1.4 APPLICABILITY OF INDIAN ACCOUNTING STANDARDS

(Matters added for more clarity)

Ind AS has become applicable in following phases

Companies (Indian Accounting Standards) Rules, 2015 notified Indian Accounting Standards (Ind-AS) on 16th February, 2015. The Rules 2015 shall come into force from 1st day of April, 2015. Ind-ASs are in the process of being implemented in phases.

Application of Ind ASs has been implemented for the companies as categorised in groups A, B and is in the process of being implemented for the companies as categorised in groups C and D.

A. For Companies other than banks, NBFC, and Insurance companies:

Phase I voluntarily – accounting periods beginning on or after 1st April, 2015

– Voluntary Basis for all companies (with comparatives)

Phase II mandatorily – accounting periods beginning on or after 1st April, 2016

1. Companies listed/in process of listing on Stock Exchange in India or outside India having net worth greater than or equal to INR 5 Billion.
2. Unlisted companies having net worth greater than or equal to INR 5 Billion.
3. Parent, Subsidiary, Associate and Joint Venture of above

Phase III mandatorily – accounting periods beginning on or after 1st April, 2017

1. All Companies which are listed/or in process of listing inside or outside India on Stock Exchanges (other than companies listed on SME Exchanges).
2. Unlisted companies having net worth between INR 2.5 Billion and INR 5 billion.
3. Parent, Subsidiary, Associate, and Joint Venture of above

Note 1: Companies listed on SME Exchanges not required to apply IND AS

Note 2: Once IND AS are applied voluntarily, an entity should be required to follow IND AS for all the subsequent financial statements mandatorily.

B. For Non-Banking Financial Companies (NBFC)

PHASE-I: From 1st April,2018 (with comparatives)

1. NBFC (whether listed or unlisted) having net worth 500 crores or more
2. Holding, Subsidiary, JV and Associate companies of above NBFC other than those already covered above corporate roadmap shall also apply from said date.

PHASE-II: From 1st April,2019 (with comparatives)

1. NBFC whose equity and/or debt securities are listed or are in process of listing on any stock exchange in India or outside India and having net worth less than 500 crores.
2. NBFC that are unlisted having net worth between 250 crores and 500 crores
3. Holding, Subsidiary, JV and Associate companies of above NBFC other than those already covered above corporate roadmap shall also apply from said date.

Note 3. Applicable for both Consolidated and Individual Financial Statements.

Note 4. Unlisted NBFC having net worth below 250 crores shall not apply IND AS.

Note 5. Adoption of IND AS is allowed only when required as per roadmap.

Note 6. Voluntary Adoption of IND AS is not allowed.

C. For Scheduled Commercial Banks (excluding RRBs) and Insurers/Insurance companies Ind AS application has not yet been implemented.

The Banking Companies and Insurance Companies shall apply the Ind ASs as notified by the Reserve Bank of India (RBI) and Insurance Regulatory Development Authority (IRDA) respectively.

RBI through its notification dated March 22, 2019 has deferred the implementation of Ind AS to all scheduled commercial banks till further notice.

The Insurance Regulatory and Development Authority (IRDA) has deferred the date of implementation of Indian Accounting Standard (Ind-AS) for the insurance sector from FY20-21 till further notice.

D. Companies not covered by the above shall continue to apply existing Accounting standards notified in Companies (Accounting Standards) Rules, 2006.

The applicability of Ind AS is summarised below in tabular form.

Mandatory application of Ind AS

Types of Companies/ entities	Threshold Limit of Net worth (INR)	Applicable from	Ind AS applicability on 01/04/21
Listed Companies/ Companies in process of Listing in India or outside India or Parent, Subsidiary, Associate, and Joint Venture of above	500 Cr or more	01/04/2016	Applicable
	< 500 Cr	01/04/2017	Applicable
Unlisted Companies/ Pvt. Ltd. Companies	=> 500 Cr	01/04/2016	Applicable
	250 and 500 Cr	01/04/2017	Applicable
	< 250 Cr		Not Applicable

Companies listed in SME			Not Applicable
NBFC – Listed	>= 500 Cr	01/04/2018	Applicable
	< 500 Cr	01/04/2019	Applicable
NBFC – Unlisted	>= 500 Cr	01/04/2018	Applicable
	250 and 500 Cr	01/04/2019	Applicable
	< 250 Cr		Not Applicable
Banks.			Not Applicable (Implementation deferred)
Insurance co			Not Applicable (Implementation deferred)
Urban Cooperative Bank			Not Applicable
Rural Regional Bank			Not Applicable

As on 01-04-2021 MCA has notified 42 Ind ASs out of which 3 were omitted leaving 39 in application at present.

The full list is presented below:

Ind AS 101	First-time adoption of Ind AS
Ind AS 102	Share Based payments
Ind AS 103	Business Combination
Ind AS 104	Insurance Contracts
Ind AS 105	Non-Current Assets Held for Sale and Discontinued Operations
Ind AS 106	Exploration for and Evaluation of Mineral Resources
Ind AS 107	Financial Instruments: Disclosures
Ind AS 108	Operating Segments
Ind AS 109	Financial Instruments
Ind AS 110	Consolidated Financial Statements
Ind AS 111	Joint Arrangements
Ind AS 112	Disclosure of Interests in Other Entities
Ind AS 113	Fair Value Measurement
Ind AS 114	Regulatory Deferral Accounts
Ind AS 115	Revenue from Contracts with Customers (Ind AS 11 and Ind AS 18 replaced)
Ind AS 116	Leases (Ind AS 18 replaced)
Ind AS 1	Presentation of Financial Statements
Ind AS 2	Inventories Accounting
Ind AS 7	Statement of Cash Flows
Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors
Ind AS 10	Events after Reporting Period
Ind AS 12	Income Taxes
Ind AS 16	Property, Plant and Equipment
Ind AS 19	Employee Benefits

Ind AS 20	Accounting for Government Grants and Disclosure of Government Assistance
Ind AS 21	The Effects of Changes in Foreign Exchange Rates
Ind AS 23	Borrowing Costs
Ind AS 24	Related Party Disclosures
Ind AS 27	Separate Financial Statements
Ind AS 28	Investments in Associates and Joint Ventures
Ind AS 29	Financial Reporting in Hyperinflationary Economies
Ind AS 32	Financial Instruments: Presentation
Ind AS 33	Earnings per Share
Ind AS 34	Interim Financial Reporting
Ind AS 36	Impairment of Assets
Ind AS 37	Provisions, Contingent Liabilities and Contingent Assets
Ind AS 38	Intangible Assets
Ind AS 40	Investment Property
Ind AS 41	Agriculture

Study Note - 5

VALUATION, ACCOUNTING AND REPORTING OF FINANCIAL INSTRUMENTS AND OTHERS

This Study Note includes

5.1 GOODS AND SERVICES TAX (GST) ACCOUNTING

(Matters added for updation and more clarity)

GST: Input Tax Credit adjustment against Output Tax liability

1. **To pay IGST** – First IGST credit will be used followed by CGST or SGST as per the taxpayer's preference.
2. **For paying CGST –** Starting from CGST credit and then IGST credit will be used
3. **To pay SGST** – First SGST credit and the IGST credit will be used