REV-00

SELF-LEARNING MATERIAL

MASTER OF COMMERCE

MCM-103 : FINANCIAL REPORTING

w.e.f Academic Session: 2023-24

CENTRE FOR DISTANCE AND ONLINE EDUCATION

UNIVERSITY OF SCIENCE & TECHNOLOGY MEGHALAYA

nirf India Ranking-2023 (151-200)

Accredited 'A' Grade by NAAC

Techno City, 9th Mile, Baridua, Ri-Bhoi, Meghalaya, 793101

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Syllabus

FINANCIAL REPORTING

Objective: To acquaint students with the recent changes in financial accounting and reporting practices.

Learning Outcomes: After completion of the course, learners will be able to:

1. Use accounting as an information system for decision making; the application of accounting theory in course of preparation of financial statements and manners of its reporting

2. Practice conceptual framework and its application for Reporting purpose;

3. Understand the convergence of national accounting standards with international accounting standards; Apply ICT in financial reporting through XBRL and e-filing;

4. Prepare value added statements, human resource valuation, environmental accounting and business valuation.

5. Analyze the Governments Accounting System

Credit: 3 **Full Marks: 100**

Unit-I: GAAP AND ACCOUNTING STANDARDS:

Generally Accepted Accounting Principles in India, Introduction of Indian Accounting Standards (Ind AS); Carve outs/ins in Ind ASs vis-à-vis International Financial Reporting Standards (IFRSs); Reasons for national differences in financial reporting practices

Unit- II: Statutory Requirements for Financial Reporting:

Regulatory framework for preparation and presentation of financial statements under the provisions of the Companies Act, 2013, disclosures as per SEBI Regulations; Role of MCA, NAFRA, Report of Board of Directors, Contents of Annual Report, Mandatory and Voluntary Disclosure

Unit- III: Recent Trends in Financial Reporting

Environmental Accounting, Sustainability Reporting, Tripple Bottom Line Reporting, Corporate Social Responsibility Reporting (CSR Reporting), Fair Value Measurement, Integrated Reporting (IR),Value Added Statement, Inflation Accounting

Unit- IV: Valuation, Accounting and Reporting of Financial Instruments and others:

Recognition & Valuation Financial Instruments (Ind AS), Valuation of Shares, Valuation of Goodwill, Reporting Through XBRL (Extended Business Reporting Languate), Human Resource Reporting

Unit- V: Government Accounting

Government Accounting – an Overview; General Principles of Government Accounting; Comparison between Government Accounting and Commercial Accounting ; Government Accounting & Reporting; Comptroller and Auditor General of India (C&AG); Role of Public Accounts Committee,; Review of Accounts; Government Accounting Standards Advisory Board (GASAB); Government Accounting Standards issued by (GASAB); Indian Government Accounting Standards (IGAS); Indian Government Financial Reporting Standards (IGFRS)

MCM-103: FINANCIAL REPORTING

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Unit-I: GAAP AND ACCOUNTING STANDARDS

- Generally Accepted Accounting Principles in India
- Introduction of Indian Accounting Standards (Ind AS)
- Carve outs/ins in Ind ASs vis-à-vis International Financial Reporting Standards (IFRSs)
- Reasons for national differences in financial reporting practices

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INTRODUCTION

Accountancy is commonly acknowledged as an art, specifically the art of capturing, categorizing, and summarizing financial data. Similar to other forms of art, accountancy involves the application of creative skills to document financial transactions. However, unrestrained flexibility in the choice of an accounting system can lead to extensive manipulation of accounts. In contexts where financial statements are presented to external stakeholders such as investors, banks, stock exchanges, revenue departments, and government entities, the necessity for an accounting framework becomes apparent. This framework serves as the basis for recording financial transactions, ensuring that resulting financial statements are comparable. The Generally Accepted Accounting Principles (GAAP) were developed in response to this need.

GAAP, or Generally Accepted Accounting Principles, comprises fundamental accounting principles and guidelines that establish the foundation for more detailed and comprehensive accounting rules, standards, and industry-specific practices. Notably, entities like the Financial Accounting Standards Board (FASB) utilize GAAP as a foundational framework for framing their specific accounting standards. In India, financial statements adhere to accounting standards issued by the Institute of Chartered Accountants of India (ICAI) and relevant statutory laws, such as Schedule III to the Companies Act, 2013.

The following principles are part of the broader GAAP framework:

1. Business Entity Assumption: Treat every business entity as a separate entity from its owners, necessitating the distinction between business-related and personal financial transactions, especially in the case of sole proprietors.

2. Monetary Unit Assumption: All business transactions must be expressible in a monetary unit (e.g., Indian Rupees); otherwise, they should not be recorded in the business's books.
3. Accounting Period: Complete the accounting process within a specific time period, typically a financial or calendar year, ensuring that transactions related to a specific period contribute to the financial statements for that period.
4. Historical Cost Concept: Record acquired assets based on the actual cash or cash equivalent spent, regardless of the transaction date, unless specified by law or accounting standards.
5. Going Concern Assumption: Assume that the business entity will operate indefinitely; important for reflecting the true financial position if the entity were to liquidate.
6. Full Disclosure Principle: Disclose all relevant financial information to aid decision-making, implemented through transactional narration and financial statement notes.
7. Matching Concept: Match revenue with corresponding expenditure to accurately portray the profit for a given period.
8. Accrual Basis of Accounting: Record all revenue and expenditure when incurred, regardless of cash flow, focusing on when income is earned and expenses are incurred.
9. Consistency: Follow consistent accounting procedures across periods for effective comparison of results.
10. Materiality: Disregard accounting principles if their violation does not affect the user's decision-making, allowing for flexibility in handling immaterial errors or omissions.
11. Conservatism: In situations with multiple acceptable accounting approaches, adopt a conservative approach, recognizing anticipated expenses or losses but not potential income or gains until earned or received.

INDIAN ACCOUNTING STANDARD (IND-AS)

INTRODUCTION

The Indian Accounting Standard (Ind-AS) is the established accounting standard embraced by companies in India, authorized under the oversight of the Accounting Standards Board (ASB), formed in 1977. ASB operates as a committee under the Institute of Chartered Accountants of India (ICAI) and includes representatives from government departments, academia, and various professional bodies. The numbering and nomenclature of Ind-AS align

with the corresponding International Financial Reporting Standards (IFRS). The National Advisory Committee on Accounting Standards (NACAS) recommends these standards to the Ministry of Corporate Affairs (MCA), which, in turn, specifies the applicable accounting standards for Indian companies. As of the current date, MCA has notified 39 Ind-AS, with voluntary application starting from the financial year 2015-16 and mandatory application from 2016-17.

BACKGROUND TO IND AS

The Ministry of Corporate Affairs (MCA) officially notified the new set of accounting standards, Ind-AS, on February 19, 2015, totaling 39 standards to date. The application of Ind-AS is contingent upon a company's listing status and net worth.

APPLICABILITY

The Council of the ICAI, in its meeting in March 2014, outlined the roadmap for the application of Ind-AS. The initial set of accounting standards, i.e., converged accounting standards (Ind-AS), is to be applied to specific companies, including those listed or in the process of listing on stock exchanges and companies with a net worth of Rs. 500 crore or more, starting from the accounting period beginning on or after April 1, 2016. Voluntary adoption is permitted from April 1, 2015, with mandatory applicability phased in two stages: Phase I from April 1, 2016, for listed companies and those with a net worth of Rs. 500 crore or more, and Phase II from April 1, 2017, for listed companies with a net worth below Rs. 500 crore and unlisted companies with a net worth between Rs. 250 crore and Rs. 500 crore.

CONCEPTUAL DIFFERENCE OF INDIAN GAAP WITH IND AS

The transition from Indian GAAP to Ind-AS introduces substantial differences across various dimensions of financial reporting. Ind-AS, unlike Indian GAAP, emphasizes the time value of money and introduces concepts like Other Comprehensive Income (OCI) and Basic Earnings Per Share (EPS). Entities must dedicate significant efforts to comprehend and prepare for these changes.

FUNCTIONAL MONEY CONCEPT

Under Ind-AS, the identification of a functional currency for each entity becomes imperative. Primary indicators, such as the currency of sales and cash transactions, and secondary indicators, including financing activities and working capital, are considered in determining the functional currency.

TIME VALUE OF MONEY

Ind-AS underscores the time value of money, a departure from historical cost methods in Indian GAAP. This concept is applied across various standards, such as Property, Plant, and Equipment (PPE), financial instruments, financial liabilities, and employee benefit expenses.

OTHER COMPREHENSIVE INCOME

OCI in Ind-AS encompasses income and expenses not recognized in profit or loss. The realization of gains and losses, whether realized or unrealized, affects the presentation in OCI. The standard ensures a comprehensive view of income changes during a period, beyond those impacting profit or loss.

BASIC EPS

Ind-AS prescribes principles for determining and presenting earnings per share (EPS) to enhance performance comparisons between entities and reporting periods. The focus is on the denominator of the EPS calculation, emphasizing a consistently determined denominator for improved financial reporting.

The list of Ind-ASis provided for reference.

List of Indian Accounting Standards (Ind AS)

Objective/ Deals with	**Relevant Accounting standard or Guidance note**
Ind AS 101 – First-time adoption of Ind AS	Its primary objective is to prepare the first financial statements in accordance with Ind AS, providing high-quality, transparent, and comparable information at an economical cost, serving as a suitable starting point for Ind AS accounting.
Ind AS 102 – Share Based payments	It addresses the accounting of share-based payment transactions, reflecting their impact on an entity's profit or loss and financial statements.
Ind AS 103 – Business Combination	It applies to transactions or events meeting the definition of a business combination, aiming to enhance the relevance, reliability, and comparability of information in financial statements related to business combinations.
Ind AS 104 – Insurance Contracts	This standard specifies financial reporting for insurance contracts by insurance entities.
Ind AS 105 – Non-Current Assets Held for Sale and Discontinued Operations	It specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations.
Ind AS 106 – Exploration for and Evaluation of Mineral Resources	This standard specifies financial reporting for the exploration and evaluation of mineral resources.

Objective/ Deals with	Relevant Accounting standard or Guidance note
Ind AS 107 – Financial Instruments: Disclosures	This standard requires entities to provide disclosures related to financial instruments, enabling users to evaluate their significance, risks, and how the entity manages those risks.
Ind AS 108 – Operating Segments	It discloses information to allow users to evaluate the nature and financial effects of a company's business activities and the economic environments in which it operates.
Ind AS 109 – Financial Instruments	This standard establishes principles for the financial reporting of financial assets and liabilities, presenting relevant and useful information to users for assessing future cash flows.
Ind AS 110 – Consolidated Financial Statements	It establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
Ind AS 111 – Joint Arrangements	This standard establishes principles for financial reporting by entities with an interest in arrangements that are jointly controlled.
Ind AS 112 – Disclosure of Interests in Other Entities	It requires entities to disclose information enabling users to understand the nature, risk, and effects of their interests in other entities.
Ind AS 113 – Fair Value Measurement	This standard defines fair value and provides a framework for measuring fair value and disclosing fair value measurements when required or permitted by other Ind AS.
Ind AS 114 – Regulatory Deferral Accounts	It specifies financial reporting requirements for regulatory deferral account balances arising when an entity provides goods or services subject to rate regulation.
Ind AS 115 – Revenue from Contracts with Customers	This standard establishes principles for reporting useful information to users about the nature, amount, timing, and uncertainty of revenue and cash flows from contracts with customers.
Ind AS 1 – Presentation of Financial Statements	It sets overall requirements for the presentation of financial statements, providing guidelines for structure and minimum content to ensure comparability.
Ind AS 2 – Inventories Accounting	It deals with the accounting of inventories, covering measurement, cost inclusions and exclusions, and disclosure requirements.
Ind AS 7 – Statement of Cash Flows	It covers cash flows from operating, financing, and investing activities, demonstrating changes in cash and cash equivalents for an entity.
Ind AS 8 – Accounting Policies, Changes in Accounting Estimates and Errors	It prescribes criteria for selecting and changing accounting policies, along with treatments and disclosures for changes.
Ind AS 10 – Events after	It addresses adjusting or non-adjusting events occurring after

Objective/ Deals with	Relevant Accounting standard or Guidance note
Reporting Period	the reporting date.
Ind AS 12 – Income Taxes	This standard prescribes accounting treatment for income taxes, focusing on accounting for current and future tax issues.
Ind AS 16 – Property, Plant and Equipment	It prescribes accounting treatment for property, plant, and equipment, covering asset recognition, carrying amounts, and depreciation charges.
Ind AS 116 – Leases	This standard prescribes appropriate accounting policies for lessees and lessors in lease transactions.
Ind AS 19 – Employee Benefits	It prescribes accounting and disclosure requirements related to employee benefits.
Ind AS 20 – Accounting for Government Grants and Disclosure of Government Assistance	It applies to the accounting for and disclosure of government grants and other forms of government assistance.
Ind AS 21 – The Effects of Changes in Foreign Exchange Rates	It prescribes how to include foreign currency transactions and foreign operations in financial statements and translate them into a presentation currency.
Ind AS 23 – Borrowing Costs	It provides guidance on capitalizing borrowing costs incurred on qualifying assets, specifying conditions and timing.
Ind AS 24 – Related Party Disclosures	This standard ensures necessary disclosures in an entity's financial statements, drawing attention to the impact of related parties on financial position and profit or loss.
Ind AS 27 – Separate Financial Statements	It prescribes accounting and disclosure requirements for investments in subsidiaries, joint ventures, and associates in separate financial statements.

International Financial Reporting Standards (IFRS)

IFRS, short for International Financial Reporting Standards, represents a set of accounting standards jointly issued by the IFRS Foundation and the International Accounting Standards Board (IASB). These standards serve as a standardized method for articulating a company's financial performance and position, ensuring that financial statements are comprehensible and comparable across international borders. They hold particular significance for companies with publicly listed shares or securities.

IFRS has replaced various national accounting standards worldwide, but it has not superseded the distinct accounting standards applied in the United States, where U.S. GAAP is in use.

Background

The International Accounting Standards Committee (IASC), formed in June 1973 by accountancy bodies from ten countries, played a pivotal role in creating and publishing International Accounting Standards (IAS), interpretations, and a conceptual framework. Many national accounting standard-setters referred to these standards in developing their respective national standards.

In 2001, the International Accounting Standards Board (IASB) took over from the IASC with the mission of fostering convergence between national accounting standards through the development of global accounting standards. The IASB adopted existing IAS and Standing Interpretations Committee standards during its initial meeting, continuing to develop standards under the name "International Financial Reporting Standards" (IFRS).

In 2002, the European Union (EU) mandated that, starting from January 1, 2005, International Financial Reporting Standards would apply to the consolidated accounts of EU-listed companies, leading to the widespread adoption of IFRS by numerous large entities. Other countries subsequently followed the EU's lead.

In 2021, on the occasion of COP26 of the United Nations Framework Convention on Climate Change in Glasgow, the IFRS Foundation announced the establishment of the new International Sustainability Standards Board (ISSB).

Procedure for Issue of IFRS

The "Due Process Handbook" of the IFRS Foundation outlines the due process requirements of the IASB and its Interpretations Committee, aligning with the Constitution and Preface to International Financial Reporting Standards issued by the IASB.

IFRSs, including proposed new standards and amendments to existing ones, are developed through an international consultation process known as the "due process." This involves interested individuals and organizations worldwide. The due process is founded on principles of transparency, comprehensive consultation, considering global perspectives, and accountability. The IASB and its Interpretations Committee may go beyond the standard due process requirements to enhance their operations continually.

The due process includes several steps, with the Trustees of the IFRS Foundation overseeing compliance at various points:

1. **Research Programme:** Involves analyzing potential financial reporting problems, collecting evidence, and assessing ways to enhance financial reporting.

2. **Developing a Proposal for Publication:** After deciding to add a project to its agenda, the IASB creates an exposure draft for public consultation.
3. **Redeliberation and Finalization:** The IASB considers constituent feedback, re-exposes proposals if necessary, and finalizes the standard for balloting and voting by the Board. A 'review draft' may be issued for a 'fatal flaw' review.
4. **Post-Implementation Reviews:** The IASB conducts a post-implementation review of each new Standard or major amendment, typically around two years after application, to assess its effectiveness and address concerns.

This due process involves collaboration with national accounting standard-setting bodies, regional bodies, academics, and other stakeholders, ensuring a broad and inclusive approach to standard development.

Difference between IFRS and IND AS

Basis	**IFRS**	**IND AS**
Definition	IFRS stands for International Financial Reporting Standards; it is an internationally recognised accounting standard.	IND AS stands for Indian Accounting Standards; it is also known as the India-specific version of IFRS.
Developed by	IASB (International Accounting Standards Board).	MCA (Ministry of Corporate Affairs).
Followed by	Followed in around 144 countries across the world.	Followed only in India.
Disclosure	Companies complying with IFRS have to disclose, as a note, that the financial statements comply with IFRS.	Such a disclosure is not mandatory for companies complying with Indian Accounting Standards or IND AS.
Financial Statement Components	It includes the following: 1. Statement of financial position 2. Statement of profit and loss 3. Statement of changes in equity for the period 4. Statement of cash flows for the period.	It includes the following: 1. Balance Sheet 2. Profit and loss account 3. Cash flow statement 4. Statement of changes in equity 5. Notes to financial statements 6. Disclosure of accounting policies.
Balance Sheet Format	Companies complying with IFRS need to have specific guidelines for preparing the balance sheet with assets and liabilities classified as current and non-current.	Companies complying with IND AS do not have specific requirements for the balance sheet format, but guidelines are defined for presenting the balance sheet.

Reasons for national differences in financial reporting practices

Financial reporting practices vary across countries due to a multitude of factors that influence each country's accounting system. Accounting scholars have explored various influences, including the political system, economic development stage, and the state of accounting education and research. The literature identifies five commonly accepted factors shaping a country's financial reporting practices: legal system, taxation, providers of financing, inflation, and political and economic ties. Some of the differences in accounting that exist across countries can be categorized in the following manner:

1. Differences in the financial statements included in an annual report.
2. Differences in the format used to present individual financial statements.
3. Differences in the level of detail provided in the financial statements.
4. Terminology differences.
5. Disclosures differences.
6. Recognition and measurement differences.

The above points are elaborated as follows:

Reasons for Accounting Differences

1. **Legal System:** The legal system of a country plays a pivotal role in shaping accounting practices. Common law countries, like those in the English-speaking world, rely on precedents established by court decisions, supplementing limited statute law. In contrast, code law countries, primarily non-English-speaking, have more extensive codified laws governing various activities, including business enterprises. The legal system influences the development of accounting rules, with legislative control more prevalent in code law countries and a greater role for non-legislative organizations, such as professional bodies, in common law countries.
2. **Taxation:** Taxation significantly impacts financial reporting practices. In some countries, published financial statements form the basis for taxation, creating a congruency between accounting and tax principles. Germany, for instance, follows the congruency principle, where financial statements directly influence taxable income. Conversely, in the United States, conformity between tax and financial statements is limited. The differences in tax and accounting income give rise to complexities like deferred income taxes, a significant concern in countries like the United States and Nigeria.

3. **Providers of Financing:** The major providers of financing, including family members, banks, governments, and shareholders, influence financial reporting practices. In countries where financing is dominated by families, banks, or the state, there might be less pressure for public accountability, with banks and the state having representation on boards and access to internal information. As companies rely more on public financing through stock offerings, the demand for external information disclosure increases, satisfying the needs of diverse stakeholders.
4. **Inflation:** Countries experiencing chronic high rates of inflation adopt accounting rules necessitating the inflation adjustment of historical cost amounts. This is particularly true in regions like Latin America, which historically faced substantial inflation rates. Inflation adjustments are crucial for maintaining the relevance of historical cost amounts, preventing taxation on fictitious profits, especially in countries where accounting statements form the basis for taxation.
5. **Political and Economic Ties:** Accounting rules can be borrowed from or imposed on another country through political and economic ties. Countries with historical ties, such as former colonies, often inherit accounting frameworks from their colonizers. Economic relationships, like those with the United States, can influence accounting practices in partner countries.
6. **Correlation of Factors:** Legal system, tax conformity, and sources of financing exhibit a high degree of correlation. Common law countries, with a precedent-based legal system, tend to have more domestic listed companies, relying heavily on equity financing. In contrast, code law countries often link taxation to accounting statements and rely less on shareholder financing.

In summary, accounting differences across countries are the result of complex interactions between legal, economic, and political factors, each contributing to the unique financial reporting practices observed globally.

Challenges Arising from Accounting Variances

1. **Preparation of Consolidated Financial Statements:** The diversity in accounting practices worldwide poses significant challenges for companies with foreign operations, particularly in the preparation of consolidated financial statements. Take, for example, General Motors Corporation, with subsidiaries in over 50 countries. Each subsidiary is mandated to prepare financial statements in compliance with local regulations, utilizing local currency and accounting principles. To consolidate these

statements in the United States, the parent company must not only translate foreign currency financial statements into U.S. dollars but also convert them to U.S. Generally Accepted Accounting Principles (GAAP). This process demands substantial effort, cost, and expertise in multiple countries' accounting standards.

2. **Access to Foreign Capital Markets:** Accounting diversity presents a hurdle for companies seeking access to foreign capital markets. To secure capital through stock issuance or borrowing in a foreign country, companies may be required to present financial statements adhering to the local accounting standards. This can be a costly endeavor, as exemplified by Daimler-Benz, which spent millions to prepare U.S. GAAP financial statements for a New York Stock Exchange listing. Ongoing compliance with foreign accounting standards adds to the financial burden.
3. **Comparability of Financial Statements:** The lack of comparability among financial statements from different countries hampers effective analysis for investment and lending decisions. Foreign companies using diverse accounting rules create challenges for potential investors attempting to assess and compare financial positions and performances. The absence of a standardized framework makes it difficult to directly compare, for instance, the financial standing of automobile manufacturers like Volkswagen (Germany), Nissan (Japan), and Ford (United States). This lack of comparability increases the complexity and risk for international investors.
4. **Lack of High-Quality Accounting Information:** Accounting diversity contributes to a deficiency in high-quality accounting standards in certain regions of the world. The 1997 East Asian financial crisis underscored the importance of accounting transparency. Inadequate disclosure played a role in exacerbating the crisis, affecting the depth and breadth of the economic turmoil. The lack of appropriate disclosure requirements hindered investors and creditors from accurately assessing risks, as crucial information related to debt magnitude, exposure to foreign exchange risk, speculative investments, and contingent liabilities remained undisclosed. This deficiency in disclosure requirements indirectly contributed to deficient internal controls and imprudent risk management practices.

Given the challenges associated with global accounting diversity, ongoing efforts, known as harmonization, aim to minimize these differences and establish a unified set of international accounting standards applicable worldwide. The ultimate goal is to create a cohesive

framework that ensures consistency and comparability in financial reporting across all companies globally.

Summary:

Accountancy, recognized as an art, involves capturing and summarizing financial data creatively. Generally Accepted Accounting Principles (GAAP) were established to provide a framework for consistent and comparable financial statements. In India, financial statements follow accounting standards by the Institute of Chartered Accountants of India (ICAI) and statutory laws. The Indian Accounting Standard (Ind-AS), aligned with International Financial Reporting Standards (IFRS), was notified in 2015, with 39 standards to date. It applies based on a company's listing status and net worth, transitioning from Indian GAAP to Ind-AS introduces significant changes. Notable differences include the emphasis on the time value of money, introduction of Other Comprehensive Income (OCI), and Basic Earnings Per Share (EPS) principles.

International Financial Reporting Standards (IFRS) are globally recognized accounting standards jointly issued by the IFRS Foundation and the International Accounting Standards Board (IASB). They provide a standardized method for presenting a company's financial performance and position, ensuring comprehensibility and comparability across international borders. IFRS has replaced national standards in many countries but not in the United States, where U.S. GAAP is still used. The development of IFRS involves a thorough due process, including research, proposal development, deliberation, finalization, and post-implementation reviews. Differences between IFRS and Indian Accounting Standards (Ind AS) exist in their definitions, developers, global applicability, disclosure requirements, financial statement components, and balance sheet formats. Various factors, such as legal systems, taxation, financing sources, inflation, and political and economic ties, contribute to national differences in financial reporting practices, posing challenges in consolidated financial statement preparation, access to foreign capital markets, comparability, and availability of high-quality accounting information.

Check your progress:

1. Choose the correct answer:
    i. Which accounting framework is followed in India for financial reporting?
        a) Generally Accepted Accounting Principles (GAAP)
        b) International Financial Reporting Standards (IFRS)
        c) Indian Accounting Standards (Ind AS)

d) Environmental Accounting Standards (EAS)

ii. What is the purpose of Ind AS in India?

a) To align with IFRS
b) To create unique accounting standards
c) To follow GAAP from other countries
d) To promote environmental reporting

iii. What are "carve outs" and "carve ins" in Ind AS?

a) Woodworking terms
b) Exceptions and additions to Ind AS compared to IFRS
c) Reporting of corporate social responsibility
d) Human resource valuation techniques

iv. What is the Companies Act, 2013, related to financial reporting?

a) A regulatory framework
b) An international accounting standard
c) A sustainability reporting guideline
d) An inflation accounting method

v. Which organization regulates financial disclosures in India as per SEBI regulations?

a) MCA (Ministry of Corporate Affairs)
b) NAFRA (National Financial Reporting Authority)
c) GASAB (Government Accounting Standards Advisory Board)
d) C&AG (Comptroller and Auditor General of India)

Short-Answer Questions:

1. What is the primary purpose of Generally Accepted Accounting Principles (GAAP)?
2. Which entity in India issues and regulates accounting standards for financial statements?
3. When did the Ministry of Corporate Affairs (MCA) officially notify the Indian Accounting Standard (Ind-AS)?
4. What are the primary indicators considered in determining the functional currency under Ind-AS?
5. What does IFRS stand for, and who jointly issues these standards?

6. Which organization took over from the International Accounting Standards Committee (IASC) and adopted the term "International Financial Reporting Standards" (IFRS)?
7. What was the mandate by the European Union (EU) regarding the application of IFRS, and when did it come into effect?
8. What is the primary goal of the newly established International Sustainability Standards Board (ISSB)

Long-Answer Questions:

1. Explain the significance of the Business Entity Assumption and how it influences the accounting treatment for sole proprietors.
2. Discuss the role of the Financial Accounting Standards Board (FASB) in utilizing Generally Accepted Accounting Principles (GAAP) and its impact on setting accounting standards.
3. Elaborate on the conceptual differences between Indian GAAP and Ind-AS, focusing on the key changes introduced in financial reporting.
4. Provide an overview of the key principles outlined in Ind AS 107 – Financial Instruments: Disclosures, and explain how these disclosures benefit users in evaluating financial information.
5. Explain the step-by-step procedure outlined in the "Due Process Handbook" of the IFRS Foundation for the issue of IFRS, highlighting the key principles of transparency and accountability.
6. Discuss the key differences between IFRS and Indian Accounting Standards (Ind AS) in terms of their definitions, developers, global applicability, and disclosure requirements.
7. Elaborate on the reasons for national differences in financial reporting practices, focusing on factors like legal systems, taxation, and sources of financing. Provide examples to illustrate the impact of these factors on financial reporting.
8. Examine the challenges arising from accounting variances, including the preparation of consolidated financial statements, access to foreign capital markets, comparability of financial statements, and the lack of high-quality accounting information. Discuss the implications of these challenges for companies operating globally.

Unit- II: Statutory Requirements for Financial Reporting:

Regulatory framework for preparation and presentation of financial statements under the provisions of the Companies Act, 2013, disclosures as per SEBI Regulations; Role of MCA, NAFRA, Report of Board of Directors, Contents of Annual Report, Mandatory and Voluntary Disclosure

ACCOUNTS OF COMPANIES

The shareholders provide capital to the company for running the business. They are in a way, the owners of the company. But, all of them cannot take part in managing the affairs of the company as their number is usually much more. But they have every right to know as to how their money has been dealt with by the directors in a particular period. This is why perhaps compulsory disclosure through annual information to the shareholders by the directors about the working and financial position of the company enables them to exercise a more intelligent and purposeful control over the affairs of the company. For preparation of annual accounts the maintenance of proper books of account is a must. Section 128 of the Companies Act, 2013 contains the provisions for books of account etc. to be kept by company.

REQUIREMENT OF KEEPING BOOKS OF ACCOUNT (SECTION 128)

Maintenance of books of account would mean records maintained by the company to record the specified financial transaction. It has been specifically provided that every company shall keep proper books of account. This section specifies the main features of proper books of account as under –

(i) The company must keep the books of account with respect to items specified in clauses (i) to (iv) of sub-section 2(13) of the Companies Act, 2013 hereinafter referred as Act, which defines "books of account".

(ii) The books of account must show all money received and expended, sales and purchases of goods and the assets and liabilities of the company.

(iii) The books of account must be kept on accrual basis and according to the double entry system of accounting.

(iv) The books of account must give a true and fair view of the state of the affairs of the company or its branches.

And "books of account" as defined in Section 2(13) includes records maintained in respect of—

(i) all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;

(ii) all sales and purchases of goods and services by the company;

(iii) the assets and liabilities of the company; and

(iv) the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section.

Place of Keeping Books of Account:

Section 128(1) of the Companies Act, 2013 requires every company to prepare and keep the books of account and other relevant books and papers and financial statements at its registered office. However, all or any of the books of accounts may be kept at such other place in India as the Board of directors may decide. When the Board so decides the company is required within seven days of such decision to file with the Registrar a notice in writing giving full address of that other place.

MAINTENANCE OF BOOKS OF ACCOUNT IN ELECTRONIC FORM

The maintenance of books of account and other books and papers in electronic mode is permitted and is optional. Such books of accounts or other relevant books or papers maintained in electronic mode shall remain accessible in India so as to be usable for subsequent use (the Companies (Accounts) Rules, 2014 hereinafter referred in this Chapter as Rule)

Rule 3(1): The information contained in the records shall be retained completely in the format in which they were originally generated, sent or received, or in a format which shall present accurately the information generated, sent or received and the information contained in the electronic records shall remain complete and unaltered.

Rule 3(2): The information received from branch offices shall not be altered and shall be kept in a manner where it shall depict what was originally received from the branches.

Rule 3(3): The information in the electronic record of the document shall be capable of being displayed in a legible form.

Rule 3(4): There shall be a proper system for storage, retrieval, display or printout of the electronic records as the Audit Committee, if any, or the Board may deem appropriate and such records shall not be disposed of or rendered unusable, unless permitted by law: Provided that the back-up of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any, shall be kept in

servers physically located in India on a periodic basis. **Rule 3(5):** The company shall intimate to the Registrar on an annual basis at the time of filing of financial statement –

(a) the name of the service provider;

(b) the internet protocol address of service provider;

(c) the location of the service provider (wherever applicable);

(d) where the books of account and other books and papers are maintained on cloud, such address as provided by the service provider.

Rule 3(6): Books of Account in Respect of Branch Office The branches of the company, if any, in India or outside India shall also keep the books of account in the same manner as specified in subsection (1), for the transaction effected at the branch office. Further the branch offices are required to send the proper summarized return at quarterly intervals to the company at its registered office and kept open to directors for inspection.

Accrual basis and Double-entry system of accounting According to sub-section (1), books of account are required to be kept on accrual basis and in accordance with the double entry system of accounting. Accrual basis of accounting is an accounting assumption or an accounting concept followed in preparation of the financial statements. Accrual concept is one of the four principles or accounting concepts, which involves recording income and expenses as they accrue, as distinct from when they are received or paid. The main feature of the accrual concept is that the accounting period covers only the revenue and expense transactions of that period and ignores the timing of actual cash receipts and payments. In this method, revenues and expenses are identified with specific period of time, such as a month or a year, and are recorded as 'incurred' along with acquired assets, without regard to the date of actual receipt or payment of cash in any form Double entry book-keeping is a method of recording any transactions of a business in a set of accounts, in which every transaction has a dual aspect of debt and credit and therefore, needs to be recorded in at least two accounts. For example, when a person (debtor) pays cash to a business for goods he has purchased, the cash held by the business is increased and the amount due from the debtor is decreased by the same amount; similarly, when a purchase is made on credit, the purchase account is debited and the amount owed to creditor is increased by the same amount. This double aspect enables effective control of business because all the books of accounts must balance. Thus, double entry book-keeping is a method in which every transaction is recorded in a business in such a manner that it involves one or more debit entries and one or more credit entries. The debit entries / amount must equal the credit entries / amount for each transaction recorded.

Inspection by directors

As provided in sub-section (3), any director can inspect the books of accounts and other books and papers of the company during business hours. The expression "Books and Papers" has been defined in section 2(12) which includes accounts, deeds, vouchers, writings and documents. The company is, therefore, required to make available the aforesaid books and papers for inspection by any directors. Such inspection may be done by any type of director-nominee, independent, promoter or whole time. The proviso to sub-section 3 provides that a director of the Company can inspect the books of accounts of the subsidiary, only on authorisation by way of the resolution of Board of Directors. Where any other financial information maintained outside the country is required by a director, the director shall furnish a request to the company setting out the full details of the financial information sought and the period for which such information is sought (Rule 4(2)). The said information shall be provided to director within 15 days of receipt of request (Rule 4(3)). The director can seek the information only individually and not by or through his attorney holder or agent or representative (Rule 4(4)). The right to inspect books of accounts and other books and papers under this section has been provided to the directors only.

Period for which books to be preserved

The books of accounts, together with vouchers relevant to any entry in such books, are required to be preserved in good order by the company for a period of not less than eight years immediately preceding the relevant financial year. In case of a company incorporated less than eight years before the financial year, the books of accounts for the entire period preceding the financial year together with the vouchers shall be so preserved. The provisions of Income Tax Act shall also be complied with in this regard. As per proviso to sub-section 5, where an investigation has been ordered in respect of a company under Chapter XIV of the Act related to inspection, inquiry or investigation, the Central Government may direct that the books of account may be kept for such period longer than 8 years, as it may deem fit and give directions to that effect.

PERSONS RESPONSIBLE TO MAINTAIN BOOKS U/S 128(6)

The person responsible to take all reasonable steps to secure compliance by the company with the requirement of maintenance of books of accounts etc. shall be:

i) Managing Director,

ii) Whole-Time Director, in charge of finance

iii) Chief Financial Officer

iv) Any other person of a company charged by the Board with duty of complying with provisions of section 128.

Penalty

In case the aforementioned persons referred to in sub-section (6) (i.e. MD, WTD, CFO etc.) fail to take reasonable steps to secure compliance of this section and thus, contravene such provisions, they shall in respect of each offence, be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees or both.

FINANCIAL STATEMENT UNDER SECTION 129:

This Section seeks to provide that the financial statements shall give a true and fair view of the state of affairs of the companies in the form as provided for different class or classes in Schedule III and shall comply with accounting standards. Insurance companies, banking company, companies engaged in generation / supply of electricity or any other class of companies shall make financial statements in the form as has been specified in or under the Act governing such companies. The financial statement shall be laid in the annual general meeting of that financial year. In case of subsidiary companies, the company shall prepare a consolidated financial statement of the Company and all subsidiaries and lay before the annual general meeting. The Central Government shall have the power to exempt a class or classes of companies from any of the requirements of this section. The section also provides the penalty where company contravenes the provision of this section. Definition of Financial Statement Financial Statement is defined under Section 2 (40), to include –

- Balance Sheet
- Profit and Loss account or Income and Expenditure account
- Cash flow Statement
- Statement of change in equity, if applicable
- Any explanatory notes annexed to or forming part of financial statements, giving information required to be given and allowed to be given in the form of notes. However, the financial statement with respect to one Person Company, small company and dormant company, may not include the cash flow statement. Financial statements should be prepared for financial year and shall be in form as per Schedule III.

True and Fair view: As per provisions of sub-sections (1) and (2), every financial statement of the company must give true and fair view of the state of affairs of the company at the end of financial year.

True and Fair view in respect of financial statement means-

- Financial statements and items contained should comply with accounting standards notified under section 133;
- Financial statement shall be in form or forms as provided for different class or classes of companies in Schedule III;
- In case of any insurance or banking company or any company engaged in the generation or supply of electricity or to any other class of company for which a form of financial statement has been specified in or under the Act governing such class of company, not treated to be disclosing a true and fair view of Accounts of Companies 7 the state of affairs of the company, merely by the reason of the fact that they do not disclose.
    - In the case of an insurance company, any matters which are not required to be disclosed by the Insurance Act, 1938, or the Insurance Regulatory and Development Authority Act, 1999;
    - In the case of a banking company, any matters which are not required to be disclosed by the Banking Regulation Act, 1949; — in the case of a company engaged in the generation or supply of electricity, any matters which are not required to be disclosed by the Electricity Act, 2003; — in the case of a company governed by any other law for the time being in force, any matters which are not required to be disclosed by that law.

Other Requirements For Financial Statements

a) Financial statements shall lay before the board of the directors in every annual general meeting of a company.

b) Where a company has one or more subsidiaries, in additional to financial statement provided in sub-section 2, it shall prepare a consolidated financial statement of the company with salient features of financial statements of subsidiary and subsidiaries in such form as prescribed and the same shall be laid before board in annual general meeting.

c) Central Government may prescribe for the consolidation of accounts of companies.

d) Where financial statements of the company do not comply with the applicable accounting standards, the company shall disclose the following: i) the deviation from the accounting standards ii) the reason for such deviation and iii) financial effects arising out of such deviation

e) Central Government may exempt any class or classes of the companies from complying with any of the requirements of this section or the rules there under, either conditionally or unconditionally as may be specified in the notification.

f) Central Government may notify the class of companies to mandatorily file their financial statements in Extensible Business Reporting Language (XBRL) format and also the manner of such filing. (Rule 9.3(1)) (g) Financial statement shall include any notes annexed to or forming part of such financial statement, giving information required to be given and allowed to be given in the form of such notes. Persons responsible for compliance The persons responsible to take all reasonable steps to secure compliance by the company with the requirement of Section 129 are (sub-section 7)-

- Managing Director
- Whole-Time Director
- CFO
- Other person of a company charged by the Board with the duty of complying with requirements of section 129.

Where any of the aforementioned officers are absent, all the directors shall be responsible and punishable. Penalty In case persons referred to in sub-section (7) fail to take reasonable steps to secure compliance or contravene provisions of this section, they shall in respect of each offence be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees or with both.

Form of Financial Statements (Schedule III)

The financial statements shall be in the form or forms as may be provided for different class or classes of companies. Schedule III contains general instructions for preparation of balance sheet and statement of profit and loss account. Balance sheet In balance sheet, assets and liabilities shall be divided into current and non-current. Company shall disclose the details of the following in the Notes to accounts –

a) Share Capital

B) Reserves And Surplus

C) Long Term Borrowings

D) Other Long Term Liabilities

E) Long Term Provisions

F) Short Term Borrowings

G) Other Current Liabilities

H) Short Term Provisions

I) Tangible Assets

J) Intangible Assets

K) Non-Current Investments

L) Long Term Loans And Advances

M) Other Non-Current Assets

N) Current Investments

O) Inventories

P) Trade Receivables

Q) Cash And Cash Equivalents

R) Short Term Loans And Advances

S) Other Current Assets

T) Contingent Liabilities And Commitments (to the extent not provided for)

U) Proposed Dividend To Equity And Preference Shareholders Including Arrears of Fixed Cumulative Dividend on Preference Shares

V) Unutilised Amount From Issue of Securities Made for Specific Purpose

W) Board's Opinion on Realisation Value of Assets other than Fixed Assets And Non-Current Investments if such Value is less than its Value as Stated In Balance Sheet.

Statement of Profit and Loss

Statement of profit and loss should disclose the followers –

1) revenue from operators

2) other income

3) total revenue (1 + 2)

4) expenses

5) profit before exceptional and extra ordinary items and tax (3 - 4)

6) exceptional items

7) profit before extraordinary items and tax (5-6)

8) extra ordinary items

9) profit before tax (7-8)

10) tax expense

11) profit (loss) for the period from continuing operations (9 – 10)

12) profit (loss) from discontinuing operations

13) Tax expense of discontinuing operations

14) Profit (loss) from discontinuing operations after tax (12 – 13)

15) Profit (loss) for the period (11 +14)

16) Earnings per equity share i) basic ii) diluted

It also contains general instructions for preparation of statement of profit and loss. These provisions shall also apply to the income and expenditure account.

A. NATIONAL ADVISORY COMMITTEE ON ACCOUNTING STANDARD *(NACAS)*

As a corporate professional one should be equipped with the knowledge of the bodies set up under the company law to advice the central government and regulate the issues in regard to the standards of accounting and auditing which a company or a particular class of company must have to adopt.

NACAS set up under Companies Act, 1956.

A brief about NACAS set up under Companies Act, 1956

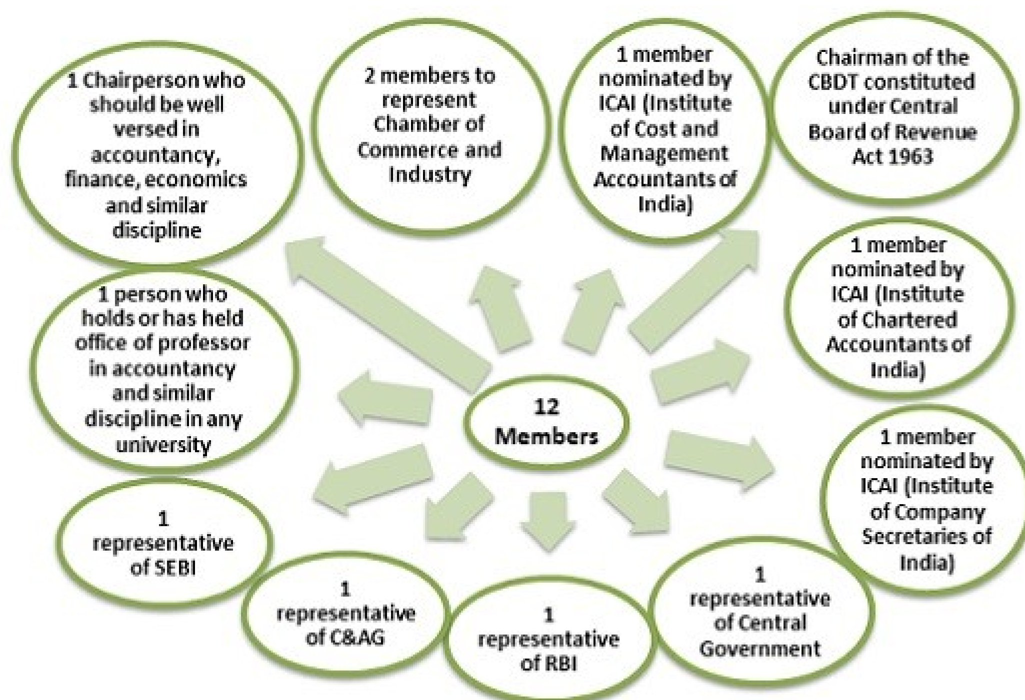
The Companies (Amendment) Act, 1999, new sub-sections (3A), (3B) and (3C) were inserted in section 211, which required that the every balance sheet and profit & loss account of the Company shall comply with the accounting standards, as may be prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards (NACAS). Therefore, Section 210A was enacted to constitute an Advisory Committee to be called “National Advisory Committee on Accounting Standards”.

Main Objective of NACAS

To **advise the Central Government** on the formulation and lying down of accounting policies and accounting standards for adoption by companies or class of companies under this Act. But at the same time **NACAS did not have any regulatory powers** to regulate the above issues. In simple words the role of NACAS was only restricted to the advisory.

The NACAS will no longer be in action after applicability of section 132 of the Companies Act 2013, which deals with NFRA.

Constitution of NACAS set up under the Companies Act, 1956



THE NATIONAL FINANCIAL REPORTING AUTHORITY (NFRA):

The National Financial Reporting Authority (NFRA) was **constituted** on 01st October,2018 by the Government of India under **Sub Section (1) of section 132 of the Companies Act, 2013**.

Functions and Duties: As per **Sub Section (2) of Section 132 of the Companies Act, 2013**, the duties of the NFRA are to:

a) Recommend accounting and auditing policies and standards to be adopted by companies for approval by the Central Government;

b) Monitor and enforce compliance with accounting standards and auditing standards;

c) Oversee the quality of service of the professions associated with ensuring compliance with such standards and suggest measures for improvement in the quality of service;

d) Perform such other functions and duties as may be necessary or incidental to the aforesaid functions and duties.

KEY COMPONENTS OF THE ANNUAL REPORT FOR COMPANIES UNDER THE INDIAN COMPANIES ACT, 2013:

The contents of an annual report can be categorized as:

1) Non-audited information: a) Narrative items b) Non- Narrative items

2) Financial statement: a) Balance Sheet b) Profit & Loss Account c) Cash Flow Statement

3) Notes to the accounts and

4) Accounting policies

1. NON-AUDITED INFORMATION

Non-audited information in the annual report can be categorized into narrative items and non-narrative items.

a) Narrative Items

i) Chairman's Statement

The Chairman's statement is a crucial narrative item that highlights corporate activities, strategies, research, labor relations, main achievements, and future goals. It provides a personalized overview of the company's performance, covering strategy, financial performance, and future prospects. The statement may focus on the economic condition of the industry and the country.

ii) Directors' Report

The Directors' Report supplements financial information with essential details for a comprehensive understanding of the company's activities. It includes a description of principal activities, a review of current and future prospects, information on assets, recommended dividends, employee statistics, directors' interests, and details of political or charitable donations.

iii) Operating and Financial Review

This section offers a formalized explanation of financial performance. The operating review covers items like operating results, profit, and dividends, while the financial review discusses aspects such as capital structure and treasury policy.

iv) Auditor's Report

The Auditor's Report, a vital part of the annual report, is published by external auditors. It is essential for securing loans from banks and creditors. The report is addressed to the shareholders, emphasizing the duty of directors to have the company's accounts audited every year.

v) Corporate Governance Report:

The Companies Act, 2013, implemented on August 29, 2013. Complementing this, the Ministry of Corporate Affairs introduced the Companies Rules 2014 on March 31, 2014, addressing aspects such as Management and Administration, Appointment and Qualification of Directors, Meetings of the Board of Directors, and its powers, as well as Accounts. Together, the Companies Act, 2013, and the Companies Rules establish a robust framework for Corporate Governance. Key provisions include qualifications for Independent Directors, guidelines for professional conduct, mandatory appointment of at least one woman director on the board of listed companies, and the obligatory formation of committees such as the Corporate Social Responsibility Committee, Audit Committee, Nomination and Remuneration Committee, and Stakeholders Relationship Committee. Additionally, the Act mandates a minimum of four board meetings annually, ensuring that not more than 120 days pass between consecutive meetings.

SEBI guidelines on Corporate Governance

SEBI made significant amendments to clause 49 of the Listing Agreement in April and September 2014, following the enactment of the Companies Act, 2013. These changes were aimed at aligning the Listing Agreement with the Corporate Governance provisions outlined in the Companies Act. Subsequently, on September 2, 2015, SEBI introduced the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, replacing the earlier provisions. Effective from December 1, 2015, these regulations were further amended on multiple occasions. Additionally, on October 13, 2015, SEBI issued a uniform listing agreement format for all types of securities, mandating listed entities to comply with the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

vi) Statement of Directors' Responsibilities

Prepared in accordance with the Companies Act, 2013, this statement outlines the directors' responsibilities, emphasizing compliance with legal provisions.

vii) Sustainability Report

The Sustainability Report communicates economic, environmental, and social impacts resulting from the company's activities. It is a key platform for disclosing sustainability performance and impacts, aligning with SEBI norms and National Guidelines on Responsible Business Conduct.

viii) Management Discussion and Analysis

This critical section provides insights into macroeconomic trends, industry trends, and the company's performance. It covers global and domestic economic activities, industry expectations, and a detailed analysis of the company's divisions and performance compared to the previous year.

b) Non-Narrative Items

Within the non-narrative section of the annual report, we find essential components that provide a comprehensive snapshot of the company's performance and achievements:

i) Financial Highlights

The financial highlights segment offers a meticulous year-on-year comparison, showcasing key metrics like revenue from operations, EBITDA (Earnings before Interest, Tax, Depreciation, and Amortization), ROE (Return on Equity), and PAT (Profit after Tax). These metrics offer stakeholders a clear perspective on the company's financial prowess and growth trajectory.

ii) Highlights of the Year

This section extends beyond financial metrics, delving into noteworthy achievements and milestones throughout the year. It encapsulates significant events such as product or brand launches, the inauguration of new showrooms, and other notable accomplishments. These highlights provide a well-rounded view of the company's overall performance and strategic endeavors.

Together, these non-narrative elements in the annual report ensure a balanced and insightful presentation, catering to both the financial intricacies and the broader success stories of the company.

2. FINANCIAL STATEMENTS:

There are three financial statements discussed in the annual report, namely, a) Balance Sheet, b) Profit and Loss account and c) Cash flow statement

- **Balance Sheet:** Presents the company's assets, liabilities, and equity at the end of the financial year, providing a snapshot of its financial position.
- **Statement of Profit and Loss:** Summarizes the company's revenues, costs, and expenses, indicating its profitability.
- **Cash Flow Statement:** Outlines the cash inflows and outflows, providing insights into how the company manages its liquidity.

3. Notes to the Accounts

Delving into the finer details, the notes to the accounts furnish a profound analysis of various entries, offering a more nuanced perspective on the company's financial landscape. Here's an eloquent breakdown:

i) Depreciation

Depreciation is a calculated endeavor, grounded in the depreciated amount of assets. The method of choice is the straight-line approach, factoring in estimated useful lives. Noteworthy is the exemption of freehold land from this process.

ii) Inventories

A meticulous approach governs inventory valuation, considering costs against net realizable value. The valuation methodology spans gold, stores, spares, raw materials, work-in-progress, finished goods, and traded goods. The net realizable value echoes the estimated selling price less the costs associated with completion and sale.

iii) Revenue from Operations

A transparent disclosure of revenue sources stemming from diverse product segments, such as watches, jewelry, eyewear, and others, is elucidated in this section.

iv) Details of Fixed Assets and Share Capital

Fixed assets, embodying land, buildings, and equipment, are presented at cost, net of depreciation and impairment losses. The detailed breakdown includes the recognition of machine spare parts and the capitalization of subsequent expenditure. Share capital, bifurcated into authorized and issued, distinguishes between the maximum funding capacity and the actual shares in circulation.

v) Directors' Emoluments

This section, mandated by Section 197 of the Act, unveils the intricacies of directors' remuneration, aligning with the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.

vi) Earnings Per Share

Earnings Per Share (EPS) takes center stage, with basic EPS derived from the net profit attributable to equity shareholders over the weighted average number of outstanding shares. Diluted EPS, a more

nuanced metric, factors in potential equity shares, providing a comprehensive view of the company's earnings dynamics. The diligent approach ensures the inclusion of only dilutive potential equity shares, enhancing the accuracy of the computation.

4) Accounting Policies

In the realm of financial transparency, detailing accounting policies is a pivotal facet that companies conscientiously adhere to. Here's a refined understanding:

- **Comprehensive Disclosure:** Companies are obligated to articulate the intricacies of the accounting policies employed in the meticulous preparation of financial statements. This ensures a comprehensive and transparent portrayal of their financial landscape.
- **Policy Variability:** A notable feature is the autonomy granted to companies in selecting accounting policies across diverse domains such as foreign currencies, goodwill, pensions, sales, and stocks. This latitude acknowledges the nuanced nature of business operations.
- **Informed Judgment:** Given the potential variance in figures resulting from distinct accounting policies, it becomes imperative to explicitly specify the policy chosen. This empowers readers of the accounts to exercise informed judgment regarding the company's performance.
- **Adaptable Nature:** Recognizing the dynamism of business landscapes, any shifts in accounting policies must be explicitly elucidated. Notably, if these alterations carry material significance, there's a mandate to restate prior-year figures. This adaptive practice ensures a true and reflective representation of financial realities.

These components collectively aim to offer a comprehensive and transparent view of the company's financial health, governance practices, and future prospects, ensuring stakeholders have the necessary information for informed decision-making. Companies need to adhere to the specific disclosure requirements outlined in the Companies Act, 2013, and other relevant regulations.

SPECIAL PURPOSE FINANCIAL REPORT

A special purpose financial report refers to a comprehensive set of financial statements, along with accompanying notes and an assertion statement from those accountable for the financial report, prepared in accordance with a special purpose framework. The related notes typically include a summary of significant accounting policies and other explanatory details. The format and content of a financial report, adhering to a special purpose framework, are determined by the requirements specified in the applicable financial reporting framework.

A special-purpose financial statement is crafted for presentation to a restricted audience. It may be included with a complete set of financial statements designed for general use or presented independently. These statements are typically mandated by government entities, aiming to present specific information in a predetermined format. The information required

and the reporting format adhere to guidelines outlined in a reporting framework. For instance, reporting frameworks are applied in the creation of special-purpose financial statements for purposes such as tax reporting, bank reporting, and industry-specific reporting. The entities intending to use the resulting financial statements generally establish the specialized reporting frameworks underpinning special-purpose financial statements.

STATEMENT OF CHANGES IN EQUITY

The equity statement serves as a reconciliation between the initial and final balances in a company's equity during a reporting period. It aligns the opening and closing amounts for each equity component, encompassing reserves, surplus, and items from other comprehensive income. The statement commences with the initial equity balance and incorporates items such as net income, dividends, and other changes to determine the closing balance. The general calculation structure is outlined as follows: **Beginning equity + Net income – Dividends ± Other changes = Ending equityBeginning equity + Net income – Dividends ± Other changes = Ending equity**

Transactions typically featured in this statement include:

- Net profit or loss
- Dividend payments
- Proceeds from stock sales
- Treasury stock purchases
- Gains and losses directly impacting equity
- Adjustments for errors in prior periods
- Changes in fair value for specific assets (As per Indian Accounting Standard (Ind AS) 1 Presentation of Financial Statements)

The information presented in the statement of changes in equity (as per Para 106) includes: (a) Total comprehensive income, differentiating amounts attributable to owners of the parent and non-controlling interests; (b) Effects of retrospective application or restatement for each equity component according to Ind AS 8; (c) Reconciliation for each equity component between the carrying amount at the beginning and end of the period, disclosing changes from: (i) Profit or loss; (ii) Other comprehensive income; (iii) Transactions with owners, separately showing contributions, distributions, and changes in ownership interests; (iv) Items recognized directly in equity, such as capital reserve as per paragraph 36A of Ind AS 103.

Additionally, Para 106A requires an analysis of other comprehensive income by item for each equity component, to be presented either in the statement of changes in equity or in the notes.

Para 107 mandates the presentation, either in the statement of changes in equity or in the notes, of recognized dividends during the period and related dividends per share. Para 108 outlines the components of equity, covering each class of contributed equity, accumulated balances of comprehensive income classes, and retained earnings.

Changes in equity between the start and end of the reporting period, as per Para 109, signify the net assets' increase or decrease during the period, reflecting overall income, expense, gains, and losses generated by the entity's activities. Para 110 notes that retrospective adjustments for changes in accounting policies and corrections of errors, as per Ind AS 8, are not changes in equity but adjustments to the opening balance of retained earnings. Disclosure requirements for such adjustments are specified in Para 106(b).

CONSOLIDATION OF FINANCIAL STATEMENTS

Section 129 of the Companies Act, 2013 ('the Act') stipulates that a Company's financial statements must accurately represent the state of the Company's affairs, adhere to relevant accounting standards, and align with Schedule III of the Act. Subsection 3 within Section 129 outlines provisions for consolidating financial statements, specifying that:

i. If a Company possesses one or more subsidiaries, it must prepare not only its own financial statement but also a consolidated financial statement encompassing the Company and all its subsidiaries.

ii. The consolidated financial statement should be prepared in the same format as the Company's individual statement and presented at the annual general meeting.

iii. The Company is required to attach a separate statement (FORM AOC-1) outlining the key features of its subsidiaries' financial statements.

For the purposes of subsection 3 of Section 129, the term "Subsidiary" encompasses Associate Company and Joint Venture Company. An Associate Company, as defined in Section 2 (6) of the Act, is a company over which another company has significant influence but is not a subsidiary; this definition includes a joint venture company. "Significant influence" implies control of at least 20% of the total paid-up share capital or business decisions under a formal agreement.

Rule 6 of The Companies (Accounts) Rules, 2014 provides an exemption from the obligation to prepare consolidated financial statements for a Company with a subsidiary, subject to the following conditions:

• It is a wholly owned or partially owned subsidiary, and other members have been informed in writing by the Company about the decision not to present consolidated financial statements, with no objections received.
• It is a company whose securities are not listed or in the process of listing on any stock exchange, whether in India or outside India.
• Its ultimate holding or any intermediate holding company submits consolidated financial statements to the Registrar of Companies (ROC).
In the event of a Company violating the provisions of this section, the Managing Director (MD), Whole-Time Director (WTD), Chief Financial Officer (CFO), or any other person authorized by the board to comply with the section, and in the absence of the aforementioned individuals, all Directors of the Company, may face penalties such as imprisonment up to 1 year, a fine ranging from INR 50,000 to 5 lakh, or both.

DIRECTORS REPORT

Financial reporting is crucial for companies as it furnishes comprehensive information about a company's status and its adherence to financial, corporate social responsibility, and accounting standards. At the close of each financial year, both public and private limited companies are required to submit a financial document known as the directors' report. This report, prepared by the Board of Directors, must be appended to every financial statement and elucidates the financial standing of the company.

Relevance of the Directors' Report

All companies, except for One Person Companies (OPC) and small companies, are obligated to prepare the directors' report. Small companies and OPCs are required to submit an abridged directors' report in accordance with Rule 8A of the Companies (Accounts) Amendment Rules, 2018.

Objective of the Director's Report

Under Section 134(3) of the Companies Act, 2013, directors are mandated to compile the directors' report annually. This report, or the board's report, fosters greater corporate transparency, allowing shareholders to make well-informed decisions based on the information it provides. The directors' report aids shareholders in assessing the company's growth potential, financial health, market performance, and compliance with accounting standards, financial regulations, and corporate social responsibility requirements.

Contents of a Director's Report

Section 134(3) of the Companies Act, 2013, and Rule 8 of the Companies (Accounts) Rules, 2014 delineate the necessary information for the directors' report. Listed companies are required to incorporate additional disclosures from Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel Rules, 2014) in their reports.

Contents of a Directors' Report as per Companies Act, 2013

According to Section 134(3) of the Companies Act, 2013, the board's report must encompass:

- Annual return extract as per Section 92(3) of the Act
- Number of board meetings
- Directors' responsibility statement per Section 134(5) of the Act
- Details on frauds reported by auditors under Section 143(12) of the Act, excluding those reportable to the Central Government
- Declaration by independent directors per Section 149(6) of the Act
- Board's comments on auditor and company secretary reports
- Particulars of guarantees, loans, or investments under Section 186 of the Act
- Details of arrangements or contracts with related parties under Section 188(1) of the Act
- State of the company's affairs
- Proposed amounts for reserves
- Recommended dividend payments
- Material commitments and changes affecting financial position
- Conservation of technology, energy, and foreign exchange earnings
- Statement on risk management policy development and implementation
- Corporate Social Responsibility (CSR) initiatives during the year
- Board's formal annual evaluation and other matters as prescribed.

Contents of a Directors' Report as per Companies (Accounts) Rules, 2014

Rule 8 of the Companies (Accounts) Rules, 2014, mandates that the board's report should incorporate information based on standalone financial statements. Additionally, it requires a separate section detailing the financial position and performance of associates, subsidiaries, and joint venture companies included in the consolidated financial statements. The report must also address conservation of energy, including impacts, steps taken, and capital investments in energy conservation equipment.

CONTENTS OF BOARDS' REPORT AS PER COMPANIES ACT, 2013

The Section 134 outlines the regulatory requirements related to the approval, reporting, and disclosure of financial statements by companies. The key points include:

1. **Approval of Financial Statements:**
    - The Board of Directors must approve financial statements, including consolidated ones if applicable.
    - Approval involves signatures from the chairperson or two directors, one of whom is the managing director, the CEO (if a director), CFO, and Company Secretary.
2. **Auditors' Report and Board's Report:**
    - The auditors' report must be attached to every financial statement.
    - The Board's report, attached to statements presented at a general meeting, should cover various aspects, including meetings, responsibility statements, fraud details reported by auditors, and more.
3. **Specific Disclosures in Board's Report:**
    - The Board's report must include details on loans, contracts with related parties, the company's affairs, proposed dividends, and other specified matters.
    - It should also cover energy conservation, technology absorption, foreign exchange details, risk management policy, and corporate social responsibility initiatives.
4. **Matters to be Prescribed:**
    - The report should include any other matters as may be prescribed by regulations.
5. **Compliance Requirements:**
    - The report should refer to disclosures included in financial statements, avoiding repetition.
    - Policies related to directors' appointment, remuneration, and corporate social responsibility, if available on the company's website, can be briefly mentioned in the Board's report.
6. **Exemptions for Specified IFSC Companies:**
    - Specified IFSC public and private companies may not include certain information in the Board's report if it is already provided in the financial statement.

7. **Abridged Board's Report:**
    - The Central Government may prescribe an abridged Board's report for One Person Companies or small companies.
8. **Directors' Responsibility Statement:**
    - The Directors' Responsibility Statement should affirm adherence to accounting standards, selection of accounting policies, maintenance of adequate records, going concern basis, internal financial controls, and compliance with applicable laws.
9. **Signing of Reports:**
    - The Board's report and annexures must be signed by the chairperson (if authorized) or at least two directors, including one managing director.
10. **Issuance and Penalties:**
    - A signed copy of financial statements must be issued with notes, auditor's report, and the Board's report.
    - Non-compliance may lead to penalties for the company and its officers, including fines and imprisonment.

Section 197(12) of the Companies Act, 2013, prescribes that the listed companies should disclose the remuneration ratio of all directors to the median employee‘s remuneration and such other details in the board‘s report.

According to Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the board’s report should include the following information:

a) The increase in the percentage of the remuneration of each chief financial officer, director, chief executive officer, manager, or company secretary in the financial year, if any
b) The increase in the percentage in the median remuneration of the employees in the financial year
c) The number of permanent employees on the rolls of the company
d) The explanation on the relationship between company performance and an average increase in remuneration
e) Comparison of the remuneration of the KMP (Key Managerial Personnel) against the performance of the company
f) Variations in the company’s market capitalisation and price-earnings ratio as on the closing date of the current financial year and previous financial year

g) Average percentile increase made in the employees' salaries other than the managerial personnel in the previous financial year
h) The key parameters for variable components of remuneration availed by the directors
i) The remuneration ratio of the highest paid director to that of the employees who are not directors but receive remuneration above the highest paid director during the year
j) Affirmation that the remuneration is according to the remuneration policy of the company

A statement consisting the name of every employee of the company indicating the following:

- Designation of the employee
- Remuneration
- Nature of employment, whether contractual or otherwise
- Experience and qualifications of the employee
- Date of commencement of employment
- Age of the employee
- The last employment held by the employee before joining the company
- The equity shares percentage held by the employee in the company Whether such employee is a relative of manager or director of the company and name of such manager or director.

Penalty for not preparing the Directors' Report

The chairperson of the company should sign the board's report or Directors' report and its annexures when authorized by the board. In instances where the company's chairperson is not authorized by the board for signing the report, at least two directors, one of whom must be a managing director, should sign the report. A signed copy of the directors' report must be circulated, issued, or published on the company website.

In the event of a company failing to prepare the board's report and directors' report, a penalty of Rs.3 lakh is imposed on the company, and every officer of the company in default is liable to pay a penalty of Rs.50,000.

SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015

The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 encompass various definitions, obligations, and disclosure requirements for listed entities in India. Here's a summary of key points from the provided information:

A. Definitions:

1. **Associate Company:**
    - Defined under Regulation 2(1)(b) of LR.
    - It includes entities considered associates under the Companies Act, 2013, or applicable accounting standards.
    - Criteria met under either the Companies Act or Accounting Standards for classification.
2. **Related Party:**
    - Defined under Regulation 2(1)(zb) of LR.
    - Refers to related parties as per the Companies Act, 2013, or applicable Accounting Standards.
    - Includes any person or entity holding 20% or more shareholding and belonging to the promoter or promoter group.

B. Common Obligations of Listed Entities:

3. **Policy for Preservation of Documents (Regulation 9):**
    - Listed entities must frame a policy approved by the board for preserving documents.
    - Documents include those required by securities laws and other applicable statutes.

C. Corporate Governance:

4. **Compliance Certificate (Regulation 17(8)):**
    - CEOs and CFOs must provide compliance certificates to the Board.
    - In the absence of a designated CEO, certificates can be signed by officials with CEO/CFO responsibilities.
5. **Material Related Party Transactions (Regulation 23(4)):**
    - Approval of shareholders required for material related party transactions.
    - No related party, irrespective of their relation to the transaction, can vote to approve such resolutions.
6. **Independent Director on Subsidiary Board (Regulation 24(1)):**
    - At least one independent director required on the board of unlisted material subsidiaries.
    - Clarification on the applicability of sub-regulations to all unlisted subsidiaries.
7. **Management of Unlisted Subsidiary (Regulation 24(4)):**

- The management of all unlisted subsidiaries must periodically inform the board of significant transactions.

8. **Director's Committee Memberships (Regulation 26(1)):**
    - Directors limited to being members of ten committees or chairpersons of five committees across listed and unlisted public companies.

D. Disclosure of Events or Information:

9. **Disclosure on Website (Regulation 30(8)):**
    - Disclosures under Regulation 30(8) applicable from December 1, 2015, and pertain to events occurring thereafter.
10. **Disclosure of Subsidiary Events (Regulation 30(9)):**
    - Both the parent and material subsidiary must separately disclose events related to subsidiaries.

11. **Material Subsidiary Definition (Regulation 16(1)(c)):**
    - The listed entity can adopt stricter criteria for determining material subsidiaries for Regulation 30(9) purposes.
12. **Disclosure of Acquisition (Schedule III):**
    - Disclosure requirements for acquisitions apply to both listed and unlisted entities.
13. **Deemed Material Events (Schedule III):**
    - Disclosure of fund-raising decisions required within 30 minutes of the meeting's closure.

E. Other Clarifications:

14. **Submission of Financial Results (Regulation 33(3)):**
    - Audited financial results required for the last quarter; unaudited results not permissible.
15. **Forms A and B for Subsidiaries (Regulation 33(3)(d)):**
    - Two sets of Forms A and B required for standalone and consolidated results of listed entities with subsidiaries.
16. **Annual Information Memorandum (Regulation 35):**
    - Applicability contingent on SEBI specifying the memorandum.
17. **Transmission of Securities (Regulation 40(3)):**

- Compliance ensured by share transfer agents or in-house facilities under the listed entity's supervision.

18. **Compensation for Delay (Regulation 40(8)):**
    - Listed entities to compensate for delay in securities transfer.
19. **Disclosure of Agreements with Media Companies (Regulation 46(2)(n)):**
    - Disclosure required only for agreements not in the normal course of business.
20. **Website Content Changes (Regulation 46(3)):**
    - Refers to changes as specified in Regulation 46(2) for information dissemination.

In summary, these regulations provide a comprehensive framework for governance, disclosure, and compliance for listed entities in India, covering various aspects from definitions to obligations and clarifications.

VOLUNTARY DISCLOSURE

Shortcomings of Conventional Financial Reporting: Embracing Voluntary Disclosure:

The fundamental aim of conventional financial reporting is to disclose financial information according to Generally Accepted Accounting Principles (GAAP). In the contemporary business landscape, most companies in developed nations adhere to either U.S. GAAP or International Financial Reporting Standards (IFRS), both of which, despite their global significance, exhibit substantial shortcomings from a capital market standpoint. Traditional standards allow ample room for managerial profit manipulation, and the retrospective nature of financial reporting often renders the disclosed data an unreliable foundation for forecasting future performance, leading to a potential loss of credibility in the eyes of stakeholders.

Furthermore, conventional accounting reports predominantly focus on quantitative data, offering limited insights into critical aspects such as investment risks and the enduring impacts of capital investments. Key drivers of corporate value, including human capital, customer relations, innovation, research and development (R&D), and corporate reputation, are frequently omitted from traditional accounting models. Recognizing these deficiencies, theorists and practitioners have increasingly acknowledged the need for additional voluntary disclosure, exemplified by frameworks like the ValueReporting framework developed by PricewaterhouseCoopers (PWC).

These evolving business reporting frameworks advocate for supplementary information beyond traditional financial reports, aiming to assist investors in better identifying value-driving activities. While developments in this field are unfolding gradually and in a

somewhat fragmented manner, voluntary reporting is gaining acceptance as an integral component of a company's official external reporting. Overall, the evolution of voluntary reporting is a positive development, as it has the potential to diminish existing information asymmetries between shareholders and management. Various gaps, including perception gaps, understanding gaps, information gaps, reporting gaps, and quality gaps, underscore the need for enhanced communication between companies and the market. The value gap, representing the cumulative impact of these disparities, serves as an indicator of the extent of the communications breakdown between a company and the market.

Contextualizing Voluntary Disclosure:

Voluntary disclosures encompass a broad spectrum of information, including strategic insights such as company characteristics and strategy, nonfinancial details like socially responsible practices, and financial data such as stock price information. Voluntary disclosure, as defined by Meek et al., involves companies willingly providing information beyond mandatory disclosure. This free choice serves the decision needs of users of annual reports. Voluntary disclosure may align with authoritative codes or bodies.

The categorization of voluntary disclosures varies; for instance, the Financial Accounting Standards Board identifies six categories, while Meek, Roberts, and Gray (1995) group them into three major types: strategic, nonfinancial, and financial information.

Categories of Voluntary Disclosures:

1. **Business Data:**
    - Market share breakdowns and information on new products.
2. **Analysis of Business Data:**
    - Trend analyses and competitor comparisons.
3. **Forward-Looking Information:**
    - Sales forecasts and expansion plans.
4. **Information about Management and Shareholders:**
    - Details on stockholders, creditors, and shareholding structures.
5. **Company Background:**
    - Descriptions of products and long-term objectives.
6. **Information about Intangible Assets:**
    - Insights into research and development and customer relations.

Intellectual Capital Disclosures: These disclosures, prevalent in knowledge-based companies, elucidate how organizations utilize knowledge, skills, relationships, and processes to create value.

Incorporating these dimensions into annual reports, companies bolster transparency, reduce information gaps, and bridge communication breakdowns with stakeholders.

Voluntary Disclosure in Annual Reports: Enhancing Transparency and Accountability

Companies that go above and beyond legal requirements often engage in voluntary disclosure within their annual reports. This proactive approach to transparency and accountability serves to foster trust among stakeholders and goes beyond the mandatory reporting obligations. Here's a breakdown of the key aspects of voluntary disclosure:

1. Strategic Insights:
    - Companies may voluntarily provide strategic insights, offering a comprehensive view of their long-term goals, market positioning, and competitive strategies.
    - This section often includes the company's vision and mission, emphasizing its commitment to stakeholders and broader societal impact.
2. Risk Management:
    - Voluntary disclosure often extends to a detailed exposition of the company's risk management framework. This includes the identification, assessment, and mitigation strategies for various risks.
3. Environmental, Social, and Governance (ESG) Practices:
    - Forward-thinking companies voluntarily disclose their ESG practices, showcasing their commitment to sustainable and responsible business operations.
    - This encompasses environmental initiatives, social responsibility programs, and governance structures that align with best practices.
4. Innovation and Research Initiatives:
    - Companies may highlight their commitment to innovation and research, shedding light on ongoing projects, partnerships, and technological advancements.
    - This fosters a culture of continuous improvement and signals the company's adaptability to emerging trends.
5. Stakeholder Engagement:
    - Voluntary disclosure often includes insights into how the company engages with stakeholders. This may encompass customers, employees, communities, and shareholders.
    - Companies may describe mechanisms for soliciting and incorporating stakeholder feedback into decision-making processes.
6. Employee Welfare and Development:
    - A progressive approach involves disclosing information about employee welfare programs, training initiatives, and career development opportunities.
    - This showcases the company's commitment to fostering a positive and growth-oriented work environment.
7. Community Impact and Philanthropy:

- Companies voluntarily share details of their community engagement and philanthropic endeavors. This includes contributions to social causes, charitable donations, and initiatives for community development.

8. Data on Diversity and Inclusion:
    - Progressive companies voluntarily disclose data related to workforce diversity and inclusion. This may include metrics on gender balance, ethnic diversity, and initiatives promoting inclusivity.
9. Ethical Business Practices:
    - A commitment to ethical business practices is often emphasized in voluntary disclosures. Companies may outline their code of conduct, ethics training programs, and measures to ensure compliance.
10. Future Outlook and Goals:
    - Forward-looking companies provide stakeholders with a glimpse into their future plans, be it expansion strategies, upcoming product launches, or goals for sustainability and social impact.

In essence, voluntary disclosure goes beyond statutory requirements, providing stakeholders with a richer understanding of a company's values, strategies, and its commitment to responsible and sustainable business practices.

Summary:

The accounts of companies are crucial for shareholders to understand how their capital is utilized. Annual disclosures by directors ensure intelligent shareholder control. The Companies Act, 2013 (Section 128) mandates proper bookkeeping. Books must record specified financial transactions, show money flow, be on accrual basis, and follow double-entry accounting. Electronic maintenance is optional, with records accessible and unaltered. Inspection by directors is allowed during business hours. Books, along with vouchers, must be preserved for at least eight years. Section 128(6) outlines responsible persons (e.g., MD, CFO), with penalties for non-compliance. Section 129 mandates financial statements giving a true and fair view, including balance sheets, profit and loss accounts, and cash flow statements. True and fair view requires compliance with accounting standards and adherence to prescribed forms. Requirements include laying financial statements before the board, preparing consolidated statements for subsidiaries, and disclosure of deviations from accounting standards. Non-compliance by responsible persons incurs penalties.

Schedule III outlines the form of financial statements for different classes of companies. It provides general instructions for preparing the balance sheet and statement of profit and loss.

The balance sheet categorizes assets and liabilities into current and non-current, and detailed notes must disclose various financial details. The statement of profit and loss includes revenue, expenses, exceptional items, and taxes. The National Advisory Committee on Accounting Standards (NACAS), established under the Companies Act, 1956, was advisory. The National Financial Reporting Authority (NFRA) replaced NACAS under the Companies Act, 2013, with functions including recommending accounting policies and monitoring compliance. The annual report comprises non-audited information, financial statements, notes to accounts, and accounting policies. The non-audited section covers narrative items like chairman's statement and directors' report, while the financial statements include the balance sheet, profit and loss account, and cash flow statement. The notes to accounts provide detailed insights into depreciation, inventories, revenue, fixed assets, directors' emoluments, earnings per share, and more. Accounting policies ensure comprehensive disclosure, policy variability, informed judgment, and adaptability to changing business landscapes.

A **Special Purpose Financial Report** encompasses financial statements, notes, and an assertion statement prepared according to a special purpose framework. These are tailored for specific audiences and purposes like tax reporting, bank reporting, or industry-specific requirements. The **Statement of Changes in Equity** reconciles initial and final equity balances, including components like reserves and comprehensive income. **Consolidation of Financial Statements** under Section 129 of the Companies Act, 2013 mandates companies with subsidiaries to prepare consolidated financial statements. Lastly, the **Directors' Report** is a crucial annual document, required for all companies except OPCs and small companies. It provides comprehensive information about a company's financial status, adherence to standards, and corporate social responsibility.

Traditional financial reporting, following GAAP or IFRS, has substantial limitations leading to managerial manipulation and insufficient insights into critical aspects. Voluntary disclosure, exemplified by frameworks like ValueReporting by PwC, seeks to address these deficiencies. It provides supplementary information beyond traditional reports, aiding investors in identifying value-driving activities. The evolution of voluntary reporting diminishes information asymmetries, addressing gaps such as perception, understanding, information, reporting, and quality. Voluntary disclosures cover strategic, nonfinancial, and financial information and may align with authoritative codes. Categories include business data, analysis, forward-looking information, management/shareholder details, company background, and intangible assets. Intellectual capital disclosures elucidate knowledge-based

value creation. In annual reports, voluntary disclosure enhances transparency and accountability, covering strategic insights, risk management, ESG practices, innovation, stakeholder engagement, employee welfare, community impact, diversity, inclusion, ethical practices, and future outlook.

Check Your Progress:

1. Choose the correct answer:

   I. What is the primary role of the MCA (Ministry of Corporate Affairs) in financial reporting in India?
      a) Setting accounting standards
      b) Regulating securities markets
      c) Enforcing the Companies Act, 2013
      d) Conducting financial audits

   II. Which organization plays a significant role in ensuring the quality of financial statements in India?
      a) RBI (Reserve Bank of India)
      b) CII (Confederation of Indian Industry)
      c) NAFRA (National Financial Reporting Authority)
      d) ICAI (Institute of Chartered Accountants of India)

   III. What is the purpose of the report of the Board of Directors in an Annual Report?
      a) To provide a summary of the company's financial performance
      b) To disclose the salaries of top executives
      c) To outline the company's future marketing strategy
      d) To communicate corporate governance and financial information

   IV. What is the regulatory framework for the preparation of financial statements in India primarily based on?
      a) Income Tax Act
      b) Companies Act, 2013
      c) SEBI Regulations
      d) RBI Guidelines

   V. Who is responsible for the mandatory disclosure of financial information in an Annual Report?

a) Chief Financial Officer (CFO)
b) CEO (Chief Executive Officer)
c) Board of Directors
d) External Auditors

Short-Answer Questions:

1. What is the purpose of compulsory disclosure in the annual information to shareholders by company directors?
2. Under Section 128(1) of the Companies Act, 2013, where is a company required to prepare and keep its books of account?
3. What does Rule 3(1) state regarding the retention of information contained in electronic records?
4. Who are the persons responsible for ensuring compliance with the requirement of maintaining books of accounts under Section 128(6)?
5. What are the categories into which assets and liabilities are divided in the balance sheet according to Schedule III?
6. List five details that must be disclosed in the notes to accounts of a company, as per Schedule III.
7. What functions and duties are assigned to the National Financial Reporting Authority (NFRA) under Section 132 of the Companies Act, 2013?
8. Name three narrative items found in the non-audited information section of an annual report according to the discussion.
9. What is a Special Purpose Financial Report?
10. What transactions are typically featured in the Statement of Changes in Equity?
11. Under Section 129 of the Companies Act, when is a company required to prepare consolidated financial statements?
12. Why is the Directors' Report considered crucial for companies?
13. What are the shortcomings of conventional financial reporting mentioned in the text?
14. What are the key aspects covered by companies engaging in voluntary disclosure within their annual reports?

Long-Answer Questions:

1. Explain the significance of maintaining proper books of account under Section 128 of the Companies Act, 2013. Detail the main features of proper books of account and their role in providing a true and fair view of a company's financial position. (250 words)
2. Discuss the rules and requirements for the maintenance of books of account in electronic form as outlined in Rule 3. Highlight the conditions for accessibility, unaltered records, and the backup of electronic records. (300 words)
3. Examine the inspection rights of directors as per Section 128(3) and the provisions related to the preservation period of books of accounts. How does this contribute to transparency and accountability in company operations? (250 words)
4. Elaborate on the requirements and penalties outlined in Section 129 regarding financial statements. Discuss the elements of a true and fair view, the responsibilities of officers, and the consequences of non-compliance.
5. Explain the key components of the balance sheet as outlined in Schedule III. How does the balance sheet contribute to providing a snapshot of a company's financial position?
6. Discuss the functions and duties of the National Financial Reporting Authority (NFRA) as per Section 132 of the Companies Act, 2013. How does NFRA contribute to ensuring compliance with accounting and auditing standards?
7. Explore the components of non-audited information in an annual report, covering both narrative and non-narrative items. How do these components collectively contribute to providing stakeholders with a comprehensive understanding of the company's performance and achievements?
8. Provide an in-depth analysis of the notes to accounts in an annual report, focusing on specific details such as depreciation, inventories, revenue, fixed assets, directors' emoluments, and earnings per share. How do these details enhance transparency and accountability?
9. Explain the components and significance of the Statement of Changes in Equity.
10. Elaborate on the provisions and requirements for preparing consolidated financial statements under Section 129 of the Companies Act, 2013.
11. Discuss the contents mandated by the Companies Act, 2013, and Rules 8 of the Companies (Accounts) Rules, 2014, for the Directors' Report.

12. Provide a detailed overview of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and their impact on listed entities in India.
13. Discuss the evolution of voluntary disclosure, its categories, and its impact on addressing information gaps and enhancing transparency in corporate reporting.

Unit- III: Recent Trends in Financial Reporting

Environmental Accounting, Sustainability Reporting, Tripple Bottom Line Reporting, Corporate Social Responsibility Reporting (CSR Reporting), Fair Value Measurement, Integrated Reporting (IR),Value Added Statement, Inflation Accounting

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3.1 Environmental Accounting

Meaning, Definitions, Characteristics, Functions and Importance of Environmental Accounting:

Environmental accounting represents a specialized branch within conventional accounting, aiming to integrate economic and environmental data. This practice can be applied either at the corporate level or within a national economy through the System of Integrated Environmental and Economic Accounting, an adjunct system to a country's National Accounts, responsible for producing estimates like the Gross Domestic Product (GDP).

Environmental accounting serves to identify resource usage, quantify and communicate the costs associated with a company's or a nation's economic impact on the environment. These costs encompass expenses for site clean-up, fines, penalties, taxes, investment in pollution prevention technologies, and waste management.

An environmental accounting system comprises both environmentally differentiated conventional accounting and ecological accounting. The former measures the effects of the natural environment on a company in monetary terms, while the latter gauges the impact a company has on the environment using physical measurements.

Functions and Roles:

External Functions: Quantitatively measured results of environmental conservation activities, when disclosed externally, empower a company to influence the decision-making of stakeholders such as consumers, investors, and local residents.

Internal Functions: As an integral part of a company's environmental information system, the internal function facilitates the management of environmental conservation costs. It enables the analysis of costs versus benefits, fostering effective decision-making for environmental conservation activities.

Benefits/Importance: While environmental accounting can focus on either environmental management accounting or financial accounting, the most significant advantages stem from applying environmental management accounting methods. This approach allows for the accurate estimation and analysis of costs related to energy use and physical materials, enhancing decision-making by associating costs with specific projects or events.

Relevance: Environmental accounting should furnish accurate information on a company's environmental conservation costs and the benefits derived from related activities. This information plays a crucial role in stakeholder decision-making.

Reliability: Environmental accounting is expected to eliminate seriously inaccurate or biased data, contributing to the trust and reliability of stakeholders.

Neutrality: Information disclosed through environmental accounting should maintain a fair and impartial stance.

Prudence: Handling vague or unclear information cautiously, with clarity regarding its nature, scope, and grounds, is an essential aspect of environmental accounting.

Completeness: Environmental accounting's scope should encompass all material and significant information pertaining to environmental conservation activities.

Understandability: Environmental accounting aims to achieve understandability in disclosing necessary data, minimizing the likelihood of misjudgments about a company's environmental conservation activities.

Comparability: Environmental accounting facilitates year-on-year comparisons for a company. The information provided should be comparable across different companies within the same sector.

Environmental accounting is a detailed field that tracks how resources are used and calculates the costs linked to a company's or a nation's impact on the environment. These costs involve expenses for cleaning up polluted sites, handling fines and penalties, paying taxes for environmental issues, and investing in technologies to prevent pollution as well as managing waste.

In environmental accounting, there's a sophisticated system that combines conventional accounting, focusing on monetary impacts of the natural environment on a company, with ecological accounting, which measures a company's influence on the environment using physical measurements.

3.2 THE CORPORATE SUSTAINABILITY REPORTING

In various markets worldwide, there is a growing demand for increased transparency and accountability from the private sector, both in developed and developing countries. Companies are facing mounting pressure to disclose information about their sustainability performance and the potential health and environmental risks associated with their products and services. Corporate Sustainability Reporting is seen as a way to address this need by providing data to measure progress and evaluate companies' contributions to global sustainable development goals. This reporting allows organizations to assess their performance across all dimensions of sustainable development, set goals, and support the transition to a low-carbon, resource-efficient, and inclusive green economy.

The Corporate Sustainability Reporting initiative is a part of UN Environment's Resources and Markets Branch, specifically within the Consumption and Production Unit. This unit's primary objective is to promote sustainable production and consumption policies, practices, and initiatives by engaging governments, businesses, and civil society organizations.

As part of this initiative, the Consumption and Production Unit houses the Secretariat of the Group of Friends of Paragraph 47 (GoF47), a government-led initiative formed in 2012 during the United Nations Conference on Sustainable Development (Rio+20). The GoF47 works to advance recommendations outlined in paragraph 47 of the outcome document 'The Future We Want.' Additionally, the unit implements various activities, including regional projects aimed at encouraging companies to adopt sustainable practices aligned with Sustainable Development Goal 12.6. These efforts also support governments in following up and reviewing the SDGs by promoting the generation of high-quality and comparable information from corporate reports.

Triple Bottom Line (TBL) Reporting

The Triple Bottom Line (TBL) is an accounting framework that encompasses three aspects of performance: social, environmental, and financial. This sets it apart from conventional reporting frameworks by incorporating ecological (or environmental) and social metrics, which can pose challenges in determining suitable methods of measurement. Organizations use TBL to assess not only their financial gains but also their social and environmental impact. By incorporating social and environmental concerns into the evaluation, TBL helps measure an organization's commitment to corporate, environmental, and social responsibilities. This approach, using the three P's (profit, people, and the planet), goes beyond the standard bottom line, allowing businesses, nonprofits, and government entities to

better understand and improve their impact on society and the environment. The TBL dimensions are also commonly called the three Ps: people, planet and profits.

The Three P's

While there is no standardized method for evaluating each bottom line, common approaches exist for each.

Profit: Organizations often rely on financial performance to assess their overall success. Profit considerations typically concentrate on revenue-generating aspects like business decisions, strategic planning, and methods for performance and cost reduction.

People: This evaluates an organization's social impact, measuring its commitment to people, including stakeholders, employees, individuals in the supply chain, customers, the local community, and future generations. Methods for measuring this aspect include promoting human rights, volunteering, supporting global poverty initiatives, advocating for diversity and gender equity, and enhancing life expectancies.

Planet: This assesses an organization's environmental impact, addressing concerns related to air quality, pollution, and climate change. The focus is on measuring and improving an organization's dedication to reducing its environmental footprint. Methods include cutting energy consumption, reducing reliance on fossil fuels, improving waste management, optimizing shipment practices, and using ethically sourced materials.

Importance of the Triple Bottom Line:

The triple bottom line is crucial as it extends beyond business leaders to impact social communities and the environment. This accounting framework offers:

1. A more sustainable future considering both social and environmental aspects.
2. Methods for setting goals and improving sustainable practices.
3. New avenues for profit generation, attracting environmentally conscious customers.
4. A healthier work environment that considers both employees and the organization's social impact.

Business Benefits of the Triple Bottom Line:

Organizations embracing the triple bottom line may enjoy benefits such as:

1. Reduced energy consumption and carbon footprint through environmental focus.
2. Higher employee retention rates due to improved workplace conditions.
3. Enhanced brand perception by showcasing a commitment beyond profit.
4. Improved productivity and cost reduction through sustainability efforts.
5. Increased transparency and accountability, potentially attracting new investors.

Challenges and Criticism of Triple Bottom Line:

Despite its benefits, the triple bottom line faces criticism for the following reasons:

1. Lack of Specific Guidelines: There are no precise guidelines for accurately measuring the triple bottom line (TBL), making it a vague framework. While profits can be easily quantified, measuring an organization's commitment to people and the planet lacks specific methods.
2. Global Standard Difficulty: Achieving a global standard for TBL and getting enough companies to adhere to it would be challenging. Consumers might need to pay more for products made with ethically sourced materials, posing an obstacle to widespread adoption.
3. Minimal Effort from Businesses: Due to the absence of a standardized measurement for TBL, businesses may put in minimal effort to follow the framework while enjoying the social benefits of claiming compliance.

Real-World Triple Bottom Line Examples:

Several organizations demonstrate the triple bottom line framework in action:

1. Ben & Jerry's: The ice cream company has a history of voter registration initiatives, charitable donations, providing living wages to employees, and a commitment to reducing carbon emissions by 45% by 2030.
2. Better World Books: This organization sells used books and donates part of its profits to support literacy programs, raising millions of dollars for such initiatives while promoting sustainability.
3. Lego: Committed to reducing its carbon footprint, Lego aims for 100% renewable energy by 2030. The company collaborates with organizations like the World Wildlife Fund and donates Lego sets to children through charity campaigns like Build to Give.

3.4 CORPORATE SOCIAL RESPONSIBILITY ACCOUNTING

Over the last ten years, there has been a notable increase in the prevalence of corporate social responsibility reports, also known as CSR reports, impact reports, or sustainability reports. This trend is expected to continue, with 90 percent of companies on the S&P 500 index publishing CSR reports in 2019, compared to 86 percent in 2018, 75 percent in 2014, and only 20 percent in 2011.

So, what exactly is a CSR report, what characterizes high-quality ones, and why do they hold significance for both businesses and society? This article provides answers to these questions and offers guidance on creating a CSR report for your organization.

CSR Report:Meaning Corporate social responsibility (CSR) revolves around the notion that businesses have an obligation to society and the environment in which they operate. Many socially responsible businesses use the triple bottom line, considering their impact on people and the planet, along with profits, to guide strategic priorities.

A CSR report is a document that companies use to communicate their CSR efforts and their impact on the environment and community. CSR efforts typically fall into four categories: environmental, ethical, philanthropic, and economic.

While some countries mandate annual CSR reports, the United States currently does not have this requirement, though it may become mandatory in the future. In India, there are no standardized CSR reporting standards, allowing organizations the flexibility to report in various formats. However, this lack of standards can make it challenging to compare reports across companies and might lead to selective reporting, omitting areas where efforts failed or caused harm.

CSR reports are usually shared digitally for widespread distribution, but they can also be printed and presented to stakeholders in person. The format can range from a simple text document to a visually engaging, designed packet.

Examples of CSR Reports

To provide you with an idea of how your organization's CSR report might look, here are some recent examples from prominent companies:

- The Walt Disney Company's 2019 Corporate Social Responsibility Update (pdf)
- Cisco's 2020 Corporate Social Responsibility Impact Report (pdf)
- General Motors' 2019 Sustainability Report (pdf)
- IBM's 2019 Corporate Responsibility Report (pdf)
- Warby Parker's 2018 Impact Report (pdf)

Each example typically starts with a letter from a corporate executive, features a table of contents, and has an appealing visual layout. The length varies from 42 to nearly 180 pages, illustrating the flexibility in CSR reporting standards.

These examples may have different titles, reflecting the absence of a standardized structure for CSR reports. The framing and content depend on the individual company and its priorities.

Many companies develop specific branding strategies for CSR efforts and reports. For instance, Warby Parker maintains a clean, personal aesthetic, and General Motors uses the slogan "driving sustainable value." Cisco employs infographics effectively to visualize data and highlight trends in its report.

Why are CSR Reports Important?

CSR reports serve as a means for organizations to communicate their mission, efforts, and outcomes to both external and internal stakeholders. This includes employees, decision-makers, shareholders, customers, the local community, and society at large.

The release of a CSR report can function not only as a communication tool but also as a marketing and public relations event, especially when a company has been bold and successful in its CSR initiatives. Due to the absence of mandatory guidelines, these reports allow organizations to showcase achievements and integrate social responsibility into their brand identity.

Publishing an annual CSR report fosters accountability. For example, if a company sets a goal to be carbon neutral by 2025 in its 2021 CSR report, employees are likely to work towards achieving that goal for acknowledgment in the 2025 report. If a goal is not met within the intended timeframe, the CSR reporting process prompts an examination of what went off track and how to realign efforts for success within a realistic timeframe.

IMPROVING YOUR COMPANY'S CSR EFFORTS

CSR reports are an effective way to communicate your business's efforts, goals, and plans to help the environment and community, along with the impact it's had so far. If, however, your business hasn't started its social responsibility efforts yet, it's never too late.

In the online course Sustainable Business Strategy, Harvard Business School Professor Rebecca Henderson implores professionals to start with purpose and build the business case from there. What's an issue that impacts your business, customers, or community? Start by identifying a cause that's important to members of your organization, and then brainstorm a quantifiable goal you can set that would help that cause.

To make the business case to skeptical members of your team, consider the publicity value, customer and employee loyalty, and return on investment of committing to a sustainable or socially impactful cause.

If you or your colleagues are looking for a formal foundation in sustainable capitalism and how to be a socially responsible business, explore Sustainable Business Strategy to build the necessary skills to do well as a business while doing good in the world.

Once the ball is rolling, design a CSR report outlining your company's efforts. Even if it's just a few pages long, explaining your efforts, impact, and plans is worth the time. If you're driven by purpose and a clear plan, others may read about it and support your business on its journey toward corporate social responsibility.

3.5 VALUE ADDED STATEMENT

Meaning and Definition of Value Added Statements

In recent decades, the focus of financial accounting development has shifted towards the method of measuring income rather than whose income is being measured. The traditional belief among accountants that profit solely rewards proprietors is now seen as a narrow definition of income. This perspective was prevalent when assets were assumed to be owned by the proprietor, and liabilities were viewed as their obligations. However, with the advent of corporate entities and the legal acknowledgment of business entities as separate from owners' personal affairs, the proprietary theory has been rejected.

The reporting of value added has become a notable addition to corporate financial accounting and reporting. The Value Added Statement (VAS) introduces a new dimension to the existing system, revealing the value created, added, and distributed among various interest groups. This includes employees, shareholders, capital promoters, and the government. The VAS is significant on a national level as it illustrates how the wealth generated by an entity is shared among different stakeholders. The Institute of Chartered Accountants of India (ICAI) in 1985 defined the Value Added Statement as a statement that discloses the value added by an enterprise, how it has been generated, and its distribution among contributing stakeholders.

The purpose of preparing a Value Added Statement is to calculate the amount of value added and how it is distributed. This statement aims to measure the wealth contributed by the entity to society through the collective efforts of various stakeholders. It is voluntarily included in annual financial reports, serving as a means of disclosing the value added by an enterprise.

In essence, the Value Added Statement is a presentation that showcases the income of the company as an entity and illustrates how it is divided among those who have contributed to its creation.

Assumptions in Value Added Statements

The computation of value-added income through the preparation of value-added statements is guided by several fundamental assumptions. These include:

1. **VAS as a Supplement:** The Value Added Statement (VAS) is considered a supplement rather than a substitute for the Profit and Loss (P&L) account.
2. **Use of Conventional Accounting Data:** The same data recorded and processed by the conventional accounting system is employed in the preparation of VAS.
3. **Consistency with Accounting Concepts:** The basic concepts and principles of accounting remain unchanged in the preparation of VAS.

While it is convenient to prepare Value Added statements from conventional Profit & Loss accounts, distinctions exist between the two statements. Income statements may include non-value-added items such as provisions, interests, non-trading profit and losses, creating differences between them.

Objectives of Value Added Statements: The primary objectives of preparing Value Added Statements are:

a) **Wealth Creation Indication:** To indicate the value or wealth created by an enterprise, showcasing its wealth-creating ability.

b) **Distribution Insight:** To show how the wealth created is distributed among employees, shareholders, and the government, providing clarity on the pattern of distribution of value added.

c) **Contribution to National Income:** To indicate the organization's contribution to national income.

d) **Analytical Use:** To serve as a basis for inter-firm and intra-firm analysis, financial plans and targets, and the development of productivity-linked incentive schemes.

Value Added Statements vs. Profit & Loss Account: While the traditional Profit & Loss Account is based on the theory that the company exists for the benefit of its shareholders, it only reflects profits or losses without detailing the extent to which wealth is created. The Value Added Statement introduces a new dimension to corporate financial accounting by disclosing additional information about the wealth created by an entity and its distribution.

The value-added statement views the company as a wealth-producing entity where capital and labor cooperate to create wealth. It shows the generated value and its distribution among employees, the government, and capital providers, illustrating the company's contribution to national income.

The Value Added Statement is not a substitute but a supplement to the Profit & Loss Account, based on its figures. It is a simpler statement and, unlike the statutory requirement for the Profit & Loss Account, is not mandatory in statutory accounts.

Advantages of Value Added Statements:

a) **Enhanced Employee Attitude:** Reporting on Value Added (VA) improves employee attitudes toward their employers by providing a broader view of the company's objectives and responsibilities.

b) **Facilitates Productivity Linked Bonus:** VA statements make it easier for companies to introduce productivity-linked bonus schemes based on VA, with employees receiving bonuses determined by the VA/payroll ratio.

c) **Diagnostic and Predictive Tools:** VA-based ratios (e.g., VA/payroll, taxation/VA, VA/sales) serve as useful diagnostic and predictive tools. Trends in VA ratios, comparisons with other companies, and international benchmarks can provide valuable insights.

d) **Accurate Measure of Company Importance:** VA provides an accurate measure of a company's size and importance. Using sales or capital figures for company ranking may cause distortion, but VA accounts for the company's actual contribution.

e) **Link to National Income:** VA statements link a company's financial accounts to national income, indicating the company's contribution to the overall economic output.

f) **Alignment with Accepted Concepts:** The VA statement aligns with foundational accounting concepts accepted in balance sheets and income statements, such as going concern, matching, consistency, and substance over form.

Criticisms and Limitations of Value Added Statements:

While VA statements offer various advantages, they also face criticisms and limitations:

a) **Information Overload Risk:** The preparation and presentation of VA statements may lead to information overload and confusion, especially for ordinary employees trying to reconcile the statement with earnings reports.

b) **Potential Goal Distortion:** There is a danger that management may prioritize maximizing value added as a goal, potentially leading to the pursuit of firm value maximization over other considerations.

c) **Extra Costs and Confidentiality Concerns:** Including VA statements in annual reports may involve extra work, costs, delays, and a slight loss of confidentiality due to additional disclosure.

d) **Lack of Uniformity:** Lack of standardization among different companies in the preparation and presentation of VA statements poses a severe limitation. The statements are not standardized.

e) **Inter-Firm Comparison Challenges:** Various methods of calculating VA make inter-firm comparisons difficult. Even intra-firm comparisons become challenging if the treatment of items changes over subsequent years.

f) **Potential for Confusion:** VA statements may lead to confusion, especially when wealth or value added is increasing while earnings are decreasing.

Despite these limitations, it is acknowledged that VA statements bring about changes in emphasis rather than a fundamental shift in the content of traditional financial statements. They are considered valuable for social disclosure.

3.6 INFLATION ACCOUNTING

Inflation accounting is a practice utilized during periods of rising or falling prices, particularly in regions with significant inflation. This is often observed in multinational corporations dealing with financial reporting. Certain accounting standards boards and countries either permit or mandate companies to adjust their financial statements in response to these fluctuations.

The primary objective of accounting is to prepare financial statements that present a true and fair view of a business's operating results and financial position. These statements cater to various users, including investors, creditors, management, government, trade unions, and research institutions. Accounting relies on specific concepts and conventions, with the money measurement concept being fundamental. This concept asserts that only transactions expressible in monetary terms find a place in the accounting books and assumes the stability of the monetary unit.

However, this assumption faces a practical challenge, especially in countries experiencing significant inflation. Inflation, characterized by a continuous increase in prices, erodes the purchasing power of the monetary unit. Financial statements prepared without considering these changes in purchasing power lose their relevance. There is a growing call for businesses

to prepare financial statements adjusted for inflation, and the study of different methods for adjusting financial accounts for changing prices falls under the domain of "Inflation Accounting." Notably, since price changes can be both upward and downward, the more accurate term is "Accounting for Price Level Changes."

Evolution of Inflation Accounting

The American Institute of Certified Public Accountants implemented inflation accounting in the United States for more than five decades. Amid the Great Depression, many companies, facing economic challenges, opted to reconstruct their financial reports by incorporating inflation adjustments. Over this extensive period, numerous companies were incentivized to replace cost-based financial statements with statements adjusted for changes in the price level. The Financial Accounting Standards Board (FSAB) proposed the publication of price-level adjustment statements, but the proposal was later withdrawn due to certain challenges.

Definition of Inflation Accounting:

Inflation accounting encompasses a variety of accounting models developed to address issues arising from historical cost accounting in environments characterized by high inflation or hyperinflation. It can be seen as an effort to represent the financial performance of businesses based on current prices. This involves employing specialized accounting techniques, particularly crucial during periods of substantial inflation. Inflation accounting necessitates the adjustment of financial statements using price indexes, moving beyond a reliance on cost-based accounting. Companies operating in regions with hyperinflation may find it mandatory to periodically update their statements to ensure relevance to prevailing economic and financial conditions.

Need and Objectives of Inflation Accounting

Objectives of Inflation Accounting:

The essence of inflation accounting lies in injecting realism into the financial statement compilation process. This involves making necessary adjustments, primarily in historical cost figures, to reflect the current market prices influenced by inflation. The goal is to provide an accurate and equitable representation of the enterprise's financial position, performance, profitability, and prospects for the respective accounting periods. In essence, it seeks to unify monetary units with varying purchasing powers into a single unit with uniform purchasing power for comprehensive valuations and computations. Following are are the key objectives of Inflation Accounting:

1. Facilitating compensation for the evolving expenses over time and ensuring precise estimation of future costs.
2. Eliminating distortions in financial statements caused by historical costs.
3. Enabling meaningful comparisons between different periods.
4. Becoming essential for companies with fixed assets depreciating at specific rates.
5. Enhancing the quality of decision-making within an organization.
6. Assisting manufacturing companies in monitoring changing expense values over time, especially in the context of inflation affecting goods and services.
7. Improving the measurement of revenue and expenses amidst changing purchasing power parity.

Resultant Effects of Inflation Accounting Adjustments:

1. **Enhancement of Meaning and Measurement:** Adjustments improve the understanding and measurement of income and expenditure, considering the changing purchasing power of the monetary unit. This fosters more realistic, rational, and meaningful intra-firm comparisons of financial results.
2. **Highlighting Inflation Effects:** It specifies the impact of inflation on various enterprises based on their distinct nature of business and operating features.
3. **Facilitating Decision-Making:** Inflation accounting creates a meaningful and reliable database, supporting a realistic and rational decision-making process within the organization.

Need for Inflation Accounting: Prolonged and high inflation significantly diminishes the meaningfulness and utility of corporate accounts. Expressing various amounts in current rupee values may not accurately represent proportionate real amounts, given the fluctuating worth of the rupee across different years. The need for inflation accounting is advocated for the following reasons:

1. **Correcting Distorted Financial Picture:** It rectifies the distorted presentation of a company's financial operations and condition inherent in conventional accounting systems.
2. **Facilitating Inter-Company Comparisons:** Inflation affects firms to varying degrees, and inflation accounting aids in meaningful inter-company comparisons.
3. **Supporting Inter-Period Comparisons:** It facilitates comparisons of a firm's performance across different periods.

4. **Ensuring Correct Income Measurement:** Accurate income measurement is only possible with inflation accounting.
5. **Avoiding Unfair Government Decisions:** When nominal values in accounts form the basis for government actions such as taxation, competition measures, and price determinations, inflation adjustments prevent unfair decisions by accounting for changes in nominal values.

Advantages of Inflation Accounting

1. **Fair Representation:** The balance sheet provides an impartial view of the firm's financial status as assets are adjusted for inflation at their current values.
2. **Accurate Depreciation:** Depreciation is calculated on the face value, not historical cost, facilitating easy asset replacement for the company.
3. **Convenient Evaluation:** By comparing two years' balance sheets adjusted for inflation, values can be easily compared, offering a snapshot based on current values.
4. **True Value Reflection:** Inflation accounting shows profit based on current prices, accurately reflecting a business's actual value.
5. **Prevents Overstatements:** The profit and loss account won't overstate the company's income with this method.
6. **Dividend Assurance:** Unlike historical costs, inflation accounting ensures accurate calculation of dividends and taxes without skewed figures.

Disadvantages of Inflation Accounting

1. **Continuous Process:** Inflation or deflation leads to perpetual price changes, making the process ongoing.
2. **Complexity Concerns:**Excessive calculations may complicate the process, making it challenging for ordinary individuals to understand.
3. **Subjectivity Involvement:**Adjustments to current values may require discretionary judgments and involve subjectivity.
4. **Deflation Exaggeration:**During deflation, less depreciation may be charged, potentially overstating profits.
5. **Theoretical Nature:**Considered a theoretical concept, inflation accounting may involve subjectivity and window dressing.
6. **Costly Implementation:**The method can be expensive, making it unaffordable for most businesses.

Limitations of Inflation Accounting

While historical cost-based financial statements lack accuracy in reflecting an organization's current state, they offer some advantages:

- **Reality-Based:**Rooted in real-world events and data.
- **Universally Understood:**Widely comprehended and utilized.
- **Ease of Comparison:**Simplifies comparing figures over a specific timeframe.
- **Tax Assessment Foundation:**Forms the basis for tax assessments.
- **Resistance to Manipulation:**Difficult to manipulate accounting records.

However, objections to inflation accounting include:

- **Credibility Concerns:**Violation of objectivity diminishes financial statement credibility.
- **Tax Authority Acceptance:**Most tax authorities do not accept the method.
- **Arbitrary Profits:**Profits resulting from inflation accounting may sometimes be arbitrary.

Therefore, the search continues for a method that accounts for inflation while maintaining objectivity and simplicity, satisfying diverse stakeholders.

Techniques or Methods of Inflation Accounting:

Inflation accounting employs various methods to address the impact of inflation on financial reporting. These methods include:

1. **Current Purchasing Power (CPP) Method**: This approach separates monetary and non-monetary components, focusing on reporting net profit or loss. Non-monetary elements are adjusted using a conversion factor derived from a specific price index.

Formulas: Conversion Factor (CPP Method) = Price at Current Period / Price at Historical Period and CPP Value = Historical Value x Conversion Factor

2. **Current Cost Accounting (CCA) Method**: Assets are assessed at their Fair Value Market (FMV) rather than historical cost during acquisition. Both monetary and non-monetary elements are restated to reflect current values.
3. **Current Value Method**: This method involves measuring and reinstating all assets and liabilities based on their current cost structure.
4. **Replacement Cost Accounting Method**: The replacement cost, a parameter for all assets and liabilities, is recorded in the balance sheet.

FAIR VALUE MEASUREMENT- INDIAN ACCOUNTING STANDARD (Ind AS) 113/ IFRS 13:

IFRS 13, known as 'Fair Value Measurement,' outlines comprehensive guidelines for determining fair value. It presents clear definitions and establishes a unified set of requirements applicable to nearly all fair value assessments. The standard offers clarification on measuring fair value during periods of decreased market activity. It is important to note that while IFRS 13 applies to both financial and non-financial items, it does not alter the criteria for when fair value should be utilized.

Previously, fair value guidance was scattered across multiple standards, leading to potential inconsistencies in interpretation. IFRS 13 addresses this by consolidating fair value guidance into a single standard, enhancing the definition of fair value and introducing additional disclosure requirements. Notably, it does not modify the circumstances under which fair value should be applied; rather, it focuses on the methodology for measuring fair value.

The new definition of fair value, according to IFRS 13, is the price received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between independent market participants at the measurement date. Emphasizing an exit value-based approach, it excludes entity-specific factors, and the transaction or entry price may not always represent fair value, especially in situations involving related parties or duress.

IFRS 13 also formalizes the concept of market participants, defining them as independent buyers and sellers in the principal market who possess knowledge about the asset or liability and are willing to engage in a transaction. Fair value determinations should align with market participants' assumptions rather than entity-specific assumptions.

The standard introduces a fair value hierarchy classifying valuation inputs into three levels:

1. **Level 1:** Quoted prices in active markets for identical assets or liabilities accessible by the entity at the measurement date, providing the most reliable evidence.
2. **Level 2:** Inputs, other than quoted market prices (Level 1), observable for the asset or liability, either directly or indirectly.
3. **Level 3:** Unobservable inputs, developed using the best available information, including the entity's data and market participants' assumptions.

For a fair value measurement, entities must determine the asset or liability to be measured, identify the principal market, select a valuation technique, and specify the level in the fair value hierarchy.

Approach to Fair Value Measurement:

1. Transactions are assumed to occur in the principal (or most advantageous) market.
2. For non-financial assets, consideration is given to the highest and best use of the asset.
3. Guidance is provided for measuring the fair value of a liability when an active market is absent.
4. Adjustments for premiums and discounts must align with the unit of account and consider blockage.

Valuation Techniques:

IFRS 13 outlines three widely used "families" of valuation techniques, emphasizing the importance of consistent application:

- **Market Approach:** Utilizes prices from market transactions involving comparable assets or liabilities.
- **Cost Approach:** Reflects the current replacement cost required to replace the service capacity of an asset.
- **Income Approach:** Discounts future income and expenses to present value, aligning with current market expectations.

Entities should choose valuation techniques relevant to their circumstances, maximizing observable inputs and minimizing unobservable ones. The objective is to estimate the price at which an orderly transaction would occur between market participants under prevailing market conditions.

Effective Date:

IFRS 13 is applicable to annual report periods beginning on or after January 1, 2013. Early adoption is permitted, with a requirement to disclose such a decision.

3.7 INTEGRATED REPORTING (IR)

The International Integrated Reporting Council (IIRC), initially established in August 2010 and later merging with the Sustainability Accounting Standards Board (SASB) in June 2021 to form the Value Reporting Foundation (VRF), introduced the Integrated Reporting (IR) Framework. This framework aims to create a globally accepted standard for organizations to communicate about value creation over time.

The history of the IR Framework involves its first publication in December 2013, followed by a revision process initiated in February 2020. Key themes of the revision included

business model considerations, responsibility for an integrated report, and a forward-looking exploration of the future of corporate reporting, encompassing extended assurance and the role of technology. The IIRC, now part of the VRF, revised the Framework in January 2021. The updates focused on simplifying the required statement of responsibility, enhancing insight into the reporting process, distinguishing between outputs and outcomes, and emphasizing balanced reporting of outcomes and value scenarios.

Integrated reporting entails presenting a comprehensive account of the elements contributing to a company's value across short, medium, and long terms. It involves communicating both financial and non-financial factors that influence organizational value, such as human capital, intellectual assets, and social reputation. Integrated reporting necessitates integrated thinking to recognize the interdependencies between internal and external factors influencing an organization's value.

The integrated report can be included in regulatory-compliant reports or presented separately as an additional communication.

Integrated Reporting Objectives

The primary aim of integrated reporting is to elucidate to providers of capital how an organization generates value across short, medium, and long timeframes. The focal point of integrated reporting centers on financial capital providers as they play a pivotal role in capital allocation. Additionally, integrated reporting extends its benefits to other stakeholders, including employees, suppliers, customers, policymakers, regulators, business associates, and the local community.

Objective

The Framework's purpose is to establish guiding principles and content elements governing the overall content of an integrated report and elucidate the fundamental concepts supporting them. Primarily geared toward private sector, for-profit companies of any size, the Framework can be adapted for use by public sector and not-for-profit organizations as needed. It identifies information to be included in an integrated report for assessing an organization's ability to create value without setting benchmarks for factors like strategy quality or performance level. The reference to value creation in the Framework encompasses instances of value preservation and erosion over time.

Integrated Framework Reporting

The framework for integrated reporting serves as the guiding principle for the information included in an integrated report. It is designed to be flexible, accommodating the unique

requirements of various organizations while ensuring comparability of information. The framework specifies the information to be included in an integrated report, aiding stakeholders in evaluating the organization's value creation capabilities. Importantly, the framework is not intended as a benchmark for assessing the quality of an organization, its strategies, or performance; rather, it offers guidance on necessary information.

Fundamental Concepts

Three fundamental concepts underpin Integrated Reporting (IR): C. Value creation, preservation, or erosion for the organization and others. D. Capitals, identified in the Framework as financial, manufactured, intellectual, human, social and relationship, and natural capital. E. The process through which value is created, preserved, or eroded.

Summary:

Environmental accounting is a specialized branch integrating economic and environmental data, applied at corporate or national levels. It identifies resource usage and costs related to economic impacts on the environment, covering clean-up, fines, taxes, and pollution prevention. The system comprises environmentally differentiated conventional and ecological accounting. External functions quantify conservation activities for stakeholder influence, while internal functions aid cost management. Environmental management accounting enhances decision-making, offering accurate cost estimates for energy use and materials. The System of Integrated Environmental and Economic Accounting facilitates national-level application. Corporate Sustainability Reporting responds to demands for transparency, measuring progress and contributions to sustainable development. Triple Bottom Line (TBL) reporting evaluates social, environmental, and financial aspects, enhancing understanding of an organization's impact. CSR reports communicate corporate social responsibility efforts, vital for accountability and brand identity.

Value Added Statements (VAS) are a significant addition to financial accounting, providing insights into the creation, addition, and distribution of value among stakeholders. It goes beyond traditional profit-focused views, revealing how wealth is shared among employees, shareholders, capital promoters, and the government. Assumptions include VAS as a supplement, use of conventional accounting data, and consistency with accounting concepts. Objectives include indicating wealth creation, showing distribution patterns, contributing to national income, and serving as an analytical tool. Despite criticisms, VAS offers benefits like improved employee attitude and diagnostic tools. Inflation accounting addresses challenges in financial reporting during inflation, adjusting statements to reflect changing

prices. Its objectives include compensating evolving expenses, eliminating distortions, enabling comparisons, and contributing to decision-making. Advantages include fair representation and accurate depreciation, while limitations involve complexity and subjectivity.

Techniques or Methods of Inflation Accounting: Inflation accounting deploys various methods to counter the impact of inflation on financial reporting. These methods include the Current Purchasing Power (CPP) Method, Current Cost Accounting (CCA) Method, Current Value Method, and Replacement Cost Accounting Method.

FAIR VALUE MEASUREMENT - INDIAN ACCOUNTING STANDARD (Ind AS) 113/ IFRS 13: IFRS 13, titled 'Fair Value Measurement,' consolidates fair value guidance into a comprehensive standard. It defines fair value as the exit price in an orderly transaction, emphasizing an exit value-based approach. The standard introduces a fair value hierarchy, classifying inputs into three levels. The approach to fair value measurement considers principal markets, the highest and best use for non-financial assets, and provides guidance for liabilities without an active market. Valuation techniques include the Market Approach, Cost Approach, and Income Approach. IFRS 13 is effective from January 1, 2013.

INTEGRATED REPORTING (IR): The Integrated Reporting Framework, introduced by the International Integrated Reporting Council (IIRC), now part of the Value Reporting Foundation (VRF), aims to establish a globally accepted standard for organizations to communicate about value creation over time. It involves presenting a comprehensive account of factors influencing organizational value, both financial and non-financial. Integrated reporting objectives include elucidating how an organization generates value across different timeframes and benefiting various stakeholders. The Framework serves as a guiding principle for information included in an integrated report, emphasizing flexibility for diverse organizations while ensuring comparability. Fundamental concepts include value creation, preservation, or erosion, capitals, and the process of value creation.

Check your progress:

MCQs:Choose the correct answer:

1. What is the primary focus of sustainability reporting in financial reporting?
    - i) Profitability
    - ii) Environmental impact
    - iii) Market share

iv) Customer satisfaction

Ans. ii

2. Which accounting approach involves reporting the estimated current market value of assets and liabilities?

   i) Historical Cost Accounting

   ii) Fair Value Accounting

   iii) Inflation Accounting

   iv) Environmental Accounting

   Ans. ii

3. What is the key objective of Integrated Reporting (IR) in financial reporting?

   i) To provide detailed financial statements

   ii) To present a holistic view of a company's performance

   iii) To comply with governmental regulations

   iv) To reduce disclosure requirements

   Ans. ii

4. What is the purpose of Corporate Social Responsibility (CSR) reporting in financial statements?

   i) To emphasize profitability

   ii) To showcase charitable donations

   iii) To highlight a company's social and environmental impact

   iv) To hide non-compliance with regulations

   Ans. iii

5. In the context of financial reporting, what does the term "Fair Value Measurement" refer to?

   i) Reporting the cost of assets and liabilities

   ii) Valuing assets and liabilities at their market prices

   iii) Ignoring market fluctuations in asset values

   iv) Providing historical cost information

6. What does Environmental Accounting primarily aim to integrate?

   A) Social and economic data

   B) Economic and environmental data

   C) Financial and ecological data

   D) Corporate and national data

Key: B) Economic and environmental data

7. What does Triple Bottom Line (TBL) reporting assess?

   A) Financial and social aspects

   B) Environmental and economic aspects

   C) Social and environmental aspects

   D) Monetary and ecological aspects

   Key: C) Social and environmental aspects

8. What is the primary objective of Value Added Statements (VAS)?

   A) Maximizing profits

   B) Distributing wealth among stakeholders

   C) Reducing expenses

   D) Minimizing taxes

   Key: B) Distributing wealth among stakeholders

9. What is the key objective of Inflation Accounting?

   A) Maximizing profits during inflation

   B) Reflecting historical costs accurately

   C) Adjusting financial statements for changing prices

   D) Simplifying financial reporting

   Key: C) Adjusting financial statements for changing prices

10. Which method of Inflation Accounting focuses on reporting net profit or loss by adjusting non-monetary components using a conversion factor?

    A) Current Cost Accounting (CCA) Method

    B) Replacement Cost Accounting Method

    C) Current Purchasing Power (CPP) Method

    D) Current Value Method

    Key: C) Current Purchasing Power (CPP) Method

11. What is the primary aim of Integrated Reporting (IR)?

    A) Maximizing short-term profits

    B) Communicating only financial factors

    C) Elucidating how an organization generates value over time

    D) Exclusively focusing on capital providers

    Key: C) Elucidating how an organization generates value over time

Short-Answer Questions:

1. Explain the internal functions of environmental accounting.
2. Define Corporate Sustainability Reporting and its role in sustainable development.
3. What are the three dimensions of the Triple Bottom Line (TBL) framework, and how do they differ from conventional reporting?
4. Briefly discuss the four categories of CSR efforts typically found in CSR reports.
5. Explain the assumptions guiding the preparation of Value Added Statements (VAS).
6. Discuss the objectives of Value Added Statements (VAS) and their significance in financial reporting.
7. Describe the evolution of Inflation Accounting and its relevance in financial reporting.
8. What are the primary objectives of Inflation Accounting, and how does it address the challenges posed by inflation?
9. Explain the Current Purchasing Power (CPP) Method in Inflation Accounting.
10. Discuss the key features and objectives of the Fair Value Measurement standard (IFRS 13).
11. What is the fundamental concept of capitals in the Integrated Reporting Framework?
12. Describe the approach to fair value measurement as outlined in IFRS 13.

Long-Answer Questions:

1. Describe the functions and importance of environmental accounting in both external and internal contexts.
2. Examine the challenges and criticisms faced by the Triple Bottom Line (TBL) reporting framework. How can these challenges be addressed?
3. Discuss the significance of CSR reports and their role in fostering accountability and brand identity. Provide examples of CSR reports from well-known companies.
4. Elaborate on the functions and roles of the Consumption and Production Unit within UN Environment's Corporate Sustainability Reporting initiative. How does this unit contribute to sustainable development goals?
5. Compare and contrast Value Added Statements (VAS) with Profit & Loss Accounts, highlighting the additional information provided by VAS.
6. Examine the advantages and disadvantages of Value Added Statements (VAS), providing insights into their impact on employee attitudes and decision-making.
7. Discuss the objectives and significance of Inflation Accounting in addressing the limitations of historical cost-based financial statements.

8. Evaluate the advantages and limitations of Inflation Accounting, considering its impact on financial statements during periods of inflation and deflation.
9. Compare and contrast the Current Cost Accounting (CCA) Method and the Current Value Method in Inflation Accounting, highlighting their respective principles and applications.
10. Examine the evolution and revisions of the Integrated Reporting (IR) Framework, emphasizing the key themes addressed in the revision process.
11. Evaluate the impact of the Fair Value Measurement standard (IFRS 13) on financial reporting, considering its objectives, hierarchy, and valuation techniques.
12. Discuss the significance of the Integrated Reporting Framework in enhancing transparency and communication about value creation, addressing both financial and non-financial factors.

Unit- IV: Valuation, Accounting and Reporting of Financial Instruments and others

Recognition & Valuation Financial Instruments (Ind AS), Valuation of Shares, Valuation of Goodwill, Reporting Through XBRL (Extended Business Reporting Language), Human Resource Reporting

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Recognition & Valuation Financial Instruments (Ind AS)

IND AS 109 Financial Instruments

AS 109 Financial Instruments addresses the classification, recognition, de-recognition, and measurement requirements for all financial assets and liabilities. This standard provides guidance for the accounting and reporting of Financial Instruments (FI), enabling stakeholders to assess the timing and uncertainty of a business's future cash flow.

Classification of Financial Assets:

Entities categorize financial assets based on their business model for managing these assets or the contractual cash flow pattern. Subsequent measurement methods are as follows:

- **Business Model:** The financial asset is held to collect contractual cash flows, giving rise to cash flows solely from principal and interest on specified dates. **Measurement:**Amortised cost*
- **Business Model:** Financial asset is held for both collecting contractual cash flows and selling. The asset generates cash flows solely from principal and interest on specified dates. **Measurement:** Fair Value Through Other Comprehensive Income (FVTOCI)
- If the financial asset doesn't meet the criteria for the above two methods, it is classified as residual. **Measurement:** Fair Value Through Profit & Loss (FVTPL)

*Amortised cost is the asset or liability cost adjusted to achieve a constant effective rate of interest over its life, calculated by determining the present value of future cash flows at the market prevailing interest rate.

Classification of Financial Liabilities:

All financial liabilities are measured at amortized cost, except for: (a) Those measured at Fair Value Through Profit & Loss (FVTPL) subsequently. (b) Transfers not qualifying for derecognition (continuing involvement approach). (c) Financial guarantee contracts. (d)

Commitments to provide a loan at a below-market interest rate. (e) Contingent consideration measured at fair value with changes recognized in profit or loss.

Measurement under IND AS 109 Financial Instruments:

- Initial recognition is at fair value (transaction value), or if not determinable, the direct transaction cost is considered.
- Effective Interest Rate (EIR) method is used, where interest revenue calculation varies based on the nature of the financial asset:
    1. Normal: EIR to Gross Carrying Amount (GCA).
    2. Purchased Credit-impaired: Use credit-adjusted EIR.
    3. Becomes Credit-impaired: Use EIR in subsequent periods.
    4. Contractual cash flow Modified: Recalculate GCA and modify gain or loss in Profit & Loss.

Recognition of Financial Instruments

An entity is required to record a financial asset or liability in its balance sheet only upon the execution of a contractual agreement involving the instrument. The recognition and de-recognition of financial assets in a regular purchase or sale can be done using either trade date accounting or settlement date accounting.

De-recognition of Financial Assets:

This principle is applied at a consolidated level, requiring the entity to first consolidate all subsidiaries following IND AS 110. De-recognition can be applied to a portion, the entirety, or a group of financial assets under specific conditions. An entity is allowed to de-recognize a financial asset when the contractual rights to cash flows from the asset expire or when it transfers the financial asset, qualifying for derecognition. In cases of asset transfer, the entity must evaluate the extent to which it retains the risks and rewards of ownership.

Result	**All Risks and Rewards of Ownership**
Transfers substantially	De-recognize the financial asset and separately recognize the obligations created or retained in the transfer.
Retains substantially	Continue to recognize the financial asset.
Neither transfers nor retains substantially	Determine if the entity has retained control of the financial asset.

De-recognition of Financial Liabilities:

A financial liability (or part of it) is removed only when it is extinguished, meaning the contractual obligation is discharged, canceled, or expires. Different situations in the accounting process are as follows:

Event	Accounting Process
Exchange between existing borrower and lender with substantial modification	Extinguishment of the original financial liability and recognition of a new financial liability.
On extinguishment or transferred to another party (entirely or part)	Recognize the difference between the carrying amount and the consideration paid (including any noncash assets) in profit or loss.
Repurchase a part of a financial liability	Allocate the previous carrying amount between the part that continues to be recognized and the part that is derecognized based on fair values as of the repurchase date.

Embedded Derivatives

An embedded derivative refers to a segment of a hybrid contract that includes both a non-derivative host contract and a derivative component. Some cash flows within the combined instrument exhibit variability similar to a standalone derivative. If a derivative attached to a financial instrument (FI) is contractually transferable independently or involves a different counterparty, it is not deemed an embedded derivative but rather treated as a separate financial instrument.

Hybrid Contracts with Financial Asset Hosts

A hybrid contract comprises both derivative and non-derivative elements that cannot be transferred independently of the host contract. When a hybrid contract involves a host that is not an asset, an embedded derivative must be separated from the host and treated as a derivative only under specific conditions:

- The economic characteristics and risks of the embedded derivative are not closely related to the host.
- A separate instrument with the same terms as the embedded derivative meets the definition of a derivative.
- The hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

If unable to separate and measure the embedded derivative from its host, the entire hybrid contract is designated as at Fair Value Through Profit or Loss (FVTPL). If reliable fair value

measurement is not possible, the difference between the fair value of the hybrid contract and the host is considered its fair value, or it is designated as at FVTPL.

Reclassification

When an entity alters its business model for managing financial assets, it reclassifies all affected financial assets. Financial liabilities cannot be reclassified. Reclassification is based on specific principles, and it occurs when these principles change. Measurement is conducted on the reclassification date.

Measurement of Reclassification

Initial	**Revised**	**Accounting**
Amortized Cost	FVTPL	Fair value on the reclassification date with the difference in profit or loss.
Amortized Cost	FVOCI	Fair value on the reclassification date with the difference in other comprehensive income.
FVOCI	Amortized Cost	Fair value on the reclassification date is the carrying value. Cumulative gain/loss in other comprehensive income adjusted to fair value.
FVOCI	FVTPL	Asset considered at fair value with the cumulative gain/loss in other comprehensive income adjusted in profit or loss.
FVTPL	FVOCI	Asset considered at fair value.
FVTPL	Amortized Cost	Fair value on the reclassification date is the carrying value. New Effective Interest Rate is computed.

Write-off

The Gross Carrying Amount of a financial asset is directly reduced when there are no reasonable expectations of recovering it in its entirety or a portion thereof.

Impairment – Expected Credit Loss (ECL)

Impairment recognition follows the Expected Credit Loss (ECL) model, applied to financial instruments measured at amortized cost, financial instruments measured at FVOCI, lease receivables, trade receivables or contract assets, financial guarantee contracts under Ind AS 109, and all loan commitments not measured at FVTPL.

Explanation of Approaches

General Approach:

- The 12-month Expected Credit Loss (ECL) is utilized if there's no substantial increase in credit risk since initial recognition.
- If credit risk has significantly increased, the lifetime ECL is employed.

- If credit quality improves in the future to the extent that there is no longer a significant increase in credit risk, an impairment loss is based on 12-month ECL.

Simplified Approach:

- Tracking changes in credit risk is unnecessary; an impairment loss is recognized based on lifetime ECLs at each reporting date.
- Mandatory for trade receivables or contact receivables per IND AS 115 if there is no significant finance component.
- Provision is made based on past overdue.

Hedging Instruments (HI)

A hedged item can be a recognized asset or liability, an unrecognized firm commitment, a forecast transaction, or a net investment in a foreign operation. The hedged item can be a single item or a group of items that are reliably measurable or probable. A hedging relationship qualifies for hedge accounting only if all the following criteria are met:

- It consists only of eligible HI and eligible hedged items.
- There is formal designation and documentation, and the entity's risk management objective.
- Meets all of the following hedge effectiveness requirements:
    - Economic relationship between the hedged item and HI.
    - The effect of credit risk does not dominate the value changes.
    - The hedge ratio of the hedging relationship is the same as the entity actually hedges, and the quantity of the HI that the entity uses to hedge that quantity of the hedged item.

Accounting Treatment for Three Types of Hedging Relationships:

C. Fair Value Hedge:

- The gain or loss on the HI is recognized in profit or loss.
- Hedging gain or loss on the hedged item is adjusted to the Gross Carrying Amount (GCA).
- Gain or loss of a financial asset measured at Fair Value Through Other Comprehensive Income (FVOCI) is recognized in profit or loss.
- Hedged item, if an equity instrument adopting changes in Fair Value Other Comprehensive Income (FVOCI), shall remain in Other Comprehensive Income (OCI).

- Hedged item, if an unrecognized firm commitment, the cumulative change in fair value is recognized as an asset or a liability with a corresponding gain or loss recognized in Profit and Loss (P&L).

D. Cash Flow Hedge:

- Cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the HI from its inception or the cumulative change in fair value of the HI.
- The portion of the gain or loss on the HI that is determined to be an effective hedge is recognized in OCI.
- Any remaining gain or loss on the HI is hedge ineffectiveness and is recognized in P&L.

E. Hedge of a Net Investment in a Foreign Operation:

- The portion of the gain or loss on the HI that is determined to be an effective hedge is recognized in OCI.
- The ineffective portion is recognized in P&L.

Valuation of shares

Normally, the value of shares is ascertained from the market price quoted on the stock exchange. Sometimes, however, share valuation has to be done by an independent valuer. Shares of a limited company are required to be valued on many occasions such as –

- Sale or purchase of shares of a private limited company whose shares are not quoted on the stock exchange.
- Sale or purchase of a large number of shares enabling the purchaser to acquire control of management of the company.
- Sale of the entire company on amalgamation with , or absorption by another company , or takeover by the Government.
- Conversion of one class of shares into another, e.g. conversion of Preference Shares into Equity shares.
- Valuation of assets (shares) held by an Investment Company.
- Determination of the liability under the Income-tax Act (regarding the profit on sale of shares), the wealth- tax Act (regarding the value of investment in shares), or the gift- tax Act (regarding the value of gifted shares).
- Ascertaining the value of shares offered as security against Loan.

Methods of valuation

The methods of valuation depend on the purpose for which valuation is required. Generally, there are three methods of valuation of shares:

1. Net Asset Method of Valuation of Shares

Under this method, the net value of assets of the company are divided by the number of shares to arrive at the value of each share. For the determination of net value of assets, it is necessary to estimate the worth of the assets and liabilities. The goodwill as well as non-trading assets should also be included in total assets. The following points should be considered while valuing of shares according to this method:

- Goodwill must be properly valued.
- The fictitious assets such as preliminary expenses, discount on issue of shares and debentures, accumulated losses etc. should be eliminated.
- The fixed assets should be taken at their realizable value.
- Provision for bad debts, depreciation etc. must be considered.
- All unrecorded assets and liabilities (if any) should be considered.
- Floating assets should be taken at market value.
- The external liabilities such as sundry creditors, bills payable, loan, debentures etc. should be deducted from the value of assets for the determination of net value.

Steps in Net Assets Method

Steps	Calculation	Amt
1	**Tangible, Real Gross Assets**	**XXX**
	Less: External Liabilities	**(XXX)**
2	**Net assets**	**XXX**
	Less: Preference share capital	**(XXX)**
3	**Surplus on liquidation**	**XXX**
	Less: share in surplus of Participating pref. share if any	**(XXX)**
4	**Net assets available for equity shareholder**	
5	**(Equity Shareholders Fund)**	**XXX**

The net value of assets, determined so has to be divided by number of equity shares for finding out the value of share. Thus the value per share can be determined by using the following formula:

Value Per Share= (Net Assets-Preference Share Capital)/ Number of equity share

Example-

The following information is available from Tina Ltd. as at 31st March, 2009:

Capital:

1,000, 5% Preference Shares of Rs. 100 each fully paid Rs. 1,00,000

2,000 Equity Shares of Rs. 100 each fully paid Rs. 2,00,000

Reserve and Surplus Rs. 2,00,000

6% Debentures Rs.1,00,000

Current Liabilities Rs. 1,00,000

Assets: Fixed Assets Rs. 4,00,000

Current Assets Rs. 3,00,000

For the purpose of valuation of shares, fixed assets and current assets are to be depreciated by 10% ; Interest on debentures is due for six months; preference dividend is also due for the year. Neither of these has been provided for in the balance sheet.

Calculate the value of each equity share under Net Asset Method.

Solution:

Net Assets Available To Equity Shareholders:	**Rs**
Asstes	
Fixed asstes (400000 – 10% of 400000)	360000
Current assets (300000 – 10% of 300000)	270000
Value of Asstes	630000
Less: Liabilities	
Current Liabilities	100000
6% Debentures	100000
Add: Interest Outstanding	
(Rs 100000*6/100*6/12)	3000
	203000
5% Preference Share Capital	100000
Add: Arrear Dividend	
(Rs 100000 * 5%)	5000
	105000
	308000
Net Asstes available to Equity Shareholders	322000
No. of equity shares	2000

Value of each share under Net Assets Method:

Value per share = Net Assets available to Equity Shareholders / No. of Equity Shares = Rs. 3,22,000/ 2,000 = Rs. 161

2. Yield or Market Value Method of Valuation Of Shares

Equity shares may be purchased in a small lot for earning dividends. Such small lots of equity shares are valued on the basis of expected dividends. If, on the other hand, equity shares are acquired in a large number the purchaser is more concerned with the total earning capacity of the company rather than the dividends paid. In such cases, Equity shares are valued on the basis of the expected earnings of the company. Thus, valuation of shares on 'Yield' basis may mean either

- Expected Dividend Basis
- Expected Earning Basis

Expected Dividends Basis

Expected Dividend Basis may be used for valuation of Equity shares or Preference Shares.

$$\text{Yield value per share} = \frac{\text{Expected rate of dividend} * \text{Paid up value of shares}}{\text{Normal rate of dividend}}$$

$$\text{Expected rate of Dividend} = \frac{\text{Profit available for equity dividends} * 100}{\text{Paid up equity capital}}$$

Estimating future dividends

Steps	Particulars		Amt
1	**Future maintainable profits**		**XXX**
.	**Add :**Non – trading Income		**XXX**
2			**XXX**
.	**Less :**Preference dividend	XXX	
	Expected Transfers to Reserve	XXX	
3	Expected Transfers to Fund etc	XXX	**(XXX)**
.	**Expected Earning Available For Appropriation**		**XXX**

VALUATION OF GOODWILL

Goodwill may be described as the aggregate of those intangible attributes of a business whichcontribute to its superior earning capacity over a normal return on investment. It may arise from such attributes of abusinessas good reception, afavourable location, the ability and skill of its employees and management, natureofitsproducts,etc.

Good will is an intangible asset. The realvalue is in determinable for anon-purchased good will and based on arbitrary measurement. The valuation of good will is often based on the customs of the trade and generally calculated asnumber of year'spurchaseofaverageprofitsorsuper-profits.

Valuationofpurchasedgoodwill:

(1) **Average profit method :**Under this method average profit is calculated on the basis of the past fewyear'sprofits. Atthetime of calculating a verage profit abnormal profit or loss will beignored. After calculating average profit, it is multiplied by anumber (3 or 4 years), asagreed. The product will bethevalue of the good will.

Goodwill=AverageProfit×No.ofyearpurchase

(2) **Weighted average profit method:**To obtain the average profit, the profit of the year must bemultiplied by its weightage and the grand total should be divided by the aggregate number ofweights. After calculating average profit, it is multiplied by a number (3 or 5), as agreed. The productwillbethevalueofthegoodwill.

Goodwill=WeightedaverageProfit×No.ofyearpurchase

(3) **Super profitmethod:**Superprofitistheexcessofactualprofitoverthenormalprofit.Under

Step1	*Calculatecapitalemployed*
Step2	*Calculatenormalreturn*
	NormalReturn=Capitalemployed×Rateofnormalreturn
Step3	*Calculate future maintainable profit*

thismethod, super profits are taken as the basis for calculating goodwill in place of average profit.Goodwilliscalculatedasfollows:

Step4	*Calculatesuperprofit*Future	
	MaintainableProfit*Less:*Nor	xxxx
	malReturn	(xxx)
	SuperProfit	xxxx

Step5	Goodwill=Superprofit×No.ofyearspurchases

(4) **Annuity method:** Under this method super profits should be discounted using appropriate discountfactor. Then uniform annual super profit is expected, annuity factor can be used for discounting the future values for converting into the present value.

Goodwill=SuperProfit×Annuityfactor

(5) **Capitalizationoffuturemaintainablemethod:**Underthismethod,thefirmisvaluedb yapplyingthefollowingformula:

$$\text{Goodwill} = \left[\frac{\text{Future maintainable profit}}{\text{Normal rate return}} \times 100\right] - \text{Capital employed}$$

(6) **Capitalizationofsuperprofitsmethod:** Under this method, goodwill is calculated by capitalizingsuperprofitsatagreedrate.Thegoodwilliscalculateddirectlybyapplyingthefoll owingformula:

$$\text{Goodwill} = \frac{\text{Super profit}}{\text{Capitalization rate}} \times 100$$

Reporting Through XBRL (Extended Business Reporting Language)

XBRL stands for eXtensible Business Reporting Language. It is one of a family of "XML" languages which is becoming a standard means of communicating information between businesses and on the internet. XBRL provides major benefits in the preparation, analysis and communication of business information and is fast becoming an accepted reporting language globally. It offers major benefits to all those who have to create, transmit, use or analyse such information. Let us take a closer look at the meaning of the term:

(a) Extensible: means the user can extend the application of a particular business data beyond its original intended purpose and the major advantage is that the extended use can bedetermined even by the users and not just the ones who merely prepare the business data. This is achieved by adding tags which are both human and machine readable – describing what the data is. The property of extensibility is very handy in situations when list of items reported for various elements of the financial statements are not the same across firms, industries, and countries. For example, many of item constituting non-current assets in Oil

and Gas Industry (items like rigs, exploratory oil and gas wells) may not be applicable to companies in general. In a situation of this kind, XBRL may prepare a taxonomy called a 'Global Common Document' (GCD) for items common to all the firms, industries, and countries, and, any country specific, industry specific and firm-specific variations (extensions / limitations) can, then, be written as independent taxonomies that can be imported and incorporated with the GCD.

(b) Business: means relevant to the type of business transaction. XBRL focus is on describing the financial statements for both public and private companies.

(c) Reporting: the intention behind promoting use of XBRL is to have all companies report their financial statements in a consolidated manner using the specified formats.

(d) Language: XBRL is based on XML, which prescribes the manner in which the data can be "marked-up" or "tagged" to make it more meaningful to human readers as well as to computers-based system.

Potential XBRL applications:

(a) XBRL for Financial Statements - financial statements of all sorts used to exchange financial information

(b) XBRL for Taxes -specification for tax returns which are filed and information exchanged for items which end up on tax returns

(c) XBRL for Regulatory Filings – specifications for the large number of filings required by government and regulatory bodies

(d) XBRL for Accounting and Business Reports - management and accounting reporting such as all the reports that are created by your accounting system rendered in XML to make re-using them possible

(e) XBRL for Authoritative Literature - a standard way for describing accounting related authoritative literature published by the AICPA, FASB, ASB, and others to make using these resources easier, "drill downs" into literature from financials possible There is a dramatic improvement in processing of Financial Statements as XBRL documents can be prepared efficiently, extracted reliably, published more easily, analysed quickly, retrieved by investors simply, and enables smarter investments. XBRL solves two significant issues. The first issue is that preparing a financial statement for printing, for a Web site, and for filing today means that a company could typically enter information three times. With XBRL, information will be entered once and the same information will be "rendered" as a printed financial statement, an HTML document for a Web site, an EDGAR (Electronic Data Gathering, Analysis,

Retrieval) filing file, a raw XML file, or a specialized reporting format such as periodic banking and other regulatory reports. The second issue is that earlier, extracting specified detailed information from a financial statement, even an electronic financial statement like a regulatory filing, was a manual process. For example, a company cannot tell a computer program to "Get the prepaid expenses for 2008" from an electronic financial statement. If a financial statement is prepared using XBRL, computer programs can easily extract every piece of information in that statement.

Evolution

Brief History The inception of XBRL can be traced back to April 1998, when Charles Hoffman, a CPA with Knight Vale and Gregory, a Washington based firm, investigated how XML could be used for electronic reporting of financial information. Charles Hoffman along with the High Task Force of the AICPA began developing prototypes of financial statements and audit schedules using XML. In January 1999, the completed prototype (ultimately named XBRL) was handed over to the AICPA, which agreed that XBRL was important to the accounting profession. Later in June 1999, Charles Hoffman along with his associates created a business plan for XML-based financial statements, originally code named XFRML (later changed to XBRL). In August 1999 an XBRL Steering Committee was formed comprising twelve companies along with the AICPA as its members. These twelve companies were Arthur Andersen LLP, Deloitte &Touche LLP, e-content company, Ernst & Young LLP, FreeEDGAR.com, Inc. (now Edgar Online, Inc.), FRx Software Corporation, Great Plains, KPMG LLP, Cohen Computer Consulting, Microsoft Corporation, PricewaterhouseCoopers LLP, and The Woodburn Group. In October 1999, the XBRL Steering Committee's first meeting took place in New York, where the development began on the first taxonomy namely - XBRL for Financial Statements for the Commercial and Industrial Sector, which represented about 80% of all publicly-traded U.S. companies.

In April 2000, the new brand for the technology namely "XBRL" was unveiled for the first time in a press conference held in New York. In July 2000, the Steering Committee released Specification 1.0, the first XBRL Specification for Financial Statements for Commercial and Industrial Companies in the United States. Around the same time, the Committee also announced the formation of a non-profit international organization namely XBRL International, for rapid global expansion and adoption of XBRL. Membership in the XBRL Steering Committee grew to more than 50 entities, including several international professional organizations. In August 2000, Bill Gates declared XML to be the next

revolution on the Internet and announced the net strategy, which included XML tools in upcoming Microsoft products. In June 2001, XBRL International announced development efforts to create XBRL for General Ledger to allow tagged data to be moved into and out of the general ledger. This would serve as a bridge between business reporting and transaction reporting. In October 2001, XBRL Australia, XBRL Canada, XBRL Germany, XBRL IASB, XBRL Japan, XBRL-Netherlands, and XBRL-UK formed the first jurisdictions under XBRL International to support the development of XBRL. In December 2001, XBRL International finalised XBRL 2.0, the Enhanced XML Schema-Based Specification for Global Business Reporting. This release implemented the new World Wide Web Consortium (W3C) XML Schema Recommendation and utilised other new technologies such as XML Linking. In December 2003, XBRL International issued a Public Working Draft of the XBRL 2.1 Conformance suite, which provided more than 200 tests to verify that applications processed XBRL 2.1 documents correctly. The Financial Reporting Taxonomies Architecture (FRTA) 1.0, which was also released at the same time, provided guidelines for the effective creation and use of taxonomies. In January 2004, TSX Group Inc. (TSX Group) became the first Canadian public company, as well as the first publicly-listed stock exchange globally, to publish its annual financial results in XBRL. In March 2004, the total jurisdictions under XBRL International increased to 9 with Ireland and Spain too joining in. Subsequently, over the years 2004-05, the Steering Committee released new taxonomies for GL as well as for US GAAP and UK GAAP.

XBRLS (XBRL Simple Application Profile)

In 2008 Charlie Hoffman and Rene van Egmond proposed a simplified, more user-friendly XBRL application profile of XBRL that makes using XBRL easier for most business users, improves the potential for interoperability, and improves the potential for comparability needed by most business users, business communities, regulators and independent software vendors. The stated goals of XBRLS are "to maximize XBRL's benefits, reduce costs of implementation, and maximize the functionality and effectiveness of XBRL. XBRL is a general-purpose specification, based on the idea that no one is likely to use 100% of the components of XBRL in building any one solution. XBRLS specifies a subset of XBRL that is designed to meet the needs of most business users in most situations, and offers it as a starting point for others. This approach creates an application profile of XBRL (equivalent to a database view but concerned with metadata i.e., text, voice, or image that describes what the audience wants or needs to see or experience). XBRLS is intended to enable the non-

XBRL expert to create both XBRL metadata and XBRL reports in a simple and convenient manner. At the same time, it seeks to improve the usability of XBRL, the interoperability among XBRL-based solutions, the effectiveness of XBRL extensions and to reduce software development costs. The profile was created by Rene van Egmond and Charlie Hoffman, who was the initial creator of XBRL. It borrows heavily from the US GAAP Taxonomy Architecture.

What XBRL Not?

(a) It needs to be clearly understood that XBRL does not represent a set of accounting standards, which remain the prerogative of the regulatory standards bodies. XBRL is merely a platform on which reporting standards content will reside and be represented.

(b) XBRL is not a detailed universal chart of accounts. Formulation of a company's chart of accounts is an exercise conducted by its management with regard to its specific business intricacies. XBRL can facilitate the implementation of such structures through it ability to transport data between disparate software applications that might be used within an organizations operational structures.

(c) XBRL is not a GAAP translator. It does not provide a mechanism for facilitating a drilldown of existing GAAP information into lower levels of information that would be necessary for translating financial statements from one GAAP to another. The business-reporting document contains the same GAAP information, be it in an XBRL format or an MS word or PDF format.

(d) XBRL is not a proprietary technology. XBRL is freely licensed and available to the public. XBRL is XML-based and therefore is expected to be widely available in software applications.

(e) XBRL is not a Transaction Protocol. XBRL is designated to address issues related to generation and usage of information contained within business reports and begin at the accounting classification level. XBRL is about business reporting information, not about data capture at the transaction level.

USERS OF XBRL

(A) Corporations: Since XBRL was designed to handle corporate financial information, it logically follows that corporations would be one of the primary users. These days most major corporations provide some sort of company financial information via the Internet. Both the corporations providing this information and the investors who are receiving it need an easy

way to do so. XBRL provides a method via which financial information can be delivered to end users quickly and easily. The main benefit to the corporation is that the information can be entered once and maintained in a standard format. Required forms and documents can then be automatically generated from the XBRL formatted document. This prevents the duplication of financial data and thereby helps prevent errors and inconsistencies.

(B) Investors, Accountants and other users of Corporate Financial Data: Having a standardized and machine-readable format is invaluable to consumers of corporate financial information. XBRL provides just such a format. Without it, consumers of the data would be stuck trying to negotiate a format for a data feed with each corporation they wished to receive data from or would be forced to manually enter data obtained from a non-machine-readable source. In addition to the lessening the time and expense involved with either of the alternatives, XBRL also helps prevent the errors they can cause. By having a standardized format, developers can share code designed to read XBRL or purchase tools with XBRL support built in. On top of preventing errors, being able to use previously tested XBRL tools also increases productivity and brings the data to those who might otherwise not have the time, money, know-how to retrieve it on their own.

ADVANTAGES OF USING XBRL

(A) Overall Advantages XBRL offers major benefits at all stages of business reporting and analysis. The benefits are mainly by way of automation, cost saving, faster, more reliable and more accurate handling of data, improved analysis and better quality of information and decision-making. These overall advantages of XBRL have been briefly discussed below:

(i) Automated Data Processing: XBRL enables automation of financial data thus making it computer readable. This eliminates the laborious manual process of data collation, re-entry, comparison as well as the inaccuracies that go with it. XBRL allows very efficient handling of business data by computer software and supports all the standard tasks involved in compiling, storing and using business data. XBRL software also facilitates automatic checking of information and thus makes the entire process of data collection and analysis more reliable and accurate. For example, data from different company divisions with different accounting systems can be assembled quickly, cheaply and efficiently if the sources of information have been upgraded to using XBRL.

(ii) Cost Saving: A lot of effort would be expended if all the tasks ranging from data collection to analysis and reporting were to be done manually. This entire process would

prove to be very expensive and tedious. However adoption of XBRL for data processing will reduce the manpower involved and result in considerable amount of cost saving.

(iii) Time Saving: Use of manual workforce for gathering and collating financial information will be a time consuming affair and will delay the process of analysis and meaningful reporting of data. However the powerful XBRL software increases the speed of handling the data and completes all aspects of data processing in quick time. This time reduction will allow users to increase their focus on analysis and help in prompt decision making. For example, searches for particular information which might normally take hours can be completed with XBRL in a fraction of a second.

(iv) Better Financial Reporting: XBRL also facilitates preparation of quality and timely reports to suit different needs. Once data is gathered in XBRL, different types of reports using varying subsets of the data can be produced with minimum effort. A company finance division, for example, could quickly and reliably generate internal management reports, financial statements for publication, tax and other regulatory filings, as well as credit reports for lenders. XBRL also does not enforce any standardisation in financial reporting. Its language is flexible and supports all current aspects of reporting in different countries and industries. It can also be adjusted to meet particular business requirements of individual organizations. Taxonomy extensions also permit diverse companies to include additional concepts in their business reports besides meeting the accounting regulations of their respective countries.

(v) Multi Language Capability: XBRL can read and understand data in different languages and accounting standards and can be flexibly adapted to meet different needs of various users. The taxonomies and tags associated with the system allow for speedier multi-language data reads and also enhance transmission of data across the globe. Software and mapping tools allow businesses to transfer existing information into XBRL quickly and efficiently.

(vi) Improved Data Analysis: The XBRL software helps to automatically validate and manipulate data received electronically. XBRL facilitates a deeper and accurate analysis of the automated data to meet the requirements of all types of end users. This thorough analysis will equip business leaders with greater confidence to make financial decisions that impact their companies. For example, banks and other financial institutions can analyse loan applications as well as a borrower’s financial records more quickly and more accurately which may increase the approval of good loans and significantly lower the acceptance of loans to high-risk borrowers.

(B) Advantages to Individual Stakeholders All types of organisations can use XBRL to save costs and improve efficiency in handling business and financial information. Due to its flexible nature, XBRL can be adapted to suit a wide variety of requirements of preparers as well as users of financial data. The prominent entities that can benefit from use of XBRL are government regulators, stock exchanges, investment analysts, banks, financial companies, accountants, auditors, accountancy software vendors, and information technology companies. The ways in which some of these main organisations benefit by use of XBRL are given below:

Regulators and Government Bodies: By introducing XBRL for reporting, regulators and other government authorities can:

- Obtain data which can be entered automatically into systems without reformatting or other "translation" effort.
- Dramatically reduce costs by automating routine tasks.
- Quickly and automatically identify problems with filings.
- Analyse and compare data much more quickly, efficiently and reliably. Benefit from the use of software in validation and analysis.
- Monitor data and activities and reach judgments with far greater speed and confidence.
- Focus effort on analysis, decision-making and dealing with counterparties rather than on data manipulation.
- Provide a much faster and focused response to counterparties.
- Promote efficiencies and cost savings throughout the regulatory filing process.

(i) Stock Exchanges:

Stock Exchanges can use XBRL to:

- Make their process of company data collection more efficient, comprehensive, and reliable.
- Increase the value and competitiveness of the data products which they offer to institutions and private investors.
- Strengthen the transparency and robustness of information on their markets. Depending on the circumstances, Exchanges may be able to encourage or mandate the filing of information by companies in XBRL or convert company data into XBRL. They can then offer data in XBRL form, benefitting all consumers of investment

information. The result is a set of more competitive and valuable exchange data products as well as improved exposure for the Exchange.

(ii) Investment Analysts:

By using XBRL, investment analysts and advisers can benefit from:

- Much greater transparency, clarity and consistency in company financial data.
- The ability to handle and compare a broader range of companies and deeper set of information.
- More powerful software tools for analysis, comparison and benchmarking.
- Far more efficient means of finding specific company data. • The ability to select data from a variety of companies within seconds for comparison and analysis. In short, XBRL can help the analyst community provide quicker and better-quality investment advice and decisions.

(iii) Financial Companies:

Through the adoption of XBRL, companies in the financial information industry will be able to:

- Obtain company financial data in a standardised and predictable form.
- Significantly reduce costs by automating many aspects of the gathering and storage of financial data.
- Switch efforts from routine data gathering to analysis.
- Provide a faster, clearer, deeper and more accurate view of company financial performance.
- Produce richer and more usable products containing XBRL data.
- **(iv) Banks:**

Through XBRL, loan and credit management departments of banks can:

- Obtain data quickly and reliably via automated reporting.
- Reduce costs in processing data.
- Compare and analyse financial information much more reliably, fully and effectively using automated processes.
- Track financial performance more quickly and efficiently.
- Reach decisions more confidently and provide a quicker response to clients. In particular, Credit Risk Assessment companies are already working within XBRL International on the introduction of XBRL in this area. XBRL also facilitates Credit

Insurance Underwriting decisions through a high-quality assessment of the concerned data.

(v) Accountants:

The development of XBRL software and its implementation all over the world has helped the community of accountants and auditors immensely. Through the use of XBRL in companies, accountants will be able to:

- Obtain more rapid and reliable data on company financial performance.
- Greatly reduce effort and costs in gathering and analysing data.
- Simplify and automate tasks.
- Focus effort on analysis and value-added work.
- Make better use of software to improve efficiency and speed.
- Facilitate paperless financial reporting. As XBRL software allows for automated machine-to-machine communication, accountants, data entry clerks, and auditors can receive and begin to review and study blocks of data at significantly reduced speeds. Auditors around the world can also devote more of their time to reviewing data received from another country rather than focusing on validating the accuracy of the information. In short, XBRL can speed up, reduce effort and increase reliability in accounting and auditing tasks. The accounting community can play an important role in explaining and encouraging the adoption of XBRL. Major accounting companies are important members of the XBRL Consortium.

(vi) Software, Systems and IT Companies:

XBRL offers software, systems and IT companies a range of opportunities to enhance existing products, develop new ones and expand their business. It enables these companies to:

- Adopt a data standard for transferring business and financial information, avoiding the commercial conflicts and client aggravation caused by competing proprietary standards.
- Create software to support the preparation, publication and collection of data in XBRL.
- Create software to select, compare and analyse financial data in XBRL. Software, systems and IT companies are among key members of the XBRL consortium. Their areas of activity range though general software and data handling, accounting, data analysis and validation, business systems, data publishing, to specialist XBRL and XML products.

XBRL INTERNATIONAL

XBRL International is a not-for-profit consortium of approximately 550 companies and agencies worldwide working together to build the XBRL language and promote and support its adoption. It is comprised of jurisdictions which represent countries, regions or international bodies and which focus on the progress of XBRL in their area. The number of established jurisdictions has grown from 7 to 22 over the years. Around 5 jurisdictions, including India are presently in the provisional stage. It operates mainly through the XBRL Steering Committee and has over the years produced a variety of specifications and taxonomies for digitizing financial information in accordance with the accounting rules and other regulations prevailing in different countries. The consortium members meet periodically in international conferences and conduct committee work regularly throughout the week. This collaborative effort began in 1998 and has produced a variety of specifications and taxonomies to support the goal of providing a standard, XML-based language for digitizing business reports in accordance with the rules of accounting in each country or with other reporting regimes such as banking regulation or performance benchmarking.

INTERNATIONAL SCENARIO:

Development of XBRL is taking place all over the world with increasing participation from individual countries and international organisations. Today, around 15-18 countries have already established jurisdictions for promotion of XBRL and a few more are in the process of doing so. • United States has been the pioneer in the development of XBRL. So far in the US, XBRL has been used mainly in the capital markets. To expand the use of XBRL in the country, the SEC has framed rules in January 2009 making it compulsory for all companies to file returns in the XBRL format in a phased manner over a three-year period 2009-2011. These rules will apply to domestic and foreign companies using U.S. GAAP and to foreign private issuers using IFRS.

- In Europe, XBRL development started with government wide and cross-border applications with public and private sector working together for this purpose. Tax regulators drove development in Ireland, Municipalities in Germany, the Banking Sector in Spain, the Water Board in the Netherlands, and the Companies House in Denmark. In 2004 the Committee of European Bank Supervisors started using XBRL for Basel II reporting across all 27 member states, while the European Commission too formally urged its member states to register their taxonomies with XBRL International.

- The Bank of Spain has developed an XBRL-based financial information exchange system to support XBRL-based reporting of the public financial statements by credit institutions to the Bank of Spain.
- The Dutch Taxonomy project team issued the first version of the taxonomy that will be used to contribute to the effort to reduce administration burden. Dutch municipalities are filing quarterly reports in XBRL.
- U.K. Inland Revenue is using XBRL in electronic filing based on XBRL-UK GAAP Taxonomy
- Australian lending information being collected from all Australian banks in XBRL
- Sumitomo Mitsui Bank of Japan integrated XBRL as interchange format for letters of credit for international trade as part of complex supply chain application
- The Tokyo Stock Exchange has been accepting corporate financial information in XBRL format since early 2003.
- In the Netherlands, all government agencies, from the justice department to bank regulators to tax collectors are working together on a national taxonomy of business reporting items.
- The Toronto stock Exchange publishes its financial statement in XBRL since 2003.
- The Australian Prudential regulation Authority has been collecting regulatory data in XBRL since 2005.

XBRL INDIA

The development of XBRL technology in India started mainly around the period 2005-07. India is probably the first among developing countries to introduce XBRL standard in its reporting system. XBRL India is the provisional jurisdiction of XBRL International and is facilitated by the Institute of Chartered Accountants of India (ICAI). XBRL India is governed by a Steering Committee which is headed by the President, ICAI. Its objectives are:

- To promote and encourage the adoption of XBRL in India as the standard for electronic business reporting in India
- To facilitate education and marketing of XBRL
- To develop and manage XBRL taxonomies
- To keep the developed XBRL taxonomies updated with regard to international developments
- To represent Indian interests within XBRL International
- To contribute to the international development of XBRL

XBRL India has developed Draft General Purpose Financial Reporting XBRL taxonomy for Commercial and Industrial Companies. This taxonomy covers the financial statements like Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement and related non-financial information. The draft taxonomy has been developed conforming to Indian Accounting Standards and Company Law. XBRL India is currently developing XBRL Taxonomy for the Banking Sector. Other Organisations in India using XBRL Members of XBRL India among others include regulators such as Reserve Bank of India (RBI), Insurance Regulatory and Development Authority (IRDA), Securities and Exchange Board of India (SEBI), Ministry of Corporate Affairs (MCA), stock exchanges like Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE), and some private sector companies. Both leading stock exchanges of India, BSE and NSE have migrated to XBRL from the paper-based model and offer a unified electronic platform, popularly known as 'CorpFiling' system, which enables the companies listed in either or both of the exchanges to electronically file their disclosures. Approximately 100 top companies of India are using CorpFiling XBRL platform for filing mandatory information. BSE has played an important role in the initiation of XBRL reporting platform in India and was the first one to formally adopt XBRL in the country. To attune to the new XBRL based reporting standards, legal and regulatory changes are required. SEBI has thus issued a mandate for select companies to submit their Financial Statements through the Corporate Filing and Dissemination System (CFDS) starting in the first phase in 2008. Recently, RBI has also moved to XBRL based electronic filing system for the Basel II Reporting by Banks, wherein banks are required to submit their returns for capital adequacy returns data through the existing Online Return Filing System (ORFS). Banks are now upgrading to Core Banking Solution (CBS) and also sprucing up their internal Management Information Systems (MIS), which will create a platform for the implementation of XBRL solutions. Ministry of Corporate Affairs [MCA] is planning to use extensible business reporting language (XBRL) in an effort to work closely with SEBI and RBI, which are also migrating to XBRL. While MCA maintains a database of all registered companies, SEBI deals with listed firms and RBI with banks and non-banking finance companies. "Through e-filing, MCA has obtained a mass database which is available in public domain. So far its use is restricted to getting information on companies. But this data can be productively used for examining and analysing the direction in which companies are moving. XBRL, combined with a sophisticated technology, will further support these objectives.

WORKING PRINCIPLE OF XBRL

XBRL is a member of the family of languages based on XML, or Extensible Markup Language, which is a standard for the electronic exchange of data between businesses and on the internet. Under XML, identifying tags are applied to items of data so that they can be processed efficiently by computer software. XBRL, a more powerful and flexible version of XML, has been defined specifically to meet the requirements of business and financial information. It enables unique identifying tags to be applied to items of financial data, such as say ‘net profit’ or say “Asset”. For example let us take the item “Asset”. It is defined in XBRL as follows: 1000 The word Asset together with brackets “” is called a tag. Opening tags are denoted by while closing tags are denoted by .However besides the numerical value of the asset, the computer needs to be told about accounting perspective of the term “Asset”, its normal balance nature of “Debit” as well its relationship with other financial terms like Equity or Liabilities etc. This is done by the powerful XBRL tags. Besides being identifiers, these tags provide a range of information about the item, such as whether it is a monetary item, percentage or fraction. XBRL allows labels in any language to be applied to items, as well as accounting references or other subsidiary information. XBRL can show how items are related to one another and can thus represent how they are calculated. It can also identify whether they fall into particular groupings for organisation or presentation purposes. Most importantly, XBRL is easily extensible, so companies and other organisations can adapt it to meet a variety of special requirements. The rich and powerful structure of XBRL allows very efficient handling of business data by computer software. It supports all the standard tasks involved in compiling, storing and using business data. Such information can be converted into XBRL by suitable mapping processes or generated in XBRL by software. It can then be searched, selected, exchanged or analysed by computer, or published for ordinary viewing. Working of XBRL is governed mainly by two main features namely Specifications and Taxonomies.

MAIN FEATURES OF XBRL

Specifications: Specifications provide the fundamental technical definition of how XBRL works. The main, current specification for XBRL is version 2.1. New specifications are developed from requirements statements. They are initially discussed as Internal Working Drafts within the consortium and then released as Public Working Drafts. After a careful process of review, they are then finally released as official XBRL Recommendations. A

Recommendation represents consensus within the XBRL International community as well as a stamp of approval for its widespread deployment.

Taxonomies: The word 'taxonomy', is derived from Greek verb tassein which means to classify and noun nomos that could be translated into English as law or science. Combined and interpreted word for word it would mean classification of some kind of knowledge. Initially, it referred to the science of classifying living things, but later it received wider meaning and is currently applied to either classification of things in general or rules governing this classification. Frequently, taxonomies are given hierarchical structures or are built in the form of networks so, as well as the elements, they also represent relationships. Virtually everything could be a subject of classification under some taxonomy. The most common example of taxonomy is classification of living creatures. The root element (the most general one) is Organism since all living things are of this group. Its first child is Domain which in turn is a parent of Kingdom whose subgroup is Division that is divided into Classes and so on. One important characteristic of taxonomies is that children (lower-level elements) may have many parents (upper levelelements). In some classifications, spiders could be categorised as insects, in others as eight-legged creatures and in another as non-flying organisms. Now, how does this term apply to XBRL? Taxonomies are the dictionaries used by XBRL. They define the specific tags for individual items of data (such as "Asset"). Different taxonomies will be required for different financial reporting purposes. National jurisdictions may need their own financial reporting taxonomies to reflect their local accounting regulations. Many different organisations, including regulators, specific industries or even companies, may require taxonomies to cover their own business reporting needs.

Taxonomy has got the following components:

(a) Schema: This is the core part of the taxonomy and stores information about taxonomy elements i.e. their names, ids and other characteristics. It can be regarded as a container where an unstructured list of elements and references to linkbase files are described. The main purpose of XBRL schemas is to provide the computer with information on how it should represent and process accounting terms.

(b) Element: An element (which is a part of the Schema) is a business concept (such as Assets, Liabilities, Income…) presented to a computer in a way that it could learn its main characteristics. Definitions of elements that appear in schemas are constructed according to a specific set of rules. For example say in the case of "Asset" The characteristics of "Asset"

like its name, type, balance and period type are described from a business perspective by the element to the computer.

Linkbases: are a collection of Links, which themselves are a collection of locators, arcs, and potentially resources. Locators are elements that essentially reference a concept and provide an arbitrary label for it. In turn, arcs are elements indicating that a concept links to another concept by referencing the labels defined by the locators. Some arcs link concepts to other concepts. Other arcs link concepts to resources, the most common of which are human-readable labels for the concepts.

The XBRL 2.1 specification defines five different kinds of linkbases. Label Linkbase - This linkbase provides human readable strings for concepts. Using theϖ label linkbase, multiple languages can be supported, as well as multiple strings within each language. Reference Linkbase - This linkbase associates concepts with citations of some body ofϖ authoritative literature.

Calculation Linkbase - This linkbase associates concepts with other concepts so that valuesϖ appearing in an instance document may be checked for consistency. Definition Linkbase - This linkbase associates concepts with other concepts using a variety ofϖ arc roles to express relations such as is-a, whole-part, etc.

Presentation Linkbase - This linkbase associates concepts with other concepts so that theϖ resulting relations can guide the creation of a user interface, rendering, or visualisation. Besides these, other features which also form a part of XBRL working are:

Instance Document: An XBRL instance document is a business report in an electronic format created according to the rules of XBRL. It contains facts that are defined by the elements in the taxonomy it refers to, together with their values and an explanation of the context in which they are placed. The instance document assigns a value to an element and provides additional information about the currency in which it is disclosed and defines a period and the entity that it refers to. The instance document begins with the root element. There may be more than one XBRL instance embedded in a larger XML document.

The XBRL instance document itself holds the following information:

■ Business Facts - facts can be divided into two categories

- Items are facts holding a single value. They are represented by a single XML element with the value as its content.

- ➢ Tuples are facts holding multiple values. They are represented by a single XML element containing nested Items or Tuples. In the design of XBRL, all Item facts must be assigned a context.

■ Contexts define the entity (e.g., company or individual) to which the fact applies, the period of time the fact is relevant, and an optional scenario. Date and time information appearing in the period element must conform to ISO 8601. [an international standard covering the exchange of date and time-related data] Scenarios provide further contextual information about the facts, such as whether the business values reported are actual, projected, or budgeted.

■ Units define the units used by numeric or fractional facts within the document, such as USD, shares. XBRL allows more complex units to be defined if necessary. Facts of a monetary nature must use a unit from the ISO 4217 [international standard describing three-letter codes (also known as the currency code) to define the names of currencies established by the International Organization for Standardization (ISO) namespace.

(iv)Footnote: Footnotes appear on instance documents and provide additional information for some of the elements.

(v) Taxonomy Extension: Public taxonomies, such as IFRS, define elements and relationships between them according to particular legislation or standards and allow companies to create financial statements that are valid and compliant with their requirements. But in the diverse world of finance, companies are required to include in their business reports additional concepts (usually related to the area of their activity or the reporting purpose). XBRL allows for such extensions of taxonomy without loss of comparability and integrity of data.

(vi) DTS (Discoverable Taxonomy Set): It contains one or more taxonomies i.e. a number of schemas together with linkbases related to them. This term was developed as taxonomies became more complicated and more closely related to each other. After describing the above features of XBRL, one can now mention with reference to the earlier example of iooo that

- ✓ values between tags (1000) will be found in instance documents;
- ✓ information on what an Asset is and how a computer should treat it will be provided in schema files;
- ✓ Relationships will be described in linkbases.

TAXONOMIES

Types of Taxonomies Types of taxonomies officially recognised by XBRL International are given below.

i. Financial Reporting Taxonomies: These have been officially recognised by XBRL International and have two levels of recognition. Approved Taxonomies have to comply with the official XBRL guidelines for that type of taxonomy, as well as with the XBRL Specification. Acknowledged Taxonomies just have to comply with the XBRL Specification.

a) Approved Taxonomies must

1. Comply with the FRTA document.

2. Have been used to create a number of instance documents which confirm it adequately covers the data it purports to represent.

3. Have been through a period of open review following initial Acknowledgement.

b) Acknowledged Taxonomies are recognised by XBRL International as being in compliance with the XBRL Specification. They are acknowledged against a specific version of the Specification. Compliance is confirmed by testing taxonomy in a defined range of XBRL applications which may be upgraded and changed from time to time. ii. GL Taxonomy: This is a special taxonomy designed to support collation of data and internal reporting within organisations. It is intended to enable the efficient handling of financial and business information contained within an organisation. Often this is scattered across disparate accounting systems. XBRL allows it to be brought together, analysed and used in a highly cost-effective way, overcoming the inefficiencies of different accounting systems or approaches. The XBRL Global Ledger taxonomy allows the representation of anything that is found in a chart of accounts, journal entries or historical transactions, financial and non-financial. It does not require a standardised chart of accounts to gather information, but it can be used to tie legacy charts of accounts and accounting detail to a standardised chart of accounts to improve communications within a business. XBRL Global Ledger is reporting independent. It collects general ledger and after-the-fact receivables, payables, inventory and other non-financial facts, and then permits the representation of that information using traditional summaries and through flexible links to XBRL for reporting. XBRL Global Ledger is system independent. Any developer can create import and export routines to convert information to XBRL GL format. This means that accounting software developers need only consider one design for their XML import/export file formats. Application service providers can offer to supply XBRL import and output so end-users can more easily use their own data. Companies developing operational products, such as point of sale systems or job

costing, or reporting tools can link with many accounting products without needing specialised links to each one. XBRL Global Ledger permits consolidation. Popular low-end products and mid-market solutions are not designed to facilitate consolidating data from multiple organisations. XBRL GL can help transfer the general ledger from one system to another, be used to combine the operations of multiple organisations, or bring data into tools that will do the consolidation. XBRL Global Ledger provides flexibility, overcoming the limitations of other approaches such as Electronic Data Interchange (EDI). It offers an extensible, flexible, multinational solution that can exchange the data required by internal finance, accountants, and creditors. It complements XBRL for financial reporting, linking financial reports to the detail behind them, providing all the specific information required for audit work papers, budget planning, and detailed reporting. Extensibility Besides the creation of additional modules, XBRL International supports several methods for continuing expansion of shared XBRL functionality.

■ Link Role Registry - This registry, hosted at xbrl.org, collects link roles and arc roles to promote reuse across taxonomies.

■ Functions Registry - This registry collects XPath functions for reuse in formula linkbases.

■ Format Registry - This registry collects common numeric formats for reuse in Inline XBRL applications.

■ Best Practice RFCs - These documents will share common practices among community members to improve interoperability of design.

HUMAN RESOURCE REPORTING

Tracking key attributes of your workforce can help your leadership team make important decisions about your business. By keeping tabs on employee performance, attendance, turnover and other helpful metrics, you can see how well your staff is contributing to your organization's goals.

The best HR software providers keep track of all this data through human resources (HR) reporting, which can ultimately save your business time, money and energy.

What is HR reporting?

HR reporting is the process of tracking key metrics about your workforce, often through human resources information systems (HRIS). In addition to tracking and measuring data,

these systems help HR teams manage many of the day-to-day work related to payroll, benefits and other transactional HR needs.
HR reports allow you to analyse and compare many data points, including full-time versus part-time workers, workforce gender ratios, employee turnover, open jobs and the time it takes to make new hires.
There are many options for building your metric-tracking platform. For example, you can monitor a few data points on Excel spreadsheets or partner with a vendor that specializes in managing HR data.

Human Resource Report

Human Resource report/HR Report is a way to showcase and analyse all your human resources related metrics, stats, and numbers in the best way possible. Human Resources Reports help to identify areas of improvement and understand different HR functions like employee performance, retention, hiring strategies, and so on.

There are different Human Resources Reports that are widely used to solve unique challenges and arrive at different and better solutions.

The 7 Different Human Resources Reports that are widely recommended to be used are:

1. Employee Information Report: Employee Information Reports carry all information regarding your employee data parameters like the headcount of the employees, the turnover rates of each employee, the diversity, revenue per employee, employee satisfaction percentage, employee engagement percentage, and the period of employment of employees in average, etc.,

You can use these reports to measure all the above parameters and more, based on what applies to your company, for example, turnover rates from each department or location or a team, etc.,

The major advantage of this report is that you can analyse and compare information across departments, locations, different cross-sections as you want for a dissected view of your company's performance.

2. **Recruitment Report**

One of the crucial reports that are proved widely useful to improve hiring strategies and increase candidate-to-hire transformation rates is Recruitment Human Resources Reports. Your Talent Acquisition team aka the TAs can be hugely benefited by measuring, analysing, and understanding the different metrics involved in recruitment.

Some highly recommended parameters to measure under recruitment reports are

- Time Spent In Each By Candidates,
- Candidates Processed In A Timeline,
- Offer Decline Rates,
- Offer Decline Reasons,
- Total Interviews,
- Interview Ratings.
- Interview Duration.
- Interview Types,
- Trend Of Job Applications.
- Trend Of Email Applications,
- Trend Of Career Site Applications,
- Top Sources Through Which You Get Candidates,
- Sources That Give The Most Hireable Candidates,
- Active Job Postings Based On Location, Department Etc.,
- Talent Pool Candidates And Their Patterns,

The list is ever growing as recruitment is one of those places where the result is based on several factors.

3. Performance Management Reports

Performance Management by itself is often taken care of and measured by a special team in big organizations to make sure we evaluate employee rights and they are rightfully

compensated based on their performance. But that does not mean a small company or a growing company should not have its HR team measure their employee's performance, it is better to start it early, is it not?

Some common parameters expected to be measured when evaluating performance are

The Ratings Of The Employees,

Time To Be Productive,

No. Of Hours Put In And Revenue,

Their Goals And Performance, Along With Improvement And Stretch Hours,

Peer Reviews Etc.,

You can again do this based on levels, locations, departments, roles, etc., For example, you can measure the performance of all your product marketers to understand how product marketing is working in your organization.

4. Compensation Reports

Compensation paid to your employees is mostly taken care of by your finance team, yes. But the HR team is responsible for Payroll. They need to decide which group or pay level each employee belongs to how their compensation works, which are all part of the measuring they do.

To understand compensation, you need to maintain some reports such as salary reports, appraisal reports, paid time-off reports, Overtime compensation, and dues reports, shift compensation, deductions, and financial reports based on each filter or criteria.

5. Time off Reports

One of the crucial reports every HR team definitely has to maintain is Time off Reports. Knowing how much Time off is consumed is very crucial to manage the company culture in the right way. Without recording and analysing it, chances are you might missan absenteeism pattern or maybe a hole in your time-off policy that is probably reducing the productivity of your employees as they work without enough time-offs.

Analysing Time Off using reports helps you to revisit your Time-off policy often until you finally arrive at the best version of it. You can ensure your employees are getting the rest they need, while your company also gets the right ROI for its policy.

Some parameters one should definitely include are time off request rates, time-off approval rates, monthly/yearly/quarterly time off rates, location/department-based time-off requests, cost of time off rates, etc.,

6. Onboarding and Offboarding Reports

We are just getting started to see that Onboarding and Offboarding are crucial HR functions. Organizations have come to realize its importance in maintaining high retention rates and employee satisfaction rates, which ultimately improves the employer brand. Ensure you measure your onboarding and offboarding process, take necessary surveys to understand the feedback of your employees, and analyze it well using reports to improve both the processes.

Feedback on the Onboarding, Pre-onboarding drop-off rates, Post 90-days drop off rates, retention rates, training spend per employee, ROI on each employee are some important items to measure here.

7. General Reports

You have covered everything important in the above 6 types of reports, but no two companies are the same, and so are their HR challenges. There might be a few parameters you would want to analyse as reports specific to your organization and its challenges. These can be anything from response rate for surveys to the rate of employees ordering filter coffee (priorities, they differ). So yes, all this comes under General Reports.

Why is Human Resources Reports beneficial for any organization?

By now you would have known that there are a bunch of things you can monitor and analyze by having a proper reporting system in place. If you still have your doubts starting on maintaining reports, here are a bunch of ways having reports can help your organization.

- Identify Weak Spots

One of the foremost ways reports helps is by helping you easily spot the areas of improvement in any criteria. Be it onboarding or hiring, you can easily identify using numbers what is working and what is not.

- Helps build a plan

Once you know what's wrong, it is easier to fix it and make a plan to avoid it rather than not knowing what is wrong at all and planning randomly. You can also make working plans backed up by numbers.

- Uproot the problem as soon as they emerge

Another important way reports help is by aiding you in cutting down or stopping a problem at its root or starting point, every problem or error will be identified eventually, but there is a huge cost behind every error, and finding them early can save you tons.

Effective tracking of employee productivity and satisfaction

You can seamlessly track all employees and their data, thus making sure there is a mutual balance between the employer and employee regarding ROI and satisfaction at work.

- Better Hiring Strategies

Recruitment reports have increased hiring rates by 12% for leading companies as it helped them find the right source to find candidates, the right number of interviews to conduct, etc., thus giving a winning hiring strategy.

- Forecast Requirements

Any requirement, be it a new job filling or extra cash in the drawer, reports help you predict these requirements beforehand and give you time to prepare yourself as an organization.

- Manage Company Revenue Better

Reports help you identify key areas of spending and where you can cut costs etc., easily thus helping you manage the revenue and expenses of the organization better.

- Accurate Data

Reports say goodbye to inaccurate, assumptive information that leads to inaccurate results. It gives you an accurate and honest view of the performance of your organization on all fronts.

Summary:

IND AS 109 Financial Instruments: Recognition & Valuation of Financial Instruments

Overview: IND AS 109 Financial Instruments, aligned with AS 109, provides a framework for classifying, recognizing, de-recognizing, and measuring financial assets and liabilities. It ensures transparent accounting and reporting of financial instruments, aiding stakeholders in assessing future cash flow uncertainty.

Financial Asset Classification: Financial assets are classified based on business models and cash flow patterns, determining subsequent measurement methods. These include amortized

cost, fair value through other comprehensive income (FVTOCI), and fair value through profit & loss (FVTPL).

Financial Liability Classification: Financial liabilities are generally measured at amortized cost, with exceptions for specific cases such as fair value through profit & loss, transfers not qualifying for derecognition, financial guarantee contracts, and commitments.

Measurement under IND AS 109: Initial recognition is at fair value, utilizing the effective interest rate method for subsequent calculations. Recognition of financial instruments occurs upon contractual execution, with de-recognition conditions and procedures outlined.

Embedded Derivatives: Embedded derivatives are components of hybrid contracts, treated separately if transferable independently. Conditions for separation are specified, and reclassification principles are outlined based on business model changes.

Impairment – Expected Credit Loss (ECL): Impairment follows the ECL model, considering credit risk changes over time. Two approaches, general and simplified, dictate impairment recognition based on credit risk fluctuations.

Hedging Instruments (HI): Hedging relationships must meet specific criteria for eligibility and effectiveness. Different accounting treatments apply to fair value hedges, cash flow hedges, and hedges of a net investment in a foreign operation.

Valuation of Shares: Shares are valued for various purposes, necessitating methods like the Net Asset Method. Considerations include goodwill, fictitious assets, realizable value of fixed assets, and provisions.

Methods of Valuation: Three common methods for share valuation are outlined, including the Net Asset Method, which factors in assets, liabilities, goodwill, and other considerations to arrive at a per-share value.

Net Assets Method for Share Valuation: The Net Assets Method involves calculating the net value of assets, deducting external liabilities, preference share capital, and other factors. The value per share is then determined by dividing the net assets available for equity shareholders by the number of equity shares. An example illustrates the application of this method using Tina Ltd.'s financial information.

XBRLS (XBRL Simple Application Profile) is a simplified and user-friendly application profile of XBRL proposed by Charlie Hoffman and Rene van Egmond in 2008. It aims to enhance XBRL's usability for business users, improve interoperability, and foster comparability. XBRLS offers a subset of XBRL components suitable for most business users, simplifying metadata creation and report generation. It is designed for non-XBRL experts,

facilitating easy XBRL metadata and report creation. XBRLS does not replace accounting standards, a universal chart of accounts, or serve as a GAAP translator. Instead, it provides a standardized, machine-readable format for corporate financial information, benefiting corporations, investors, accountants, regulators, and other stakeholders. The advantages include automated data processing, cost savings, time efficiency, improved financial reporting, multi-language capability, and enhanced data analysis.

XBRL (eXtensible Business Reporting Language) technology in India began around 2005-07, with India pioneering XBRL standards in its reporting system. Managed by XBRL India, under the Institute of Chartered Accountants of India (ICAI), it aims to promote XBRL adoption, offer education, develop and manage taxonomies, and contribute to global XBRL development. XBRL India developed a Draft General Purpose Financial Reporting XBRL taxonomy for companies, aligned with Indian standards. Major users include regulators (RBI, SEBI), stock exchanges (BSE, NSE), and private companies. Leading exchanges, BSE and NSE, migrated to XBRL, introducing 'CorpFiling.' RBI adopted XBRL for Basel II Reporting, while SEBI mandated select companies to use XBRL. XBRL facilitates electronic filing, ensuring standardized, efficient data exchange.

Human Resource Reporting involves tracking workforce metrics like performance, attendance, and turnover through Human Resources Information Systems (HRIS). This data-driven approach aids decision-making, allowing analysis of aspects such as full-time vs. part-time workers, gender ratios, turnover rates, and hiring efficiency. Various reporting types, including Employee Information, Recruitment, Performance Management, Compensation, Time off, and Onboarding/Offboarding Reports, offer comprehensive insights. These reports, supported by HR software, facilitate identification of areas for improvement, hiring strategy enhancement, performance evaluation, compensation management, and effective onboarding/offboarding processes. HR Reports contribute to better hiring strategies, forecasting organizational needs, and managing company revenue. Accurate data derived from reports enables informed decision-making, cost reduction, and improved organizational performance.

Check Your Progress:

Multiple-Choice Questions (MCQs) with Keys:

1. What is the primary purpose of IND AS 109 Financial Instruments? a) Enhancing goodwill measurement b) Classifying and recognizing financial instruments c) Focusing on non-financial assets d) Streamlining employee benefit accounting
   Key: b) Classifying and recognizing financial instruments
2. How are financial assets classified based on business models? a) Random assignment b) Contractual cash flow patterns c) Alphabetical order d) Size of the assets
   Key: b) Contractual cash flow patterns
3. What is the primary factor for recognizing a financial asset or liability in the balance sheet? a) Expected future cash flows b) Trade date accounting c) Settlement date accounting d) Contractual agreement execution
   Key: d) Contractual agreement execution
4. In share valuation, which method considers the net value of assets divided by the number of shares? a) Gross Asset Method b) Market Value Method c) Net Asset Method d) Shareholder Equity Method
   Key: c) Net Asset Method
5. What is subtracted from tangible, real gross assets in the Net Assets Method for share valuation? a) External Assets b) External Liabilities c) Current Assets d) Share Capital
   Key: b) External Liabilities
6. How is the value per share calculated in the Net Assets Method? a) Tangible Assets / Number of Equity Shares b) (Net Assets - Preference Share Capital) / Number of Equity Shares c) Current Assets / Number of Equity Shares d) Total Assets / Number of Equity Shares
   Key: b) (Net Assets - Preference Share Capital) / Number of Equity Shares
7. What is deducted from the net value of assets to calculate the Net Assets available to Equity Shareholders? a) Current Assets b) External Liabilities c) Preference Share Capital d) Tangible Assets
   Key: c) Preference Share Capital
8. In the example provided, what is the Net Assets available to Equity Shareholders for Tina Ltd.? a) Rs. 2,00,000 b) Rs. 3,22,000 c) Rs. 1,61,000 d) Rs. 100,000
   Key: b) Rs. 3,22,000

9. What is the main goal of XBRLS (XBRL Simple Application Profile)?

(a) To replace accounting standards

(b) To simplify XBRL for business users

(c) To create a universal chart of accounts

(d) To serve as a GAAP translator

Key: (b)

10. What is XBRLS primarily designed for?

(a) Accounting experts

(b) Non-XBRL users

(c) Regulatory bodies

(d) Investors

Key: (b)

12. What is XBRL India's primary objective?

A. Stock market regulation

B. Adoption of XBRL in India

C. Promoting traditional reporting

D. Advocacy for paper-based models

Key: B

13. Which organization played a crucial role in initiating XBRL reporting in India?

A. SEBI

B. RBI

C. ICAI

D. IRDA

Key: C

14. **What is HR reporting primarily focused on tracking?**

A. Inventory

B. Workforce metrics

C. Marketing trends

D. Financial transactions

Key: B

15. **Which type of report is crucial for understanding employee performance, retention, and hiring strategies?**

A. Compensation Report

B. Recruitment Report

C. Time Off Report

D. Onboarding and Offboarding Report

Key: B

Short-Answer Type Questions:

1. Explain the Net Assets Method for share valuation.
2. What factors are considered in determining the value per share using the Net Assets Method?
3. Provide the formula for calculating the value per share in the Net Assets Method.
4. How does the Net Assets Method account for external liabilities in share valuation?
5. Explain the purpose of XBRLS and its goals.
6. List three things that XBRLS is not, according to the provided information.
7. Who are the primary users of XBRL, and how do they benefit from its adoption?
8. Describe the advantages of using XBRL in business reporting and analysis.
9. Explain the role of XBRL in the reporting system of India.
10. Name three regulatory bodies in India adopting XBRL and describe their involvement.
11. How has XBRL impacted the electronic filing system for banks, specifically in relation to Basel II Reporting?
12. Describe the significance of 'CorpFiling' in the context of Indian stock exchanges.
13. Define HR reporting and explain its significance in organizational decision-making.
14. List and briefly describe three types of Human Resources Reports.
15. How do HR Reports contribute to effective onboarding and offboarding processes?
16. Why is tracking time-off consumption essential, and what parameters should be included in time-off reports?

Long-Answer Type Questions:

1. Using the financial information of Tina Ltd., demonstrate the step-by-step calculation of the value of each equity share under the Net Assets Method.
2. Compare the Net Assets Method with other methods of share valuation, highlighting its advantages and limitations.
3. Discuss the significance of external liabilities in the Net Assets Method and how they impact the valuation of equity shares.

4. Examine the applicability and suitability of the Net Assets Method in different business scenarios, providing examples for clarity.
5. In detail, discuss how XBRLS differs from the traditional XBRL and how it simplifies the process for non-XBRL experts.
6. Elaborate on the role of corporations in using XBRL for financial reporting. How does XBRL benefit corporations in terms of data entry, maintenance, and error prevention?
7. Analyze the advantages of XBRL for individual stakeholders such as regulators, stock exchanges, investment analysts, banks, accountants, and software companies.
8. Provide an in-depth overview of XBRL International, its objectives, and its role in promoting and supporting the adoption of XBRL globally.
9. Elaborate on the key objectives of XBRL India and how it achieves them.
10. Discuss the evolution of XBRL adoption in India and its impact on traditional reporting methods.
11. Examine the role of XBRL in the banking sector, citing examples and regulatory changes.
12. Explore the future prospects of XBRL in India, considering collaborations with SEBI, RBI, and MCA.
13. Discuss the importance of HR reporting in identifying weak spots and building effective plans for improvement.
14. Explain the role of HR Reports in better hiring strategies and their impact on recruitment efficiency.
15. Explore the benefits of HR Reports in forecasting organizational requirements and managing company revenue.
16. Elaborate on the significance of accurate data provided by HR Reports and its impact on organizational performance.

Unit- V: Government Accounting

Government Accounting – an Overview; General Principles of Government Accounting; Comparison between Government Accounting and Commercial Accounting ; Government Accounting & Reporting; Comptroller and Auditor General of India (C&AG); Role of Public Accounts Committee,; Review of Accounts; Government Accounting Standards Advisory Board (GASAB); Government Accounting Standards issued by (GASAB); Indian Government Accounting Standards (IGAS); Indian Government Financial Reporting Standards (IGFRS)

Government Accounting – an Overview

Government accounting is a scientific procedure of collecting, classifying, recording, summarizing, and interpreting all the financial transactions including revenues and expenditures of all the government offices. It keeps the record of public funds.

Followings are the main *objectives* of the Government Accounting −

- **Information about Revenues** − One of the most important functions of the Government accounting is to maintain the transactions of generation and collection of revenues during the financial year (and maintain all the past years' financial data). Under the 'Right to Information Act,' if someone asks to have the information regarding the financial transactions of a government office, it is obliged to provide that.
- **Information about Expenditures** − One of the most important objectives of the Government accounting is to provide information about the expenditures incurred on various heads. It is checked by the Parliament in case of Central Government and state legislature in case of the State Government.
- **Information about Deposits and Loans** − Government has to provide information about the loan granted by the Government to others and repayment of the deposits.
- **Information about Availability of Cash** − It has to provide information about the present and the future cash availability.

Principles and Methods of Government Accounting:

The activities of good government in any country are determined by the needs of the country. Since the main branches of its activities are known, it becomes necessary to decide what expenditure will be necessary during any year in carrying out these activities and how to raise

sufficient money to meet that expenditure. The same is done by preparing a budget which is duly passed by the Parliament or a State Legislature.

The classification of transactions in government accounts is determined, firstly, by the administrative classification of the activities and, secondly, by the classification of the nature of the transactions. The accounting is, therefore, more elaborate than the commercial accounts.

Since the immediate objective of government accounting is not to ascertain the gain or loss on transactions of the government as a whole in carrying out its activities, the method of budgeting and accounting under the service heads is not designed to bring out the relation in which the government stands to its material assets in use, its liabilities are discharged at more or less at a distant date.

The usual accounting methods that are followed in a commercial firm is found to be unsuitable and unnecessary in the case of government accounting. In its budget for a year, a government is interested to forecast with the greatest possible accuracy what is expected to be received or paid during the year, and whether the former, together with the balance of the past year, is sufficient to cover the latter.

Similarly, in the compiled accounts for the year it is concerned to see to what extent the forecast has been justified by the facts, and whether it has a surplus or a deficit balance as a result of the year's transactions.

In short, on the basis of the budgets and accounts, government accounts are designed to enable the government to determine how little money it needs which are taken out from the tax payers in order to maintain its necessary activities at the proper standard of efficiency.

Most of the government accounts is kept under Single Entry System. There is, however, a portion of the accounts which is prepared under Double Entry System, the main purpose of which is to bring out the balance of accounts with regard to which the Government acts as banker or remitter or borrower or lender. Such balances are worked out by single entry basis which can accurately be ascertained by double entry principles.

Thus, the basic principles of Government Accounting may be summarised as:

(a) System of Accounting:

It has already been explained that the Government usually follows the Single-Entry System of Accounting. But, in some cases (viz., Loans and Borrowings) the system of Double Entry has been followed. Because, in order to ascertain this arithmetical

accuracy by preparing a Trial Balance and to determine the balance of the account as well, Double Entry System has to be taken into consideration.

(b) Commercial Enterprises under Public Sector:

In public sector enterprises, however, Double Entry System has been followed under mercantile basis like commercial accounting. Because, for ascertaining the results of the undertaking, the Profit and Loss Account and the Balance Sheet are to be prepared.

But, in some cases, however, various management techniques, Cash Flow Analysis, Funds Flow Analysis, Ratio Analysis etc. and some charts and diagrams with the help of statistical data, are taken into consideration.

(c) Classification of Incomes and Expenditures:

According to the requirements of the Government, it is necessary to classify the incomes and expenditures of the services under various heads and sub-heads.

For example, revenue of the Central Budget is classed into:

(i) Tax Revenue and

(ii) Non-Tax Revenue and Tax-Revenue again sub-divided into:

(a) Taxes on incomes and expenditures;

(b) Taxes on property and capital transactions;

(c) Taxes on commodities and services, etc.

Similarly, Non-Tax Revenue is again sub-divided into:

(i) Interest Receipts;

(ii) Dividend and Profits;

(iii) Others.

At the same time, expenditure in the form of different services are also classified under various heads and sub-heads, as:

(i) General Services,

(ii) Social Services,

(iii) Economic Services, and

(iv) Grant-in-aid and contribution.

Now, General Services is again sub-divided into:

(i) Administrative Services;

(ii) Defence Services;

(iii) Servicing of Debts;

(iv) Fiscal Services etc.

The classification of Receipts and Expenditure are discussed in details in a subsequent paragraph.

(d) Consolidated Transactions:

In Government accounting, although the transactions are recorded primarily under various heads of accounts, later they are consolidated in order to show the combined result for the period concerned.

Some Accounting Treatment: -

- Charges or expenditure on a new project like constructions, new equipment, plant & machinery installation, maintenance, improvement, and service should be allocated to the capital account as per the rule made by competent authority.
- Working charges of the project should be allocated to the revenue account.
- In case of renewal and replacement and cost of the genuine replacement should be charged to capital account.
- In case of damage due to extraordinary calamities, charged should be debited from the capital account or revenue account or from both. However, it will be determined by the government according to the case and circumstances.
- Capital receipts during the new project should be credited to the capital account to reduce the capital expenditure of the project

Technical Accounts:

General:

The accounts of Government are prepared under Single Entry System. But, in order to maintain a set of Technical Accounts (known as Journal and Ledger), Double Entry System is applied. The purpose of journal and ledger is to ascertain the balance of accounts (in regard to which government acts as a banker, remitter or borrower, or lender) in a scientific way.

Such balances of account can also be ascertained under Single Entry basis, their accuracy can be guaranteed if the same are prepared under Double Entry System.

In the case of the Central Government, the various Accounts Officers shall prepare Ledger and summary of balance in accordance with the procedure separately prescribed for the purpose by the Controller General of Accounts, state accountants General will maintain separate Journal and Ledger for all transactions of the State Government, from which the annual summary of balances of accounts or Trial Balance or Balance Sheet is prepared by them.

Journal:

The journal incorporates, at first, all the opening balances of the year along with the transactions so happened during the year and, finally, all the closing balances of the year.

The transactions of each month are recorded as:

1. Sundry Accounts Dr. for revenue and receipt of the month

To Revenue Receipts Sundry Account

2. Service Expenditure Sundry Accounts Dr. for the disbursement of the month to Sundry Accounts

The totals of the amount columns of the journals are carried forward at the end of the month.

Ledger

The accounts which are opened in the Ledger are classified in the manner as denoted:

1. Opening and Closing heads, viz. Government Balance;
2. Revenue Receipts; Being the total of the transactions under Revenue, Expenditure and Capital heads, within the Revenue Account.
3. Service Expenditure;
4. Capital Expenditure (outside the Revenue Account);
5. Debt Deposit and Remittance heads which are closed to Government;
6. Debt Deposit and Remittance heads which are closed to balance;
7. Personal accounts of collectors who are in account with the Accountant General (including local Remittances in-transit, and also the following heads: Departmental Adjusting Accounts, Exchange Accounts Abstract, Settlement Account Abstract and Transfers).

General Structure of the Financial Administration in India:

From January 26, 1950, the day of commencement of the Indian Constitution, India has been constituted by its people into a Sovereign Democratic Republic and is a Union of States. The Union of India comprises 29 states and 6 centrally administrated Union Territories besides the National Capital Territory—Delhi.

The executive power of the Union vests in the hands of the President whereas that of a State in the hands of a Governor.

Every Union Territory is administered by the President acting to such extent as he thinks fit, through an administrator appointed by him. The initial responsibility for the administration of each department of Government activities in the Union, Union Territory or a State is laid down on the head of the department concerned, who is controlled and guided in this respect by the Government to which he is subject.

In financial matters, each head of a department is thus responsible for the collection of revenue and for the control of expenditure pertaining to his department, the receipt and disbursement of which are affected at various places and through various persons.

Comparison between Government Accounting and Commercial Accounting

The mass of the Government accounts being on cash basis is kept on single entry. There is, however, a portion of the accounts which is kept on the Double Entry System, the main purpose of which is to bring out by a more scientific method the balance of accounts in regard to which Government acts as banker or remitter, or borrower, or lender. Such balances of course, worked in the subsidiary accounts of single-entry compilations as well but their accuracy can be guaranteed only by a periodical verification with the balances brought in the double entry accounts.

Business and merchant accounting methods are different than government accounting system because government accounting system is ruling over the nation and keeps various departments' i.e., production, service utility or entertainment industry etc. The operations of departments or government sometimes include undertaking of a commercial or quasi-commercial character and industry factory of a store. It is still necessary that the financial results of the undertaking should be expressed in the normal commercial form so that the cost of the services or undertaking may be accurately known.

Set up of Audit Board in commercial Audit

A unique feature of the Audit conducted by Indian Audit and Accounts Department is the constitution of Audit Boards for conducting the comprehensive audit appraisal of the work Public Sector enterprises engaged in diverse sectors of the economy.

These Audit Boards associate with them experts in disciplines relevant to the appraisals. They discuss their findings and conclusions with the management of the enterprises and their controlling ministries and departments of Government to ascertain their view point before finalization.

The results of such comprehensive appraisals are incorporated by the comptroller and Audit General in his report.

There are following notable differences between the Government accounting and the commercial accounting: -

Headings	**Government Accounting**	**Commercial Accounting**
Objective	Administration and management of all the financial activities of the government.	Maintain the records of trading and manufacturing of goods or to provide services to

		calculate profits.
Date Entry System	It has single entry system — Govt. does not work to earn profit; so, it does not need cross-check the accounting records.	Normally, it has double entry system — need to prepare Trading & Profit & Loss account and Balance Sheet at the end of the accounting period.
Basis of Accounting statements	Accounting statements are also prepared on the basis of single-entry system. Most of the statements are merely statements of collections of revenue and expenditures done, except where the Government acts like a banker or lender or borrower.	Accounting statements are prepared on the basis of double entry system.

Important Terms and Expressions of Government Finance

Following are the important terms and expressions used in Government accounting −

- **Demand for Grant** − Without sanction from the Parliament, no expenditure can be incurred by any Government Authority. Public Authority can request for the grant of expenditure to the Government, this request is called "**Demand for Grant**".
- **Supplementary Grant** − Sometimes, grants are sanctioned before the end of the financial year, in case where annual budget might be inadequate. Supplementary demand can be made, if need arises to meet the expenditure. For example, amount granted for the Natural Disaster Relief fund, may be found inadequate due to extraordinary disaster by the flood; in such a condition, an additional grant may be asked by the concerned state or ministry.
- **Treasuries** − Treasuries are the units of fiscal system in India. Every Indian States and Union Territory is divided into different districts' headquarters and every district headquarters has one or more than one treasury. Treasuries are conducted by the State Bank of India as an agent of the Reserve Bank of India. Central Government and State Government keep their separate accounts and differences of Central and State Govt. are adjusted by the Reserve Bank of India.
- **Votable and Non-votable Items** − To incur some expenditures, Parliamentary approval is not required; so, these expenditures may be charged from the Consolidated fund or the Public account, these items are known as **Non-votable** items. Some items of expenditure require sanction of the Parliament and cannot be incurred without its grant. Thus, demand for grant for that expenditure may be placed to the government, such items are called as **Votable** Items.

- **Appropriation Act** − After the approval of the budget proposal in the Parliament or Legislature, an Appropriation Bill has to be introduced, when this Bill is passed, it becomes Appropriation Act. Now, money can be withdrawn from the Consolidated Fund of India or the concerned State to meet the grants.
- **Vote on Account** − In certain condition, when government has no time to place full budget in the Parliament, then it uses the special provision of 'Vote on Account.' Under this provision, government obtains the vote of the Parliament for the amount required to incur the expenditure of the items in demand. After sanction obtained in the Parliament, government obtains money from the Consolidated Fund of India.
- **Public Accounts Committee (PAC)** − Public Account Committee is formed by the Parliament and each Legislature to scrutinize the Appropriation account and Audit the report thereon. All the reports on financial statements those are to be submitted to the President of Indian and in the Parliament are examined by the Public Accounts Committee (PAC). Examination by the PAC is similar to post-mortem of the reports. Members of the PAC are appointed from the Opposition Parties of the Parliament. Member of the ruling party cannot be part of this committee, as this committee is working as a watchdog to look after the affairs of ruling party.
- **Local Government Accounting** − Accounting of the Local government is based on the concept of "fund accounting" and on the budget. Urban local government entities and rural local government entities are two types of local government entities. Accounting of the Local Government in India comprises budget, Receipt, and payment accounts.

Government Fund

Government of India has following three types of Funds for marinating the records of all sorts of financial transactions −

- Consolidated Funds of India
- Contingency Funds of India
- Public Account

Let's discuss each of them succinctly −

Consolidated Funds of India

As per the Clause 1 of the Article 266 of the Indian Constitution −

"All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund constituted. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no amount can be withdrawn from the Fund without authorization from the Parliament."

Contingency Funds of India

As per the Article 267 of the Indian Constitution −

"The Contingency Fund of India records the transactions connected with Contingency Fund set by the Government of India. The corpus of this fund is Rs. 50 crores. Advances from the fund are made for the purposes of meeting unforeseen expenditure which are resumed to the Fund to the full extent as soon as Parliament authorizes additional expenditure. Thus, this fund acts more or less like an imprest account of Government of India and is held on behalf of President by the Secretary to the Government of India, Ministry of Finance, and Department of Economic Affairs."

Public Account

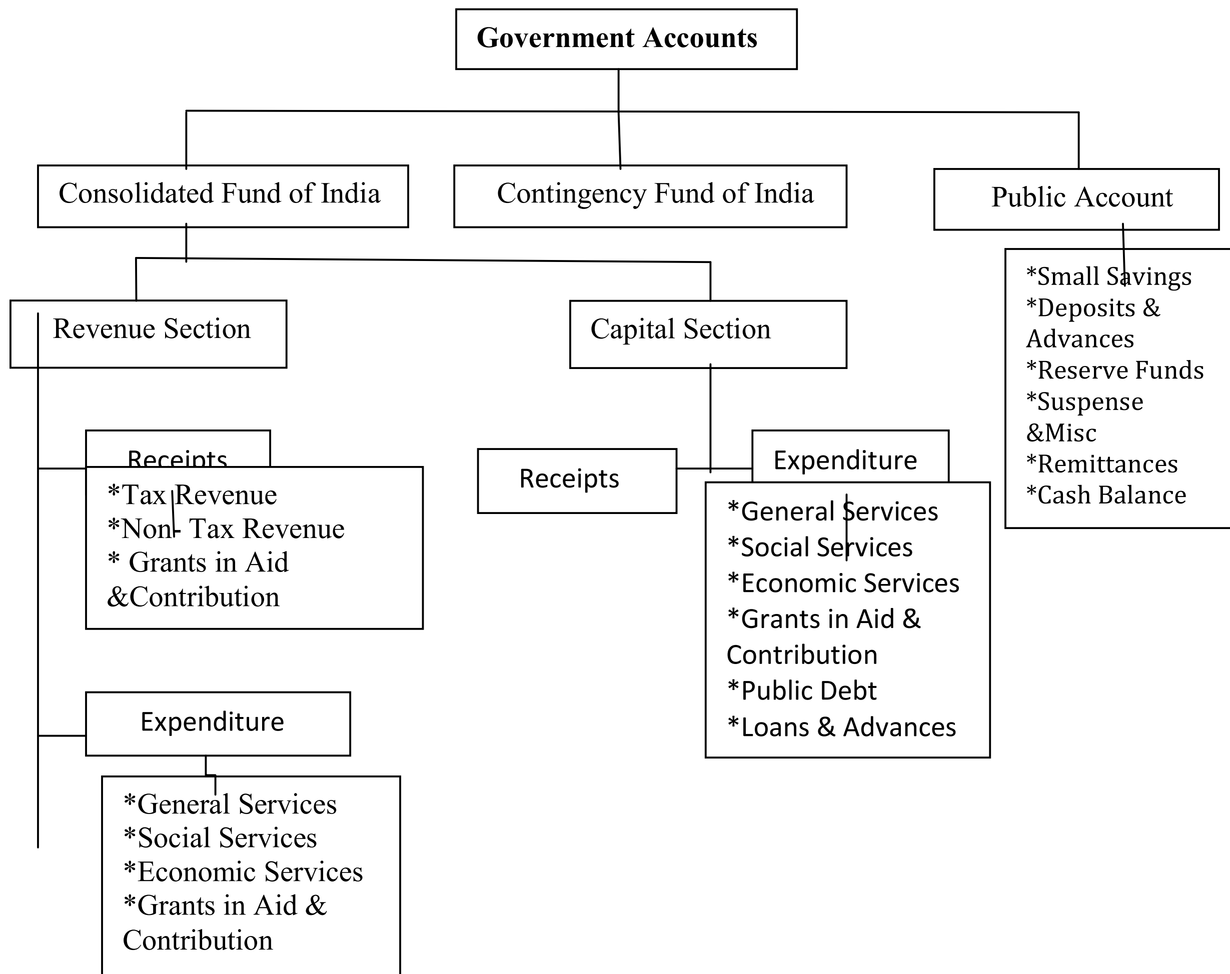
The Public Account is constituted under Clause 2 of Article 267 of the Indian Constitution, which says −

"The transactions relate to debt other than those included in the Consolidated Fund of India. The transactions under Debt, Deposits and Advances in this part are those in respect of which Government incurs a liability to repay the money received or has a claim to recover the amounts paid. The transactions relating to 'Remittance' and `Suspense' shall embrace all adjusting heads. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments. The receipts under Public Account do not constitute normal receipts of Government. Parliamentary authorization for payments from the Public Account is therefore not required."

Similarly, all states of India have the same structure as described above.

General Structure of Government Accounts

The general structure of the government accounts is illustrated below –



Compilation of Accounts

Treasury and other government departments, initially compile their receipt and payment accounts on monthly basis for central government and state government separately and then send to respective Accountant General of India.

Collection of revenue and disbursement are directly made by Railway, Defense, Post & Telegraphs, Forest, and public departments and lump sum payments are made by treasury through the departmental officers. Detail of accounts on monthly basis is maintained by the departmental Accounts officers.

Monthly accounts submitted by the treasury and account officer are compiled by the Accountant General, for the central government as a whole and for each state separately. The

compiled report shows progressive figure of each month from 1st April to 31st March of every year. Complied accounts along with appropriation accounts are submitted by Comptroller and Auditor General of India to the President of India, to the Governor of each state, or to the Administrator of the Union Territory accordingly.

COMPTROLLER AND AUDITOR GENERAL OF INDIA(C&AG)

Comptroller and Audit General (CAG) is an independent Constitutional body. Special status has been given to safeguard his independence and enable it to discharge its duty without fear or favour.

The **Comptroller and Auditor General of India** is the Constitutional Authority in India, established under Article 148 of the Constitution of India. They are empowered to Audit all receipts and expenditure of the Government of India and the State Governments, including those of autonomous bodies and corporations substantially financed by the Government. The CAG is also the statutory auditor of Government-owned corporations and conducts supplementary audit of government companies in which the Government has an equity share of at least 51 per cent or subsidiary companies of existing government companies. The reports of the CAG are laid before the Parliament/Legislatures and are being taken up for discussion by the Public Accounts Committees (PACs) and Committees on Public Undertakings (COPUs), which are special committees in the Parliament of India and the state legislatures. The CAG is also the head of the Indian Audit and Accounts Department, the affairs of which are managed by officers of Indian Audit and Accounts Service.As per the Article 148 of the Constitution of India, the comptroller and Auditor-General will be appointed by the President of India. The provision of removal of CAG is the same as of the judges of the Supreme Court. He can be removed only on the basis of proven misbehaviour or incapacity.

As per the Article 150 of the Constitution of India — the accounts of the Union and of the States shall be kept in such form as the President may prescribed, on the advice of the Comptroller & Auditor General.

Article 151 of the Constitution provides that the audit reports of the Comptroller & Auditor General relating to the accounts of the Union shall be submitted to the President, who shall cause them to be laid before each House of Parliament.

PUBLIC ACCOUNTS COMMITTEE (PAC)

The Public Accounts Committee (PAC) is a committee of selected members of parliament, constituted by the Parliament of India, for the purpose of auditing the revenue and the expenditure of the Government of India. They check that parliament exercises over the executive stems from the basic principle that parliament embodies the will of the people. This committee along with the Estimates committee (EC) and Committee on Public Undertakings (COPU) are the three financial standing committees of the Parliament of India. It serves as a check on the government especially with respect to its expenditure bill and its primary function is to examine the audit report of Controller and Auditor General (C&AG) after it is laid in the Parliament. C&AG assiststhe committee during the course of investigation. None of its members are allowed to be ministers in the government. The main function of the committee is to ascertain whether the money granted by parliament has been spent by government within the scope of the demand.

The Public Accounts Committee consists of not more than twenty-two members, fifteen elected by LokSabha, the lower house of the Parliament, and not more than seven members of RajyaSabha, the upper house of the Parliament. The members are elected every year from amongst its members of respective houses according to the principle of proportional representation by means of single transferable vote. The chairperson is appointed by the LokSabha speaker. The term of office of the members is one year.If any money has been spent on a service in excess of the amount granted by the house for the purpose, the Committee examines the same with reference to the facts of each case, the circumstances leading to such an excess and make such recommendations as it may deem fit. Such excesses are thereafter required to be brought up before the House by Government for regularization in the manner envisaged in Article 115 of the constitution. In order to facilitate speedy regularization of such expenditure by Parliament, the committee presents a consolidated report relating to all Ministers/Departments expeditiously in advance of other reports.

History

The committee was first conceived in the year 1921 in the wake of Montagu-Chelmsford Reforms. During the initial days of British colonial government in India, the finance member of the executive council was the chairperson of the committee. Post-independence, till 1950 the chairperson of the committee was the finance minister. However, in 1950, the country

became republic and the committee became a parliamentary committee functioning under the control of the Speaker of LokSabha with a non-official chairperson. From 1950 to 1967, the chairperson was selected from the ruling party. Since 1967, the chairperson of the committee is selected from the opposition, usually the leader of opposition. Prior to the year 1954–55, the committee consisted of 15 members who were elected by LokSabha from amongst its members. But with effect from the year 1954–55, 7 members from the RajyaSabha have also been elected to the committee.

The **Committee on Public Accounts** is the oldest Parliamentary Committee and was first constituted in 1921. The Committee consists of 22 Members, 15 Members are elected by LokSabha and 7 Members of theRajyaSabha are associated with it. The Speaker is empowered to appoint the Chairman of the Committee from amongst its members.

Functions of the Committee

The Committee on Public Accounts scrutinizes the Appropriation Accounts of the Government of India and the reports of the Comptroller and Auditor General of India thereon. While doing so, it is the duty of the Committee to satisfy itself: -

(a) that the moneys shown in the accounts as having been disbursed were legally available for, and applicable to, the service or purpose to which have been applied or charged;

(b) that the expenditure conforms to the authority which governs it; and

(c) that every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority.

It is also the duty of the PAC: -

(a) to examine the statement of accounts showing the income and expenditure of State Corporations, trading and manufacturing schemes, concerns and projects together with the balance sheets and statements of profit and loss accounts which the President may have required to be prepared or are prepared under the provisions of statutory rules regulating the financing of a particular corporation trading or manufacturing scheme or concern or project and the report of the C&AG thereon;

(b) to examine the statement of accounts showing the income and expenditure of autonomous and semi-autonomous bodies, the audit of which may be conducted by the C&AG of India either under the directions of the President or by a statute of Parliament; and

(c) to consider the report of the C&AG in cases where the President may have required him to conduct an audit of any receipts and to examine the accounts of stores and stocks.

If any money has been spent on any service during a financial year in excess of the amount granted by the House for that purpose, the Committee examine with reference to the facts of each case the circumstances leading to such an excess and make such recommendations as it may deem fit.

An important function of the Committee is to ascertain that money granted by Parliament has been spent by Government within the scope of the demand. The implications of this phrase are that

i. money recorded as spent against the grant must not be more than the amount granted;
ii. the expenditure brought to account against a particular grant must be of such a nature as to warrant its record against the grant and against no others; and
iii. the grants should be spent on purposes which are set out in the detailed demand and they cannot be spent on any new service not contemplated in the demand.

The functions of the Committee extend, however, beyond the formality of expenditure to its wisdom, faithfulness and economy. The Committee thus examines cases involving losses, nugatory expenditure and financial irregularities. When any case of proved negligence resulting in loss or extravagance is brought to the notice of the Committee, it calls upon the Ministry/Department concerned to explain what action, disciplinary or otherwise, it had taken to prevent a recurrence. In such a case it can also record its opinion in the form of disapproval or pass strictures against the extravagance or lack of proper control by the Ministry or Department concerned.

Another important function of the Committee is the discussion on points of financial discipline and principle. The detailed examination of questions involving principles and system is a leading and recognized function of the Committee.

The Committee is not concerned with questions of policy in the broad sense though it is within its jurisdiction to point out whether there has been extravagance or waste in carrying out that policy.

While scrutinizing the Reports of the C&AG on Revenues Receipts, the Committee examines various aspects of Government's tax administration. The Committee, thus, examines cases involving under-assessments, tax-evasion, non-levy of duties, mis-classifications etc., identifies the loopholes in the taxation laws and procedures and makes recommendations in order to check leakage of revenue.

The powers and duties of its officers and employees

Officers and employees in charge of the Committee Secretariat provide Secretarial assistance to the Committee.

The broad duties are as under: -

a) To prepare a list of relevant subjects based on the Audit Paragraphs/reviews from the Reports of the Comptroller and Auditor General of India and other important subjects so as to enable the Committee to consider and finalise the selection of subjects for examination during the year;
b) To arrange to convene sittings of the Committee after seeking convenience of the Chairman or as per directions from the Chairman;
c) Obtaining/ gathering of information including preliminary material/ brief notes on the relevant subjects from different sources including Office of C&AG, the nodal Ministry, Public Sector Undertakings, newspaper clippings, Internet, etc.;
d) Sending intimations/agenda papers for the sittings of the Committee to the Chairman and Members of the Committee;
e) Correspondence with concerned Ministry/Organisations on relevant matters;
f) To study / examine the Audit paragraphs and material received from the concerned Ministry/ Public Sector Undertakings/ Organisations on relevant subjects and Annual Report, Performance Budget, etc. of the concerned Ministry, if required;
g) To study/examine the replies to Parliamentary Questions, relevant newspaper clippings, material gathered from the Internet and other sources on the subjects under examination;
h) To prepare Lists of Points on the relevant subjects for written replies/evidence/post-evidence purposes;
i) To draft Original Reports on subjects selected and examined by the Committee;
j) To arrange for consideration/ adoption, presentation, printing and circulation of such Reports;
k) To scrutinise Action Taken Replies received from the Ministry, draft Action Taken Reports and arrange for their consideration/ adoption, presentation, printing and circulation;
l) To arrange for putting of various Reports presented to the House, on the Internet;
m) To prepare Action Taken Statements for the purpose of laying of the same in the Houses;

n) To prepare Study Tour Programmes and firm up arrangements for the smooth conduct of the same in co-ordination with the concerned Ministries/Departments/Field Organisations;
o) To process the representations received from Members/ Agencies and individuals as per existing practice; and
p) Day-to-day work relating to the Committee Secretariat.

The Procedure followed in the decision-making process, including channels of supervision and accountability

Decision making process

a) Decisions of the Committee are taken by the Chairman and the Members of the Committee in accordance with Rules of Procedure and Conduct of Business in LokSabha/ Directions by the Speaker/ precedents.
b) Decisions regarding procedural matters are taken in accordance with the Rules of Procedure and Conduct of Business in LokSabha/ Directions by the Speaker/ Precedents by the Secretariat.

Channels of supervision

Reporting Officer/ Committee Officer/Assistant Director - Under Secretary - Director – Joint Secretary -Additional Secretary - Secretary General - Chairman - Speaker

Accountability

Each officer/employee is accountable for his/her work.The norms set by PAC for the discharge of its functions.

The subjects selected by the Committee are examined during the year subject to availability of time at the disposal of the Committee and completion of evidence of the concerned Ministries/Departments on these subjects. The Committee Secretariat assists the Committee in adhering to the time schedule fixed for discharging the mandated functions of the Committee. To ensure this, Routine Orders are prepared and issued allocating the works amongst the officials.

The rules, regulations, instructions, manuals and records, held by it or under its control or used by its employees for discharging its functions

The following rules, manuals, etc. are referred to by the employees for discharging their official duties:

a) Rules of Procedure and Conduct of Business in LokSabha;
b) Directions by the Speaker, LokSabha;

c) Practice and Procedure of Parliament;
d) Manual on Directions;
e) Manual on Rules; and
f) Practice and Procedure of Public Accounts Committee (Internal Work)
g) Select Document
h) Precedents Register
i) Orders/Guidelines issued by Speaker from time to time
j) Instructional Orders/Financial Orders issued by Administrative Branch/O&M Section from time to time

A statement of the categories of documents that are held by PAC or under its control

The following documents are kept by the Committee Secretariat: -

i. Audit Reports and Appropriation Accounts presented to the House,
ii. Epitomes published by the Office of C&AG of India
iii. Printed Reports of the Committee
iv. Files/documents relating to the Reports, sittings, etc. including proceedings, minutes, etc.
v. Printed copies of Financial Committees – A Review.
vi. Select Documents.

The particulars of any arrangement that exists for consultation with or representation by, the members of the public in relation to the formulation of its policy or implementation thereof

In case a need is felt to invite opinion of public on a particular subject to be examined, the Committee may invite the same before arriving at a just conclusion.

There is also a provision in the Rules for examination of non-Official witness. Whenever a non-Official makes a request to appear before the Committee or if the Committee deems it fit to summon or give an opportunity to a non-Official witness or the representative of a non-Government body, he shall be asked to submit a memorandum for circulation to the members of the PAC before he is heard by the Committee.

A statement of the boards, councils, committees and other bodies consisting of two or more persons constituted as its part or for the purpose of its advice and as to whether meetings of those boards, councils, committees and other bodies are open to the public, or the minutes of such meetings are accessible for public

The Public Accounts Committee may appoint one or more sub-Committees, each

having the powers of the undivided Committee, to examine any matter that may be referred to them, and the reports of the said sub-Committees are deemed to be the reports of the whole Committee, if they are approved at a sitting of the whole Committee. The Chairman of the Committee appoints the Chairman of the sub-Committee.

Working Groups are also appointed by the Committee for carrying out detailed examination of the Audit Reports and relevant Appropriation Accounts or any other matter that may be referred to them. These Working Groups are appointed according to the subjects taken up for examination by the Committee so that the members are able to have a specialized knowledge of the subjects and the examination of the relevant Appropriation Accounts and Audit Reports thereon by the Committee is made more purposive. While constituting the Working Groups the Chairman of the Committee also appoints the Convener/Alternate convener.

Besides, an Action Taken sub-Committee may be constituted by the Chairman with all the Conveners of the Working Groups as its members and the Chairman himself as the head of sub-Committee to scrutinize Action Taken Notes submitted by Government on the recommendations contained in the Reports of the Public Accounts Committee and also considers the draft Action Taken Reports before these are circulated to the main Committee for adoption.

GOVERNMENT ACCOUNTING STANDARDS ADVISORY BOARD (GASAB)

The Office of the Comptroller and Auditor General of India constituted Government Accounting Standards Board (GASAB) in August 2002 for establishing and improving governmental accounting standards for Union and the State Government accounts.

The mission of the Government Accounting Standards Advisory Board (GASAB) is to formulate and recommend Indian Government Accounting Standards (IGASs) for cash system of accounting and Indian Government Financial Reporting Standards (IGFRS) for accrual system of accounting, with a view to improving standards of Governmental accounting and financial reporting which will enhance the quality of decision-making and public accountability.

Background

Comptroller and Auditor General of India (C&AG) constituted Government Accounting Standards Advisory Board (GASAB) with the support of Government of India through a notification dated 12th August, 2002. The decision to set-up GASAB was taken in the backdrop of the new priorities emerging in the Public Finance Management and to keep pace

with International trends. The new priorities focus on good governance, fiscal prudence, efficiency & transparency in public spending.

The accounting systems, the world over, are being revisited with an emphasis on transition from rule to principle-based standards and migration from cash to accrual-based system of accounting. GASAB, as a nodal advisory body in India, is taking similar action to formulate and improve standards of government accounting and financial reporting and enhance accountability.

The Board has high level representation from the important accounting heads in Government, Ministry of Finance, Department of Post, Finance Secretaries of states, RBI and heads of premier accounting & research organizations.

The membership of GASAB has been reviewed vide notification dated 15th September 2021 and consists of the following members:

Structure of the Board

1. Deputy Comptroller and Auditor General (Government Accounts) as Chairperson
2. Financial Commissioner, Railways
3. Member (Finance) Telecom Commission, Department of Telecom
4. Secretary, Department of Post
5. Controller General of Defence Accounts
6. Controller General of Accounts
7. Additional / Joint Secretary (Budget), Ministry of Finance, Govt. of India
8. Deputy Governor, Reserve Bank of India or his nominee
9. Additional Deputy CAG, GASAB

10-13. Principal Secretaries (Finance) of four States by rotation

14. President, Institute of Chartered Accountants of India (ICAI) or his nominee
15. Director General/Principal Director (Government Accounts), Office of the Comptroller & Auditor General of India as Member secretary.

GASAB has the following responsibilities:

- To formulate and improve standard of Government accounting and financial reporting in order to enhance accounting mechanisms.
- To formulate and propose standards that improve the usefulness of financial reports based on the needs of the users.
- To keep the standards current and reflect changes in the Governmental environment.

- To provide guidance on implementation of standards.
- To consider significant areas of accounting and financial reporting that can be improved through the standard setting process.
- To improve the common understanding of the nature and purpose of information contained in financial reports.

STANDARD- SETTING PROCEDURE FOR ACCOUNTING STANDARDS:

The following procedures are adopted by the GASAB for formulating Standards:

- The GASAB Secretariat identifies areas for Standard formulation and places them before the GASAB for selection and approval. While doing so, the Secretariat places before the GASAB oil important suggestions references, proposals received from various sections of the Union State Governments, members of GASAB, members of Civil Society, Professional Bodies and other Stakeholders. The priorities, as approved by the GASAB, guide further functioning of the GASAB Secretariat.
- The GASAB Secretariat thereafter prepares the discussion paper on the selected issues for consideration of the GASAB.
- While doing so, the Secretariat studies the existing rules, codes and principles as internal sources, and documents/pronouncements /Standards issued by other national and international standard setting and regulatory bodies. The Secretariat may also hold consultation with such other persons as are considered necessary for this purpose.
- On consideration of the Discussion paper and the comments received thereon, the GASAB finalizes the Exposure Draft.
- The GASAB may constitute Standing Committee and/ or Task based Groups from amongst the Members or their representatives to consider specific areas before finalization.
- The Exposure Draft, as approved for the issue by the GASAB, are widely circulated in the public domain and forwarded to all stakeholders. The Exposure Draft required to be hosted at the website of GASAB.
- Based on the comments received on the Exposure Draft, the Standards are finalized by the GASAB. The Standards, as finalized, are forwarded to the Government for notification in accordance with the provisions of the Constitution of India.
- The meetings are normally chaired by the chairperson. In unforeseen circumstances when Chairperson is unable to attend, the senior most members from the Central

Government will chair the meeting. The Comptroller & Auditor General of India will be kept informed of the important developments in the meetings of GASAB.

- The GASAB may meet as often as is deemed necessary but generally not less than four times in a financial year. The basis of the GASAB may preferably be by general consensus. In case differences persist the decision shall be on the basis of voting favouring the recommendation. The dissenting views should also be forwarded to the Government along with the recommendation.
- GASAB allows an exposure period of 90 days for inviting comments on Exposure Draft.

Recent Activities of Government Accounting Standards Advisory Board

The Indian Government Accounting Standards (IGAS), formulated by the Government Accounting Standards Advisory Board (GASAB) and notified by the Ministry of Finance, Government of India.

Guarantees given by Governments: Disclosure Requirements (IGAS 1)

Accounting and Classification of Grants-in-aid (IGAS 2)

Loans and Advances made by Governments (IGAS 3)

The Indian Government Accounting Standards (IGAS), approved by the Government Accounting Standards Advisory Board (GASAB) and under consideration of Government of India, are:

IGAS 7- Foreign Currency Transactions and Loss/Gain by Exchange Rate Variations

IGAS 9- Government Investments in Equity

IGAS 10- Public Debt and Other Liabilities of Governments: Disclosure Requirement

Accrual based Accounting Standards, i.e., Indian Government Financial Reporting Standards (IGFRS), approved by the Government Accounting Standards Advisory Board (GASAB) under consideration of Government of India:

IGFRS 1: Presentation of Financial Statements

IGFRS 2: Property, Plant & Equipment

IGFRS 3: Revenue from Government Exchange Transactions

IGFRS 4: Inventories

IGFRS 5: Contingent Liabilities (other than guarantees) and Contingent Assets: Disclosure Requirements

Formulation of some other IGFRSs/IGASs is under progress.

Indian Government Accounting Standards (IGAS) and Indian Government Financial Reporting Standards (IGFRS)

Government accounting in India follows cash basis of accounting. Government Accounting Standards Advisory Board (GASAB) constituted by the Comptroller and Auditor General of India with support of Government of India has been working on migration to accrual basis of accounting in Union and States. Any decision to change the basis of accounting from cash to accrual would essentially be based on a decision of the President of India on the advice of Comptroller and Auditor General of India under Constitutional provisions.

Indian Government Accounting Standards (IGAS) are formulated by the GASAB (Govt. Accounting Standards Advisory Board). These standards are for cash system of accounting and become mandatory from the effective date after their notification by Ministry of Finance, Govt. of India.

IGAS Notified by Government of India

Guarantees given by Government: Disclosure Requirements (IGAS 1)

The objective of this Standard is to set out disclosure norms in respect of Guarantees given by the Union, the State Governments and Union Territory Governments (with legislature) in their respective Financial Statements to ensure uniform and complete disclosure of such Guarantees.

Accounting and Classification of Grants-in-aid (IGAS 2)

The objective of this Standard is to prescribe the principles for accounting and classification of Grants-in-aid in the Financial Statements of Government both as a grantor as well as a grantee. The Standard also aims to prescribe practical solutions to remove any difficulties experienced in adherence to the appropriate principles of accounting and classification of Grants-in-aid by way of appropriate disclosures in the Financial Statements of Government.

Loans and Advances made by Governments (IGAS 3)

The objective of the Standard is to lay down the norms for Recognition, Measurement, Valuation and Reporting in respect of Loans and Advances made by the Union and the State Governments in their respective Financial Statements to ensure complete, accurate, and uniform accounting practices, and to ensure adequate disclosure on Loans and Advances made by the Governments consistent with best international practices.

IGAS approved by GASAB and under consideration of Government of India

Government Investments In Equity (IGAS 9)

The objective of the Standard is to lay down the norms for recognition, measurement, and reporting of investments of the Government in the Financial Statements so that the financial statements provide a true and fair view of investments of the Government, consistent with best international practices.

Foreign Currency transactions and loss or gain by Exchange Rate variations (IGAS 7)

Government may have foreign currency transactions and loss or gain arising due to exchange rate variations. The objective of this standard is to provide accounting and disclosure requirements of foreign currency transactions and financial effects of exchange rate variations in terms of loss or gain in the financial statements. It also deals with the requirements of disclosure of foreign currency external debts and the rate applied for disclosure. 8. The principal issues in accounting and reporting for foreign currency transactions are to decide which exchange rate to apply and how to recognise in the financial statements the financial effects of exchange rate variations in terms of loss or gain.

Public Debt and Other Liabilities of Governments: Disclosure Requirements (IGAS 10)

The objective of the IGAS is to lay down the principles for identification, measurement and disclosure of public debt and other obligation of Union and the State Governments including Union Territories with legislatures in their respective financial statements. It ensures consistency with international practices for accounting of public debt in order to ensure transparency and disclosure in the financial statements of Government for the benefit of various stake holders.

Indian Government Financial Reporting Standards (IGFRS)

There is a much felt need for government accounting framework and standards on accrual basis to facilitate pilot studies and research efforts on migration to accrual accounting at Union and State level. To facilitate pilot studies and for scale up of activities, GASAB has taken a decision to develop accrual basis accounting standards alongside cash basis standards. The accrual basis standards are issued under the title 'Indian Government Financial Reporting Standards (IGFRSs)'. The accrual basis standards are issued initially as recommendatory for pilot studies on accrual accounting and will be mandatory with effect from the date of notification by Government of India.

IGFRS approved by GASAB and under consideration of Government of India

IGFRS 1: Presentation of Financial Statements

The objective of IGFRS 1 is to prescribe the manner of presentation of financial statements by Government entities that follow accrual basis of accounting. To achieve this objective,

IGFRS 1 sets out over all requirement for the presentation of financial statements, guidance for their structure and minimum requirements for the content of financial statements presented under the accrual basis of accounting.

IGFRS 2: Property, Plant & Equipment

The objective of the Standard is to prescribe the accounting treatment for property, plant and equipment (PPE) so that users of financial statements can obtain information regarding an entity's investment in its property, plant and equipment and any changes in such investment. The principal issues in accounting for property, plant and equipment are the timing of recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them. The existing cash basis accounting in Government recognises PPE in terms of capital expenditure in the Finance Accounts. The detailed statement of capital expenditure provides information about the current year's capital expenditure as also the cumulative expenditure over a period of time. Assets are classified based not on their nature, but on the basis of Major heads. There is no concept of depreciation. Heritage assets are not recognised in accounts. This standard aims at categorising assets according to their nature and also aims to provide for depreciation of assets, taking into account their usage over the life of the assets This Accounting Standard is applicable to Governments at Union and States and also their sub-entities like departments or offices where the latter are treated as reporting entities for financial statements. The Accounting Standard is applicable to all such entities following accrual basis accounting.

IGFRS 3: Revenue from Government Exchange Transactions

The primary activities of government encompass sovereign functions like providing security, developing infrastructure and implementing social welfare programmes. To help discharge its functions, the government essentially realises its revenue from direct and indirect taxes, duties, fines, grants and donations which are nonexchange transaction. Governments also realises revenue from rendering services, sale of goods or use of its assets by others which are exchange transactions This Standard lays down the principles to be followed for recognition and measurement of revenue from exchange transactions by government entities under accrual basis of accounting, wherein transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Revenue should be accounted for only when it is earned and it has become reasonably certain that the revenue will be realised. This signifies that revenue should be recognised only when the services are

rendered or the sale is effected. Thus, in order to recognise revenue, actual receipt of cash is not necessary.

IGFRS 4: Inventories

The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any written down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The existing cash basis accounting system in Government recognises inventories in terms of expenditure either charged off to a capital head or revenue head. The Finance Accounts of Government do not depict the stock at the end of the year as a distinct line item. Thus, in the existing system, there is no concept of inventories at the end of reporting period being treated as an asset to be consumed in the subsequent reporting period. This treatment is in consonance with the cash basis of accounting in which expenditure is treated as incurred when cash is paid irrespective of the period in which benefits are derived. This Standard aims at using accrual principles of accounting for inventories – both at the stage of charging as expense and depicting the closing stock in the financial statements at the end of the reporting period.

IGFRS 5: Contingent Liabilities (other than guarantees) and Contingent Assets: Disclosure Requirements

The objective of the IGFRS on the subject is to lay down the principles for disclosure requirements of Contingent Liabilities (other than guarantees) and Continent Assets for both the Union and the State Governments including Union Territories with Legislatures, in their respective Financial Statements in order to ensure uniform and appropriate disclosure of such liabilities and assets. It also ensures consistency with international best practices leading to transparency and improved quality of disclosure in the financial reports of Governments for the benefit of various stakeholders. An important objective of the IGFRS is to ensure that Governments portray the risks associated with contingent liabilities and contingent assets in a transparent manner.

Summary: Government accounting involves systematically collecting, classifying, recording, summarizing, and interpreting financial transactions, including revenues and expenditures of government offices. Key objectives include providing information about revenues, expenditures, deposits, loans, and cash availability. Principles and methods include

single entry system dominance, commercial enterprise differentiation, classification of incomes and expenditures, and consolidated transactions. The structure of government financial administration in India is outlined, emphasizing executive powers, audit boards, and comparisons with commercial accounting. Notable differences between government and commercial accounting include objectives, data entry systems, and basis of accounting statements. Essential terms include demand for grant, supplementary grant, treasuries, votable and non-votable items, appropriation act, vote on account, and public accounts committee.

The Government of India maintains three key funds for financial transactions - Consolidated Fund of India, Contingency Fund of India, and Public Account. The Consolidated Fund encompasses all government revenues and expenditures, requiring parliamentary authorization for withdrawals. The Contingency Fund serves unforeseen expenditures, replenished after parliamentary approval. The Public Account deals with debts, deposits, and advances, not requiring regular parliamentary approval. The general structure involves monthly compilation of accounts by various departments, submitted to the Accountant General. The Comptroller and Auditor General (CAG) is an independent constitutional body auditing government finances. The Public Accounts Committee (PAC) scrutinizes government expenditures, ensuring compliance and addressing financial irregularities. It consists of elected members from both houses of Parliament, plays a crucial role in financial oversight, and discusses principles of financial discipline.

The decision-making process within the Public Accounts Committee (PAC) follows defined rules and precedents. Decision-making authority rests with the Chairman and Members for Committee decisions, while procedural matters are handled by the Secretariat. Supervision channels involve a hierarchical structure from Reporting Officer to Speaker. Accountability is emphasized at every level, with officers and employees being responsible for their work. PAC sets norms for its functions and follows a time schedule facilitated by Routine Orders. Various documents, rules, and manuals guide PAC's functioning, including those related to the decision-making process. The PAC encourages public consultation on relevant subjects and allows non-official witnesses to contribute. Sub-Committees and Working Groups aid in detailed examinations. The Government Accounting Standards Advisory Board (GASAB) oversees government accounting standards, ensuring transparency and accountability. GASAB formulates and recommends Indian Government Accounting Standards (IGAS) and Indian Government Financial Reporting Standards (IGFRS) for improving decision-making

and public accountability. Recent activities include the formulation of IGAS and IGFRS, highlighting the transition from cash to accrual-based accounting.

The Government Accounting Standards Advisory Board (GASAB) formulates standards like Indian Government Accounting Standards (IGAS) and Indian Government Financial Reporting Standards (IGFRS) to enhance transparency and accountability in government financial statements. IGAS 7 addresses foreign currency transactions and exchange rate variations, emphasizing disclosure requirements for financial effects. IGAS 10 focuses on public debt and liabilities disclosure principles. IGFRS introduces accrual-based standards alongside cash basis for pilot studies, covering financial statement presentation, property, plant & equipment, revenue from exchange transactions, inventories, and disclosure of contingent liabilities/assets.

Check Your Progress:

MCQs:

1. What is the primary objective of government accounting?

   A. Profit maximization

   B. Efficient resource allocation

   C. Systematic financial management

   D. Revenue generation

   Key: C

2. Which system is primarily followed in government accounting?

   A. Double Entry System

   B. Triple Entry System

   C. Single Entry System

   D. Quadruple Entry System

Key: C

3. What is the purpose of the Journal in government accounting?

   A. Revenue classification

   B. Comprehensive audit

   C. Record opening balances

   D. Prepare Balance Sheet

   Key: C

4. What is the term for items that require parliamentary approval for expenditures in government accounting?

A. Non-votable items

B. Fund accounting

C. Votable items

D. Appropriation Act

Key: C

5. Which fund requires parliamentary authorization for all expenditures?

A. Public Account B. Contingency Fund

C. Consolidated Fund D. Reserve Fund

Key: C

6. What is the primary function of the Comptroller and Auditor General (CAG)?

A. Approving government budgets B. Conducting financial audits

C. Managing public accounts D. Regulating contingency funds

Key: B

7. What is the role of the Public Accounts Committee (PAC) in financial oversight?

A. Legislative approval of budgets B. Scrutinizing government expenditures

C. Managing public debts D. Controlling contingency funds

Key: B

8. Which fund acts as an imprest account for unforeseen government expenditures?

A. Public Account B. Reserve Fund

C. Contingency Fund D. Special Fund

Key: C

9. Who is responsible for decision-making in the Public Accounts Committee?

A. Secretariat B. Chairman

C. Reporting Officer D. Director

Key: B

10. What is the hierarchy in the channels of supervision within PAC?

A. Chairman - Joint Secretary - Secretary General

B. Director - Under Secretary - Assistant Director

C. Reporting Officer - Director - Chairman

D. Speaker - Additional Secretary - Under Secretary

Key: C

11. What is the primary mission of the Government Accounting Standards Advisory Board (GASAB)?

A. Budget formulation

B. Improving decision-making and public accountability

C. Financial prudence

D. Cash-based accounting

Key: B

12. Which document guides the decision-making process in the PAC?

A. Exposure Draft

B. Rules of Procedure and Conduct of Business in LokSabha

C. Practice and Procedure of Parliament

D. Manuals on Rules

Key: B

13. What is the primary objective of IGAS 7?

A. Financial statement presentation

B. Disclosure of foreign currency transactions

C. Accrual-based accounting

D. Recognition of contingent liabilities

Key: B

14. Which IGFRS standard prescribes principles for disclosure of contingent liabilities and assets?

A. IGFRS 1 B. IGFRS 2 C. IGFRS 4 D. IGFRS 5

Key: D

Short-Answer Questions:

1. Explain the main objectives of government accounting.
2. Describe the principles and methods of government accounting.
3. Highlight the key differences between government accounting and commercial accounting.
4. Define the terms "Vote on Account" and "Appropriation Act" in government accounting.
5. Explain the purpose and composition of the Public Accounts Committee (PAC).
6. Differentiate between the Consolidated Fund of India and the Public Account.
7. Describe the role of the Contingency Fund in managing unforeseen government expenditures.

8. Highlight the functions and powers of the Comptroller and Auditor General (CAG) of India.
9. Explain the decision-making process in the Public Accounts Committee, highlighting the roles of the Chairman and Members.
10. Describe the channels of supervision within PAC, including the hierarchy from Reporting Officer to Speaker.
11. How does the PAC ensure accountability, and what norms does it set for the discharge of its functions?
12. Discuss the role of Routine Orders in facilitating the time schedule for PAC's mandated functions.

Long-Answer Questions:

1. Discuss the structure of financial administration in India, emphasizing the roles of the President, Governor, and Audit Boards.
2. Explain the significance of the Public Accounts Committee (PAC) in scrutinizing government financial reports and its role as a watchdog.
3. Elaborate on the terms and expressions used in government accounting, including Demand for Grant, Supplementary Grant, and Treasuries.
4. Explore the key features and functions of Local Government Accounting in India, emphasizing fund accounting and budgetary considerations.
5. Provide a detailed overview of the three main funds maintained by the Government of India for financial transactions.
6. Examine the historical evolution and significance of the Public Accounts Committee (PAC) in India's parliamentary financial oversight.
7. Discuss the responsibilities and functions of the Comptroller and Auditor General (CAG) in auditing government finances and ensuring accountability.
8. Explore the general structure of government accounts, including the compilation process, roles of treasury and account officers, and the submission of reports to the President.
9. Provide a comprehensive overview of the decision-making process in the Public Accounts Committee, emphasizing its procedural aspects and adherence to rules.
10. Examine the significance and impact of public consultation in the decision-making process of the Public Accounts Committee, considering its role in ensuring transparency and accountability.

11. Discuss the structure, responsibilities, and recent activities of the Government Accounting Standards Advisory Board (GASAB) in improving government accounting standards and financial reporting.
12. Explore the role of Sub-Committees and Working Groups in aiding the Public Accounts Committee in detailed examinations, and how these contribute to the effectiveness of PAC's oversight responsibilities.

Suggested Readings (Latest Edition):

1. Ronen, Joshua, Yaari, Earnings Management, Varda
2. JR Hicks,Value and Captial, ELBS, London
3. TP Ghosh, Accounting Standards, Taxman, New Delhi
4. Ashish K Bhattacharyya, Accounting for Managers, PHI, New Delhi
5. James L Grant, Foundations of Economic Value Added, John Willey & Sons, New Jersey
6. Amitabh Mukherjee, Accounting Standards, Taxman, New Delhi
7. Menicucci, Fair Value Accounting Key Issues, Palgrave Macmillan, UK
8. Ashish K Bhattacharyya, Essentials of Financial Accounting, PHI, New Delhi
9. Interpretation and Application of IFRS Standards, Wiley Regulatory Reporting
10. Ralph Tiffin, The Complete Guide to IFRS (including IAS and Interpretation)
11. Handriksen , Accounting Theory, Tata McGraw Hill
12. The Companies Act, 2013
13. www.ifrs.org
14. www.icai.org
15. www.mca.gov.in

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