

COMMON ERRORS OBSERVED IN THE IND AS FINANCIAL STATEMENT



CA Yogesh Amal

Email : yogesh@gbcaindia.com

The Council of the Institute of Chartered Accountants of India (ICAI) constituted the Financial Reporting Review Board (FRRB) to improve financial reporting practice in India. The FRRB reviews the general purpose financial statements of various enterprises for compliances with generally accepted accounting principles, compliance with the reporting obligations of the auditor and compliance with disclosure requirements prescribed by regulatory bodies, statutes and rules and regulations relevant to the enterprise.

In February 2021, the FRRB issued *Study on Compliance of Financial Reporting Requirements (Ind AS Framework)* containing instances of common non-compliances or errors in Ind AS financial statements with an objective to enhance the quality of the reporting in the financial statements.

This article broadly encompasses some of the common and critical errors observed by the FRRB in their publication by summarising the non-compliances observed in application and disclosure of various Ind AS, in adopting the General Instructions for preparation of Financial Statements of a Company required to comply with Ind AS Division II – Ind AS Schedule III to the Companies Act 2013 and Guidance Note on Division II - Ind AS Schedule III to the Companies Act 2013 and other key matters.

The common and critical errors observed by the FRRB are as under:

A. IndAS16: Property, Plant and Equipment

Sr. No	Particulars of the Financial Statements	FRRB Observation
1.	<p>CLASSIFICATION OF PPE INTO TANGIBLE AND INTANGIBLE ASSET:</p> <p>A company classified “Toll Equipment” as an intangible asset. Further, depreciation on Toll Equipment was calculated on a WDV basis over useful life of 7 years.</p>	<p>It was observed from the accounting policy that Toll Equipment’s has been classified under Intangible Assets. Further, as per accounting policy on property, plant and equipment, it was noted that depreciation on Toll Equipments calculated on a WDV basis over useful life of 7 years.</p> <p>It was observed that based on the accounting policy on Property, Plant and Equipment as well as the fact that_ Toll Equipment is a tangible asset. Consequently, the classification of Toll Equipment under Intangible asset is not correct in accordance with definition mentioned in para 6 of IndAS16.</p>

Sr. No	Particulars of the Financial Statements	FRRB Observation
2.	<p>COMPONENT ACCOUNTING OF PROPERTY, PLANT AND EQUIPMENT:</p> <p>The accounting policy in Financial Statements read as follows:“ Subsequent expenditure related to an item of PPE is added to its carrying value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance”.</p>	<p>It was observed that as per paragraph 13 of IndAS 16, subsequent expenditure would be recognized in the carrying amount of PPE when that cost/expense would meet the recognition criteria given in paragraph 7 of Ind AS16 i.e. it is probable that future economic benefit will flow to the entity and the cost is reliably measurable. There is no criteria on that capitalisation should be done only if there is increase of future benefits from the existing asset beyond previously assessed standard of performance ”.</p> <p>Consequently, as per FRRB the stated policy was not in line with the component accounting concepts given in IndAS16.</p>
3.	<p>CAPITALISATION OF PROPERTY, PLANT AND EQUIPMENT:</p> <p>Accounting policy of the company stated “All project related expenses viz. civil works, machinery under erection, construction and erection materials, pre-operative expenditure net of revenue incidental/attribution to the construction of project, borrowing cost incurred prior to the date of commercial operations are shown under Capital Work in Progress (CWIP).”</p>	<p>It was noted that all the project related expenses which have been incurred prior to the date of commercial operations have been capitalised.</p> <p>As per paragraph 20 of IndAS 16, recognition of costs in the carrying amount of PPE ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.</p> <p>Hence, capitalising expenses incurred upto the date of commercial operations is not in line with IndAS16.</p>
4.	<p>DEPRECIATION ON LEASEHOLD LAND:</p> <p>Accounting policy for depreciation on Leasehold land stated “Depreciation on Leasehold improvements is provided over the primary period of lease or over the useful lives of the respective fixed assets, whichever is shorter.”</p>	<p>It was observed that depreciation on lease hold improvements is provided over the primary period of lease or over the useful lives of the respective fixed assets, whichever is shorter. The said policy is not in accordance with requirement of paragraph 56 of IndAS16, which gives guidance about various factors to be considered while determining the useful life of an asset which, inter alia, includes legal limits on the use of asset such as the expiry dates of related asset. Accordingly, it was observed that for providing depreciation on lease hold improvement, lease term should have been considered instead of considering primary period of lease.</p>

Sr. No	Particulars of the Financial Statements	FRRB Observation
5.	<p>MOVEMENT OF CAPITAL WORK-IN-PROGRESS</p> <p>Movement of Capital work-in-progress was not given by the Company for the reporting as well as comparative years in the notes to the accounts.</p>	<p>It was observed that since the capital work-in-progress is also the part of property, plant and equipment, the amount of expenditures recognized in the carrying amount of capital-work-in-progress should have been disclosed by the company in line with the requirement of para 74 of IndAS16. Consequently, as per FRRB the disclosures were not in line with the requirement of IndAS 16.</p>

B. IndAS1: Presentation of financial statements

Sr. No	Particulars of the Financial Statements	FRRB Observation
1.	<p>ASSETS NOT OWNED BY THE COMPANY:</p> <p>Accounting policy of the company stated: "Assets not owned by the Company are amortized over a period of ten years."</p>	<p>It was observed that no disclosure was made in the financial statements as to which are these assets that are not owned by the company.</p> <p>It was further observed that even though the policy has been disclosed for amortization of assets not owned by the company, no disclosure was made regarding nature and details of such assets anywhere in the notes to accounts. Additionally, even the basis for ten years period of amortisation was also not disclosed.</p> <p>In view of above observations, it was observed that appropriate disclosures as expected by Para 7 of IND AS 1 are not made.</p>
2.	<p>OTHER EQUITY:</p> <p>Under Other Equity: Company had disclosed various reserves such as Capital Redemption Reserve, Securities Premium, General Reserve and Retained Earnings.</p>	<p>It was observed that though various reserves are disclosed by the company however; the nature and purpose of these reserves were not disclosed by the company in the notes to accounts.</p> <p>As per the requirements of IndAS 1 and Guidance Note on Division II-Ind AS Schedule III to the Companies Act, 2013, the nature and purpose of each reserve is required to be disclosed. Consequently, it was observed that the requirements of Ind AS 1 and the Companies Act, 2013 have not been complied with.</p>

Sr. No	Particulars of the Financial Statements	FRRB Observation
3.	<p>NON-CURRENT BORROWINGS:</p> <p>Loan from related parties were presented under Non-Current Borrowings. These loans from related parties were interest free and repayment terms were not stipulated.</p>	<p>It was observed that since loans from related parties are interest free and repayment terms have not been stipulated, such loans are callable on demand. Consequently, the classification of such loans as non-current was not in accordance with the disclosure requirements of para 69 of IndAS1.</p>
4.	<p>GAIN ON FOREIGN CURRENCY TRANSACTION:</p> <p>Gain on foreign currency transaction was deducted from other expenses.</p>	<p>It was observed that gain on foreign currency is an income, hence it should be shown under other income instead of deducting from other expenses. Consequently, it was observed that the disclosure requirements of para 7 of Ind AS 1 have not been complied with.</p>
5.	<p>FUNCTIONAL CLASSIFICATION OF EXPENDITURES:</p> <p>Statement of Profit and Loss of a company included expenses under the head "Administrative Expenses".</p>	<p>It was observed that the company has classified the expenses based on functional classification instead of nature-wise classification as required by paragraph 99 of IndAS1. Consequently, the disclosures made are not in accordance in requirement of IND AS1.</p>

C. IndAS107: Financial Instruments: Disclosures / Ind AS 32, Financial Instruments Presentation

Sr. No	Particulars of the Financial Statements	FRRB Observation
1.	<p>FINANCIAL ASSETS - NON-CURRENT INVESTMENTS:</p> <p>In case of Non-Current Investments, the Company had designated three investments in equity shares at fair value through OCI (FVTOCI).</p>	<p>It was observed that the Company had designated three investments in equity shares which were fair valued through OCI(FVTOCI). However, the reason for using the FVTOCI alternative was not disclosed as required by paragraph 11A(b) of IndAS 107. Consequently, it was observed requirements of IndAS107 have not been complied with.</p>
2.	<p>PRESENTATION OF FINANCE COST:</p> <p>The Company had shown the interest expense netted off with interest income in the financial statements.</p>	<p>Para 20 of IND AS 107 requires disclosure of interest income and interest expenses using effective interest method.</p> <p>Para 32 of IND AS 1 does not permit offsetting of assets and liabilities or income and expenses unless permitted by other IND AS.</p> <p>Guidance Note on Division II-Ind AS Schedule III to the Companies Act, 2013 also requires to present interest income and interest expenses separately.</p> <p>Considering the above, it was observed that interest expense should not have been netted off against the interest income and the netting off is not in compliance with provision stated under Ind AS 1, Ind AS 107 and Guidance Note on Division II- Ind AS Schedule III to the Companies Act,2013.</p>
3.	<p>FINANCIAL ASSETS:</p> <p>The following disclosures have been made in the notes to accounts: Interest accrued was disclosed under the head of Non-financial Assets. Prepaid expenses and Balances with revenue authorities were shown as Financial Assets.</p>	<p>As per the requirements of paragraph 11 of IndAS 32, interest accrued is in the nature of financial asset and hence should be disclosed under the head of financial assets, whereas prepaid expenses and balances with revenue authorities are in the nature of non-financial assets and hence it should be shown under the head of non-financial assets.</p> <p>Consequently, it was observed that the requirements of Division II to the Schedule III to the Companies Act, 2013 and Ind AS 32 have not been complied with.</p>

Sr. No	Particulars of the Financial Statements	FRRB Observation
4.	<p>CORPORATE GUARANTEES:</p> <p>The company had given corporate guarantees to several banks in respect of funded and non-funded limits availed by its foreign subsidiary and its associate company.</p>	<p>As per para8.2.5.1 of Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013, Other financial liabilities are required to be presented as a separate line item on the face of the Balance Sheet under 'Financial Liabilities'. Financial guarantees meet the definition of financial liabilities as per Ind AS 32 and should be presented under other financial liabilities. It was observed that the aforesaid corporate guarantees were in the nature of financial guarantees. Consequently, such corporate guarantees should have been recognized, measured, presented and disclosed in line with the above stated requirements of Ind AS109, Ind AS32 and Division II-Ind AS Schedule III to the Companies Act,2013.</p> <p>Since the above disclosure requirements were not met, it was observed that requirements of Ind AS 109, Ind AS 32, para8.2.5.1 of Guidance note on Division II - Ind AS Schedule III to the Companies Act, 2013 have not been complied with.</p>

D. Ind AS 23: Borrowing Costs

Sr. No	Particulars of the Financial Statements	FRRB Observation
1.	<p>PROPERTY, PLANT AND EQUIPMENT:</p> <p>Accounting policy on Borrowing Cost stated as under:</p> <p>"Borrowing Costs directly attributed to the acquisition of fixed assets are capitalized as a part of the cost of asset up to the date the asset is put to use. Other Borrowing Costs are charged to the statement of profit and loss account in the year in which they are incurred."</p>	<p>As per para8 of IND AS 23, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised, whereas company policy only mentions about borrowing cost related to acquisition.</p> <p>Further as per para 22 of IND AS 23 borrowing costs should be capitalized till the asset is ready for its intended use or sale not up to put to use date as mentioned in the policy of Company.</p> <p>Based on the above, it was observed that company has not complied with the requirement of para8 & 22 of Ind AS 23.</p>

E. Ind AS 8: Accounting Policies, Changes in Accounting Estimates and Errors

Sr. No	Particulars of the Financial Statements	FRRB Observation
1.	<p>LEASE HOLD LAND:</p> <p>In the financial statements the company had made following disclosure: "The lease term in respect of lease hold land is 97 years. The lease term in respect of land acquired under finance lease is upto 97 years with ability to opt for renewal of lease term on fulfillment of certain conditions."</p>	<p>As per para 7 of IND AS 8, for all the transactions entered, the entity has to disclose the accounting policies followed. In the absence of accounting policy, principles, bases, conventions, rules and practices applied by the company in preparing and presenting the disclosures related to finance lease is not clear. Consequently, it was observed that the company has not complied with the requirement of IND AS 8.</p>
2.	<p>PRIOR PERIOD ITEMS:</p> <p>The financial statement presented by the entity were the first IND AS financial statement and the entity has disclosed Prior period items during the current year and comparative year under other expenses. No additional disclosure were made in connection with prior period items.</p>	<p>As per Para 42 of IND AS 8, prior period items should be adjusted either by restating the comparative amounts for the period in which error occurred or restating the opening balances of assets, liabilities and equity for the earliest prior period presented.</p> <p>Further para 49 of IND AS 8 states to make certain disclosures in case of prior period items such as nature, amount, adjusted EPS etc.</p>

F. Ind AS 40: Investment Property

Sr. No	Particulars of the Financial Statements	FRRB Observation
1.	<p>INVESTMENT PROPERTY:</p> <p>Disclosure of investment properties was given, in the note to the financial statements of a company on Investment Properties. Depreciation on investment properties was not charged in the reporting year but the depreciation on such investments properties was charged during the comparative year.</p>	<p>As per the principles of IndAS 40, an investment property is measured initially at cost. Under the cost model, investment property is measured at cost less accumulated depreciation and any accumulated impairment losses and Fair value is disclosed in notes to accounts. Accordingly, depreciation should have been charged on these properties and debited to Statement to Profit and Loss.</p> <p>Since the company has not charged any depreciation on investment properties during the reporting year, it is observed that the requirements of IndAS 40 have not been complied with.</p>

G. Ind AS 2: Inventories

Sr. No	Particulars of the Financial Statements	FRRB Observation
1.	<p>INVENTORIES:</p> <p>Accounting policy of the company states as under: "Inventories are stated at lower of cost and fair value (except scrap/ waste which are valued at net realizable value)....."</p>	<p>Para 9 of Ind AS 2 required that inventories should be valued at lower of cost and net realisable value. Para 6 of Ind AS 2 gives definition of net realizable value(NRV) and para 9 of Ind AS 113 defines fair value. The net realizable value is in nature different from the fair value of inventories.</p> <p>As per the requirements of para 9, the company should have valued the inventory at lower of the cost or net realisable value and not the fair value.</p> <p>Accordingly, it was observed that the company has not complied with the requirement of IndAS2.</p>

H. Ind AS 109: Financial Instruments

Sr. No	Particulars of the Financial Statements	FRRB Observation
1.	<p>FINANCIAL GUARANTEES:</p> <p>Letter of comfort to banks against credit facilities / financial assistance availed by subsidiaries and corporate guarantee given to banks against credit facilities/ financial assistance availed by its associate company have been disclosed as contingent liabilities by the Company.</p>	<p>It was observed that in substance the contract was in the nature of financial guarantee, irrespective of whatever name it was called. As the significant feature of a letter of comfort and corporate guarantee contract was the contractual obligation to make specified payment in case of default by the subsidiary / associate company. Therefore, the same should have been accounted as financial guarantee contract as required by IND AS 109.</p> <p>Since in the above case, only disclosure of contingent liability was made instead of accounting in accordance with IND AS 109, it was observed that IND AS 109 is not complied with.</p>
2.	<p>PROVISION FOR EXPECTED CREDIT LOSS:</p> <p>No provision was made in the accounts even though some of the trade receivables were disclosed as doubtful.</p> <p>In the note to the financial statements of a company on Trade Receivables, no provision for doubtful trade receivables was created.</p>	<p>It was observed that when trade receivables are disclosed as doubtful, the company should have provided and disclosed the amount of credit loss that is expected on those receivables in accordance with Ind AS 109. Further, such loss should have been presented as separate line item as deduction from gross carrying amount of trade receivable as per the requirements of Division II to the Schedule III of the Companies Act, 2013. Consequently, it was observed that the requirements of Division II to the Schedule III to the Companies Act, 2013 as well as IndAS 109 have not been complied with.</p>
3.	<p>FOREIGN EXCHANGE CONTRACTS:</p> <p>Accounting policy of a company on Sale of securities stated as under:</p> <p>“Gain/loss from trading in derivatives has been recognised only upon settlement of trade. The Mark to Market margins have not been charged to revenue.”</p>	<p>It was observed that gain/ loss from trading in derivatives was recognized only on settlement. Gain/loss on MTM (Marked to market) transactions was not charged to the Statement of Profit and loss.</p> <p>As per the requirements of Ind AS 109, all derivatives, other than those parts of hedging, which do not meet the criteria for classification as subsequently measured at Amortised Cost or Fair Value through Other Comprehensive Income (FVOCI) are measured at fair value at each reporting date and all gains and losses are recognised in the Statement of Profit or Loss.</p> <p>Since the above was not followed, it was observed that the policy adopted by the company is not in line with Ind AS 109.</p>

I. Ind AS 18: Revenue

Sr. No	Particulars of the Financial Statements	FRRB Observation
1.	<p>REVENUE RECOGNITION:</p> <p>The company has presented interest income in its financial statements under Exceptional Item. Such interest income was recognized during the reporting year and the comparative year. The receivables corresponding to the same amount were written off as not recoverable during the reporting year.</p>	<p>As per Ind AS 18, revenue should be recognized only when it is probable that the economic benefits associated with the transaction will flow to the entity. The measurement principle is guided by Ind AS 109.</p> <p>Therefore, it was observed that when the recoverability of interest income was not certain, the recognition of the same should not have been done, as per the recognition principle of Ind AS 18.</p> <p>Accordingly, it was observed that the company has not complied with the requirement of Ind AS 18.</p>
2.	<p>PRESENTATION OF REVENUE ON NET BASIS:</p> <p>Purchase of traded power was netted off from revenue from traded power, while presentation of revenue in the financial statements by the Company.</p>	<p>Definition of revenue as per para 7 of IND AS 18, states that revenue is the gross inflow of economic benefits arising.</p> <p>Further para 9.2 of Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013, permits netting off only in case of "Other Non-operating income" subject to certain conditions. Therefore, netting off purchase of traded power against the income from traded power is not correct treatment.</p> <p>Accordingly, it was observed that requirements of Ind AS 18 and Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013 have not been complied with.</p>
3.	<p>INTEREST INCOME:</p> <p>Accounting policy of a company for Interest income read as follows:</p> <p>"Interest income is recognized on time proportion basis taking into account the amount outstanding and the applicable interest rates and is disclosed in other income. Interest income earned in the course of the Merchanting Trade undertaken by the company is classified under 'operating income' since the underlying bank deposits are in-extricable linked with such trade and the interest Income from such deposits are as much part of the margin from such trade."</p>	<p>As per para 30 of IND AS 18, interest income should be accounted using effective interest rate. Based on the accounting policy, it is observed that effective interest rate is not used for interest income.</p> <p>Consequently, it was observed policy followed by company is not in accordance with the requirements of Ind AS 18.</p>

J. Ind AS 19:EmployeeBenefits

Sr. No	Particulars of the Financial Statements	FRRB Observation
1.	<p>CLASSIFICATION BETWEEN DEFINED CONTRIBUTION AND DEFINED BENEFIT PLAN:</p> <p>Accounting policy of a company on Employee benefits stated as under:</p> <p>“Defined Contribution Plans such as Provident Fund etc., are charged to the Statement of Profit and Loss Account as incurred. Further for certain employees, the monthly contribution for Provident Fund is made to a Trust administered by the Company. The interest payable by the Trust is notified by the Government. The Company has an obligation to make good the shortfall, if any.”</p>	<p>It was observed that the company has an obligation to make good the shortfall, if any. As per the definition of defined contribution plans given in IND AS 19, employer’s liability to the employee is limited to the amount of contribution & has no further obligation to pay beyond agreed contribution.</p> <p>Since in the above case, it was observed that employer’s liability to the employee is not limited to the amount of contribution and may extend further to pay beyond agreed contribution, consequently the plan should be considered as defined benefit plan as per Ind AS 19 and the company has not complied with the requirements of Ind AS 19 in preparation and presentation of the financial statements.</p>
2.	<p>PROVISION OF GRATUITY</p> <p>Disclosures under note to the financial statements of a company on Employee benefits read as follows:</p> <p>“The company does not contribute to any Gratuity Fund Scheme. The provision in respect of the defined benefit plan is however made by the company and carried as a liability, to be paid out of the regular cash flows of the company. The provision is made in respect of every employee who has completed at least five years of service, as 15 days’ salary for every completed year of service. The present value of the obligation is based on actuarial valuation report”</p>	<p>As per the requirements of Ind AS 19, provision for gratuity should be made for all employees irrespective of whether they have completed at least five years of service or not. The company has not made any provision for gratuity for those employees who have not completed at least five years of service which is incorrect.</p> <p>Further, the disclosures as required under Paragraph 135 of Ind AS 19 have not been disclosed in respect of the same.</p> <p>Accordingly, it was observed that the requirements of Ind AS 19 have not been complied in preparation and presentation of the financial statements.</p>

K. Ind AS 24: Related Party Disclosures

Sr. No	Particulars of the Financial Statements	FRRB Observation
1.	<p>RELATED PARTY DISCLOSURE:</p> <p>In the note to the financial statements of a company on Exceptional Items, the exceptional items included waiver of interest receivables from a related party. No disclosure in this regard was given under related party disclosures.</p>	<p>It was viewed that expense on account of waiver of an interest receivable is a bad debt. As the expense pertains to a related party, it requires disclosure under Related Party Disclosure as per paragraph 18(d) of Ind AS 24. However, under related party disclosure, no disclosure was given in this regard.</p> <p>Consequently, it was observed that the disclosures are not in accordance with IND AS 24.</p>

L. General Instructions for preparation of Financial Statements of a Company required to comply with Ind AS Division II-Ind AS Schedule III to the Companies Act 2013 / Guidance Note on Division II-Ind AS Schedule III to the Companies Act 2013

Sr. No	Particulars of the Financial Statements	FRRB Observation
1.	<p>RECEIVABLES FROM RELATED PARTIES: In the notes to the financial statements on Other Non-Current Financial Assets and Other Current Assets, 'interest receivable from related party' and 'advances to related party' were disclosed respectively.</p>	<p>Though interest receivable from related party and advances to related party were disclosed under Other Non- Current Financial Assets and Other Current Assets, respectively, no cross referencing was made with note related to disclosure of related party transactions.</p> <p>It was observed that requirement of para 4 (ii) of General Instructions for preparation of Financial Statements of a Company required to comply with Ind AS Division II -Ind AS Schedule III to the Companies Act 2013 was not complied with.</p>
2.	<p>RECEIVABLES FROM RELATED PARTIES: Dues from related parties were disclosed in notes to the financial statements under 'Other Financial Assets'.</p>	<p>It was observed that such dues from related parties was not classified into secured, unsecured and doubtful as per the requirement of para 6B of General Instructions for preparation of Balance Sheet of Division II, Schedule III to the Companies Act, 2013.</p>
3.	<p>CASH AND CASH EQUIVALENTS: Substantial amount was disclosed under line item 'Other Bank Balance' Under the note to the financial statements on Cash and cash equivalents.</p>	<p>It was observed that even though the other bank balances were disclosed under the head of 'Balance with Banks', the nature of these bank balances had not been specified as per the requirements of para 6B General Instructions for preparation of Balance Sheet of Division II-IND AS Schedule III to the Companies Act, 2013.</p>
4.	<p>STATEMENT OF CHANGES IN EQUITY: Under the statement of changes in equity on 'Other equity', 'Re-measurement gains / (losses) on defined benefit plans' adjusted/ recognized during the year was taken to Other comprehensive income.</p>	<p>It was observed that the accumulated re-measurements of defined benefit plans at the end of each reporting period were not disclosed. Also, a reconciliation of Re-measurement gains(losses) on defined benefit plans was not prepared as per the requirement of para 8.2.2.3 of Guidance Note on Division II - Ind AS Schedule III to the Companies Act 2013.</p>

Sr. No	Particulars of the Financial Statements	FRRB Observation
5.	<p>COST OF MATERIAL CONSUMED:</p> <p>The company engaged in the business of trading and manufacturing of certain goods and also having its own manufacturing facility, clubbed cost of material consumed under 'Purchases of Stock in Trade and Raw Material' and 'Changes in Inventories of Finished goods and Stock-in-trade' in the Statement of Profit and Loss.</p>	<p>It was observed that the cost of material consumed has not been disclosed separately instead it has been clubbed under 'Purchases of Stock-in-Trade and Raw Material' and 'Changes in Inventories of Finished goods and Stock-in-trade'. The same is not in accordance with the requirement of para 9.5.1 of the Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013.</p> <p>Consequently, it was observed that there is non-compliance of Guidance Note on Division II-Ind AS Schedule III to the Companies Act 2013</p>
6.	<p>CORPORATE SOCIAL RESPONSIBILITY EXPENDITURE:</p> <p>In the financial statements, no disclosure was made about the CSR activities.</p>	<p>It was observed that no disclosure was made about the CSR activities. It was further noted that neither the amount spent nor other details as required under para 11.5 of Guidance Note of Division II - Ind AS Schedule III to the Companies Act, 2013 were disclosed.</p>

M. Other Important Aspects

Sr. No	Particulars of the Financial Statements	FRRB Observation
1.	<p>FINANCIAL ASSETS: BALANCES SUBJECT TO CONFIRMATION AND/OR RECONCILIATION:</p> <p>One of the notes in the financial statements read as under:</p> <p>“Certain balances of trade receivable, loan and advances, trade payable and other liabilities are subject to confirmation and/or reconciliation.”</p>	<p>It was observed that such general disclosure was not warranted if the balance confirmations/reconciliations are not material and does not affect the true and fair view of the financial statements of the company, as this would lead to doubts in the mind of readers of the financial statements. On the other hand, if such balances are material and affect the true and fair view of the financial statements of the entity, then the auditor should have issued modified report.</p> <p>It was further observed that auditor should have complied with para 7, 8 and 9 of SA 505, External Confirmation.</p> <p>Accordingly, it was observed that the requirements of SA 705 and SA 505 have not been complied with.</p>
2.	<p>SIGNING OF FINANCIAL STATEMENTS:</p> <p>Signature portion under the Balance Sheet, Statement of Profit & Loss, Statement of Changes in Equity and Cash Flow Statement read as under:</p> <p>—For and on behalf of the Board of Directors</p> <p>Sd/-</p> <p>Director</p>	<p>It was observed that director should incorporate his full name and DIN, below his signature in order to identify his authentication.</p> <p>Accordingly, it was viewed that the requirements of Section 134 read with section 158 of Companies Act, 2013 have not been complied with.</p>

While discharging our duties as professionals, we need to be cognizant of the nitty-gritty in the reporting of the Financial Statements by ensuring correctness and accuracy of Financial Statements and adhering to the applicable statutes, Indian Accounting Standards (Ind AS), Standards on Auditing, Companies (Auditor’s Report) Order (CARO), Schedule III to Companies Act, 2013 (Schedule III), Sections of the Companies Act, 2013, the Study on Compliance of Financial Reporting Requirements (Ind AS Framework) published by the FRRB and such other guidance or publications issued.

