

# **PwC Reporting *InBrief***

## **ICAI Guidance note on Ind AS Schedule III**



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## ***In brief***

The Ministry of Corporate Affairs (MCA) vide notification dated 6 April 2016 amended Schedule III to the Companies Act, 2013 to incorporate the general instructions for preparation of financial statements of a company required to comply with Ind AS (Ind AS Schedule III). On 27 July 2017, ICAI issued a guidance note on Ind AS Schedule III (Guidance Note) to provide guidance on the preparation and presentation of financial statements for companies required to comply with Ind AS Schedule III.

This *InBrief* provides an overview of the key requirements of the guidance note. We also share our views on certain practical issues that may arise in the implementation of Ind AS Schedule III.

## ***Let's talk***

### **Key requirements**

#### **General:**

- (i) The terms used in the Ind AS Schedule III shall carry the same meaning as defined in the applicable Ind AS. For example, the terms such as associate, subsidiary, related parties will have the same meaning as defined in the Ind AS. For any terms which are not specifically defined in Ind AS, attention may also be drawn to the framework for the preparation and presentation of financial statements in accordance with Ind AS. Where a term is not defined in Ind AS framework, entities may consider guidance for developing and applying an accounting policy in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.
- (ii) In preparing the financial statements, a balance should be maintained between providing excess details that may not assist users of the financial statements and not providing important information as a result of too much aggregation.

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**It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. This is a matter of professional judgement. For example, a company should not obscure important information by including it among a large amount of insignificant detail or in a way that it obscures important differences between individual transactions or associated risks.**

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- (iii) As per Ind AS Schedule III, all items of assets and liabilities are to be bifurcated between current and non-current portions. In some cases, the items presented under the 'non-current' head of the balance sheet may not have a corresponding 'current' head under the format given in Ind AS Schedule III. Since Ind AS Schedule III permits the use of additional line items, in such cases the current portion should be classified under the 'current' category of the respective balance as a separate line item and other relevant disclosures should be made.

#### **Balance sheet:**

##### **Assets**

- (i) Ind AS 1, *Presentation of Financial Statements* permits an entity to present all assets and liabilities in order of liquidity when such presentation provides information that is reliable and more relevant. However, Ind AS Schedule III does not permit presentation of asset and liabilities in the order of liquidity. Accordingly, assets and liabilities should be presented using a current/non-current classification. Presentation of assets and liabilities in the order of liquidity may be disclosed in the notes to the financial statements as 'additional information'.
- (ii) Items of inventory or trade payable/trade receivable that are expected to be consumed or realised/settled within the normal operating cycle of the company shall be classified as 'current' even if the same are not expected to be so consumed or realised within twelve months from the reporting date.

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- (iii) Where a company is running multiple businesses with different operating cycles, such a company shall separately classify assets and liabilities of each of its businesses, into current and non-current, depending upon their respective operating cycles.
- (iv) Interests in subsidiaries, associates or joint ventures that are accounted at cost in accordance with Ind AS 27, *Separate Financial Statements* may be presented as a separate line item on face of the standalone balance sheet. These interests are financial instruments but are outside the scope of Ind AS 109, *Financial Instruments*.

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Interests in subsidiaries, associates or joint ventures that are accounted at cost in accordance with Ind AS 27 are outside the scope of Ind AS 109. Ind AS Schedule III requires that investments in subsidiaries, associates or joint ventures shall be disclosed as part of investments grouped under financial assets. Since these interests are out of scope of Ind AS 109, a question arose whether such interests should be classified under investments grouped under financial assets or as a separate line item on the face of the balance sheet. The guidance note clarifies that such interest may be presented as separate line item on face of the standalone balance sheet.

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- (v) Interests in subsidiaries, associates or joint ventures that are accounted in accordance with Ind AS 109 at fair value shall be presented under the head investments separately on face of the standalone balance sheet or in the notes, grouped under financial assets.
- (vi) Investments accounted using equity method (i.e. associates and joint ventures) shall be presented as a separate line item on face of the consolidated balance sheet and presented outside ‘financial assets’.
- (vii) Non-Ind AS Schedule III requires an entity to disclose names of all the bodies corporate in which it holds any class of investments and further, to indicate separately whether such bodies are (i) subsidiaries, (ii) associates, (iii) joint ventures or (iv) controlled special purpose entities. Ind AS Schedule III requires an entity to disclose names of the bodies corporate that are (i) subsidiaries, (ii) associates, (iii) joint ventures or (iv) structured entities. However, an entity may choose to disclose names of all bodies corporates in which it holds any investment.

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The disclosure requirements of Ind AS Schedule III are in addition to and not in substitution of the disclosures requirements of Ind AS. Para 11A of Ind AS 107, *Financial Instruments: Disclosures*, requires that among other matters, companies disclose investments in equity investments that have been designated to be measured at fair value through other comprehensive income (FVOCI). Accordingly, over and above the requirements of Ind AS Schedule III, an entity is also required to disclose names of the bodies corporate in which it holds equity investments measured at FVOCI.

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- (viii) Ind AS 12, *Income Taxes* defines deferred tax asset to include carry forward of unused tax credits. MAT credits are in the form of unused tax credits that are carried forward. Accordingly, MAT credit entitlement should be grouped with deferred tax asset and a separate note should be provided specifying the nature and amount of MAT credit included as a part of deferred tax asset. Similarly, in the statement of profit and loss, MAT credit entitlement should be grouped with the deferred tax. MAT credit entitlement should be reviewed at each balance sheet date for the reasonable certainty of its recoverability.

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- (ix) Current tax assets and current tax liabilities should be off-set based on the asset or liability position 'assessment year' wise and not on a 'cumulative' basis unless tax laws permit otherwise.

Let us consider the below example. A Ltd. has the following year-wise net current tax asset and liability positions:

- (i) FY 2014-2015: 2 million INR (net current tax asset)
- (ii) FY 2015-2016: 5 million INR (net current tax asset)
- (iii) FY 2016-2017: 10 million INR (net current tax liability)

How current tax asset and current tax liability should be presented in the balance sheet as at 31 March 2017?

**Response:** Current tax liability amounting to 10 million INR and current tax asset of 7 million INR should be presented separately in the balance sheet. However, if tax laws in an overseas jurisdiction permit entities to offset current tax assets and current tax liabilities on a cumulative basis then current tax liability of 3 Million INR should be presented in the balance sheet.

Excess current tax paid may not be recovered/realised within one year from the balance sheet date and if so, the same shall be presented under non-current assets. An entity should evaluate whether current tax assets meets the definition of current assets or not and accordingly present the same.

- (x) Where a company elects to apply previous GAAP deemed cost exemption under para D7AA of Ind AS 101, *First-time Adoption of Ind AS* for its property, plant and equipment (PP&E), then the deemed cost i.e. net carrying value of the PP&E under the previous Indian GAAP shall be new gross block under Ind AS and accordingly presented in the PP&E reconciliation statement required by Ind AS Schedule III.

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If an entity intends to disclose information regarding previous GAAP gross block, accumulated depreciation and impairment, the same may only be disclosed as an additional information by way of a note forming part of the financial statements.

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- (xi) Capital advances for procurement of PP&E, intangibles and other non-current assets shall be classified under 'other non-current assets' instead of capital work-in-progress. Capital advances should be treated as non-current irrespective of when the underlying non-current asset is expected to be received.
- (xii) Security deposits such as rent deposit shall be classified under loans grouped under financial assets where such deposits meet the definition of a financial asset as per Ind AS 109. Security deposits which do not meet definition of financial asset shall be classified under 'other current asset/other non-current asset', as applicable.
- (xiii) Prepayments and indirect tax receivables such as CENVAT receivables shall be presented under other advances grouped under 'other current asset/other non-current assets', as applicable.
- (xiv) Bank deposits with more than 12 months maturity from the reporting date shall be disclosed under 'non-current financial asset'. 'Cash and cash equivalents' and 'Bank balances other than cash and cash equivalents' shall be separately presented on the face of balance sheet. Bank deposits with original maturity of more than three months but less than 12 months shall be presented as part of 'bank balances other than cash and cash equivalents'.
- (xv) A receivable shall be classified as 'trade receivable' if it is in respect of amount due on account of goods sold or services rendered in the normal course of business. Accordingly, amounts due under contractual rights, other than that arising from sale of goods/services, cannot be classified as trade receivables. Such items may include dues in respect of insurance claims and sale of PP&E. These receivables shall be classified as 'other financial assets'.

- (xvi) Unlike Non-Ind AS Schedule III, Ind AS Schedule III does not require separate presentation of the aggregate amount of trade receivables outstanding for a period exceeding six months from the date they are due for payment.
- (xvii) Ind AS Schedule III requires trade receivables to be sub-classified as secured (considered good), unsecured (considered good) and doubtful. The amount of trade receivables that shall be disclosed as 'doubtful' shall represent the amount of expected credit loss determined in accordance with Ind AS 109. Remaining balance of trade receivables shall be disclosed as 'good'. Accordingly, a company shall disclose trade receivables as highlighted below, assuming the entire amount is unsecured:

Trade receivable:	INR
Secured, considered good	-
Unsecured, considered good	125,000
Considered doubtful	25,000
Total	150,000
Less: Allowance for doubtful debts	25,000
	125,000

The above requirement would equally apply to loans.

## Equity and Liabilities

- (xviii) Instruments other than equity share capital which are entirely equity in nature from the issuer's perspective such as compulsory convertible preference shares/compulsory convertible debentures may be presented as a separate line item on the face of balance sheet under equity after 'equity share capital' but before 'other equity'.
- (xix) Any liability for which the entity does not have an unconditional right to defer its settlement for at least 12 months after the reporting date shall be classified as 'current'.
- (xx) Terms of a liability that could, at the option of the counterparty, result in settlement by the issue of equity shares do not affect classification of liability as 'current' or 'non-current'. This provision does not extend to other cases where the conversion option is with the issuer.

The liability component of financial instruments should be classified as current or non-current, depending on the terms of the contract. A question arises whether the liability component of a convertible financial instrument should be presented as current or non-current where the instrument is convertible to equity at any time within the next 12 months but, if not converted, is repayable in cash only beyond 12 months. Such instruments would have an equity component – being the holder's right to convert the instrument into a fixed number of equity instruments of the issuer any time before the maturity date – and a liability component, being the entity's obligation to deliver cash to the holder at the maturity date, which is more than one year after the balance sheet date.

The liability component of the convertible instrument should be classified as non-current because it is not repayable in cash within the next 12 months. The holder's conversion option shall be ignored for the purpose of current/non-current classification.

- (xxi) Trade payables should present separately the portion representing outstanding dues to micro and small enterprises from the portion representing other trade payables.



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- (xxii) A payable shall be classified 'trade payable' if it is in respect of amount due on account of goods purchased or services received in the normal course of business. Accordingly, amounts due under contractual obligations or statutory payables can no longer be included within trade payables. Such items may include payable in respect of statutory obligations such as contribution to provident fund and amounts due towards purchase of capital goods.
- (xxiii) A loan which is not repayable on demand shall not be classified as current, if the breach of covenant is considered as minor and it is expected that lenders will not demand repayment of loan. However, if the lenders have demanded repayment at any time before the approval of the financial statements, loan shall be classified as current.

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In the Indian context, the criteria of a loan becoming repayable on demand on breach of covenants is generally added as a matter of abundant caution. Banks generally do not demand repayment of loans for minor defaults (such as non-filing of quarterly returns) as these covenants are more in the nature of a protective right which is exercised in exceptional situations. Considering the practical implications of a minor default is negligible, an entity may continue to classify the loan as non-current if the loan is not actually demanded by the lender at any time prior to the date of the approval of the financial statements.

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- (xxiv) Where there is a material breach of the terms of a loan agreement (such as those related to financial covenants) with the effect that the loan become repayable on demand, then such loan shall be classified as 'current' unless the lender has agreed not to demand repayment at any time before the financial statements are approved for issue. What constitutes a material breach of the terms needs to be evaluated on case-to-case basis considering the facts and terms and conditions of each borrowing arrangement.
- (xxv) Classification of liability towards long-term compensated absences into current or non-current shall depend on whether the employees have an unconditional right to avail the leave earned by them. In such case, the liability shall be classified as current.

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Classification of long-term leave liability into current and non-current depends upon terms of employee contract and the leave policy, employer's right to postpone/deny leave and restriction to avail leave in the next year for a maximum number of days. If the employees have earned leave which can be availed any time and the entity does not have right to defer the leave, the liability shall be classified as current even though the same is measured as 'other long-term employee benefit' as per Ind AS 19, *Employee Benefits*.

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- (xxvi) Unfunded post-employment benefit obligations shall be classified into 'current' and 'non-current'. Current portion shall represent the company's obligation for employees resigned, retiring or expected to resign within next twelve months from reporting date. The remaining portion shall be classified 'non-current'. Normally, the amount of current and non-current liability would be determined by an actuary.
- (xxvii) Deposits from public and inter-corporate deposits shall be classified as deposits under borrowings. Deferred payment liabilities such as acquisition of PP&E on deferred payment terms shall be classified as deferred payment liabilities under borrowings.

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- (xxviii) Current maturities of long-term debt shall be presented under 'other financial liabilities' grouped under 'current liabilities'.

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Although current maturities of long-term debt are of the nature of a 'borrowings' but since Ind AS Schedule III specifically provides a separate line item for 'current maturities of long-term debt' under 'other financial liabilities', the guidance note recommends that companies follow the requirements of Ind AS Schedule III.

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- (xxix) Current borrowings shall include all loans payable within a period of 12 months from the date of the loan.
- (xxx) An entity is not required to present accrued interest separately from the related financial liability under 'other financial liabilities'. Accordingly, interest accrued shall form part of the carrying value of financial liability measured at amortised cost or fair value.
- (xxxi) Bank overdrafts can be offset against cash and cash equivalents only if the offsetting conditions of Ind AS 32, *Financial Instruments: Presentation*, i.e. legal enforceable right to offset and intention to net settle, are met. This does not preclude companies from presenting bank overdrafts as a component of cash and cash equivalents in the statement of cash flows where bank overdrafts form integral part of an entity's cash management system.
- (xxxii) Trade and security deposits that do not meet the definition of financial liability shall be classified as other current liabilities/non-current liabilities, as applicable.

### **Statement of profit and loss:**

- (i) Revenue shall be presented net of goods and service tax (GST), since GST is collected by an entity on government's behalf and not on its own account.
- (ii) Manufacturing companies are required to disclose costs of material consumed on the face of the statement of profit and loss. Material consumed would consist of raw materials, packing materials (where classified by the company as raw materials) and other materials such as purchased intermediates and components which are 'consumed' in the manufacturing activities of the company. However, intermediates and components which are internally manufactured are to be excluded from the classification.
- (iii) Internally manufactured components may be classified as follows:
- (a) where components are sold without further processing they are to be disclosed as 'finished goods'.
  - (b) where components are sold only after further processing, they are to be disclosed as 'work-in-progress' but they may also be disclosed as 'manufactured components subject to further processing' or with such other suitable description as 'semi-finished products' or 'intermediate products'.
  - (c) where such components are sometimes sold without further processing and sometimes after further processing it is better to disclose them as 'manufactured components'.
- (iv) The term 'raw material' would generally mean to include materials which physically enter into the composition of the finished product. Materials, such as stores, fuel, spare parts which do not enter physically into the composition of the finished product, would therefore, be excluded from the purview of the term 'raw materials'.
- (v) Whether packaging material constitute a category of 'raw material' for the purpose of classification depends upon the facts and circumstances of each case, the nature of the containers and packaging materials, their relative value in comparison to the raw materials consumed, and other similar considerations. Where, however, packaging materials, because of their nature are included in raw materials it is preferable to show the description as 'raw materials including packaging materials consumed'.

- (vi) The guidance note recommends that disclosure related to raw materials consumed should relate to actual consumption rather than ‘derived consumption’. The latter figure is ordinarily obtained by deducting the closing inventory from the total of the opening inventory and purchases, but this figure may not always represent a fair indication of actual consumption because it might conceal losses and wastages. On the other hand, if the figure of actual consumption can be compiled from issue records or other similar data, it is likely to be more accurate.

Where it is not possible to accurately determine actual consumption, the derived figure of consumption may be shown and it is left to the company, according to the circumstances of each case, to determine whether any footnote is required to indicate that the consumption disclosed is on the basis of derived figures rather than actual records of issue.

- (vii) Ind AS Schedule III requires purchases of stock in trade to be presented separately on the face of the statement of profit and loss. Stock-in-trade refers to goods purchased normally with the intention to resell or trade in. In case, any semi-finished goods/materials are purchased with an intention of doing further processing activities on the same, the same should be included in ‘cost of materials consumed’ rather than under this item.
- (viii) Ind AS Schedule III states that changes in inventories finished goods, work-in-progress and stock-in-trade should be presented on the face of the statement of profit and loss. Disclosure is required of difference between opening and closing inventories of finished goods, work-in-progress and stock-in-trade. The difference should be disclosed separately for finished goods, work-in-progress and stock in trade.
- (ix) Presentation of income as ‘other operating revenue’ or ‘other income’ depends upon facts of each case and detailed understanding of the company’s business. For instance, a company engaged in manufacture and sale of consumer goods also has a real estate arm which is continuously engaged in leasing of real estate properties, the rent income from such leasing activity is likely to be classified as ‘other operating revenue’. On the other hand, consider a consumer products company which owns 10 storied building. The Company currently does not need one floor for its own use and has given the same temporarily on rent. In such case, the lease rent shall be classified as ‘other income’.
- (x) Fair value gains or losses on financial assets which are measured at fair value through profit or loss (FVTPL) such as derivatives, investments designated or classified at FVTPL, etc. should be disclosed in the notes under ‘net gains/(losses) on fair value changes’ grouped under ‘other non-operating income’.

	Current year	Comparative
Investments classified at FVTPL		
Investments designated at FVTPL		
Derivatives at FVTPL		
Other financial instruments designated at FVTPL		
Other financial instruments classified at FVTPL		
Reclassification adjustments		
Realised gain on debt instrument classified as FVOCI		
Others (specify nature)		
Total net gains/(losses) on fair value changes*		

\*total net gains (losses) on fair value changes included Rs. XXX (previous year Rs. XXX) as ‘net gain or loss on sale of investments’.

- (xi) Interest income from financial assets that are measured at amortised cost and that measured at fair value through other comprehensive income (FVOCI), shall be disclosed separately in the notes to the financial statements grouped under interest income.



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- (xii) With respect to financial assets at FVTPL, a company shall disclose whether the interest income on the financial assets shall form part of fair value changes or shall be presented as interest income. This is an accounting policy choice.
- (xiii) Share of profits/losses in a partnership firm or a limited liability partnership (LLP) shall be recognised in separate financial statements as income as and when right to receive the profit share is established, except where the partnership is identified as 'joint operation'. Where a partnership is identified as a 'joint operation', the share of income, expenses, assets or liabilities will have to be accounted by the company in its separate financial statements as per Ind AS 111, *Joint Arrangements*.

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Whereas, as per the guidance note issued by ICAI on Non-Ind AS schedule III, share of profit or loss in a partnership firm is accrued the moment the same is computed and credited or debited to the capital/current account of the company in the books of partnership firm. Under Ind AS, recognition of profit or loss shall be based on the principles discussed above.

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- (xiv) Exchange differences arising on foreign currency borrowings which is considered as an adjustment to borrowing costs in accordance with para 6(e) of Ind AS 23, *Borrowing Costs* and which does not qualify for capitalisation, shall be presented under finance costs. As per para 6(e) of Ind AS 23, exchange loss on foreign currency borrowings to the extent of the difference between cost of borrowing in functional currency and cost of borrowing in foreign currency shall be considered as 'borrowing cost'. Exchange loss over and above that considered as an adjustment to borrowing costs shall be presented under 'other expenses'.
- (xv) Entities have a choice in presenting net interest on defined benefit liability. Net interest on defined benefit liability may be presented under interest expense or as part of employee benefit expense.
- (xvi) Dividend on preference shares, whether redeemable or convertible, is of the nature of 'interest expense', only where there is no discretion of the issuer over the payment of such dividends. In such case, the portion of dividend as determined by applying the effective interest method should be presented as 'interest expense' under 'finance cost'. Accordingly, the corresponding dividend distribution tax (DDT) on such portion of non-discretionary dividends should also be presented in the statement of profit and loss under 'interest expense'.
- (xvii) Where there is a discretion of issuer over the payments of dividend on preference shares, whether redeemable or convertible, the dividend is in the nature of distribution of profit and accordingly, shall be presented in statement of changes in equity. The corresponding DDT on such dividend should also be presented in statement of changes in equity.
- (xviii) Additional line items may be presented on face of financial statements where such presentation is relevant to the understanding of the company's position or performance or to cater to industry/sector-specific disclosure.

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Earnings before interest, tax, depreciation and amortisation (EBITDA) is often an important measure of financial performance of the company relevant to various users of financial statements and stakeholders of the company. A company may choose to present the same as an additional line item on the face of statement of profit and loss. Companies should disclose the policy followed in the measurement of such items. Method of computation should be consistently followed.

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- (xix) Presentation of any items of income or expense as 'extraordinary items' is prohibited.
- (xx) Ind AS Schedule III requires 'exceptional items' to be presented on the face of the statement of profit and loss. The term exceptional item is neither defined in Ind AS Schedule III or in Ind AS. Ind AS 1 states that when items of income or expenses are material, an entity shall disclose their nature and
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amount separately. Para 98 of Ind AS 1 gives example of circumstances that would give rise to the separate disclosure of items of income and expenditure.

These include:

- (a) write downs of inventories to net realisable value or of PP&E to recoverable amount, as well as reversals of such write-downs;
- (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
- (c) disposals of items of PP&E/investments;
- (d) discontinued operations;
- (e) litigation settlements; and
- (f) other reversals of provisions

In case the company has more than one such item of income/expense of the above nature which is exceptional, then such items should be disclosed on face of the statement of profit and loss with disclosure of the details in the notes.

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We believe that an entity presenting 'exceptional item' in the statement of profit or loss, should also disclose the definition of the term in the accounting policy note. The presentation and definition of exceptional item must be applied consistently from year to year.

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- (xxi) Interest on shortfall in the payment of advance income-tax is in the nature of finance cost and accordingly should not be clubbed with the current tax. Such interest should be classified as interest expenses under 'finance costs'.
- (xxii) Penalties levied under income tax law should not be classified as current tax. Penalties which are compensatory in nature should be classified as interest expenses under finance costs. Other tax penalties should be classified under 'other expenses'.

### **Other disclosures:**

- (i) Disclosures mandated by other Acts or legal requirements or pronouncements of regulatory bodies such as ICAI shall be made in the financial statements. For instance, disclosures required by the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 shall be made in the separate financial statements of an entity.
- (ii) Ind AS Schedule III requires disclosures of the 'details' of the loans given to related parties. The term 'details' shall mean disclosure requirements of Ind AS 24, *Related Party Disclosures*.
- (iii) Ind AS Schedule III requires that nature of security of borrowings shall be specified separately in each case. A blanket disclosure of different securities covering all loans classified under the same head such as 'All term loans from banks' will not suffice. However, where one security is given for multiple loans, the same may be clubbed together for disclosures purposes.
- (iv) Disclosure of nature of security should also cover the type of asset given e.g. inventories, PP&E and land and building.
- (v) Ind AS Schedule III requires the disclosure of repayment terms of borrowings. This includes the period of maturity with respect to the balance sheet date, number and amount of instalments dues, the applicable rate of interest and other significant relevant terms, if any.
- (vi) The amount of borrowings guaranteed by directors or others shall be disclosed separately for each category of borrowing.

## Frequently Asked Questions (FAQs)

1. Are all disclosures of Ind AS Schedule III presented in the separate financial statements required to be repeated or reproduced in the consolidated financial statements (CFS)?

**Response:**

Like Non-Ind AS Schedule III, Ind AS Schedule III requires that provisions of the Schedule shall *mutatis mutandis* apply to consolidated financial statements. The MCA vide general circular no. 39 dated 14 October 2014 had clarified that Schedule III to the Companies Act, 2013 does not envisage that a company while preparing its CFS merely repeats the disclosures made by it under separate financial statements. Accordingly, a company would need to give the disclosures relevant to CFS only. As per the guidance note, the requirements of Ind AS Schedule III shall apply to CFS subject to the following exemptions/modifications based on the relevance to CFS:

Ind AS Schedule III requirements	Applicability to CFS
Share capital – authorised, issued, subscribed and paid up	It is adequate to present the paid up capital and any calls in arrears
Sources from which bonus shares are issued	Not relevant at CFS level and may be dispensed with
Disclosures of all unutilised monies out of issue of securities indicating the form in which such unutilised funds have been invested	Not relevant at CFS level and may be dispensed with
Period and amount of continuing default as on balance sheet date in repayment of borrowings and interest	Disclosure may be limited to items which are material to the CFS. Materiality could be considered at 10% of the respective balance sheet item
Loans and advances/Debt due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.	Disclosure may be limited to items which are material to the CFS. Materiality could be considered at 10% of the respective balance sheet item
Disclosure towards payments to auditors, amount of expenditure incurred on corporate social responsibility activities and disclosures under MSMED Act, 2006	Not relevant at CFS level and may be dispensed with

2. Where should gain or loss arising on changes in the proportion of equity held by non-controlling interest be presented?

**Response:**

Ind AS 110, *Consolidated Financial Statements* para B96 requires than an entity shall recognise directly in 'equity' any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent. Ind AS does not specify where such gain/loss should be presented within 'other equity'. An entity may present such gain/loss separately as 'non-controlling interest reserve' shown under 'other reserve' by specifying its nature.

3. Can land and building be presented as a single class of PP&E under Ind AS Schedule III?

**Response:**

Para 37 of Ind AS 16, *Property, Plant and Equipment* gives an example of grouping land and building under the same class for revaluation purposes. The para states that a class of PP&E is a grouping of assets of a similar nature and use in an entity's operations. However, Ind AS Schedule III requires presentation of

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land and building as separate class of PP&E. Accordingly, companies should follow the presentation requirement of Ind AS Schedule III.

4. Is a company required to disclose the aggregate carrying amount of quoted investments and market value thereof under Ind AS Schedule III?

**Response:**

Ind AS Schedule III requires disclosure of the aggregate carrying amount of quoted investments and market value thereof and the aggregate carrying amount of the unquoted investments. This disclosure is required separately for non-current investments and current investments. The market value of quoted investments would generally mean fair value of investments. Where investments are measured at either fair value through profit or loss or fair value through other comprehensive income, the market value and the carrying value of the investments is generally expected to be same.

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Ind AS 113, *Fair Value Measurement* defines fair value and also states that the fair value of assets might be affected when there has been a significant decrease in the volume or level of activity for that asset in relation to normal market activity for that asset. A decrease in the volume or activity on its own may not indicate that a quoted price does not represent fair value. However, if a company determines that a quoted price does not represent fair value, then market value of the investment would be different than its fair value.

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5. Ind AS Schedule III requires disclosure of aggregate value of impairment in the value of investments, which investments are covered within the scope of this disclosure?

**Response:**

As per Ind AS 109, an entity is required to recognise a loss allowance (i.e. impairment) for expected credit losses on investments measured at amortised cost. Further, with respect to debt instruments measured at fair value through other comprehensive income, an entity is required to estimate the portion of fair value changes attributable to a change in credit risk by applying the impairment requirements of Ind AS 109 and recognise the loss allowance in the statement of profit and loss with a corresponding adjustment to other comprehensive income. Accordingly, investments at amortised cost and debt instruments at fair value through comprehensive income would be covered within the scope of the disclosure. The disclosure do not apply to equity instruments measured at fair value and all other investments measured at fair value through profit or loss.

6. Ind AS Schedule III requires nature and extent of investment in each body corporate to be disclosed? What does term 'nature and extent' mean?

**Response:**

Ind AS Schedule III requires disclosure of the 'nature and extent' of the investment made. Ordinarily, the nature and extent of investment would imply the number of such instruments held and the face value of such instrument. However, in case of a structured entity, rights are mainly established by way of contractual arrangements and therefore as a part of 'nature and extent', a brief description of the nature of contracts may be provided along with the rights held in such entities as evidenced by such contracts.

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Structured entity is an entity that has been designed so that voting power or similar rights are not dominant factor in deciding who controls the entity, such as when any voting rights are related to administrative tasks only and the relevant activities are directed by means of contractual agreements.

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7. How should investments be disclosed in the financial statements?

**Response:**

As per Ind AS 107, carrying amounts of each investments under the scope of Ind AS 109 shall be disclosed either in the balance sheet or in the notes under the following categories:

- (i) Measured at amortised cost
- (ii) Mandatorily measured at FVTPL
- (iii) Designated at FVTPL
- (iv) Measured at FVOCI
- (v) Designated at FVOCI

Ind AS Schedule III further requires investments to be classified as per the nature (e.g. investment in equity instruments, preference shares, debentures or bonds, etc.). Accordingly, companies may disclose investments by grouping them in the following manner:

- (i) Broad categories of Ind AS 107 discussed above
- (ii) Under each broad category, nature wise classification as per Ind AS Schedule III
- (iii) Under each nature-based classification, grouping based on the relationship of bodies corporate (i.e. subsidiaries, associates, joint ventures and structured entities)
- (iv) Under each grouping of bodies corporate, details of names of body corporate and nature and extent of investments in body corporate (These details are required for investments in subsidiaries, associates, joint ventures, structured entities and equity investments measured at FVOCI)

An entity is permitted to present the information in other ways by changing the order of grouping.

8. An entity has invested in a partnership firm. Are there any specific disclosures under Ind AS Schedule III for the investment in a partnership firm?

**Response:**

Schedule III provides certain disclosures where company is a partner in partnership firm. Investment in capital of partnership firm should be separately disclosed from other investments. In addition, in the notes to accounts, separate disclosure is required with regards to the names of the firms in which the company is a partner, along with the names of their partners, total capital and the shares of each partner. Separate disclosure is required by reference to each partnership firm in which the company is a partner.

Specific disclosures pertaining to investments in partnership firms do not extend to limited liability partnerships. As per the guidance note:

- (i) In case of a change in the constitution of the firm during the year, the names of the other partners should be disclosed by reference to the position as on the Company's balance sheet date.
- (ii) The total capital of the firm to be disclosed should be with reference to the amount of capital on date of the company's balance sheet. If it not practicable to draw up the financial statements of the partnership firm up to such date, adjustments should be made for the effects of significant transactions or other events till the date of the company's balance sheet. In any case, the difference between reporting dates should not be more than three months.
- (iii) For disclosure of the share of each partner, share of each partner in profits should be disclosed.

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9. How should application money paid towards securities not yet allotted be presented in the balance sheet?

**Response:**

Any application money paid towards securities, where security has not been allotted on the date of balance sheet, shall be disclosed as a separate line item under 'other non-current financial assets'. In case the investment is of current in nature, such share application money shall be accordingly, disclosed under 'other current financial assets'. If the amount is material, details about the date of allotment or when the allotment is expected to be completed may also be disclosed.

10. How should finance lease receivables be classified under Ind AS Schedule III?

**Response:**

Ind AS Schedule III does not specify the presentation of finance lease receivables unlike finance lease obligations which are to be grouped under 'Financial Liabilities'. The scope paragraph of Ind AS 32, Ind AS 109 and Ind AS 107 acknowledges that rights and obligations under leases, to which Ind AS 17, *Leases* applies, are financial instruments but their measurement is excluded from the scope of these standards. Accordingly, the non-current portion of a finance lease receivable shall be presented here under 'Other non-current financial assets' while its current portion shall be presented under 'Other current financial assets'.

11. How should advances paid be classified under Ind AS Schedule III?

**Response:**

Capital advances paid are classified under 'other non-current assets'. Classification of other advances depends on whether the advance meets the definition of financial asset as per Ind AS 32. Advance which meets the definition of financial asset (e.g. where the advance will be settled in cash) shall be classified under 'other non-current financial asset/other current financial assets' depending upon whether the settlement is within 12 months from the reporting date. Advances that do not meet definition of financial asset shall be classified under 'other current assets/non-current assets', as applicable.

12. What disclosures apply to instruments that are entirely equity in nature from issuer's perspective such as compulsory convertible preference shares?

**Response:**

Instruments which are entirely equity in nature such as compulsory convertible preference shares and compulsory convertible debentures shall be presented as a separate line item on face of balance sheet under 'equity' after 'equity share capital' but before 'other equity'. Statement of changes in equity shall present movement in each such instrument separately. All disclosure required by Ind AS Schedule III for equity share capital (for e.g. number of shares issued and subscribed, number and amount of shares authorised, par value of share, shares held by each shareholder holding more than 5% shares, shares held by holding company or the ultimate holding company including shares held by subsidiary or associate of holding or ultimate holding company, etc.) shall be provided for such instruments, to the extent applicable.

13. What disclosures apply to compound instruments which have both equity and liability components?

**Response:**

Ind AS Schedule III highlights that the disclosure and presentation requirements as applicable to the relevant class of 'Equity' or 'Liability' shall be applicable *mutatis mutandis* to the instruments (including, their components) classified and presented under the relevant heads in 'Equity' and 'Liabilities'. Accordingly, the guidance note recommends that the companies provide all the relevant disclosures for 'Equity component of a compound financial instrument' as applicable to 'Equity Share Capital', to the extent applicable. An example could be to disclose, for equity component of compound financial instrument, terms of any securities convertible into equity shares issued along with the earliest date of conversion in descending order starting from the farthest such date, etc. For the liability component of compound financial instruments, all the disclosures applicable to 'Borrowings' shall be made, to the extent applicable. An example could be to disclose the rate of interest, particulars of redemption or conversion stated in descending order of maturity or conversion, etc.



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14. Ind AS Schedule III requires disclosure of the number of shares in the company held by each shareholder holding more than 5% shares. Does the disclosure apply to a shareholder whose shareholding was more than 5% during the year, but as at the balance sheet falls below 5%?

**Response:**

As per the guidance note, the date for computing such percentage should be taken as the balance sheet date. Accordingly, if during the year, any shareholder held more than 5% equity shares but does not hold more than 5% at the balance sheet date, the disclosure is not required.

15. How should re-measurements of defined benefit plans be presented under equity?

**Response:**

A company shall present accumulated re-measurements of defined benefit plans as a part of the retained earnings with separate disclosure of such item with relevant amounts in the notes.

16. Ind AS Schedule III requires borrowings to be sub-classified as secured and unsecured? Which loans can be presented as secured loans?

**Response:**

A loan which is secured on the assets of the company shall be classified as secured. When promoters or other shareholders or any third party have given any personal security for the loan, then such security does not result in the classification of the loan as secured.

17. What are the disclosures required for default in repayment of borrowings?

**Response:**

Ind AS Schedule III requires that period and the amount of default in repayment of borrowings and interest as on the balance sheet date shall be specified separately in each case. Even one default by a company would create an obligation to disclose the period and amount of default. This disclosure shall be provided even if the default was remediated before the financial statements are approved for issue.

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Ind AS 107 para 18 requires following disclosure in respect of defaults:

For loans payable recognised at the end of the reporting period, an entity shall disclose:

- (a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;
- (b) the carrying amount of the loans payable in default at the end of the reporting period; and
- (c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were approved for issue.

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18. What are the disclosures required for breaches of loan agreement terms (e.g. covenants)?

**Response:**

Ind AS Schedule III does not require any disclosure of breaches of loan agreement terms. However, Ind AS 107 para 19 requires an entity to disclose the same information as required for defaults if breaches of loan agreement terms (other than defaults described in Ind AS 107 para 18) made during the reporting period, permitted the lender to demand accelerated repayment and were not remediated on or before the end of the reporting period.

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Ind AS 1 para 74 states that where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

In situations where lender agreed, after the reporting period and before the approval of financial statements for issue, not to demand payment as a consequence of breach, the entity would classify such liability as non-current. However, they would still have to provide relevant disclosures prescribed in Ind AS 107 for breaches of loan agreement terms because the breaches were not remediated on or before the end of the reporting period.

19. Which contractual agreements should be disclosed as part of commitments?

**Response:**

Ind AS Schedule III requires disclosure of commitment classified as (a) estimated amount of capital contracts; (b) uncalled liability on shares and other investments partly paid; and (c) other commitments. The disclosures required to be made for 'other commitments' should include only those non-cancellable contractual commitments (i.e. cancellation of which will result in a penalty disproportionate to the benefits involved) based on the professional judgement of the management which are material and relevant in understanding the financial statements of the company and impact the decision making of the users of financial statements.

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Examples may include commitments in the nature of buy-back arrangements, commitments to fund subsidiaries and associates and derivative related commitments etc.

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20. A Company has given a guarantee to a banker undertaking to perform its own contractual obligations. Will these guarantees be disclosed as contingent liabilities under Ind AS Schedule III?

**Response:**

Ind AS Schedule III requires separate disclosure of guarantees excluding financial guarantees as contingent liabilities. A contingent liability in respect of guarantees arises when a company issues guarantees to another person on behalf of a third party e.g. when it undertakes to guarantee the loan given to a subsidiary or to another company or gives a guarantee that another company will perform its contractual obligations. However, where a company undertakes to perform its own obligations, and for this purpose issues, what is called a 'guarantee', it does not represent a contingent liability and it is misleading to show such items as contingent liabilities in the balance sheet. For various reasons, it is customary for guarantees to be issued by bankers e.g. for payment of insurance premium, deferred payments to foreign suppliers and letters of credit etc. For this purpose, the company issues a 'counter-guarantee' to its bankers. Such 'counter-guarantee' is not really a guarantee at all, but is an undertaking to perform what is in any event the obligation of the company, namely, to pay the insurance premium when demanded or to make deferred payments when due. Hence, such performance guarantees and counter guarantees should not be disclosed as contingent liabilities.

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Ind AS Schedule III requires guarantees other than financial guarantees to be disclosed as a part of contingent liabilities, since financial guarantees are recognized on the balance sheet in accordance with Ind AS 109. Ind AS 107 specifies certain disclosure in respect of the exposure to credit risk on financial guarantee contracts as a part of the disclosures on 'credit risk exposures', which an entity should provide in its notes to accounts.

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21. Ind AS Schedule III requires specific disclosures of arrears of fixed cumulative dividend on irredeemable preference shares. Since the Companies Act, 2013 does not permit issue of irredeemable preference shares, to which instruments shall the disclosure apply?

**Response:**

Ind AS Schedule III requires separate disclosure of the arrears of fixed cumulative dividends on irredeemable preference shares. The guidance note clarifies that the term 'irredeemable' is used in the context of compulsorily convertible preference shares rather than in the context of perpetual preference shares which are neither convertible nor redeemable.

22. What are types of finance charges that can be classified as interest expense?

**Response:**

- (a) Interest cost on financial liabilities at amortised cost;
- (b) Unwinding of the discount that results in increase in financial liabilities such as security deposit for assets on lease;
- (c) Increases in the carrying amount of provisions/decommissioning liabilities where such an increase reflects passage of time;
- (d) Finance charges on finance lease; and
- (e) Net interest on net defined benefit liability.

23. How should tax effects of items forming part of other comprehensive income (OCI) be presented?

**Response:**

Ind AS 1 provides a choice of presentation for tax effects of items presented in OCI. Any entity may present OCI items either net of related tax effects or before related tax effects with one amount shown for the aggregate amount of income tax relating to those items. If an entity elects the second alternative, then it shall allocate the tax between the items of OCI that will be reclassified subsequently to profit or loss and those that will not be reclassified subsequently to the profit or loss. If an entity elects the first alternative, then it shall disclose the amount of income tax relating to each component of other comprehensive income in notes to accounts as required by Ind AS 12.

24. How should bargain purchase gain arising in a business combination be presented in the statement of changes in equity?

**Response:**

Ind AS Schedule III does not highlight the presentation of bargain purchase gains arising in a business combination. Para 34 of Ind AS 103, *Business Combinations*, requires an acquirer to recognise a bargain purchase gain in other comprehensive income on the acquisition date, after meeting the requirements of para 36 of Ind AS 103 i.e. where there exists clear evidence of the underlying reasons for classifying the business combination as a bargain purchase. Such gain shall be attributed to the acquirer (i.e. parent and non-controlling interest) and may be presented under 'Other items of other comprehensive income' in statement of changes in equity. However, if the requirements of para 36 of Ind AS 103 are not met, then the acquirer shall recognise and disclose such gain directly in capital reserve as per para 36A of Ind AS 103.

25. Is net gain or loss on sale of investments required to be disclosed separately?

**Response:**

Ind AS Schedule III requires separate disclosure of net gain or loss on sale of investment. As highlighted in point (iii) of the statement of profit and loss section discussed above, this information may be provided as note to the table of 'net gains/losses on fair value changes'.

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26. How should contributions towards corporate social responsibility (CSR) be presented in the statement of profit and loss?

**Response:**

The guidance note draws attention to the disclosure requirements of guidance note on accounting for expenditure on CSR activities (Guidance note on CSR). As per the guidance note on CSR, it is recommended that all expenditure on CSR should be presented as a separate line item as 'CSR expenditure' in the statement of profit and loss. The relevant note should disclose the break-up of the various heads of expenses included in the CSR expenditure. The other disclosure requirements of the guidance note on CSR shall continue to be provided.

***The takeaway***

The guidance note provides comprehensive guidance on the requirements of Ind AS Schedule III. This would assist entities in preparing financial statements in accordance with Ind AS Schedule III by providing guidance on each of the item of the balance sheet, statement of profit and loss besides providing illustrative format for standalone and consolidated financial statements.


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