Lesson 6

Financial Statements Interpretation

Key Concepts One Should Know

- Balance sheet
- Profit and loss account
- Depreciation
- Corporate social responsibility report
- Related party Disclosure
- Audit query

Learning Objectives

To understand the:

- Meaning and significance of framework of preparation and presentation of Financial Statement
- Objectives of financial statement
- Quarterly / Half Yearly / Annual Compliances under SEBI Listing Regulations 2015
- Understand how to read and interpret Financial Statements
- Depreciation provisions and reserves.
- Remuneration allowed to managerial person
- How much corporate should spend on CSR from the profit earned
- Various disclosures under the Companies Act, 2013
- Related party disclosures and segment reporting
- Conditions in which audit queries are raised.

Lesson Outline

- Preparation and Presentation of Financial Statements
- Quarterly, Half yearly and Annual Financial Statement pursuant to SEBI Listing Regulations 2015
- LODR & applicable Accounting Standards
- How to read and interpret Financial Statements
- Depreciation provisions and Reserves
- Determination of Managerial Remuneration
- Corporate Social Responsibility spend
- Various disclosures under the Companies Act, 2013
- Related party and segment reporting
- Audit Queries
- LESSON ROUND UP
- TEST YOURSELF

INTRODUCTION

In order to ascertain the financial status of the business every enterprise prepares certain statements known as financial statements. Financial Statements represent a formal record of the financial activities of an entity. These are written reports that quantify the financial strength, performance and liquidity of a company. Financial Statements reflect the financial effects of business transactions and events on the entity.

Financial statements are reports prepared and issued by company management to give investors and creditors additional information about a company's performance and financial standings. The four general purpose of financial statements include:

- Income Statement
- Balance Sheet
- Statement of Stockholders Equity
- Statement of Cash Flow

These reports are prepared in this order and are issued to the public as a full set of statements. This means they are not only published together, but they are also designed and intended to be read and used together. Since each statement only gives information about specific aspects of a company's financial position, it is important that these reports are used together.

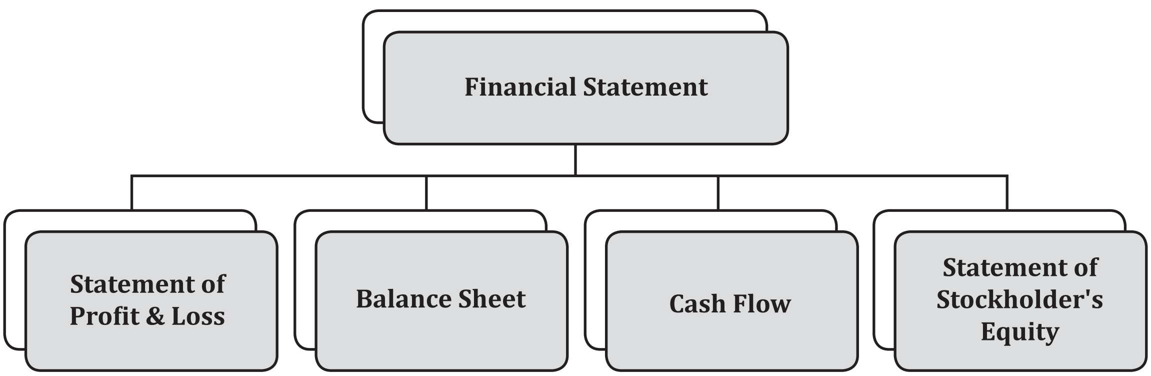
> Balance Sheet is a statement of financial position of an enterprise as on a given date. It shows the assets and liabilities at their respective book values.

For instance, the Balance Sheet shows the debt levels of the company, but it doesn't show what the debt coverage costs. Both the Balance Sheet and Income Statement are needed to calculate the debt coverage ratio for investors and creditors to see a true picture of the debt burden of a company.

Cash Flow Statement is a statement of sources of cash and the uses of cash. It reports cash receipts and payments classification according to the organisation's major activities i.e. operating activities, investing activities and fi activities. Cash Flow Statement has to be prepared in accordance with Accounting Standard (AS) 3.

The purpose of these reports is to provide useful financial information to users outside of the company. In essence, these reports complete the fundamental purpose of financial accounting by providing information that is helpful in the financial decision-making process.

Understanding these business financial statements is the first critical step investors, creditors, and even you can take to learn about a company's earnings, profitability, asset management, financial leverage, cash flow, and current shareholders' stake. Once you understand all of these aspects of a company, you can gauge its relative financial health and determine whether it is worth investing in or loaning money to.



How are Financial Statements Prepared?

Preparing general-purpose financial statements can be simple or complex depending on the size of the company. Some statements need footnote disclosures, while others can be presented without any footnotes. Details like this generally depend on the purpose of the financial statements.

Section 129 of the Companies Act 2013 governs the preparation and presentation of Financial Statements. Form of Balance Sheet has been given in Part 1 of Schedule III of the Companies Act 2013 and Statement of Profit and Loss in part II of Schedule III.

Financial statements are prepared by transferring the account balances on the adjusted trial balance to a set offinancial statement templates.

Who Issues Financial Statements?

Companies issue different types of business financial statements for a variety of reasons at a variety of times during the year. Public companies are required to issue audited financial statements to the public at least every quarter. These regulated reports must meet guidelines as stipulated by different laws. Non-public or private companies generally issue financial sheets to banks and other creditors for financial purposes. Many creditors do not agree to loan funds unless it can prove that it is financially sound enough to make its future debt payments.

Both public and private companies issue at least 4 financial statements to attract new investors and raise funds funding for expansions.

DIFFERENT TYPES OF FINANCIAL STATEMENTS

Interim Statements

Financial statements that are issued for the time periods smaller than one year are called interim statements, because they are used as temporary statements to judge a company's financial position, until the full annual statements are issued.

Interim financial statements are most commonly issued quarterly or semi-annually, but it is not uncommon for companies to issue monthly reports to creditors as part of their loan covenants. Quarterly statements, as the name implies, are issued every quarter and only include financial data from that three-month span of time. Likewise, semi-annual statements include data from a six-month span of time.

Annual Statements

The annual financial statement form is prepared once a year and covers a 12-month period of financial performance. Generally, these statements are issued at the end of a company's fiscal year instead of a calendar year.

Who Uses Financial Statements and WhatAre They Used For?

Financial statements are mainly prepared for external users. There users are people who are outside of the company or organization itself and need information about it to base their financial decisions on. These external users typically fall into four main categories:

- Investors
- Creditors
- Competitors
- Regulators

Investors and creditors analyze these sets of statements to base their financial decisions on. They also look at extra financial reports like financial statement notes and the discussion done in management meetings.

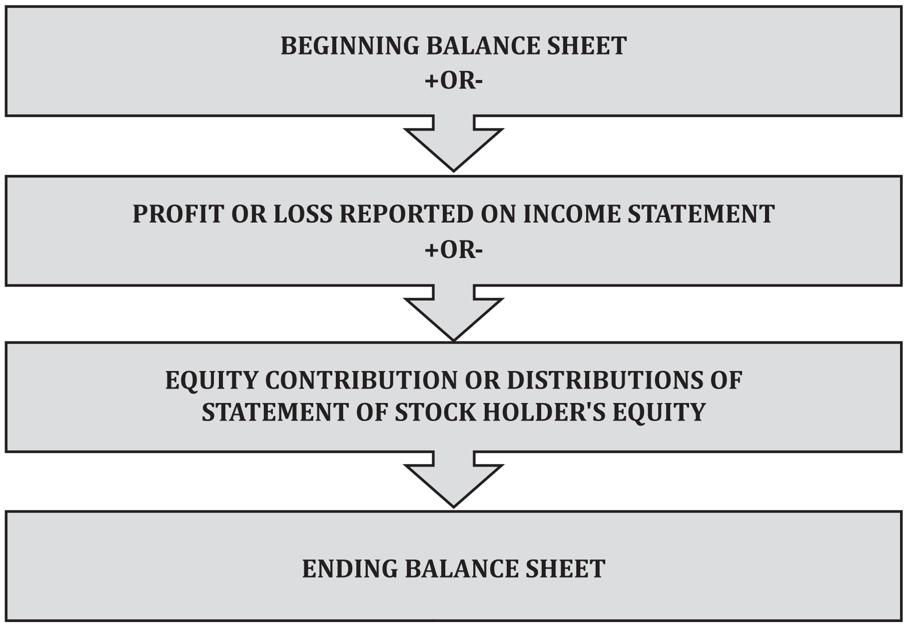
The Income Statement and Balance Sheet are compared with each other to see how efficiently a company is using its assets to generate profits. Company's debt and equity levels can also be examined to determine whether the companies are properly funding its operations and expansions.

Most investors and creditors use financial ratios to analyze these comparisons. There is almost no limit to the amount of ratios that can be combined for analysis purposes.

These ratios by themselves rarely give outside users and decision makers enough information to judge whether or not a company is fiscally sound. However, Investors and creditors generally compare different companies' ratios to develop an industry standard or a benchmark to judge a company's performance.

Financial statement template and form

Here's a sample financial statement template that shows the order of how each statement works together to report the full economic position of a company beginning with the Balance Sheet.



As you can see, everything starts with the prior period's Balance Sheet. This is the starting point for all of the reports because it shows the asset, liability, and equity accounts at the beginning of the period. From this starting point, we can add or subtract the operating activities reported on the income statement. This includes all revenues and expenses that the company incurred during the year.

We also need to add or subtract the amount of money investors put or contributed or withdrew from the company during the year. This information is reported on the statement of stockholder's equity for corporations or the statement of partner's equity for partnerships. Once all operating, financing, and investing activities are added to the initial Balance Sheet, the investors, creditors, and management can analyze the ending balance sheet and see how well the company has performed during the period.

PRESENTATION OF FINANCIAL STATEMENT (IndAS-1)

Ind AS 1, Presentation of Financial Statements

Ind AS 1 prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

General purpose financial statements (referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs

Financial Statements

The Standard requires an entity to present a complete set of financial statements at least annually, with comparative amounts for the preceding year (including comparative amounts in the notes). A complete set of financial statements comprises of:

(a) a balance sheet as at the end of the period ;

(b) a statement of profit and loss for the period;

(c) a statement of changes in equity for the period;

(d) a statement of cash flows for the period;

(e) notes, comprising significant accounting policies and other explanatory information;

(f) comparative information in respect of the preceding period; and

(g) a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

The Standard requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e., comprehensive income) are required to be presented in single statement of profit and loss, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.

The Standard requires that an entity whose financial statements comply with Ind AS must make an explicit and unreserved statement of such compliance in the notes. An entity must not describe financial statements as complying with Ind AS unless they comply with all the requirements of Ind AS. The application of Ind AS, with additional disclosure when necessary, is presumed to result in financial statements that achieve a presentation of true and fair view.

Notes contain information in addition to that presented in the balance sheet), statement of profit and loss, statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements

The Standard also deals with preparation of financial statements on a going concern basis using the accrual basis of accounting, materiality and aggregation issues, offsetting of assets and liabilities or income and expenses, frequency of reporting, comparative information, and consistency in presentation or classification.

Structure and Content

The Standard requires that an entity shall clearly identify the financial statements and distinguish them from other information in the same published document. The Standard requires some line items to be presented in the balance sheet. It also prescribes the information to be presented in statement of profit and loss, other comprehensive income section and statement of changes in equity.

Other Comprehensive Income

The statement of profit and loss shall present, in addition to the profit or loss and other comprehensive income sections:

(a) profit or loss;

(b) total other comprehensive income;

(c) comprehensive income for the period, being the total of profit or loss and other comprehensive income.

Other comprehensive income comprises items of income and expenses (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Ind AS.

The Standard requires an entity to disclose reclassification adjustments and income tax relating to each component of other comprehensive income. Reclassification adjustments are the amounts reclassified to profit or loss in the current period that were previously recognised in other comprehensive income.

The other comprehensive income section shall present line items for amounts for the period of:

(a) items of other comprehensive income (excluding amounts in paragraph (b)), classified by nature and grouped into those that, in accordance with other Ind AS:

   (i) will not be reclassified subsequently to profit or loss; and

   (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

(b) the share of the other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that, in accordance with other Ind AS:

   (a) will not be reclassified subsequently to profit or loss; and

   (b) will be reclassified subsequently to profit or loss when specific conditions are met.

Current/non-current distinction

The Standard requires that an entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in the order of their liquidity.

The Standard also requires that whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) no more than twelve months after the reporting period, and

(b) more than twelve months after the reporting period.

The standard requires that an entity shall disclose the following, either in the balance sheet or the statement of changes in equity, or in the notes:

(a) for each class of share capital:

   (i) the number of shares authorised;

   (ii) the number of shares issued and fully paid, and issued but not fully paid;

   (iii) par value per share, or that the shares have no par value;

   (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

   (v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;

   (vi) shares in the entity held by the entity or by its subsidiaries or associates; and

   (vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and

(b) a description of the nature and purpose of each reserve within equity.

(c) The Standard, among other things, requires that:

   (i) An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

   (ii) An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(iii) An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. An entity shall also provide additional disclosures on puttable financial instruments classified as equity instruments.

HOW TO READ AND INTERPRET FINANCIAL STATEMENTS

Interpreting the financial health of a corporation requires an understanding of its financial statements. The three main ones are balance sheets, income statements and cash flow statements. All are normally put out on an annual and quarterly basis. Comprehending every detail of these statements is difficult without years of education, but knowing their functions and recognizing certain nuggets of information provides a picture of where a corporation stands. These statements are also easy to attain, as all are filed with the Ministry of Corporate Affairs (MCA).

> Financial statements are statement which provides net results from operations, cash flows from various activities and financial position of the company for a particular year

Financial statements should be prepared using globally acceptable accounting principles (such as Ind AS or AS in India) that makes these financials easy to understand and have wider acceptability.

Types of Financial Statements:

1. Balance sheet;
2. Statement of profit and loss, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
3. Cash flow statement;
4. Statement of changes in equity (if applicable) and;
5. Any explanatory notes annexed to, or forming part of, any document referred to point (1) to (3) above.

Objectives of Financial Statements:

Financial statements are prepared with an objective to provide information about the financial position of the entity, performance and changes in financial position of an entity, cash flows during the year to help users in comparing results and making economic decisions.

1. Balance Sheet

A balance sheet is a financial statement that compares the assets and liabilities of a company to find the shareholder's equity at a specific time.

The balance sheet adheres to the following formula:

Assets = Liabilities + Shareholders' Equity

A Balance sheet contains the following:

(a) Assets: Assets in balance sheet shows the amount of assets an entity holds on the date of balance sheet.

(b) Liabilities: Liabilities in balance sheet shows the amount of liability an entity is liable to pay in future (determined on the date of balance sheet).

(c) Equity & Reserves: Equity and reserves is the amount of capital entity has including reserves balances, if any. Higher amount of equity and reserves indicate higher net worth of the entity.

2. Statement of profit and loss or income and expenditure account

A company prepares statement of profit and loss to show the net result (profit or loss) from the revenue earned and expense incurred. In case of a company carrying on activity not for profit, income and expenditure account is prepared for the financial year which shows the income earned and expense incurred during the year, showing surplus (when income is more than expense) or deficit (when expense is more than income).

The main purpose is to know how much profit or loss the entity has made during a particular year.

3. **Cash flow statement**

Last part of a company's finances is its cash flow statement. Cash flow statement (also known as statements of cash flow) shows the flow of cash and cash equivalents during the period under report and breaks the analysis down to operating, investing and financing activities. . It helps in assessing liquidity and solvency of a company and to check efficient cash management.

Three key components of Cash flow statements:

- **Cash from operating activities:** This includes all the cash inflows and outflows generated by the revenue-generating activities of an enterprise like sale & purchase of raw materials, goods, labor cost, building inventory, advertising, and shipping the product etc.
- **Cash from investing activities:** These activities include all cash inflows and outflows involving the investments that the company made in a specific time period such as the purchase of new plant, property, equipment, improvements capital expenditures, cash involved in purchasing other businesses or investments.
- **Cash from financial activities:** This activity includes inflow of cash from investors such as banks and shareholders by getting loans, offering new shares etc, as well as the outflow of cash to shareholders as dividends as the company generates income. They reflect the change in capital & borrowings of the business.

In simple words, there can be cash inflow or the cash outflow from all three activities i.e. operation, investing and finance of a company. The sum of the total cash flows from all these activities can tell how much the company's total cash inflow/outflow is in a specific period of time.

4. **Statement of changes in equity (if applicable):**

Statement of changes in equity is statement that shows reconciliation of beginning and ending balances in a company's equity during a reporting period. It represents any change in equity that took place during the year.

5. **Any explanatory notes annexed to, or forming part of, any statement referred above**

These are working notes or information that are relevant and are required to be disclosed in relation to any of the statements discussed above. These are critical to identify the additional information relating to an entity. Explanatory notes contain details about the transactions (accounted and not accounted but disclosed).

TREATMENT OF SPECIAL ITEMS DURING FINANCIAL STATEMENTS PREPARATION

1. Depreciation
2. Provision
3. Reserves
4. Managerial Remuneration
5. CSR Spend
6. Related party disclosure
7. Segment Reporting

DEPRECIATION PROVISIONS & RESERVES

Meaning and Nature of Depreciation:

Depreciation may be defined as the gradual reduction in the value of an asset due to wear and tear, like in the case of physical assets, building and such as machinery, or by mere passing of time as in the case of lease, patent and copyright.

Proper depreciation must be charged to revenue and deducted from the cost of an asset in order to find out its correct working value to the business.

The amount so provided may be either merged in the working capital of the business or invested outside so as to provide a ready fund of money unaffected by any deterioration in the financial condition of the business that may prevent the payment of a requisite sum out of liquid resources at the time of replacement.

Accounting and disclosures are required to be in accordance with Accounting Standard (AS) 10.

> The real idea behind depreciation is to make adequate arrangement for replacement of an asset on its becoming use less or on the expiry of its normal life, by setting as idea part of the profits every year and allowing it to accumulate.

Need or objectives of providing Depreciation

1. **Ascertaining true profit or loss:**
   - (i) True profit of an enterprise can be ascertained when all costs incurred for the purpose of earning revenues have been debited to the profit and loss account.
   - (ii) Fall in the value of assets used in business operations is a part of the cost and should be shown in the profit and loss account of concerned accounting period.
   - (iii) Keeping this in view, depreciation must be debited to profit & loss account, since loss in value of fixed assets is also an expense like other expenses.
2. **Presentation of True and Fair value of assets :** If depreciation is not provided, the value of assets shown in the Balance Sheet will not present the true and fair value of assets because assets are shown at the cost price though actual value is less than the cost price of the assets.
3. **To ascertain the accurate cost of the Production :** Depreciation is an item of expense, the correct cost of production cannot be calculated unless it is also taken into consideration. Hence, depreciation must be provided to ascertain the correct cost of production.
4. **Computation of correct income tax:**
   - (i) Income tax of an enterprise is determined after charging all costs of production.
   - (ii) If depreciation is not charged, the profits will be higher and the income tax will also be higher.
   - (iii) If depreciation is charged, tax liability gets reduced.
5. **Provision of funds and replacement of assets:** Depreciation is a non-cash expense. So that amount of depreciation charged to profit and loss account is retained in business every year. These funds are available for replacement of the assets when its useful life is over.

Methods of providing depreciation

1. **Straight Line Method**
   - (i) This method is also known as 'original cost method'.
   - (ii) Under this method, depreciation is charged at fixed percentage on the original cost of the asset throughout its estimated life.
   - (iii) Under this method, the amount of depreciation remains uniform from year after year. That is why this method is also known as 'Fixed Installment Method' or 'Equal installment method'.
   - (iv) The annual amount of depreciation can be easily calculated by the following formula :

$$\text{Annual Depreciable} = \frac{\text{Original Cost} - \text{Estimated scrap value}}{\text{Estimated Live in year}}$$

Example: A firm purchases a machine for Rs. 2,25,000 on April 1,2013. The expected life of this machine is 5 years. After 5 years the scrap of this machine would be realized at Rs. 25.000. Under straight line method, the amount of depreciation can be calculated as under:

$$\text{Annual Depreciable} = \frac{2,25,000-25,000}{5} = 40,000$$

Hence 40,000 will be charged every year as depreciation on this machine.

2. **Diminishing Balance Method :** Under this method, depreciation is charged as a fixed percentage on the book value of the asset every year. In first year the depreciation will be charged at the end of the year on the total cost the asset.

Example: A machine is purchased for Rs. 2,00,000 on April 1 2009. It is decided to charge depreciation on this machine @ 10% p.a. The amount of depreciation for first four years by using both the methods (Straight Line Method and Diminishing Balance Method) is shown as under:

Year	Book Value	SLM Dep. @ 10%	Book Value	DM Dep. @ 10%
2009-10	20,000	2,000	20,000	2,000
2010-11	18,000 (20,000 -2,000)	2,000	18,000 (20,000 - 2,000)	1,800
2011-12	16.000 (18,000 - 2.000)	2,000	16,200 (18,000- 1,800)	1,620
2012-13	14,000 (16,000 - 2,000)	2,000	14,580 (16200- 1,620)	1.458

Hence, in Straight Line Method amount of depreciation is same but in Diminishing Balance Method amount of depreciation goes on decreasing every year. Depreciation can be recorded by crediting it to the Assets Account.

Illustration 1. On January 1, 2013, a firm bought a machine for Rs. 90,000 and spend Rs. 6,000 on its installation, and Rs. 4,000 on its transportation. It was decided to charge depreciation @ 10% on Straight Line Method. Books are closed on December 31st each year. Show Machinery Account for the years 2013 to 2015.

Solution:

Machinery Account

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2013				2013			
Jan. 1	To Bank A/c		90,000	Dec. 31	By Depreciation A/c		10,000
Jan. 1	To Cash A/c		6,000	Dec. 31	By Balance c/d		90,000
Jan. 1	To Cash A/c		4,000				
			1,00,000				**1,00,000**
2014				2014			
Jan. 1	To Balance b/d		90,000	Dec. 31	By Depreciation A/c		10,000
				Dec. 31	By Balance c/d		80,000
			90,000				**90,000**
2015				2015			
Jan. 1	To Balance b/d		80,000	Dec. 31	By Depreciation A/c		10,000
				Dec. 31	By Balance c/d		70,000
			80,000				**80,000**

Illustration 2. On the basis of information given in Illustration 1, show Machinery Account for the years 2013 to 2015 if depreciation is charged @ 10% on Diminishing Balance Method.

Solution:

Machinery Account

Date	Particulars	J.F	Rs.	Date	Particulars	J.F	Rs.
2013				2013			
Jan. 1	To Bank A/c		90,000	Dec. 31	By Depreciation A/c		10,000
Jan. 1	To Cash A/c		6,000	Dec. 31	By Balance c/d		90,000
Jan. 1	To Cash A/c		4,000				
			1,00,000				**1,00,000**
2014				2014			
Jan. 1	To Balance b/d		90,000	Dec. 31	By Depreciation A/c		9,000
				Dec. 31	By Balance c/d		81,000
			90,000				**90,000**
2015				2015			
Jan. 1	To Balance c/d		81,000	Dec. 31	By Depreciation A/c		8,100
				Dec. 31	By Balance c/d		72,900
			81,000				**81,000**

Illustration 3 : On April 1, 2013 Kannu bought machinery costing Rs.80,000. On July 1, 2015 machinery was sold for Rs.40,000. Prepare Machinery Account from April, 1 2013 till July 1. 2015 assuming depreciation was charged @10% per annum on March 31, every year on the basis of Original Cost Method.

Solution:

Machinery Account

Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2013				2014			
Apr. 1	To Bank A/c		80,000	Mar. 31	By Depreciation A/c		8,000
				Mar. 31	By Balance c/d		72,000
			80,000				**80,000**
2014				2015			
Apr. 1	To Balance b/d		72,000	Mar. 31	By Depreciation A/c		8,000
				Mar. 31	By Balance c/d		64,000
			72,000				**72,000**
2015				2015			
Apr. 1	To Balance b/d		64,000	July 1	By Bank A/c		40,000
				July 1	By Depreciation A/c		2,000
				July 1	By Loss on sale of Machinery A/c		22,000
			64,000				**64,000**

Illustration 4 : On the basis of information given in Illustration 3, prepare Machinery Account assuming depreciation was charged @ 15% per annum on reducing installment method.

Date	Particulars	J.F	Rs.	Date	Particulars	Rs.
2013				2014		
April1	To BankA/c		80,000	Mar. 31	ByDepreciationA/C	12,000
				Mar. 31	ByBalanceC/d	68,000
2014			80,000			80,000
April1	ToBalance b/d			2015		
			68,000	Mar. 31	ByDepreciationA/c	10,200
2015				Mar. 31	ByBalancec/d	57,800
April1	ToBalance b/d		68,000			68,000
				2015		
	ToBalance b/d		57,800	Jul.1	By BankA/c	40,000
				Jul.1	ByDepreciationA/ cBy Loss on Sale	2168
				Jul.1	ofMachinery	15,632
			57,800			57,800

There is another method of charging for Depreciation. In this method, provision for Depreciation Account is opened and depreciationis charge din this account instead of Asset Account.

In this method the balance of Asset Account remains same through out its useful life. Provision for depreciation is shown in the liabilities side of the Balance Sheet.

Provisions

Provisionis a liability which can be measured only byusing substantial degree of estimation. Aprovision should be recognised when:

a) Enterprise has a present obligation as a result of a past event

b) Itisprobablethatanoutflowofresourcesembodyingeconomicbenefitswillberequiredtosettlethe obligation

c) Reliable estimate can be made of the amount of the obligation

Examples of Provisions: Provisions for Depreciation on assets, Provision for Repairs and Renewals of assets. Provision for Taxation. Provision for Discount on Debtors and Provision for Bad and Doubtful Debts.

Reserves

- Reserves are the amount set aside out of profits. It is an appropriation of profits and not a charge on the profits.
- The amount of profit retained is used in the business when difficult time comes. Since reserves are neither expenses nor losses, so these are not charged to Profit & Loss Account rather these are debited to Profit & Loss Appropriation Account which is prepared after Profit and Loss Account.
- Reserves are also known as 'Plough Back of Profits'.

Examples of Reserves:-

i) Profit on sale of fixed assets.

ii) Profit on revaluation of assets and liabilities.

iii) Securities premium earned on issue of share or debentures.

iv) Profit on the purchase of running business.

v) Profit earned on forfeiture of shares.

vi) Profit on redemption of debentures.

vii) Profit prior to the incorporation of a company.

- Reserves are created to strengthening the financial positions of the business enterprise.
- Examples are General Reserves, Divided Equalization Reserves etc.
- If the amount of reserve is invested outside the business, it is called 'Reserve Fund'.
- Creation of reserve does not reduce the net profit but reduces only the divisible profits.

DETERMINATION OF MANAGERIAL REMUNERATION

Managerial persons implies Managing Director, Whole-time Director, Part-time Director and managers who shall be paid remuneration subject to and in accordance with the provision of Section 197 of the Companies Act, 2013. Managerial remuneration in simple words is the remuneration paid to managerial personals.

Remuneration allowed to Managerial personnel

According to Section 197 of the Companies Act, 2013, the total managerial remuneration payable by a public company, to its directors, including managing director and whole-time director, and its manager in respect of any financial year shall not exceed 11% of the net profits of that company for that financial year except that the remuneration of the directors shall not be deducted from the gross profits. However, the company in general meeting may, authorise the payment of remuneration exceeding 11% of the net profits of the company, subject to the provisions of Schedule V of the Act.

Provided further that, except with the approval of the company in general meeting by a special resolution-

(i) the remuneration payable to any one managing director; or whole-time director or manager shall not exceed 5% of the net profits of the company and if there is more than one such director remuneration shall not exceed 10% of the net profits to all such directors and manager taken together;

(ii) the remuneration payable to directors who are neither managing directors nor whole-time directors shall not exceed,—

a) 1% of the net profits of the company, if there is a managing or whole-time director or manager;

b) 3% of the net profits in any other case.

Further, where the company has defaulted in payment of dues to any bank or public financial institution or non-convertible debenture holders or any other secured creditor, the prior approval of the bank or public financial institution concerned or the non-convertible debenture holders or other secured creditor, as the case may be, shall be obtained by the company before obtaining the approval in the general meeting.

To summaries the above the total managerial remuneration payable by a public company, to its directors, managing director and whole-time director and its manager in respect of any financial year is:

Condition	Maximum Remuneration in any financial year
Company with one Managing director/whole time director/manager	5% of the net profits of the company
Company with more than one Managing director/ whole time director/manager	10% of the net profits of the company
Overall Limit on Managerial Remuneration	11% of the net profits of the company
Remuneration payable to directors who are neither managing directors nor whole-time directors	
For directors who are neither managing director or whole-time directors	1% of the net profits of the company if there is a managing director/whole time director
If there is a director who is neither a Managing director/whole time director	3% of the net profits of the company if there is no managing director/whole time director

Illustration

From the following particulars of ABC LTD., calculate the maximum remuneration payable to the managing director and other part-time directors of the company:

Net Profit before provision for income tax and managerial remuneration, but	INR
After depreciation and provision for repairs	86,84,100
Depreciation provided in books	32,00,000
Repairs for machinery provided for during the year	2,50,000
Actual Expenditure incurred on repairs during the year	1,50,000

Solution:

Net Profit	86,84,100
Add: Excess provision made for repairs of machinery i.e., (2,50,000-1,50,000)	1,00,000
Net Profit for the purpose of calculating managerial remuneration	87,84,100
Maximum Remuneration payable under Section 197	
Managing Directors @ 5% on 87,84,100 =	4,39,205
Part-time Directors @ 1% on 87,84,100 =	87,841
Total Managerial Remuneration	5,27,046

Remuneration payable by a company when the company has inadequate profits/no profits:

In case a company has inadequate profits/no profits in any financial year, no amount shall be payable by way of remuneration except if these provisions are followed.

Where the effective capital is	**Limit of yearly remuneration payable shall not exceed (in Rupees) in case of a managerial person**	**Limit of yearly remuneration payable shall not exceed (in rupees) in case of other director**
Negative or less than 5 crores	60 Lakhs	12 lakh
5 crores and above but less than 100 crores	84 Lakhs	17 lakh
100 crores and above but less than 250 crores	120 Lakhs	24 lakh
250 crores and above	120 lakhs plus 0.01% of the effective capital in excess of Rs. 250 crores:	24 Lakhs plus 0.01% of the effective capital in excess of Rs.250 crores

Provided that the remuneration in excess of above limits may be paid if the resolution passed by the shareholders is a special resolution.

Meaning of Effective Capital as per Explanation I in section IV of Part II of Schedule V of Companies Act, 2013:

"Effective Capital" means the aggregate of the paid-up share capital(excluding share application money or advances against shares); amount, if any for the time being standing to the credit of share premium account; reserves and surplus (excluding revaluation reserve); long-term loans and deposits repayable after one year (excluding working capital loans, overdrafts, interest due on loans unless funded, bank guarantee, etc., and other short-term arrangements) as reduced by the aggregate of any investments (except in case of investment by an investment company whose principal business is acquisition of shares, stock, debentures or other securities), accumulated losses and preliminary expenses not written off.

Illustration on Managerial Remuneration

Ms. Jyoti is the Managing Director of Wise (India) Ltd., incorporated under the Companies Act, 2013. Board of Directors of the company presents the following financial data extracted from the company's financial statements as at 31st Of March 2019.

Particulars	**INR (In Crores)**
Authorised Equity Share Capital	60
Paid up Equity Share Capital	10
Debenture Redemption Reserve	10
Securities Premium Account	20
Profit and Loss (loss)	(10)
Revaluation Reserve	20

Based on the provisions of the Companies Act, 2013 decide the maximum remuneration payable to Ms. Jyoti for the financial year 2018-19.

Solution:

Due to losses in the financial year 2018-19, Ms. Jyoti can be paid remuneration on the basis of "effective capital" Computation of effective capital :

Particulars	**INR (In Crores)**
Paid up Equity Share Capital	10
Debenture Redemption Reserve (not specifically excluded from definition of "effective capital")	10
Securities Premium Account	20
Profit and Loss (loss)	(10)
Revaluation Reserve (specifically excluded from definition of "effective capital")	
Effective Capital	30

As company's effective capital is between 5 to 100 Crores, Ms. Jyoti can be paid an annual remuneration of 84 lacs i.e. monthly of 7 lacs.

If company passes a special resolution, remuneration more than this can be paid to Ms. Jyoti.

Manner of Determination of Managerial Remuneration

The remuneration payable to such directors of a company shall be determined either by the articles of the company, or by a resolution or, if the articles so require, by a special resolution, passed by the company in general meeting.

Remuneration Includes:

The remuneration payable to a director determined aforesaid shall be inclusive of the remuneration payable to him for the services rendered by him in any other capacity provided that any remuneration for services rendered by any such director in other capacity shall not be so included if—

(a) the services rendered are of a professional nature; and

(b) in the opinion of the Nomination and Remuneration Committee, if the company is covered under sub-section (1) of section 178, or the Board of Directors in other cases, the director possesses the requisite qualification for the practice of the profession.

Maximum amount of Sitting Fees

A company may pay a sitting fee to a director for attending meetings of the Board or committees thereof, such sum as may be decided by the Board of directors thereof which shall not exceed one lakh rupees per meeting of the Board or committee thereof:

Further, for Independent Directors and Women Directors, the sitting fee shall not be less than the sitting fee payable to other directors.

Method of Payment of Managerial remuneration

A director or manager may be paid remuneration either by way of a monthly payment or at a specified percentage of the net profits of the company or partly by one way and partly by the other.

Remuneration not allowed to Independent Directors

An Independent Director shall not be entitled to any stock option and may receive remuneration by way of sitting fees provided under sub-section (5), reimbursement of expenses for participation in the Board and other meetings and profit related commission as may be approved by the members.

Recovery of Remuneration received by director in contravention of section 197 of the Companies Act, 2013

If any director draws or receives, directly or indirectly, by way of remuneration any such sums in excess of the limit prescribed by this section or without approval required under this section, he shall refund such sums to the company, within two years or such lesser period as may be allowed by the company, and until such sum is refunded, hold it in trust for the company.

The auditor of the company shall, in his report under section 143, make a statement as to whether the remuneration paid by the company to its directors is in accordance with the provisions of this section is in excess of the limit laid down under this section and give such other details as may be prescribed.

Fine in case of contravention of provisions of section 197

If any person makes any default in complying with the provisions of this section, he shall be liable to a penalty of one lakh rupees and where any default has been made by a company, the company shall be liable to a penalty of five lakh rupees.

CORPORATE SOCIAL RESPONSIBILITY SPEND

Every company having net worth of Rupees 500 crore or more, or turnover of rupees 1,000 crore or more or a net profit of rupees 5 crore or more during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

Provided that where a company is not required to appoint an independent director under sub-section (4)

of section 149, it shall have in its Corporate Social Responsibility Committee two or more directors.

Role of Board of Directors

The role of the Board of Directors is explained below

- After considering the recommendations made by the CSR Committee, approve the CSR policy for the Company.
- The Board must ensure only those activities must be undertaken which are mentioned in the policy
- The Board of Directors shall make sure that the company spends in every financial year, minimum 2% of the average net profits made during the 3 immediately preceding financial years or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years.

- The Board's Report shall disclose –
  - » CSR Committee's composition
  - » the contents of CSR Policy
  - » the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount 8[and, unless the unspent amount relates to any ongoing project referred to in sub-section (6), transfer such unspent amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year. Further, if the company spends an amount in excess of the requirements provided under this sub-section, such company may set off such excess amount against the requirement to spend under this sub-section for such number of succeeding financial years and in such manner, as may be prescribed.
  - » Any amount remaining unspent under section135(5), pursuant to any ongoing project, fulfilling such conditions as may be prescribed, undertaken by a company in persuance of its Corporate Social Responsibility Policy, shall be transferred by the company within a period of thirty days from the end of the financial year to a special account to be opened by the company in that behalf for that financial year in any scheduled bank to be called the Unspent Corporate Social Responsibility Account, and such amount shall be spent by the company in pursuance of its obligation towards the Corporate Social Responsibility Policy within a period of three financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within a period of thirty days from the date of completion of the third financial year.
- Where the amount to be spent by a company under section 135 (5) does not exceed fifty lakh rupees, the requirement under sub-section (1) for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company.

CSR Expenditure

(1) The board shall ensure that the administrative overheads shall not exceed five percent of total CSR expenditure of the company for the financial year.

(2) Any surplus arising out of the CSR activities shall not form part of the business profit of a company and shall be ploughed back into the same project or shall be transferred to the Unspent CSR Account and spent in pursuance of CSR policy and annual action plan of the company or transfer such surplus amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year.

(3) Where a company spends an amount in excess of requirement provided under sub-section (5) of section 135 , such excess amount may be set off against the requirement to spend under sub-section (5) of section 135 up to immediate succeeding three financial years subject to the conditions that –

(i) the excess amount available for set off shall not include the surplus arising out of the CSR activities, if any, in pursuance of sub-rule (2) of this rule.

(ii) the Board of the company shall pass a resolution to that effect.

(4) The CSR amount may be spent by a company for creation or acquisition of a capital asset, which shall be held by -

(a) a company established under section 8 of the Act, or a Registered Public Trust or Registered Society, having charitable objects and CSR Registration Number under sub-rule (2) of rule 4; or

(b) beneficiaries of the said CSR project, in the form of self-help groups, collectives, entities; or

(c) a public authority:

However, any capital asset created by a company prior to the commencement of the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021, shall within a period of one hundred and eighty days from such commencement comply with the requirement of this rule, which may be extended by a further period of not more than ninety days with the approval of the Board based on reasonable justification.]

CSR Reporting

(1) Directors Report:

The Company shall annex with its Board Report an annual report on CSR containing particulars specified in Annexure I (for F.Y. Commenced Prior To 1st day of April, 2020) or Annexure II (w.e.f. F.Y. Commencing on or after 1st day of April, 2020), as applicable.

(2) In case of a Foreign Company:

The Balance sheet filed u/s 381(1) (b) of the Companies Act, 2013 shall contain 'an annual report on CSR containing particulars specified in Annexure I (for F.Y. Commenced prior to 1st day of April, 2020) or Annexure II (w.e.f. F.Y. Commencing on or after 1st day of April, 2020), as applicable.

(3) Impact Assessment for big CSR projects

(a) Every company having average CSR obligation of ten crore rupees or more in pursuance of subsection 5) of section 135 of the Act, in the three immediately preceding financial years, shall undertake impact assessment, through an independent agency, of their CSR projects having outlays of one crore rupees or more, and which have been completed not less than one year before undertaking the impact study.

(b) The impact assessment reports shall be placed before the Board and shall be annexed to the annual report on CSR.

(c) A Company undertaking impact assessment may book the expenditure towards Corporate Social Responsibility for that financial year, which shall not exceed five percent of the total CSR expenditure for that financial year or fifty lakh rupees, whichever is less.

Illustration:

From the following data available for XYZ Ltd. (unlisted company) as at 31-3-2017 :

	In INR Crores
Paid-up share capital	200
Revaluation Reserve	200
Surplus i.e. balance in statement of P&L	150

Is CSR applicable to the company on the basis of the net worth criteria ?

Solution:

According to section 2(57) of the Companies Act 2013, revaluation reserve is not to be considered for calculating the net worth.

Therefore, net worth is 350 crores [200 crores (paid-up capital) plus 150 crores (surplus)]. Since net worth is less than 500 crores, CSR obligations under section 135 are not attracted based on net worth criteria.

RELATED PARTY DISCLOSURE

As per section 2(76) of Companies Act, 2013 the term Related party with reference to a company means –

1. A director or his relative
2. A key managerial personnel or his relative
3. A firm, in which a director, manager or his relative is a partner
4. A private company in which a director or manager is a member or director
5. A public company in which a director or manager is a director and holds along with his relative more than 2% of his paid up share capital
6. Anybody corporate whose board of directors, managing director or manager is accustomed to act In accordance with the advice, directions or instructions of a director or manager.

1. any person on whose advice, directions or instructions a director or manager is accustomed to act:

   Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

2. Any body corporate which is—

   (a) a holding, subsidiary or an associate company of such company;

   (b) a subsidiary of a holding company to which it is also a subsidiary; or

   (c) an investing company or the venturer of the company;";

3. such other person as may be prescribed;

   According to section 188 of the Companies Act, 2013, the following transactions are deemed to be related party transaction between a company and its related party-

   a) sale, purchase or supply of any goods or materials;

   b) selling or otherwise disposing of, or buying, property of any kind;

   c) leasing of property of any kind;

   d) availing or rendering of any services;

   e) appointment of any agent for purchase or sale of goods, materials, services or property;

   f) such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and

   g) underwriting the subscription of any securities or derivatives thereof, of the company:

Provided that no contract or arrangement, in the case of a company having a paid-up share capital of not less than such amount, or transactions not exceeding such sums, as may be prescribed, shall be entered into except with the prior approval of the company by a resolution.

Further, no member of the company shall vote on such resolution, to approve any contract or arrangement which may be entered into by the company, if such member is a related party. Also that nothing contained in the second proviso shall apply to a company in which ninety per cent. or more members, in number, are relatives of promoters or are related parties

Provided also that nothing in this sub-section shall apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.

Provided also that the requirement of passing the resolution under first proviso shall not be applicable for transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

Fine for Contravention

Any director or any other employee of a company, who had entered into or authorised the contract or arrangement in violation of the provisions of section 188 shall, –

(i) In case of listed company, be liable to a penalty of twenty-five lakh rupees and

(ii) In case of any other company, be [liable to a penalty of five lakh rupees

Related party disclosure according to AS 18

According to Accounting Standard (AS) 18: Related party Disclosure, the objective of the Standard is to establish requirements for disclosure of:

(a) related party relationships; and

(b) transactions between a reporting enterprise and its related parties.

For the purpose of this Standard, Related party means parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Related party transaction means a transfer of resources or obligations between related parties, regardless of whether or not a price is charged.

This Standard should be applied in reporting related party relationships and transactions between a reporting enterprise and its related parties. The requirements of this Standard apply to the financial statements of each reporting enterprise as also to consolidated financial statements presented by a holding company.

Related party disclosure requirements as laid down in this Standard do not apply in circumstances where providing such disclosures would conflict with the reporting enterprise's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority.

SEGMENT REPORTING (AS 17)

The objective of this Standard is to establish principles for reporting financial information, about the different types of products and services an enterprise produces and the different geographical areas in which it operates. Such information helps users of financial statements:

(a) better understand the performance of the enterprise;

(b) better assess the risks and returns of the enterprise; and

(c) make more informed judgements about the enterprise as a whole.

Scope

1. This Standard should be applied in presenting general purpose financial statements.
2. The requirements of this Standard are also applicable in case of consolidated financial statements.
3. An enterprise should comply with the requirements of this Standard fully and not selectively.
4. If a single financial report contains both consolidated financial statements and the separate financial statements of the parent, segment information need be presented only on the basis of the consolidated financial statements. In the context of reporting of segment information in consolidated financial statements, the references in this Standard to any financial statement items should construed to be the relevant item as appearing in the consolidated financial statements.

Definitions

1. **Business segment** is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

   Factors that should be considered in determining whether products or services are related include:

   (a) the nature of the products or services;

   (b) the nature of the production processes;

   (c) the type or class of customers for the products or services;

   (d) the methods used to distribute the products or provide the services; and

   (e) if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities.

2. **A geographical segment** is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. Factors that should be considered in identifying geographical segments include:

   (a) similarity of economic and political conditions;

   (b) relationships between operations in different geographical areas;

   (c) proximity of operations;

(d) special risks associated with operations in a particular area;

(e) exchange control regulations; and

(f) the underlying currency risks.

3. **A reportable segment** is a business segment or a geographical segment identified on the basis of foregoing definitions for which segment information is required to be disclosed by this Standard.

A business segment or geographical segment should be identified as a reportable segment if:

(a) its revenue from sales to external customers and from transactions with other segments is 10 percent or more of the total revenue, external and internal, of all segments; or

(b) its segment result, whether profit or loss, is 10 per cent or more of - (i) the combined result of all segments in profit, or (ii) the combined result of all segments in loss, whichever is greater in absolute amount; or

(c) its segment assets are 10 per cent or more of the total assets of all segments.

Segment information should be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the enterprise as a whole.

4. Enterprise revenue is revenue from sales to external customers as reported in the statement of profit and loss.

5. Segment revenue is the aggregate of

(a) the portion of enterprise revenue that is directly attributable to a segment,

(b) the relevant portion of enterprise revenue that can be allocated on a reasonable basis to a segment, and

(c) revenue from transactions with other segments of the enterprise.

6. Segment expense is the aggregate of

(a) the expense resulting from the operating activities of a segment that is directly attributable to the segment, and

(b) the relevant portion of enterprise expense that can be allocated on a reasonable basis to the segment, including expense relating to transactions with other segments of the enterprise.

Note: However, SEGMENT REVENUE/EXPENSE does not include

(a) Extraordinary items as defined in AS-5

(b) Interest or dividend (including earned/incurred on loans to other segment) unless the operations of the segment are primarily of a financial nature

(c) Gains on sales of investments or on extinguishments of debt (Capital gain/loss) unless the operations of the segment are primarily of a financial nature.

(d) General administration expenses, head office expenses and other expenses that arise at the enterprise level and relate to the enterprise as a whole.

7. Segment Assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable the segment or can be allocated to the segment on a reasonable basis.

8. Segment liabilities are those operating liabilities that result from operating activities and that either are directly attributable the segment or can be allocated to the segment on a reasonable basis.

(If the segment result of a segment includes interest expense, its segment liabilities include the related interest-bearing liabilities and vice versa.)

(Segment liabilities do not include income tax liabilities and vice versa.)

Similarly, if depreciation segment expenses then related assets comes under segment assets.

AUDIT QUERY

> Audit query is an inquiry from an auditor also known as findings.

An accounting audit is the process of examining a company's entire financial situation, with an emphasis on ensuring compliance with relevant reporting standards, and promoting adequate cash-handling policies and internal controls. In most countries, regular audits by outside firms are required for publicly traded corporations. In contrast, small businesses are typically not subject to as rigorous a set of reporting standards and controls. Therefore, are often not subject to mandatory audits. Learning how to perform a basic internal accounting audit on your own small business can provide you with a comprehensive understanding of your company's financial strengths and weaknesses.

Audit queries are questions asked by an auditor during an investigation. These may be used to gather information to come to a conclusion in the audit.

The following parameters are looked during audit queries:

1. Any questions related to a company which is being audited either by an internal or external auditor.
2. The final touch of the accounts.
3. It is the matter being investigated while examining financial report of a company.
4. Audit queries are questions asked by an auditor during an investigation. These may be used to gather information to come to a conclusion in the audit.
5. An audit query is a explanation that is required by the audit team on certain points that they may have identified during an audit e.g., invoice accrual prepayment, etc.

LESSON ROUND-UP

- Financial Statements represent a formal record of the financial activities of an entity.
- Financial statements are reports prepared and issued by company management to give investors and creditors additional information about their company's performance and financial standings.
- The four general purpose financial statements include: Income Statement, Balance Sheet, Statement of Stockholders Equity, Statement of Cash flow.
- Financial statements are prepared by transferring the account balances on the adjusted trial balance to a set of financial statement templates.
- Both public and private companies issue at least 4 financial statements to attract new investors and raise funding for expansions.
- Financial statements that are issued for time periods smaller than one year are called interim statements.
- The annual financial statement form is prepared once a year and cover a 12-month period of financial performance.
- The listed entity shall submit a compliance certificate to the exchange duly signed by both that is by the compliance officer of the listed entity and the authorized representative of the share transfer agent, wherever applicable, within one month of the end of each half of the financial year.
- Depreciation may be defined as the gradual reduction in the value of an asset due to wear and tear as in the case of physical assets like building, machinery, etc., or by mere passing of time as in the case of lease, patent and copyright.
- If depreciation is not provided, the value of assets shown in Balance Sheet will not present the trueand fair value of assets.

- Two methods to calculate depreciation: straight line method and written down value method.
- Provisions is to be made in respect of a liability which is certain to be incurred, but its accurate amount is not known.
- Reserves are the amount set aside out of profits. It is an appropriation of profits and not a charge on the profits.
- The managerial remuneration shall be payable to a person appointed within the meaning of section 196 of the Companies Act, 2013.
- In accordance with Section 135(5) of the Companies Act, 2013, the Board of each company covered under the CSR requirement needs to ensure that the company spends, in every fi year, at least 2% of its average net profi made during the three immediately preceding fi years in pursuance of CSR policy
- Segment reporting is the reporting of the operating segments of a company in the disclosures accompanying its financial statements.
- Audit queries are questions asked by an auditor during an investigation. These may be used to gather information to come to a conclusion in the audit.
- Interpreting the financial health of a corporation requires an understanding of its financial statements.

TEST YOURSELF

1 Analysis and interpretation of financial statement refer to the treatment of the information contained in the income statement and balance sheet so as to afford full diagnosis of profitability and financial soundness of the business. Discuss.

2 How do the financial statement are read and interpretated. Discuss in detail.

3 XYZ Ltd. had a reportable segment in year 10-11, but for 11-12, that reportable segment does not meet the 10% threshold limit. Should XYZ Ltd. continue or drop the segment for reporting in 11-12?

4 Let us assume that a company has incurred lower amount on CSR activities in year one. It expects to cover up the short- spent amount in the subsequent years. Is the company required to create a provision toward such short-spent amount?

5 What do you mean by managerial remuneration? How much maximum remuneration is payable by a company to its managerial personnel?

6 Discuss in detail the Quarterly, Half-yearly and Annual Financial Statement pursuant to SEBI Listing Regulations 2015

7 What do you mean by Depreciation. Discuss with examples the methods of calculating depreciation.

8 Write short notes on:

a) Audit Query

b) Related Party

c) Segment Reporting

d) CSR