Case Studies on Accounting Standards

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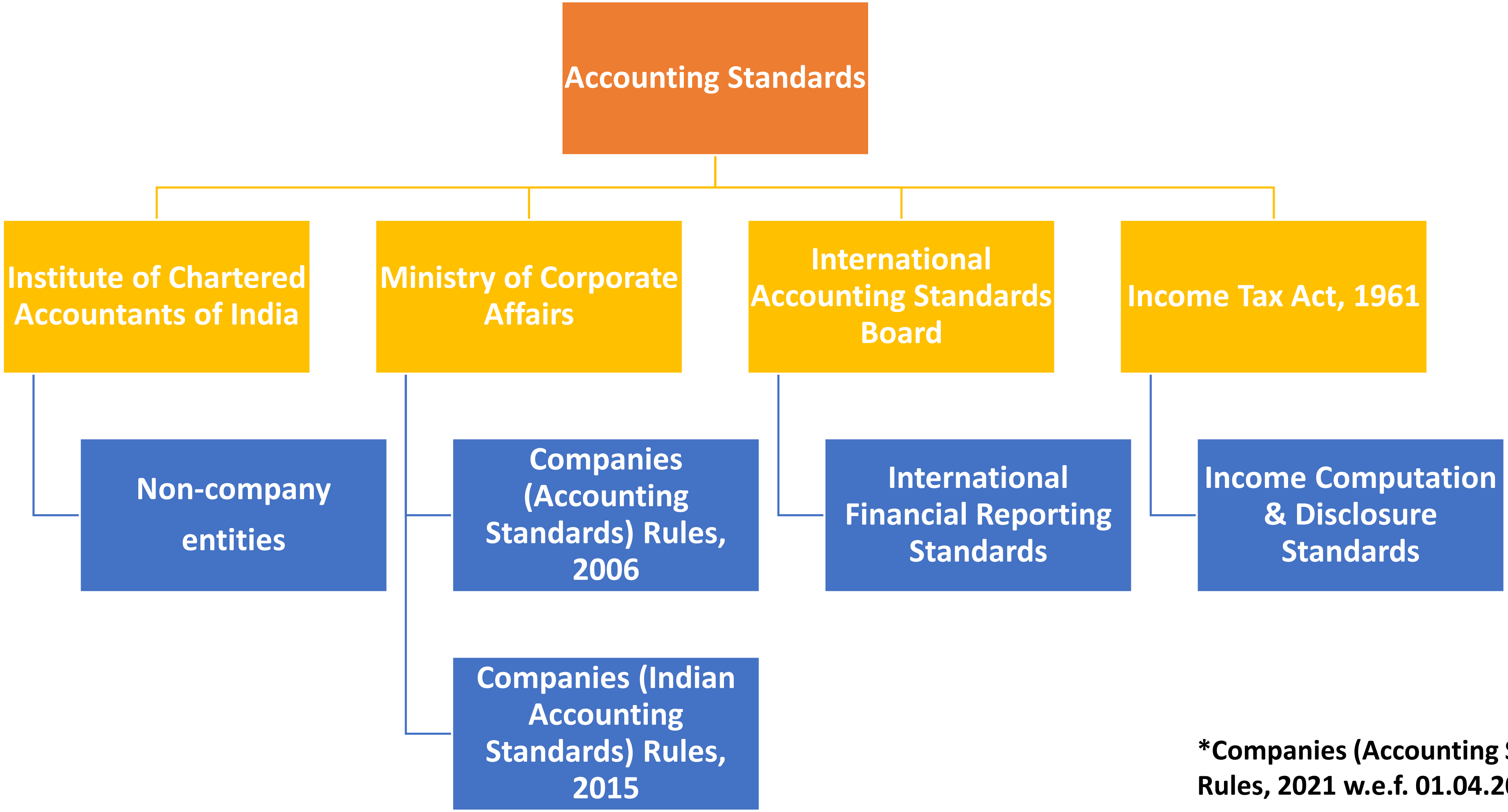
Accounting Standards Referencer



***Companies (Accounting Standards) Rules, 2021 w.e.f. 01.04.2021**

Applicability of Ind AS

All Companies and Non-Banking Financial Companies (NBFCs) which are listed/or in process of listing inside or outside India on Stock Exchanges (other than SME Exchanges)

Unlisted companies and NBFCs having net worth in excess of INR 250 crore

Holding, Subsidiaries, Joint Ventures and Associates of companies covered under Ind AS (any type of entity)

Non-company entities which are Holding, Subsidiaries, Joint Ventures and Associates of companies following Ind AS will be required to follow Ind AS

Case Study

The partners and their profit / loss sharing ratios in a Limited Liability Partnership are:

Partner	Ratio
Mr. A	50%
ABC Pvt. Ltd. (under Ind AS)	25%
PQR Ltd. (under Companies AS)	25%

Which Accounting Standards will apply to the Limited Liability Partnership:

A. Companies (Accounting Standards) Rules, 2006

B. Companies (Indian Accounting Standards) Rules, 2015

C. International Financial Reporting Standards

D. Accounting Standards issued by the ICAI

Changes made in criteria

LEVEL	TURNOVER		BORROWINGS	
	EARLIER	REVISED	EARLIER	REVISED
Level I	Exceeds 50 Cr	Exceeds 250 Cr	Exceeds 10 Cr	Exceeds 50 Cr
	> 50 Cr	> 250 Cr	> 10 Cr	> 50 Cr
Level II	Exceeds 1 Cr but does not exceed 50 Cr	Exceeds 50 Cr but does not exceed 250 Cr	Exceeds 1 Cr but does not exceed 10 Cr	Exceeds 10 Cr but does not exceed 50 Cr
	> 1 Cr ≤ 50 Cr	> 50 Cr ≤ 250 Cr	> 1 Cr ≤ 10 Cr	> 10 Cr ≤ 50 Cr
Level III	Equal to or less than 1 Cr	Exceeds 10 Cr but does not exceed 50 Cr	Equal to or less than 1 Cr	Exceeds 2 Cr but does not exceed 10 Cr
	≤ 1 Cr	> 10 Cr ≤ 50 Cr	≤ 1 Cr	> 2 Cr ≤ 10 Cr
Level IV	-	Does not exceed 10 Cr	-	Does not exceed 2 Cr
	-	≤ 10 Cr	-	≤ 2 Cr

Case Study

Alpha & Co. (partnership firm) is classified as Level III entity in 2020-21. The partners are evaluating the exemptions and relaxations for compliance of AS. What disclosures should be given by the firm under the following situations:

- Availing all exemptions or relaxations of AS available to Level III entities

It shall disclose (by way of a note to its financial statements) the fact that it is an MSME, the Level of MSME and that it has complied with the Accounting Standards insofar as they are applicable to entities falling in Level II or Level III or Level IV, as the case may be:

Illustrative Disclosure: The entity is a Level II / III/ IV (*retain only the relevant level*) MSME as per "Criteria for classification of Non-company entities for applicability of Accounting Standards" issued by Institute of Chartered Accountants of India for Non-company Entities and has complied with the Accounting Standards, insofar as they are applicable to Level II / III/ IV (*retain only the relevant level*) entities.

- Availing part of the exemptions or relaxations of AS available to Level III entities

If an entity covered in Level II or Level III or Level IV opts not to avail of the exemptions or relaxations available to that Level of entities in respect of any but not all of the Accounting Standards, it shall disclose the Standard(s) in respect of which it has availed the exemptions or relaxations:

Illustrative Disclosure: The entity is a Level II / III/ IV (*retain only the relevant level*) MSME as per "Criteria for classification of Non-company entities for applicability of Accounting Standards" issued by Institute of Chartered Accountants of India for Non-company Entities and has availed exemption or relaxation in respect of Accounting Standards __, ___, ___, and ___.

Case Study

- A charitable trust has gross donation receipts of INR 50 crores. It also has income from business activities of INR 50 lakhs. Which of the following is true:

  A. AS are not applicable to charitable trusts

  B. Level IV entity (business income of INR 50 lakhs)

  C. Level III entity (donation receipts of INR 50 crores)

  D. Level II entity (business income + donation receipts of INR 50.50 crores)

Case Study

- A charitable trust (Section 8 company) has gross donation receipts of INR 50 crores. It also has income from business activities of INR 50 lakhs. Which of the following is true:

A. AS are not applicable to charitable trusts

B. There is no exemption to Section 8 company from applicability of accounting standards

C. SMC (business income of INR 50 lakhs)

D. Non SMC (donation receipts of INR 50 crores)

Disclosure of Accounting Policies

Accounting Standards	Accounting Standards
AS 1-Disclosure of Accounting Policies	AS 15-Employee Benefits
AS 2-Valuation of Inventories	AS 16-Borrowing Costs
AS 3-Cash Flow Statements	AS 17-Segment Reporting
AS 7-Construction Contracts	AS 19-Leases
AS 9-Revenue Recognition	AS 20-Earnings per Share
AS 10-Property, Plant and Equipment	AS 22-Accounting for Taxes on Income
AS 11-The Effects of Changes in Foreign Exchange Rates	AS 26-Intangible Assets
AS 12-Accounting for Government Grants	AS 28-Impairment of Assets
AS 13-Accounting for Investments	AS 29-Provisions, Contingent Liabilities and Contingent Assets

As per the **Quality Review Board** observations, accounting policies for segment reporting, earnings per share, cash and cash equivalents, cash flow statement (specify direct or indirect method of cash flow used), interest income, dividend income, rental income, provisions, contingent liabilities and contingent assets should be disclosed. *Accounting policies for related party transaction is not required to be disclosed.*

AS -1: Disclosure of Accounting Policies

- An entity has mentioned following accounting policy for revenue recognition in respect of goods sold:

Revenue is recognised from sale on dispatch of goods. Whether accounting policy is appropriate?

Answer: No. Accounting policies need to be in sync with requirements of other Standards. AS-9 states revenue from sale of goods need to be recognised on transfer of risks and rewards of goods or services. It is not clear from entity's accounting policy whether dispatch of goods coincides with transfer of risks and rewards.

- An entity has mentioned following accounting policy for revenue recognition in respect of services rendered:

Revenue from services is recognised as per the terms of contract. Whether accounting policy is appropriate?

Answer: No. It needs to be explicitly spelt out whether the entity has followed completed contract method or percentage completion method or some other basis like milestones achieved etc.

Case Study

An entity has followed LIFO method for valuation of inventories. The Management intends to disclose the accounting policy followed in the financial statements which is not in compliance with AS 2. Which of the following is true:

A. Disclosure of such accounting policy is sufficient, nothing warranted in Auditor's Report

B. Since the entity has disclosed the accounting policy, auditor can give Emphasis of Matter in the Auditor's Report

C. Auditor's Report should be qualified since AS 2 has not been followed

D. The entity justifies in the notes to account that difference in valuation between FIFO / WAC and LIFO is immaterial, nothing warranted in Auditor's Report

Case Study

An entity is providing software services and therefore, has no inventory. What are your views on disclosure of accounting policy w.r.t. Inventories under AS 2

A. It should be disclosed as the entity has to comply with all Accounting Standards

B. It should be disclosed as the MoA contains an object clause which may result into inventories in the future

C. Should not be disclosed as there is no closing inventory

D. Should not be disclosed as there are no transactions to which AS 2 applies during the year

Changes in accounting policies

- As per Para 26 of AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed.
- In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable.
- Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

Case Study

- An entity is migrating its books of account to ERP because of which it has to change its policy on Inventories from FIFO to Weighted Average Cost. The valuation of inventories was as per FIFO as at 31.03.2020 whereas it will be as per WAC as at 31.03.2021. The details are as under:

(Amount in INR)

Opening (FIFO)	Opening (WAC)	Consumption (FIFO)	Consumption (WAC)	Closing (FIFO)	Closing (WAC)
1250	1000	250	200	1000	800

- What would the disclosure be for change in accounting policy?

A. Restate the opening inventory in the financial statement at INR 1000

B. Not to restate opening inventory, disclose impact of change in consumption of INR 50 (250-200)

C. Not to restate opening inventory, disclose impact of change in policy of INR 250 (1250-1000)

D. Not to restate opening inventory, disclose impact of change in policy of INR 50 (250-200) in 2020-21 and INR 200 in future periods (2021-22 and onwards)

Events occurring after the balance sheet date

Balance Sheet date 31st March

Approval of FS by Board of Directors

- Events relating to circumstances existing on the balance sheet date — Profit / Loss accounted and assets & liabilities adjusted (adjusting event)
- Events NOT relating to circumstances existing on the balance sheet date — Disclosure in financial statements (non-adjusting event)

Approval of FS by Shareholders — Disclosure in Director's report (if material)

Case Study

An entity sold its office on 31.01.2021 and entered into agreement to sell the property and gave possession of the property to the buyer. However, legal formalities such as registration of sale deed was concluded on 30.04.2021. Due to this, the entity has NOT recorded the sale and has shown the amount received as an advance. Financial statements for the year ended 31.03.2021 were approved on 31.05.2021. Is the accounting treatment correct?

A. Yes, as the legal formalities were concluded after balance sheet date

B. No, since the sale was concluded before balance sheet date, sales should have been recognised

C. Yes, as it is adjusting event

D. No, as it is non- adjusting event

Exceptional, Extra-ordinary and Prior period items

Exceptional item

- Infrequent
- Separate disclosure of items of income and expense within profit or loss from ordinary activities.

Extra-ordinary item

- Unusual
- The nature & amount of each extraordinary item should be separately disclosed in the profit and loss statement/account, such that its impact on current profit or loss can be perceived.

Prior period item

- Errors or omissions
- The nature and the relevant amount of prior period items should be disclosed separately in the profit and loss statement/account.

Case Study

Whether the following are exceptional items or extra-ordinary items?

Substantial legislative changes having retrospective application	Exceptional item
Huge amount of write-down of inventories to net realizable value as well as the reversal of such write-downs	Exceptional item
Loss due to COVID Pandemic	Extra-ordinary item
Major restructuring of the activities of Company and the reversal of any provisions for the costs of restructuring	Exceptional item
Substantial payment to employees on account of pay revision settlement with retrospective effect	Exceptional item

Current tax

- Any interest on shortfall in payment of advance income-tax is in the nature of finance cost and hence should not be clubbed with the Current tax. The same should be classified as Interest expense under finance costs. However, such amount should be separately disclosed.
- Any penalties levied under Income tax laws should not be classified as Current tax. Penalties which are compensatory in nature should be treated as interest and disclosed in the manner explained above. Other tax penalties should be classified under other expenses.
- Excess/Short provision of tax relating to earlier years should be separately disclosed.
- If amount of tax already paid in respect of current and prior periods exceeds the amount of tax due for those periods (*assessment year-wise and not cumulative unless tax laws allow*), then such excess tax shall be recognised as an asset.

Case Study

An entity has made provision for tax of INR 20 lakhs in the financial statements for the year 2019-20. While filing the ITR for AY 2020-21, the entity has computed tax liability at INR 22 lakhs and interest of INR 3 lakhs has been paid (u/s 234B INR 2 lakhs & u/s 234C INR 1 lakh). What treatment should be given in the financial statements of 2020-21?

A. Prior period item of INR 5 lakhs

B. Tax adjustment of earlier year of INR 5 lakhs

C. Tax adjustment of earlier year of INR 2 lakhs and finance cost of INR 3 lakhs

D. Tax adjustment of earlier year of INR 2 lakhs, prior period item (finance cost) INR 2 lakhs and finance cost INR 1 lakh

Revenue

- Revenue from operations needs to be disclosed separately as revenue from (a) sale of products, (b) sale of services and (c) other operating revenues.
- Other operating revenue would include Revenue arising from a company's operating activities, i.e., either its principal or ancillary revenue-generating activities, but which is not revenue arising from the sale of products or rendering of services.
  - profit on sale of Property, Plant and Equipment should be classified as other income
  - sale of manufacturing scrap arising from operations for a manufacturing company should be treated as other operating revenue since the same arises on account of the company's main operating activity.
  - net foreign exchange gain should be classified as Other Income because such gain or loss arises purely on account of fluctuation in exchange rates and not on account of sale of products or services rendered, unless the business of the company is to deal in foreign exchange.

'Other Income' shall be classified as: (a) Interest Income (in case of a company other than a finance company); (b) Dividend Income; (c) Net gain / loss on sale of investments; (d) Other non-operating income (net of expenses directly attributable to such income).

AS –9: Revenue Recognition

- Accounting of revenue through rendering of services and year end cut-off procedures:

Hospital A is treating indoor and outdoor patients. At the year end, there are patients who were admitted before year end and got discharge after the year end. How to recognise revenue in such cases?

Solution:

In such cases, partial cost of services is actually incurred before the year end and that is already booked as an expense in the books. Examples: Salaries of staff person, cost of room, charges to visiting doctors. Since the cost is already recognised, to have matching concept, there shall be partial revenue booking in these cases and such revenue will be considered as “unbilled revenue” as the same has not been billed to patient.

In another case, if there is package given by hospital, then partial revenue and cost shall be recognised on the basis of services rendered. Example: if the package offered for surgery is Rs. 2 lacs and surgery took place before the year end, then majority of cost would have already been incurred as there will be use of consumables and cost of other services. Accordingly, revenue shall be recorded in the books on such partial rendering of services.

Unbilled revenue vs. WIP

- Applicable to contracts where revenue is recognised
  - over time (PoCM)
  - at fixed intervals but not coinciding with period end
- Unbilled revenue if any of the following is satisfied:
  - the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
  - the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
  - the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.
  - if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfil the remaining performance obligation to the customer.
- Unbilled revenue with profit / WIP at lower of cost or NRV

Cut off Procedures - purchases

Invoice date of import purchase	15-03-2021
Bill of lading date at US Port	17-03-2021
Inco terms	FOB
Bill of entry date	04-04-2021
Amount of Invoice	USD 100,000
Ocean Freight	USD 1,000

Question:

Whether this transaction is to be recorded? If yes, then at what values?

Answer:

Yes. Since terms of import are FOB and hence risk and rewards are transferred to entity on the date when the goods are loaded at the port of export. Since the same is before the year end, it would be recorded as purchase and inventory will be recorded as Goods in transit at USD 101000 at rate prevailing at the date of transaction i.e., March 17, 2021.

Overall impact on the Profit and Loss account will be Nil since the entire purchase will be considered as closing stock.

Cut off Procedures - sales

Invoice date of Export Sales	29-03-2021
Bill of lading date at Indian Port	04-04-2021
Inco terms	FOB
Shipping Bill date	31-03-2021
Amount of Invoice	USD 100,000
Cost of Goods Sold	USD 85,000

Question:

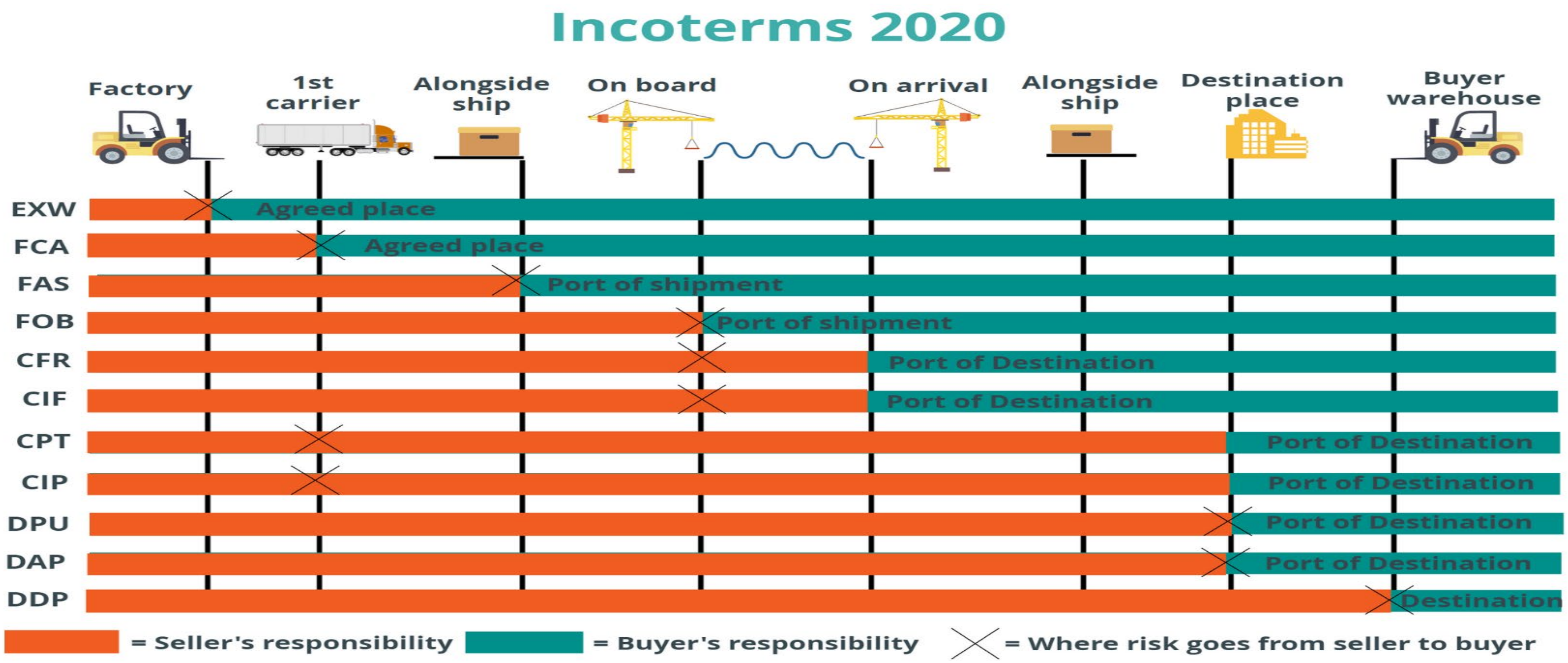
Whether this sale will be recorded? If no, then at what treatment shall be given in the books of account?

Answer:

Incoterm being FOB - risk and rewards are transferred when goods are loaded on the port of export. In the given case, goods are loaded on April 4, 2021, which is after reporting year end. Risks are transferred after the balance sheet date and hence at the date of balance sheet same is to be considered as the goods in transit and sales (if recorded) needs to be reversed. Inventory in transit will be recorded in the books and since the cost of goods is lower than NRV, the same shall be recorded at cost.

Overall effect on the Profit and Loss Account will be reversal of profit margin i.e., USD 15,000 by giving the above effect.

Transfer of risk



~~Fixed Assets~~ Property, Plant and Equipment

- AS 6, Depreciation Accounting, has been withdrawn on 30/03/2016.
- Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately.
- A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions… through business combinations and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.

  …the corresponding amounts (comparatives) for the immediately preceding reporting period for **<u>all items</u>** shown in the Financial Statements including notes shall also be given.

Presentation of PPE

11 Property, Plant and Equipment

a. Property, Plant and Equipment consists of the following:

Particulars /Assets	TANGIBLE ASSETS								Grand Total
	Lease hold land	Buildings	Plant & Machinery	Electrical Equipments	Office Equipments	Computers	Vehicles	Furniture & Fixtures	
GROSS BLOCK									
At 1st April 2019	1,29,05,032	7,70,77,506	4,35,29,487	95,46,024	39,78,708	31,74,621	33,80,138	32,87,356	15,68,78,872
Additions	-	-	12,98,823	52,345	1,34,009	9,90,746	22,64,971	27,994	47,68,887
Deduction/Adjustments	-	-		-	-	-	-	-	-
At 31st March 2020	**1,29,05,032**	**7,70,77,506**	**4,48,28,310**	**95,98,369**	**41,12,717**	**41,65,367**	**56,45,109**	**33,15,350**	**16,16,47,759**
Additions	14,30,000	3,23,86,197	3,80,20,970	41,30,138	4,56,263	39,224	-	19,03,231	**7,83,66,023**
Deduction/Adjustments	-	-	15,00,000	-	-	-	2,50,000	-	**17,50,000**
At 31st March 2021	**1,43,35,032**	**10,94,63,703**	**8,13,49,281**	**1,37,28,507**	**45,68,979**	**42,04,590**	**53,95,109**	**52,18,581**	**23,82,63,782**
ACCUMULATED DEPRECIATION									
At 1st April 2019	13,35,003	56,97,295	50,06,551	14,36,941	23,68,911	25,67,353	7,34,290	17,39,520	2,08,85,864
Additions	4,45,001	20,47,143	27,90,495	9,21,379	7,52,994	4,02,399	5,09,335	3,32,569	82,01,315
Deduction/Adjustments	-	-		-	-	-	-	-	-
At 31st March 2020	**17,80,004**	**77,44,438**	**77,97,046**	**23,58,320**	**31,21,905**	**29,69,752**	**12,43,625**	**20,72,089**	**2,90,87,179**
Additions	4,51,097	25,43,502	39,18,257	11,21,949	4,68,945	3,97,903	6,62,198	3,57,551	**99,21,402**
Deduction/Adjustments	-	-	-	-	-	-	2,10,100	-	**2,10,100**
At 31st March 2021	**22,31,101**	**1,02,87,940**	**1,17,15,303**	**34,80,269**	**35,90,851**	**33,67,655**	**16,95,723**	**24,29,640**	**3,87,98,481**
Net Block									
At 31st March 2020	1,11,25,028	6,93,33,068	3,70,31,263	72,40,050	9,90,811	11,95,615	44,01,484	12,43,258	13,25,60,580
At 31st March 2021	**1,21,03,931**	**9,91,75,762**	**6,96,33,978**	**1,02,48,239**	**9,78,129**	**8,36,935**	**36,99,386**	**27,88,942**	**19,94,65,301**

Consolidation eliminations

- Financial transactions involving a parent and its subsidiaries or between two of its subsidiaries are **intercompany transactions**.
- In preparing consolidated financial statements, parent companies eliminate the effects of intercompany transactions by making **elimination entries**.
- Elimination entries allow the presentation of all account balances as if the parent and its subsidiaries were a single economic enterprise.
- Elimination entries appear only on a consolidated statement work sheet, not in the accounting records of the parent or subsidiaries.

Case study

Parent has sold goods to its foreign subsidiary in USA. While consolidating subsidiary's financials with that of Parent, which of the following is true for eliminating transactions in consolidated financial statements:

A. Parent's and subsidiary's transaction shall be eliminated at the average rate, and hence no impact of exchange fluctuation

B. Parent's transaction shall be eliminated with the amount recorded in its financials whereas those of subsidiary shall be eliminated at the average rate, giving rise to exchange fluctuation gains / losses will that will be carried forward as Foreign Currency Translation Reserve (FCTR)

C. Only Parent's transaction shall be eliminated

D. Only Subsidiary's transaction shall be eliminated

Case study

A Company is consolidating its Associate under equity method of accounting, as per AS 23. Which treatment out of the following holds true for eliminating dividend received by Parent Company from its Associate:

A. Dividend received shall be eliminated with a credit to the carrying amount of investment in Associate in the Balance Sheet

B. No treatment of the same shall be given, as there is no line-by-line consolidation under Equity Method

C. Dividend Income shall be eliminated with a credit to opening reserves

D. Line-by-line consolidation shall be done for Associate and then to eliminate transaction of dividend received.

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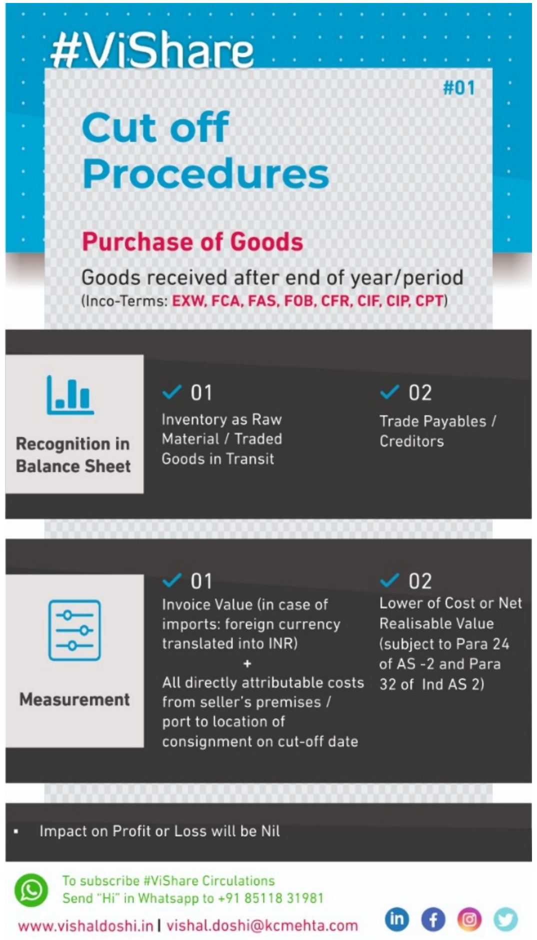

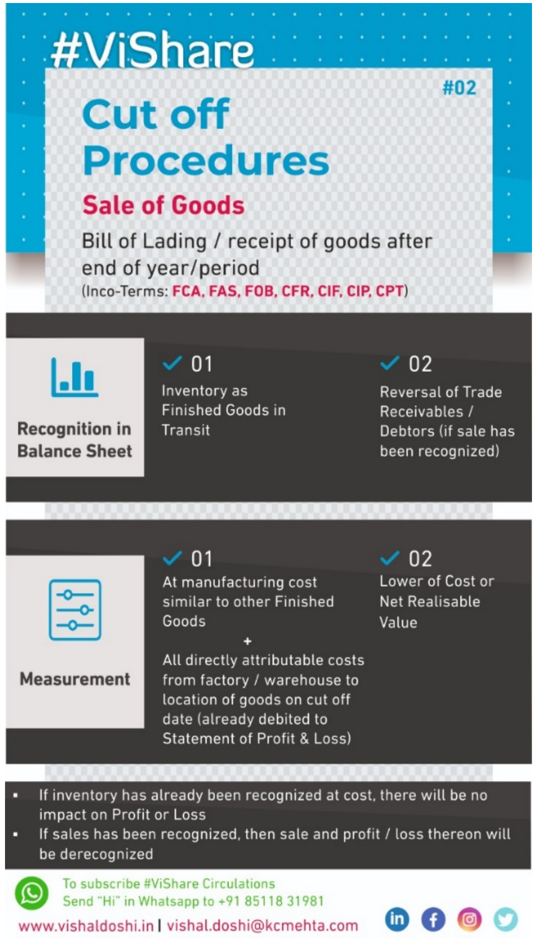

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