Unit -4

Provisions under accounting standards for items that do not appear in financial statements

- **Ind AS 108 – Segment Reporting**
- **Ind AS 24 – Related Party Disclosures**
- **Ind AS 10 – Events Occurring After Balance Sheet Date**
- **Ind AS 34 – Interim Financial Reporting**

Indian Accounting Standard 108 - SEGMENT REPORTING

Operating Segments requires particular classes of entities (essentially those with publicly traded securities) to disclose information about their operating segments, products and services, the geographical areas in which they operate, and their major customers. Information is based on internal management reports, both in the identification of operating segments and measurement of disclosed segment information.

Scope

It applies to the separate or individual financial statements of an entity (and to the consolidated financial statements of a group with a parent):
a) Whose debt or equity instruments are traded in a public market or.
b) That files, or is in the process of filing, its (consolidated) financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market.
However, when both separate and consolidated financial statements for the parent are presented in a single financial report, segment information need be presented only on the basis of the consolidated financial statements.

Identification of Operating Segments

It defines an operating segment as a component of an entity:
a) That engages in revenue earning business activities.
b) Whose operating results are regularly reviewed by the chief operating decision maker, The term 'chief operating decision maker' is not as such defined in IFRS8 as it refers to a function rather than a title. In some entities the function could be fulfilled by a group of directors rather than an individual.
c) For which discrete financial information is available.
This definition means that not every part of an entity is necessarily an operating segment. IFRS 8 quotes the example of a corporate headquarters that may earn no or incidental revenues and so would not be an operating segment.

Identification of Reportable Segments

Once an operating segment has been identified the entity needs to report segment information if the segment meets any of the following quantitative thresholds:
a) Its reported revenue (external and inter-segment) is 10% or more of the combined revenue, internal and external, of all operating segments
b)Its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined profit of all operating segments that did not report a loss and (ii) the combined loss of all operating segments that reported a loss or
c) Its assets are 10% or more of the combined assets of all operating segments.
Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principles of the standard; the segments have similar economic characteristics and are similar in various prescribed respects.

If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments must be identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the entity's revenue is included in reportable segments.

Disclosure requirements

Required disclosures include:

a) General information about how the entity identified its operating segments and the types of products and services from which each operating segment derives its revenues.

b) Judgements made by management in applying the aggregation criteria to allow two or more operating segments to be aggregated

c) Information about the profit or loss for each reportable segment, including certain specified revenues and expenses such as revenue from external customers and from transactions with other segments, interest revenue and expense, depreciation and amortization, income tax expense or income and material non-cash items

d) A measure of total assets and total liabilities for each reportable segment, and the amount of investments in associates and joint ventures and the amounts of additions to certain non-current assets (capital expenditure)

e) An explanation of the measurements of segment profit or loss, segment assets and segment liabilities, including certain minimum disclosures, e.g. how transactions between segments are measured, the nature of measurement differences between segment information and other information segments included in the financial statements, and asymmetrical allocations to reportable segments

f) Reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material items to corresponding items in the entity's financial statements

g) Some entity-wide disclosures that are required even when an entity has only one reportable segment, including information about each product and service or groups of products and services.

h) Analyses of revenues and certain non-current assets by geographical area - with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the identification of operating segments.

i)Information about transactions with major customers.

This disclosure is required only if such amounts are regularly provided to the chief operating decision maker, or in the case of specific items of revenue and expense or asset-related items, if those specified amounts are included in the relevant measure (segment profit or loss or segment assets).

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Indian Accounting Standard 24 – Related Party Disclosures

Indian Accounting Standard 24 requires disclosuresabout transactions and outstanding balances with an entity’s related parties. The standard defines various classes of entities and people as related parties and sets out the disclosures required in respect of those parties, including the compensation of key management personnel.

Objectives:-

The objective of this standard is to ensure that all entity’s financial statements contains the disclosures necessary to draw attention to the possibility that its financial statements and profit or loss may have been affected by the existence of related parties and by the transactions and outstanding balances with such parties.

What is Related party/ Related party transaction:-

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?

A related party transaction is a transfer of resources, services, or obligation between related parties regardless of whether a price is charged.

Purpose of Ind AS 24:-

- Related party:- parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions.
- It should consist of related party transactions
- Control:- control over ownership directly or indirectly, voting powerand ontrol of the composition of the board of directors.
- Related parties may work as an associate (neither a subsidiary nor a joint venture of that party) or joint venture (a contractual agreement where two or more party undertake a joint control) or joint control (contractually agreed to share the power of making financial and operational decisions and policies)
- A related party may be a key management personnel (who have the authority and responsibility for all managerial activities of the firm) or a family member (spouse, son, daughter, brother, sister, father and mother who may influence the reporting entities) or a holding company (parent company) or a subsidiary company or any closemember of the family.

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.

Scope of Disclosure

a) Identifying related parties and the amount of transactions.
b) Identifying the amount of outstandingbalances, including terms, conditions and guarantees
c) Provisions for doubtful debts related to the amount of outstanding balances
d) Expenses recognized during the circumstances in which disclosures will be required in the above-stated situations

Disclosures of related party

Regardless of whether there have been transactions between parents and subsidiary, an entity must disclose the name of its parent and if it is different, the ultimate controlling party.If the entity's parent or the ultimate controlling party does not produce consolidated financial statements, then thename of 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 following categories

1. Short term employee benefits:- it includes wages,salaries and social security contributions, paid by annual leave and paid by sick leave and non monetary benefits for current employees.
2. Post employment benefits:- it includes pensions, retirement benefits.
3. Other long term benefits:- it includes long term disabilities benefits, insurance, long service leave etc.
4. Termination benefits
5. Share based payment benefits

If an entity obtains key management personnel services from a management entity, the entity is not required to disclose the compensation paid or payable by the management entity to the management entity's employees and directors. Instead the entity discloses the amount incurred by the entity for the provision of key management personnel services that are provided by the separate management entity.

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 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.

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Indian Accounting Standard 34: Interim Financial Reporting

Ind AS 34 interim financial reporting applies to when an entity prepares an interim financial report but doesnot specifies when it should do. This standard describes the recognition, measurement and disclosure requirements for interim reports permitting less information to be reported than in annual financial statements.
Ind AS 34 is applicable to the companies, their holding, subsidiary associate and joint ventures of companies that satisfy any of the following conditions:

a) All listed companies and companies in the process of listing
b) All unlisted companies with net worth more than 250 crores
c) All banking and insurance companies whose net worth is more than 500 crores
d) All non-banking financial institutions whose net worth is more than 250 crores

Objective
The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period.

Timely and reliable interim financial reporting improves the ability of investors, creditors, and otherstakeholders to understand an entities capacity to generate earnings, it's cash flows,it's financial condition and liquidity.

Definitions

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

Interim financial report means a financial report containing either a complete set of financial statements (as described in Ind AS 1 Presentation of Financial Statements) or a set of condensed financial statements (as described in this Standard) for an interim period.

Contents of an interim financial reporting

Ind AS 1 defines a complete set of financial statements as including the following components:- Balance sheet, income statement, cash flow statement, statement of changes in equity, accounting policies and explanatory notes.

Minimum components of an interim financial reporting

- a condensed balance sheet
- either a condensed statement of comprehensive income statement or condensed income statement
- a condensed statement of changes in equity
- a condensed statement of cash flows; and
- Selected explanatory notes.

Scope

1. This Standard does not mandate which entities should be required to publish interim financial reports, how frequently, or how soon after the end of an interim period. However, governments, securities regulators, stock exchanges, and accountancy bodies often require entities whose debt or equity securities are publicly traded to publish interim financial reports. This Standard applies if an entity is required or elects to publish an interim financial report in accordance with Indian Accounting Standards.

2. Each financial report, annual or interim, is evaluated on its own for conformity to Indian Accounting Standards. The fact that an entity may not have provided interim financial reports during a particular financial year or may have provided interim financial reports that do not comply with this Standard does not prevent the entities annual financial statements from conforming to Indian Accounting Standards if they otherwise do so

Accounting Policies

The same accounting policies should be applied for interim reporting asareappliedin theentity's 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 statements. A key provision of IAS 34 is that an entity should use the same accounting policy throughout a single financial year. If a decision is made to change a policy mid-year, the change is implemented retrospectively, and previously reported interim data is restated.

Measurement

Measurements for interim reporting purposes should be made on a year-to-date basis, so that the frequency of the entity's reporting does not affect the measurement of its annual results.

Several important measurement points:

a) Revenues that are received seasonally, cyclically or occasionally within a financial year should not be anticipated or deferred as of the interim date, If anticipation or deferral would not be appropriate at the end of the financial year.

b) Costs that are incurred unevenly during a financial year should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that typ of cost at the end of the financial year.

c) Income tax expense should be recognized based on the best estimate of the weighted averag annual effective income tax rate expected for the full financial year.
An appendix to IAS 34 provides guidance for applying the basic recognition and principles at interim dates to various types of asset, liability, income, and expense.

Materiality
In deciding how to recognise measure, classify, or disclose an item forinterimfinancial purposes, materiality is to be assessed in relation to the interim periodfinancialdata, not annual data.

Disclosure
If an estimate of an amount reported in an interim period is changed significantly during the financial Interim period in the financial year but a separate financial report is not published for that period, the nature and amount of that change must be disclosed in the notes to the annual financial statements.
Examples / Significant events and transactions disclosed:
(a) The write-down of inventories to net realisable value and the reversal of such a write-down
(b) Recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;
(c) The reversal of any provisions for the costs of restructuring;
(d) Acquisitions and disposals of items of property, plant and equipment;
(e) Commitments for the purchase of property, plant and equipment;
(f) Litigation settlements;
(g) Corrections of prior period errors;
(h) Changes in the business or economic circumstances that affect the fair value of the entities financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost;
(i) Any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period; and
(j) Related party transactions
(k) Transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments;
(l) Changes in the classification of financial assets as a result of a change in the purpose or use of those assets; and
(m) Changes in contingent liabilities or contingent assets.

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Indian Accounting Standard 10: Events Occurring after the Balance Sheet Date

Events may occur between the end of the reporting period and the date when financial statements are authorized for issue which may present information that should be considered in the preparation of financial statements. Ind AS 10 provides the guidance as to which events should lead to adjustments in the financial statements and which events shall be disclosed in the notes to financial statements.

Events after the reporting period are those events, favourable and unfavorable, 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.
The events after the end of reporting period maybe classified into two types:-

a) Adjusting events: Those events that provide further evidence about conditions that existed at the end of reporting period. (Then the financial statements must be adjusted accordingly)

Examples:-

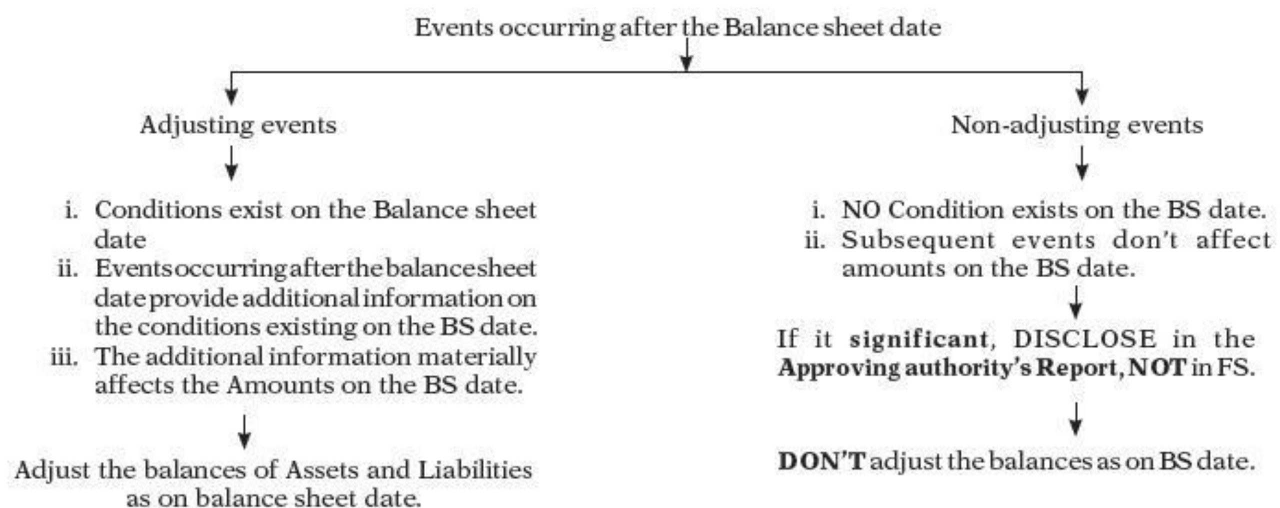
- Settlement of litigation against the entity after the reporting date, in respect of events that occurred before the end of reporting period.
- Declaration of bankruptcy by a long term outstanding receivable or the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period.
- The determination after the reporting period of the cost of an asset purchased or the proceeds from assets sold before the end of the reporting period.
- Sale of inventories after the reporting period and
- Detection of frauds and errors after the reporting period may indicates that the financial statements are misstated.

b) Non Adjusting Events: Those events that reflect conditions that arose after the end of reporting period. (No adjustments in financial statements)

Examples:-

- Declaration of dividends after the reporting date doesn't indicates existence of liability to pay.
- Destruction of assets of the entity by floods occuring after the reporting period.
- Decline in market value of investments.
- Initiation of litigation against company.

Objectives:-
1) When an entity should adjust its financial statements for events after the reporting period
2) 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.
Hence, this standard shall be applied in the accounting for, and disclosure of, events after the reporting period.



Adjusting Events

- Conditions must be existing on the Balance Sheet date;

- The entity doesn't have the complete or correct information about the items on the balance sheet date; if such information was available, the entity could have adjusted (accounted for) accordingly on the balance sheet date only.
- Events occurring after the balance sheet date are confirming or giving more information about the conditions which were existed on the BS date.
- If the subsequent event is an adjusting event, the entity should record the transaction as on balance sheet date. Entity should consider all such adjusting events till the date of approval of financial statements by the approving authority.

Non-Adjusting Events

- No Condition exists on the Balance sheet date;
- Subsequent event doesn't affect the balances as on balance sheet date. So NO need to account for as on balance sheet date;
- Non-adjusting events SHOULD NOT be disclosed in financial statements.
- If non-adjusting events are SIGNIFICANT, Approving authority (like Board of Directors in case of company, Partners in case of partnership firm) can disclose the same in their report (Board's Report) so as to enable the users of financial statements to make proper evaluations and decisions.

Accounting of events

1) Adjust the financial statements for Adjusting events- events after the balance sheet date that provides further evidence of conditions that existed at the reporting period, including events that indicate that the going concern assumption in relation to the whole or part of the Enterprise is not appropriate.
2) Do not adjust for non-adjusting events - events or conditions that arose after the end of the reporting period.
3) If an entity declares dividends after the reporting period, the entity shall not recognize those dividends as a liability at the end of the reporting period. That is non-adjusting event.

Going Concern exception

Entity shall not prepare financial statements on the going concern basis if events after the reporting period indicates that the entity shall not be able to continue as a going concern irrespective of whether such events are indicative of conditions that arose after the end of reporting period or not.

If financial statements are not prepared on the going concern basis, it shall disclose this fact in financial statements along with any major uncertainties that may cast considerable doubt regarding the entity's ability to operate as a going concern.

Disclosure

Non Adjusting Events should be disclosed if they are of such importance that non disclosure would affect the ability of users to make proper evaluation and decisions. The required disclosure is
a) The nature of the event
b) An estimate of its financial effect or a statement that a reasonable estimate of the effect cannot be made.

A company should update disclosures that relate to conditions that existed at the end of the reporting period to reflect any new information that it receives after the reporting period about those conditions.

Companies must disclose the date when the financial statements were authorised 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 must disclose that fact.

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