

# Compliance with Financial Reporting requirements in the context of Accounting Standards (AS)

Organised by Financial Reporting Review Board of ICAI

Hosted by Jamnagar branch of WIRC of ICAI

12<sup>th</sup> November 2016

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# AS-1 Disclosures of Accounting policies

## □ Basis of Preparation

- ▶ “The accounts are prepared on the basis of going concern under historical cost convention as also accrual basis and **in accordance with the Accounting Standards notified by ICAI.**”
- ▶ Reference to be given of -
  - Companies Act, 2013
  - Companies (Accounts) Rules, 2014
  - Indian GAAP
  - Accounting Standards

# AS-1 Disclosures of Accounting policies

▶ **Omit to disclose policies such as:**

- ❑ Borrowing costs
- ❑ Valuation of inventories
- ❑ Accounting for investments made in units and bonds
- ❑ impairment of assets
- ❑ Provisions, Contingent liability and Contingent assets

▶ **Disclosure for change in accounting policy:**

- ❑ Not appropriately disclosed with quantitative impact

▶ **Contingent Liabilities:**

- ❑ Disclosed under various notes instead under one place

# AS-2 Valuation of Inventories...

▶ Method of valuation:

- ❖ “Stores, Spares and Packing Materials; Raw Materials and Components and Finished Goods-in-transit have been valued at **cost**.”
- ❖ Finished goods have been valued at **cost or market value**, whichever is lower.”
- ▶ Raw materials, packing materials, stores and spares, furnace oil and fuel are valued at cost or net realisable value, whichever is lower; items are considered to be realisable at cost, if the finished products, in which they will be used, are expected to be sold at or above cost.”

# ....AS-2 Valuation of Inventories

## ▶ Cost Formula

- ❖ “The cost formula used is either FIFO or ~~Specific Identification Method~~, as applicable.”
- ❖ “Raw materials, store and spares and work-in-progress are valued at the lower of **cost and the net realisable value.**”
- ❖ No cost formula was mentioned
- ❖ “Cost comprises basic cost (net of CENVAT and VAT, if any) and other costs incurred in bringing them to their respective present location and condition. Cost is determined on a Weighted Average basis.

# ....AS-2 Valuation of Inventories

- ▶ Provision for Excise Duty and Components of cost...
- ❖ “Excise duty on the finished goods lying in factory premises and not cleared from excise bonded warehouse **has not been provided** and hence **not included** in inventory valuation. However, there is no effect on profit or loss for the year on the account of above treatment of excise duty.”
- ❖ Excise duty on finished goods awaiting clearance should be considered as **component** of cost which is **not disclosed clearly**
  - ✓ Cost includes all direct costs and a proportion of other fixed manufacturing overheads based on normal operating capacity. Excise duty on finished goods awaiting clearance has been provided for and included in cost thereof. Cost is determined on a Weighted Average basis.

# ....AS-2 Valuation of Inventories

## ▶ **Provision for Excise Duty and Components of cost**

- **MODVAT credit receivables** and **Excise duty** on finished goods are shown as separate sub-heads under "Inventories"

- ✓ MODVAT/CENVAT credit receivable (inputs) should be shown under the head of "advances" on asset side

- ✓ Excise duty is a manufacturing expense. To be considered as an element of cost for inventory valuation

# ....AS-2 Valuation of Inventories

## ▶ Valuation of stock transfer at transfer price

- ❖ “Stock of materials sold by one unit to other is ~~valued at transfer price~~ works/ factory costs of the transferor unit/ division, plus transport and other charges.”

## ▶ Others disclosures

- ❖ Use of words “as taken, valued and certified by the management” in the Note of inventories should be avoided



# AS-3 Cash Flow Statements...

## Disclosure...

- ▶ Shown as cash flows from :

### Financing activities

- ▶ **Interest received** – ✓ Investing Activity
- ▶ **Fixed deposits with banks** - ✓ Investing Activity
- ▶ **Net proceeds from borrowings** - ✓ Investing Activity

### Investing activities

- ▶ **Increase in share capital** – ✓ Financing Activity

### Operating activities

- ▶ **Interest paid** - ✓ Financing Activity
- ▶ **Foreign exchange variations shown as an extraordinary item** – ✓ Operating/  
Financing Activity depending on the facts of each case

# ...AS-3 Cash Flow Statements

## ► Disclosure...

- ❖ Movement in borrowings, Purchase or Sale of Investments/Fixed Assets and Advances given to Subsidiaries disclosed on a **net basis**
- ✓ **Separate disclosure** should have been made reflecting both under the '**investing activities**' / '**Financing activities**'
- ❖ Cash and Cash Equivalents include **deposits** with maturity over **twelve months**
- ✓ Deposits, if **more than three months** cannot be considered as a cash equivalent

# ...AS-3 Cash Flow Statements

## ▶ Disclosures

❖ Dividend paid is shown as a “Cash Flow from Financing Activities” whereas **corporate dividend tax** paid is disclosed under **“Cash Flow from Operating Activities”**

✓ Corporate dividend tax is also to be disclosed as “Cash Flow from Financing Activities”

# AS 4: Contingencies and events occurring after the balance sheet date...

## Observations/ Suggestions...

### ► In Significant Accounting Policies

- ❖ “It is the Company’s Policy to take into account the impact of any significant event that occurs after Balance Sheet date but before the ~~finalisation of accounts~~ date of approval of the financial statements by the Directors.”
- ❖ “Discounts, claims, and rebates payable are accounted **as and when settled.**”
- ❖ “Liability in respect of warranty cost is reckoned in the year in which the **liability is incurred.**”
- ✓ Liability of warranty cost arises on sale of products, hence, **provision should be made at the time of sale**

# ....AS 4: Contingencies and events occurring after the balance sheet date

## Observations/ Suggestions

- ▶ In Additional Notes
- ❖ No provision in respect of claim liability of the company for the year ended 31.03.20XX has been made as the company has decided to charge the payment only when the liability is finally ~~settled and paid~~ incurred.”
- ❖ **Disputed Taxes** (though paid) or claim which is not yet settled - not disclosed as **Contingent Liabilities**

# AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies...

## Observations/ Suggestions...

### ▶ Prior Period Items/ Change in Estimate...

**Change of estimate is not :**

➤ Prior period item

➤ Extraordinary item

### ▶ “Prior period expenses and income are **included in respective heads** of expenses and income in the Statement of Profit and Loss.”

✓ Nature and amount of prior period items to be disclosed separately to ascertain their impact on the Statement of Profit and Loss

# ...AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

## Observations/ Suggestions...

- ▶ Prior Period Items/ Change in Estimate...
- ❖ **Change in Accounting Policy** related to amortisation of goodwill on consolidation where:
  - Goodwill will not be amortised
  - Reversal of accumulated amount of Goodwill
- ❖ Amount involved was significant – **not considered as exceptional**

# ...AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

## Observations/ Suggestions...

...Prior Period Items/ Change in Estimate

- ▶ Adjustments related to previous period but determined in current period, e.g. **wage settlement arrears**, treated as **prior period items**
  
- ▶ Exceptional/ Extraordinary Items...
  
- ❖ **Reversal of provision** made in earlier years treated as an Extraordinary Item for :
  - Investment** in shares
- ✓ Nature of the exceptional/ extraordinary items should have been explained



# ...AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

## Observations/ Suggestions

- ▶ ...Exceptional/ Extraordinary Items
- ❖ “Superintendent Central Excise Range, X vide letter No..... dated ..... raised a demand on the company for Rs. .... for **service tax** in respect of goods transportation and commissioning on clearing and forwarding for the period 16/11/20XX to 02/06/ 20XX. The company has paid the same and shown as an **extra ordinary expenditure** in the current year.”
- ✓The above being an ordinary business, service tax paid should be treated as an ordinary activity
- ▶ Nature of expenses not explained for ‘Unamortised Miscellaneous Expense written-off’ and ‘Unamortised Expenses’

# AS 6: Depreciation Accounting...

## Observations/Suggestions...

- **No depreciation/amortisation** charged on :
  - ❖ Leasehold Land
  - ❖ Right of Use [ROU]
  - ❖ Plant & Machinery for shut down period

# ...AS 6: Depreciation Accounting

## ▶ **Disclosure under the Companies Act, 2013**

- ❖ “Depreciation on tangible Fixed Assets (other than those indicated below) is provided on the straight line method over the useful lives and residual values of assets as prescribed under Part C of Schedule II of Companies Act, 2013. Depreciation for assets purchased/sold during the period is proportionately charged.
- ❖ Depreciation on Plant and Machinery other than those not specifically covered under the classification 'ABC' is provided on the straight line method over the useful lives of X years as determined by the internal technical evaluation. The Management believes that the useful lives as determined best represent the period over which it expects to use these assets which is the same as the useful life of the Special Plant and Machinery. Hence, the useful lives for such Plant and Machinery is different from the useful lives as prescribed under Part C of Schedule II of Companies Act, 2013.”

# AS 7: Construction Contracts (Revised 2002)...

## Observations...

- ▶ “Revenue has been recognised based on bills raised and cost has been accounted, **as and when incurred**”
  - ▶ ✓Para 21 - Recognise revenue and costs based on the stage of completion as on the reporting date i.e. based on completion
  - ▶ **No disclosure was made** regarding construction income either in the notes or in the accounting policies
- ✓Disclosures to be made as per Paras 38 and 39
- ▶ “Revenue from constructed properties has been recognised on the ~~‘proportionate completion method’~~ **percentage of completion method**

# As 9: Revenue Recognition...

## Observations/Suggestions...

❖ Export Incentives and exchange fluctuations

“.....Revenue from sale of products is **inclusive** of excise duty and **export incentives.**”

✓Export incentives is not a consideration arising from sale of goods; hence they should be disclosed as a separate line item

▪“Sales revenue is recognised when property in the goods with all significant risks and rewards associated with the ownership are transferred to the buyer, at a price and **includes exchange fluctuation** in case of an export.”

✓Exchange fluctuation is not a cash inflow; hence, it does fall within the scope of the definition and should be excluded

# ...As 9: Revenue Recognition

## ... Observations/Suggestions ...

- ▶ Point of Recognition
- ❖ “Revenue is recognised when **no significant uncertainty** transfer of **significant risks and rewards** as to determination and realisation exists.”
- ▶ Dividend...
- ❖ “Long-term Investments are stated at cost. Dividends are accounted for ~~as and when received~~ when right to receive payment is established”

# ...As 9: Revenue Recognition

- ▶ Inter-divisional transfers/ Captive Consumption
  - ❖ Recognising them as sales is not in line with AS 9
- ▶ Commission, cash discounts and rebates
  - ❖ "... revenue from **sale** is recognised **net of** incentive on sales from commission, rebates and discounts."
  - ✓The above items should be considered as expenses instead of deducting it from the sales
  - ✓Discount – specify whether it is trade or cash discount

# As 10: Accounting for Fixed Assets...

## Observations/Suggestions...

### ▶ Revaluation

- ❖ An amount from **Revaluation Reserve** was **transferred** to **Other Income** in the Profit and Loss Account
  - ✓ Transferred amount – to be shown separately
  - ❖ An amount was **added** on account of revaluation of assets in **total amount** of assets
  - ✓ Value of individual assets should also be revised

### ▶ Classification...

- ❖ **Income tax and wealth tax paid** were treated as **pre- operative expenses**
  - ✓ ~~Income tax and wealth tax~~ arises only after the commercial production commences, hence treating it as pre-operative is incorrect



# ...As 10: Accounting for Fixed Assets

## ... Observations/Suggestions ...

### ▶ Classification...

- ❖ Classification of fixed assets – often ‘Intangible assets’ not shown separately

#### ✓ Disclosure : Intangible Assets

- Internally Generated
- Others

### ▶ Capitalisation...

- ❖ Assets not owned recognised as fixed assets e.g. capitalisation of development of road on land not owned by the company and depreciation provided on the same

# ...As 10: Accounting for Fixed Assets

## ... Observations/Suggestions ...

### ▶ ...Capitalisation...

- ❖ “Major **revenue expenditure** incurred by way of/ in connection with planned **replacement of worn out parts** of plant and equipments is **amortised** over the estimated period, the benefit from such expenditure is expected to endure.”
- ✓ Revenue expenditure – should not be capitalised
- ❖ “Leasehold land represents amount paid to State Industrial Development Corporation for land **to be purchased** on 95 years lease, for which compliance with **certain** conditions as mentioned in the license agreement and registration is pending as on date.”
- ✓ Land to be treated as an asset only on purchasing/ possessing it

# ...As 10: Accounting for Fixed Assets

## ... Observations/Suggestions

### ▶ ...Capitalisation

- ❖ “Fixed assets are stated at cost net of cenvat/ VAT and include amount added on revaluation less accumulated depreciation and impairment loss, if any. All cost is inclusive of freight, duties (net of tax credits as applicable”) levies and any directly attributable cost till ~~commencement of commercial production~~ date the asset is ready for its intended use.”

# AS 11: The Effects of Changes in Foreign Exchange Rates

## Observations/ Suggestions...

### ▶ Initial Recognition

- ❖ “.....Current foreign currency transactions are recorded at the exchange rates prevailing ~~on the date of settlement~~ at the date of the transaction.....”
- ❖ “Foreign currency assets and liabilities are converted at the rate prevailing on the last day of the accounting year and transactions completed during the year are accounted for at the ~~then ruling rate~~ date of the transaction.”

# AS 12: Accounting for Government Grants

## Observations/ Suggestions

- ▶ Subsidy on fertilisers is ~~clubbed with sales~~ shown under 'Other Income' or deducted from the related expenses in the Statement of Profit and Loss
- ▶ Assets received free of cost from the Government **valued at cost** to the Government
  - ✓To be valued at nominal value

# AS 13: Accounting for Investments...

## Observations/ Suggestions...

### ▶ Diminution

- ❖ "Current investments are valued at the lower of cost and fair value and Long-term investments are valued at cost. Provision is made for any **permanent diminution other than temporary in the value of investments.**"

### ▶ Classification...

- ❖ Only **one figure** was reported under the head '**Other Income**' instead of bifurcating into dividend and interest income

✓Dividend and interest income – Show them as separate line items

# ...AS 13: Accounting for Investments

## ...Observations/ Suggestions...

### ▶ Classification

- ❖ “Investments are stated at the cost of acquisition. Provisions for diminution in the value of Investments are made only if such decline is other than temporary, in the opinion of the management.”
- ✓ Bifurcation between current and long term investments should be made
- ▶ Cost was considered at ~~FIFO~~ Weighted Average Amount
- ▶ Investment in shares in wholly owned subsidiary was shown as NIL since amount due against it was unpaid as on the reporting date which was adjusted against the cost of shares
  - ✓ Investment should appear at cost in the FS and the liability against it should be accounted for separately

# AS 14: Accounting for Amalgamations...

## Observations/ Suggestions...

- ▶ Amalgamation on the basis of Court approved schemes which include accounting treatment in deviation from various Accounting Standards including AS 14
- ▶ **No disclosures** made :
  - ❖ Effective date of amalgamation
  - ❖ Method of accounting used



# AS 15: Employee Benefits (revised 2005)..

## Observations/ Suggestions...

- ▶ **Non Disclosure** of details:
  - ❖ Experience adjustments
  - ❖ Plan assets
  - ❖ Expected contribution for the next year
- ▶ “Provision towards liability for gratuity is made on the basis of actuarial valuation and is charged to revenue. Liabilities in respect of gratuity of employees is ascertained on the basis of actuarial valuation and paid to the gratuity fund.”
  - ✓ Detailed disclosure to be made as per Para 120

# ...AS 15: Employee Benefits (revised 2005)

## ...Observations/ Suggestions...

- ▶ Termination Benefits...
- ❖ Expense under **voluntary retirement scheme** is being **written off** over a period of 5 years
  - ✓ Termination benefits to be immediately expensed out
- ❖ Contributions to Provident Funds set up and managed through **Trusts** established by employers **not being classified** as **defined benefit obligation**
  - ✓ Para 5 – Trust to be considered as defined benefit obligation

# ...AS 15: Employee Benefits (revised 2005)

## ...Observations/ Suggestions...

- ▶ ...Termination Benefits
  - ❖ "Contributions to the Government Provident Fund and ESI are charged to revenue. Since the company **does not have any defined retirement benefit scheme** in this regard, AS 15 issued by ICAI is **not considered applicable.**"
    - ✓At least, a provision for gratuity should be made in case of employees who are in service
- ▶ Valuation...
  - ❖ "**Provision** for gratuity has been made on the basis of actuarial valuation in the accounts in respect of employees who have **completed qualifying period of service.**"
    - ✓At least, a provision for gratuity should be made in case of employees who are in service

# ...AS 15: Employee Benefits (revised 2005)

## ...Observations/ Suggestions...

### ▶ ...Valuation

- ❖ “The liability in respect of Leave Encashment on retirement and Post Retirement Medical Benefits is based on the ~~internal calculation~~ Projected Unit Credit Method ~~of the management~~.”
- ❖ “Leave encashment benefit is accounted for on a **cash basis**.”
- ❖ Gratuity fund is administered through the scheme of insurance companies and the **contribution** to the above fund is **charged against revenue**.”

✓Charge to revenue should be based on actuarial valuation and not on the basis of premium paid to the insurance companies

# AS 16: Borrowing Costs...

## Observations/ Suggestions...

### ► Disclosure

- ❖ “Fixed Assets are stated at cost less accumulated depreciation. All expenses incidental to the purchase/ construction/ installation and commissioning including financial charges are added to the cost of fixed assets.”
- ❖ The **above is disclosed** in accounting **policy for Fixed Assets** but **no separate policy is disclosed for borrowing costs**
- ❖ Under accounting policy, the capitalization of borrowing costs is referred to but **the amount capitalised is not disclosed**

# ...AS 16: Borrowing Costs

## ... Observations/ Suggestions ...

### ▶ Inventories

- ❖ “**Finished goods** are valued at the lower of cost or net realisable value; costs **include** depreciation, **interest** (excluding interest on discounting of bills) and direct expenses to the point of stocking, excise duty but excludes administration and selling expenses.”

✓ Inventory should not include borrowing costs unless it takes substantial time to get ready for sale

### ▶ Incorrect capitalisation

- ❖ **Capitalising** interest cost for an **asset** which was **neither purchased nor possessed**. From the minutes, it was found that the asset was supposed to be sold

# ...AS 16: Borrowing Costs

## ... Observations/ Suggestions...

### ▶ Restructuring Charges/ Liabilities

❖ “Restructuring charges which had been paid to extinguish high cost debts were **written-off** over the tenure of fresh loans taken for refinancing such high cost debts.”

✓The above charges do not fall within the definition, hence it should have been expensed out whenever they were incurred

❖ **Restructured liabilities** are **adjusted** against company’s **general reserves**

✓Liabilities on restructuring are additional restructuring borrowing expenses which should be expensed

# ...AS 16: Borrowing Costs

## ... Observations/ Suggestions

### ▶ Prepayment

- ❖ “Premium on prepayment/ resetting of interest liability on term loans are **amortised** over the remaining repayment period of the respective loans.”

✓ Amount paid for prepayment is not for facilitating loans and hence, not “borrowing costs”



# AS 17: Segment Reporting...

## ...Observations/ Suggestions...

- ▶ ...Disclosure...
- ❖ Nothing is mentioned about segment reporting in accounting policy or FSs
- ▶ ...Disclosure
- ❖ Company gave segment information only on the basis of separate financial statements
  - ✓Para 4 – Where both consolidated financial statements and the separate financial statements of the parent is present - segment information to be presented only on the basis of the consolidated financial statement

# ...AS 17: Segment Reporting

## ▶ **Financial Expenses**

- ❖ Financial expenses - charged to a particular segment and the remaining expenses shown as un allocable
  - ✓Para 5.6 – Segment Expense not to include interest expense

## ▶ Geographical Segments

- ❖ No geographical segmenting done by the company even when their total export revenue was more than 10% of their total revenue
- ❖ Details of the geographical and business segments are clubbed together to give a single segment report

# AS 18: Related Party Disclosures...

## Observations...

### ▶ Managing Director

- ❖ **Managing director's name** (who had the authority and responsibility for planning, directing and controlling the company's activities) was **not disclosed** under AS 18 as 'Key Management Personnel'
- ❖ Managerial **remuneration paid** to the directors but **not disclosed** under AS 18 disclosure

### ▶ Disclosure...

- ❖ Investment made in Joint venture **reported in Corporate Governance report** but it is **not disclosed under AS 18 disclosure**

# ...AS 18: Related Party Disclosures

## ... Observations/ Suggestions

- ▶ ...Disclosure
  - ❖ Names of the related parties and nature of their relationships and transactions were not mentioned
  - ❖ Nature and value of RPT are disclosed on an aggregate basis, but individual party-wise disclosure of material transactions was not made
- ▶ Materiality
  - ❖ "...There were no material individual transactions with related parties during the year, which were not in the normal course of the business as well as at arm's length basis..."
  - ✓ Disclose details of the related parties irrespective of the materiality of their transactions

# AS 20 Earnings per Share...

## Observations/Suggestions...

- ▶ Disclosure
  - ❖ EPS is **neither shown** on the **face of the Statement of Profit and Loss nor in the Notes**
  
- ▶ **Non-disclosure** of :
  - ▶ Diluted EPS
  - ▶ Nominal value of shares
  
- ▶ **Denominator**  
Following were **not considered** :
  - ❖ Excess tax provision of earlier years recognised in the current year
  - ❖ Weighted average number of shares (only year-end balance was considered)

# ...AS 20 Earnings per Share

## ...Observations/ Suggestions

### ▶ Value

- ❖ Basic and diluted EPS stated at the same value (although warrants which were issued were considered as dilutive)
- ❖ **Negative EPS was disclosed as NIL**
- ✓EPS should be disclosed as negative and not as NIL

### ▶ Changes after Balance Sheet Date and before BOD's approval

- ❖ **Bonus shares** issued **after the Balance Sheet date** but **before** the **approval** of FSs were **not considered** for EPS computation
- ✓Changes taking place between the Balance Sheet date and approval by the Board of Directors – calculations to be based on the new number of shares

# AS 21: Consolidated Financial Statements

## ...Observations/ Suggestions

### ▶ ...Disclosure

- ❖ No disclosure of the list of companies consolidated for CFS
- ❖ Substantial increase in amount of goodwill on consolidation however, no major acquisition pointed to it in notes to accounts

✓ Disclosure to be made as per Para 29

### ▶ Goodwill

- ❖ No distinction made between goodwill on consolidation and acquired goodwill

✓ Appropriate Distinction to be made between goodwill on consolidation and acquired goodwill

# AS 22: Accounting for Taxes on Income...

## Observations...

### ▶ Disclosure...

- ❖ **Deferred Tax Assets and Liabilities** had been presented **as a part of** :
  - **Loan Funds**
  - **Net Current Assets**
  - **Shareholders Funds**
  - **Note of Provisions**
- ✓ **Deferred tax liability** – After the head 'Long Term borrowings'
- ✓ **Deferred tax asset** – After the head 'Non-Current Investments'



# ...AS 22: Accounting for Taxes on Income

## ...Observations...

- ▶ ...Disclosure
  - ❖ Accounting policy on accounting for Deferred Tax Assets had not been disclosed
- ▶ Break-up
  - ❖ No break-up of DTA/ DTL was shown
  - ❖ Break-up was shown with respect to the balances that were reflected in the Statement of Profit and Loss
  - ✓ Break-up – Show it with respect to the balances shown in the Balance Sheet
- ▶ Current and deferred tax was clubbed and shown under the head 'Provision for Taxation'
  - ✓ Clearly distinguish between current and deferred tax, hence, show them as separate line items

# ...AS 22: Accounting for Taxes on Income

## Offsetting DTA and DTL

- ❖ In the Consolidated Balance Sheet, **deferred tax asset and liability** of the **holding and subsidiary company** was **offset against each other**
- ✓ HC and SC does not have a legal enforceability right and hence, amounts cannot be offset against each other

## Certainty

- ❖ Difference between ‘Reasonable Certainty’ and ‘Virtual Certainty’ often overlooked and **DTA created** on C/F Losses **without** ascertaining **Virtual Certainty** backed by **convincing evidence**

# AS 26: Intangible Assets...

## Observations/ Suggestions...

### ▶ Assets not owned

❖ "...**Modifications** that enhance the operating performance or **extend the useful life** of fixed assets used but **not owned** by the company are also **capitalised**, where there is certainty of deriving future economic benefits from the use of such assets."

✓ Assets not owned do not meet the "asset" criteria, hence it cannot be treated as an asset

### ▶ Miscellaneous Expenditure

❖ Expenses incurred towards **IPO** and other deferred expenses classified as Miscellaneous Expenditure **written off equally over a period of 5 years**

✓ Share issue expenses – to be expensed out

# ...AS 26: Intangible Assets

## ...Observations/ Suggestions...

- ❖ Amalgamation/ preliminary/ share issue/ miscellaneous expenses have been capitalised under the head of 'Deferred revenue expenditure' and amortised over a period of 3-5 years
- ✓ Relocation/ reorganisation expense – to be expensed out
- ❖ Deferred Employee Compensation included under Miscellaneous Expenditure on the face of the Balance Sheet

# ...AS 26: Intangible Assets

## ...Observations/ Suggestions

### ▶ Amortisation

- ❖ Store opening fees was being amortised over a period of five years which is not in accordance with AS 26. Further, the nature of store opening fees was also not explained anywhere in the financial statements
  - ❖ Amortisation **period** for brands and goodwill is stated as **20 years**, but **no reasons** for the same were stated in the FSs
- ✓If intangible assets is amortised over more than 10 years, specify the reasons for such a presumption
- ❖ **Expenditure on research and development** is **not separately allocated** and **identified** in the Statement of Profit and Loss

# AS 29: Provisions, Contingent Liabilities and Contingent Assets

## Observations/ Suggestions

- ❖ “The company has **not made provision** for **warranty** in respect of certain goods **considering** that the company can **claim** the warranty **cost from** the **original supplier.**”
  - ✓ Amount of warranty – Make a provision
  - ✓ Amount of reimbursement – Treat it as a separate asset
- ❖ **Disclosures** required as per **Para 67** are **not made** by many companies
- ❖ **Disputed dues shown as contingent liabilities but is not reflected under CARO**

Thank you