

**Critical issues in Finalization of  
Financial Statements  
of  
Other than Ind AS Entities for FY 2019-20  
and its Audit Report**



**CA. PRAMOD JAIN**

**B. COM (H), FCA, FCS, FCMA, LL.B, MIMA, DISA, IP**

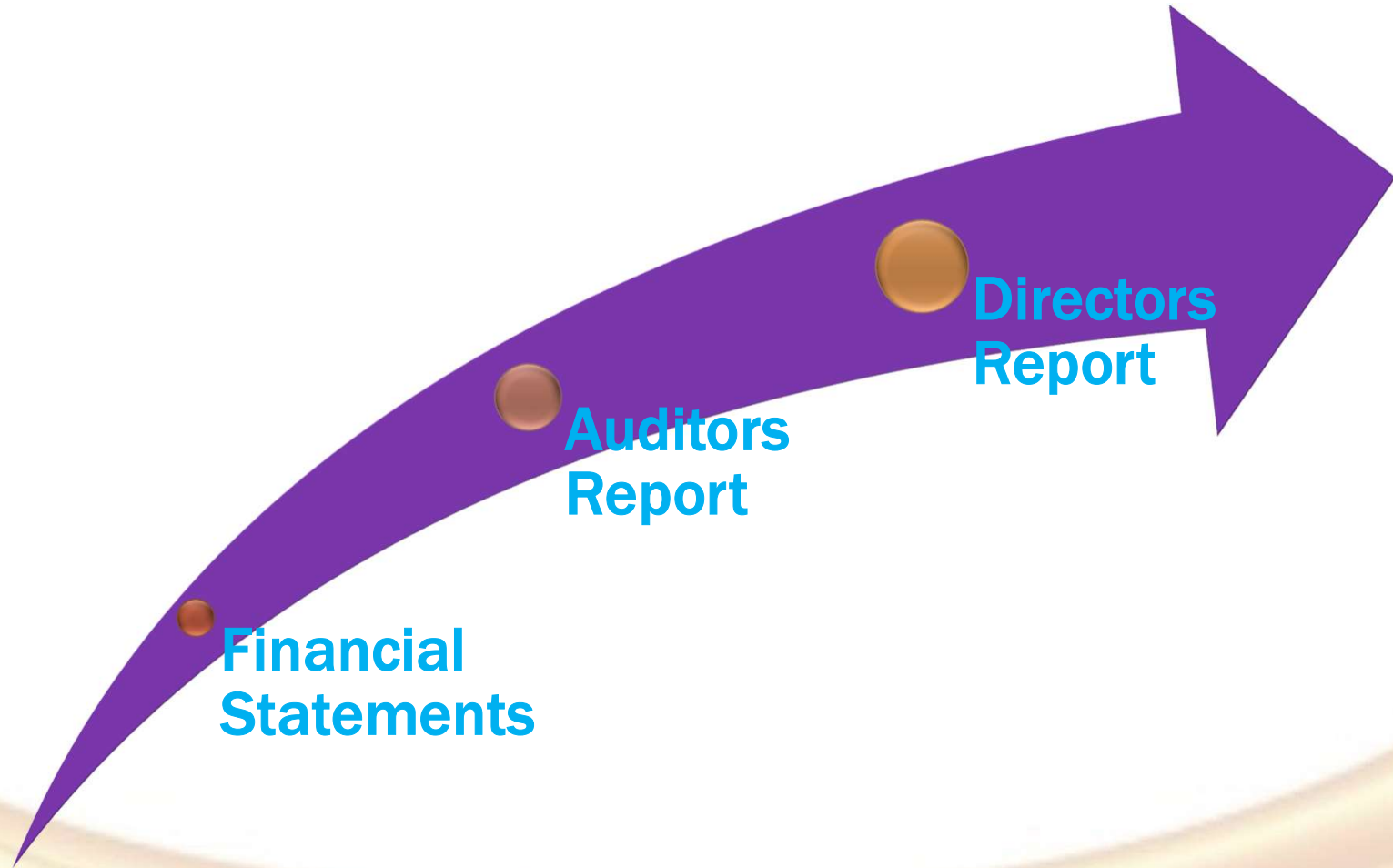
**Shared at**

**Webinar, Pune Branch of WIRC of ICAI**

**22<sup>nd</sup> July 2019**

# THE PROCESS

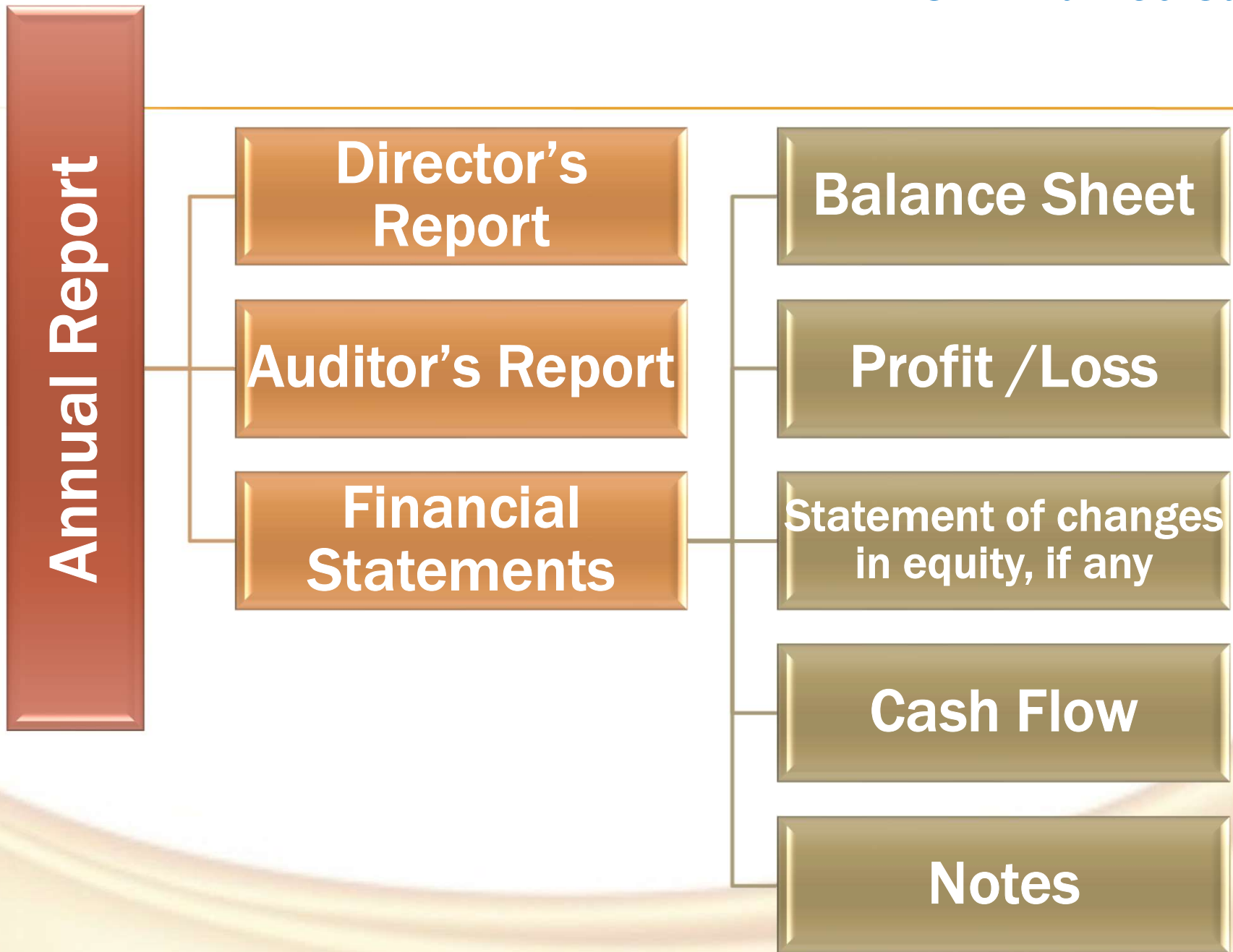
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Financial  
Statements

Auditors  
Report

Directors  
Report





**Financial  
Statements**

The graphic features the text 'Financial Statements' in a bold, blue, sans-serif font. It is set against a white background that is tilted. To the left of the text is a portion of a white calculator with black buttons, showing keys for 'M', square root, division, subtraction, multiplication, and equals. To the right of the text is a pair of black-rimmed glasses with gold-colored temples and a black pen with a gold-colored tip. The entire graphic is framed by a blue triangular shape at the top right and a yellow curved shape at the bottom.

# **FINANCIAL STATEMENTS**

- **Financial Year – 31<sup>st</sup> March**
- **Cash Flow for all except:**
  - **OPC**
  - **SC**
  - **DC**
  - **Start up Company w.e.f. 13<sup>th</sup> June 2017**
- **FS to be in Schedule III**
  - **Amended w.e.f. 4.9.15 to include MSMED details under Trade Payable**

# **BASICS – CURRENT VS. NON-CURRENT**

- ✘ **Current Asset - satisfies any of following criteria;**
  - + **In the company's normal operating cycle it is;**
    - ✘ **Intended for sale; or**
    - ✘ **Intended to be consumed; or**
    - ✘ **Expected to be realized.**
  - + **Held primarily for the purpose of being traded; or**
  - + **Expected to be realized within 12 months after reporting date; or**
  - + **Cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after reporting date.**

# BASICS - CURRENT LIABILITY

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- ✘ **Current liability if it satisfies any of the following criteria; if it is :**
  - + **Expected to be settled in the company's normal operating cycle; or**
  - + **Held primarily for the purpose of being traded; or**
  - + **Due to be settled within 12 months after reporting date; or**
  - + **The company does not have an unconditional right to defer settlement of liability for at least 12 months after reporting date. Terms of a liability that could, at option of counterparty, result in its settlement by issue of equity do not affect its classification.**

# GENERAL

- ✘ **Balance Sheet Title - 'as at' or 'as on' 31st March**
- ✘ **PL Title - Statement of Profit & Loss / I & E**
- ✘ **Rounding off based on turnover.**
  - + **< Rs. 100 Crores - To the nearest hundreds, thousands, lakhs or millions or decimal thereof**
  - + **Rs. 100 Crores or more - To the nearest lakhs or millions or crores or decimal thereof**
- ✘ **Comparative figures required to be disclosed for the last reporting period**



# GENERAL

- ✘ **Linking of notes with B/S & PL**
- ✘ **B/s & PL on letterhead of Auditors ??**
- ✘ **Date of signing**
- ✘ **Payment to shareholders for 2(22)(e)**
- ✘ **Issues in Sole Proprietorship / Partnership Firm Financials:**
  - + **Significant Accounting Policies**
  - + **Accounting Standards**

# FORM OF BALANCE SHEET (PART 1)

| <i>Particulars</i>                                   | <i>Note No.</i> | <i>Figures as at the end of the CRP</i> | <i>Figures as at the end of the PRP</i> |
|--|-----------------|---|---|
| <b>I. EQUITY AND LIABILITIES</b>                     |                 |   |   |
| <b>(1) Shareholders' Funds</b>                       |                 |   |   |
| (a) Share capital                                    | 1               |   |   |
| (b) Reserve and Surplus                              | 2               |   |   |
| (c) Money received against share warrants            |                 |   |   |
| <b>(2) Share application money pending allotment</b> | 3               |   |   |
| <b>(3) Non-current Liabilities</b>                   |                 |   |   |
| (a) Long term borrowings                             | 4               |   |   |
| (b) Deferred tax liabilities (net)                   | 5               |   |   |
| (c) Other long term liabilities                      | 6               |   |   |
| (d) Long term provisions                             | 7               |   |   |
| <b>(4) Current Liabilities</b>                       |                 |   |   |
| (a) Short term borrowings                            | 8               |   |   |
| (b) Trade payables                                   |                 |   |   |
| (c) Other current liabilities                        | 9               |   |   |
| (d) Short term provisions                            | 10              |   |   |
| <b>TOTAL</b>   |                 |   |   |

# SHARE CAPITAL & RESERVES

- ✘ **Authorized / Paid up Capital – Check with Master Data**
- ✘ **Reconciliation of no of shares outstanding at beginning & at end of reporting period.**
- ✘ **Rights, preference & restrictions attaching to each class of shares etc.**
- ✘ **Is conversion of loans into shares in event of default in repayment – Non-cash?**
- ✘ **Share Premium A/c??**

# BORROWINGS

- × **Long Term vs. Short Term**
  - + **Directors??**
  - + **CC Limits?? Demand Loans??**
- × **Secured /unsecured – nature of security to be stated & guaranteed by directors to be shown separately.**
- × **Term of repayment of term loans to be given**
  - + **Period of maturity with respect to B/S date**
  - + **Number of installments due; Amt of installments due**
  - + **Applicable rate of interest**
- × **Period & amount of default in payment of principal & interest as on B/S date**

# OTHER CURRENT LIABILITIES

- × **The amount shall be classified as:**
  - + **Current maturities of long term debts**
  - + **Current maturities of finance lease obligations**
  - + **Interest accrued but not due on borrowings**
  - + **Interest accrued and due on borrowings**
  - + **Income received in advance**
  - + **Unpaid dividends**
  - + **Share Application money due for refund and interest accrued thereon (including advances for allotment of share Capital)**
  - + **Unpaid matured deposit and interest thereon**
  - + **Unpaid matured debentures and interest thereon**
  - + **Other payables**

# OTHER CURRENT LIABILITIES

- × **Others payable may include:**
  - + **Statutory obligations like, ESI, PF, VAT, CST, etc.**
  - + **Liability for purchase of fixed assets**
  - + **Contractually reimbursable expenses**
  - + **Interest accrued on trade payables**
  - + **Expenses Payable.**
  - + **TDS Payable**
  - + **Trade / Security Deposit**
  - + **Mark-to-market loss on forward and option contracts**
  - + **Retention Monies**
  - + **Accrued salaries and benefits**

# LIABILITIES ??

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- ✘ **Share Application Money  
Pending allotment**
- ✘ **Loans from Friends??**
- ✘ **Current / Non-Current Loans**
- ✘ **Advances from Customers**
- ✘ **Trade payables – Ageing**

# FORM OF BALANCE SHEET (PART 2)

| Particulars                              | Note No. | Figures as at the end of the CRP | Figures as at the end of the PRP |
|--|----------|----------------------------------|----------------------------------|
| <b>II. ASSETS</b>                        |          |                                  |                                  |
| <b>(1) Non-current assets</b>            |          |                                  |                                  |
| (a) Property, Plant & Equipment          | 11       |                                  |                                  |
| (i) Tangible assets                      | 12       |                                  |                                  |
| (ii) Intangible assets                   |          |                                  |                                  |
| (iii) Capital work-in-progress           |          |                                  |                                  |
| (iv) Intangible assets under development | 13       |                                  |                                  |
| (b) Non- current investments             |          |                                  |                                  |
| (c) Deferred tax assets (Net)            | 14       |                                  |                                  |
| (d) Long term loans and advances         | 15       |                                  |                                  |
| (e) Other non-current assets             |          |                                  |                                  |
| <b>(2) Current assets</b>                |          |                                  |                                  |
| (a) Current investments                  | 16       |                                  |                                  |
| (b) Inventories                          | 17       |                                  |                                  |
| (c) Trade receivables                    |          |                                  |                                  |
| (d) Cash and cash equivalents            | 18       |                                  |                                  |
| (e) Short term loans and advances        | 19       |                                  |                                  |
| (f) Other current assets                 | 20       |                                  |                                  |
| <b>TOTAL</b>                             |          |                                  |                                  |



# PROPERTY PLANT & EQUIPMENT

- ✘ PPE on the face of the Balance Sheet has to be classified as follows:
  - + Tangible Assets
  - + Intangible Assets
    - ✘ Software
  - + Capital work-in-progress
  - + Intangible assets under development
- ✘ Capital advances to be grouped as Capital Work-in-Progress or loans and advances? Long term or short term?

# INVENTORIES

## × Classification into:

- + Raw Materials
  - + Work-in-progress
  - + Finished goods
  - + Stock-in-trade (trading goods)
  - + Stores and spares
  - + Loose tools
  - + Others (specifying nature)
- × Finished goods should include all goods except acquired for trading purposes
- × Goods-in-transit -disclose under relevant sub-head

# ASSETS??

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- × Investment Property
- × Inventories
- × Cash
- × Loans without interest
- × Debtors – Ageing / Provisioning
- × Miscellaneous Expenditure

# FORM OF STATEMENT OF PROFIT AND LOSS

| Particulars  | Note No. | Figures for the CRP | Figure for the PRP |
|--|----------|---------------------|--------------------|
| I. Revenue from operations   | 21       |                     |                    |
| II. Other income   | 22       |                     |                    |
| <b>III Total Revenue (I + II)</b>  |          |                     |                    |
| IV. Expenses   | 23       |                     |                    |
| <b>V. Profit before exceptional and extraordinary items and tax (III - IV)</b> |          |                     |                    |
| VI. Exceptional items  | 24       |                     |                    |
| <b>VII. Profit before extraordinary items and tax (V-VI)</b>                   |          |                     |                    |
| VIII. Extraordinary items  | 25       |                     |                    |
| <b>IX. Profit before tax (VII-VIII)</b>  |          |                     |                    |
| X. Tax Expenses  | 26       |                     |                    |
| <b>XI. Profit (loss) for the period from continuing operations (IX-X)</b>      |          |                     |                    |
| XII Profit (Loss) from the discontinuing business                              | 27       |                     |                    |
| XIII Tax expenses of discontinuing operations                                  | 28       |                     |                    |
| <b>XIV. Profit (Loss) from discontinuing operations (after tax) (XII-XIV)</b>  |          |                     |                    |
| <b>XV. Profit (Loss) for the period (XI+XIV)</b>                               | 29       |                     |                    |
| XVI. Earnings per equity share   |          |                     |                    |

# **REVENUE FROM OPERATIONS**

- ✘ **For companies other than finance company:**
  - + **Sale of Products**
  - + **Sale of Services**
  - + **Other Operating Revenues**
- ✘ **For Finance company:**
  - + **Interest**
  - + **Other Financial services**
- ✘ **Recognition of Revenue as per AS 9 / 7 for Service Contracts / Construction Contracts**

# OTHER INCOME

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- × **To be classified as:**
  - + **Interest income (other than for finance company)**
  - + **Dividend**
  - + **Dividend from subsidiary company**
  - + **Net gain / loss on sale of investments**
  - + **Other non-operating income**
- × **Interest, dividend, etc. to be disclosed separately for Current as well as Non Current Investments**

# EXPENSES

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**Disclosure on face of the PL:**

- × **Cost of material consumed**
- × **Purchase of stock-in-trade**
- × **Changes in inventories of finished goods  
Work-in-progress and stock in trade**
- × **Employee benefit expenses**
- × **Finance cost**
- × **Depreciation and amortization expenses**
- × **Other expenses.**

# FINANCE COST *CA. Pramod Jain*

## × Interest expense

- + Interest on borrowings, debentures, bonds, etc.
- + Finance charges on finance lease are in nature of interest

## × Other borrowing costs

- + Commitment charges
- + Loan processing charges
- + Guarantee charges
- + Loan facilitation charges
- + Discounts/ premium on borrowings
- + Other ancillary costs

## × Applicable net loss on foreign currency transactions to the extent they are regarded as adjust to interest cost

## × Interest on Tax???



# OTHER EXPENSES

- ✘ All other expenses will be grouped here. Following to be disclosed separately:
  - ✓ Consumption of stores and spares
  - ✓ Power and fuel
  - ✓ Rent
  - ✓ Repairs to buildings
  - ✓ Repairs to machinery
  - ✓ Insurance
  - ✓ Rates and taxes, excluding taxes on income
  - ✓ Miscellaneous expenses
- ✘ Any expenditure which exceeds 1% of revenue from operations or Rs.1 L whichever is higher - separate

# Notes to the Accounts



# ACCOUNTING STANDARDS



Entities that are to follow AS

Companies

Other than Companies

Companies  
(Accounting Standards)  
Rules, 2006

Ind AS

ICDS

AS issued  
by ICAI

ICDS

# AS DISCLOSURES IN NOTES

- × **SMC / Non- SMC**
- × **AS 1**
- × **FS to be prepared in compliance of AS**
- × **FS has to be AS compliant:**
  - + **FS to disclose deviation from AS**
  - + **Reason for deviation**
  - + **Financial effect arising of deviation**

# AS APPLICABILITY

| AS No. | Short Title                           | Companies |        | Other than Companies |          |           |
|--------|---------------------------------------|-----------|--------|----------------------|----------|-----------|
|        |                                       | Non-SMC   | SMC    | Level I              | Level II | Level III |
| 1      | Accounting Policies                   | Y         | Y      | Y                    | Y        | Y         |
| 2      | Inventories                           | Y         | Y      | Y                    | Y        | Y         |
| 3      | Cash Flow                             | Y         | N      | Y                    | N        | N         |
| 4      | Events after Balance Sheet date       | Y         | Y      | Y                    | Y        | Y         |
| 5      | Prior Period Items & Policies         | Y         | Y      | Y                    | Y        | Y         |
| 6      | Depreciation (Omitted w.e.f. 30.3.16) | NA        | NA     | NA                   | NA       | NA        |
| 7      | Construction                          | Y         | Y      | Y                    | Y        | Y         |
| 9      | Revenue                               | Y         | Y      | Y                    | Y        | Y         |
| 10     | Property, Plant & Equipment           | Y         | Y      | Y                    | Y        | Y         |
| 11     | Foreign Exchange                      | Y         | Y      | Y                    | Y        | Y         |
| 12     | Government Grants                     | Y         | Y      | Y                    | Y        | Y         |
| 13     | Investments                           | Y         | Y      | Y                    | Y        | Y         |
| 14     | Amalgamations                         | Y         | Y      | Y                    | Y        | Y         |
| 15     | Employee Benefits                     | Y         | Partly | Y                    | Partly   | Partly    |

# AS APPLICABILITY

|    |                                   |            |        |            |        |        |
|----|-----------------------------------|------------|--------|------------|--------|--------|
| 16 | <b>Borrowing Cost</b>             | Y          | Y      | Y          | Y      | Y      |
| 17 | <b>Segment</b>                    | Y          | N      | Y          | N      | N      |
| 18 | <b>Related Party</b>              | Y          | Y      | Y          | Y      | N      |
| 19 | <b>Leases</b>                     | Y          | Partly | Y          | Partly | Partly |
| 20 | <b>Earning Per Share</b>          | Y          | Partly | Y          | Partly | Partly |
| 21 | <b>Consolidation</b>              | Y (listed) | N      | Y (listed) | N      | N      |
| 22 | <b>Deferred Taxes</b>             | Y          | Y      | Y          | Y      | Y      |
| 23 | <b>Consolidated Statements</b>    | Y (listed) | N      | Y (listed) | N      | N      |
| 24 | <b>Discontinuing Operation</b>    | Y          | Y      | Y          | Y      | N      |
| 25 | <b>Interim Reporting</b>          | Y (listed) | N**    | Y (listed) | N**    | N**    |
| 26 | <b>Intangible Assets</b>          | Y          | Y      | Y          | Y      | Y      |
| 27 | <b>Interest in Joint Ventures</b> | Y (listed) | N      | Y (listed) | N      | N      |
| 28 | <b>Impairment</b>                 | Y          | Partly | Y          | Partly | Partly |
| 29 | <b>Contingency</b>                | Y          | Partly | Y          | Partly | Partly |

**RELATED PARTY**

**Accounting Standards**

**AS 18**

**Companies Act**

**S. 2(76)**

**S. 184**

**S. 188**

**Income Tax**

**40A(2)(b)**

# IMPORTANT NOTES

- ✘ **Contingent Liabilities / Commitments (to the extent not provided for)**
- ✘ **Broad Heads – RM , Income, Purchases**
- ✘ **Value of imports made during the year on CIF basis:-**
  - + **Raw Materials**
  - + **Components (intermediaries & components) & Spare Parts (for capital equipment)**
  - + **Capital Goods**



# IMPORTANT NOTES

- ✘ **Expn. in foreign currency (accrual basis) on:**
  - + **Royalty**
  - + **Know-how**
  - + **Professional & consultation fee**
  - + **Interest**
  - + **Others**
  
- ✘ **Dividend if paid in FC (cash Basis):**
  - + **Total amount remitted during the year in FC**
  - + **Total no. of non-resident shareholders**
  - + **No. of shares held by them on which dividend due**
  - + **Year to which dividend relates**

# IMPORTANT NOTES

- ✘ **Foreign Exchange Earnings (Accrual basis):**
  - + **Export of goods (calculated on F.O.B. basis)**
  - + **Royalty, know how, professional and consultation fees**
  - + **Interest and dividends**
  - + **Other income (indicating the nature thereof)**

# OTHER DISCLOSURES IN NOTES

- ✘ **To disclose in FS full particulars of:**
  - + **Loan given;**
  - + **Investment made;**
  - + **Guarantee given; or**
  - + **Security Provided.**
  - + **Purpose for which loan or guarantee or security is proposed to be utilised by recipient of loan or guarantee or security [186(4)]**
- ✘ **Contribution during year to National Defence Fund**

# **OTHER DISCLOSURES IN NOTES**

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- × **Public Companies:**

- + Money received from director

- × **Private companies**

- + Money received from director

- + Money received from relative of director

# AUDIT

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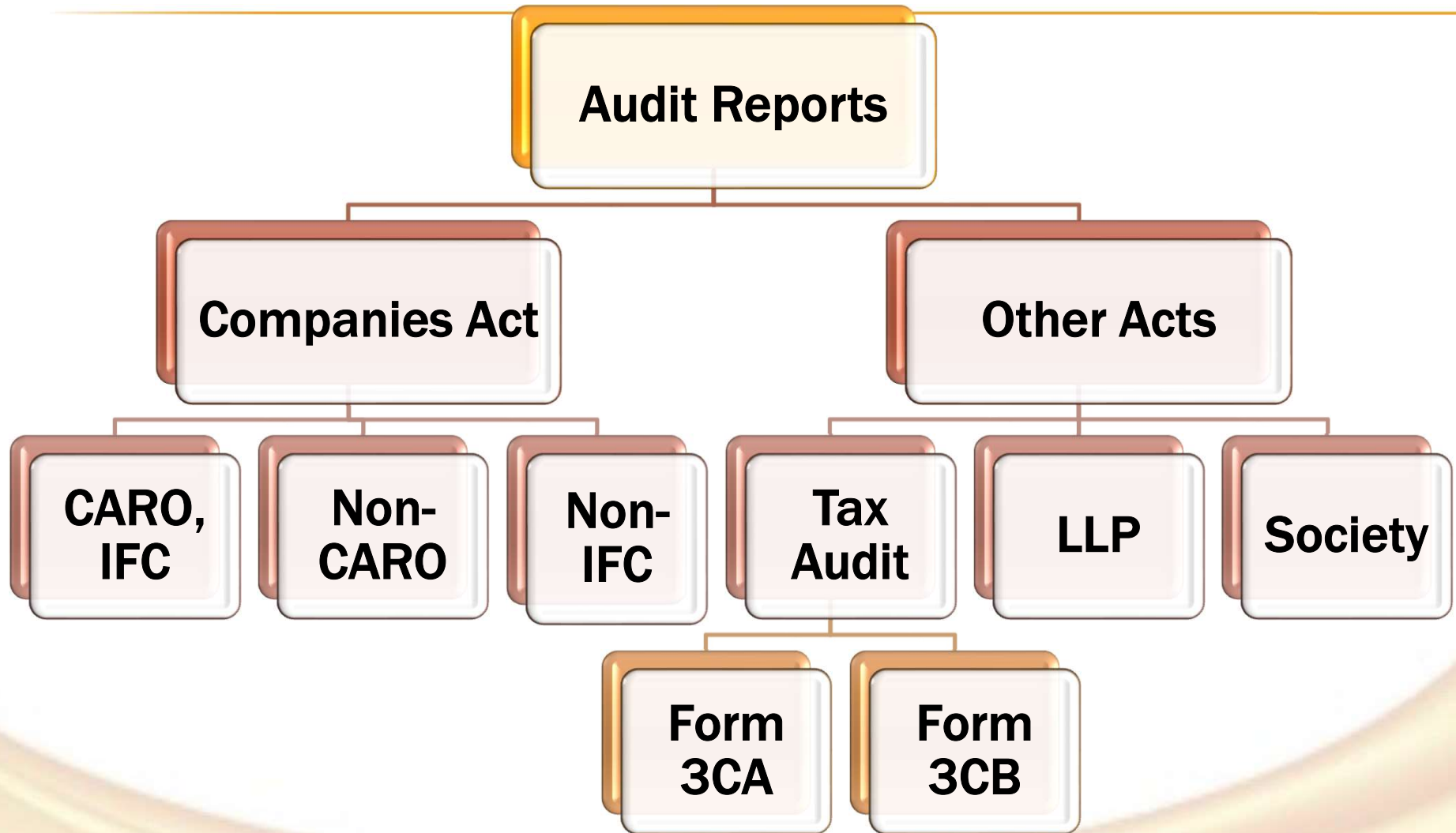
*CA. Pramod Jain*



# AUDITING STANDARDS

- Auditor to comply with auditing standards
- NFRA to notify auditing standards. Till NFRA does – as by ICAI
- Total 38 SAs

| SA. No. | Sub-division                                   | No. |
|---------|--|-----|
| 100-199 | Introductory Matters                           | 0   |
| 200-299 | General Principles & Responsibilities          | 9   |
| 300-499 | Risk Assessment and Response to Assessed Risks | 6   |
| 500-599 | Audit Evidence                                 | 11  |
| 600-699 | Using Work of Others                           | 3   |
| 700-799 | Audit Conclusions and Reporting                | 6   |
| 800-899 | Specialized Areas                              | 3   |



# COMPANY'S AUDIT REPORT

- **Inquiry u/s 143(1) – 6 points**
  - **To be reported when comments required**
- **Report to also include:**
  - **Matters specified u/s 143(3) - 9 points**
  - **Matters specified in Rules - 3 points**
  - **Any order made u/s 143(3) for specified Companies in consultation with NFRA – CARO 2016 – 16 points**



# IFC APPLICABILITY W.E.F. 13.7.2017

- ✘ **Not applicable to Private company which:**
  - + **Is OPC; or**
  - + **Is Small Company; or**
  - + **Has:**
    - ✘ **Turnover less than Rs. 50 crores as per latest audited financial statement ;and**
    - ✘ **Aggregate borrowings at any point of time during the FY less than Rs. 25 crore from:**
      - ✘ **Banks or**
      - ✘ **Financial Institutions or**
      - ✘ **Any body corporate**

CARO 2016

# CARO 2016 – APPLICABILITY ???

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- × ABC Pvt. Ltd.
- × Authorised Capital - 5 Crs.
- × Paid-up Capital – Rs. 50 Lacs
- × Reserves & surplus – Rs. 90 Lacs
- × Turnover – Rs. 1.75 Crs
- × Borrowings – Rs 2 Crs
- × CARO Applicable or not ???

# **AUDIT REPORT FOR FY 2019-20**

- ✘ **SA 700, 705, 706, 720 revised**
- ✘ **SA 701 – Key Audit matters applicable for:**
  - + **Listed entities**
  - + **Circumstances when the auditor otherwise decides to communicate key audit matters in the auditor’s report**

# AUDIT REPORT FOR FY 2019-20

## × Revised 700–Illustrations of Auditor’s Report on Financial Statements of:

1. A **listed entity** prepared in accordance with a fair presentation framework
2. A **listed company** prepared in accordance with a fair presentation framework
3. An **Unlisted Company** Prepared in Accordance with a Fair Presentation Framework
4. A **Non-Corporate Entity** Prepared in Accordance with a Fair Presentation Framework
5. A **Non-Corporate Entity** Prepared in Accordance with a **General Purpose Compliance Framework**

# COVID-19 IMPACT???

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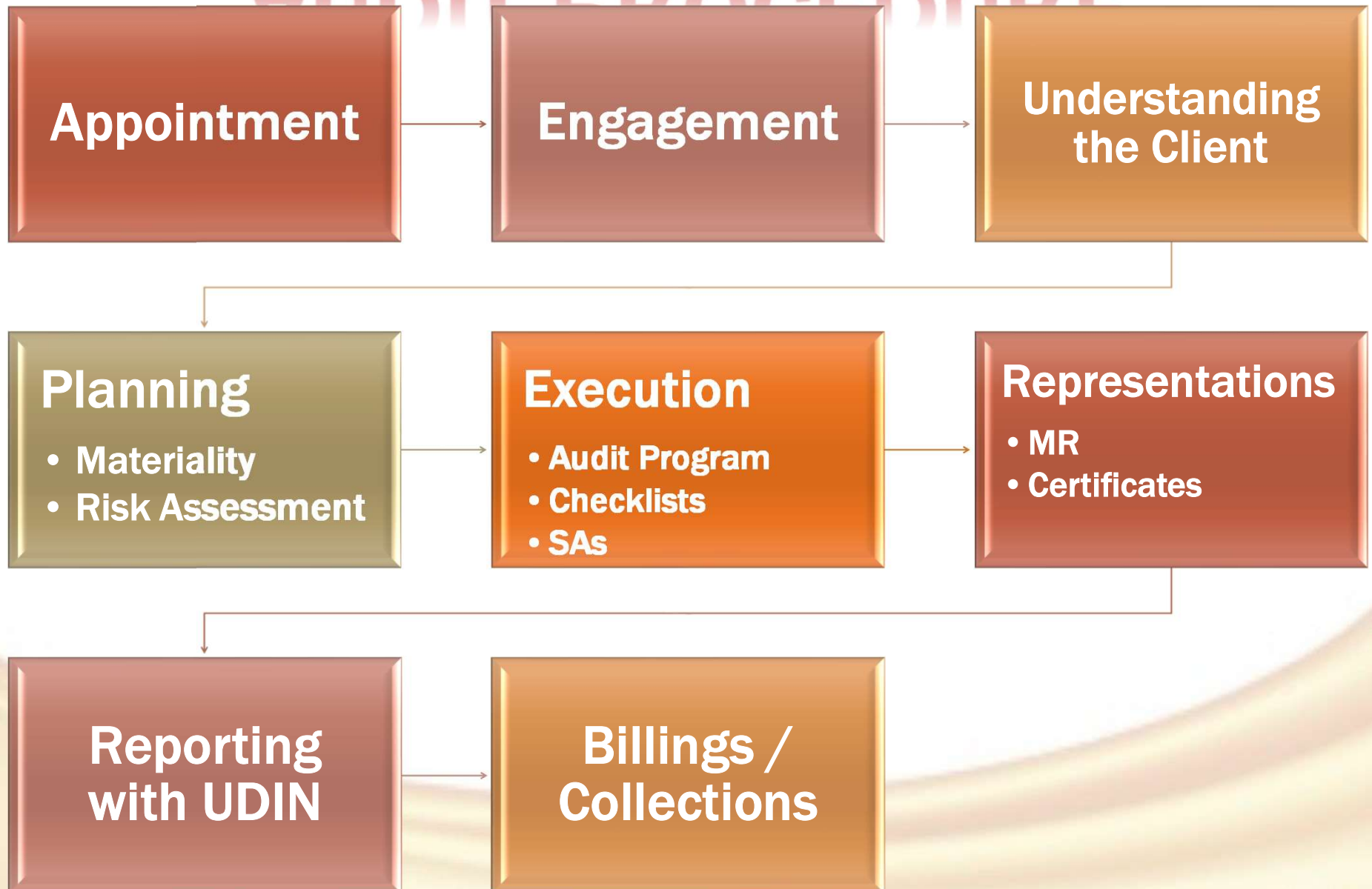
- × **Going Concern**
- × **Inventories**
- × **Ratio Comparison**
- × **MSME Compliance**
- × **Notes**
- × **AS**
- × **SA**

# OTHER IMPORTANT POINTS

| No.      | Standard   |
|----------|--|
| SAE 3400 | The Examination of Prospective Financial Information |
| SRS 4410 | Compilation Engagements                              |

- × **SREs, SAEs and SRSs**
- × **Guidance Note on Reports or Certificates for Special Purposes**
- × **UDIN**

# AUDIT PROCEDURE





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DOCUMENTED  
IS  
AUDIT NOT DONE**



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Goods and Services Tax (GST) (3,106)

Income Tax (2,368)

Corporate Matters/LLP (565)

Audit & Assurance and Accounting Standards (208)

Bank / Insurance / Stock / Debtors Audit (60)

## Recent Questions

Question added 1 hour ago Goods and Services Tax (GST) By Kaustubh Ram Karandikar, Other Professional, Thane

1

answer

Q. Eligibility of input tax credit of CESS on Coal

Answered By CA Raman Khatuwala

8 views

Question added 1 hour ago Income Tax By Vijay Kumar, CA, New delhi

0

answers

Q. How I file income tax return

11 views

Ask a question:

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Concept by CA Pramod Jain



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# Thank You!



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