

FINANCIAL STATEMENTS

(in times never
imagined
by preparers or
auditors)

If we don't do, someone else will.....

CA M P Vijay Kumar

INSURANCE!!!

The views expressed are those of the presenter and therefore, do not necessarily represent the views of either the Council or any Committee(s) /Board(s) of the Council of the Institute of Chartered Accountants of India (ICAI).



Accounting Standards (AS): Disclosures Checklist

(Revised February, 2020)



The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

Accounting is
accountability

Accounting is base for tax,
governance, credit, investment,
sustenance

Opinion on FS is a
communication: should be
ONLY truthful and complete

M P Vijay Kumar

*“Throughout the world, there is a great awareness among citizens in general that **every learned profession should develop a sense of social purpose and social obligation and this should be more so in the case of the accounting profession,** which because of the present context in the country has assumed considerable importance.*

***The Chartered Accountant is a person on whom every member of the society could rely and rely strongly.** His certificate would be one by way of a seal and a hall mark of which would inspire confidence in the minds of all concerned as certificates by a person fully competent and holding a charter from the Supreme Legislature of the country for the purpose.”*



CONTEXT

if we don't do, someone else will



"The workplace is getting Digital First. And, why not?" - Narendra Modi

Internet is Meeting Room, Office breaks with Colleagues history": PM

Today, the world is in pursuit of new business models.

India, a youthful nation known for its innovative zeal can take the lead in providing a new work culture.

I envision this new business and work culture being redefined on the following vowels.

I call them- vowels of the new normal- because like vowels in the English language, these would become essential ingredients of any business model in the post-COVID world.

- the Prime Minister said.

19th April 2020



Adaptability, **E**fficiency, **I**nclusivity,

Oppportunity, **U**niversalism

CAUTION: if we don't do, someone else will

- ◆ After Unlocking, world will not be same as pre - 22nd March
- ◆ Social distancing will be practiced
- ◆ Public transport : there will be hesitation
- ◆ Junior staff; parents unlikely to allow for some more time to resume work : good number of audit staff are outstation or travel locally public transport.



- ◆ Domestic travel for verifications in person will be restricted and not cost effective for at least 6 months.
- ◆ Many client offices, entry will be restricted ; as they will also work practically
- ◆ Even one case in a large building and building will get quarantined for quite some time

FS on time – lets innovate execution

if we don't do, someone else will

**Evaluate – ability to do
audit through digital**

Delay leads to more uncertainty

Digital process

Use of videos for inventory check
where feasible

Access to client ERP through VPN

Data control; disabling pen drives



Accounting is continuous

There would be some recent record
of FA and Inventory verification

Use roll forward procedures. Other
cases use roll backward procedure
after lockdown is over

With WFH, All stakeholders want more assurance of:

- controls effectiveness- preventive and
detective
- completeness of accounting
- accuracy of accounting
- timeliness of accounting

Part 1 of
2

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FS on time – lets innovate execution

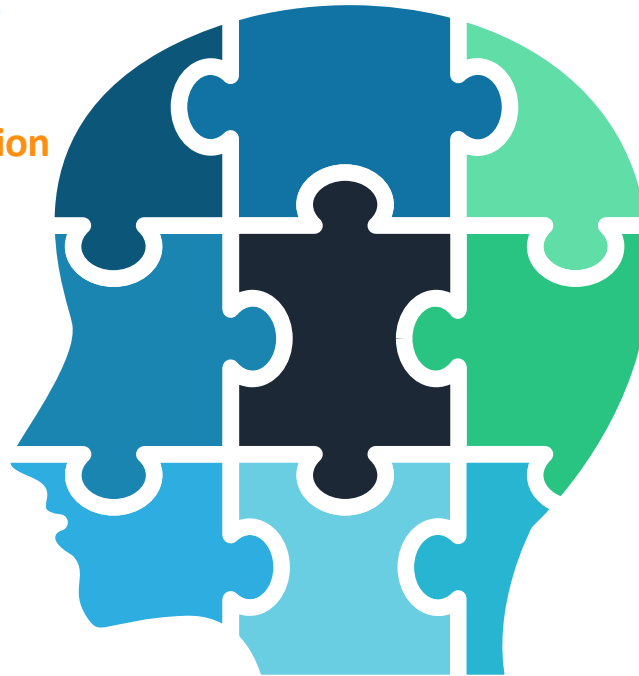
if we don't do, someone else will

Management has to own FS

Risk of arbitrage of information

Since companies are leveraged, risk will increase exponentially on Financial system and will cause irreversible damage

MANTRA : DISCLOSE & EXPLAIN



Auditor has to stay accountable to Audit opinion/report- no matter all the uncertainties, alternate audit procedures performed

For Audit firms – working capital needs will increase

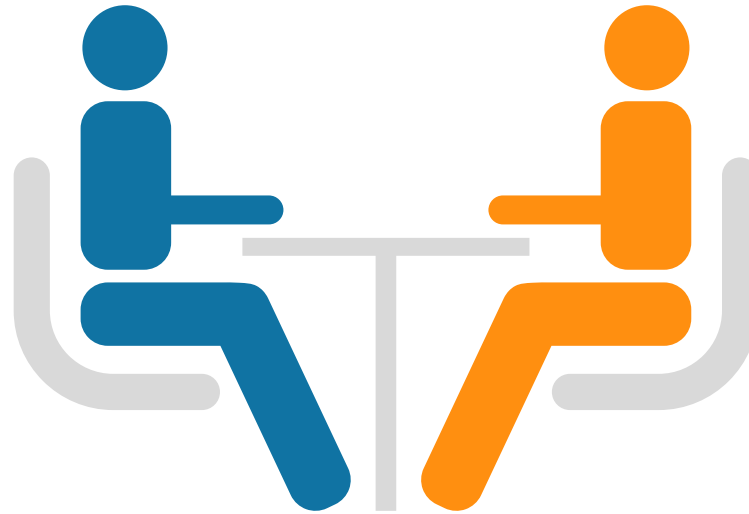
Accumulation of work might impact quality

Regulators will review after 3-5 years; context will not be in mind

ADVISORY BY ICAI

if we don't do, someone else will

- All NSS, Prudential regulators have reaffirmed importance of compliance with respective GAAP and believe that present guidance is adequate.
- IASB- has issued 2 advisories and made one amendment (Leases).



To Preparers

Ind AS, AS under Companies Act
and AS issued by ICAI



To Auditors

Audit considerations SA's

<https://resource.cdn.icai.org/58829icai47941.pdf>



The Institute of Chartered
Accountants of India

Joint Initiative of
Accounting Standards Board &
Auditing and Assurance Standards Board



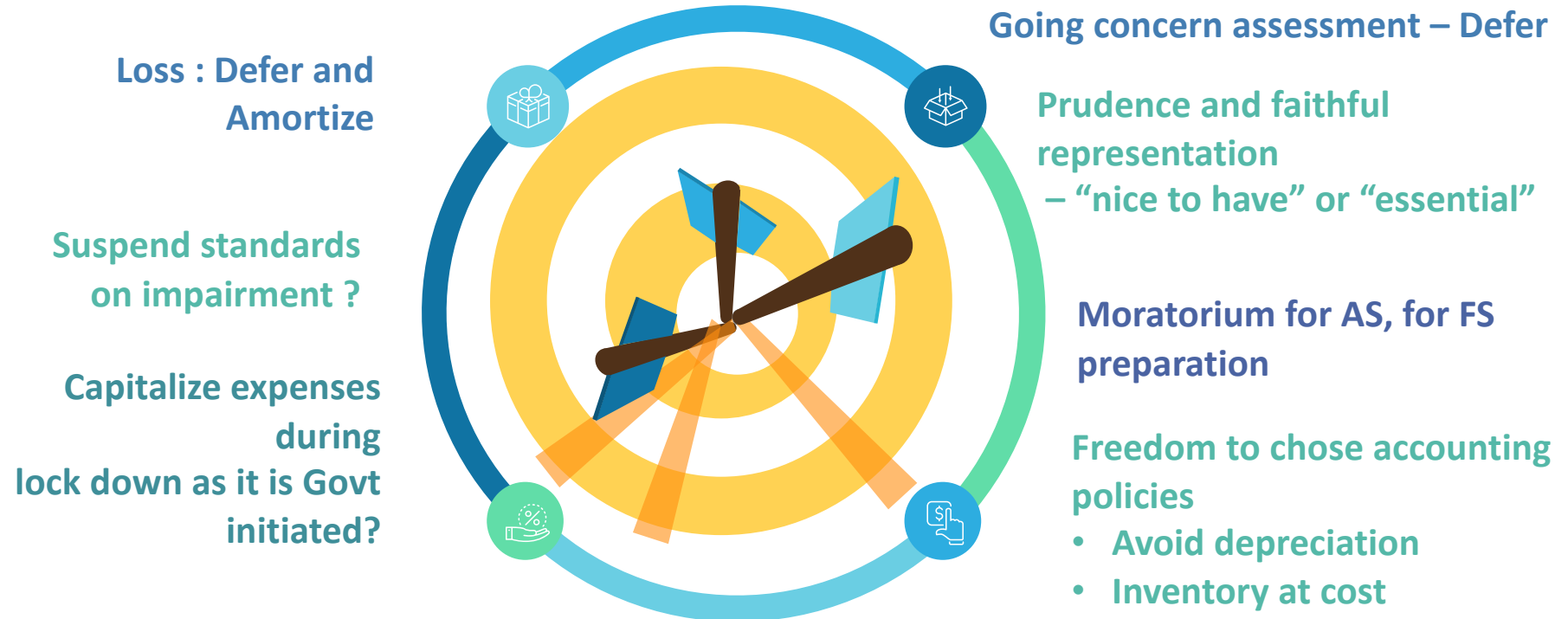
Financial Reporting

If we don't do, someone else will.....

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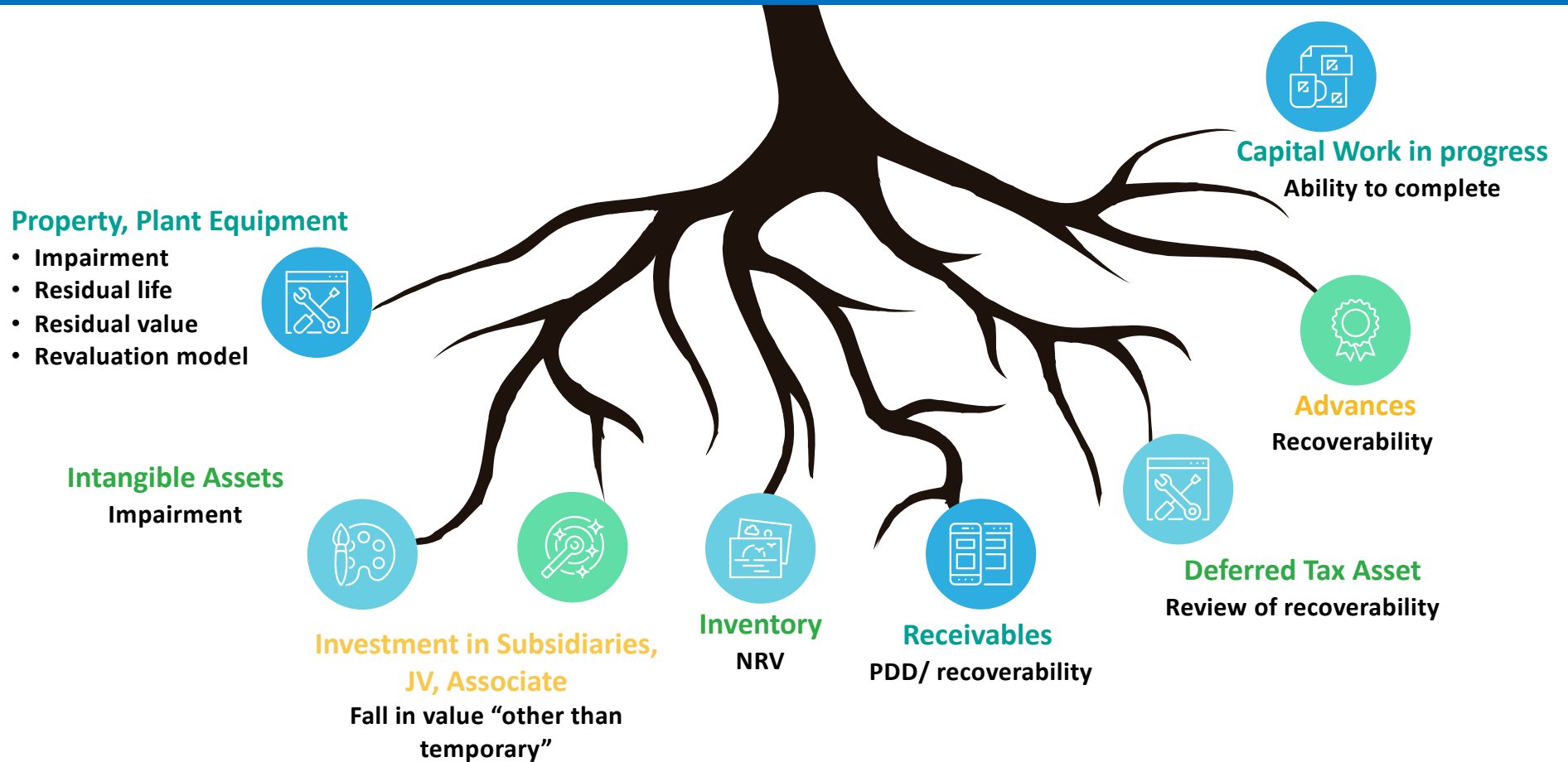
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Wild asks... imaginative..

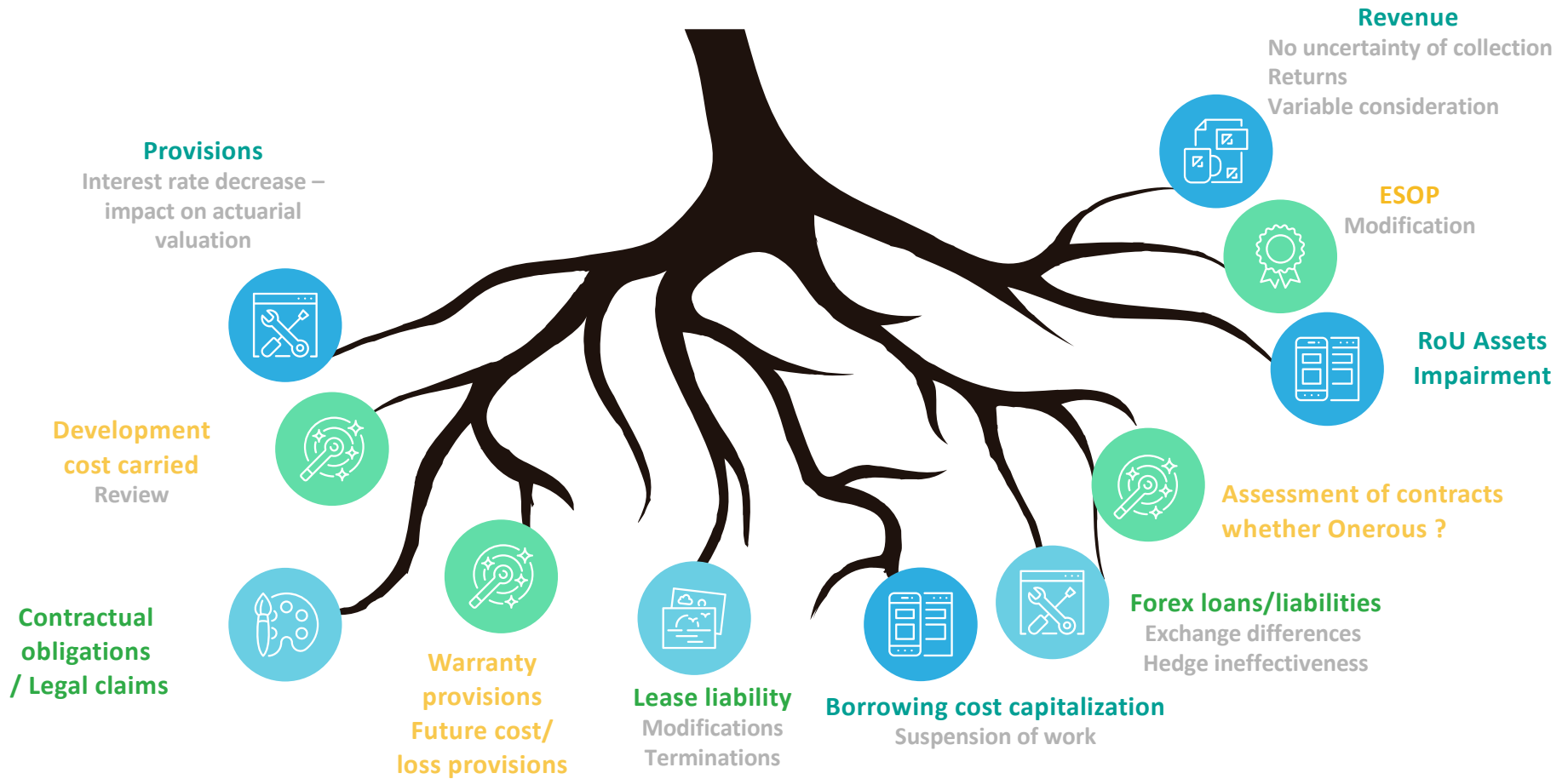


Bottom line: when there is sickness/uncertainty of health , hygiene and best practices are more important than ever

LOSSES



LOSSES



FEW DEVELOPMENTS

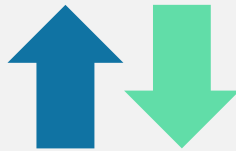
Loan Moratorium
For lender : consider as good unless there are indications of SICR before the moratorium

1

Employer portion of PF paid by Govt

Represents Govt grant to be recognized in Income statement – Ind AS 20/AS 12

3



2

CSR : contribution to PM CARES upto 30th June 20, considered for tax deductibility in FY 19-20:

If paid before earlier of approval of accounts by BoD and 30th June

Do not recognize spend/liability in FY 19-20 and recognize spend in FY 20-21

Recognize DTL in FY 19-20 and reverse it in FY 20-21

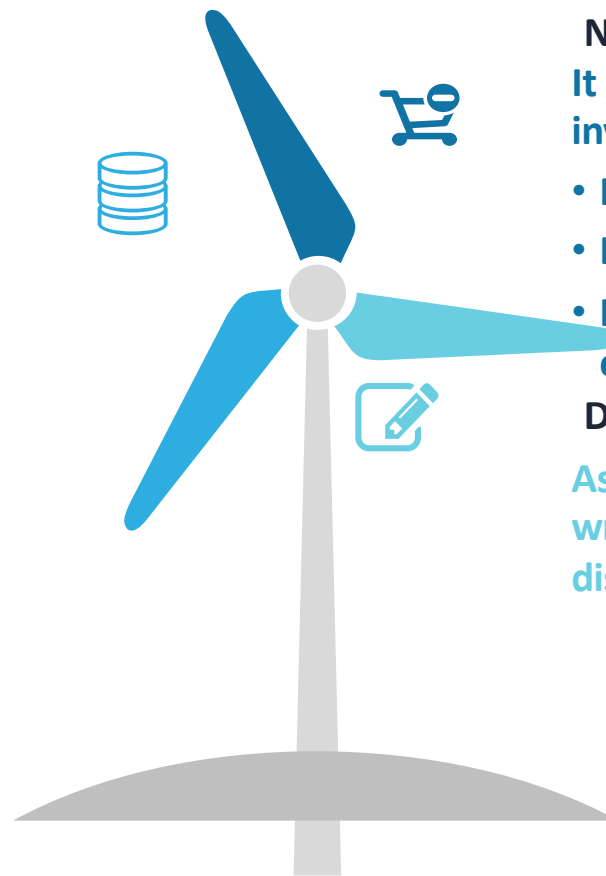
1. Measurement of Inventory

AS 2

Allocation of fixed production overheads

The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant.

Unallocated overheads are recognised as an expense in the period in which they are incurred.



NRV Consideration

It might be necessary to write down inventories to NRV due to:

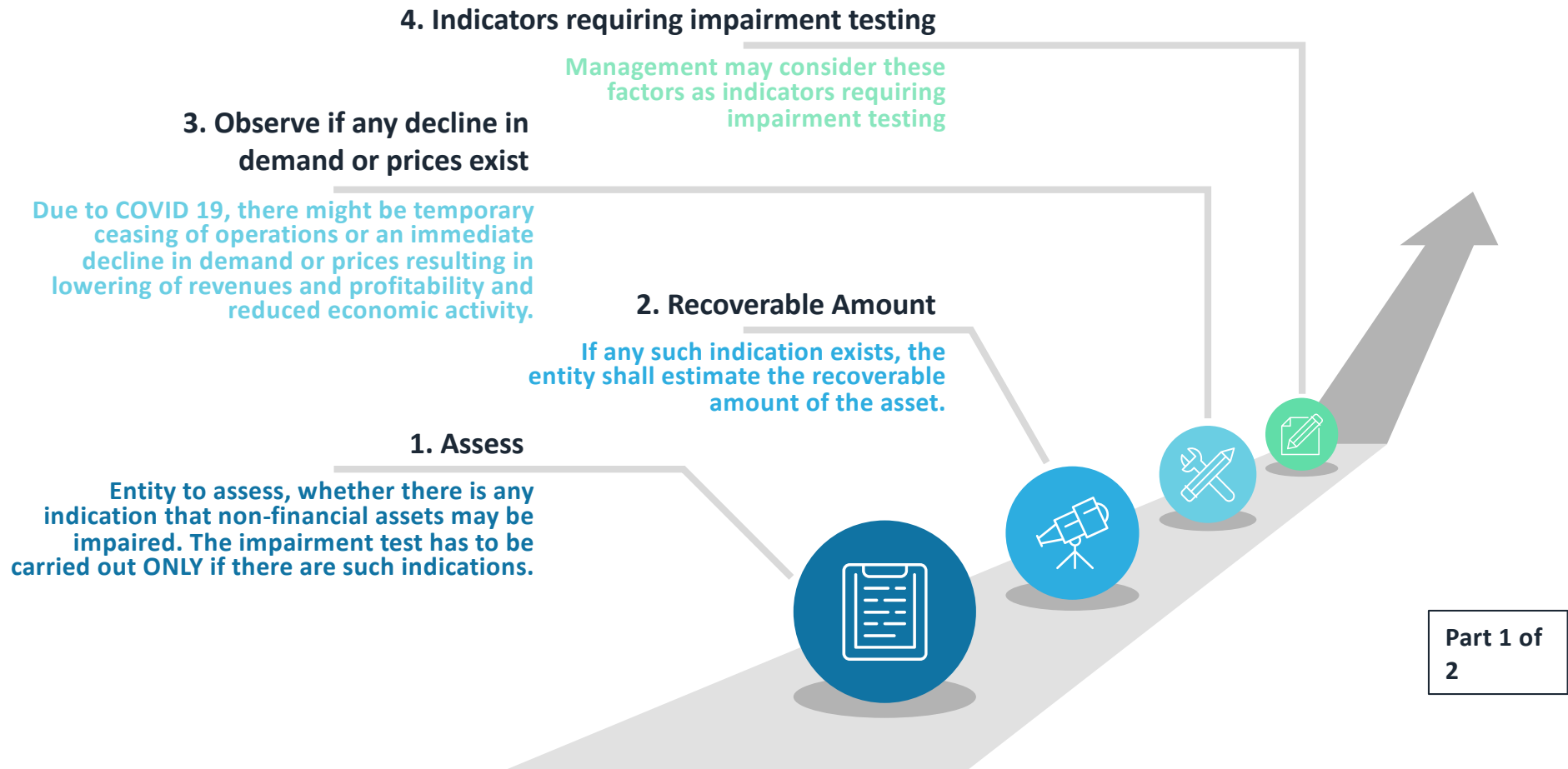
- Reduced movement in inventory
- Decline in selling prices
- Inventory obsolescence due to lower expected sales volume

Disclosures

Assess the significance of any write-downs and need to make disclosures

2. Impairment of Non-Financial Assets

AS 28



Impairment of Non-Financial Assets

AS 28

Contraction in economic activity

Contraction in economic activity due to COVID 19, is considered an impairment indicator at the reporting date for impairment assessment

Assumptions used

Assumptions used for impairment testing and determining recoverable amounts before the outbreak of COVID 19 require any change

Discount rate

The assumptions used to determine discount rate to measure the recoverable amount require any adjustments



Forecasts or budgets for future cash flows

The forecasts or budgets for future cash flows prepared by management to be updated to reflect the impact of COVID 19

Market assumptions

Market assumptions used to determine fair value for recoverable amounts need reconsideration

Reasonable assumptions

Reasonable assumptions are taken in estimating the value-in-use and fair value less costs of disposal and ensuring that the impairment loss is estimated reliably

Critical Factors to Consider

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Impairment: Measurement of VIU

Computation of VIU shall reflect:	Future cash flows estimations in (a) – considerations:
a) Cash flows expected to be derived from the asset	1) Reasonable & supportable assumptions representing management's 'Best Estimate' of range of economic conditions over the remaining useful life the asset .
b) Expectations about possible variations in amount and timing	2) Most recent financial budgets & forecasts approved by the management. Generally, this information is available & ' Reliable ' for next Five years.
c) Time Value of Money – current market risk-free interest rate	3) Projections <u>over longer period than Five years</u> have to be extrapolated using ' Steady or Declining ' Growth Rate . Justification required for Increasing growth rate and growth rate longer than long term average growth rate for the product, industry or country in which entity operates.
d) Price for bearing the uncertainty inherent in the asset	
e) Other factors e.g. illiquidity, which market participants would reflect	

Factors (b), (d) & (e) can be factored in Cash Flows in (a) or in discount rate along with (c) above

Impairment : Measurement of VIU

Measurement Prescriptions – VIU Future Cash Flow Estimations

- ❖ Outflows include day-to-day servicing costs & overheads directly attributable or allocated on reasonable basis.
 - ❖ In case of asset not yet ready for use, include estimated cash flows for completion.
 - ❖ To avoid double counting, do not include:
 - ✓ inflows from assets such as Trade Receivable which are independent of the cash flows from the assets under review.
 - ✓ outflows for which liability has already been recognised e.g. provisions, trade payables
 - ❖ Estimate cash flows of asset under current condition. Therefore, do not include cash flows from
 - ✓ future efficiencies
 - ✓ restructuring to which an entity is not yet committed
-

Impairment : Measurement of VIU

Measurement Prescriptions – VIU Future Cash Flow Estimations

- ❖ Shall **not** include:
 - ✓ Cash flows from financing activities e.g. interest income/expense/financing costs
 - ✓ Income Tax payments or receipts

- ❖ Foreign currency cash flows to be estimated in foreign currency & discounted using relevant foreign currency. Thereafter, those foreign currency present value are translated into local currency at the spot rate at the date of VIU.

Impairment : Measurement of VIU

Measurement Prescriptions – VIU Discount Rate

- ❖ Discount rate shall be '**Pre-Tax Rate**' that reflects current market assessments
 - ✓ the Time value of Money and
 - ✓ the risks specific to the asset
 - ❖ The risk specific to the asset can be viewed as the return the investors would require if they were to chose an investment that would generate cash flows equivalent to those the entity expects to derive fro the asset.
 - ❖ An asset-specific rate is generally not available in the market, hence the entities can use a surrogate as follows:
 - ✓ the entity's weighted average cost of capital determined using techniques such as the Capital Asset Pricing Model;
 - ✓ the entity's incremental borrowing rate
 - ✓ other market borrowing rates
 - ❖ Consideration should be given to country risk, currency risk.
 - ❖ Normally, a single discount rate is used but different rates can be used if the cash flows are sensitive to the term structure of the interest rates.
-

3. Provisions, Contingent Liabilities and Contingent Assets

AS 29



Onerous Contracts (including Executory Contracts)

As a result of COVID 19, some contracts may become onerous for reasons such as increase in cost of material/ labour, etc.

Test for impairment before a liability for an onerous contract is recognized.

Losses from imposition of penalty due to delay in supply of goods, may need to be considered.

If the management is unable to assess whether some of the executory contracts are onerous due to inadequacy of information, the same should be disclosed.



Contingent Assets – Insurance Claims

Entities may have insurance policies that cover loss of profits due to business disruptions due to events like COVID-19. Entities claims on insurance companies can be recognised only if the recovery is virtually certain i.e. the insurance entities have accepted the claims and the insurance entity will meet its obligations.



Recognition of Provisions

Provisions for future operating costs or future business recovery costs should not be made. An entity should however, disclose the nature of the obligation and the expected timing of the outflow of economic benefits

4. Going Concern Assessment

AS 1 and AS 4

A basis of preparation of financial statements under

Management responsible for making going concern assessment.

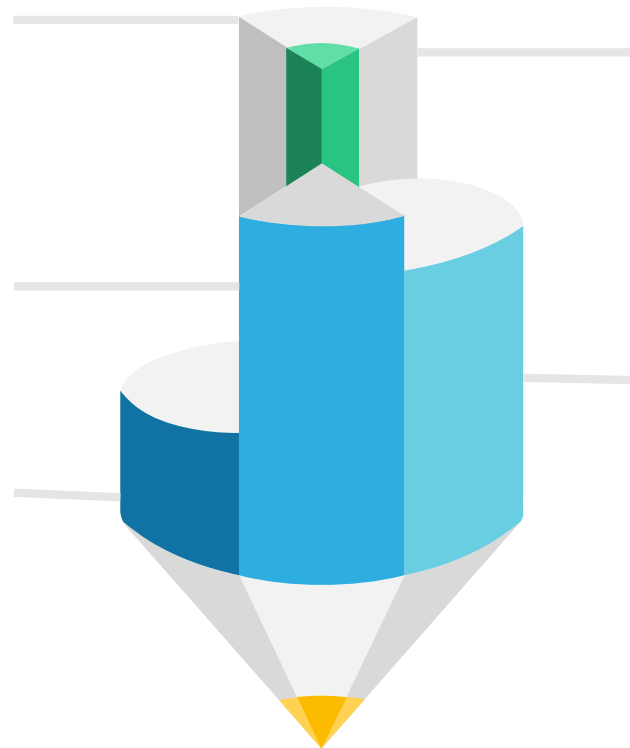
Fundamental to accounting for assets and liabilities

Assess the Impact of COVID 19

Entity should assess the impact of COVID-19 and the measures taken on its ability to continue as a going concern

Impact of COVID- 19 after the reporting date

If management after the reporting date either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so, the financial statements should not be prepared on going concern basis



Disclosures

Necessary disclosures shall also be made, such as material uncertainties that might cast significant doubt upon an entity's ability to continue as a going concern

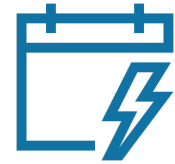
Audit

Auditors should robustly assess the going concern and viability risks relating to COVID-19 threat in compliance with SA 570 (R).

Includes evaluating whether there is adequate support for the assumptions underlying management's assessment and the consistency of these assumptions across the entity's business activities.

Going Concern... Management assessment

1. **Scenario 1:** When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis.
2. **Scenario 2:** In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.



Disclosure : If entity triggers the substantial-doubt threshold

Substantial Doubt Is Raised **but is alleviated** by Management's Plans

- Principal conditions or events
- Management's evaluation
- Management's plans

Substantial Doubt Is Raised **and is not alleviated** by Management's Plans

- Principal conditions or events
- Management's evaluation
- Management's plans
- Statement that there is "substantial doubt about the entity's ability to continue as a going concern"

Disclosures may change over time as new information becomes available and that disclosure of how the substantial doubt was resolved is required in the period in which substantial doubt no longer exists (before or after consideration of management's plans).

The mitigating effects of management's plans to alleviate substantial doubt should be evaluated only if :

1. the plans are approved before the financial statement issuance date and
2. both of the following conditions are met:
 - a. It is probable that management's plans will be effectively implemented within one year after the date that of financial statements.
 - b. It is probable that management's plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to to continue as a going concern within one year after the date of financial statements.

4. Post Balance Sheet Events

AS 4

1

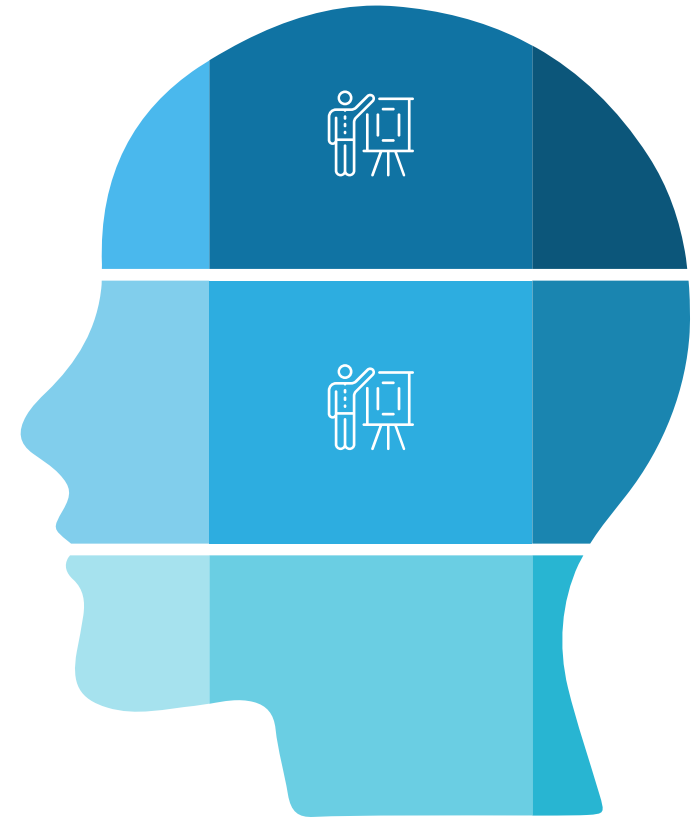
Disclose significant recognition and measurement uncertainties

Entities must disclose significant recognition and measurement uncertainties that might have been created by the outbreak of the COVID -19 in measuring various assets and liabilities.

2

Disclose how they have dealt with the impact

They should also disclose how they have dealt with the impact of COVID -19 on the financial position and financial performance of the entity



5. Property Plant and Equipment (PPE)

AS 10

Useful life and residual life of PPE needs revision in annual basis



Due to COVID-19, PPE can remain under-utilised or not utilised for a period of time.

- It may be noted that the standards require depreciation charge even if the PPE remains idle.
- Further, COVID-19 impact may have affected the expected useful life and residual life of PPE.

Consideration:

The management may review the residual value and the useful life of an asset due to COVID 19 and, if expectations differ from previous estimates, it is appropriate to account for the change(s) as an accounting estimate.

6. Presentation of Financial Statements

AS 1 / Schedule III

Breach of loan covenants

Including classification of liabilities into current and non-current

Instances of breach of loan covenants which may trigger the liability becoming due for payment and liability becoming current

Sources of estimation uncertainty under Ind AS 1

Many uncertainties about the likely future scenarios which may affect the estimations of amounts recognized in the balance sheet as of reporting date.

Comparative information

consider making adequate disclosures and explanatory notes regarding the impact of COVID- 19 on its financial position, performance and cash flows

7. Borrowing Costs

AS 16



Capitalization of interest

Capitalisation of interest is suspended when development of an asset is suspended.

The management may consider this aspect while evaluating the impact of COVID-19.

8. FINANCIAL INSTRUMENTS



Receivables & Investments – Loss recognition for AS Entities

AS 4 and AS 13 Applicable

Entities may have to carefully consider the requirements of making provisions for decline in the value of investments, which is other than temporary.

Banks and Insurance Entities - Preparers need to consider impact of COVID-19 on classification of Loans and Advances into Standard, Sub-standard, Doubtful and Loss categories the Prudential Regulatory requirements of RBI and The Insurance Regulatory and Development Authority of India (IRDAI).



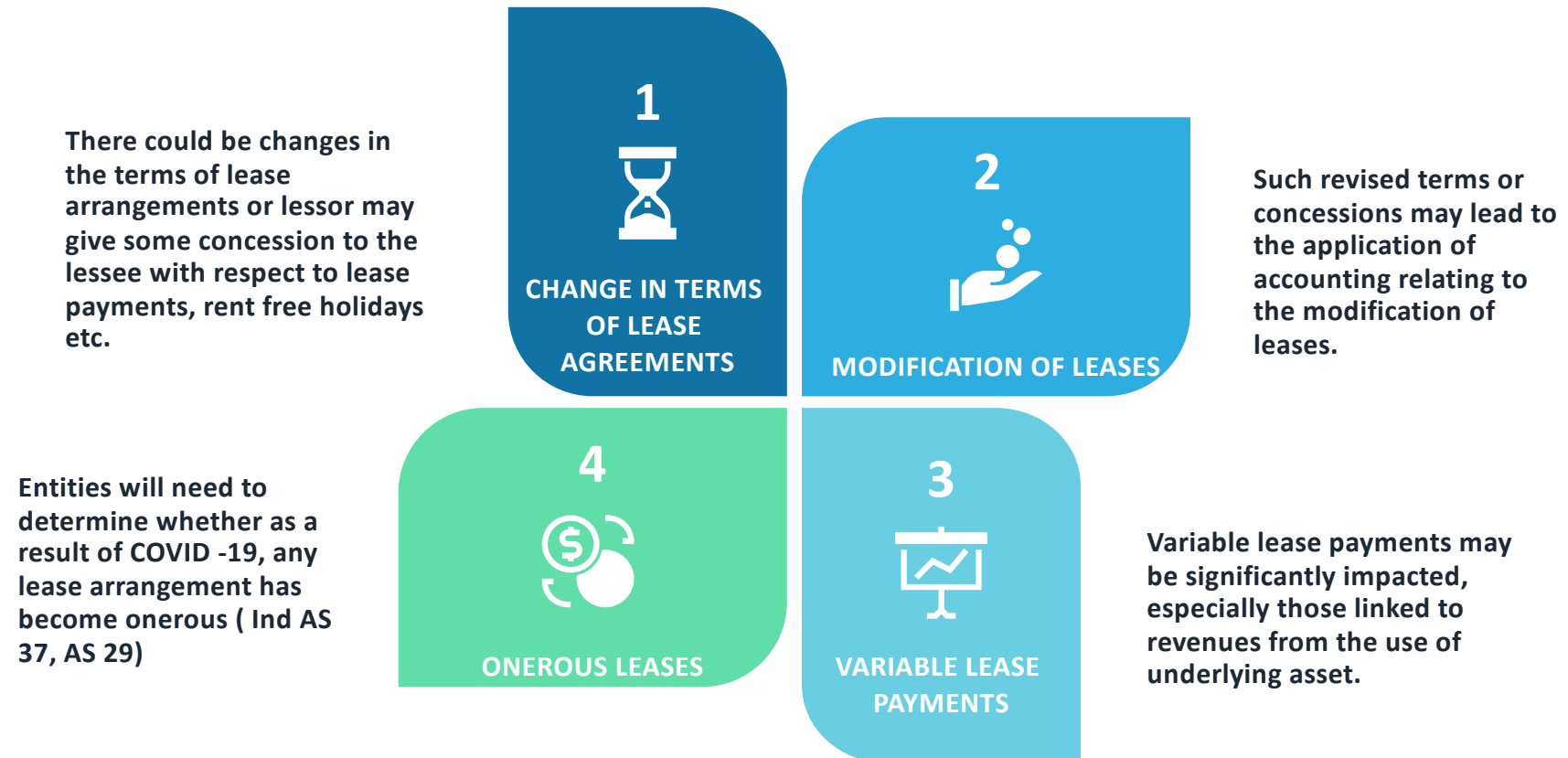
ICAI GN on Accounting for Derivative Contracts

- Entities may need to consider the impact on key inputs/ assumptions such as foreign currency rate, interest rate, etc. used in their valuation techniques, including the potential impact on hedge accounting.



9. LEASES

AS 19



10. REVENUE

AS 9

01

Entities may have postponed recognition of revenue due to significant uncertainty of collection in view of the impact of COVID-19.

02

Disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties.

11. INCOME TAXES

AS 22



Future profits likely to be affected and may reduce the amount of deferred tax liabilities and/or create additional deductible temporary differences due to various factors (e.g., asset impairment).

1

2

Entities with deferred tax assets should reassess forecasted profits and the recoverability of deferred tax considering the additional uncertainty and the steps being taken by the management to control it.



Management might also consider impact on plans to distribute profits from subsidiaries and whether it needs to reconsider the recognition of any deferred tax liability in connection with undistributed profits.

3

4

Management should disclose any significant judgements and estimates made in assessing the recoverability of deferred tax assets



12. INTERIM FINANCIAL REPORTING

AS 25



Recognition and measurement guidance applicable to annual FS equally applies to interim FS.



No recognition or measurement exceptions for interim reporting.



Management might have to consider whether the impact is a discrete event for the purposes of calculating the expected effective tax rate.



Disclosure should be entity specific and should reflect each entity's circumstances.



Additional disclosure should be given to reflect the financial impact of the COVID-19 and the measures taken to contain it.

13. CONSOLIDATED FINANCIAL STATEMENTS

AS 21

01

The financial statements of parent and subsidiaries used in the preparation of the consolidated financial statements are usually drawn upto the same date.

02

The difference between the reporting dates should not be more than:

- AS : 6 months

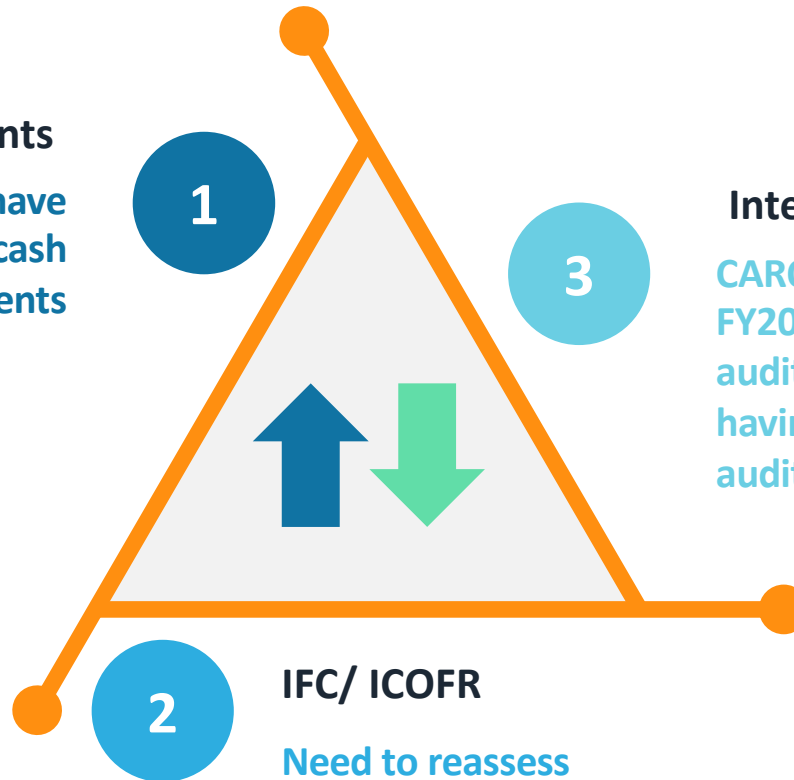
Modifications or Termination of Contracts or Arrangements

AS Entities

1. AS 15, Employee Benefits
2. Guidance Note on Accounting for Employee Share Based Payments
3. Guidance Note on Accounting for Derivative Contracts (Issued 2015)
4. AS 7 Construction Contracts
AS 9 Revenue recognition
5. Guidance Note on Accounting for Real Estate Transactions (revised 2012)

Take note...

Cash Flow Statements
All stakeholders will have higher weightage to cash flow statements



Internal Audits for FY 20-21
CARO ,2020 will apply from FY20-21 and Statutory auditors have to report on having considered Internal audit observations



Walk through

- **Myths on AS**
- **Current developments in AS**
- **Non Corporates' Applicability**
- **Floor participation**

Popular Myths...

- **AS not static; dynamic – has to undergo changes**
- **New – So many AS**
 - required for Global acceptability
- **Changes in**
 - Business Environment – AS 2
 - Economic environment – AS 11
- **AS does not answer specifics**
 - India country of diversity – Diverse industries
 - AS – General purpose document
 - Align keeping in line with spirit ...



Recent Developments

- **Companies Act 2013**
 - Consolidated Financial Statements -Mandatory
- **IFRS Convergence**
 - Ind-AS Status
 - Applicability date –1.4.16... and phases
(Banks and Insurance companies, not ready as yet...)
 - Schedule III – Revised
- **IASB and FASB – Joint project**
 - extended
- **IFRS for SMEs**
 - finalized, progressive implementation

Multiple AS bodies

- **ASB of ICAI – Section 133**
 - **Only ICAI is the ONLY standard setter**
- **NFRA is consultative body for GoI for notifying for Companies**

Can we do away AS for Non-Corporates

- Public Interest/stake in individual entity is less BUT collective interest is VERY HIGH
- Contribution to GDP – very high

WE CANNOT DO AWAY WITH AS

UPGRADE Project on... AS for SMC/Non corporates

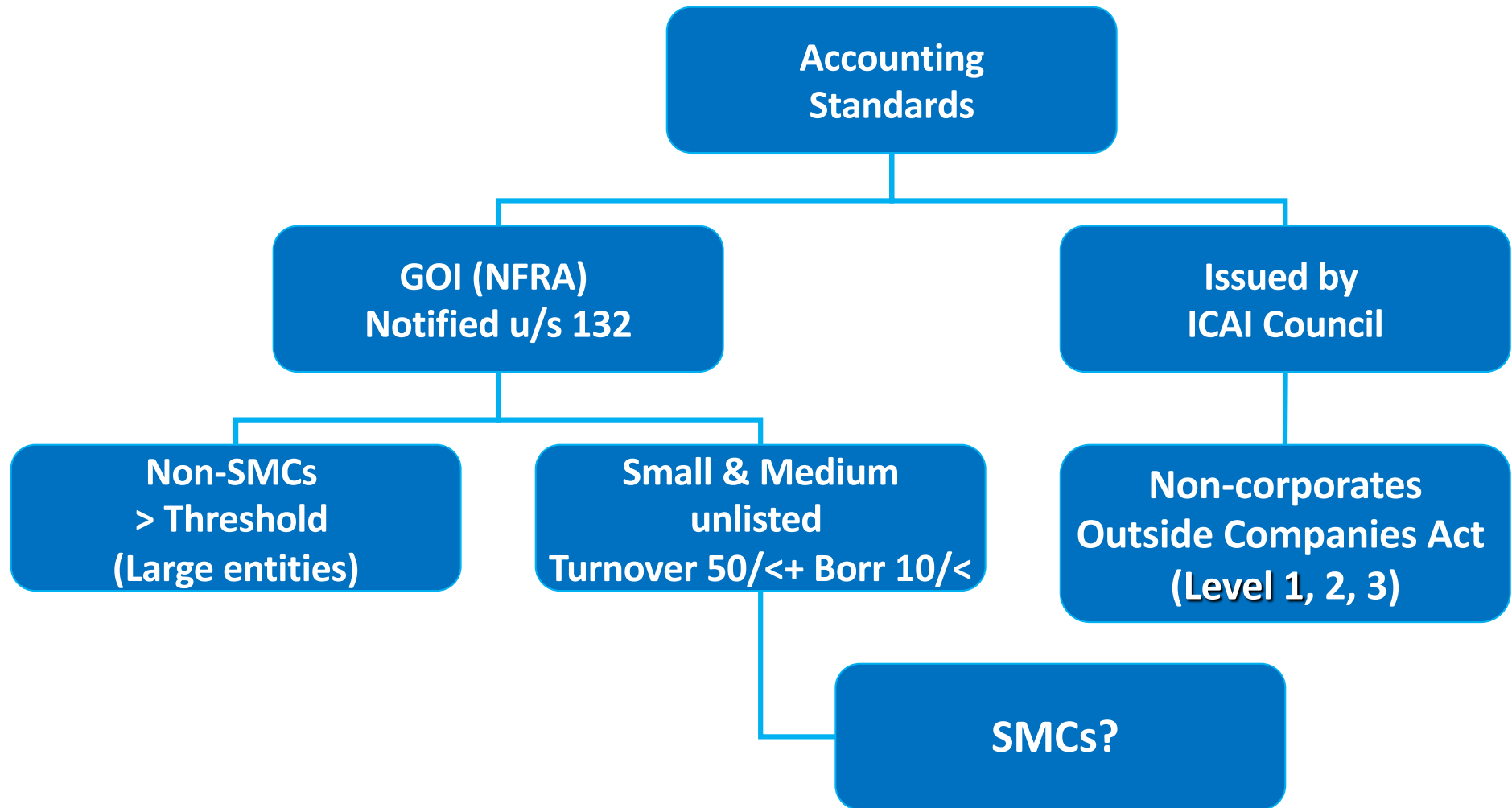
- **Based on IAS since 1977**
- **Standards between 1998-2003 almost verbatim**
- **Not updated since then**

- **Initiated in 2004**
- **Momentum in 2011**
- **Finalised path in 2015**
- **2023 most likely.**
- **AS 10 (R) same as Ind AS 16**

Issues in Compliance...

- **Level of preparedness of entity**
 - Accounting systems and procedures
- **Cost of capturing information for reporting**
- **Technical competence of reporting entity staff and access to instant clarification**
- **Excessive emphasis on tax planning**

Status (AS)



Non-Corporates applicability from 1.4.04

- **Level-I – Public Interest**
- **Level-II – Tax audit cases**
(for simplicity of understanding)
- **Level-III – Others**



Criteria..

1. Listing Status

- Equity or Debt securities
- Already listed, or proposed to be listed
- In India or outside India

2. Function

- Banks/ FIs.....

3. Financial Parameters

- Turnover : Rs.1cr/ Rs.50cr
- Borrowing : Rs.1cr / Rs.10cr

4. Control

- Holding or Subsidiary of above

Level I Enterprises

- ~~Companies~~
 - ~~Listed or proposed listing~~
 - ~~In India or outside India~~
 - ~~Debt or Equity~~
- ~~Banks/Coop Banks/Fl s~~
- Holding and **subsidiary of any of the above**

- **Enterprises** turnover >Rs50cr
 - Excluding other income
 - Accounting period for which FS is prepared
- **Enterprises** borrowing > Rs.10cr
 - Including public deposits
 - Working capital borrowings
 - **AT ANY TIME** during accounting period

Level II Enterprises

- Not a Level 1 Enterprise
- Enterprises turnover $> \text{Rs } 100 \text{ lacs} < \text{Rs.50cr}$
- Enterprises borrowing $> \text{Rs.1cr} < \text{Rs } 10\text{cr.}$
- Holding and subsidiary of any of the above

Level III Enterprises

- **Not a Level 1 or Level II enterprise**

For AS 15 Alone

- **LEVEL II enterprises are those whose average number of persons employed during the year is 50 or more.**
- **LEVEL III enterprises are those whose average number of persons employed during the year is less than 50**

Level Change..

- Change of Level
 - Lower to Higher (ex Level II to I)- **Immediate compliance**
 - Higher to Lower (ex Level II to III)- **Continue with old level compliance for 2 years**
- **Non – disclosure** due to exemption – **to be reported** in Notes to accounts

Reporting Standards – Full exemption

- **AS 3 Cash Flow Statements**
- **AS 17 Segment**
 - For SMCs - 3 and 17 exemption is **OPTIONAL**
- **AS 21, 23, 27 – the non-applicability is implicit:
Being non-corporate, no need**

Two Special items!! - Reporting

- AS 18 (Related Party) & AS 24 (Discontinuing...)
- For SMCs **NO** exemption for 18 and 24
- Levels II – III Non-corporates - **fully exempt** from application

Disclosures - Partial exemption

- **AS 19: Leases : Level II and III**
 - Exempt from furnishing ageing break up and certain descriptive disclosures such as Covenants, sub-leases, etc.
- **AS 20: EPS : Level II and III**
 - SMCs - No need to disclose diluted EPS both including and excluding extraordinary items (Schedule III-Requires)
 - Non-corporates – Not Applicable

Disclosures - Partial exemption

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 - Exempt from furnishing ageing break up and certain descriptive disclosures such as Covenants, sub-leases, etc.
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 - SMCs - No need to disclose diluted EPS both including and excluding extraordinary items (Schedule III-Requires)
 - Non-corporates – Not Applicable

Disclosures - Partial exemption

- **AS 29: Provisions, Contingent Liabilities and Contingent Assets – Level II**
 - Exempt from disclosures prescribed in Para 67 alone (descriptive explanation on provisions – uncertainties, timing and extent of cash flows, reimbursements etc)
- **AS 29: Provisions, CL and CA – Level III**
 - Exempt from disclosures prescribed in Para 66 & 67 (Quantitative as also descriptive disclosures on Provisions)

NOTE: Disclosures on CL will apply to Levels II and III

Exemption : Measurement

- **AS 28: Impairment of Assets**
- **Level II and Level III Non-corporates**
 - Option to measure value in use on a reasonable estimate basis
 - Similar exemption is available for SMCs u/s 211(3C) also

Exemptions – Measurement

- **AS 15: Employee Benefits:**
 - Level II exempt from Measurement of benefit plan obligations using PUCM – but discount rate provisions will apply – Also exempt from recognition & disclosures in Para 50 to 118

Exemptions - Measurement

- **AS 15: Employee Benefits:**

- Level III exemption extend to many areas**

- Para 11 to 16: Accumulated compensated absences
- Para 46 etc: DCP Payable > 12 months from BS Date
- Defined Benefit Plan: PUCM need not be applied
- Disclosures – 119 to 123

Summary of some Important Standards

AS – Accounting Related

Fixed Assets	10,26,6,19,28
Inventory	2
Investments	13
Technical	7,9,11,12, 14,15,16,22
Liability /BS adj	4,29

A S – Reporting Related

Analysis and better understanding	1, 3,17,18,20 and 24
P&L	5
Interim Financial	25
Investments	21,23,27

Quick Run...

- **AS 1: Accounting Policy Disclosures**
 - All in one place, with a focus on revealing monetary impact of changes in accounting policies
- **AS 2: Inventories**
 - Lower of Cost & Net Realisable Value: Method of determining cost – FIFO/WA to be disclosed
- **AS 7: Construction Contracts:**
 - Determination of Percentage completion is a critical area – affects bottom line

Quick Run...

- **AS 9: Revenue:**

- Timing of recognition. Substance over form for Sale of Goods (effective control transfer) and for services, Completed service or % completion (these are not alternative methods)

- **AS 10: Accounting for Fixed Assets**

- Cost determination, changes in historical cost : Revaluation model allowed : Selective revaluation not permitted

- **AS 10: Depreciation**

- Based on useful life : Change in depreciation method is a change in Accounting Estimate

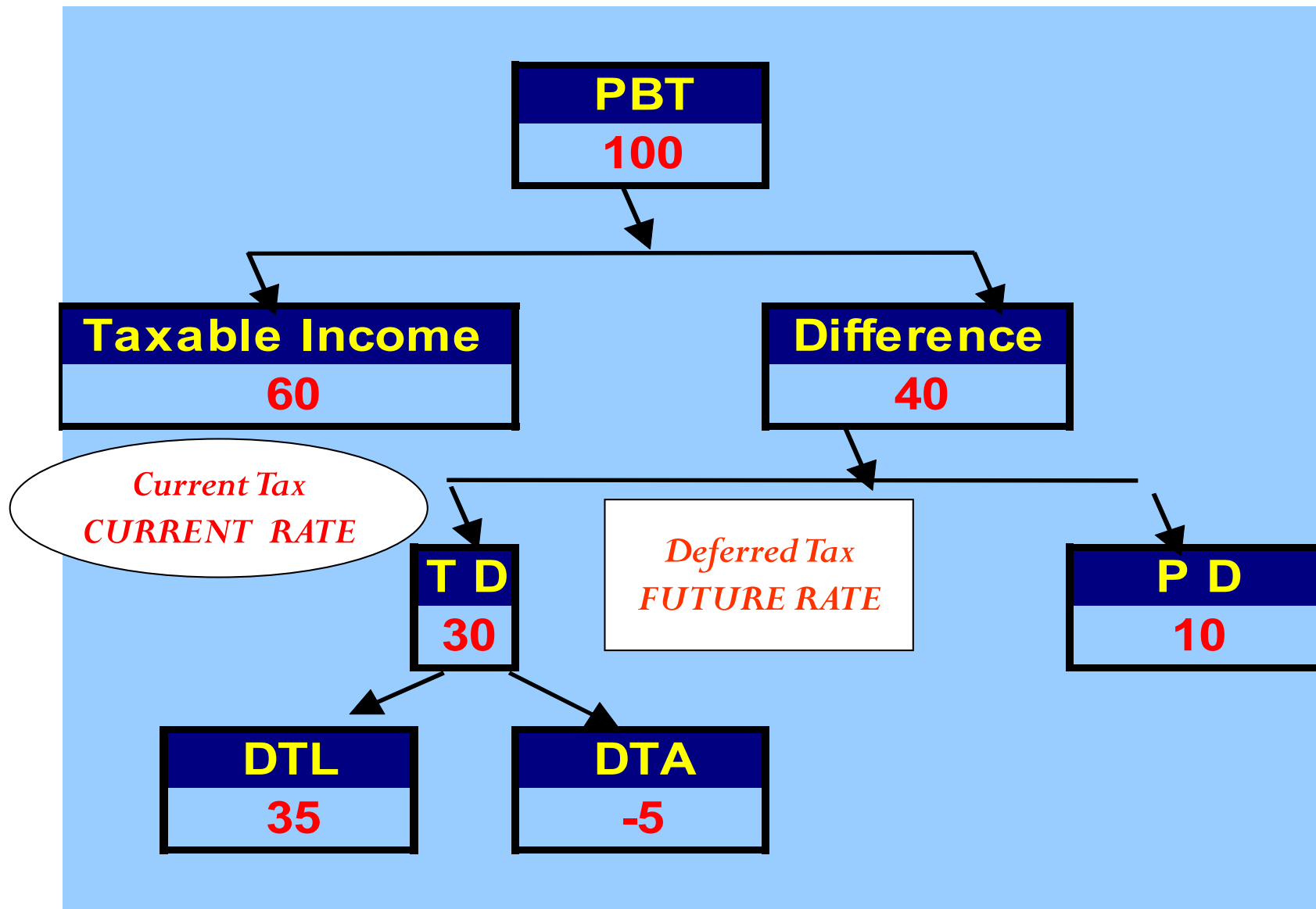
Quick Run...

- **AS 11: Forex! Critical concern**
 - Distinction between monetary and non-monetary items and translation effect
 - If borrowings are for “qualifying assets” (AS 16, capitalize a part of exchange difference); else take this to P&L
 - AS 11 under 211 (3C) has concept of Long term Monetary Items and consequent deferral (life of asset)
 - AS 11 for non-corporates has not been changed

Quick Run...

- **AS 13: Investments**
 - Current investments : if held for sale within 12 months – lower of cost/market; else long term carry at cost
- **AS 16: Borrowing Cost**
 - Substantial period – Qualifying asset - Capitalisation principle: For Specific borrowings, full interest cost less any income from temporary investments, else weighted average cost
- **AS 19: Leases**
 - Finance lease: Accounting as though we borrow funds – Operating lease – rental income/expense recognition
 - In whose hands depreciation – for these leases?

Quick Run...



Quick Run..

- **AS 26 : Intangible assets**
 - Items restricted those that can be independently dealt with, such as Patents, etc.
 - Special areas: Useful life 10 years rebuttable, RV Nil rebuttable
 - Concept of Deferred expenditure: Gone
- **AS 28 – Impairment of assets**
 - Based on estimate value – recognize
- **AS 4. 5 and 29**
 - Financial Statements

Correlation...

simple = simple

- **Sale without warranty**
- **Credit of 3 months**
- **Sale without loyalty rights**
- **Sale of 5 products: each invoiced separately.**
- **Loan repayment diminishing balance**
- **Investment in shares**
- **Rent with equal amounts**

Complex = detailed

- **Sale with 3 year warranty**
- **Credit of 3 years**
- **Sale with loyalty rights**
- **Sale of 5 products: Invoice for 1, 4 given as free (bundled)**
- **Loan repayment : structured – front or rear loading**
- **Investment in options/futures**
- **Rent with holiday, step up, etc**

Correlation...

simple = simple

- **Single business**
- **Trading activity**
- **No related party TXN**
- **Consistent policies**
- **Ready to use assets**
- **No M&A**
- **Less than 50 employees**

Complex = detailed

- **Multiple business**
- **Construction business**
- **Related party TXNs**
- **Change in policies**
- **Construction of assets**
- **M&A**
- **More than 50 employees**

Correlation...

simple = simple

- **NO Bank finance**
- **NO private equity/ angel investors**
- **Propreitory firm**
- **Business successful**
- **NO litigations**
- **No BOT projects**
- **Organic Growth**

Complex = detailed

- **Bank finance**
- **Private Equity/ Venture capitalists**
- **Partnership firms**
- **Business incurring losses**
- **Plenty of litigations**
- **BOT projects**
- **Inorganic growth: determination and allocation of consideration**

More fear than warranted

Non Corporates

- **Non tax audit entities (proprietors/ firms) : AS not required, unless they chose to prepare GPFS voluntarily**
- **Tax audit purposes : AS applicable : largely driven by ICDS in any case**

More fear than warranted

- Standards largely applicable (11)

- Elementary : 1
- Little effort : 2,4,5,9,10,26
- Specialised : 7,22
- Simple : 15,16

- Event driven applicability (8):

11,12,13,19,
24,25,28,29

- Standards not applicable : (8)

3,14,17,18,
20,21,23,27

More fear than warranted

- Every member has good exposure of AS
- Every new CA qualifies with an Expert Level Exam paper on Ind AS
- Bank Audits / Coop Banks/ Coop Society : AS is applicable
- Across Cities : level of knowledge is same
- Since compliance not monitored; compliance was low; with effective regulation, every CA will comply in full.

Closing Remarks

01

Role of auditors at times like this is under increased scrutiny as they have a public interest obligation to complete the audit work in accordance with professional standards and ethics requirements.

02

Auditor must recognise that the manner in which they conducted the audits in past may need significant modification to address the challenges and uncertainties arising out of impact of COVID-19.

03

Need to exercise a very high degree of skepticism

04

There should not be any dilution or non-compliance with the auditing standards in carrying out audits.

05

Auditor accountability for opinion given is not diluted due to alternate procedures or uncertainty or other factors unique to the present situation

*“No profession can aspire to progress unless it has a vision and sets **service to the community** as its objective.*

*It has also to be free from restraints and allow for the **economic advancement** of its entire membership. Its resilience and practice to respond to the changing situation and growing demands on it will determine its continued existence and growth.*

***Technical excellence** in the performance of its functions and **observance of the highest in professional ethics** constitutes the **foundation** on which its future can be built up”*



PERSONAL

1 slides (77)

My take on winds of change ?

- Data is connected from the source to the ledger via cloud-based applications. Accounting is morphing into what economists call "interaction jobs", where **technical knowledge is assumed and higher value is applied to a person's ability to interact with internal and external clients, identify problems, come up with alternative solutions, determine which are affordable at this point in time and communicate and influence to deliver an outcome.**
- The successful accountants of the future will **be strong communicators, possess greater IT skills combined with strategic vision and they will be devoted to ongoing professional development.** Globalisation is the future of accounting as more and more businesses require real-time manufacturing and information, mobile marketing and online tools, including the cloud, to expand their customer base internationally. Thus accounting, auditing and finance professionals with knowledge of international standards and regulations will thrive.
- ICAI is geared to this reality and 34 overseas chapters of ICAI is a testimony **apart from embracing International accounting and assurance standards.** Indian Chartered Accountants, thanks to the rigorous training and enviable forward looking curriculum, possess right insights and foresight to overcome challenges and make the best use of the opportunities.

Q & A



Thank You

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**Position Paper on
Regulation of Accountancy
Profession and Oversight
Mechanism in India**



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

POSITION PAPER ON REGULATION OF ACCOUNTANCY PROFESSION AND OVERSIGHT MECHANISM IN INDIA

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