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- Consolidated FS

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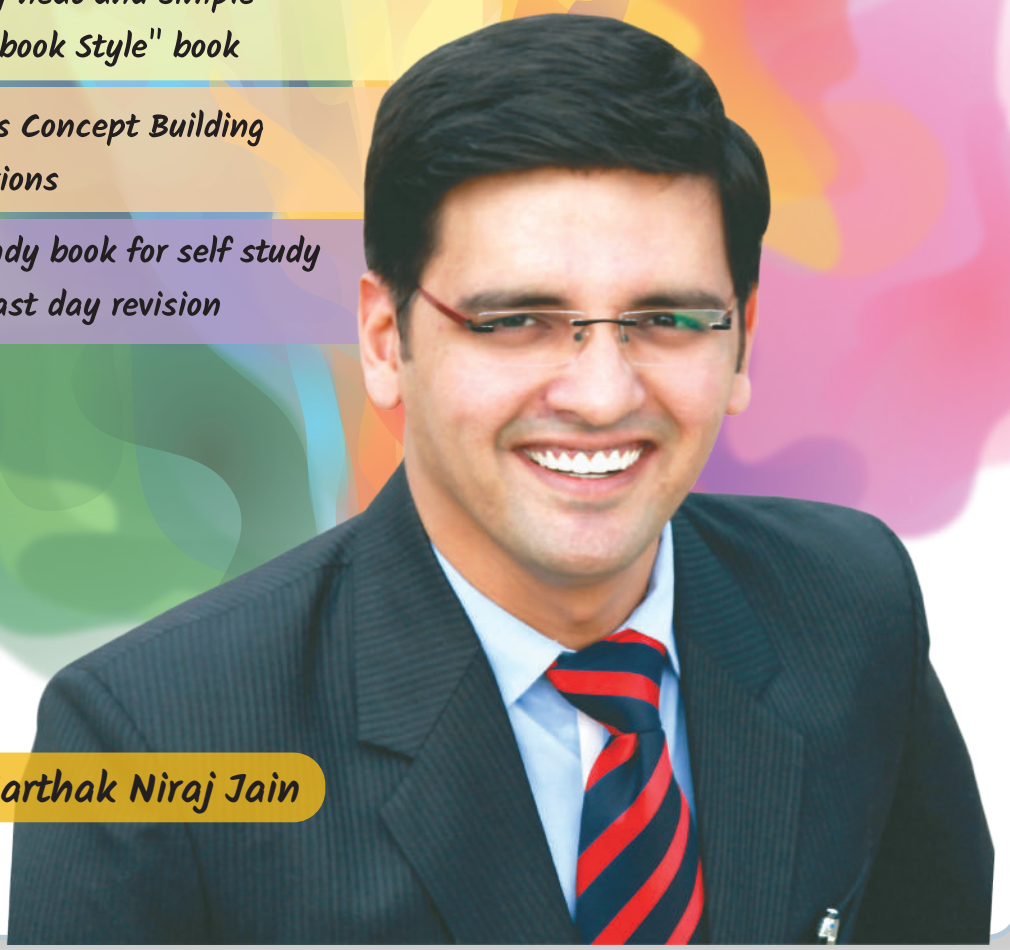
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- Covers Concept Building Questions
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Author : CA. Sarthak Niraj Jain

Advanced Accounting BRAHMASTRA

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(Refer AS Brahmastra for Chapter 1 to 9)

CHAPTER 11

FINANCIAL STATEMENTS OF COMPANIES

A FINANCIAL STATEMENTS

- Balance sheet
- Statement of Profit and Loss
- Cash Flow Statement
- Statement of changes of Equity (if applicable)
- Notes and other statements

Provisions to be followed while preparing final accounts:

- Requirements of Schedule III to the Companies Act;
- Other statutory requirements;
- Accounting Standards notified by Ministry of Corporate Affairs (MCA) (AS 1 to AS 29);
- Statements and Guidance Notes issued by the Institute of Chartered Accountants of India (ICAI) which are necessary for understanding the accounting treatment/ valuation/ disclosure suggested by the ICAI.

B SCHEDULE III – DIVISION I: AS BASED FINANCIAL STATEMENT (FS)

(FS of a company required to comply with the Companies (AS) Rules, 2006)

I. Divisions to Schedule III & Applicability (Section 129 of Companies Act, 2013):

a) Schedule III, Division I applies to companies following AS;
Schedule III, Division II applies to companies following Ind-AS; &
Division III to NBFCs.

b) **Schedule III is not applicable to:**

- Banking Companies
- Insurance Companies
- Companies exempted by CG from S.III requirements

d) **Applies to:**

- NBFCs
- Section 8 Companies (except Statement of Income & Expenditure in place of Statement of Profit & Loss is prepared)
- Govt. Companies

e) Company having Subsidiary/JV/Associate to prepare and present 'Consolidated FS' as well, as per schedule III, unless exempted.

2. Authority:

a) Law prevails over AS as well as Schedule III

b) AS prevail over Schedule III

c) When AS has an option wherein one option is in line with Schedule III & other contradicts schedule III, then follow the former option.



3. Structure of Schedule III:

I. General Instructions (G.I.)	IV. **Part II :** Statement of Profit & Loss-Format (SPL)
II. **Part I:** Format of Balance Sheet	V. General Instruction on Statement of Profit & Loss
III. General Instruction on Balance Sheet	VI. General Instruction on Consolidated F.S.

* Section 2(27) Financial Statements includes:

Balance Sheet	Format & G.I. given in Schedule III
Statement of Profit & Loss	Format & G.I. given in Schedule III
Cash Flow Statement	Refer AS 3 as no format or G.I. given in Schedule III for Cash Flow Statement
Notes to Accounts	Explanatory Notes and Significant Accounting Policies

4. General Instructions overall for FS:

- Flexible format of Schedule III, changing line items, names etc. for better presentation permitted.
- **Rounding off: (mandatory)**
  - **Total Income** ≥ 100 Cr., round off nearest Lakhs (00000), Millions (000000) or Crores (0000000)
  - **Total Income** < 100 crores to nearest hundreds, thousand, lakhs or millions.
- **Notes to Accounts: (can be in form of)**
  - I. Narrative Descriptions – E.g. Contingent Liabilities
  - II. Disaggregation of items presented in FS-
    E.g. BS-PPE-Notes to PPE-Disaggregation
  - III. Disclosure of items not otherwise presented in FS.
    E.g. Charge on assets

5. Balance Sheet: General Instructions: CURRENT & NON CURRENT ASSETS & LIABILITIES

5.1 Current Assets (Para 1 to General Instructions for preparing BS):

Lets Say

When asset satisfies any of the following criteria it is classified as current Asset:

Rule (i) it is expected to be **realised** or intended to be **sold or consumed** within entity's **normal operating cycle** (OC); or

Rule (ii) it is held primarily for the purpose **held for trading**; or

Rule (iii) it is expected to be **realised within 12 months** after the reporting date; or

Rule (iv) it is **Cash or cash equivalent**, unless it is restricted from being used/ exchanged to settle a liability for atleast 12 months after the reporting date

Any asset that is not a current Asset, will be classified as a Non-Current Asset

Examples:-

(1)

Date	Particulars	Case i	Case ii
01.01.25	Credit sales-Debtor	16 months	16 months
	Operating Cycle	16 months	15 months
31.03.25	Classification	Current	Non-Current

(2)

Date	Particulars	Case I	Case ii
01.01.25	Machine purchased	15 months (Life)	15 months (Life)
	Operating Cycle	12 months	15 months
31.03.25	Classification	Non-Current	Non-Current

(3)

31.03.25	Goods expected to be sold in 15 months and will be realised after 3 months of sale.	
Cases	**Particulars**	**Classification**
1	Operating Cycle- 12 months	~~Non-Current~~ Current
2	Operating Cycle- 15 months	Current
3	Operating Cycle- 18 months	Current

Generalisation of above definition of Current Asset:

- **Rule (i)**

a) Only relevant for operating (working capital) items like Raw material, WIP, Finished goods, Debtors, Prepaid expenses, Advance to supplier of goods etc.

b) If above items are expected/intended to be **realised or consumed or sold** (any of these and not just realised) with operating cycle then classification to be current

c) To be tested not on Balance Sheet date but on date when asset is recognised in F.S.

- **Rule (ii)**

a) Applies to all inventory items like stock of raw material, WIP, Finished Goods, By-products, Spares classifiable as inventory

b) Spare parts classifiable as Fixed Assets/PPE will not be covered under this rule

c) Inventory is **Always Current** whether it is slow-moving or not

* **Slow moving or Non moving but if it is inventory, classify it as current**

- **Rule(iii)**

a) **Relevant for all assets**

b) **Realised means encashed (under this rule)**

c) **Any asset, expected to be encashed within 12 month from balance sheet date will be 'Current'**

Eg. A 6 months capital advance for Fixed Asset with 10 months life will not necessarily classified as current, as they are not expected to be realised (encashed) within 12 months

d) **Fixed Assets will only be classified as current:**

(i) When they have been **classified as held for sale**, and

(ii) Are expected to be **sold and realised within 12 month of balance sheet date**

e) **Prepaid expense, Advance to supplier etc. are not classifiable under this rule as such assets are not encashed, unless contract is cancelled & money becomes refundable (as we will receive services/goods against these and not cash)**

An Asset may be Partly classified as **Current** and partly as **Non-current**

Eg. Loan given to borrower for 50 lacs, repayable 10 lacs p.a., what will be classification?

Hint: Classification:

- 10 lacs- Current maturities of long-term loans will be classified as current
- 40 lacs- Non-Current

Expected to be realised is more important than contractual right to realise

g) Eg. Debtors on balance sheet date:

As per contract- credit period remaining is 10 months, but as per practise, expected to be realised in 15 months, what will be the classification?

Hint: Classification: Non-current, as expected to be realised after 12 months

Fictitious Assets, if any, are always Non-Current.

h) Eg. 31.03.2018 share issue expenses (Asset) 30,000 to be written off eventually in next 3 years (assume shown under asset for illustration purpose)

Balance Sheet (extract)

Particulars	Amount
Non-Current Assets	
Other Non-Current Assets: Share issue expenses	30000

- Rule (iv)

Cash & Cash equivalents means: (as per AS-3)

- Alternate form of keeping cash, and + In **readily realisable asset** +Having insignificant risk of changes in value
- Readily realisable asset means realisable within 3 months (ICAI Clarification)

S.II. Current & Non-Current Liabilities

Current liabilities: (Para 2) when any of the following condition met classify liability as a current liability. Else, if will be a non-current liability:

(a) It is expected to be settled **within entity's normal operating cycle; or**

(b) It is primarily **held for the purpose of being traded** (eg. Derivative Financial Liability); or

(c) It is **due to be settled within 12 months after the reporting date** (i.e. Due date is to be seen and not expected settlement date); or

(d) The company does not have an **unconditional right to defer settlement** of a liability for atleast 12 months after the reporting date.

- **Classification is not affected by the fact that settlement is to be made in Cash or through Equity shares**

- **Eg.** Debentures issued, redeemable in 12 months from balance sheet date and holder can convert the debentures into equity shares instead of redeeming.

What will be the classification?

Hint: Current, as it does not matter whether settlement is in cash or equity shares.

S.III. Operating Cycle:

- **Means time taken from acquisition of assets for processing to realisation in cash or cash equivalents;**
- Operating Cycle:



Lead time for acquisition of goods **+ Storage time of Raw material** **+ Processing time** **+ Storage time for Finished Goods before sale** **+ Credit period given to Trade Receivables on sale of goods**	Gross* Operating Cycle (This to be considered)	Net Operating Cycle (Not Considered)
- Credit Period received from supplier of goods		

* **As the obligation is to determine time taken to complete one cycle of business and not to determine working capital blocked in business**

- **Normal Operating Cycle is to be considered :**
  - Normal or Average operating cycle is considered and not contract specific operating cycle
- **One business to have one Operating Cycle only**
  - But if Company has **Multiple Business,** then it can have **separate normal Operating Cycle for each business** and accordingly current/non-current classification of asset/liabilities of each business will be determined
- **If Operating Cycle is not determinable, then assume to be 12 months**

S.IV. Tax Assets / Liabilities:

Deferred Tax Assets/Liabilities

↓

Created on Temporary Differences, Carried forward losses (Refer AS-22)

↓

"Always Non-Current Assets/ Non-Current Liabilities"

Current Tax Asset/Liabilities

↓

Provision for Tax (net of Advance Tax), Tax refundable

↓

"Usually Current" Exceptionally may be non-current

S.V. Share Application Money Pending Allotment:

- If to be refunded → Current Liability
- else → Shown separately as a part of equity

SJ Note

- Equity is never classified as current or Non-current
- Share warrants money received is part of equity shown under SH Funds.

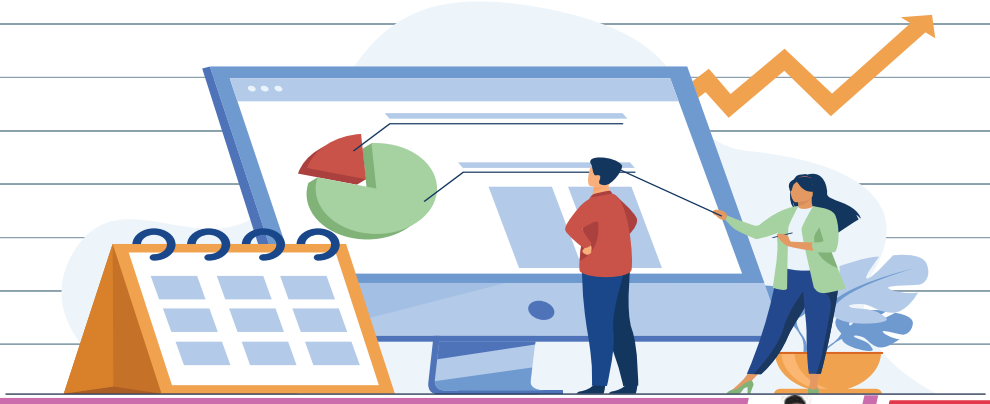
Notes

ILLUSTRATIVE STANDALONE FINANCIAL STATEMENTS

	Balance Sheet as at			
	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3	4
	EQUITY AND LIABILITIES			
1.	**Shareholders' funds**			
	(a) Share capital			
	(b) Reserves and Surplus			
	(c) Money received against share warrants			
2.	**Share application money pending allotment**			
3.	**Non-current liabilities**			
	(a) Long-term borrowings			
	(b) Deferred Tax Liability (Net)			
	(c) Other long term liabilities			
	(d) LT Provisions			
4.	**Current liabilities**			
	(a) Short-term borrowings			
	(b) Trade Payables			
	(A) total outstanding dues of micro enterprises and small enterprises; and			
	(B) total outstanding dues of creditors other than micro enterprises and small enterprises.			
	(c) Other current liabilities			
	(d) Short-term provisions			
	Total			

Contd....

	Balance Sheet as at			
	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3	4
	ASSETS			
1.	**Non-current assets**			
a	PPE and Intangible Assets			
	i. Property, plant and Equipment			
	ii. Intangible assets			
	iii. Capital Work-in-progress			
	iv. Intangible assets under development			
b	Non-current investments			
c	Deferred tax assets (Net)			
d	Long-term loans and advances			
e	Other non-current assets			
2.	**Current assets**			
	(a) Current investments			
	(b) Inventories			
	(c) Trade receivables			
	(d) Cash and cash equivalents			
	(e) Short-term loans and advances			
	(f) Other current assets			
	Total			



Statement of Profit and Loss for the year ended

	Particulars	Note No.	Figures for the current reporting period	Figures for the previous reporting period
I	Revenue From Operations			
II	Other Income			
III	Total Income (I + II)			
IV	**EXPENSES:**			
	Cost of materials consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods,			
	Stock-in-Trade and work-in- progress			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expense			
	Other expenses			
	Total expenses (VI)			
V	Profit before exceptional and extraordinary items and tax (III-IV)			
VI	Exceptional Items			
VII	Profit before extraordinary items and tax (V - VI)			
VIII	Extraordinary Items			
IX	Profit before tax (VII- VIII)			
X	Tax expense: (1) Current tax (2) Deferred tax			
XI	Profit (Loss) for the period from continuing operations (IX-X)			
XII	Profit/(loss) from discontinuing operations			
XIII	Tax expense of discontinuing operations			
XIV	Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)			
XV	Profit (Loss) for the period (XI + XIV)			
XVI	Earnings per equity share:			
	(1) Basic			
	(2) Diluted			

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