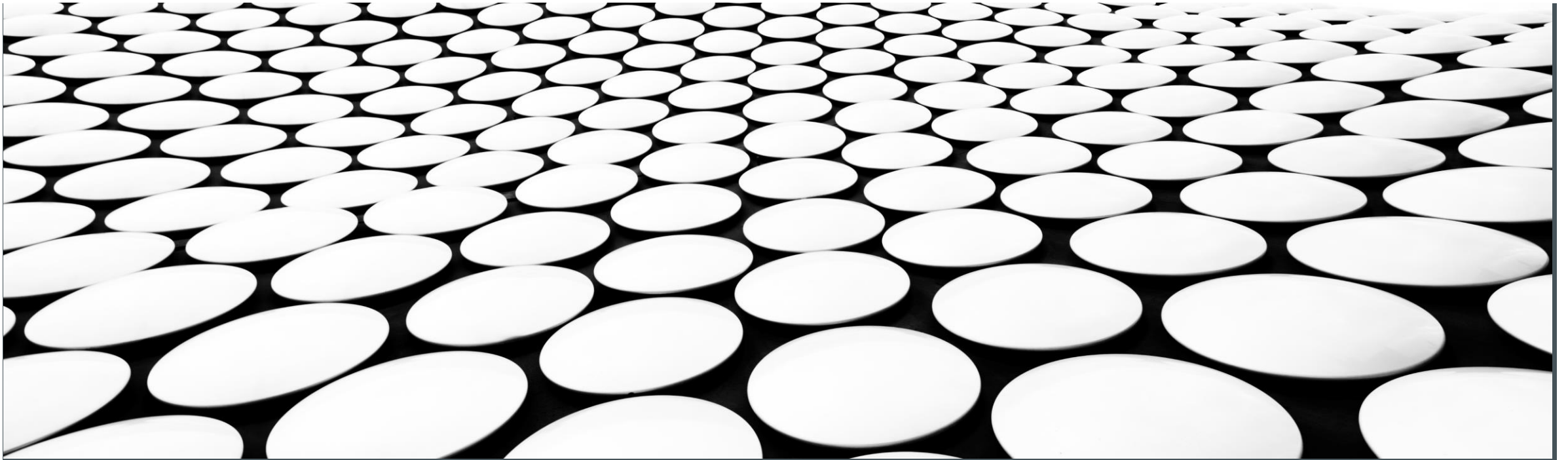

FUNDAMENTALS OF FINANCIAL REPORTING : **MODULE VI : COMPONENTS OF FINANCIAL STATEMENTS**

BY B D CHATTERJEE *FCA, ACMA, ACS, DIP (IFR) ACCA – UNITED KINGDOM*



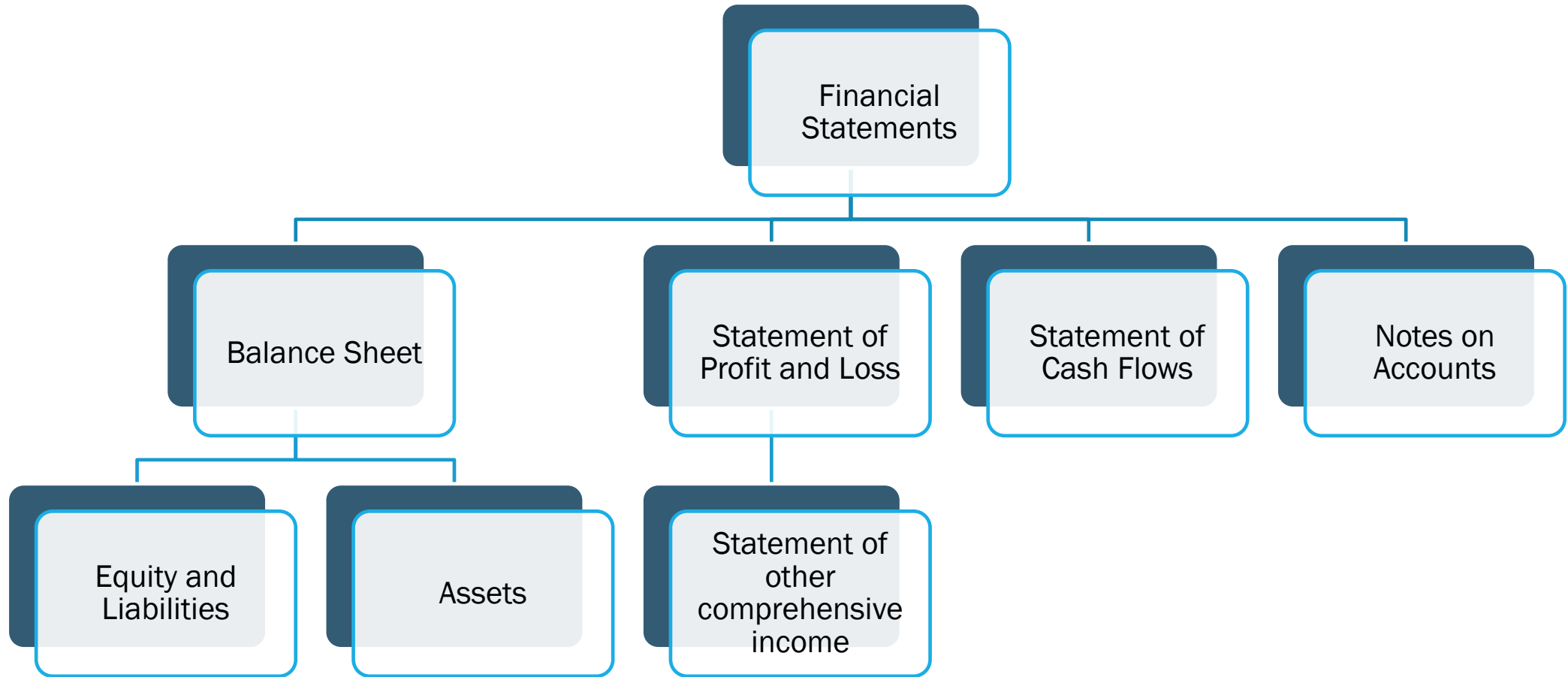
FUNDAMENTALS OF FINANCIAL REPORTING

- **COMPONENTS OF FINANCIAL STATEMENTS**
- **BALANCE SHEET AND ITS COMPONENTS**
- **STATEMENT OF PROFIT AND LOSS**



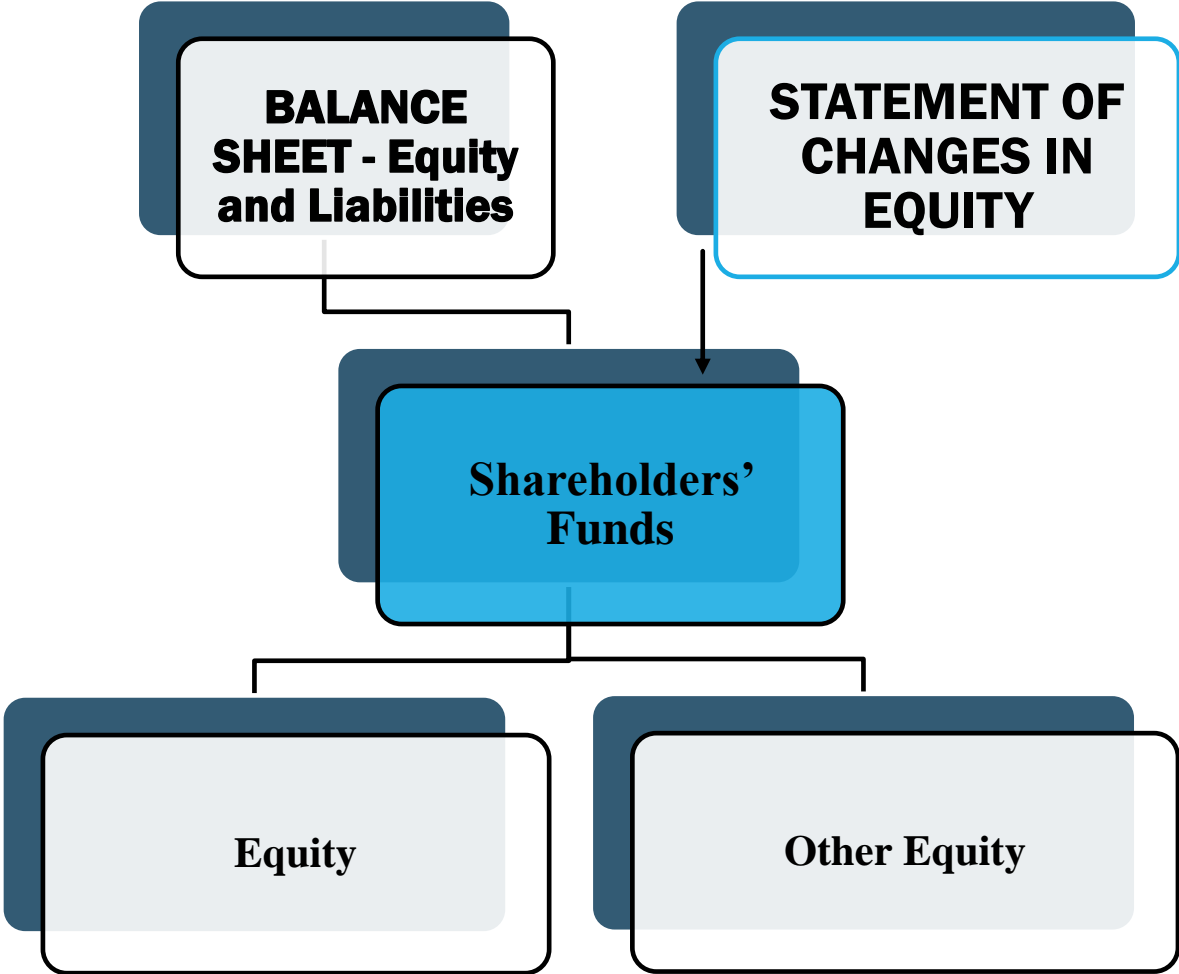
COMPONENTS OF FINANCIAL STATEMENTS

FINANCIAL STATEMENTS



BALANCE SHEET AND ITS COMPONENTS

SHAREHOLDERS' FUNDS



SHAREHOLDERS' FUNDS - EQUITY

For each class of equity share capital:

- (a) the number and amount of shares authorised;
- (b) the number of shares issued, subscribed and fully paid, and subscribed but not fully paid;
- (c) par value per share;
- (d) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;
- (e) the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital;
- (f) shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by or by subsidiaries or associates of the holding company or the ultimate holding company in aggregate;
- (g) shares in the company held by each shareholder holding more than 5 percent shares specifying the number of shares held;
- (h) shares reserved for issue under options and contracts/commitments for the sale of shares/disinvestment, including the terms and amounts;
- (i) For the period of five years immediately preceding the date as at which the Balance Sheet is prepared:
 - Aggregate number and class of shares allotted as fully paid up pursuant to contract(s) without payment being received in cash.
 - Aggregate number and class of shares allotted as fully paid up by way of bonus shares.
 - Aggregate number and class of shares bought back.
- (j) Terms of any securities convertible into equity shares issued along with the earliest date of conversion in descending order starting from the farthest such date.
- (k) Calls unpaid (showing aggregate value of calls unpaid by directors and officers)
- (l) Forfeited shares (amount originally paid up)

SHAREHOLDERS' FUNDS – OTHER EQUITY

- (i) 'Other Reserves' shall be classified in the notes as:**
 - (a) Capital Redemption Reserve;**
 - (b) Debenture Redemption Reserve;**
 - (c) Share Options Outstanding Account;**
 - (d) Others– (specify the nature and purpose of each reserve and the amount in respect thereof);**
(Additions and deductions since last balance sheet to be shown under each of the specified heads)
- (ii) Retained Earnings represents surplus i.e. balance of the relevant column in the Statement of Changes in Equity.**
- (iii) A reserve specifically represented by earmarked investments shall disclose the fact that it is so represented.**
- (iv) Debit balance of Statement of Profit and Loss shall be shown as a negative figure under the head 'retained earnings'. Similarly, the balance of 'Other Equity', after adjusting negative balance of retained earnings, if any, shall be shown under the head 'Other Equity' even if the resulting figure is in the negative.**
- (v) Under the sub-head 'Other Equity', disclosure shall be made for the nature and amount of each item.**

STATEMENT OF CHANGES IN EQUITY

In the *Statement of Changes in Equity*, the portion for 'Equity Share Capital' provides reconciliation for current/previous reporting periods:

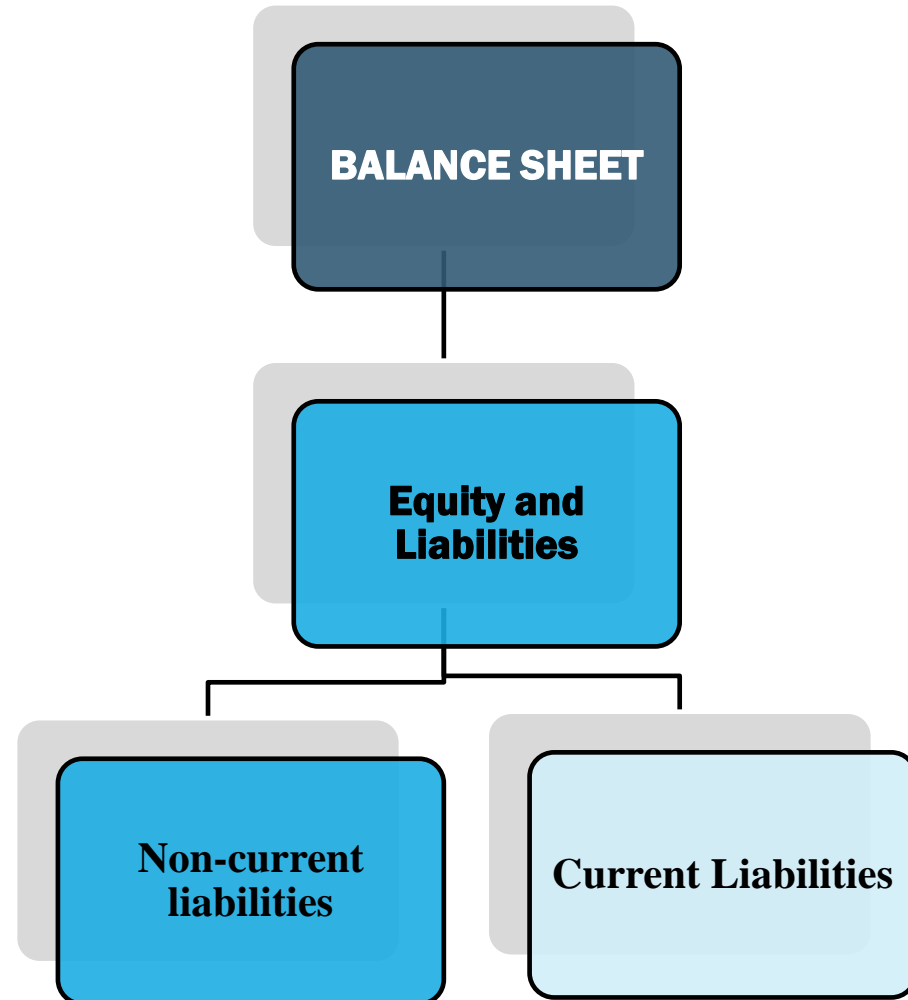
- (a) Balance at the beginning of the current/previous reporting period;
- (b) Changes in Equity Share Capital due to prior period errors;
- (c) Restated balance at the beginning of the current/previous reporting period
- (d) Changes in equity share capital during the current/previous year;
- (e) Balance at the end of the current/previous reporting period

STATEMENT OF CHANGES IN EQUITY

The items included in columnar form are listed as under:

- (a) Share application money pending allotment;
- (b) Equity component of compound financial instruments;
- (c) Reserves and Surplus:
 - (i) Capital Reserve;
 - (ii) Securities Premium;
 - (iii) Other Reserves (specify nature);
 - (iv) Retained Earnings;
- (d) Debt instruments at fair value through other comprehensive income;
- (e) Equity instruments at fair value through other comprehensive income;
- (f) Effective portion of Cash Flow Hedges;
- (g) Revaluation Surplus;
- (h) Exchange differences on translating the financial statements of a foreign operation;
- (i) Other items of other comprehensive income (specify nature);
- (j) Money received against share warrants;
- (k) Non-controlling interests (for Statement of Changes in Equity of Consolidated Financial Statements).

NON CURRENT LIABILITIES



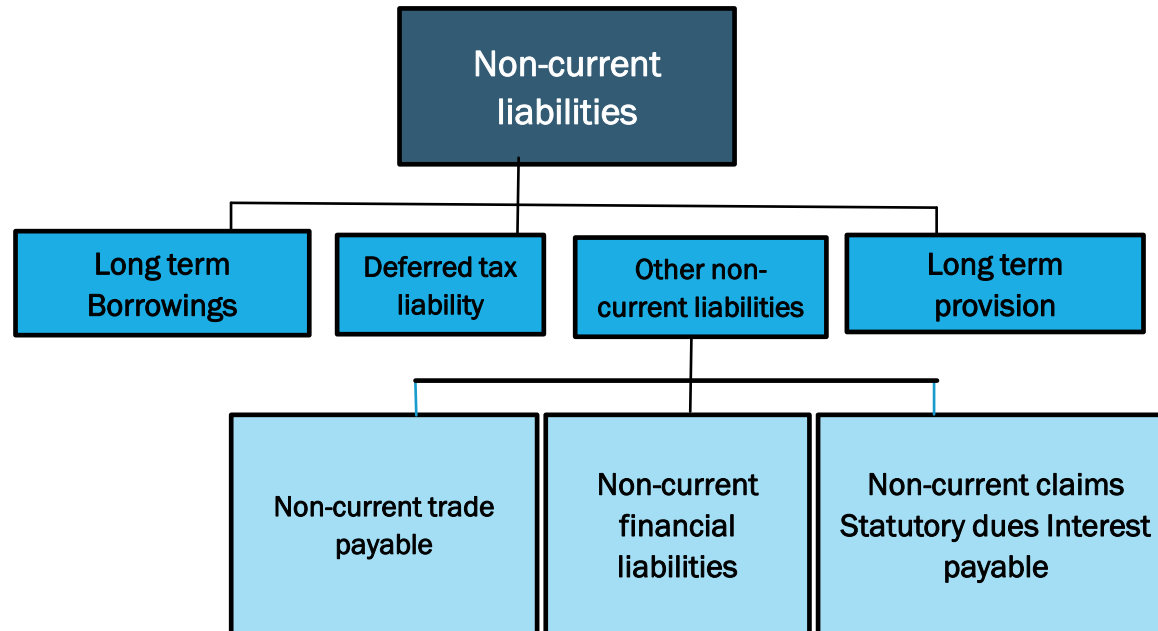
NON CURRENT LIABILITIES – CURRENT/NON CURRENT CLASSIFICATION

An entity shall classify a liability as non-current if it belongs to any category apart from the ones categorized below.

- (a) it expects to settle the liability in its normal *operating cycle*;
- (b) it holds the liability primarily for trading;
- (c) the liability is due to be settled within twelve months after the reporting period; or
- (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

COMPONENTS OF NON CURRENT LIABILITIES



NON CURRENT LIABILITIES

I. Borrowings

- (i) Borrowings shall be classified as:
 - (a) Bonds/debentures
 - (b) Term loans
 - I from banks.
 - II from other parties.
 - (c) Deferred payment liabilities.
 - (d) Deposits.
 - (e) Loans from related parties.
 - (f) Long term maturities of finance lease obligations
 - (g) Liability component of compound financial instruments
 - (h) Other loans (specify nature).
- (ii) Borrowings shall further be sub-classified as secured and unsecured.
Nature of security shall be specified separately in each case.

NON CURRENT LIABILITIES (CONTINUED)

I. Borrowings (Continued)

- (iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.
- (iv) Bonds/debentures (along with the rate of interest, and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be. Where bonds/debentures are redeemable by instalments, the date of maturity for this purpose must be reckoned as the date on which the first instalment becomes due.
- (v) Particulars of any redeemed bonds/ debentures which the company has power to reissue shall be disclosed.
- (vi) Terms of repayment of term loans and other loans shall be stated.
- (vii) Period and amount of default as on the balance sheet date in repayment of borrowings and interest shall be specified separately in each case.

NON CURRENT LIABILITIES (CONTINUED)

II. Other non-current liabilities

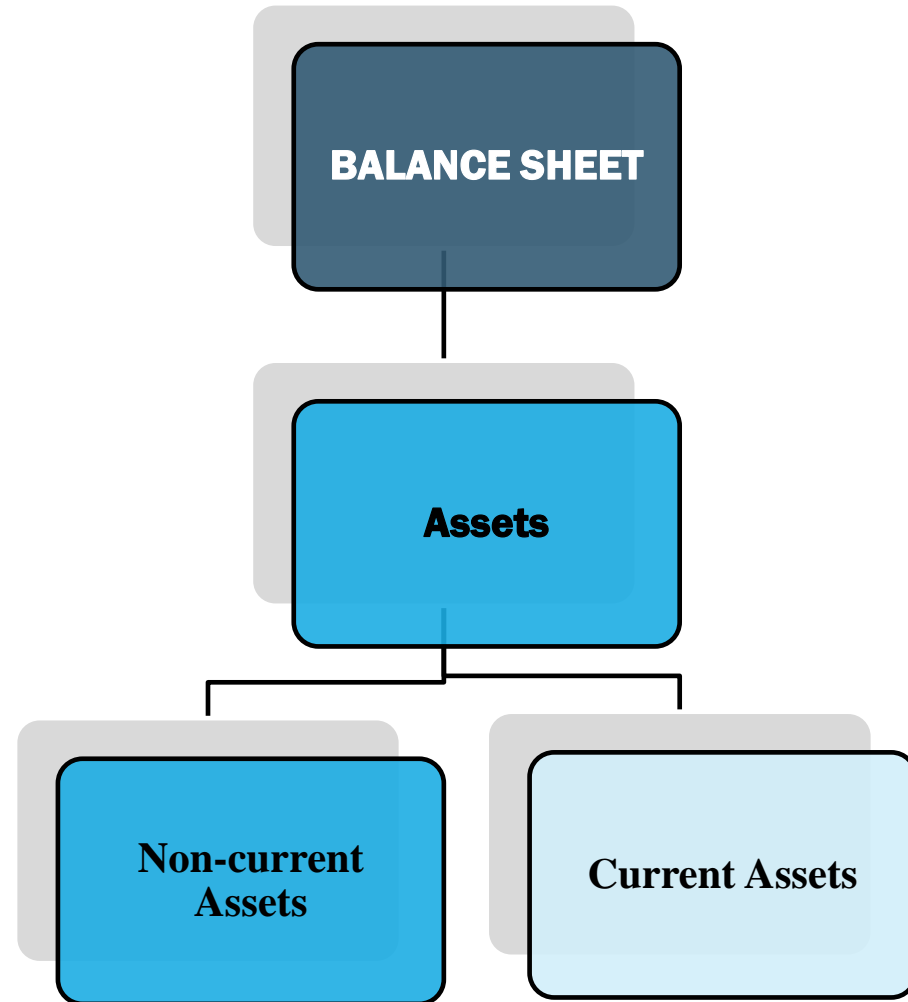
- (a) Advances
- (b) Others (specify nature)

III. Provisions

The amounts shall be classified as:

- (a) Provision for employee benefits.
- (b) Others (specify nature).

NON CURRENT ASSETS



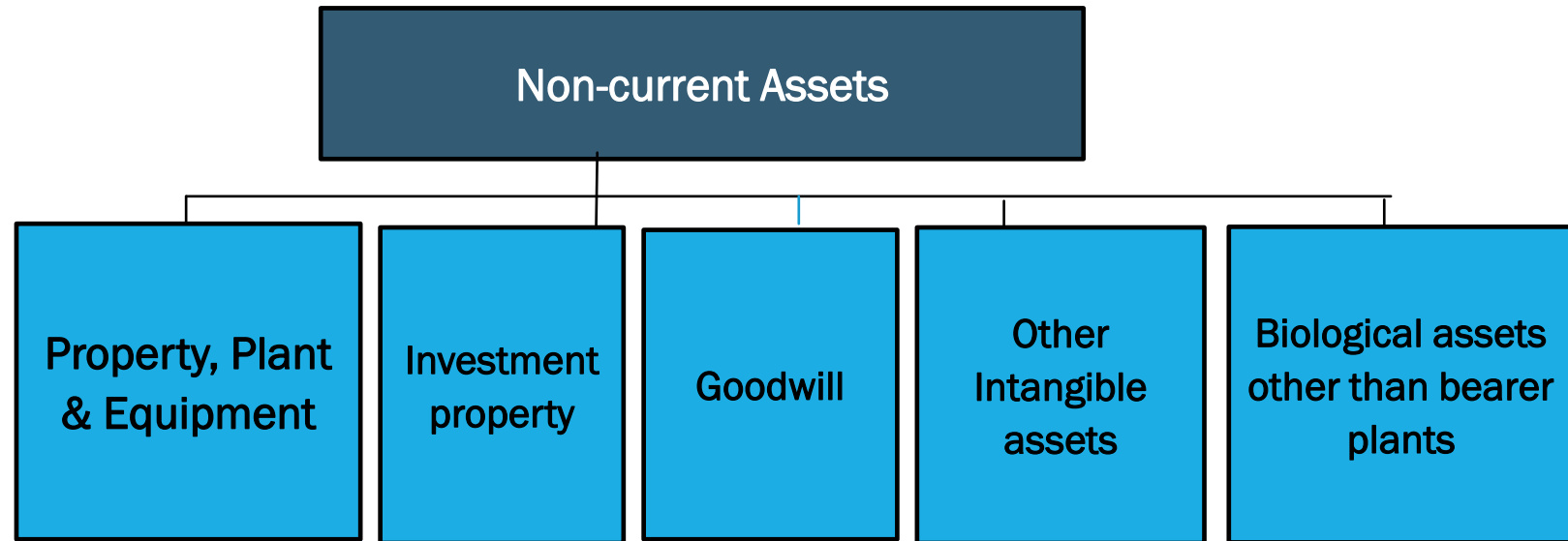
NON CURRENT ASSETS – CURRENT/NON CURRENT CLASSIFICATION

In accordance with IFRS and Ind AS, non-current assets have been defined by default as under:

Any asset which does not fall within the categories of assets highlighted below are treated as non-current assets.

- (a) it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle,
- (b) it holds the asset primarily for trading,
- (c) it expects to realize the asset within twelve months after the reporting period; or
- (d) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

COMPONENTS OF NON CURRENT ASSETS



NON CURRENT ASSETS

Property, Plant and Equipment

(i) Classification shall be given as:

- (a) Land.
- (b) Buildings.
- (c) Plant and Equipment.
- (d) Furniture and Fixtures.
- (e) Vehicles.
- (f) Office equipment.
- (g) Bearer Plants
- (h) Others (specify nature).

(ii) Assets under lease shall be separately specified under each class of assets.

(iii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment) and other adjustments and the related depreciation and impairment losses or reversals shall be disclosed separately.

NON CURRENT ASSETS (CONTINUED)

Investment Property

A reconciliation of the gross and net carrying amounts of each class of property at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related amortisation and impairment losses/reversals shall be disclosed separately.

Goodwill

A reconciliation of the gross and net carrying amount of goodwill at the beginning and end of the reporting period showing additions, impairments, disposals and **other adjustments**

NON CURRENT ASSETS (CONTINUED)

Other Intangible assets

(i) Classification shall be given as:

- (a) Brands /trademarks.
- (b) Computer software.
- (c) Mastheads and publishing titles.
- (d) Mining rights.
- (e) Copyrights, patents, other intellectual property rights, services and operating rights.
- (f) Recipes, formulae, models, designs and prototypes.
- (g) Licenses and franchises.
- (h) Others (specify nature).

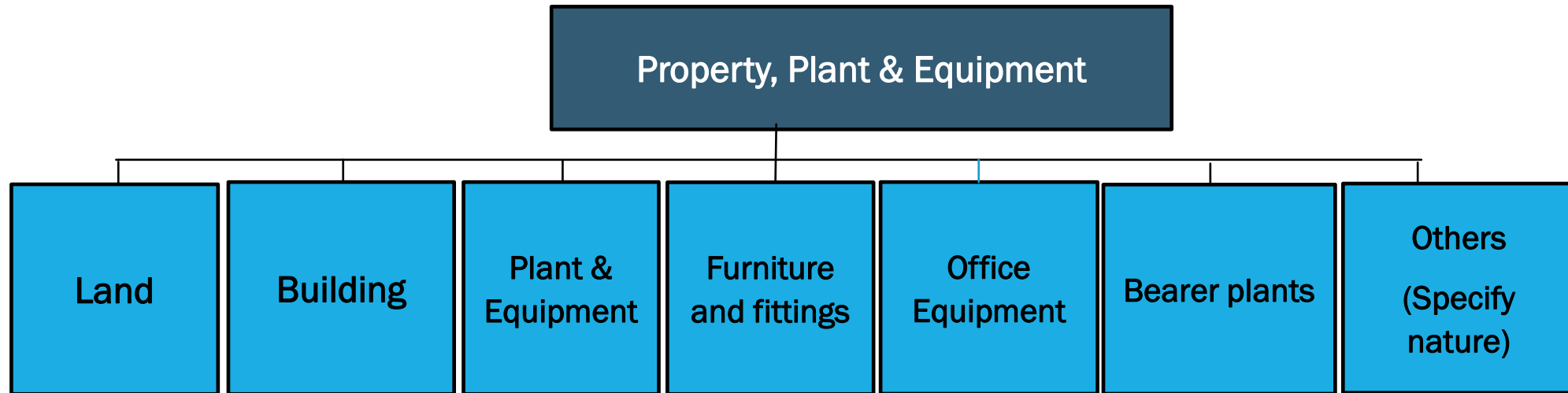
(ii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of intangible assets) and other adjustments and the related amortization and impairment losses or reversals shall be disclosed separately.

NON CURRENT ASSETS (CONTINUED)

Biological Assets other than bearer plants

A reconciliation of the carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments shall be disclosed separately.

PROPERTY, PLANT AND EQUIPMENT



INVESTMENTS

Investments

- (i) Investments shall be classified as:
 - (a) Investments in Equity Instruments;
 - (b) Investments in Preference Shares;
 - (c) Investments in Government or trust securities;
 - (d) Investments in debentures or bonds;
 - (e) Investments in Mutual Funds;
 - (f) Investments in partnership firms;
 - (g) Other investments (specify nature).

Under each classification, details shall be given of names of the bodies corporate that are

- (i) subsidiaries,
 - (ii) associates,
 - (iii) joint ventures, or
 - (iv) structured entities, in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid). Investments in partnership firms along with names of the firms, their partners, total capital and the shares of each partner shall be disclosed separately.
- (ii) The following shall also be disclosed:
 - (a) Aggregate amount of quoted investments and market value thereof;
 - (b) Aggregate amount of unquoted investments;
 - (c) Aggregate amount of impairment in value of investments.

LONG TERM TRADE RECEIVABLES

Trade Receivables

- (i) Trade receivables shall be sub-classified as:
 - (a) Secured, considered good;
 - (b) Unsecured considered good;
 - (c) Doubtful.
- (ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
- (iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

LONG TERM LOANS

Loans

- (i) Loans shall be classified as:
 - (a) Security Deposits;
 - (b) Loans to related parties (giving details thereof);
 - (c) Other loans (specify nature).
- (ii) The above shall also be separately sub-classified as:
 - (a) Secured, considered good;
 - (b) Unsecured, considered good;
 - (c) Doubtful.
- (iii) Allowance for bad and doubtful loans shall be disclosed under the relevant heads separately.
- (iv) Loans due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

Bank deposits with more than 12 months maturity shall be disclosed under ‘Other financial assets’;

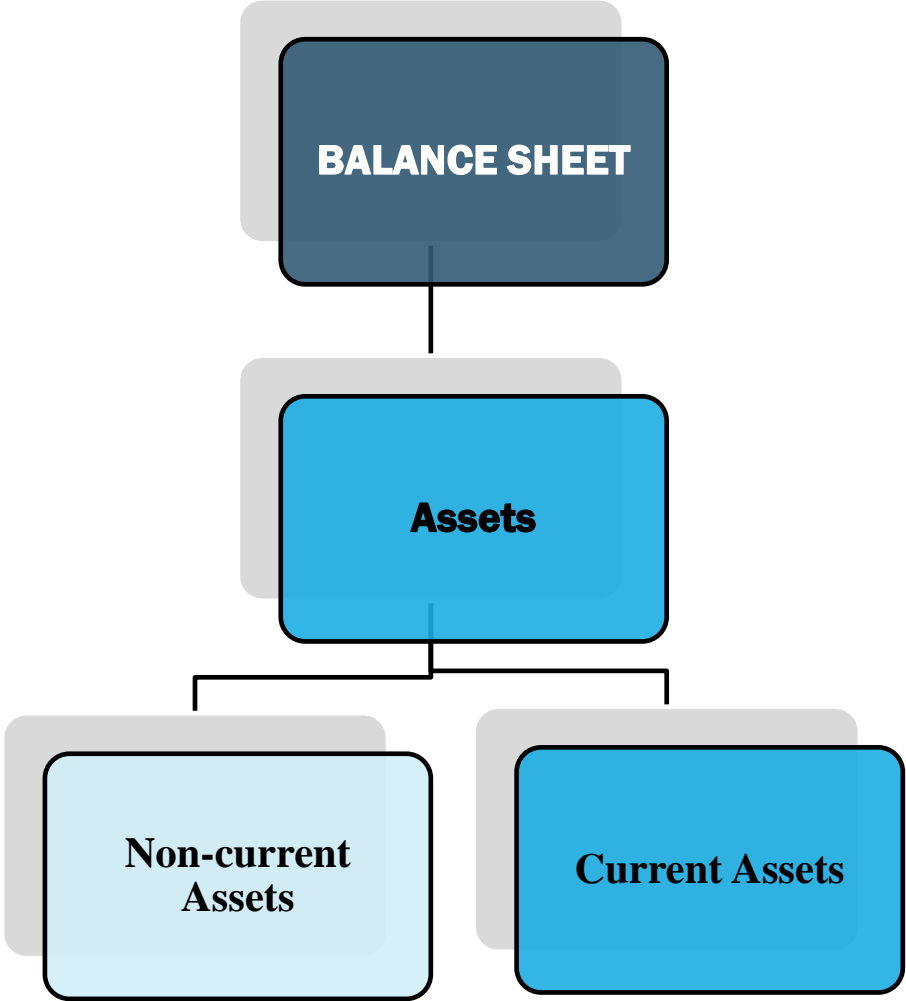
NON CURRENT ASSETS - OTHERS

Other non-current assets

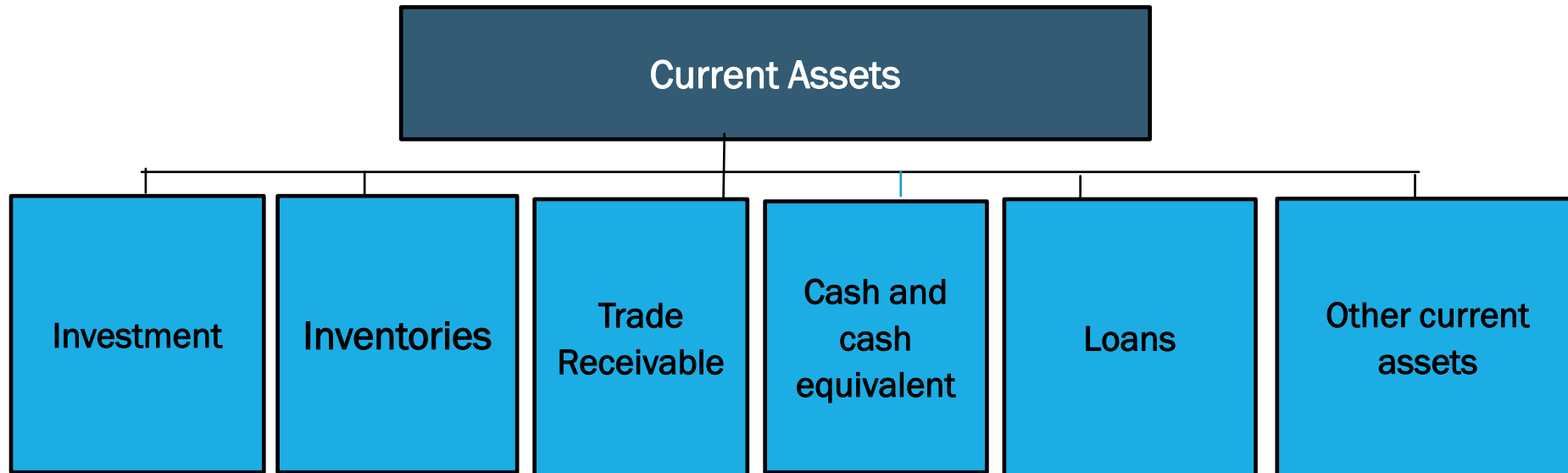
Other non-current assets shall be classified as-

- (i) Capital Advances;
- (ii) Advances other than capital advances;
 - 1. Advances other than capital advances shall be classified as:
 - (a) Security Deposits;
 - (b) Advances to related parties (giving details thereof);
 - (c) Other advances (specify nature).
 - 2. Advances to directors or other officers of the company or any of them either severally or jointly with any other persons or advances to firms or private companies respectively in which any director is a partner or a director or a member should be separately stated. In case advances are of the nature of a financial asset as per relevant Ind AS, these are to be disclosed under 'other financial assets' separately.
- (iii) Others (specify nature).

CURRENT ASSETS



COMPONENTS OF NON CURRENT ASSETS



CURRENT ASSETS

Investments

- (i) Investments shall be classified as:
 - (a) Investments in Equity Instruments;
 - (b) Investments in Preference Shares;
 - (c) Investments in Government or trust securities;
 - (d) Investments in debentures or bonds;
 - (e) Investments in Mutual Funds;
 - (f) Investments in partnership firms;
 - (g) Other investments (specify nature).

Under each classification, details shall be given of names of the bodies corporate that are

- (i) subsidiaries,
 - (ii) associates,
 - (iii) joint ventures, or
 - (iv) structured entities, in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid).
- (ii) The following shall also be disclosed:
- (a) Aggregate amount of quoted investments and market value thereof;
 - (b) Aggregate amount of unquoted investments;
 - (c) Aggregate amount of impairment in value of investments.

CURRENT ASSETS

Inventories

- (i) Inventories shall be classified as:
 - (a) Raw materials;
 - (b) Work-in-progress;
 - (c) Finished goods;
 - (d) Stock-in-trade (in respect of goods acquired for trading);
 - (e) Stores and spares;
 - (f) Loose tools;
 - (g) Others (specify nature).
- (ii) Goods-in-transit shall be disclosed under the relevant sub-head of inventories.
- (iii) Mode of valuation shall be stated.

CURRENT ASSETS

Trade Receivables

- (i) Trade receivables shall be sub-classified as:
 - (a) Secured, considered good;
 - (b) Unsecured considered good;
 - (c) Doubtful.
- (ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
- (iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

CURRENT ASSETS

Cash and cash equivalents

Cash and cash equivalents shall be classified as:

- (a) Balances with Banks (of the nature of cash and cash equivalents);
- (b) Cheques, drafts on hand;
- (c) Cash on hand;
- (d) Others (specify nature).

Cash and bank balances: The following disclosures with regard to cash and bank balances shall be made:

- (a) Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.
- (b) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.
- c. Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.

CURRENT ASSETS

Loans

- (i) Loans shall be classified as:
 - (a) Security deposits;
 - (b) Loans to related parties (giving details thereof);
 - (c) Others (specify nature).
- (ii) The above shall also be sub-classified as:
 - (a) Secured, considered good;
 - (b) Unsecured, considered good;
 - (c) Doubtful.
- (iii) Allowance for bad and doubtful loans shall be disclosed under the relevant heads separately.
- (iv) Loans due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.

CURRENT ASSETS

Other current assets (specify nature)

This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories.

Other current assets shall be classified as-

(i) Advances other than capital advances

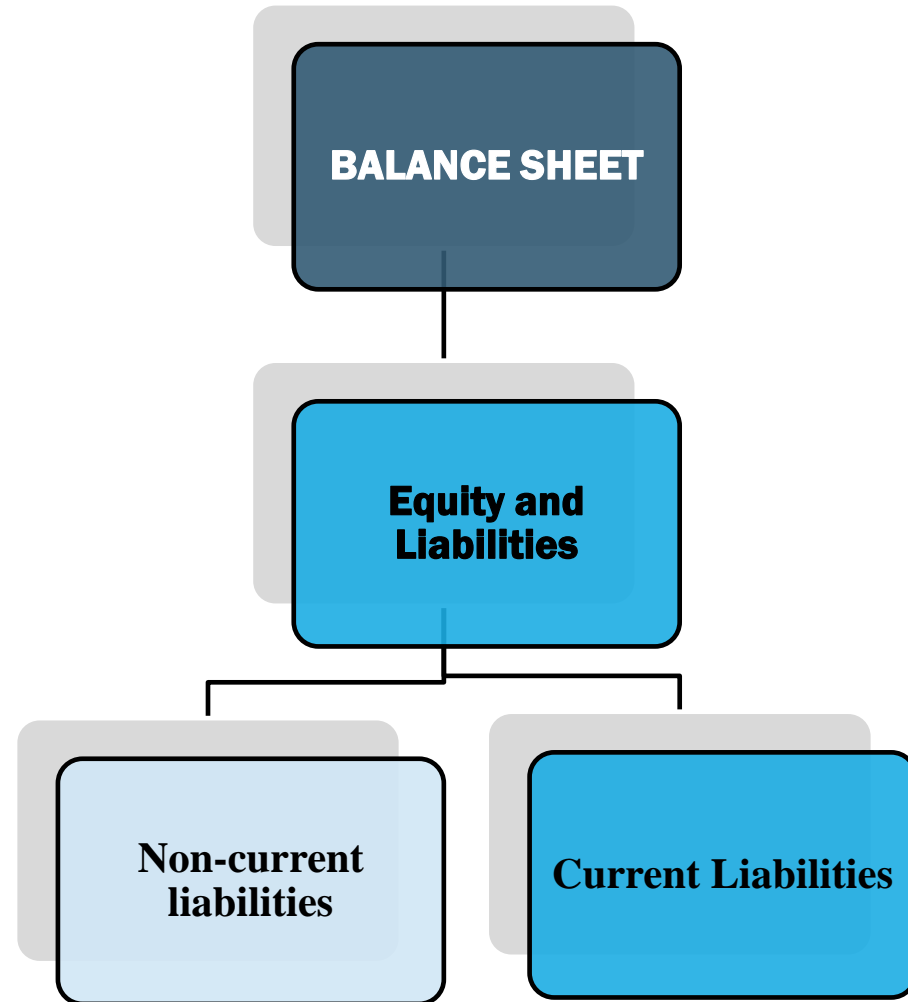
1. Advances other than capital advances shall be classified as:

- (a) Security Deposits;
- (b) Advances to related parties (giving details thereof);
- (c) Other advances (specify nature).

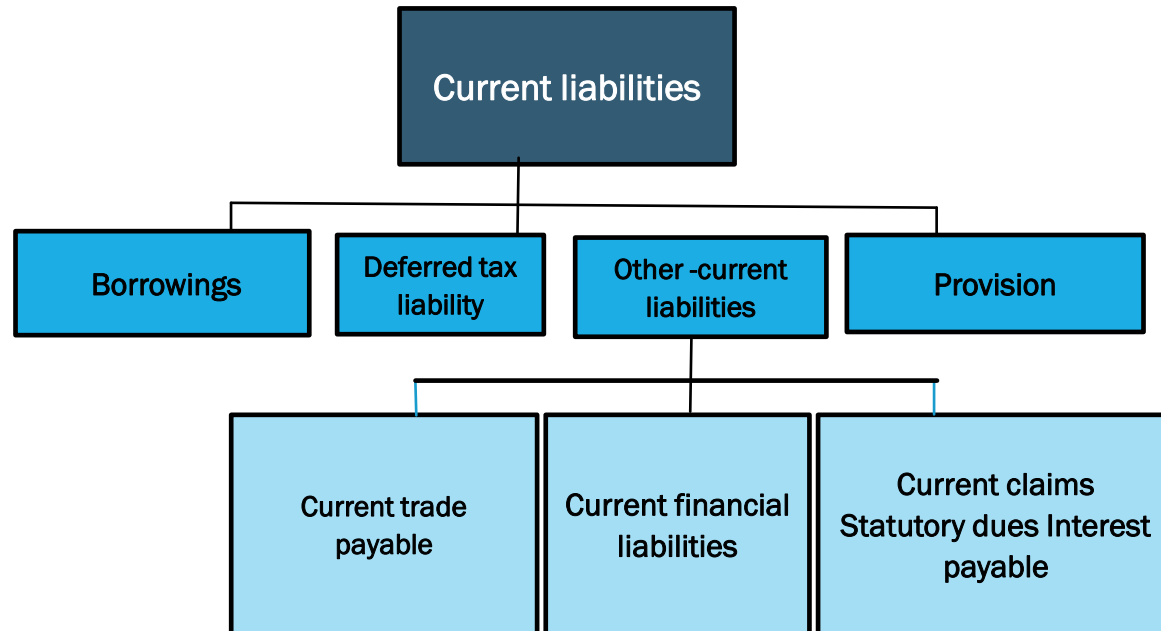
2. Advances to directors or other officers of the company or any of them either severally or jointly with any other persons or advances to firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

(ii) Others (specify nature)

CURRENT LIABILITIES



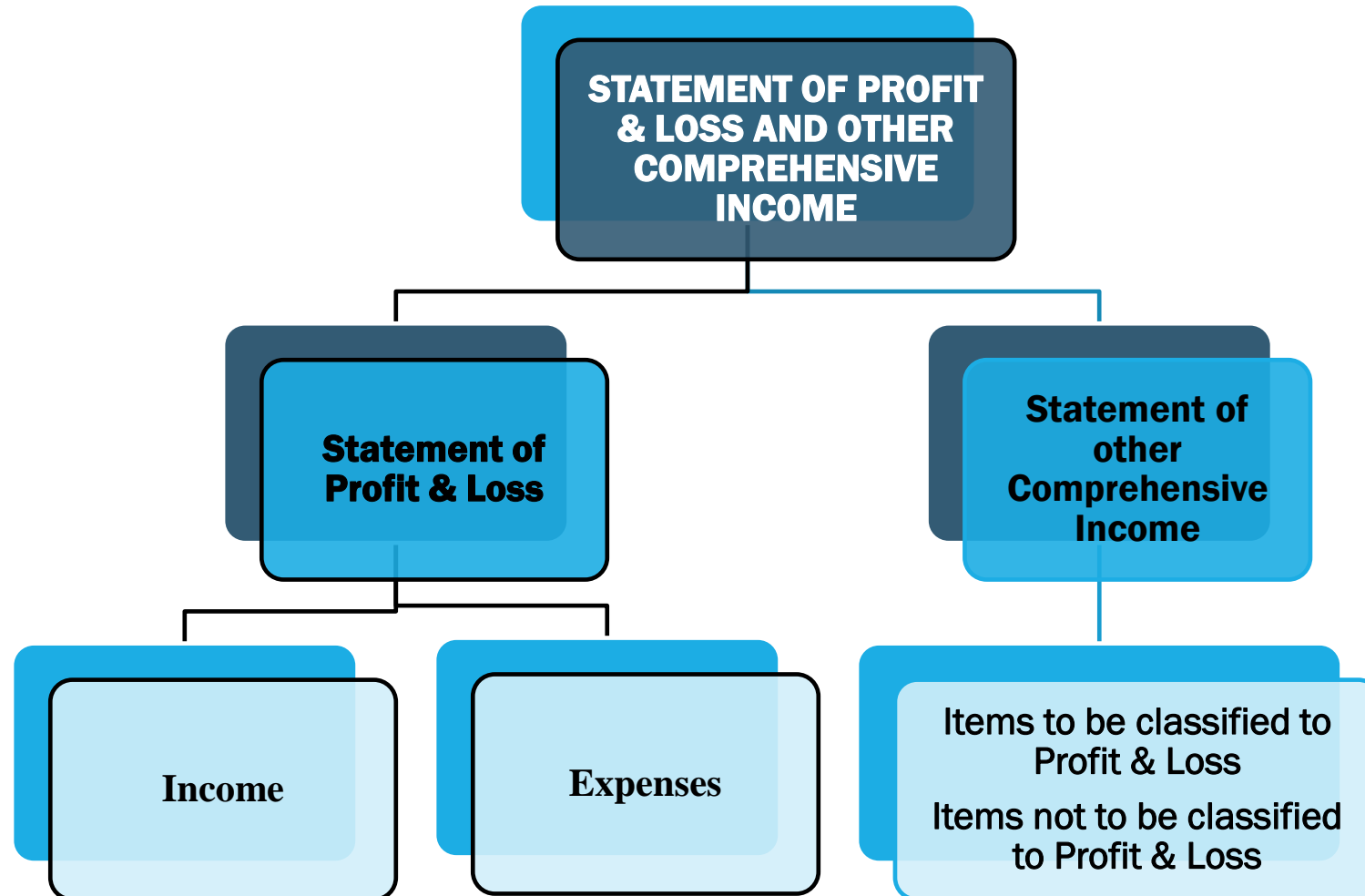
COMPONENTS OF CURRENT LIABILITIES





**STATEMENT OF PROFIT AND
LOSS**

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME



STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

INCOME

Revenue from Operations

Other Income

Total Income

EXPENSES

Cost of material consumed

Purchases of stock-in-trade

Changes in inventories of finished goods,
stock-in-trade and work-in-progress

Employees benefit expenses

Finance cost

Depreciation and Amortization expenses

Other expenses

Total Expenses

Profit/(loss) before exceptional items and tax

Exceptional items

Profit or loss before taxes

Profit or loss before taxes

Tax expenses

a) Current tax

b) Deferred tax

Profit (Loss) for the period from continuing operations

Profit/ (Loss) from discontinued operations

Tax expenses from discontinued operations

Profit / (Loss) from discontinued operations

Profit / (Loss) for the period

Other Comprehensive Income

A (i) Items that will not be reclassified to profit or loss

(ii) Income tax relating to items that will not be
reclassified to profit or loss

B (i) Items that will be reclassified to profit or loss

(ii) Income tax relating to items that will be
reclassified to profit or loss

Total Comprehensive Income for the period (Comprising Profit
(Loss) and Other Comprehensive Income for the period)

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Total Comprehensive Income for the period (Comprising Profit (Loss) and Other Comprehensive Income for the period)



Earning per equity share (for continuing operations):

- (1) Basic
- (2) Diluted

Earning per equity share (for discontinued operations):

- (1) Basic
- (2) Diluted

Earning per equity share (for discontinued and continuing operations):

- (1) Basic
- (2) Diluted

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

GENERAL INSTRUCTIONS FOR PREPARATION OF STATEMENT OF PROFIT AND LOSS

The provisions of this Part shall apply to the income and expenditure account, in like manner as they apply to a Statement of Profit and Loss.

The Statement of Profit and Loss shall include:

- (1) Profit or loss for the period;
- (2) Other Comprehensive Income for the period.

The sum of (1) and (2) above is 'Total Comprehensive Income'.

Finance Costs

Finance costs shall be classified as:

- (a) interest;
- (b) dividend on redeemable preference shares;
- (c) exchange differences regarded as an adjustment to borrowing costs;
- (d) other borrowing costs (specify nature).

Other income

Other income shall be classified as:

- (a) Interest Income;
- (b) Dividend Income;
- (c) Other non-operating income (net of expenses directly attributable to such income).

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

GENERAL INSTRUCTIONS FOR PREPARATION OF STATEMENT OF PROFIT AND LOSS

Other Comprehensive Income shall be classified into:

- (A) Items that will not be reclassified to profit or loss
 - (i) Changes in revaluation surplus;
 - (ii) Remeasurements of the defined benefit plans;
 - (iii) Equity Instruments through Other
 - (iv) Comprehensive Income;
 - (v) Fair value changes relating to own credit risk;
 - (v) Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent not to be classified into profit or loss;
 - (vi) Others (specify nature).

- (B) Items that will be reclassified to profit or loss
 - (i) Exchange differences in translating the financial statements of a foreign operation;
 - (ii) Debt Instruments through Other Comprehensive Income;
 - (iii) The effective portion of gains and loss on hedging instruments in a cash flow hedge;
 - (iv) Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent to be classified into profit or loss;
 - (v) Others (specify nature).

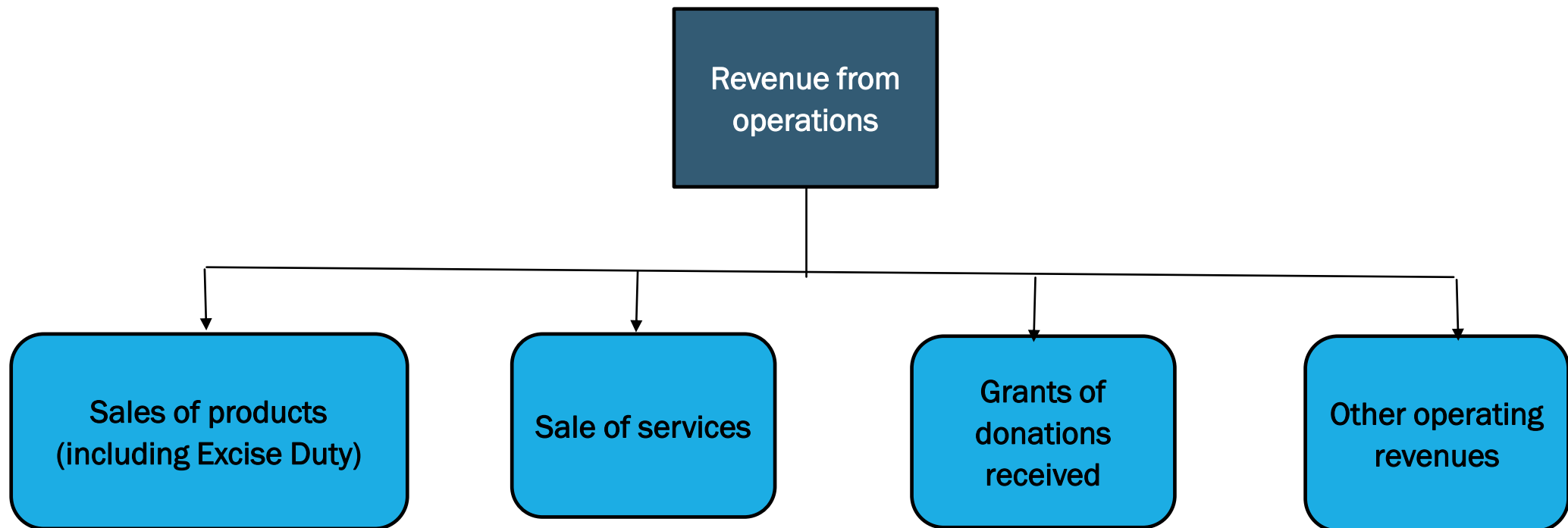
Regulatory Deferral Account Balances shall be presented in the Statement of Profit or Loss in accordance with the relevant Indian Accounting Standards

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

REVENUE FROM OPERATIONS

Revenue from operations shall disclose separately in the notes

- (a) sale of products (including Excise Duty);
- (b) sale of services;
- (ba) Grants or donations received (relevant in case of section 8 companies only);
- (c) other operating revenues;



NOTES TO ACCOUNTS TO STATEMENT OF PROFIT AND LOSS ACCOUNT

A company shall disclose by way of notes, additional information regarding aggregate expenditure and income on the following items:

- (a) Employee Benefits expense [showing separately
 - (i) salaries and wages,
 - (ii) contribution to provident and other funds,
 - (iii) share based payments to employees,
 - (iv) staff welfare expenses.
- (b) Depreciation and amortization expense;
- (c) Any item of income or expenditure which exceeds one per cent of the revenue from operations or Rs.10,00,000, whichever is higher, in addition to the consideration of 'materiality' as specified in clause 7 of the General Instructions for Preparation of Financial Statements of a Company.
- (d) Interest Income;
- (e) Interest Expense;

NOTES TO ACCOUNTS TO STATEMENT OF PROFIT AND LOSS ACCOUNT

- (f) Dividend income;
- (g) Net gain/loss on sale of investments;
- (h) Net gain/loss on foreign currency transaction and translation (other than considered as finance cost);
- (i) Payments to the auditor as
 - (a) auditor,
 - (b) for taxation matters,
 - (c) for company law matters,
 - (d) for other services,
 - (e) for reimbursement of expenses;
- (j) In case of companies covered under section 135, amount of expenditure incurred on corporate social responsibility activities;
- (k) Details of items of exceptional nature;
- (l) Undisclosed income,
- (m) Corporate social responsibility,
- (n) Details of Crypto Currency or Virtual Currency



THANK YOU!