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Ind AS Unit-4

Provisons Under Accounting Standards for Items Do Not Appearing in Finanancial Statements

Indian Accounting Standard 24 – Related Party Disclosures

Indian Accounting Standard 24 requires disclosures to be made by a parent entity regarding its transactions with associates, joint ventures or subsidiaries, collectively referred to as Related party. Hence related party refers to an entity or person that is related to the reporting entity.

Objective of the standard

The objective of this standard is to bring to notice the fact that an entity's financial statements and profit or loss can be affected by transactions with the related party transactions and disclose outstanding balances including commitments to such parties.

Scope of the standard

This standard shall be applied to:
Identifying related parties and transactions with them.
Identifying outstanding balance and commitments between the reporting entity and related parties.
Recognising the circumstances in which disclosures will be required in the above-stated situations

Determine the disclosures to be made.

The standard also requires disclosure of related party relationships transactions, outstanding balances including commitments in the consolidated financial statements, separate financial statements, and individual financial statements. In case a statute or regulatory body or similar competent authority governing an entity prohibits the entity from disclosing certain information that is required by this standard, then the disclosure of such information is not warranted. For instance banks, stock broking entities are not permitted to disclose customer related information, hence such information need not be disclosed.

Why should related party transactions be disclosed?

Related party transactions are an integral part of businesses in today's world. The transactions between the related parties are generally conducted at negotiated terms and hence they must be disclosed. Additionally, for an investor, knowledge of related parties facilitates a more informed decision to invest in an entity. Also, for every reader of the financial statements accurate disclosure of all the related party relationships, transactions, and outstanding balances presents a correct picture of the risk and opportunities for an entity.

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Disclosures to be made

Let's have a look at the disclosures that need to be made:
Relationships between parent and subsidiaries should be disclosed irrespective of whether there have been any transactions or not. If the entity's parent or the ultimate controlling party does not produce consolidated financial statements, then the next senior parent must be named in the consolidated financial statements for public use.

An entity must report the compensation to the key management personnel in total and each of the categories such as short term employee benefits, post-employment benefits, termination benefits, share-based payment, and other long-term benefits.

If key management services are obtained from another entity, then only the amounts incurred for the provision of such services shall be disclosed.

If the entity has transactions with the related party during the financial year, then it shall disclose the nature of such transactions, and also all the details such as amount, outstanding balances including commitments, provision for doubtful debts, and the expense recognised in respect of bad and doubtful debts.

The above disclosures will be made separately in respect of a parent, subsidiaries, associate, entities with joint control or significant influence over the other entity, joint ventures in which the entity is the venturer, and key management personnel of the entity or parent and other related parties.

The disclosures for similar items can be made in aggregate except when separate disclosure is necessary to understand the effects of related party transactions on the financial statements. Examples of related party transactions are purchase and sale of goods, assets, rendering, or receiving of services, leases, transfers, and so on.

Definitions **Related party** is a person or entity that is related to the reporting entity that is an entity that prepares financial statements. A person or close family member is related to reporting entity if that individual: Has control or joint control over the reporting entity. Has significant influence over the reporting entity. Is a member of the key personnel of the reporting entity or of the parent of the reporting entity.

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A **Close member** of the family includes person's children, spouse or domestic partner, brother, sister, father and mother, children of that person's spouse or domestic partner and dependants of that person's or person's spouse or domestic partner. An entity is related to a reporting entity if the following conditions are met: Both the reporting entity and the entity belonging to the same group. An associate or joint venture of the other entity or of the same third party. The entity is a post-employment benefit plan for the reporting entity or any entity related to the reporting entity. The entity is controlled or jointly controlled by the person mentioned above or the person mentioned has significant influence over the entity. The entity or any member of the group provides key management personnel service to the reporting entity or parent of reporting entity.

Related party transactions are the transfer of services or obligations, resources between a reporting entity, and related party irrespective of the fact that a price is charged.

The **Government** refers to government, government agencies, and similar bodies whether local, national, or international.

A **government-related entity** is an entity that is controlled, jointly controlled, or significantly influenced by the government.

Compensation includes all employment benefits such as short-term employment benefits, post-employment benefits, other long-term employer benefits, termination benefits, and share-based payments.

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Indian Accounting Standard (Ind AS) 10 : Events after the Reporting Period

Objective

1. The objective of this Standard is to prescribe:

(a) When an entity should adjust its financial statements for events after the reporting period; and

(b) the disclosures that an entity should give about the date when the financial statements were approved for issue and about events after the reporting period.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.

Scope

2. This Standard shall be applied in the accounting for, and disclosure of, events after the reporting period.

Definitions

3. The following terms are used in this Standard with the meanings specified:

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:

(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and

(b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

4. The process involved in approving the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the financial statements.

5. In some cases, an entity is required to submit its financial statements to its shareholders for approval after the financial statements have been approved by the Board for issue. In such cases, the financial statements are approved for issue on the date of approval by the Board, not the date when shareholders approve the financial statements.

6. In some cases, the management of an entity is required to issue its financial statements to a supervisory board (made up solely of non-executives) for approval. In such cases, the financial statements are approved for issue when the management approves them for issue to the supervisory board.

7. Events after the reporting period include all events up to the date when the financial statements are approved for issue, even if those events occur after the public announcement of profit or of other selected financial information.

Recognition and measurement

Adjusting events after the reporting period

8. An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.

9. The following are examples of adjusting events after the reporting period that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

(a) the settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. The entity adjusts any previously recognised provision related to this court case in accordance with Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets or recognises a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with paragraph 16 of Ind AS 37.

(b) the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:

(i) the bankruptcy of a customer that occurs after the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable; and

(ii) the sale of inventories after the reporting period may give evidence about their net realisable value at the end of the reporting period.

(c) the determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.

NON-ADJUSTING EVENTS • An enterprise should not adjust its financial statements for events after the reporting period that are indicative of conditions that arose after the reporting date. Rather it shall disclose the following for each material category of non-adjusting event after the reporting period:

(a) the nature of the event; and

(b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

Non-Adjusting Event

The following are examples of non-adjusting events after the reporting period that would generally result in disclosure:

(a) a major business combination after the reporting period Ind AS 103, Business Combinations, requires specific disclosures in such cases) or disposing of a major subsidiary;

(b) announcing a plan to discontinue an operation;

(c) major purchases of assets, classification of assets as held for sale in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations, other disposals of assets, or expropriation of major assets by government;

(d) the destruction of a major production plant by a fire after the reporting period;

(e) announcing, or commencing the implementation of, a major restructuring (see Ind AS 37);

(f) major ordinary share transactions and potential ordinary share transactions after the reporting period (Ind AS 33, Earnings per Share, requires an entity to disclose a description of such transactions, other than when such transactions involve capitalisation or bonus issues, share splits or reverse share splits all of which are required to be adjusted under Ind AS 33);

(g) abnormally large changes after the reporting period in asset prices or foreign exchange rates;

(h) changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities (see Ind nd AS 12, Income Taxes);

(i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and

(j) commencing major litigation arising solely out of events that occurred after the reporting period.

DIVIDENDS

If dividends to holders of equity instruments are proposed or declared after the reporting date, an entity should not recognize those dividends as liability. There is no obligation as on the reporting date.

The entity would disclose if any dividend is declared or proposed after the reporting date but before the date of approval of financial statements.

An enterprise may give the disclosure of proposed dividends either on the face of the balance sheet as an appropriation within equity or in the notes to the financial statements.

DISCLOSURES

Ind-AS 10 requires the following disclosures and updating thereof :

Disclosure Of Approval – An entity should disclose the date when the financial statements were approved for issue and who gave that authorization. If the enterprise's owners or others have the power to amend the financial statements after issuance, the enterprise should disclose the fact.

Updating DisclosuresAn entity should update disclosures that relate to the conditions that existed at the reporting date in the light of any new information that it receives after the reporting date about those conditions.Interim Financial Reporting applies when an entity prepares an interim financial report. Ind AS 34 does not mandate an entity as when to prepare such a report. Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an entity's capacity to generate earnings and cash flows and its financial condition and liquidity. Permitting less information to be reported than in annual financial statements (on the basis of providing an update to those financial statements), the standard outlines the recognition, measurement and disclosure requirements for interim reports Interim Financial Reporting applies when an entity prepares an interim financial report. Ind AS 34 does not mandate an entity as when to prepare such a report. Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an entity's capacity to generate earnings and cash flows and its financial condition and liquidity. Permitting less information to be reported than in annual financial statements (on the basis of providing an update to those financial statements), the standard outlines the recognition, measurement and disclosure requirements for interim reports

Interim Financial Reporting (Ind AS – 34)

Objective.

a. To prescribe the minimum content of an interim financial report

b. To prescribe the principle for recognition and measurement in complete or condensed financial statements for interim period

Scope

1. There is no mandatory for entities to follows this standard. But Government ad regulatory bodies often require entities whose debt or equity securities are publicly traded to publish interim financial reports.

2. If an entity's interim financial report is described as complying with Ind ASs, it must comply with all of the requirements of this standard.

Definitions

A. Interim period is a financial reporting period shorter than a full financial year.

B. Interim financial report means a financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period.

Content of an interim financial report.

A. When complete set is published

i. Ind AS 1 needs to be complied with

Ind AS 1 defines a complete set of financial statements as including the following components

a. A balance sheet as at the end of the period

b. A statement of profit and loss for the period

c. A statement of changes in equity for the period

d. A statement of cash flows for the period.

e. notes, comprising significant accounting policies and other explanatory information

f. a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40 A-40 D of Ind AS-1

It should be prepared in the same format and as per the contents and requirements of annual financial statements.

When Condensed set is published

Minimum components include

- A condensed balance sheet.
- A condensed statement of profit and loss
- A condensed statement of changes in equity
- A condensed statement of cash flows

Selected explanatory notes.

Periods for which interim financial statements are required to be presented.

Interim reports shall include interim financial statements (condensed or complete) for periods as follows:

a. balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year

b. statements of profit and loss for the current interim period and cumulatively for the current financial year to date , with comparative statements of profit and loss for the comparative interim periods (current and year-to-date)

c. statements of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year -to-date period of the immediately preceding financial year.

d. statement of cash flows cumulatively for the current financial year to date ,with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

Recognition and measurement.

Same accounting policies as annual. An entity shall apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial requirements. Cost incurred unevenly during the financial year. Costs that are incurred unevenly during the entity's financial year should be anticipated or deferred for interim reporting purposes, if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year. Seasonal, Cyclic or Occasional Revenue Revenues that are received seasonally, cyclically or occasionally within a financial year shall not be anticipated or deferred as of an interim date if anticipation or deferred would not be appropriate at the end of the entity's financial year. Such revenues are recognized when they occur