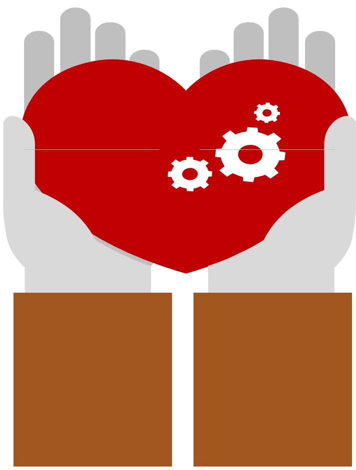
FINANCIAL STATEMENTS FOR NON- CORPORATE ENTITIES

M.P. Vijay Kumar

INSURANCE!!!



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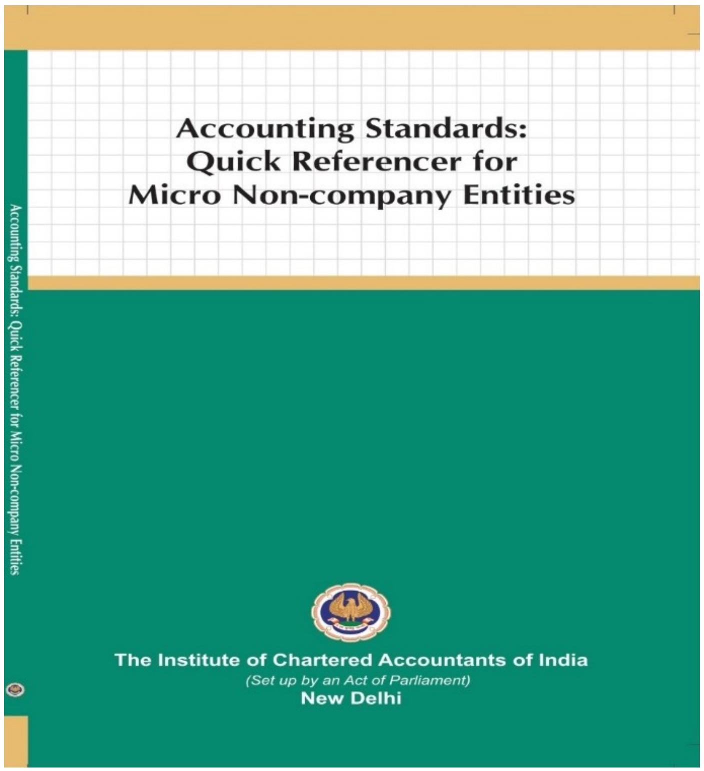


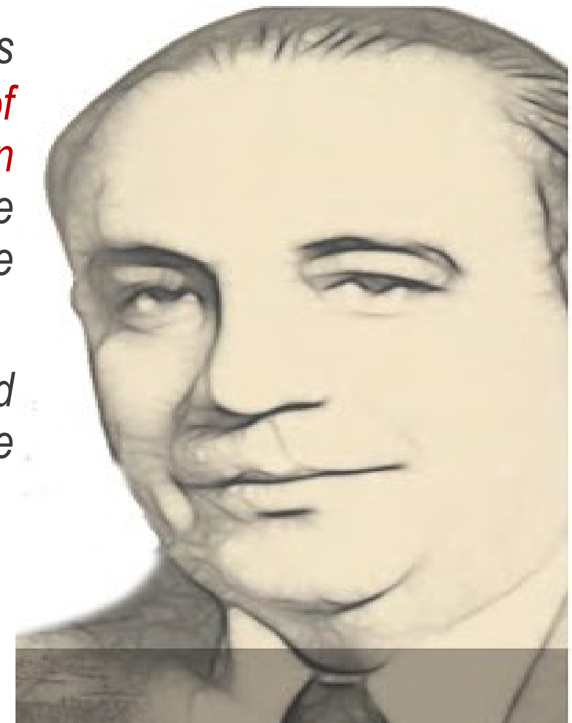
Accounting is accountability

Accounting is base for Audit, Tax, Governance, ,Valuation, Credit, investment, Sustenance

FS & Opinion on FS is a communication: should be ONLY truthful and complete

"Throughout the world, there is a great awareness among citizens in general that every learned profession should develop a sense of social purpose and social obligation and this should be more so in the case of the accounting profession, which because of the present context in the country has assumed considerable importance.

Technical excellence in the performance of its functions and observance of the highest in professional ethics constitutes the foundation on which its future can be built up"



GUIDANCE NOTE ON FINANCIAL STATEMENTS OF NON-CORPORATE ENTITIES AND LIMITED LIABILITY PARTNERSHIPS

CONTENTS

BACKGROUND

- Sound financial reporting creates trust of stakeholders in financial reporting.
- There are wide users of the financial information of the Non-Corporate entities (NCEs).
- Financial statements prepared following high quality reporting framework faithfully represent transactions and males it more reliable, complete and comparable.
- ICAI issues Accounting Standards (AS) for NCEs engaged in commercial, industrial or business activities.
- ICAI has prescribed criteria for classification of NCEs for AS applicability.

OBJECTIVE AND SCOPE

- Guidance Note
  - ✓ issued for the purpose of preparation of the FS of NCEs including formats for the same.
  - ✓ objective
    - ❖ to standardise the formats of FS for these entities and
    - ❖ to enhance the quality and comprehensiveness of the financial reporting by these entities.

- GN is effective for FS covering periods beginning on or after April 1, 2024.

- GN also contains *Illustrative formats for FS*

- *Illustrative formats* are available in Excel file form also

OBJECTIVE AND SCOPE

- GN is relevant for preparation of the FS of the NCEs unless:
  - ✓ any formats/principles are specifically prescribed by the relevant Statute or Regulator or any Authority,
  - ✓ e.g.,
    - ❖ formats prescribed for Trusts under Maharashtra Public Trust Rules, 1951,
    - ❖ Autonomous Bodies under Government of India are required to compile their accounts in a uniform format of accounts as prescribed by Government of India, Ministry of Finance,
    - ❖ Guidance has been specifically given by ICAI (e.g., Educational Institutions, Political Parties, NPOs, etc.)

Prior to issuance of GN, Technical Guide issued by the ASB in 2022 dealt with formats of Financial Statements of NCEs.

OBJECTIVE AND SCOPE

Guidance Note and Excel File can be accessed on the ICAI's website at the following links:

Guidance Note on *Financial Statements of Non-Corporate Entities* - https://resource.cdn.icai.org/75516asb61093-a.pdf

Excel file containing Illustrative Formats - https://www.icai.org/post.html?post_id=15771

Till the Guidance Note comes into effect, Technical Guide on *Financial Statements of Non-Corporate Entities* is applicable.

The Technical Guide can be accessed at https://resource.cdn.icai.org/70614asb56545.pdf

FINANCIAL STATEMENTS: COMPONENTS

Balance sheet	• Information about financial position is provided through balance sheet • The elements directly related to the measurement of financial position in the balance sheet are assets, liabilities and equity • *In the context of NCEs, formats of FS use the term 'owners' funds' in place of 'equity' as some of the items of 'owners' funds' may not strictly meet the definition of 'equity'*
Statement of profit and loss	• Used for reporting entity's financial performance over a specific accounting period • Focuses on entity's income and expenses during a particular period

FINANCIAL STATEMENTS: COMPONENTS

Cash flow statement (where applicable)	• Provides information that enables users to evaluate: ✓ the changes in net assets of an enterprise, its financial structure (including its liquidity and solvency) ✓ Its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities • Micro, Small and Medium Sized NCEs may not prepare cash flow statements. Such entities are, however, encouraged to comply with this standard.
Notes, other statements and explanatory material	• Additional information (disclosures) relevant to the needs of users about the items in above components of financial statements. • *Example*: disclosures regarding risks and uncertainties affecting the enterprise, resources and obligations not recognised in the balance sheet, etc.

Format of Financial Statements for Non-Corporate Entities

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS

- Formats apply for preparation of Balance Sheet and Statement of Profit and Loss of an NCE

- Where compliance with requirements of the relevant statute including AS as applicable to NCE require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head or sub-head or any changes, inter se, in the FS or statements forming part thereof, the same shall be made and the formats shall be modified accordingly.

- GN uses terminology suitable considering the nature and business of NCEs in general.

- Certain NCEs may need to amend the descriptions used for particular line items in the formats and for the FS themselves, e.g., AoP may need to use terminology "members' funds" instead of "owners' funds".

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS

- Disclosure requirements specified in the formats are in addition to and not in substitution of the disclosure requirements specified in the AS issued by the ICAI.

- Additional disclosures specified in the AS shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the FS.

- Notes to accounts shall contain information in addition to that presented in the FS and shall provide where required
  a) narrative descriptions or disaggregations; and
  b) information about items that do not qualify for recognition in those statements.

- Each item on the face of the Balance Sheet and Statement of Profit and Loss shall be cross-referenced to any related information in the notes to accounts.

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS

- In preparing the FS including the notes to accounts, a balance shall be maintained between providing excessive detail and not providing important information due to too much aggregation.
- Depending upon the Total Income of the NCE, the figures appearing may be rounded off (unit of measurement is used, it should be used uniformly.):—

Total Income	Rounding off
(a) less than Rs. 100 cr	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.
(b) Rs.100 cr or more	To the nearest lakhs, millions or crores, or decimals thereof.

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS

- Except in the case of the first FS prepared by NCE the comparatives for the immediately preceding reporting period for all items shown in the FS including notes shall also be given.

- For the purpose of this format, the terms used herein shall be as per the AS

Note:—It sets-out the minimum requirements for disclosure on the face of the Balance Sheet, and the Statement of Profit and Loss. Line items, sub-line items and sub-totals shall be presented as an addition or substitution on the face of the FS when such presentation is relevant to an understanding of the NCE's financial position or performance or to cater to industry/sector-specific disclosure requirements or when required for compliance with the amendments to the relevant statutes or under the AS.

NON-CORPORATE ENTITIES
BALANCE SHEET

PART I – Form of BALANCE SHEET

Name of the Non-Corporate Entity................

Balance Sheet as at ....

(Rupees in............)

	Particulars	Note No	Figures as at the end of (Current reporting period) (in Rs.) (DD/MM/YYYY)	Figures as at the end of (Previous reporting period) (in Rs.) (DD/MM/YYYY)
	1	2	3	4
I.	OWNERS' FUNDS AND LIABILITIES			
(1)	Owners' Fund			
	(a)Owners Capital Account (i) Owners'/Partners' Capital Account[2] (ii) Owners'/Partners' Current Account[2]			
	(b)Reserves and surplus			
(2)	Non-current liabilities			
	(a) Long-term borrowings			
	(b) Deferred tax liabilities (Net)			
	(c) Other Long term liabilities			
	(d) Long-term provisions			
(3)	Current liabilities			
	(a) Short-term borrowings			
	(b) Trade payables			
	(c) Other current liabilities			
	(d) Short-term provisions			
	TOTAL			
II.	ASSETS			
(1)	Non-Current Assets			
	(a) Property, Plant and Equipment and Intangible assets			
	(i) Property, Plant and Equipment			
	(ii) Intangible assets			
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			
	(b) Non-current investment			
	(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 bank balances			
	(e) Short-term loans and advances			
	(f) Other current assets			
	TOTAL			

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

Current Asset	An asset shall be classified as current when it satisfies any of the following criteria: (a) it is expected to be realized in, or is intended for sale or consumption in, the entity's normal operating cycle; (b) it is held primarily for the purpose of being traded; (c) it is expected to be realized within 12 months after the reporting date; or (d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date. All other assets shall be classified as non-current.
Operating cycle	An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

Current Liability	A liability shall be classified as current when it satisfies any of the following criteria: (a) it is expected to be settled in the entity's normal operating cycle; (b) it is held primarily for the purpose of being traded; (c) it is due to be settled within 12 months after the reporting date; or (d) the NCE does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. 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. All other liabilities shall be classified as non-current.
Trade Receivables	A receivable shall be classified as a 'trade receivable' if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.
Trade Payable	A payable shall be classified as a 'trade payable' if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

Disclosure in the Notes to Accounts

Owners' Funds

- For each owner capital/current account, following items to be disclosed separately:

opening balance	capital Introduced/ contributed during the year	remuneration for the year	interest for the year	withdrawals during the year	share of profit or loss for the year (share in % and amount)	closing balance.

Reserves and Surplus

- Reserves and Surplus classified as:

Capital Reserves	Revaluation Reserve	Other Reserves	Undistributed Surplus i.e. balance in Statement of Profit and Loss

- Debit balance of statement of profit and loss shall be shown as a negative figure under the head 'Undistributed Surplus'.
- Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, if any, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative.

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

<table>
<tr><td rowspan="3">Long-Term Borrowings</td><td colspan="5">• Long-term borrowings classified as:</td></tr>
<tr><td>Term loans
❖ From banks
❖ From other parties</td><td>Deferred payment liabilities.</td><td>Loans and advances from related parties.</td><td>Long term maturities of finance lease obligations</td><td>Other loans and advances (specify nature).</td></tr>
<tr><td colspan="5">• Further sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.
• Where loans have been guaranteed by partners/proprietor/owners or others, the aggregate amount of such loans under each head shall be disclosed.
• Terms of repayment of term loans and other loans shall be stated.</td></tr>
<tr><td rowspan="2">Long-term provisions</td><td colspan="5">• Long-term provisions classified as:</td></tr>
<tr><td colspan="2">Provision for employee benefits.</td><td colspan="3">Others (specify nature).</td></tr>
</table>

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

<table>
<tr><td rowspan="3">Short-Term Borrowings</td><td colspan="3">• Short-term borrowings classified as:</td></tr>
<tr><td>Loans repayable on demand
❖ From banks
❖ From other parties</td><td>Loans and advances from related parties.</td><td>Other loans and advances (specify nature).</td></tr>
<tr><td colspan="3">• Further sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.
• Loans guaranteed by partners/proprietor/owners or others – Disclose aggregate amount of such loans under each head.
• Current maturities of Long term borrowings - Disclosed separately.</td></tr>
<tr><td>Trade Payables</td><td colspan="3">• Details relating to Micro, Small and Medium Enterprises to be disclosed .</td></tr>
</table>

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

<table>
<tr><td rowspan="2">Other current liabilities</td><td colspan="10">• Other current liabilities classified as:</td></tr>
<tr><td colspan="2">Current maturities of finance lease obligations</td><td colspan="2">Interest accrued but not due on borrowings</td><td colspan="2">Interest accrued and due on borrowings</td><td colspan="2">Income received in advance</td><td colspan="2">Other payables (specify nature)</td></tr>
<tr><td rowspan="2">Short-term provisions</td><td colspan="10">• Short-term provisions classified as:</td></tr>
<tr><td colspan="5">Provision for employee benefits.</td><td colspan="5">Others (specify nature).</td></tr>
</table>

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

Property, Plant and Equipment

- Classified as:

Land	Buildings	Plant and Equipment	Furniture and Fixtures	Vehicles	Office Equipment	Others (specify nature)

- Assets under lease - Separately specified under each class of asset.

Intangible assets

- Classified as:

Good will	Brands / trade marks.	Computer software.	Mastheads and publishing titles.	Mining rights.	Copyrights, and patents and other IPR, services and operating rights.	Recipes, formulae, models, designs and prototypes.	Licenses and franchise	Others (specify nature).

- Disclosed separately – For both PPE and Intangible Assets:
  - ❖ Reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals acquisitions through business combinations, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of PPE/Intangible Assets) and other adjustments;
  - ❖ Related depreciation and impairment losses/reversals.

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

Non-current investments

- Classified as trade investments and other investments.
- Further classified as:

Investment property	Investments in Equity Instruments	Investments in preference shares	Investments in Government or trust securities	Investments in debentures or bonds	Investments in Mutual Funds	Investments in partnership firms	Other non-current investments (specify nature)

- Under each aforesaid classification, details shall be given of names of the entities (indicating separately whether such entities are joint ventures or controlled special purpose entities) in whom investments have been made (showing separately investments which are partly-paid).
- Investments in the capital of partnership firms – Give Names of the firms (with the names of all their partners, total capital and the shares of each partner).

- Investments carried at other than at cost - Separately stated specifying the basis for valuation thereof.
- The following shall also be disclosed:

(a) Aggregate amount of quoted investments and market value thereof; (b) Aggregate amount of unquoted investments; (c) Aggregate provision for diminution in value of investments.

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

<table>
<tr><td rowspan="3">Long-term loans and advances</td><td colspan="3">• Classified as:</td></tr>
<tr><td>Capital Advances;</td><td>Loans and advances to related parties (giving details thereof)</td><td>Other loans and advances (specify nature).</td></tr>
<tr><td colspan="3">• Above shall also be separately sub-classified as:
(a) Secured, considered good;
(b) Unsecured, considered good;
(c) Doubtful.
• Allowance for bad and doubtful loans and advances shall be disclosed separately.</td></tr>
<tr><td rowspan="2">Other non-current assets</td><td colspan="3">• Classified as:</td></tr>
<tr><td>Security Deposits</td><td>Bank deposits with more than 12 months maturity</td><td>Others (specify nature).</td></tr>
</table>

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

<table>
<tr><td rowspan="3">Current Investments</td><td colspan="7">• Classified as:</td></tr>
<tr><td>Investments in Equity Instruments</td><td>Investment in Preference Shares</td><td>Investments in government or trust securities</td><td>Investments in debentures or bonds</td><td>Investments in Mutual Funds</td><td>Investments in partnership firms</td><td>Other investments (specify nature).</td></tr>
<tr><td colspan="7">• Under each aforesaid classification, details shall be given of names of the entities (indicating separately whether such entities are joint ventures or controlled special purpose entities) in whom investments have been made (showing separately investments which are partly-paid).
• Investments in the capital of partnership firms – Give Names of the firms (with the names of all their partners, total capital and the shares of each partner).
• The following shall also be disclosed:
(a) The basis of valuation of individual investments; (b) Aggregate amount of quoted investments and market value thereof; (c) Aggregate amount of unquoted investments; (d) Aggregate provision for diminution in value of investments.</td></tr>
</table>

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

<table>
<tr><td rowspan="3">Inventories</td><td colspan="7">Classified as:</td></tr>
<tr><td>Raw materials</td><td>Work-in-progress</td><td>Finished goods</td><td>Stock-in-trade (in respect of goods acquired for trading)</td><td>Stores and spares</td><td>Loose tools</td><td>Others (specify nature).</td></tr>
<tr><td colspan="7">• Goods-in-transit – To be disclosed under the relevant sub-head of inventories.</td></tr>
<tr><td rowspan="3">Trade Receivables</td><td colspan="7">• Classified as:</td></tr>
<tr><td colspan="2">Secured, considered good</td><td colspan="3">Unsecured considered good</td><td colspan="2">Doubtful.</td></tr>
<tr><td colspan="7">• Aggregate amount of trade receivables outstanding for a period exceeding six months from the date they are due for receipt shall be stated separately.
• Allowance for bad and doubtful debts – To be disclosed separately.</td></tr>
</table>

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

<table>
<tr><td rowspan="4">Cash and bank balances</td><td colspan="4">• Classified as:</td></tr>
<tr><td>Balances with banks</td><td>Cheques, drafts on hand</td><td>Cash in hand</td><td>Others (specify nature</td></tr>
<tr><td colspan="4">• Other bank balances classified as:</td></tr>
<tr><td>Bank Deposits - Earmarked balances with banks.</td><td>Margin money or deposits under lien shall be disclosed separately.</td><td>Bank deposits with original maturity for more than 3 months but less than 12 months from reporting date</td><td>others (specify nature)</td></tr>
<tr><td rowspan="6">Short-term loans and advances</td><td colspan="4">• Classified as:</td></tr>
<tr><td colspan="2">Loans and advances to related parties (giving details thereof</td><td colspan="2">Others (specify nature).</td></tr>
<tr><td colspan="4">Above shall also be separately sub-classified as:</td></tr>
<tr><td>Secured, considered good</td><td>Unsecured, considered good</td><td colspan="2">Doubtful</td></tr>
<tr><td colspan="4">Allowance for bad and doubtful loans and advances – To be disclosed separately.</td></tr>
</table>

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

Other current assets (specify nature)	• This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories.
Contingent liabilities (to the extent not provided for)	Classified as: (a) Claims against the non-corporate entity not acknowledged as debt; (b) Guarantees; (c) Other money for which the non-corporate entity is contingently liable.

NON-CORPORATE ENTITIES

STATEMENT OF PROFIT AND LOSS

PART II – Form of STATEMENT OF PROFIT AND LOSS

Name of the Non-Corporate Entity……………………

Statement of Profit and Loss for the year ended ………………………

(Rupees in…………)

	Particulars	Note	Figures for the current reporting period (in) From _______ (DD/MM/YYYY) To _________ (DD/MM/YYYY)	Figures for the previous reporting period (in) From_________ (DD/MM/YYYY) To___________ (DD/MM/YYYY)
	1	2	3	4
I.	Revenue from operations			
II.	Other income			
III.	Total Income (I + II)			
IV.	Expenses			
	Cost of Material Consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods			
	Work-in-progress and Stock-in-Trade			
	Employee benefits expense			
	Depreciation and amortization expense			
	Finance Cost			
	Other expenses			
	Total expenses			
V	Profit before exceptional and extraordinary items, partners' remuneration and tax (III-IV)			
VI	Exceptional items			
VII	Profit before extraordinary items, partners' remuneration and tax (V - VI)			
VIII	Extraordinary Items			
IX	Profit before partners' remuneration and tax (VII- VIII)			
X	Partners' remuneration[3]			
XI	Profit before tax (IX-X)			
XII	Tax expense:			
(i)	Current tax			
(ii)	Deferred tax			
XIII	Profit (Loss) for the period from continuing operations (XI-XII)			
XIV	Profit/(loss) from discontinuing operations			
XV	Tax expense of discontinuing operations			
XVI	Profit/(loss) from Discontinuing operations (after tax) (XIV-XV)			
XVII	Profit/ (Loss) (XIII + XVI)			

GENERAL INSTRUCTIONS FOR PREPARATION OF STATEMENT OF PROFIT AND LOSS

<table>
<tr><td rowspan="3">Revenue from operations</td><td colspan="5">Disclose separately in the notes revenue from—</td></tr>
<tr><td colspan="2">Sale of products
Less: Excise duty</td><td colspan="2">Sale of services</td><td>Other operating revenues</td></tr>
<tr><td colspan="5">• In respect of a finance Non-Corporate entity, revenue from operations shall include revenue from— (a) Interest; and (b) Other financial services.</td></tr>
<tr><td rowspan="2">Finance Costs</td><td colspan="5">• Classified as:</td></tr>
<tr><td>Interest expense (other than interest on partners'/members' capital)</td><td colspan="2">Interest on partners'/ members' capital</td><td>Other borrowing costs.</td><td>Applicable net gain/loss on foreign currency transactions and translation.</td></tr>
</table>

The provisions of this Part shall be applied to the income and expenditure account in like manner as they apply to a statement of profit and loss.

GENERAL INSTRUCTIONS FOR PREPARATION OF STATEMENT OF PROFIT AND LOSS

<table>
<tr><td rowspan="2">Other income</td><td colspan="4">• Classified as:</td></tr>
<tr><td>Interest Income</td><td>Dividend Income</td><td>Net gain/loss on sale of investments</td><td>Other non-operating income (net of expenses directly attributable to such income).</td></tr>
<tr><td>Notes regarding aggregate expenditure and income</td><td colspan="4">• Employee Benefits Expense showing separately (i) salaries and wages, (ii) Contribution to provident and other funds, (iii) staff welfare expenses;
• Any item of income or expenditure which exceeds 1% of the revenue from operations or Rs.1,00,000 whichever is higher;
• Adjustments to the carrying amount of investments;
• Net gain or loss on foreign currency transaction and translation (other than considered as finance cost);
• Details of items of exceptional and extraordinary nature;
• Prior period items.</td></tr>
</table>

GENERAL INSTRUCTIONS FOR PREPARATION OF STATEMENT OF PROFIT AND LOSS

Notes regarding aggregate expenditure and income	• Expenditure incurred on each of the following items, separately for each item:— (a) Consumption of stores and spare parts; (b) Power and fuel; (c) Rent; (d) Repairs to buildings; (e) Repairs to machinery; (f) Insurance; (g) Rates and taxes, excluding, taxes on income; (h) Miscellaneous expenses.

GN ON FINANCIAL STATEMENTS OF LLPs

- Guidance Note on Financial Statements of Limited Liability Partnerships (LLPs) has also been issued which contains similar formats with necessary terminology related changes in the context of Limited Liability Partnerships (LLPs). (Refer next slides)

LIMITED LIABILITY PARTNERSHIPS

BALANCE SHEET

PART I – Form of BALANCE SHEET

Name of the Limited Liability Partnership................

Balance Sheet as at ....

(Rupees in............)

	Particulars	Note No	Figures as at the end of (Current reporting period) (in Rs.) ___________ (DD/MM/YYYY)	Figures as at the end of (Previous reporting period) (in Rs.) ___________ (DD/MM/YYYY)
	1	2	3	4
I.	**PARTNERS' FUNDS AND LIABILITIES**			
(1)	Partners' Fund			
	(a)Partners' Capital Account (i) Partners' Contribution (ii) Partners' Current Account			
	(b)Reserves and surplus			
(2)	**Non-current liabilities**			
	(a)Long-term borrowings			
	(b) Deferred tax liabilities (Net)			
	(c) Other Long term liabilities			
	(d) Long-term provisions			
(3)	**Current liabilities**			
	(a) Short-term borrowings			
	(b) Trade payables			
	(c) Other current liabilities			
	(d) Short-term provisions			
	TOTAL			
II.	**ASSETS**			
(1)	**Non-Current Assets**			
	(a) Property, Plant and Equipment and Intangible assets			
	(i) Property, Plant and Equipment			
	(ii) Intangible assets			
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			
	(b) Non-current investment			
	(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 bank balances			
	(e) Short-term loans and advances			
	(f) Other current assets			
	TOTAL			

LIMITED LIABILITY PARTNERSHIPS
STATEMENT OF PROFIT AND LOSS

PART II – Form of STATEMENT OF PROFIT AND LOSS

Name of the LLP……………………

Statement of Profit and loss for the year ended ………………………

(Rupees in…………)

	Particulars	Note	Figures for the current reporting period (in) From _______ (DD/MM/YYYY) To _________ (DD/MM/YYYY)	Figures for the previous reporting period (in) From_________ (DD/MM/YYYY) To___________ (DD/MM/YYYY)
	1	2	3	4
I.	Revenue from operations			
II.	Other income			
III.	Total Income (I + II)			
IV.	Expenses			
	Cost of Material Consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods			
	Work-in-progress and Stock-in-Trade			
	Employee benefits expense			
	Depreciation and amortization expense			
	Finance Cost			
	Other expenses			
	Total expenses			
V	Profit before exceptional and extraordinary items, partners' remuneration and tax (III-IV)			
VI	Exceptional items			
VII	Profit before extraordinary items, partners' remuneration and tax (V - VI)			
VIII	Extraordinary Items			
IX	Profit before partners' remuneration and tax (VII- VIII)			
X	Partners' remuneration			
XI	Profit before tax (IX-X)			
XII	Tax expense:			
(i)	Current tax			
(ii)	Deferred tax			
XIII	Profit (Loss) for the period from continuing operations (XI-XII)			
XIV	Profit/(loss) from discontinuing operations			
XV	Tax expense of discontinuing operations			
XVI	Profit/(loss) from Discontinuing operations (after tax) (XIV-XV)			
XVII	Profit/ (Loss) (XIII + XVI)			

AS FOR NCE

AGENDA

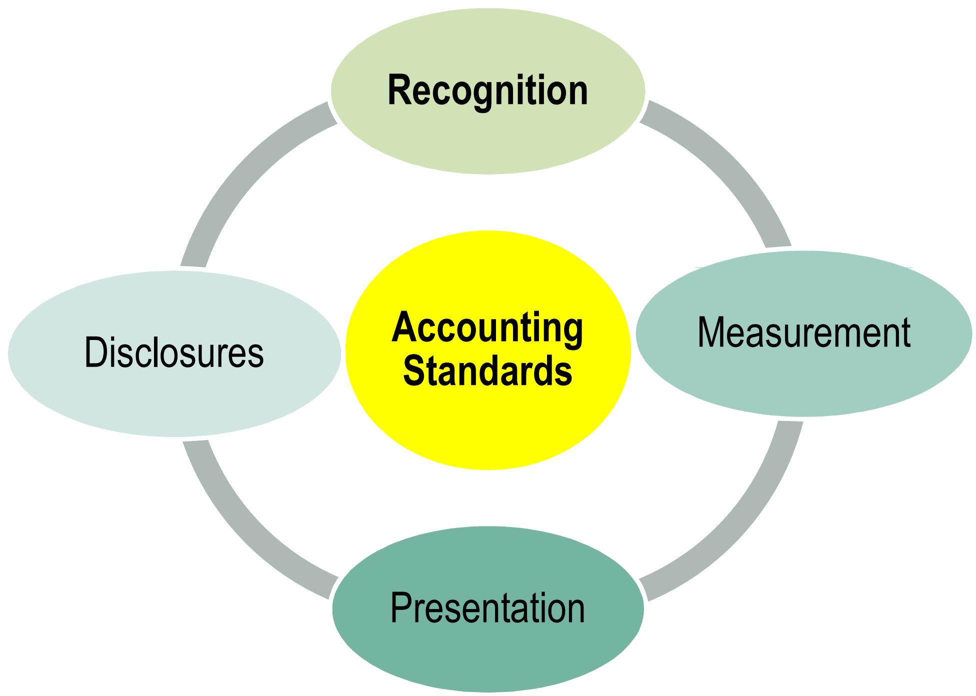
1	**Background**
1.1	Accounting Standards
1.2	Reasons for consideration and review of the Criteria for classification of Non-company entities (NCE) for applicability of Accounting Standards (AS)
2	**Criteria for classification of NCE for applicability of Accounting Standards (AS)**
2.2	Announcement on Criteria for classification of NCE for applicability of AS: **In Brief**
2.3	Announcement on Criteria for classification of NCE for applicability of AS: **In Detail**
3	Annexure
	Thank You

BACKGROUND

TYPES OF ACCOUNTING STANDARDS

‘3’ Main Sets of Accounting Standards		
Companies governed by Indian Companies Act		**Other Entities** (Non-Company entities)
Indian Accounting Standards (Ind AS) converged with IFRS	**Accounting Standards (AS)**	**Accounting Standards (AS)**
Notified by **MCA** under Indian Accounting Standards Rule 2015 and applicable for specified class of companies in a phased manner	Notified by **MCA** under Accounting Standards Rules ~~2006~~ 2021 and applicable to companies not covered by Ind AS	AS issued by the **ICAI** are applicable which are similar to AS notified by the MCA with minor differences regarding presentation, certain exemptions etc.

ACCOUNTING STANDARDS



CAN WE DO AWAY AS FOR NCE

- Public Interest/stake in individual entity is less BUT collective interest is VERY HIGH
- Contribution to GDP – very high
- WE CANNOT DO AWAY WITH AS.

ISSUES IN COMPLIANCE…

- Level of preparedness of entity
  - ✓ Accounting systems and procedures
- Cost of capturing information for reporting
- Technical competence of reporting entity staff and access to instant clarification
- Excessive emphasis on tax planning

NON-COMPANY ENTITIES

- Individual
- HUF
- Proprietorship
- Partnership
- Limited Liability Partnership
- Private Trusts
- Public Trusts
- Association of Persons
- Co-operatives

- Accounting Standards prescribed by the ICAI are applicable to NCE.
- For applicability of AS, in 2004 (subsequently revised in 2008 and 2013), the ICAI has prescribed the criteria for classification of NCE into Level I, Level II and Level III.
- Certain exemptions/relaxations are provided to SMEs if the conditions laid down in the respective criteria are met.

REASONS FOR REVIEW OF THE CRITERIA FOR CLASSIFICATION OF NCE FOR APPLICABILITY OF AS

- Various companies and other entities are classified as SMEs for Accounting Standards purposes by the Accounting Regulator as well as by the Government and Other Regulator for different purposes. E.g.
  - ✓ ICAI and MCA for Accounting Standards purposes;
  - ✓ Ministry of Micro, Small and Medium Enterprises, GOI (MSME) for regulating these entities;
  - ✓ RBI for the purpose of Banking facilities, etc.

- These definitions are not uniform and rightly differ due to different purposes for which they are meant.

- Ministry of MSME has amended the definition of MSMEs under MSME Development Act 2006.

- For applicability of Accounting Standards, the criteria for classification of NCE into Level I, Level II and Level III was prescribed by the ICAI in 2004 (subsequently revised in 2008 and 2013).
- Level II and Level III NCE are classified as Small and Medium sized Entities (SME).

REASON FOR REVIEW OF THE CRITERIA FOR CLASSIFICATION OF NON-COMPANY ENTITIES FOR APPLICABILITY OF AS

- Accounting Standards Board (ASB) of the ICAI undertook the task of revision in the criteria for classification of SMEs considering:
  - ✓ Inflation,
  - ✓ Government's focus on ease of doing business for MSME and reducing compliance reporting/ requirements
  - ✓ other developments taken place since then

- Extensive consultations conducted in all the 5 regions of ICAI (East, West, North, South and Central) for seeking views on simplification of AS for Micro and small Non-Company Entities.
  - ✓ 5 (five) Outreach meetings, 1 (one) National live webinar conducted.
- A survey questionnaire in Google Form circulated for inviting views from stakeholders.

- Extensive deliberations held at meetings of ASB and Council, ICAI.

Announcement for revision in criteria for classification of NCE has been issued.

MSME ACT, 2006 CRITERIA

Criteria for classification of micro, small and medium enterprises under Micro, Small and Medium Enterprises Development Act (clause 7) (June 1, 2020)

Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	• Investment in Plant and Machinery or Equipment - Not exceeding Rs.1 crore and • Annual Turnover - Not exceeding Rs. 5 crore	• Investment in Plant and Machinery or Equipment - Not exceeding Rs.10 crore and • Annual Turnover - Not exceeding Rs. 50 crore.	• Investment in Plant and Machinery or Equipment - Not exceeding Rs.50 crore and • Annual Turnover - Not exceeding Rs. 250 crore.

MSME ACT, 2006 CRITERIA

Criteria for classification of micro, small and medium enterprises under Micro, Small and Medium Enterprises Development Act (clause 7) (April 1, 2025)

Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	• Investment in Plant and Machinery or Equipment - Not exceeding Rs.2.5 crore and • Annual Turnover - Not exceeding Rs. 10 crore	• Investment in Plant and Machinery or Equipment - Not exceeding Rs.25 crore and • Annual Turnover - Not exceeding Rs. 100 crore.	• Investment in Plant and Machinery or Equipment - Not exceeding Rs.125 crore and • Annual Turnover - Not exceeding Rs. 500 crore.

ANNOUNCEMENT ON CRITERIA FOR CLASSIFICATION OF NCE FOR APPLICABILITY OF AS: IN BRIEF

KEY CHANGES IN CRITERIA FOR CLASSIFICATION OF NCE FOR APPLICABILITY OF AS

- NCE have been classified into TWO categories, **wherein Large and other than Large.**
- Earlier, NCE were classified into 4 categories, prior to that 3 categories.

- Turnover and Borrowing limits for classification of NCE have been reviewed and revised.

- Certain Accounting Standards have been exempted for MSME

- Certain additional disclosures exemptions have been provided to Level III and Level IV NCE

- "turnover" means the aggregate value of the realisation of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year. (Source: GN on Glossary of Terms used in Financial Statements)

CRITERIA..

1. Listing Status
   - Securities
   - Already listed, or proposed to be listed
   - In India or outside India
2. Function
   - Banks/ FIs……….

3. Financial Parameters
   - Turnover :Rs.250cr
   - Borrowing : Rs.50cr

4. Control
   - Holding or Subsidiary of above

Turnover in the immediately preceding accounting year
Borrowing limit any time in the immediately preceding accounting year

CRITERIA FOR CLASSIFICATION OF NON-COMPANY ENTITIES FOR APPLICABILITY OF AS

Revised criteria for classification of non-company entities for applicability of AS has been issued by the ICAI (effective from 1.4.2024), which is as under:

Category*	Turnover	Borrowings
Micro, small and medium sized entity	Below 250 cr.	Below 50 cr.
Large entity	Other than above	

*Holding and subsidiary of such entities are covered in respective levels.

APPLICABLE ACCOUNTING STANDARDS FOR LARGE ENTITIES

Large entities are required to comply in full with all the Accounting Standards. List of AS is as under:

AS	Name	AS	Name
AS 1	Disclosure of Accounting Policies	AS 10	Property, Plant and Equipment
AS 2	Valuation of Inventories	AS 11	The Effects of Changes in Foreign Exchange Rates
AS 3	Cash Flow Statements	AS 12	Accounting for Government Grants
AS 4	Contingencies and Events Occurring after the Balance Sheet Date	AS 13	Accounting for Investments
AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	AS 14	Accounting for Amalgamations
AS 7	Construction Contracts	AS 15	Employee Benefits
AS 9	Revenue Recognition	AS 16	Borrowing Costs

APPLICABLE ACCOUNTING STANDARDS FOR LARGE ENTITIES

AS	Name	AS	Name
AS 17	Segment Reporting	AS 24	Discontinuing Operations
AS 18	Related Party Disclosures	AS 25	Interim Financial Reporting
AS 19	Leases	AS 26	Intangible Assets
AS 20	Earnings Per Share	AS 27	Financial Reporting of Interests in Joint Ventures
AS 21	Consolidated Financial Statements	AS 28	Impairment of Assets
AS 22	Accounting for Taxes on Income	AS 29	Provisions, Contingent Liabilities and Contingent Assets
AS 23	Accounting for Investments in Associates in Consolidated Financial Statements		

MICRO, SMALL AND MEDIUM SIZED ENTITY

Micro, Small and Medium Sized entity (MSME) means, a non-company entity :

(i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;

(ii) which is not a bank, financial institution or an insurance company;

(iii) whose turnover (excluding other income) does not exceed two hundred and fifty crore rupees in the immediately preceding accounting year;

(iv) which does not have borrowings in excess of fifty crore rupees at any time during the immediately preceding accounting year; and

(v) which is not a holding or subsidiary of an entity which is not a micro, small and medium-sized entity.

> ***Explanation.-*** *For the purposes of this clause, a non-company entity shall qualify as a Micro, Small and Medium Sized entity, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.*

Large entity is a non-company entity that is not an MSME.

RELAXATIONS/EXEMPTIONS TO MSMES

Certain exemptions/relaxations have been provided to Micro, small and medium sized entity Non-company entities.

- Accounting Standards not applicable to all MSMEs in their entirety:
  - AS 3, *Cash Flow Statements*
  - AS 17, *Segment Reporting*
  - *AS 20, Earnings per Share*
  - AS 24, *Discontinuing Operations*

- AS 18, *Related Party Disclosures* and AS 28, *Impairment of Assets* not applicable in their entirety to MSMEs :
  a) whose turnover (excluding other income) does not exceed Rs.50cr in the immediately preceding accounting year;
  b) which does not have borrowings in excess of Rs.10cr at any time during the immediately preceding accounting year; and
  c) which is not a Holding and subsidiary of an MSME not covered above

RELAXATIONS/EXEMPTIONS TO MSMES

(i) Accounting Standard (AS) 10, *Property, Plant and Equipment* MSMEs may not comply with paragraph 87 relating to encouraged disclosures.

(ii) AS 11, *The Effects of Changes in Foreign Exchange Rates* MSMEs may not comply with paragraph 44 relating to encouraged disclosures.

(iii) AS 15, *Employee Benefits*

(1) MSMEs may not comply with the following paragraphs:

a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);
b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;
c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such entities may calculate and account for the accrued liability under the defined benefit plans by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year; and
d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. Such entities may calculate and account for the accrued liability under the other long-term employee benefits by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.

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RELAXATIONS/EXEMPTIONS TO MSMES

iv. AS 19, *Leases*

MSMEs may not comply with paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); 38; and 46 (b), (d) and (e) relating to disclosures.

v. AS 22, *Accounting for Taxes on Income*

a) MSMEs shall comply with the requirements of AS 22, *Accounting for Taxes on Income*, for Current tax defined in paragraph 4.4 of AS 22, with recognition as per paragraph 9, measurement as per paragraph 20 of AS 22, and presentation and disclosure as per paragraphs 27-28 of AS 22.

b) Transitional requirements

On the first occasion when an MSME avails this exemption, the accumulated deferred tax asset/liability appearing in the financial statements of immediate previous accounting period, shall be adjusted against the opening revenue reserves/owner's funds.

vi. AS 26, *Intangible Assets*

MSMEs may not comply with paragraphs 90(d)(iii); 90(d)(iv) and 98 relating to disclosures.

vii. AS 28, *Impairment of Assets*

a) MSMEs that are otherwise not exempted from applying this standard [refer note 2(A)(ii)] are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique. Consequently, if such MSME chooses to measure the 'value in use' by not using the present value technique, the relevant provisions of AS 28, such as discount rate etc., would not be applicable to such an entity. Further, such an entity need not disclose the information required by paragraph 121(g) of the Standard.

b) MSMEs that are otherwise not exempted from applying this standard [refer note 2(A)(ii)] may not comply with paragraphs 121(c)(ii); 121(d)(i); 121(d)(ii) and 123 relating to disclosures.

RELAXATIONS/EXEMPTIONS TO MSMES

viii. AS 29, *Provisions, Contingent Liabilities and Contingent Assets*
MSMEs may not comply with paragraphs 66 and 67 relating to disclosures.

(C) In case of Micro, Small and Medium sized Non-company entities, generally there are no such transactions that are covered under AS 14, *Accounting for Amalgamations*, or jointly controlled operations or jointly controlled assets covered under AS 27, *Financial Reporting of Interests in Joint Ventures*. Therefore, these standards are not applicable to Micro, Small and Medium size Non-company entities. However, if there are any such transactions, these entities shall apply the requirements of the relevant standard.

(D) AS 21, *Consolidated Financial Statements,* AS 23, *Accounting for Investments in Associates in Consolidated Financial Statements*, AS 27, *Financial Reporting of Interests in Joint Ventures* (to the extent of requirements relating to Consolidated Financial Statements), and AS 25, *Interim Financial Reporting*, do not require a Non-company entity to present consolidated financial statements and interim financial report, respectively. Relevant AS is applicable only if a Non-company entity is required or elects to prepare and present consolidated financial statements or interim financial report.

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CRITERIA FOR CLASSIFICATION OF NCE FOR APPLICABILITY OF AS

- Revised Criteria for Classification and applicability of AS to NCE shall be applicable in respect of accounting periods commencing on or after April 1, 2024.

- The Announcement is not relevant for NCE who may be required to follow Ind AS as per relevant regulatory requirements applicable to such entities.

- The changes arising from the Announcement need to be incorporated in the AS while publishing the updated Compendium of Accounting Standards.

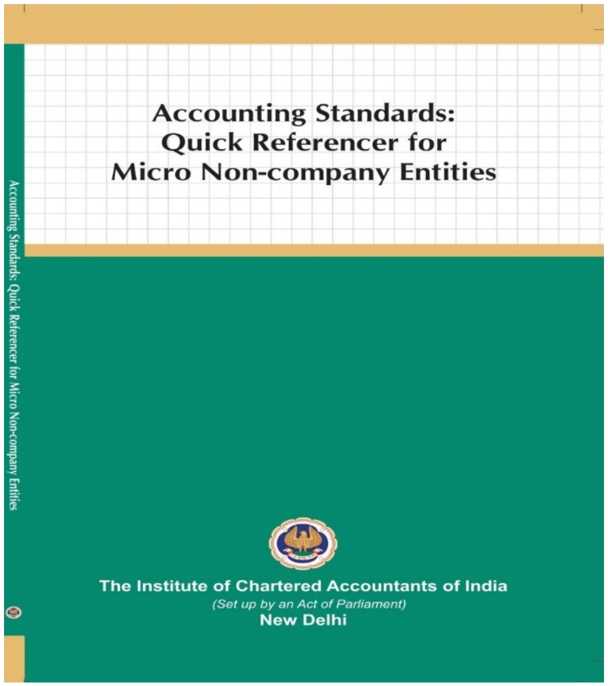
LEVEL CHANGE..

- Change of Level
  - ✓ Lower to Higher (ex Level II to I)- Immediate compliance
  - ✓ Higher to Lower (ex Level II to III)- Continue with old level compliance for 2 years

- Non disclosure due to selective exemption – to be reported in Notes to accounts all exemptions availed.

PUBLICATION

ICAI recently issued a Publication "*Accounting Standards: Quick Reference for MiNCE*"



Contents
Publication covers Accounting Standards that are generally applicable to Micro Non-company entities (MiNCE)) for the accounting periods beginning on or after April 1, 2020
• Part I An Overview of Accounting Standards Applicable to Micro Non-company Entities – 50 pages
• Part II Disclosures Checklist under Accounting Standards– Applicable to Micro Non-company Entities – 35 pages
Appendix 1 – Announcement regarding criteria for classification of Non-company Entities

SUMMARY OF SOME IMPORTANT STANDARDS

AS – ACCOUNTING RELATED

Fixed Assets	10,26,19,28
Inventory	2
Investments	13
Technical	7,9,11,12, 14,15,16,22
Liability /BS adj	4,29

AS – REPORTING RELATED

Analysis and better understanding	1, 3,17,18,20 and 24
P&L	5
Interim Financial	25
Investments	21,23,27

AS FEATURES: SIGNIFICANT CONSIDERATIONS FOR PREPARATION OF FS

- True and fair view of financial position & financial performance
- Going concern basis
- Accrual basis of accounting
- Consistent presentation & classification from one period to another

AS FEATURES: SIGNIFICANT CONSIDERATIONS WHILE SELECTING AN ACCOUNTING POLICY

Prudence

In view of uncertainty attached to future events, profits are not anticipated but recognised only when realised and provision is made for all known liabilities and losses

Substance over Form

Transactions and events should be governed by their substance and not merely by the legal form

Materiality

All material items the knowledge of which can influence the decisions of the users should be disclosed

QUICK RUN…

AS 1: Accounting Policy Disclosures

- All in one place, with a focus on revealing monetary impact of changes in accounting policies

AS 2: Inventories

- Lower of Cost & Net Realisable Value: Method of determining cost – FIFO/WA to be disclosed

AS 4: Contingencies….Events after balance sheet date

- Provision for doubtful debts ; adjusting and non adjusting events

AS 5: NP/L for the period, PPI, Change in AP & AE

- P&L structure guidance
- Prior period items treatment
- Change in AP and AE – disclosures

QUICK RUN…

AS 7: Construction Contracts:
- Determination of Percentage completion is a critical area – affects bottom line.

AS 9: Revenue:
- Timing of recognition. Substance over form for Sale of Goods (effective R&R transfer) and for services, Completed service or % completion (these are not alternative methods)

AS 10: Accounting for Fixed Assets
- Cost determination, changes in historical cost – Selective revaluation not permitted
- Depreciation : Based on useful life.
- Change in depreciation method is a change in AE

AS 11: Forex! Critical concern
- Distinction between monetary and non-monetary items and translation effect.
- If borrowings are for qualified assets (AS 16, capitalize a part of exchange difference); else take this to P&L.
- AS 11 under 211 (3C) has concept of Long term Monetary Items and consequent deferral.

QUICK RUN…

AS 13: Investments

- Current investments : if held for sale within 12 months – lower of cost/market; else long term carry at cost

AS 16: Borrowing Cost

- Substantial period – Qualifying asset - Capitalisation principle: For Specific borrowings, full interest cost less any income from temporary investments, else weighted average cost

AS 19: Leases

- Finance lease: Accounting as though we borrow funds – Operating lease – rental income/expense recognition
- In whose hands depreciation – for these leases?

AS 15

EMPLOYEE BENEFITS

AS 15 EMPLOYEE BENEFITS

Employee benefits

Short-term Employee Benefits

- Salary and wages
- Social Security Contribution (e.g., contribution to an insurance company);
- Short-term compensated absences(Annual Paid leaves)
- Non monetary benefits (Medical, Housing, Car)

Post Employement Benefits

- Gratuity
- Provident Fund
- Pension
- Medical care

Long-term Employee Benefits

- Long Service Awards
- Leave encashment
- Sabbatical Leave

Terminal Benefits

- Retrenchment
- Voluntary retirement

POST EMPLOYMENT BENEFITS

POST-EMPLOYMENT BENEFITS

- **What are Post-employment benefits?**

Benefits (other than termination benefits) **payable after the completion of employment** and include:

a) Retirement benefits, such as **pensions**; and

b) other post-employment benefits, such as post-employment life insurance and **post-employment medical care.**

Post Employment BP may be operated as:

a) State Plans
b) Multi Employer Plans
c) Plans offered by insurers (insured benefits)
d) Also group administered schemes

POS

Post-employment benefit plans are classified as:

- **Defined Contribution Plan (DC) and Defined Benefit Plan (DB)**

A. Defined Contribution Plans (DC)

- Entity's legal or constructive obligation is limited to the amount that it **agrees to contribute** to the fund
- **Actuarial risk** and **investment risk fall** on the employee

B. Defined Benefit Plans (DB)

- Entity's obligation is to provide **the agreed benefits** to current and former employees
- Actuarial risk and investment risk fall in substance, on the entity

POST-EMPLOYMENT BENEFITS

A. Defined Contribution Plan (DC)

What to recognize in Balance Sheet?

Liability / (Asset or prepaid expense) = Contribution payable − Contribution already paid

What to recognize in Profit or Loss?

Expenses = Short-term employee benefit (undiscounted)

- **No actuarial assumptions** are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss.
- Disclose the amount recognised as an expense.
- The contribution is charged to income statement

POST-EMPLOYMENT BENEFITS

B. Defined Benefit Plan (DB)

What to recognize in Balance Sheet?

Liability = Present value of Plan Liabilities − Fair value of Plan Assets

- **Actuarial assumptions** are required to measure the obligation or the expense
- Disclose the amount recognised as an expense.

POST-EMPLOYMENT BENEFITS

B. Defined Benefit Plan (DB)

What to recognize in income statement?

#	Components	Nature	Amount
1	▪ **Current service cost**	▪ Increase in PV of DBO resulting from employee service in the current period	XXXX
2	▪ **Interest cost**	▪ Accrual of interest costs on PV of DBO	XXXX
3	▪ **Expected return on any plan assets**	▪ Interest, dividends and other revenue on plan assets (net of any administration costs and taxes)	(XXXX)
4	▪ **Actuarial gains and losses**	▪ Differences between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions.	XXXX
5	▪ **Past service cost**	▪ Change in PV of DBO in current period due to the introduction or changes in the benefits ▪ Past service cost may be either positive (where benefits are introduced or improved) or negative	XXXX
6	▪ **Effect of any curtailments or settlements**	▪ A curtailment occurs when an enterprise has present obligation to make a material reduction in the number of employees covered under plan or amend the material term of plan. ▪ Settlement occurs when an enterprise enters into a transaction that eliminates all further obligations	XXXX
		Total	XXXX

ACTUARIAL ASSUMPTIONS

Actuarial assumptions comprise:

a) **Demographic assumptions mortality, both during and after employment;**
   - Rates of employee turnover, disability
   - Retirement;
   - Proportion of plan members with dependents who will be eligible for benefits;
   - Claim rates under medical plans; and

b) **Financial assumptions :**
   - Discount rate
   - Future salary and benefit levels
   - In the case of medical benefits, future medical costs. including, where material, the cost of administering claims and benefit payments and the expected rate of return on plan assets.

PV OF A DBP OBLIGATION

It is the present value (without considering plan assets) of expected future payments required to settle the obligation resulting from employee service in current and prior periods

PUCM carries one fundamental assumption

- Each period of service gives rise to
  - One-addition-unit-of-credit (benefit)
  - One lump sum payment is involved at the end

•To arrive at present value – we need to know:

(a) FV and

(b) Discount Rate

AN EXAMPLE

- Present salary Rs.20,000
- Annual increase 5% (each year)
- Service – 6 years to go
- Fifth year salary Rs.25,500 (r/o 25,526)
- Payment basis: 1% of final salary for each year of service
- Payment to be made 255 * 6 = 1530

HOW MUCH TO BE PROVIDED NOW?

- **Present value to be determined**
- **This PV is on a year-on-year basis**
- **Entire amount of Rs.1530 does not become payable, unless employee completes the term.**
- **Each year's liability is 1% of 25500 = 255**
- **Discount rate comes in: Assume 6%**

In year 1

- Year 6 value of Rs. 255 = PV today
- Discount factor for 6% = 0.747258
- 255 of 6th year = Rs.191 today
- Next year, current year PV of 191 will become 191*1.06 = 202 (Interest cost)
- And so on = at end year 6 = Rs.1530

PRACTICAL ASPECTS

- Example is too simple to be applied in practice – for organisations having
  - Large number of employees
  - Different scales of pay
  - Different residual tenures to go
  - Suspensions – court cases – Trade union negotiations etc
  - Actuarial & Disc. Rate assumptions are required! (We can only access A/V)

- Salary benefits assumptions
- Medical cost assumptions
- Benefit Plan terms can change – curtailments and settlements (once-and-for-all!!)
- Year to year – these assumptions can undergo changes, either
  - from past experience!
  - Interest-rate scenario changes (Dis.Rate)

ILLUSTRATION – DBP….ASSUMPTIONS

1st April 2006

- Plan liability : 1000
- Plan assets : 1000

1st April 2007 Additional benefits

Present value for employee service before date of change

- Vested 50
- Non vested 30

Average period for non vested to become vested – 3 years

M P Vijay Kumar

M P Vijay Kumar

M P Vijay Kumar

POST-EMPLOYEE BENEFITS

What to recognize in income statement?

#	Components	Nature	Amount
1	▪ **Current service cost**	▪ Increase in PV of DBO resulting from employee service in the current period	XXXX
2	▪ **Interest cost**	▪ Accrual of interest costs on PV of DBO	XXXX
3	▪ **Expected return on any plan assets**	▪ Interest, dividends and other revenue on plan assets (net of any administration costs and taxes)	(XXXX)
4	▪ **Actuarial gains and losses**	▪ Differences between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions.	XXXX
5	▪ **Past service cost**	▪ Change in PV of DBO in current period due to the introduction or changes in the benefits ▪ Past service cost may be either positive (where benefits are introduced or improved) or negative	XXXX
6	▪ **Effect of any curtailments or settlements**	▪ A curtailment occurs when an enterprise has present obligation to make a material reduction in the number of employees covered under plan or amend the material term of plan. ▪ Settlement occurs when an enterprise enters into a transaction that eliminates all further obligations	XXXX
		Total	XXXX

Termination Benefits

TERMINATION BENEFITS

- **Employee benefits payable as a result of either an enterprise's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits.**

- **Termination benefits are recognized by an enterprise as a liability and an expense ONLY when the enterprise has :**
  i. a **detailed formal plan** for the termination which is duly approved, and
  ii. a **reliable estimate** can be made of the amount of the obligation.
  iii. **probable that an outflow** of resources embodying economic benefits will be required to settle the obligation.

Disclosures

DISCLOSURES

An enterprise should disclose the following information about defined benefit plans:

a) Accounting policy for recognising actuarial gains and losses.

b) General description of the type of plan

c) A reconciliation of opening and closing balances of the present value of the **defined benefit obligation** showing separately, if applicable, the effects during the period attributable to each of the following:

   i. current service cost,
   ii. interest cost,
   iii. contributions by plan participants,
   iv. actuarial gains and losses,
   v. benefits paid,
   vi. past service cost

d) A reconciliation of the opening and closing balances of the **fair value of plan assets** accounting policy for recognising actuarial gains and losses.

   i. expected return on plan assets,
   ii. actuarial gains and losses,
   iii. contributions by the employer,
   iv. benefits paid

DISCLOSURES

e) The total **expense recognised in the statement of profit and loss** for each of the following, and the line item(s) of the statement of profit and loss in which they are included:

i. current service cost;
ii. interest cost;
iii. expected return on plan assets;
iv. actuarial gains and losses;
v. past service cost

LEVEL II & III RELAXATIONS

- In case of non-company entities falling in Level II and Level III in which average number of persons employed is less than 50, recognition and measurement principles in respect of accounting for defined benefit plans and other long-term employee benefits are not mandatory and any other rational method instead of Projected Unit Credit method may be used for calculation of accrued liability.

- Small and Medium-sized Company and entities falling in Level II, Level III and IV may not discount contributions that fall due more than 12 months after the balance sheet date

- There are exemptions in respect of disclosures too

EXTRACT FROM ANNUAL REPORTS

INFOSYS IND AS 19 (AS 15 IS SIMILAR)

INFOSYS – ACCOUNTING POLICY

2.20 Employee benefits

Accounting policy

Gratuity

The Group provides for gratuity, a defined benefit retirement plan ("the Gratuity Plan") covering eligible employees of Infosys and its Indian subsidiaries. The Gratuity Plan provides a lump-sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment with the Group.

Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, performed by an independent actuary, at each Balance Sheet date using the projected unit credit method. The Company fully contributes all ascertained liabilities to the Infosys Limited Employees' Gratuity Fund Trust (the Trust). In case of Infosys BPM and EdgeVerve, contributions are made to the Infosys BPM Employees' Gratuity Fund Trust and EdgeVerve Systems Limited Employees' Gratuity Fund Trust, respectively. Trustees administer contributions made to the Trusts and contributions are invested in a scheme with the Life Insurance Corporation of India as permitted by Indian law.

The Group recognizes the net obligation of a defined benefit plan in its Balance Sheet as an asset or liability. Gains and losses through remeasurements of the net defined benefit liability / (asset) are recognized in other comprehensive income and are not reclassified to profit or loss in subsequent periods. The actual return of the portfolio of plan assets, in excess of the yields computed by applying the discount rate used to measure the defined benefit obligation is recognized in other comprehensive income. The effect of any plan amendments is recognized in the Consolidated Statement of Profit and Loss.

INFOSYS – ACCOUNTING POLICY

Provident fund

Eligible employees of Infosys receive benefits from a provident fund, which is a defined benefit plan. Both the eligible employee and the Company make monthly contributions to the provident fund plan equal to a specified percentage of the covered employee's salary. The Company contributes a portion to the Infosys Limited Employees' Provident Fund Trust. The trust invests in specific designated instruments as permitted by Indian law. The remaining portion is contributed to the government-administered pension fund. The rate at which the annual interest is payable to the beneficiaries by the trust is being administered by the government. The Company has an obligation to make good the shortfall, if any, between the return from the investments of the trust and the notified interest rate.

In respect of Indian subsidiaries, eligible employees receive benefits from a provident fund, which is a defined contribution plan. Both the eligible employee and the respective companies make monthly contributions to this provident fund plan equal to a specified percentage of the covered employee's salary. Amounts collected under the provident fund plan are deposited in a government-administered provident fund. The Companies have no further obligation to the plan beyond its monthly contributions.

Superannuation

Certain employees of Infosys, Infosys BPM and EdgeVerve are participants in a defined contribution plan. The Group has no further obligations to the plan beyond its monthly contributions which are periodically contributed to a trust fund, the corpus of which is invested with the Life Insurance Corporation of India.

Compensated absences

The Group has a policy on compensated absences which are both accumulating and non-accumulating in nature. The expected cost of accumulating compensated absences is determined by actuarial valuation performed by an independent actuary at each Balance Sheet date using projected unit credit method on the additional amount expected to be paid / availed as a result of the unused entitlement that has accumulated at the Balance Sheet date. Expense on non-accumulating compensated absences is recognized in the period in which the absences occur.

INFOSYS – DISCLOSURES

2.20.1 Gratuity

The funded status of the gratuity plans and the amounts recognized in the Group's financial statements as at March 31, 2020 and March 31, 2019 are as follows:

in ₹ crore

Particulars	As at March 31,	
	2020	2019
Change in benefit obligations		
Benefit obligations at the beginning	1,351	1,201
Service cost	178	157
Interest expense	90	85
Remeasurements – Actuarial (gains) / losses	(79)	32
Benefits paid	(141)	(128)
Translation difference	3	2
Reclassified from held for sale *(Refer to Note 2.1.2)*	–	2
Benefit obligations at the end	1,402	1,351
Change in plan assets		
Fair value of plan assets at the beginning	1,361	1,216
Interest income	97	90
Remeasurements – Return on plan assets excluding amounts included in interest income	9	4
Contributions	191	174
Benefits paid	(136)	(123)
Fair value of plan assets at the end	1,522	1,361
Funded status	120	10
Prepaid gratuity benefit *(Refer to Note 2.9)*	151	42
Accrued gratuity *(Refer to Note 2.13)*	(31)	(32)

The amounts for the years ended March 31, 2020 and March 31, 2019 recognized in the Consolidated Statement of Profit and Loss under employee benefit expense are as follows:

in ₹ crore

Particulars	Years ended March 31,	
	2020	2019
Service cost	178	157
Net interest on the net defined benefit liability / (asset)	(7)	(5)
Net gratuity cost	171	152

The amounts for the years ended March 31, 2020 and March 31, 2019 recognized in the Consolidated Statement of Other Comprehensive Income are as follows:

in ₹ crore

Particulars	Years ended March 31,	
	2020	2019
Remeasurements of the net defined benefit liability / (asset)		
Actuarial (gains) / losses	(79)	32
(Return) / loss on plan assets excluding amounts included in the net interest on the net defined benefit liability / (asset)	(9)	(4)
	(88)	28

in ₹ crore

Particulars	Years ended March 31,	
	2020	2019
(Gain) / loss from change in demographic assumptions	1	(4)
(Gain) / loss from change in financial assumptions	(57)	30
(Gain) / loss from experience adjustment	(23)	6
	(79)	32

The weighted-average assumptions used to determine benefit obligations as at March 31, 2020 and March 31, 2019 are as follows:

Particulars	As at March 31,	
	2020	2019
Discount rate[(1)]	6.2%	7.1%
Weighted average rate of increase in compensation levels[(2)]	6.0%	8.0%
Weighted average duration of defined benefit obligation [(3)]	5.9 years	5.9 years

The weighted-average assumptions used to determine net periodic benefit cost for the years ended March 31, 2020 and March 31, 2019 are as follows:

Particulars	Years ended March 31,	
	2020	2019
Discount rate (%)	7.1	7.5
Weighted average rate of increase in compensation levels (%)	8.0	8.0

INFOSYS – DISCLOSURES

The sensitivity of significant assumptions used for valuation of defined benefit obligation is as follows :

in ₹ crore

Impact from percentage point increase / decrease in	As at March 31, 2020
Discount rate	67
Weighted average rate of increase in compensation levels	59

Sensitivity to significant actuarial assumptions is computed by varying one actuarial assumption used for the valuation of the defined benefit obligation by one percentage, keeping all other actuarial assumptions constant. In practice, this is not probable, and changes in some of the assumptions may be correlated.

Gratuity is applicable only to employees drawing a salary in Indian rupees and there are no other significant foreign defined benefit gratuity plans.

The Company contributes all ascertained liabilities towards gratuity to the Infosys Limited Employees' Gratuity Fund Trust. In case of Infosys BPM and EdgeVerve, contributions are made to the Infosys BPM Employees' Gratuity Fund Trust and EdgeVerve Systems Limited Employees Gratuity Fund Trust, respectively. Trustees administer contributions made to the trust as at March 31, 2020 and March 31, 2019. The plan assets have been primarily invested in insurer-managed funds.

Actual return on assets for the years ended March 31, 2020 and March 31, 2019 were ₹106 crore and ₹95 crore, respectively.

The Group expects to contribute ₹145 crore to the gratuity trusts during fiscal 2021.

The maturity profile of defined benefit obligation is as follows :

in ₹ crore

Within 1 year	215
1-2 year	218
2-3 year	220
3-4 year	231
4-5 year	148
5-10 years	1,183

2.20.2 Provident fund

Infosys has an obligation to fund any shortfall on the yield of the trust's investments over the administered interest rates on an annual basis. These administered rates are determined annually predominantly considering the social rather than economic factors and in most cases, the actual return earned by the Company has been higher in the past years. The actuary has provided a valuation for provident fund liabilities on the basis of guidance issued by the Actuarial Society of India.

The funded status of the defined benefit provident fund plan of Infosys Limited and the amounts recognized in the Company's financial statements as at March 31, 2020 are as follows :

in ₹ crore

Particulars	As at March 31, 2020
Change in benefit obligations	
Benefit obligations at the beginning	5,989
Service cost – employer contribution	407
Employee contribution	857
Interest expense	561
Actuarial (gains) / loss	216
Benefits paid	(664)
Benefit obligations at the end	7,366
Change in plan assets	
Fair value of plan assets at the beginning	5,989
Interest income	561
Remeasurements – Return on plan assets excluding amounts included in interest income[(1)]	(33)
Contributions	1,264
Benefits paid	(664)
Fair value of plan assets at the end	7,117
Net liability *(Refer to Note 2.13)*	(249)

[(1)] Includes unrealized losses on certain investments in bonds

The amount for the year ended March 31, 2020 recognized in the Consolidated Statement of Other Comprehensive Income is as follows :

in ₹ crore

Particulars	Year ended March 31, 2020
Remeasurements of the net defined benefit liability / (asset)	
Actuarial (gains) / losses	216
(Return) / loss on plan assets excluding amounts included in the net interest on the net defined benefit liability / (asset)	33
	249

The assumptions used in determining the present value obligation of the defined benefit plan under the Deterministic Approach are as follows :

Particulars	As at March 31, 2020	2019
Government of India (GOI) bond yield [(1)]	6.20%	7.10%
Expected rate of return on plan assets	8.00%	9.20%
Remaining term to maturity of portfolio	6 years	5.47 years
Expected guaranteed interest rate		
First year	8.50%	8.65%
Thereafter	8.50%	8.60%

The break-up of the plan assets into various categories as at March 31, 2020 is as follows :

Particulars	As at March 31, 2020
Central and state government bonds	49%
Public-sector undertakings and private-sector bonds	48%
Others	3%

INFOSYS – DISCLOSURES

The asset allocation for plan assets is determined based on the investment criteria prescribed under the relevant regulations.

As at March 31, 2020 the defined benefit obligation would be affected by approximately ₹72 crore and ₹108 crore on account of a 0.25% increase / decrease in the expected rate of return on plan assets.

The actuary has provided a valuation for provident fund liabilities on the basis of guidance issued by Actuarial Society of India and based on the assumptions provided there is no shortfall as at March 31, 2019. The details of the benefit obligation as at March 31, 2019 are as follows:

in ₹ crore

Particulars	As at March 31, 2019
Benefit obligation at the period end	5,989
Net liability recognized in Balance Sheet	–

The Group contributed ₹639 crore and ₹543 crore to the provident fund during the years ended March 31, 2020 and March 31, 2019, respectively. The same has been recognized in the Consolidated Statement of Profit and Loss under the head employee benefit expense.

In February 2019, the Supreme Court of India vide its judgment and subsequent review petition of August 2019 has ruled in respect of compensation for the purpose of provident fund contribution under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952. The Company has assessed possible outcomes of the judgment on determination of provident fund contributions and based on the Company's current evaluation of the judgment, it is not probable that certain allowances paid by the Company will be subject to payment of provident fund. The Company will continue to monitor and evaluate its position based on future events and developments.

The provident plans are applicable only to employees drawing a salary in Indian rupees and there are no other significant foreign defined benefit plans.

2.20.3 Superannuation

The Group contributed ₹240 crore and ₹215 crore during the years ended March 31, 2020 and March 31, 2019, respectively, and the same has been recognized in the Consolidated Statement of Profit and Loss under the head employee benefit expense.

2.20.4 Employee benefit costs include:

in ₹ crore

Particulars	Years ended March 31,	
	2020	2019
Salaries and bonus[1]	49,837	44,405
Defined contribution plans	338	307
Defined benefit plans	712	603
	50,887	45,315

[1] Includes employee stock compensation expense of ₹249 crore and ₹202 crore for the years ended March 31, 2020 and March 31, 2019, respectively

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TATA MOTORS – DISCLOSURES

Defined Benefit Plan

Pension and post retirement medical plans

The following table sets out the funded and unfunded status and the amounts recognized in the financial statements for the pension and the post retirement medical plans in respect of Tata Motors, its Indian subsidiaries and joint operations:

(₹ in crores)

	Pension benefits		Post retirement medical Benefits	
	2020	2019	2020	2019
Change in defined benefit obligations :				
Defined benefit obligation, beginning of the Year	1,168.26	1,024.79	153.40	154.05
Current service cost	82.77	74.63	8.17	8.04
Interest cost	85.95	75.70	11.30	11.51
Remeasurements (gains) / losses				
Actuarial (gains) / losses arising from changes in demographic assumptions	3.55	(1.19)	(0.67)	-
Actuarial losses arising from changes in financial assumptions	37.12	14.19	9.91	8.11
Actuarial (gains) / losses arising from changes in experience adjustments	24.66	59.27	(5.42)	(15.03)
Benefits paid from plan assets	(83.03)	(71.31)		
Benefits paid directly by employer	(5.89)	(5.82)	(7.71)	(9.42)
Past service cost - Plan amendment	(5.17)	0.39	-	(1.99)
Curtailment	0.03	-	-	-
Divestment	0.21	(2.39)	-	(1.87)
Defined benefit obligation, end of the Year	**1,308.46**	**1,168.26**	**168.98**	**153.40**
Change in plan assets:				
Fair value of plan assets, beginning of the Year	1,025.04	906.04	-	-
Divestment	-	(1.25)	-	-
Interest income	80.45	71.60	-	-
Return on plan assets, (excluding amount included in net Interest cost)	(18.04)	2.70	-	-
Employer's contributions	123.80	117.26	-	-
Benefits paid	(83.03)	(71.31)	-	-
Fair value of plan assets, end of the Year	**1,128.22**	**1,025.04**	-	-
Amount recognized in the balance sheet consists of:				
Present value of defined benefit obligation	1,308.46	1,168.26	168.98	153.40
Fair value of plan assets	1,128.22	1,025.04	-	-
Net liability	**(180.24)**	**(143.22)**	**(168.98)**	**(153.40)**
Amounts in the balance sheet:				
Non–current assets	2.11	1.64	-	-
Non–current liabilities	(182.35)	(144.86)	(168.98)	(153.40)
Net liability	**(180.24)**	**(143.22)**	**(168.98)**	**(153.40)**

TATA MOTORS – DISCLOSURES

Total amount recognised in other comprehensive income consists of:

(₹ in crores)

	Pension benefits		Post retirement medical benefits	
	As at March 31, 2020	As at March 31, 2019	As at March 31, 2020	As at March 31, 2019
Remeasurements (gains)/losses	150.10	62.91	(41.31)	(45.14)
	150.10	**62.91**	**(41.31)**	**(45.14)**

Information for funded plans with a defined benefit obligation in excess of plan assets:

(₹ in crores)

	Pension benefits	
	As at March 31, 2020	As at March 31, 2019
Defined benefit obligation	1,141.98	983.70
Fair value of plan assets	1,091.60	961.23

Information for funded plans with a defined benefit obligation less than plan assets:

(₹ in crores)

	Pension benefits	
	As at March 31, 2020	As at March 31, 2019
Defined benefit obligation	34.51	62.17
Fair value of plan assets	36.61	63.81

Information for unfunded plans:

(₹ in crores)

	Pension benefits		Post retirement medical benefits	
	As at March 31, 2020	As at March 31, 2019	As at March 31, 2020	As at March 31, 2019
Defined benefit obligation	131.97	122.39	168.98	153.40

TATA MOTORS – DISCLOSURES

Net pension and post retirement medical cost consist of the following components:

(₹ in crores)

	Pension benefits		Post retirement medical benefits	
	Year ended March 31, 2020	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2019
Service cost	82.77	74.63	8.17	8.04
Net interest cost	5.50	4.10	11.30	11.51
Past service cost - Plan amendment	(5.17)	0.39	-	(1.99)
Net periodic cost	**83.10**	**79.12**	**19.47**	**17.56**

Other changes in plan assets and benefit obligation recognised in other comprehensive income.

(₹ in crores)

	Pension benefits		Post retirement medical benefits	
	Year ended March 31, 2020	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2019
Remeasurements				
Return on plan assets, (excluding amount included in net Interest expense)	18.04	(2.70)	-	-
Actuarial (gains)/losses arising from changes in demographic assumptions	3.55	(1.19)	(0.67)	-
Actuarial (gains)/losses arising from changes in financial assumptions	37.12	14.19	9.91	8.11
Actuarial (gains)/losses arising from changes in experience adjustments on plan liabilities	24.66	59.27	(5.42)	(15.03)
Total recognised in other comprehensive income	**83.37**	**69.57**	**3.82**	**(6.92)**
Total recognised in statement of operations and other comprehensive income	**166.47**	**148.69**	**23.29**	**10.64**

TATA MOTORS – DISCLOSURES

The assumptions used in accounting for the pension and post retirement medical plans are set out below:

	Pension benefits		Post retirement medical benefits	
	As at March 31, 2020	As at March 31, 2019	As at March 31, 2020	As at March 31, 2019
Discount rate	6.10% - 6.90%	6.75% - 7.70%	6.90%	7.60%
Rate of increase in compensation level of covered employees	5.00% - 10.00%	6.00% - 12.00%	NA	NA
Increase in health care cost	NA	NA	6.00%	6.00%

Plan Assets

The fair value of Company's pension plan asset as of March 31, 2020 and 2019 by category are as follows:

	Pension benefits	
	Plan assets as of March 31	
	2020	2019
Asset category:		
Cash and cash equivalents	5.8%	6.5%
Debt instruments (quoted)	67.3%	66.9%
Debt instruments (unquoted)	0.7%	0.9%
Equity instruments (quoted)	2.6%	2.6%
Deposits with Insurance companies	23.6%	23.1%
	100.0%	**100.0%**

The Company's policy is driven by considerations of maximizing returns while ensuring credit quality of the debt instruments. The asset allocation for plan assets is determined based on investment criteria prescribed under the Indian Income Tax Act, 1961, and is also subject to other exposure limitations. The Company evaluates the risks, transaction costs and liquidity for potential investments. To measure plan asset performance, the Company compares actual returns for each asset category with published bench marks.

The weighted average duration of the defined benefit obligation as at March 31, 2020 is **13.97 years** (2019 : 14.41 years)

The Company expects to contribute **₹102.78 crores** to the funded pension plans in Fiscal 2021.

TATA MOTORS – DISCLOSURES

The table below outlines the effect on the service cost, the interest cost and the defined benefit obligation in the event of a decrease/ increase of 1% in the assumed rate of discount rate, salary escalation and health care cost:

Assumption	Change in assumption	Impact on defined benefit obligation	Impact on service cost and interest cost
Discount rate	Increase by 1%	Decrease by ₹118.52 crores	Decrease by ₹23.26 crores
	Decrease by 1%	Increase by ₹137.30 crores	Increase by ₹23.95 crores
Salary escalation rate	Increase by 1%	Increase by ₹106.55 crores	Increase by ₹23.47 crores
	Decrease by 1%	Decrease by ₹95.67 crores	Decrease by ₹20.63 crores
Health care cost	Increase by 1%	Increase by ₹22.49 crores	Increase by ₹4.85 crores
	Decrease by 1%	Decrease by ₹15.26 crores	Decrease by ₹4.03 crores

Provident Fund

The following tables set out the funded status of the defined benefit provident fund plan of Tata Motors limited and the amounts recognized in the Company's financial statements as at March 31, 2020.

(₹ in crores)

Particulars	Year Ended March 31, 2020
Change in benefit obligations:	
Defined benefit obligations at the beginning	3,693.92
Service cost	133.99
Employee contribution	307.34
Acquisitions (credit) / cost	(140.30)
Interest expense	312.54
Actuarial (gains) / losses arising from changes in experience adjustments on plan liabilities	4.57
Benefits paid	(235.68)
Defined benefit obligation, end of the Year	**4,076.38**
Change in plan assets:	
Fair value of plan assets at the beginning	3,706.28
Acquisition Adjustment	(140.30)
Interest income	318.75
Return on plan assets excluding amounts included in interest income	(30.23)
Contributions (employer and employee)	439.68
Benefits paid	(235.68)
Fair value of plan assets at the end	**4,058.50**

TATA MOTORS – DISCLOSURES

Amount recognised in the balance sheet consist of:

	(₹ in crores) As at March 31, 2020
Present value of defined benefit obligation	4,076.38
Fair value of plan assets	4,058.50
	(17.88)
Effect of asset ceiling	(2.99)
Net liability	**(20.87)**

Total amount recognised in other comprehensive income for severance indemnity consists of:

	(₹ in crores) As at March 31, 2020
Remeasurements (gains) / losses	18.03
	18.03

Net pension and post retirement medical cost consist of the following components:

	(₹ in crores) Year Ended March 31, 2020
Service cost	133.99
Net interest cost / (income)	(6.22)
Net periodic cost	**127.78**

Other changes in plan assets and benefit obligation recognised in other comprehensive income.

	(₹ in crores) For the year ended March 31, 2020
Remeasurements (gains) / losses	
Return on plan assets, (excluding amount included in net Interest expense)	30.23
Actuarial (gains) / losses arising from changes in experience adjustments on plan liabilities	4.57
Adjustments for limits on net asset	(16.77)
Total recognised in other comprehensive income	**18.03**
Total recognised in statement of profit and loss and other comprehensive income	**145.81**

TATA MOTORS – DISCLOSURES

The assumptions used in determining the present value obligation of the Provident Fund is set out below:

(₹ in crores)

	As at March 31, 2020
Discount rate	6.90%
Expected rate of return on plan assets	8.20% to 8.60%
Remaining term to maturity of portfolio	26.91

The breakup of the plan assets into various categories as at March 31, 2020 is as follows:

Particulars	As at March 31, 2020
Central and State government bonds	44.2%
Public sector undertakings and Private sector bonds	34.1%
Others	21.7%
TOTAL	**100.0%**

The asset allocation for plan assets is determined based on investment criteria prescribed under the relevant regulations.

As at March 31, 2020, the defined benefit obligation would be affected by approximately ₹168.67 crores on account of a 0.50% decrease and ₹3.87 crores on account of a 0.50% increase in the expected rate of return on plan assets.

TATA MOTORS – DISCLOSURES

Severance indemnity plan

Severance indemnity is a funded plan of Tata Daewoo Commercial Vehicles Limited (TDCV), a subsidiary of Tata Motors Limited.

The following table sets out, the amounts recognized in the financial statements for the severance indemnity plan.

(₹ in crores)

	As at March 31, 2020	As at March 31, 2019
Change in defined benefit obligation:		
Defined benefit obligation, beginning of the Year	422.33	425.63
Service cost	52.72	52.52
Interest cost	6.81	11.13
Remeasurements (gains) / losses		
Actuarial losses arising from changes in financial assumptions	12.38	36.83
Actuarial (gains) arising from changes in experience adjustments on plan liabilities	(59.87)	(21.34)
Benefits paid from plan assets	(132.92)	(73.89)
Benefits paid directly by employer	(17.43)	(8.95)
Foreign currency translation	0.73	0.40
Defined benefit obligation, end of the Year	**284.75**	**422.33**
Change in plan assets:		
Fair value of plan assets, beginning of the Year	360.07	405.36
Interest income	5.76	10.97
Remeasurements (loss)		
Return on plan assets, (excluding amount included in net Interest expense)	(1.52)	(5.99)
Employer's contributions	-	30.92
Benefits paid	(132.92)	(82.84)
Foreign currency translation	0.34	1.65
Fair value of plan assets, end of the Year	**231.72**	**360.07**

TATA MOTORS – DISCLOSURES

Amount recognized in the balance sheet consist of:

	As at March 31, 2020	As at March 31, 2019
Present value of defined benefit obligation	284.75	422.32
Fair value of plan assets	231.72	360.07
Net liability	**(53.02)**	**(62.25)**
Amounts in the balance sheet:		
Non- current liabilities	(53.02)	(62.25)

Total amount recognized in other comprehensive income for severance indemnity consists of:

	As at March 31, 2020	As at March 31, 2019
Remeasurements (gains) / losses	(101.61)	(55.64)
	(101.61)	**(55.64)**

Net severance indemnity cost consist of the following components:

(₹ in crores)

	As at March 31, 2020	As at March 31, 2019
Service cost	52.72	52.52
Net interest cost	1.05	0.16
Net periodic pension cost	**53.77**	**52.68**

TATA MOTORS – DISCLOSURES

Other changes in plan assets and benefit obligation recognized in other comprehensive income for severance indemnity plan:

	Year ended March 31, 2020	Year ended March 31, 2019
Remeasurements (gains) / losses		
Return on plan assets, (excluding amount included in net Interest expense)	1.52	5.99
Actuarial losses arising from changes in financial assumptions	12.38	36.83
Actuarial (gains) arising from changes in experience adjustments on plan liabilities	(59.87)	(21.34)
Total recognized in other comprehensive income	**(45.97)**	**21.48**
Total recognized in statement of operations and other comprehensive income	**7.80**	**74.16**

The assumptions used in accounting for the Severance indemnity plan is set out below:

	Year ended March 31, 2020	Year ended March 31, 2019
Discount rate	1.6%	2.0%
Rate of increase in compensation level of covered employees	3.5%	3.5%

The table below outlines the effect on the service cost, the interest cost and the defined benefit obligation in the event of a decrease/ increase of 1% in the assumed rate of discount rate, salary escalation rate:

Assumption	Change in assumption	Impact on scheme liabilities	Impact on service cost and interest cost
Discount rate	Increase by 1%	Decrease by ₹30.36 crores	Decrease by ₹10.43 crores
	Decrease by 1%	Increase by ₹35.58 crores	Increase by ₹14.44 crores
Salary escalation rate	Increase by 1%	Increase by ₹34.52 crores	Increase by ₹13.90 crores
	Decrease by 1%	Decrease by ₹30.12 crores	Decrease by ₹10.95 crores

Severance indemnity plans asset allocation by category is as follows:

	As at March 31, 2020	As at March 31, 2019
Deposit with banks	100%	100%

The weighted average duration of the defined benefit obligation as at March 31, 2020 is **11.05 years** (2019 : 11.01 years)

The Company expects to contribute ₹ **12.14 crores** to the funded severance indemnity plans in FY 2020-21.

TATA MOTORS – DISCLOSURES

Jaguar Land Rover Pension plan

Jaguar Land Rover Ltd. UK, have pension arrangements providing employees with defined benefits related to pay and service as set out in the rules of each fund.

The UK defined benefit schemes are administered by a separate fund that is legally separated from the Company. The trustees of the pension schemes are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme, is responsible for the investment policy with regard to the assets of the schemes and all other governance matters. The Board of trustees must be composed of representatives of the Company and plan participants in accordance with the plan's regulations.

Through its defined benefit pension plans the Company is exposed to a number of risks, the most significant of which are detailed below :

Asset volatility

The plan liabilities are calculated using a discount rate set with references to corporate bond yields; if plan assets under perform compared to the corporate bonds discount rate, this will create or increase a deficit. The defined benefit plans hold a significant proportion of equity type assets, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.

As the plans mature, the Company intends to reduce the level of investment risk by investing more in assets that better match the liabilities.

However, the Company believes that due to the long-term nature of the plan liabilities and the strength of the supporting Group, a level of continuing equity type investments is an appropriate element of the Company's long term strategy to manage the plans efficiently.

Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this is expected to be partially offset by an increase in the value of the plans' bond holdings and interest rate hedging instruments.

Inflation risk

Some of the Company's pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against high inflation). The plans hold a significant proportion of assets in index linked gilts, together with other inflation hedging instruments and also assets which are more closely correlated with inflation. However an increase in inflation will also increase the deficit to some degree.

Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant in the UK defined benefit plans, where inflationary increases result in higher sensitivity to changes in life expectancy.

TATA MOTORS – DISCLOSURES

The following table sets out the disclosure pertaining to employee benefits of Jaguar Land Rover Limited

(₹ in crores)

	Pension benefits	
	As at March 31, 2020	As at March 31, 2019
Change in defined benefit obligation:		
Defined benefit obligation, beginning of the Year	78,266.49	76,780.04
Service cost	1,198.00	1,449.05
Interest cost	1,832.79	1,981.47
Remeasurements (gains) / losses		
Actuarial (gains) arising from changes in demographic assumptions	59.49	(453.31)
Actuarial losses arising from changes in financial assumptions	(4,739.02)	4,965.37
Actuarial (gains)/losses arising from changes in experience adjustments on plan liabilities	(1,256.32)	327.69
Past service cost/(credit)	39.66	379.90
Benefits paid	(4,908.91)	(5,657.37)
Member contributions	13.34	13.58
Foreign currency translation	2,336.63	(1,519.93)
Defined benefit obligation, end of the Year	**72,842.15**	**78,266.49**
Change in plan assets:		
Fair value of plan assets, beginning of the Year	72,240.10	72,737.89
Interest Income	1,713.91	1,904.02
Remeasurements gains / (losses)		
Return on plan assets, (excluding amount included in net Interest expense)	2,926.69	2,362.62
Employer's contributions	2,079.29	2,407.81
Members contributions	13.34	13.58
Benefits paid	(4,908.91)	(5,657.37)
Expenses paid	(141.68)	(118.65)
Foreign currency translation	2,481.68	(1,409.80)
Fair value of plan assets, end of the Year	**76,404.42**	**72,240.10**

The actual return on the schemes' assets for the year ended March 31, 2020 was ₹ **4,641.68 crores** (2019: ₹ 4,267.04 crores)

TATA MOTORS – DISCLOSURES

Amount recognized in the balance sheet consist of:	Pension benefits Year ended March 31, 2020	(₹ in crores) Year ended March 31, 2019
Present value of defined benefit obligation	72,842.15	78,266.49
Fair value of plan Assets	76,404.42	72,240.10
Net liability / Assets	**3,562.27**	**(6,026.39)**
Amount recognised in the balance sheet consist of:		
Non- current assets	3820.14	-
Non -current liabilities	(257.87)	(6,026.39)
Net liability / Assets	**3,562.27**	**(6,026.39)**

Total amount recognised in other comprehensive income

	Pension benefits As at March 31, 2020	(₹ in crores) As at March 31, 2019
Remeasurements (gains)/losses	(8,035.20)	827.34
	(8,035.20)	**827.34**

Net pension and post retirement cost consist of the following components:

	Pension benefits As at March 31, 2020	(₹ in crores) As at March 31, 2019
Current service cost	1,198.00	1,449.05
Past service cost/(credit)	39.66	379.90
Administrative expenses	141.68	118.65
Net interest cost/(income) (Including onerous obligations)	118.88	77.45
Net periodic pension cost	**1,498.22**	**2,025.05**

TATA MOTORS – DISCLOSURES

Amount recognised in other comprehensive income

(₹ in crores)

	Pension benefits	
	As at March 31, 2020	As at March 31, 2019
Actuarial (gains) arising from changes in demographic assumptions	59.49	(453.31)
Actuarial losses arising from changes in financial assumptions	(4,739.02)	4,965.37
Actuarial (gains)/losses arising from changes in experience adjustments on plan liabilities	(1,256.32)	327.69
Return on plan assets, (excluding amount included in net Interest expense)	(2,926.69)	(2,362.62)
Total recognised in other comprehensive income	**(8,862.54)**	**2,477.13**
Total recognised in statement of Profit and Loss and other comprehensive income	**(7,364.32)**	**4,502.18**

The assumptions used in accounting for the pension plans are set out below:

	Pension benefits	
	Year ended March 31, 2020	Year ended March 31, 2019
Discount rate	2.4%	2.4%
Expected rate of increase in benefit revaluation of covered employees	2.0%	2.4%
RPI Inflation rate	2.6%	3.2%

Whilst salary inflation is no longer used in the calculation of the Projected Benefit Obligation or Service Cost our assumption for this, on average over the medium term, has reduced from CPI +0.5% to CPI as at March 31, 2020.

For the valuation as at March 31, 2020, the mortality assumptions used are the SAPS table, in particular S2PxA tables and the Light Table for members of the Jaguar Executive Pension Plan.

For the Jaguar Pension Plan, scaling factor of 111% to 117% have been used for male members and scaling factor of 101% to 112% have been used for female members.

For the Land Rover Pension Scheme, scaling factor of 107% to 111% have been used for male members and scaling factor of 101% to 109% have been used for female members.

For the Jaguar Executive Pension Plan, an average scaling factor of 94% has been used for male members and an average scaling factor of 84% has been used for female members.

For the valuation as at March 31, 2019, the mortality assumptions used are the SAPS table, in particular S2PxA tables and the Light Table for members of the Jaguar Executive Pension Plan.

For the Jaguar Pension Plan, scaling factor of 112% to 118% have been used for male members and scaling factor of 101% to 112% have been used for female members.

For the Land Rover Pension Scheme, scaling factor of 107% to 112% have been used for male members and scaling factor of 101% to 109% have been used for female members.

For the Jaguar Executive Pension Plan, an average scaling factor of 94% has been used for male members and an average scaling factor of 84% has been used for female members.

TATA MOTORS – DISCLOSURES

For the Land Rover Pension Scheme, scaling factor of 107% to 112% have been used for male members and scaling factor of 101% to 109% have been used for female members.

For the Jaguar Executive Pension Plan, an average scaling factor of 94% has been used for male members and an average scaling factor of 84% has been used for female members.

For the 2020 year end calculations there is an allowance for future improvements in line with the CMI (2019) projections and an allowance for long-term improvements of 1.25 % per annum and Sk=7.5, (2019: CMI (2018) projections with 1.25 % per annum improvements and Sk=7.5, 2018: CMI (2017) projections with 1.25 % per annum improvements).

A past service cost of ₹ 37.41 crores has been recognised in the year ended March 31, 2020. This reflects benefit improvements for certain members as part of the Group restructuring programme. A past service cost of ₹ 392.85 crores was recognised in the year ended 31 March 2019. This reflects benefit improvements for certain members as part of the Group restructuring programme and a past service cost following a High Court ruling in October 2018. As a result of the ruling, pension schemes are required to equalise male and female members' benefits for the inequalities within guaranteed minimum pension ('GMP') earned between May 17, 1990 and April 5, 1997. The Group historically made no assumptions for the equalisation of GMP and therefore considered the change to be a plan amendment.

The assumed life expectations on retirement at age 65 are (years)

	As at March 31, 2020	As at March 31, 2019
Retiring today :		
Males	21.0	21.0
Females	23.2	23.2
Retiring in 20 years :		
Males	22.5	22.4
Females	25.2	25.1

TATA MOTORS – DISCLOSURES

Pension plans asset allocation by category is as follows:

(₹ in crores)

	As at March 31, 2020			As at March 31, 2019		
	Quoted*	Unquoted	Total	Quoted*	Unquoted	Total
Equity Instruments						
Information Technology	1,159.83	-	1,159.83	716.65	-	716.65
Energy	93.53	-	93.53	304.75	-	304.75
Manufacturing	654.74	-	654.74	522.30	-	522.30
Financials	420.91	-	420.91	822.41	-	822.41
Others	2,340.83	-	2,340.83	2,272.41	-	2,272.41
	4,669.84	-	**4,669.84**	**4,638.52**	-	**4,638.52**
Debt Instruments						
Government	18,183.13	-	18,183.13	22,709.35	-	22,709.35
Corporate Bonds (Investment Grade)	11,645.06	3,255.00	14,900.06	1,351.98	15,328.05	16,680.03
Corporate Bonds (Non Investment Grade)	-	7,015.10	7,015.10	-	5,547.26	5,547.26
	29,828.19	**10,270.10**	**40,098.29**	**24,061.33**	**20,875.31**	**44,936.64**
Property Funds						
UK	-	2,553.49	2,553.49	-	2,211.26	2,211.26
Other	-	2,235.48	2,235.48	-	2,076.36	2,076.36
	-	**4,788.97**	**4,788.97**	-	**4,287.62**	**4,287.62**
Cash and Cash equivalents	**6,344.53**	-	**6,344.53**	1,904.79	-	1,904.79
Other						
Hedge Funds	-	4,442.89	4,442.89	-	2,803.29	2,803.29
Private Markets	-	5,256.64	5,256.64	38.17	3,039.29	3,077.46
Alternatives	-	5,555.96	5,555.96	139.46	7,337.30	7,476.76
	-	**15,255.49**	**15,255.49**	**177.63**	**13,179.88**	**13,357.51**
Derivatives						
Foreign exchange contracts	-	(336.72)	(336.72)	-	147.82	147.82
Interest Rate and inflation	-	5,097.64	5,097.64	-	2,967.20	2,967.20
Equity protection derivatives	-	486.38	486.38	-	-	-
	-	**5,247.30**	**5,247.30**	-	**3,115.02**	**3,115.02**
TOTAL	**40,842.56**	**35,561.86**	**76,404.42**	**30,782.27**	**41,457.83**	**72,240.10**

* determined on the basis of quoted prices for identical assets or liabilities in active markets.

As at March 31, 2020, the schemes held Gilt Repos. The net value of these transactions is included in the value of government bonds in the table above. The value of the funding obligation for the Repo transactions is ₹ **24,683.78 crores** at March 31, 2020 (2019: ₹ 14,292.09 crores).

The sensitivity analysis below is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same methods (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the consolidated balance sheet.

TATA MOTORS – DISCLOSURES

Assumption	Change in assumption	Impact on scheme liabilities	Impact on service cost
Discount rate	Increase/decrease by 0.25%	Decrease/increase by ₹ 3,647.85 crores	Decrease/increase by ₹ 65.47 crores
Inflation rate	Increase/decrease by 0.25%	Increase/decrease by ₹ 2,151.30 crores	Increase/decrease by ₹ 28.06 crores
Mortality rate	Increase/decrease by 1 year	Increase/decrease by ₹ 2,618.97 crores	Increase/decrease by ₹ 37.41 crores

Due to the economic effects of actions taken in response to the COVID-19 disease there is a higher degree of uncertainty in the valuations placed on some of the "unquoted" assets including property assets. In some cases the additional uncertainty will be small, however some managers have reported material uncertainty in their valuations. The Directors consider these valuations to be the best estimate of the valuation of these investments, but there is a higher degree of uncertainty compared to previous years.

Private Equity holdings have been measured using the most recent valuations, adjusted for cash and currency movements between the last valuation date and 31 March 2020. The latest valuations for these assets precede the negative impact of the COVID-19 pandemic on financial markets. Given the movements in listed equity markets, the valuation of Private Equity holdings may vary significantly. The value of the Private Equity holdings in the JLR UK Plans included above is ₹ 3,198.88 crores as at 31 March 2020.

Jaguar Land Rover contributes towards the UK defined benefit schemes. The April 5, 2018 valuations were completed in December 2018. As a result of these valuations it is intended to eliminate the pension scheme funding deficits over the 10 years to March 31, 2028. There is currently no additional liability over the Projected benefit obligation. The current agreed contribution rate for defined benefit accrual is 22% of pensionable salaries in the UK reflecting the 2017 benefit structure.

The average duration of the benefit obligation at March 31, 2020 is 19 years (2019: 19 years).

With the new benefit structure effective April 6, 2017, the expected net periodic pension cost for the year ended March 31, 2021 is **₹1,309.48 crores**. The Company expects to pay ₹1,496.55 crores to its defined benefit schemes in the year ended March 31, 2021.

Deficit contributions are paid in line with the schedule of contributions at a rate of ₹ 561.21 million per year until 31 March 2024 followed by ₹233.84 million per year until 31 March 2028, although as part of JLR's response to the COVID-19 disease JLR has agreed to defer all of its contributions, payable for April, May and June 2020, until FY22. This agreement is reflected in an updated Schedule of Contributions dated 29 April 2020.

Defined contribution plan

The Company's contribution to defined contribution plans aggregated **₹1,030.55 crores**, ₹1,186.21 crores for years ended March 31, 2020 and 2019, respectively.

AS 18

RELATED PARTY DISCLOSURES

M P Vijay Kumar

TWO SIMPLE RULES

- **RPR** : Only if control exists, during the period, disclose relationship whether or no transactions
- **RPT** : Disclose nature of relationship and details of transaction

- **RPR with control :**

  Disclose if exists at any time in the year RPR , even if not there on B/s date.

- **TXN :**

  Disclose only if transaction took place when relationship existed.

RELATED PARTY RELATIONSHIPS OF CONTROL

What should be disclosed -

a) Name of the related party

b) Nature of the related party relationship where control exists.

Disclosure essential even if no transaction entered

RELATED PARTY TRANSACTIONS – C OR SI

Disclose :

Relationship should exist at the time of the transaction

1. **Name of the transacting party**
2. **Description of the relationship**
3. **Description of the nature of transactions including volume and any other elements considered necessary for understanding**
4. **Amounts outstanding**
5. **Provisions for doubtful debts due from such parties at that date; and**
6. **Amounts written off or written back in the period**

MEANING OF RP & RPT

- **RP :** One who has the "**ability**" to control, or exercise significant influence over another
- **RPT :** where there is a transfer of economic resource, with or without consideration
- Can be many situations - leading to Related party relationships
- Standard provides five specific situations

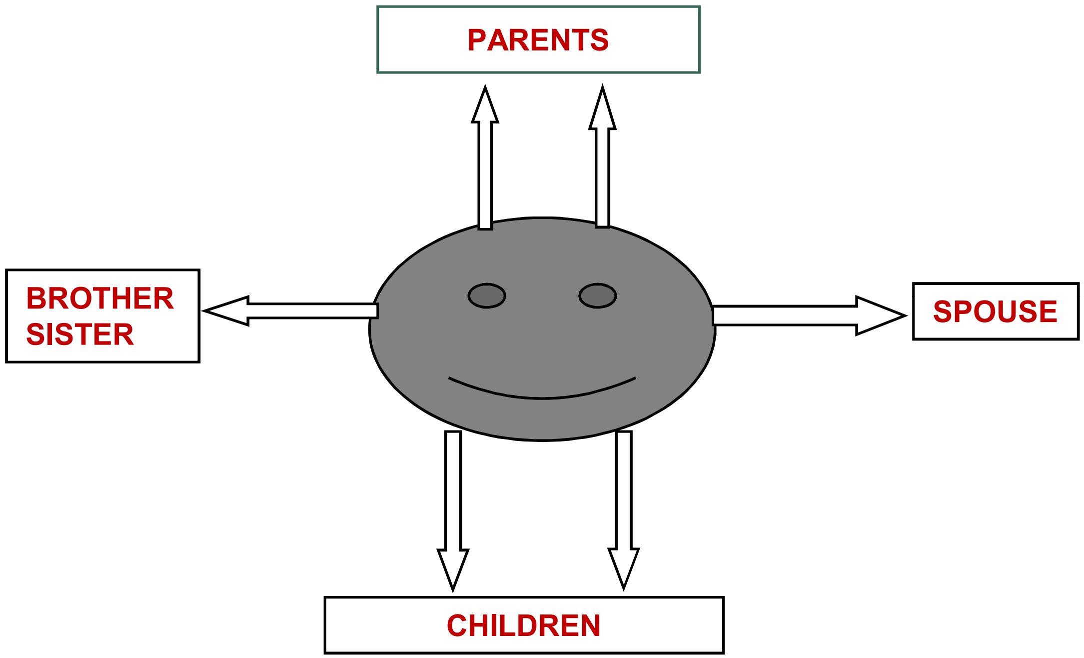
5 RELATIONSHIPS ONLY

1. HC, Sub, Fellow Sub
2. Associate & JV: common economic activity of two or more parties, under contractual arrangement (vice versa)

1. Individuals - control or significant influence & Relatives
2. KMP - "Authority and Responsibility" - planning, directing and controlling activity & Relative

5. Enterprises in which such Individuals or KMP have significant influence (includes enterprises owned by Directors or major shareholders)

Relative : so simple..



EXCEPTIONS

NOT A RPR

1. Only because there is common directorship in two companies - NO RPR, unless "control, or significant influence"
2. Single customer - franchisee, distributor etc
3. Finance Providers, Trade Unions, Public utilities, GOI departments/agencies etc

RPT NO DISCLOSURE

- Even if control or significant influence exists no need for any disclosure – where:

a) RE's duties of confidentiality (Bank)

b) Intra group transactions in CFS (rationale, they already stand eliminated)

c) State Controlled Enterprises

M P Vijay Kumar

M P Vijay Kumar

RELATED PARTY- CA 13 & AS 18 -1/2

Particulars	Whether related party under Act, 2013	Whether related party under AS-18
Director or relative	Yes	If only common then no. If the director can affect policies, then yes.
KMP or relative	Yes. KMP defined to mean MD/CEO/manager, WTD, CS, CFO.	Yes. KMP defined to include persons with authority and responsibility for planning, controlling activities
Director , KMP and his relatives of holding company	Yes	No
Firm in which director, manager or his relative is a partner	Yes	No
Private company in which director or manager or his relative is a member or director	Yes	No
Public company with common director and holds along with relatives 2% of paid up capital	Yes	No

RELATED PARTY- CA 13 & AS 18 -1/2

Particulars	Whether related party under Act, 2013	Whether related party under AS-18
BoD accustomed to act in accordance with directions of director or manager	Yes	Yes
Holding company, subsidiary or associate	Yes	Yes
Fellow subsidiary	Yes	Yes
Joint venture	Yes	Yes
Fellow associate	No	Yes, if an individual controls or exercises significant influence over both the enterprises
A person on whose advice a director or manager accustomed to act	Yes	Yes. In case of individual , there must be an interest in the voting power that gives them control or significant influence. Relatives of such individuals shall also be related party.

AS 22

ACCOUNTING FOR TAXES ON INCOME

AS 22 - DTL ILLUSTRATION - FACTS

- Company engaged in Power Generation
- Cost of Wind-Mill – Rs 100 lacs
- Tax Rate – 40%
- Book Depreciation – 20% SLM
- I T Depreciation - 100%

DTL ILLUSTRATION - PROFITABILITY STATEMENT

	Year 1	Year 2
P B D T	100	100
Dep	(20)	(20)
P B T	80	80
Current Tax	?	?

DTL ILLUSTRATION - CURRENT TAX

	Year 1	Year 2
PBT	80	80
(+) Dep per books	20	20
(-) Dep per IT	(100)	
Taxable Income	Nil	100
Tax @ 40%	Nil	40

DTL ILLUSTRATION - PROFITABILITY

	Year 1	Year 2
P B D T	100	100
Depreciation	(20)	(20)
P B T	80	80
Current Tax	Nil	40
PAT	80	40

DTL ILLUSTRATION - DEFERRED TAX

	Yr 1	Yr2	Yr 3	Yr 4	Yr 5
Book Dep	20	20	20	20	20
I T Dep	100				
Difference	(80)	20	20	20	20
DTL Creation	32				
DTL write off		8	8	8	8

DTL ILLUSTRATION - PROFITABILITY STATEMENT

	Year 1	Year 2
P B D T	100	100
Depreciation	(20)	(20)
P B T	80	80
Current Tax	Nil	(40)
Deferred Tax	(32)	8
PAT	48	48

AS 22 - DTA ILLUSTRATION - FACTS

- New Project started
- Term Loan – Rs 200 lacs
- Tax Rate – 40%
- Interest Rate –10%
- Interest of Year 1 paid along with Year 2 as insufficient cash balance`

DTA ILLUSTRATION - PROFITABILITY STATEMENT

	Year 1	Year 2
P B I T	100	100
Interest	(20)	(20)
P B T	80	80
Current Tax	?	?

DTA ILLUSTRATION - CURRENT TAX

	Year 1	Year 2
PBT	80	80
Interest - 43B	20 Disallowed	(20) Previous year allowed
Taxable Income	100	60
Tax @ 40%	40	24

DTA ILLUSTRATION - PROFITABILITY STATEMENT

	Year 1	Year 2
P B I T	100	100
Interest	(20)	(20)
P B T	80	80
Current Tax	40	24
PAT	40	56

DTA ILLUSTRATION - DEFERRED TAX

	Yr 1	Yr2
Interest in BOOKS	20	20
Interest for INCOME TAX Difference	Nil + 20	40 (20)
DTA Creation	8	
DTA write-off		8

DTA ILLUSTRATION - PROFITABILITY STATEMENT

	Year 1	Year 2
P B I T	100	100
Interest	(20)	(20)
P B T	80	80
Current Tax	(40)	(24)
Deferred Tax	8	(8)
PAT	48	48

M P Vijay Kumar

QUICK RUN…

AS 26 : Intangible assets

- Items restricted those that can be independently dealt with, such as Patents, etc.
- Special areas: Useful life 10 years rebuttable, RV Nil rebuttable
- Concept of Deferred expenditure: Goes.

AS 28 – Impairment of assets

- Based on estimate value – recognize

AS 29 – Provisions, Contingent Liabilities & Contingent Assets

- Provisions
- Contingent liabilities & Contingent assets

SCHEDULE III

KEY CHANGES

4 categories

A. Enhanced Disclosure for more oversight on Governance

1. Promoter shareholding
2. MSME disclosure on face of B/S
3. Registration and satisfaction of charges
4. More than 2 layers of subsidiaries
5. Compliance with Scheme of Arrangement
6. Working capital reconciliation : Statements filed with banks reconciled with Books of account
7. Revaluation – impact beyond 10%
8. Revaluation by Registered Valuer

B. Financial Discipline/ Solvency

1. Ratios
2. Ageing of Trade receivables
   (for Ind AS – SICR and Credit impaired)
3. Ageing of Trade payables
4. CWIP Ageing
5. CWIP – time and cost overrun
6. Transactions not recorded in books; undisclosed income
7. CSR spend
8. End use of borrowed funds
9. Loans and Advances to Promoters/ Directors/ relatives

C. Money laundering : early signals

1. Dealing with Struck off companies
2. Benami transactions
3. Immovable property not held in company name
4. Wilful Defaulter declaration
5. Loans Given/ Loans received for transfer to other entities
6. Dealings in Crypto currency/ crypto assets

D. Minor changes/ edits

1. Rounding off – Total Income vs Turnover
2. Replace Total Revenue by Total Income
3. Grants/ Donations for Sec 8 companies as Operating income
4. Security Deposit- shift from L& A to Other NCA
5. Tangible Assets replaced by PPE & IA
6. Others :
   - Lease liabilities presentation for Ind AS Entities
   - SOCIE – revised for Ind AS entities
   - NBFC – disclosure of CRAR and other ratios


ASK
QUESTIONS

Thank You

STAY SAFE. STAY HEALTHY. STAY ACCOUNTABLE