Introduction

- Schedule III the Companies Act, 2013 was notified along with the Act itself on 29 August, 2013. thereby providing the manner in which every company registered under the Act shall prepare its Financial Statements.
- MCA notified amendments to Schedule III to the Act on 6th April 2016, renamed existing Schedule III as Division I (Non-Ind AS Schedule III) and Disvision III (Ind AS Schedule III).
- Division II' - 'Ind AS Schedule III was inserted to give a format of Financial Statements for companies that are required to comply with the Companies (Indian Accounting Standards) Rules, 2015Companies, preparing its first and subsequent Ind AS Financial Statements, would apply

Introduction

- Companies engaged in the generation and supply of electricity, neither the Electricity Act, 2003, nor the rules framed thereunder, prescribe any specific format for presentation of Financial Statements by an electricity company.
- Section 1(4) of the Companies Act states that the Act will apply to electricity companies, to the extent it is not inconsistent with the provisions of the Electricity Act.
- Ind AS Schedule III as applicable may be followed by such companies till the time any other format is prescribed by the relevant statute.

Main Principles

- **Hierarchy of Ind AS guidance;** Note 8 to General Instructions for Preparation of Financial Statements in Ind AS Schedule III states that the terms used in the Ind AS Schedule III will carry the meaning as defined by the applicable Ind AS. For any term not defined in Ind AS, attention may also be drawn to Framework. However, if any term is not defined in the Ind AS Framework, the entity may give consideration to the principles described in para 10 to para 12 of Ind AS 8 for for accounting policy choice. ***(Refer para 4.8 of GN on Ind AS SIII)***

- **2013 Act and Ind AS guidance on vs Ind AS Schedule III requirements**; if compliance with requirement of 2013 Act, including Ind AS applicable to companies, requires any change in presentation or disclosure in Ind AS financial statement, then Ind AS Schedule III would stand modified accordingly. This indicate that requirement of the 2013 Act and Ind AS would prevail over the guidance in Ind AS schedule III. ***(Refer para 6.2 and 6.3 of GN on Ind AS SIII)***

Current and non-current; Employee benefits obligations

- **Current/Non-current classification of employee benefits obligations**-For the purpose of Ind AS Schedule III, a company also needs to classify its employee benefit obligations as current and non-current categories. While Ind AS-19 Employee Benefits governs the measurement of various employee benefit obligations, their classification as current and noncurrent liabilities will also be governed by the criteria laid down in Notes 1 to 3 to the General Instructions for Preparation of Balance Sheet in Ind AS Schedule III, which are consistent with Ind AS 1. In accordance with these criteria, a liability is classified as "current" if a company does not have an unconditional right as on the Balance Sheet date to defer its settlement for twelve months after the reporting date. ***(Refer para 7.9 of GN on Ind AS SIII)***

Current and non-current; Convertible instruments

- **Current/Non-current classification by issuer in case on convertible instruments eg conversion option with issuer or mandatory convertible;** Both, Ind AS 1 and Ind AS Schedule III clarifies that, “the terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification”. A consequence of this is that if the conversion option in convertible debt is exercisable by the holder at any time, the liability cannot be classified as “current” if the maturity for cash settlement is greater than one year.
- Based on the specific exemption granted only to those cases where the conversion option is with the counterparty, the same should not be extended to other cases where such option lies with the issuer or is a mandatorily convertible instrument. For all such cases, conversion of a liability into equity should be considered as a means of settlement of the liability. Accordingly, the timing of such settlement also decides the classification of such liability in terms of Current or Non-current as defined in Ind AS Schedule III. ***(Refer para 7.11 of GN on Ind AS SIII)***

Separate classification; Land and Building

- **Classification of land and building as separate class of assets;** Under the Ind AS Schedule III, land and building are presented as two separate classes of property, plant and equipment. In contrast, paragraph 37 of Ind AS 16 gives an example of grouping land and building under same class for revaluation purposes. The para states that a class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. However, companies should continue to present land and building separately as given in Ind AS Schedule III and such presentation needs to be followed consistently. ***(Refer para 8.1.1.6 of GN on Ind AS SIII)***

Financial Instruments; In the nature of equity

- **Instruments entirely in the nature of equity;** Ind AS 32 defines an equity instrument as "any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities". The accounting definition of 'Equity' is principle based as compared to the legal definition of 'Equity' or 'Share', such that any contract that evidences residual interest in an entity's net asset is termed as 'Equity' irrespective of whether it is legally recognized as a 'Share' or not. Accordingly, all instruments (including convertible preference shares and convertible debentures) that meet the definition of 'Equity' as per Ind AS 32 in its entirety and when they do not have any component of liability, should be considered as having the nature of 'Equity' for the purpose of Ind AS Schedule III. Such instruments shall be termed as 'Instruments entirely equity in nature'.
- Instruments entirely equity in nature, may be presented as a separate line item on the face of the Balance Sheet under 'Equity' after 'Equity Share Capital' but before 'Other Equity'. ***(Refer para 8.2.1.6-8.2.1.7 of GN on Ind AS SIII)***

Financial instruments; Compound instruments

- **Compound Instrument;** Ind AS 32 defines an equity instrument as "any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities". Instruments entirely equity in nature, may be presented as a separate line item on the face of the Balance Sheet under 'Equity' after 'Equity Share Capital' but before 'Other Equity'.
- Premium received on Compulsorily Convertible Preference Shares which are entirely equity in nature shall be classified and presented as a part of 'Other Equity' under 'Securities Premium Reserve'. ***(Refer para 8.2.1.8 of GN on Ind AS SIII)***
- All those compound financial instruments which have both 'Equity' and 'Liability' components, shall be split in accordance with Ind AS 32 and their 'Equity component' shall be presented under 'Other Equity' portion of Statement of Changes in Equity while their 'Liability component' shall be presented as a separate line item under 'Borrowings. ***(Refer para 8.2.1.9 of GN on Ind AS SIII)***

Financial instruments; Compound instruments

- **Compound Instrument**; Ind AS Schedule III, Notes 9 and 10 of General Instructions for Preparation of Balance Sheet highlight that the disclosure and presentation requirements as applicable to the relevant class of 'Equity' or 'Liability' shall be applicable mutatis mutandis to the instruments (including, their components) classified and presented under the relevant heads in 'Equity' and 'Liabilities'.

- Accordingly, it is recommended that the companies provide all the relevant disclosures for 'Equity component of a compound financial instrument' as applicable to 'Equity Share Capital' (given in Note 6(D)(I) of General Instructions for Preparation of Balance Sheet), to the extent applicable. An example could be to disclose, for equity component of compound financial instrument, terms as per Clause (j) i.e. terms of an securities convertible into equity shares issued along with the earliest date of conversion in descending order starting from the farthest such date, etc. For the liability component of compound financial instruments, all the disclosures applicable to 'Borrowings' ***(Refer para 8.2.1.10 of GN on Ind AS SIII)***

Financial instruments; Compound instruments

- **Compound Instrument**; As per the Guidance Note on Terms Used in Financial Statements, the expression ‘Preference Share Capital’ means “that part of the share capital of a corporate enterprise which enjoys preferential rights in respect of payments of fixed dividend and repayment of capital. Preference shares may also have full or partial participating rights in surplus profits or surplus capital.” The rights, preferences and restrictions attached to shares are based on the classes of shares, terms of issue, etc., whether equity or preference. In respect of Equity Share Capital, it may be with voting rights or with differential voting rights as to dividend, voting or otherwise in accordance with such rules and subject to such conditions as may be prescribed under Companies (Share Capital and Debentures) Rules, 2014. In respect of Preference Shares, the rights include (a) with respect to dividend, a preferential right to be paid a fixed amount or at a fixed rate and, (b) with respect to capital, a preferential right of repayment of amount of capital on winding up. For Compulsorily Convertible Debentures, the rights could be with the holder to convert into Equity Shares. ***(Refer para 8.2.1.15 of GN on Ind AS SIII)***

Disclosure of shares held by group

- **Shares in respect each class of shares held by holding/ultimate holding etc.;** The requirement is to disclose shares of the company held by i) Its holding company; ii) Its ultimate holding company; iii) Subsidiaries of its holding company; iv) Subsidiaries of its ultimate holding company; v) Associates of its holding company; and Associates of its ultimate holding company.
- The terms 'subsidiary' and 'associate' should be understood as defined under Ind AS 110 and Ind AS 28. The term 'holding company' is not defined in Ind AS, therefore, it may be referred from the definition as per Section 2 (46) of the Act. However, the equivalent term 'parent' is defined in Ind AS 110. Based on the aforesaid definitions, for the purposes of the above disclosures, shares held by the entire chain of subsidiaries and associates starting from the holding company and going right up to the ultimate holding company would have to be disclosed.
- In case of a joint arrangement viz., a joint venture or a joint operation conducted through a separate legal entity, disclosure may be made for shares of such joint arrangement held by its venturers. ***(Refer para 8.2.1.16 of GN on Ind AS SIII)***

Operating Income and Other Income

- **Other Operating revenue Vs other income**; The term “other operating revenue” is not defined. This would include Revenue arising from a company’s operating activities, i.e., either its principal or ancillary revenue-generating activities, but which is not revenue arising from sale of products or rendering of services. Whether a particular income constitutes “other operating revenue” or “other income” is to be decided. based on the facts of each case and detailed understanding of the company’s activities.
- The classification of income would also depend on the purpose for which the particular asset is acquired or held. For instance, a group engaged in manufacture and sale of industrial and consumer products also has one real estate arm. If the real estate arm is continuously engaged in leasing of real estate properties, the rent arising from leasing of real estate is likely to be “other operating revenue”. On the other hand, consider a consumer products company which owns a 10 storied building. The company currently does not need one floor for its own use and has given the same temporarily on rent. In that case, lease rent is not an “other operating revenue”; rather, it should be treated as “other income”.(**Refer para 9.1.9-9.1.9 of GN on Ind AS SIII**)

Disclosure; GST

- **GST presentation;** Ind AS 18, "revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants." Further, as per Ind AS 18, revenue includes only the gross inflows of economic benefits received / receivable by the entity on its own account.
- Under the GST regime, the collection of GST by an entity would not be an inflow on the entity's own account but it shall be made on behalf of the government authorities. Accordingly, the revenue should be presented net of GST. ".(**Refer para 9.1.6 of GN on Ind AS SIII**)

Disclosure; Share of profit or loss in a limited liability partnership

- **Share of profits/losses in a Limited Liability Partnership (LLP)** A Limited Liability Partnership, as per the LLP Act, is a body corporate. The accounting of return on investment in LLP (i.e. profit share from LLP) will depend on the terms of contract between Company and LLP. The share of profit in LLP shall be recognised as income in the statement of profit and loss as and when the right to receive its profit share is established by the company.

- Depending upon the terms of agreement between the Partners, the LLP may be a Subsidiary under Ind AS 110, Associate under Ind AS 28 or Joint Arrangement under Ind AS 111. Hence, accounting in respect of the same in the Consolidated Financial Statements would be governed by the applicable Ind AS. (**Refer para 9.4 of GN on Ind AS SIII**)

Net interest in Defined benefit Obligation

- **Net interest in DBO - choice between interest cost and employee benefit costs;** Entity have a choice of presenting net interest as interest expenses or employee benefit cost; Net interest on net defined benefit liability which reflects the change in net defined benefit liability that arises from the passage of time. Entity has choice of presenting net interest. (**Refer para 9.5.5A of GN on Ind AS SIII**)

Dividend on financial instruments

- **Dividend on preference shares :**Dividend on preferences shares, whether redeemable or convertible, is of the nature of 'Interest expense', only where there is no discretion of the issuer over the payment of such dividends; In such case, the portion of dividend as determined by applying the effective interest method should be presented as 'Interest expense' under 'Finance cost'. Accordingly, the corresponding Dividend Distribution Tax on such portion of non-discretionary dividends should also be presented in the Statement of Profit and Loss under 'Interest expense'.

- On the other hand, where there is a discretion of issuer over the payments of dividend on preference shares, whether redeemable or convertible, the entire dividend is in the nature of distribution of profit and accordingly, shall be presented in Statement of Changes in Equity. Accordingly, the corresponding Dividend Distribution Tax should also be presented in Statement of Changes in Equity. (**Refer para 9.5.5B of GN on Ind AS SIII**)

Disclosure; MAT credit

- **MAT credit:** Ind AS 12 has the concept of temporary differences as against AS 22 which had a concept of timing differences. Moreover, deferred tax asset is defined in Ind AS 12 to include the carry forward of unused tax credits. MAT Credits are in the form of unused tax credits that are carried forward by the company for a specified period of time. Accordingly, MAT Credit Entitlement should be grouped with Deferred Tax Asset (net) in the Balance Sheet of an entity and a separate note should be provided specifying the nature and amount of MAT Credit included as a part of deferred tax. However, the company should review at each balance sheet date the reasonable certainty to recover deferred tax asset including MAT Credit Entitlement.
- Correspondingly, MAT Credit Entitlement should be grouped with deferred tax in the Statement of Profit and Loss and a separate note should be provided specifying the amount of MAT Credit(**Refer para 9.7.2 of GN on Ind AS SIII**)

Disclosure; Consolidated Financial Statement

- **Consolidated financial statement disclosure :** The requirements of Ind AS schedule III which apply to standalone financial statement shall continue to apply to consolidated financial statement. However for consolidated financial statement additional information needs to be presented including namely;

  1. Profit or loss and other comprehensive income attributable to 'non-controlling interest' and to 'owners of the parent' in the statement of profit and loss shall be presented as allocation for the period
  2. Total comprehensive income' for the period attributable to 'non-controlling interest' and to 'owners of the parent' shall be presented in the statement of profit and loss as allocation for the period. Over and above total comprehensive income shall also be made in the statement of changes in equity.
  3. Non-controlling interests' in the Balance Sheet and in the Statement of Changes in Equity, within equity, shall be presented separately from the equity of the 'owners of the parent'

Disclosure; Consolidated Financial Statement (cont.)

4. Investments accounted for using the equity method.
5. When the proportion of the equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The entity shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent. An entity may present such gain / loss separately as 'Non-controlling Interest Reserve' shown under 'Other Reserves' by specifying the nature.**(Refer para 12.1 of GN on Ind AS SIII)**

Definition; Terms relevant for Consolidation

- **Definition of terms relevant for consolidation;** The terms "Control", "Subsidiary" and "Associate" are defined very differently in the Act as compared to definition in Ind AS. Rule 6 of the Companies (Accounts) Rules, 2015 however states that Consolidated Financial Statements shall be prepared in accordance with the provisions of Ind AS Schedule III of the Act and the applicable Ind AS. Further, Rule 4A of the Companies (Accounts) Rules, 2015 provides that the items contained in the financial statements shall be prepared in accordance with the definitions and other requirements specified in Ind AS**. (Refer para 12.5 of GN on Ind AS SIII)**