

# ***Key NFRA Decisions***

CA. (DR.) ANAND J BANKA





# ***Learnings on disclosures***

# *Accounting Policy: Trade receivables*



## *“Financial Assets*

### *Initial Recognition and Measurement*

*All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial assets. These include trade receivables, cash and cash equivalents, other bank balances, fixed deposits with banks, investments, loans and other financial assets....”*

### *“Revenue Recognition*

*Revenue is recognized to depict the transfer of promised products or services to customers. Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amount collected on behalf of third party. ..”*

# *Trade receivables continued*

11. NFRA observes that the above accounting policy for initial measurement of Financial Assets, constituting 23.35% of total assets, which is a material item of the Balance Sheet, is contrary to initial measurement requirements as detailed in Para 5.1.3 read with Para 5.1.1 of Ind AS 109, which is reproduced below:

*Para 5.1.1 of Ind AS 109: - Except for trade receivables within the scope of Para 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its Fair Value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.*

*Para 5.1.3 of Ind AS 109:- Despite the requirement in Para 5.1.1, at initial recognition, an entity shall measure trade receivables at their transaction price (as defined in Ind AS 115) if the trade receivables do not contain a significant financing component in accordance with Ind AS 115 (or when the entity applies the practical expedient in accordance with Para 63 of Ind AS 115).*

It can be observed that the requirement of Ind AS 109 is that the Financial Assets in the form of Trade Receivables have to be measured at Transaction Price and not at Fair Value as incorrectly stated by the Company.



# *Trade receivables continued*



## *“Financial Assets*

### *Initial Recognition and Measurement*

*..All financial assets are recognized initially at fair value, plus in the case of financial assets not recorded at fair value through profit or loss (FVTPL), transaction costs that are attributable to the acquisition of the financial asset... .. However, trade receivables that do not contain a significant financing component are measured at transaction price.”*

## *“Revenue Recognition*

*..Revenue towards satisfaction of a performance obligation is measured at the amount of transaction price (net of variable consideration) allocated to that performance obligation. The transaction price of goods sold and services rendered is net of variable consideration on account of various discounts and schemes offered by the Company as part of the contract...”*

# ***Expected Credit Losses***

26. The Company's position (Refer Note 36 of Financial Statements) that the credit risk is reduced due to its diversified portfolio of investment with various counterparties which have secure credit ratings is not fully in accordance with principles and concepts of Expected Credit Loss (ECL) approach for impairment loss recognition and measurement under Ind AS 109. The banks in which the Financial Assets are kept in the form of balances also have the potential to default on their repayment/credit obligations, as there have been many instances of heightened credit risk due to bank failures in India and abroad.
30. On the basis of the replies submitted by the Company, it is observed that the Company has not calculated the ECL as required by Ind AS 109 for FY 2019-20. The Company's policy, not to apply ECL to Contract Assets and Retention Money and apply the same only when they are billed and accounted for as Trade Receivables, was erroneous. This was not in compliance with the provisions of Ind AS 115 and Ind AS 109 and was explained during the in-person discussion held on 03.02.2023. As the provisions of Ind AS 109 are mandatory in nature, the Company is directed to comply with the requirements of Ind AS 109.



# *General terms of payment of Trade Receivables*

43. The Company referred to para 60 and 63 of the Ind AS 115 (significant financing component) and stated that they had disclosed in the third Para of note no. 2.15 Revenue Recognition (page no.130 of Annual Report) that the “Payment terms agreed with a customer are as per business practice and the financing component, if significant, is separated from the transaction price and accounted as interest income.” Also, in second Para of Note 39(d), it is mentioned that “The amounts billed on customer for work performed and are unconditionally due for payment i.e., only passage of time is required before payment falls due, are disclosed in the Balance Sheet as Trade Receivables.”
45. NFRA observes that the disclosure made by the Company in Note 2.15 of Financial Statements, wherein it is stated that payment terms agreed with a customer are as per business practice, is a vague disclosure. It does not give the critical information useful to the users of financial statements, as to the basis to assess the ability of the entity to generate cash and cash equivalents. Thus, there is lack of clarity in the Company’s disclosure as the Company has not given details of Trade Receivables due for payment in less than a year, which justified application of Para 63 of Ind As 115. As regards the presence of significant financing component in the contracts with the customers, the Company has stated that there are no contract terms with the customers having significant financing component.
46. Para 129 of Ind AS 115 states, *‘If an entity elects to use the practical expedient in either paragraph 63 (about the existence of a significant financing component) or paragraph 94 (about the incremental costs of obtaining a contract), the entity shall disclose that fact.’*. However, it is not clear how the Company assessed the fact that its contracts do not have significant financing component i.e., whether it has applied the practical expedient clause as laid down in Para 63 of Ind AS 115. This para states *“As a practical expedient, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.”* However, the Company has not made the above disclosure in its Financial Statements. Therefore, NFRA concludes that PSP projects Ltd. has not adequately complied with disclosure requirements of Ind AS 115.

# *Ind AS 107 (Para 35M and 35N)*

## *Credit Risk Exposure*

ready reference. This illustrates the disclosures required by Paragraph 35M and 35N in respect of credit risk exposure of Trade receivables.

20XX	Trade receivables days past due				
CU'000					
<b>Dealer financing</b>	<b>Current</b>	<b>More than 30 days</b>	<b>More than 60 days</b>	<b>More than 90 days</b>	<b>Total</b>
Expected credit loss rate	0.10%	2%	5%	13%	
Estimated total gross carrying amount at default	CU20,777	CU1,416	CU673	CU235	CU23,101
Lifetime expected credit losses—dealer financing	CU21	CU28	CU34	CU31	CU114
<b>Customer financing</b>					
Expected credit loss rate	0.20%	3%	8%	15%	
Estimated total gross carrying amount at default	CU19,222	CU2,010	CU301	CU154	CU21,687
Lifetime expected credit losses—customer financing	CU38	CU60	CU24	CU23	CU145



# *Credit risk exposure continued...*

Further, the Ind AS Implementation Guidance- Example 12-Provision Matrix of Illustrative Examples of IFRS 9<sup>3</sup> Financial Instruments (shown below), illustrates the disclosures required for impairment loss allowance of Trade Receivables.

IE76 On that basis, Company M estimates the following provision matrix:

	<b>Current</b>	<b>1–30 days past due</b>	<b>31–60 days past due</b>	<b>61–90 days past due</b>	<b>More than 90 days past due</b>
<b>Default rate</b>	0.3%	1.6%	3.6%	6.6%	10.6%

IE77 The trade receivables from the large number of small customers amount to CU30 million and are measured using the provision matrix.

	<b>Gross carrying amount</b>	<b>Lifetime expected credit loss allowance (Gross carrying amount x lifetime expected credit loss rate)</b>
Current	CU15,000,000	CU45,000
1–30 days past due	CU7,500,000	CU120,000
31–60 days past due	CU4,000,000	CU144,000
61–90 days past due	CU2,500,000	CU165,000
More than 90 days past due	CU1,000,000	CU106,000
	<b>CU30,000,000</b>	<b>CU580,000</b>

# ***Expected Credit Losses***

The Company has reported an amount of ₹ 2,47,16,741 (2018-19: ₹ 1,82,07,022 ) under 'Bank Balances' in the category of Financial Assets. A substantial part (96.64% (2018-19: 95.73%)) of these balances are held with non-scheduled and lesser-known Banks. Impairment loss allowance has not been made against these Financial Assets. Further, the Company has not disclosed its accounting policy for recognition and measurement of impairment loss on these Financial Assets as per Ind AS 109.

# ***Loans to Related Parties***

38. The full particulars of the loan to Related Parties such as rate of interest, repayment terms, due date, collateral etc. have not been disclosed in the Financial Statements which is required as per Section 186(4)<sup>4</sup> of Companies Act 2013 and Schedule III of the Companies Act, 2013. Schedule III of the Companies Act, 2013, General Instructions for Preparation of Balance Sheet and Statement of Profit and Loss of a Company requires disclosure of details of loans and advances to Related Parties.

<sup>4</sup> Section 186(4) of Companies Act 2013, ("CA, 2013") requires that "The Company shall disclose to the members in the Financial Statement the full particulars of the loans given, investment made, or guarantee given, or security provided and the purpose for which the loan or guarantee or security is proposed to be utilized by the recipient of the loan or guarantee or security."



# ***Other Related Party details***

- The company did not disclose the names of some of the directors, CFO and company secretary in the Related Party Disclosures, which is in non-compliance with Ind AS 24.
- Company - H had disclosed that the transactions entered into during the year 2022-23 with Related Parties were in the ordinary course of business and at arm's length. However, there is no evidence in the Audit File of the audit procedure performed to verify the same

# *Disaggregation of Revenue*

49. In Note 39, the Company has disclosed the disaggregation of revenue from contracts with customers by geographical area only. Para 114 of Ind AS 115 requires that “*An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in Paras B87—B89 when selecting the categories to use to disaggregate revenue.*”
52. NFRA observes that the PSP Projects Ltd. in its annual report has stated that it executes projects which are categorized as Industrial, Institutional, Residential, Government and Government Residential. The Company is providing services across the construction value chain, ranging from planning and design to construction and post-construction activities, including mechanical, engineering and plumbing (MEP) work and other interior fit outs to private and public sector enterprises. These allied services represent separate business lines and hence disaggregation by ‘type of good or service’ ought to have been disclosed. Further, the Company is serving different categories of customers, hence disaggregation of revenue on the lines of principles laid down in Ind AS 115 was required but the PSP Projects have not complied with the disclosure requirements of Para 114 read with Para B89 of Ind AS 115. The Company is directed to refer to Ind AS Implementation Guidance-Example 41 of Illustrative Examples IFRS 15<sup>5</sup>, as reproduced below:

# ***Fair value hierarchy***

58. The Company's statement that all Financial Assets and Financial Liabilities are initially and subsequently measured at Amortised Cost and as the Carrying Amount reflects the Fair Value is incorrect and not in accordance with the definitions of Amortised Cost and Fair Value in Ind AS 109 and Ind AS 113 respectively. Further, the disclosures made by PSP Projects Ltd in respect of Fair Value Measurement of Financial Assets, which constitute a significant part of the Balance Sheet, are inadequate. The Company has substantial amount of Financial Assets amounting to ~~₹ 11,10,14,143~~ (21.21% of total Financial Assets) which are not of short-term nature. Therefore, the response of ~~PSP~~ Projects Ltd. that the carrying amounts reflect Fair Value is not in accordance with Para 29 of Ind AS 107.



# ***Lease exceptions***

61. NFRA observes that the Company has not disclosed the fact that it has applied the practical expedient in for accounting of short-term leases, i.e., it has recognised lease payments as expense as per Para 6 of Ind AS 116 instead of recognising the lease transaction as right of use asset with corresponding lease liability as required under Para 22 of Ind AS 116.

# ***Interest on borrowings (classified as NPA)***

- Mere classification of the company's borrowings as NPAs by the lender banks does not relieve the borrowing company from its liability towards payment of interest and/or the principal. It may be relevant to note that the RBI guidelines also require the banks to maintain a Memorandum Record of Accrued Interest on the loans classified as NPAs clearly reflecting the fact that the bank has not yet legally released the borrowers from their contractual liability to pay interest on their borrowings from the bank.
- In the above context, discontinuation of interest expense recognition on bank borrowings solely based on the borrowing company's expectations of likely waiver/concession by the lender banks in the payment of interest/ principal without evidence of the legally enforceable contractual documents results in incorrect/erroneous presentation of financial performance and financial position of the borrowing company to its shareholders, investors, creditors and lenders.

# ***Regrouping/ Reclassification and Other Disclosures***

64. In Note 46, the Company has stated that the figures of previous year have been regrouped/reclassified wherever necessary to conform to current year's presentation. NFRA observes that there are no details of regrouping/reclassification made to enable the users of the Financial Statements to understand the impact of the above reclassification/regroupings. Also, it is not clear whether these regroupings/reclassifications were due to correction of prior period errors as defined in Ind AS 8. If so, it is unclear whether these errors needed any restatement of amounts as required by Paragraph 42 of Ind AS 8 or the reclassifications due to changes in the presentation/classification of items under paragraph 41 of Ind AS 1.
- 
67. Paragraph 17 of Ind AS 10 states that- *An entity shall disclose the date when the financial statements were approved for issue and who gave that approval. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.*
68. NFRA observes that the Company has not disclosed that the shareholders have the power to amend the Financial Statements after the issue.



# ***Other observations***

- The Company has not disclosed information related to refunds, returns and other similar obligations, types of warranties and related obligations regarding revenue generation activities.
- The company has disclosed in its accounting policy that the input method has been used to recognise revenue. But the company has not explained why the input method provides a faithful depiction of the transfer of goods or services.
- The Company has disclosed “Others” under other non-current assets (Advances recoverable other than in cash) without disclosing the nature of the same as per the requirement of Clause VI(1) of Division II to Schedule III of Companies Act, 2013.
- The Company has made critical error in disclosing the amounts of lease liabilities as part of liquidity risk disclosures required under Indian Accounting Standard (Ind AS) 107, Financial Instruments: Disclosures (Ind AS 107). Instead of disclosing the contractual amounts of lease payables, the Company has erroneously disclosed present value of lease payments of ₹ 12,381.42 lakh instead of gross amount of ₹ 28,686.18 lakh.

*Thank you!*

