

Critical issues in Finalization of Corporate Financial Statements and its **Audit Report**



CA. PRAMOD JAIN

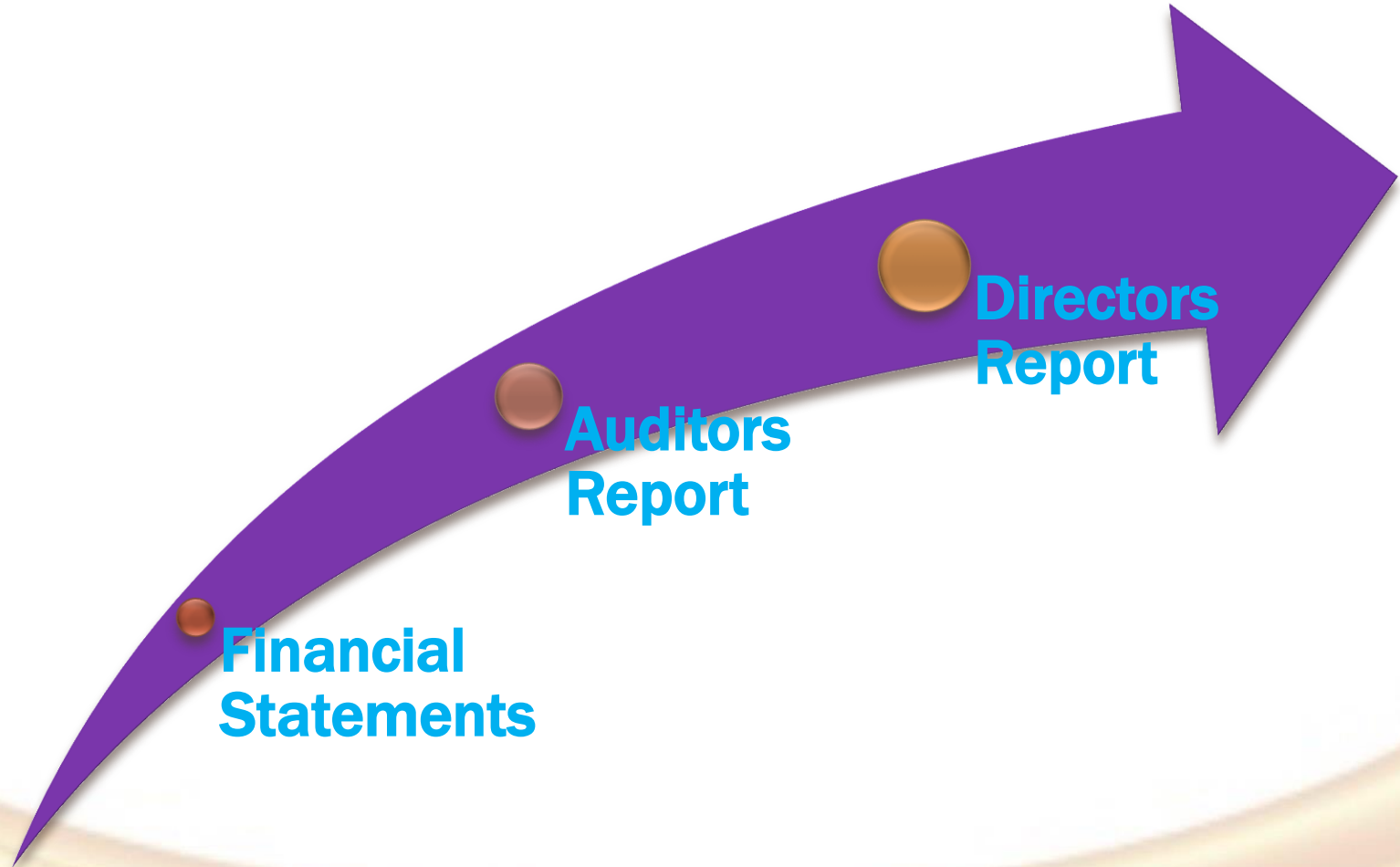
B. COM (H), FCA, FCS, FCMA, LL.B, MIMA, DISA, IP

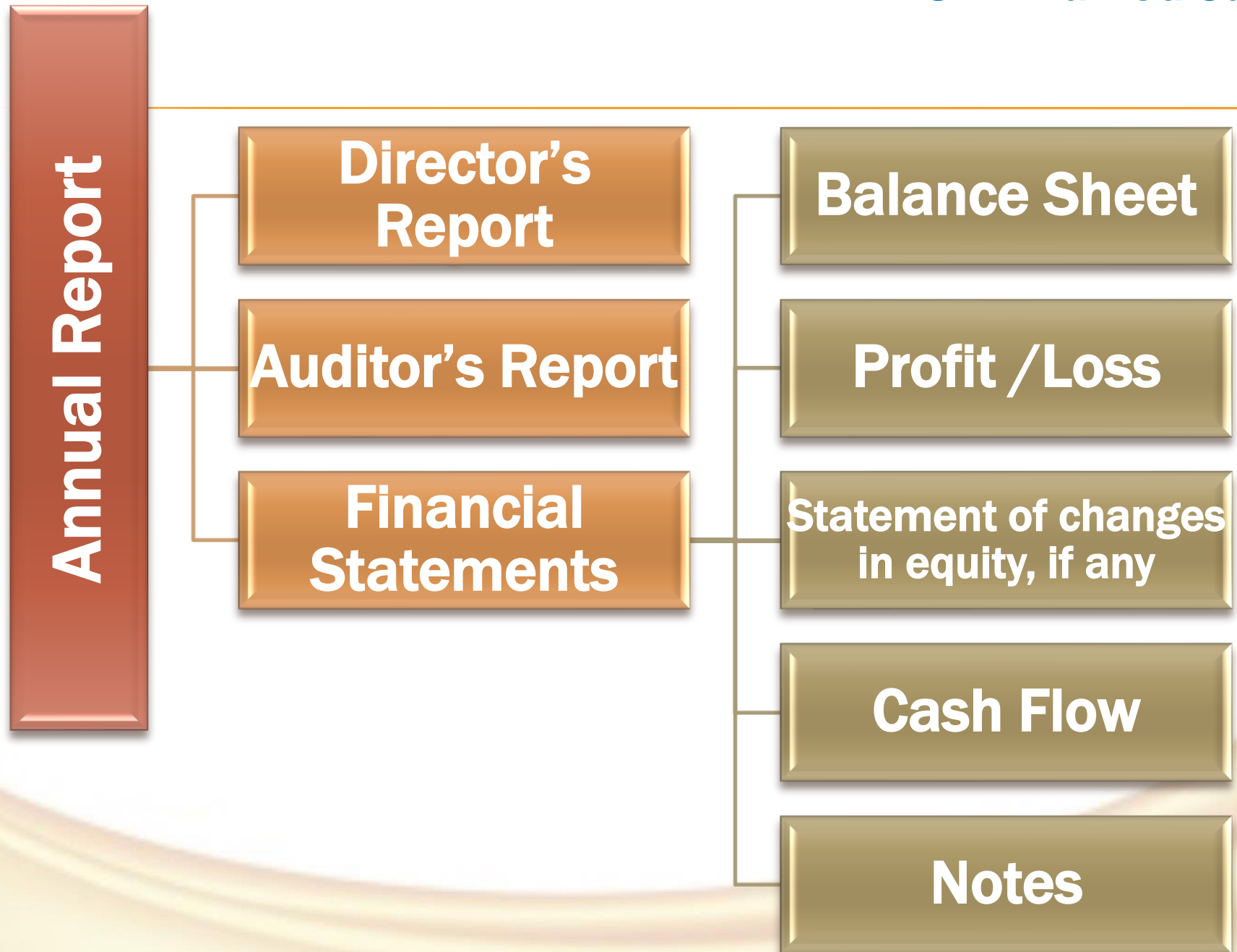
Shared at

Webinar, Chandigarh Branch of NIRC of ICAI

29th December 2021

THE PROCESS







FINANCIAL STATEMENTS

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

GENERAL

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

GENERAL

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

SHARE CAPITAL & RESERVES

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

BORROWINGS

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

OTHER CURRENT LIABILITIES

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

OTHER CURRENT LIABILITIES

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

LIABILITIES ??

- ✖ **Share Application Money Pending allotment**
- ✖ **Loans from Friends??**
- ✖ **Current / Non-Current Loans**
- ✖ **Advances from Customers – DPT-3**
- ✖ **Trade payables – Ageing – FY 2021-22 !!!**

PROPERTY PLANT & EQUIPMENT

✖ **PPE on the face of the Balance Sheet has to be classified as follows:**

- + **Tangible Assets**

- + **Intangible Assets**

 - ✖ **Software**

- + **Capital work-in-progress**

- + **Intangible assets under development**

✖ **Capital advances to be grouped as Capital Work-in-Progress or loans and advances? Long term or short term?**

INVENTORIES

✖ Classification into:

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

ASSETS??

- ✖ **Investment Property**
- ✖ **Inventories**
- ✖ **Cash**
- ✖ **Loans without interest**
- ✖ **Debtors – Ageing / Provisioning –
FY 2021-22**
- ✖ **Miscellaneous Expenditure**

REVENUE FROM OPERATIONS

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

OTHER INCOME

✗ To be classified as:

- + Interest income (other than for finance company)
- + Dividend
- + Dividend from subsidiary company
- + Net gain / loss on sale of investments
- + Other non-operating income

✗ Interest, dividend, etc. to be disclosed separately for Current as well as Non Current Investments

EXPENSES

Disclosure on face of the PL:

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

FINANCE COST

CA. Pramod Jain

- ✖ Interest expense
 - + Interest on borrowings, debentures, bonds, etc.
 - + Finance charges on finance lease are in nature of interest
- ✖ Other borrowing costs
 - + Commitment charges
 - + Loan processing charges
 - + Guarantee charges
 - + Loan facilitation charges
 - + Discounts/ premium on borrowings
 - + Other ancillary costs
- ✖ Applicable net loss on foreign currency transactions to the extent they are regarded as adjust to interest cost
- ✖ Interest on Tax???

OTHER EXPENSES

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

Notes to the Accounts



ACCOUNTING STANDARDS



Entities that are to follow AS

Companies

Other than Companies

**Companies
(Accounting
Standards)
Rules, 2006**

Ind AS

ICDS

**AS issued
by ICAI**

ICDS

AS DISCLOSURES IN NOTES

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

AS APPLICABILITY FOR COMPANIES OTHER THAN IND AS

✖ Effective for Accounting Periods from 1.4.2021

Conditions	SMC			Other than SMC	
	Existing	Revised		Existing	Revised
Turnover (excluding other Income) in PY	< 50 Cr	< 250 Cr		> 50 Cr	> 250 Cr
Borrowing (including public deposit)	< 10 Cr	< 50 Cr		>10 Cr	> 50 Cr

SMC DISCLOSURE

- ✖ **For FS upto 31.3.2021** - “The Company is a Small and Medium Sized Company (SMC) as defined in the General Instructions in respect of Accounting Standards notified under the Companies Act, 2013. Accordingly, the Company has complied with the Accounting Standards as applicable to a Small and Medium Sized Company.”
- ✖ **For FS from 1.4.2021** - “The Company is a Small and Medium Sized Company (SMC) as defined in the Companies (Accounting Standards) Rules, 2021 notified under the Companies Act, 2013. Accordingly, the Company has complied with the Accounting Standards as applicable to a Small and Medium Sized Company.”
- ✖ **Two year wait period if change from Non-SMC to SMC**

AS APPLICABILITY FOR NON-COMPANIES

- ✖ Effective for Accounting Periods from 1.4.2020
- ✖ Instead of 3 levels.. Now 4 levels

Level	Turnover			Borrowing	
	Existing	Revised		Existing	Revised
I (Large)	> 50 Cr	> 250 Cr		> 10 Cr	> 50 Cr
II (Medium)	1-50Cr	50-250 Cr		1-10 Cr	10-50 Cr
III (Small)	< 1 Cr	10-50 Cr		< 1 Cr	2-10 Cr
IV (Micro)		< 10 Cr			< 2 Cr

MSME DISCLOSURE NON CORPORATE

- ✘ **“The Entity is a Micro Small and Medium Sized Enterprise (MSME) as per the announcement made by ICAI and has complied with the Accounting Standards insofar as they are applicable to entities falling in Level II or Level III or Level IV, as the case may be.”**
- ✘ **Two year wait period if change from Level I to II or II to III or III to IV**

AS APPLICABILITY

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

AS APPLICABILITY

AS No.	Short Title	Companies		Non - Companies			
		Non-SMC	SMC	L - I	L- II	L - III	L - IV
16	Borrowing Cost	Y	Y	Y	Y	Y	Y
17	Segment	Y	N	Y	N	N	N
18	Related Party	Y	Y	Y	Y	N	N
19	Leases	Y	Partly	Y	Partly	Partly	Partly
20	Earning Per Share	Y	Partly	N	N	N	N
21	Consolidation	N/Y	N/Y	(listed)	N	N	N
22	Deferred Taxes	Y	Y	Y	Y	Y	Partly
23	Consolidated Statements	N/Y	N/Y	(listed)	N	N	N
24	Discontinuing Operation	Y	Y	Y	Y	N	N
25	Interim Reporting	Y (listed)	N**	N**	N**	N**	N
26	Intangible Assets	Y	Y	Y	Y	Y	Partly
27	Interest in Joint Ventures	N/Y	N/Y	(listed)	N	N	N
28	Impairment	Y	Partly	Y	Partly	Partly	N
29	Contingency	Y	Partly	Y	Partly	Partly	Partly

RELATED PARTY

```
graph TD; RP[RELATED PARTY] --> AS[Accounting Standards]; RP --> CA[Companies Act]; RP --> IT[Income Tax]; AS --> AS18[AS 18]; CA --> S276[S. 2(76)]; IT --> 40A2b[40A(2)(b)]; S276 --> S184[S. 184]; S276 --> S188[S. 188];
```

**Accounting
Standards**

AS 18

**Companies
Act**

S. 2(76)

S. 184

S. 188

Income Tax

40A(2)(b)

IMPORTANT NOTES

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

IMPORTANT NOTES

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

IMPORTANT NOTES

✖ Foreign Exchange Earnings (Accrual basis):

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

OTHER DISCLOSURES IN NOTES

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

OTHER DISCLOSURES IN NOTES

✖ Public Companies:

- + Money received from director

✖ Private companies

- + Money received from director

- + Money received from relative of director

CSR COMPLIANCE

- ✖ Co. to constitute CSR Committee & spend at least 2% of average net profits of co. made during 3 immediately preceding FYs, if during immediately preceding FY:
 - + Net worth of Rs. 500 Cr. or more; or
 - + Turnover of Rs. 1000 Cr. or more; or
 - + Net profit of rupees Rs. 5 Cr or more
- ✖ If not spent:
 - + Not a ongoing project - trf to Sch. VII fund in 6 mnths
 - + Ongoing Project – trf within 30 days to special A/c – spend within 3 yrs. If not trf to Sch.VII fund in 30days

SCHEDULE III AMENDMENTS

CHANGES – B/S

- ❖ Rounding-Off – Turnover to Total Income
- ❖ Heading of PPE corrected
 - + II. ASSETS
 - + Non-current assets
 - + (1) (a) Property, Plant & Equipment and Intangible assets
 - + (i) ~~Tangible assets~~ Property, Plant & Equipment
- ❖ Promoters' shareholding & changes during year
- ❖ “Current Maturities of Long term borrowings” reclassified as Short Term Borrowings instead of Current Liabilities

CHANGES – B/S

- ❖ **Security Deposits reclassified as Other Non-current assets instead of Long-Term Loans & advances**
- ❖ **Trade Payables Ageing – MSME / Disputed**
- ❖ **Trade Receivable Ageing – Disputed / Doubtful / Unbilled Dues**
- ❖ **CWIP / Intangible Asset under Development ageing – In Progress / temporarily suspended - overdue or has exceeded its cost compared to its original plan CWIP separately (ageing of to be completed)**
- ❖ **In PPE / Intangible Asset Reco. - amt of change due to revaluation (if change is 10% or more in aggregate of net carrying value of each class of PPE) added**

CHANGES – B/S

- ❖ Title deeds of Immovable Property not held in name of the Company – Includes ...if held in name of promoter, director or relative of promoter / director or employee of promoter / director – **CARO – Cl. – 1(c)**
- ❖ In case of revaluation of PPE – valuation by a registered valuer – **CARO – Cl. – 1(d)**
- ❖ Loans or Advances in nature of loans **granted** to promoters, directors, KMPs & related parties (Companies Act) either severally or jointly - repayable on demand or without specifying any terms / period of repayment... along with % to total advances – AS 18, S. 186(4) – **CARO – Cl. – 3(f)**

CHANGES – B/S

- ❖ Where company has not used borrowings from banks & FIs for specific purpose for which it was taken at B/S date - Details of where used – **CARO – Cl. – 9(c) – For TL only**
- ❖ Benami Property – to be given only where any proceedings have been initiated or pending against the company – **CARO – Cl. – 1 (e)**
- ❖ Where the Company has borrowings from banks or FIs against current assets - Quarterly returns filed are in agreement with books of accounts - if not, summary of reconciliation & reasons of material discrepancies – **CARO – Cl. 2(b) – 5 Cr**

CHANGES – B/S

❖ Ratios along with numerator & denominator -
explanation if variation > 25% - **CARO – cl. (19)**

1. Current Ratio
2. Debt-Equity Ratio
3. Debt Service Coverage Ratio
4. Return on Equity Ratio
5. Inventory turnover ratio
6. Trade Receivables turnover ratio
7. Trade payables turnover ratio
8. Net capital turnover ratio,
9. Net profit ratio,
10. Return on Capital employed
11. Return on investment.

CHANGES – B/S

- ❖ Details where a company is a declared wilful defaulter by any bank / FI / other – **CARO – Cl. - 9(b)**
- ❖ Details of utilisation of Borrowed funds and share premium – **CARO – Cl. 9(e) & 9(f)**
 - ❖ Where company has advanced.. to any other person(s) or entity(ies), including foreign entities (Intermediaries) with the understanding (whether recorded in writing or otherwise) that the Intermediary shall:
 - ❖ directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company (Ultimate Beneficiaries) or
 - ❖ provide any guarantee, security or the like to or on behalf of Ultimate Beneficiaries
 - ❖ Similar – where company has borrowed....

CHANGES – B/S

- ❖ Relationship with struck-off Company – Investment, Drs, Crs, Shareholders, Others
- ❖ Any charges or satisfaction yet to be registered with Registrar of Companies beyond the statutory period, details and reasons thereof.
- ❖ Compliance with number of layers of companies
- ❖ Compliance with approved Scheme(s) of Arrangements – accounting in books of account ‘in accordance with the Scheme’ and ‘in accordance with accounting standards’ and deviation, if any

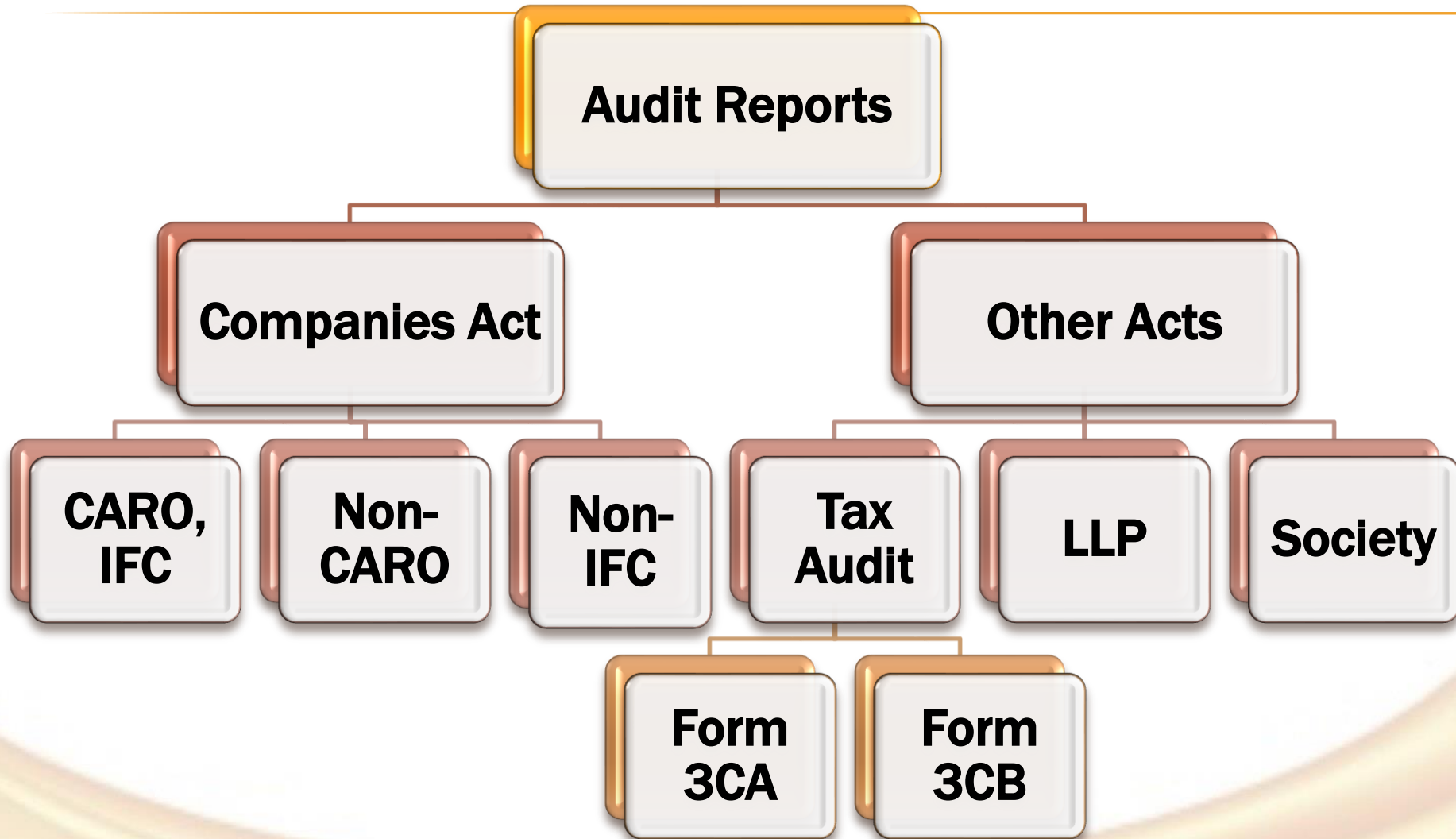
AUDIT



AUDITING STANDARDS

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

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



COMPANY'S AUDIT REPORT

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

IFC APPLICABILITY W.E.F. 13.7.2017

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

TYPES OF AUDIT REPORTS

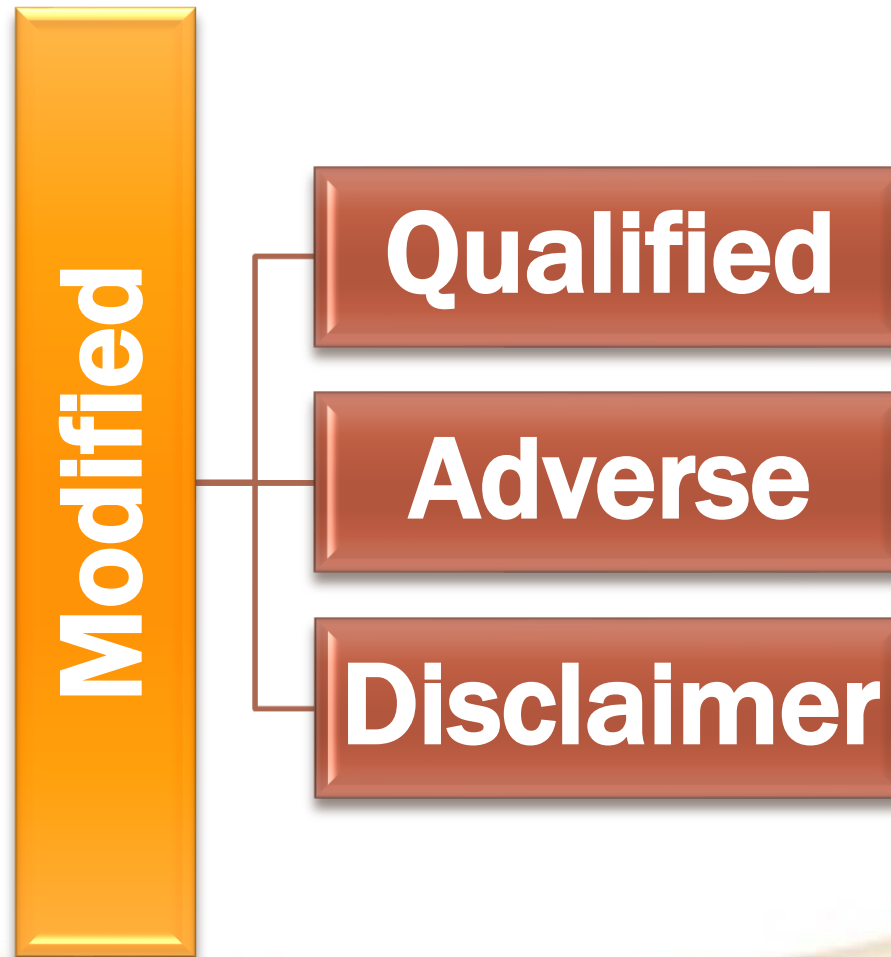


Unmodified



Modified

MODIFIED AUDIT REPORTS



MODIFIED AUDIT REPORTS

	Auditor's judgment about Pervasiveness of the matter	
Nature of Matter	Material but NOT Pervasive	Material AND Pervasive
Financial statements are Materially misstated	Qualified Opinion (...except for...)	Adverse Opinion (...do not present true & fair...)
Unable to obtain Sufficient Appropriate Audit Evidence	Qualified Opinion (...except for...)	Disclaimer of Opinion (...we do not express an opinion...)

CARGO 2016

CARO 2016 – APPLICABILITY ???

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

AUDIT REPORT FOR FY 2020-21

✖ Revised SA 700–Illustrations of Auditor's Report on Financial Statements of:

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

OTHER IMPORTANT POINTS

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

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

AUDIT PROCEDURE



**AUDIT NOT
DOCUMENTED
IS
AUDIT NOT DONE**

A one stop place where all your Queries can be answered by various Experts throughout the Country

www.expertspanel.in

ExpertsPanel.in

Questions



Questions

Categories

Experts

Ask a Question

Sign Up

Login

A Place to Share Knowledge

for and by Professionals in Law, Tax, Accounts, Finance

Recent Questions

Articles

Presentations

Videos

Notifications

All Categories

Goods and Services
Tax (GST)

(3,106)

Income Tax

(2,368)

Corporate
Matters/LLP

(565)

Audit & Assurance and
Accounting Standards

(208)

Bank / Insurance /
Stock / Debtors Audit

(60)

Recent Questions

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

1

answer

Q. Eligibility of input tax credit of CESS on Coal

Answered By **CA Raman Khatuwala**

8 views

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

0

answers

Q. How I file income tax return

11 views

Ask a question:

Next

Concept by
CA Pramod Jain



**This Presentation would be available
on**

www.lunawat.com

Also may download free mobile app

“LUNAWAT”

for all updates since year 2007

Thank You!

STAY SAFE
AND STAY
POSITIVE

CA. Pramod Jain

www.capramodjain.com

pramodjain@lunawat.com

+91 9811073867



© 2021 CA. Pramod Jain, Lunawat & Co.