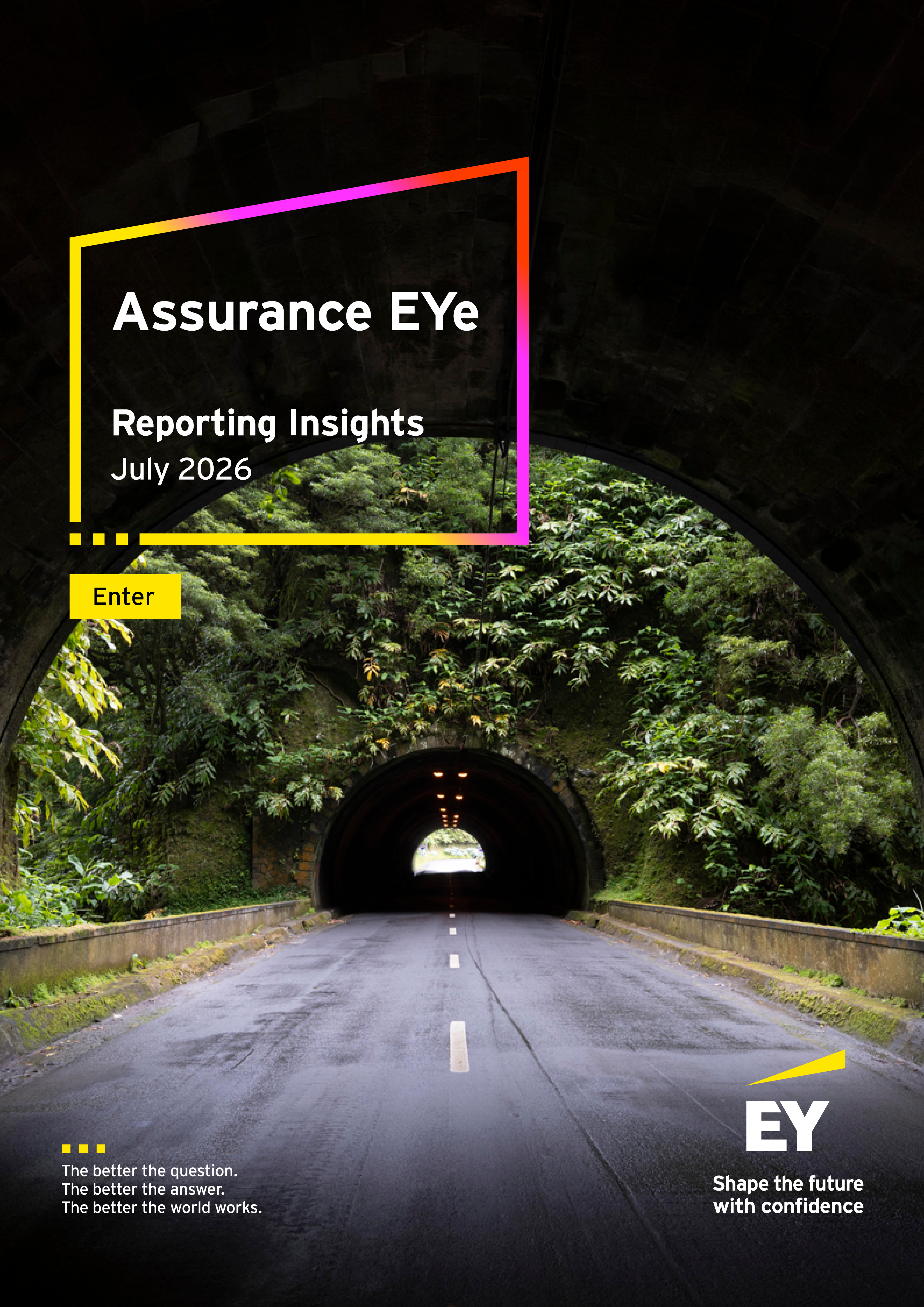

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Contents

1 Ind AS 118: Navigating the new landscape of communicating financial performance[1]

The National Financial Reporting Authority (NFRA), at its meeting held on 22 December 2025, recommended Ind AS 118 ***Presentation and Disclosure in Financial Statements*** (corresponding to IFRS 18 issued by the International Accounting Standards Board) to the Central Government for notification. Along with Ind AS 118, the NFRA has recommended consequential amendments to four other Indian Accounting Standards (Ind AS) for notification. As per the NFRA recommendation, Ind AS 118 and the consequential amendments to other Ind AS are proposed to apply for the financial year beginning on or after 1 April 2027. Further, the NFRA has recommended that companies preparing financial statements on a calendar year basis may have option to early adopt Ind AS 118 for annual reporting periods beginning on or after 1 January 2027. This recommendation is particularly relevant for subsidiaries of foreign companies, as it helps avoid misalignment with the parent company's reporting periods, which would be aligned with IFRS 18 effective from 1 January 2027.

If notified as recommended, Ind AS 118 would become effective from 1 April 2027 (or 1 January 2027 for calender-year entities), it would require restatement of comparative information. Accordingly, entities will need to assess the impact on comparative information and prepare systems, processes and data well before the first year of application. For instance, listed companies will be required to restate comparative figures for their June 2027 quarterly results, including corresponding restated comparatives from the June 2026 quarter onwards. Similarly, companies planning an IPO in FY27 will be required to restate financial information for the preceding three years.

We understand that the standard-setters and regulators in India are also working on other regulatory changes such as revision of Division II and Division III to Schedule III to the Companies Act, 2013 (as amended), i.e., Ind AS Schedule III applicable to non-finance companies and to non-banking financial companies, respectively, and revision of the format for presenting quarterly and half-yearly financial results prescribed ***under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations***, 2015 (as amended) (SEBI LODR). We expect the final Ind AS 118 with consequential amendments as well as other regulatory changes to be notified soon.

1. This article primarily focuses on Ind AS 118 overview and key outcomes from our perusal of disclosures made by 125+ global companies regarding potential impact expected to arise from IFRS 18 application. For more detailed understanding of Ind AS 118 requirements, a reference may be made to the publication Applying Ind AS: A closer look at Ind AS 118 and the recorded webcast Ind AS 118 - What CFOs and Finance Leaders Need to Know.

Overview of key Ind AS 118 impacts

Ind AS 118 sets out general and specific requirements for the presentation of financial statements and for disclosures in the notes. Given below are key amendments expected to be introduced by Ind AS 118:

Statement of profit and loss

Ind AS 118 requires an entity to classify all income and expenses within its statement of profit and loss into one of five categories: operating, investing, financing, income taxes and discontinued operations. The first three categories are new. These categories are complemented by the requirement to present subtotals and totals for 'operating profit or loss', 'profit or loss before financing and income taxes' and 'profit or loss'.

Main business activities

For the purposes of classifying its income and expenses into three new categories required by Ind AS 118, an entity will need to assess whether it has a 'specified main business activity' of investing in a particular type of assets or providing finance to customers, as specific classification requirements apply to such entities. Determining whether an entity has such a specified main business activity is a matter of facts and circumstances which require judgement. An entity may have more than one main business activity.

Management-defined performance measures

Ind AS 118 introduces the concept of a management-defined performance measure (MPM) and defines it as a subtotal of income and expenses that an entity uses in public communications outside of the financial statements, to communicate management's view of an aspect of the financial performance of the entity as a whole to users. The standard clarifies that subtotals required by an Ind AS are not MPMs and specifically lists some other subtotals that are also not MPMs, e.g., 'gross profit or loss (revenue minus cost of sales) and similar subtotals'.

Ind AS 118 requires entities to disclose information about all its MPMs in a single note to the financial statements and lists several disclosures to be made. These include:

- How the measure is calculated
- How it provides useful information and
- A reconciliation to the most comparable subtotal specified by Ind AS 118 or another Ind AS

Location of information, aggregation and disaggregation

Ind AS 118 requires aggregation and disaggregation of information to be performed with reference to similar and dissimilar characteristics while keeping the identified roles of the Primary Financial Statements (PFS) and the notes in mind. Since the purpose of the PFS is to provide a useful structured summary, an entity will, by design, aggregate material items on the face of the PFS and then need to disaggregate them in the notes.

Ind AS 118 also includes guidance on determining meaningful descriptions, or labels, for items that are aggregated in the financial statements, and it requires disclosure of further information regarding items labeled as 'other'

Consequential amendments to other Ind AS

Limited but widely applicable amendments have been made to other Ind AS, most notably Ind AS 7 ***Statement of Cash Flows,*** Ind AS 33 ***Earnings Per Share and Ind AS 34 Interim Financial Reporting.***

Ind AS 7 amendments, among other matters, will require all entities to use the operating profit subtotal as the starting point for the indirect method of reporting cash flows from operating activities.

Under Ind AS 34 (as amended), an entity will be required to make disclosures about its MPMs, as defined in Ind AS 118, in the notes to the condensed interim financial statements. Whether similar MPMs related disclosures will be required in the quarterly/half-yearly financial results prepared as per the SEBI LODR will be known once the SEBI notifies final amendment to the SEBI LODR.

Preparing for Ind AS 118

Ind AS 118 represents a fundamental evolution in financial statement presentation rather than a mere re-labeling exercise. The standard is expected to significantly enhance comparability, transparency and discipline in the presentation of financial performance. Its implementation will require entities to look beyond statutory formats and reassess how performance is defined, measured and communicated. The standard is also likely to drive changes in transaction systems, reporting processes and internal controls to ensure consistent classification and robust disclosures. For all entities likely to be impacted by Ind AS 118, in particular, listed entities and IPO-bound companies, early preparedness is critical to manage regulatory expectations and investor scrutiny.

IFRS 18 (corresponding to Ind AS 118) is applicable globally from 1 January 2027. To understand preparedness and likely impact, we have looked at disclosures made by 128 global companies in their December 2025/latest available financial statements with regard to standards issued but not yet effective. These companies span multiple industry sectors, including advanced manufacturing, banking and capital markets, consumer products, life sciences, oil and gas, insurance, telecommunications and power and utilities.

Based on our review of global companies, we observe that five companies have already adopted IFRS18. Most other companies appear to have initiated their implementation efforts:

a) **24 companies** (approx. 19%)

seem to be at an advanced stage of impact assessment. While their evaluation is ongoing as they operationalize IFRS 18, these companies have provided detailed disclosures on the expected impact of adoption.

b) **18 companies** (approx. 14%)

have disclosed preliminary insights regarding the initial impact expected from IFRS 18 application.

c) **81 companies** (approx. 63%)

have made generic disclosures on likely IFRS 18 impacts. Though these companies have not given any specific reason for limited disclosure, we presume that this may potentially be for the reason that these companies have made limited progress on impact assessment at the time of publishing annual report.

As IFRS 18 does not alter the existing recognition and measurement requirements prescribed under current IFRS Accounting Standards, entities have consistently concluded that its adoption is not expected to have any impact on the recognition and measurement of assets, liabilities, income and expenses. Based on a review of the published financial statements of early adopters, together with impact assessments disclosed by other entities, the following key messages emerge in relation to the application of IFRS 18:

- Certain entities have highlighted that operating profit under IFRS 18 is expected to differ from their currently reported operating profit.
- Entities currently presenting Earnings before Interest and Tax (EBIT) may consider replacing them with newly defined subtotals, namely 'operating profit or loss' and 'profit or loss before financing and income taxes'.
- IFRS 18 requires share of profit or loss from equity accounted investments (associates and joint ventures) to be mandatorily presented in the investing category. Many entities have identified this as a significant impact area in their initial assessment.
- Foreign exchange gains and losses seem to be emerging as common reclassification items arising from IFRS 18 application. Entities have indicated that additional reclassification items continue to emerge as they progress on IFRS 18 application. These items include:
    - Gains and losses on hedging instruments
    - Interest income and discounting expenses on long-term receivables
    - Interest expense on deferred payment liabilities
    - Income and expenses pertaining to investment properties
- Assessment of the Specified Main Business Activities (MBA) seems to be one critical judgement area for certain entities. These entities continue to evaluate whether they undertake a specified Main Business Activity, considering their specific facts and circumstances

- Many entities have stated that they are actively identifying MPMs through comprehensive reviews of all external communications. Few entities have made preliminary identification of MPMs such as EBITDA, EBIT, Adjusted EBIT, Adjusted Operating Profit and Business gross margin
- Several entities have indicated changes to the statement of cash flows, arising from consequential amendments to IAS 7
- To deal with all aspects of IFRS 18 adoption in a comprehensive manner, certain entities have specifically stated that they have formed a steering/cross-functional committee on this matter
- Certain entities have also indicated changes to the information system for data segregation and IFRS 18 compliance

Call for action

Ind AS 118 marks a meaningful advancement in financial reporting, enhancing how performance is presented and communicated. Beyond presentation changes, it offers organizations an opportunity to improve clarity, consistency, and transparency for stakeholders.

While the changes may touch areas such as data, systems, processes, controls and people, they also provide a chance to strengthen reporting frameworks and better align internal metrics with external communication. Early assessment of the impact will help organizations implement any required updates in a structured and efficient manner.

A proactive and well-planned approach – bringing together teams from financial reporting, legal and investor relations – will support a smooth transition.

Overall, Ind AS 118 enables organizations to enhance the quality and relevance of their financial reporting while creating long-term value.

2 Transforming accounting for Rate-Regulated Activities: IFRS 14 to IFRS 20

Background and development

Many large public and private entities operate in regulated sectors such as power and utilities, telecommunications and infrastructure, where pricing is determined by regulatory authorities to balance stakeholder interests and address economic, social and environmental considerations. These regulatory frameworks often create timing differences between when goods or services are provided and when recovery is permitted through tariffs. As a result, entities may accumulate rights to recover costs or incur obligations to return excess amounts in future periods, giving rise to potential regulatory assets and liabilities. This raises a fundamental accounting question that in rate-regulated activities, whether and when, an entity should recognize assets or liabilities arising from timing differences between the total compensation to which it is entitled for goods or services supplied in one period and the regulated rates charged to customers in another period. Historically, IFRS Accounting Standards did not contain a comprehensive model for such balances. Importantly, when the IASB issued IFRS 14 as an interim standard, it did not express a view on whether regulatory deferral account balances met the definitions of assets and liabilities in the Conceptual Framework. Consequently, the term 'regulatory deferral account balances' has been chosen as a neutral descriptor for these items in IFRS 14 instead of describing them as 'regulatory assets' or 'regulatory liabilities', and it continued its broader rate-regulated activities research project. Prior to IFRS 14, the prevailing practice among most entities was not to recognize regulatory deferral account balances, instead recognizing related amounts in profit or loss as incurred, unless national accounting standard-setting bodies required or permitted such balances to be recognized as part of assets or as separate receivables or payables.

To address such concerns, the IASB issued IFRS 14 Regulatory Deferral Accounts in January 2014 as an interim standard. IFRS 14 allowed entities already recognizing regulatory deferral account balances under previous GAAP to continue to do so on transition to IFRS, subject to specified presentation and disclosure requirements.

IFRS 14 provided limited guidance on accounting for the financial effects of rate regulation, which has led to diversity in practice. We understand that considering the option given in Ind AS 114 (corresponding to IFRS 14), power companies in India, particularly those engaged in the distribution of power, have opted to recognize regulatory deferral balances. The perusal of publicly available information indicates that entities operating in other sectors have not recognized any regulatory deferral balance under the Ind AS 114 regime.

To address this matter comprehensively and prescribe mandatory requirements, the IASB recently issued IFRS 20 ***Regulatory Assets and Regulatory Liabilities***. IFRS 20 introduces a comprehensive and principle-based framework for recognizing, measuring and presenting regulatory assets and liabilities. The standard aligns the recognition of regulatory income and expenses with the economic effects of rate regulation, thereby improving the transparency and comparability of financial statements. It requires entities to present the total allowed compensation for regulatory goods or services and the related timing differences distinctly, providing stakeholders with a clearer understanding of how regulatory mechanisms impact financial performance and position.

IFRS 20 introduces requirements that will result in information that supplement the information an entity already provides by applying IFRS Accounting Standards, including IFRS 15 ***Revenue from Contracts with Customers***. Such information enables users of financial statements to understand the total allowed compensation for regulatory goods or services supplied in each reporting period and the related rights and obligations. The income, expenses, assets and liabilities an entity reports by applying IFRS 20 supplement, but do not replace the information the entity provides by applying IFRS 15 and other IFRS Accounting Standards. Accordingly, revenue from contracts with customers continues to be recognized under IFRS 15, and IFRS 20 requires separate recognition of regulatory assets, regulatory liabilities, regulatory income and regulatory expense arising from timing differences created by the regulatory agreement.

IFRS 20 is effective for annual periods beginning on or after 1 January 2029, with early adoption permitted, and will replace IFRS 14 upon implementation. Narrow-scope amendments have been made to a number of accounting standards, including IFRS 1 First-time Adoption of IFRS, IFRS 3 ***Business Combinations and IFRS 18 Presentation and Disclosure in Financial Statements***.

What you need to know

The evolution from IFRS 14 to IFRS 20 represents a significant milestone in the development of accounting for rate-regulated activities. IFRS 20 addresses a long-standing gap by introducing a comprehensive framework for the recognition, measurement, presentation and disclosure of regulatory assets, regulatory liabilities, regulatory income and regulatory expense. Unlike IFRS 14, the application of IFRS 20 is mandatory. Accordingly, any entity within its scope will be required to comply with its provisions. Entities operating in sectors such as power and utility, port, airport, telecommunication and infrastructure, are more likely to be impacted and should carefully evaluate the application of IFRS 20 or its Ind AS equivalent.

Key features of the standard

Scope

IFRS 20 applies to all regulatory assets and regulatory liabilities that are a subset of the rights and obligations created by a regulatory agreement that meet the conditions in IFRS 20. The only exception to the scope is the requirement to exclude regulatory assets and regulatory liabilities that arise if premiums charged in insurance contracts within the scope of IFRS 17 Insurance Contracts are regulated.

How we see it

Although the impact of the new requirements might vary depending on the regulatory agreements to which entities are exposed, IFRS 20 is expected to impact all entities that supply regulatory goods and services at prices that are regulated, across all industries, including those outside of power and utilities.

Key concepts

A regulatory asset (liability) is an enforceable present right (obligation) created by a regulatory agreement, to add (deduct) an amount in determining a regulated rate to be charged to customers in future periods because part or all of the total allowed compensation for regulatory goods or services supplied by an entity in a reporting period is charged to customers through regulated rates in a different period (past or future) creating a difference in timing.

A regulatory agreement is one that creates a set of enforceable rights and enforceable obligations that prescribes how a regulator determines a regulated rate (or a range for the regulated rate) that an entity charges for goods or services supplied to customers in a period.

Total allowed compensation is the amount of compensation to which a regulatory agreement entitles an entity for regulatory goods or services supplied in a reporting period. The amount might be charged through regulated rates either in the same period or a different period.

The regulatory goods or services supplied in a period might include, for example:

a) Supplying goods or services to customers

b) Maintaining a network, including routine maintenance and being ready to repair damage to the network

c) Making changes to the capacity of a network (for example, additions and upgrades or decommissioning) and

d) Satisfying other objectives set by the regulator as part of the regulatory agreement (for example, improving the quality and efficiency of services supplied to customers, or decreasing or increasing customer usage)

Recognition

An entity is required to recognize:

a) All regulatory assets and all regulatory liabilities existing at the end of a reporting period and

b) All regulatory income and all regulatory expenses arising during a reporting period

Where it is uncertain whether a regulatory asset or regulatory liability exists, an entity needs to assess whether the regulatory asset or regulatory liability is more likely than not to exist. An entity recognizes a regulatory asset or regulatory liability if it is more likely than not to exist.

A number of constraints on recognition are addressed in the standard, of which the most prominent depends on whether the entity's regulatory capital base has a direct relationship with a related item or items. Examples of related items are items recognized by an entity as depreciable or amortizable assets by applying IFRS Accounting Standards (for example, IAS 16 ***Property, Plant and Equipment***, IAS 38 Intangible Assets or IFRS 16 ***Leases)***.

Initial measurement

An entity needs to measure regulatory assets and regulatory liabilities using a cash-flow-based measurement technique that includes an up-to-date estimate of all future cash flows arising from the recovery of a regulatory asset or the fulfillment of a regulatory liability. Then it needs to discount those estimated future cash flows to their present value using the regulatory interest rate specified (implicitly or explicitly) in the regulatory agreement for that regulatory asset or regulatory liability.

To estimate future cash flows, an entity needs to consider all reasonable and supportable information that is available at the reporting date without undue cost or effort about past events and conditions existing at the end of the reporting period, as well as information about market and non-market variables that might affect estimates of future cash flows.

How we see it

When measuring regulatory assets and regulatory liabilities, an entity considers all reasonable and supportable information that is available at the reporting date without undue cost or effort to estimate future cash flows. An entity will need to apply judgement in determining what constitutes undue cost or effort under its specific circumstances.

Subsequent measurement

In measuring a regulatory asset or regulatory liability after its initial recognition, an entity is required, at the end of each reporting period:

a) Update estimates of the amount and timing of future cash flows arising from the regulatory asset or regulatory liability and

b) Continue to use the discount rate determined at initial recognition, unless the regulatory agreement requires a change to the regulatory interest rate

Presentation and disclosure

IFRS 20 requires an entity to classify all regulatory income and all regulatory expense as revenue (including regulatory interest) and to present it as a separate line item in the statement of profit and loss. Where, on applying other IFRS Accounting Standards, an entity includes an item of income or expense in other comprehensive income (OCI), IFRS 20 requires the entity to also include in OCI, the regulatory income or regulatory expense related to the item of income or expense in OCI.

An entity is required to present in its statement of financial position (balance sheet):

a) Regulatory assets and regulatory liabilities as line items and

b) Current and non-current regulatory assets and current and non-current regulatory liabilities, as separate classifications in accordance with IFRS 18, except when the entity presents all assets and liabilities in order of liquidity

IFRS 20's disclosure objectives include an overall objective to disclose in the notes information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities which, together with the information required by other IFRS Accounting Standards, will provide insights to users of financial statements into:

a) The total compensation allowed for regulatory goods or services supplied by the entity in a reporting period and, hence, into the entity's financial performance and prospects for future cash flows

b) The entity's financial position at the end of a reporting period and the amount, timing and uncertainty of the entity's future cash flows

In addition, an entity is required to disclose information that enables users to understand the amounts recognized in the entity's statement of profit and loss and balance sheet for regulatory assets, regulatory liabilities, regulatory income and regulatory expense; the nature of unrecognized regulatory assets or unrecognized regulatory liabilities and the reason they have not been recognized; and the relationship between the entity's regulatory capital base and related items.

How we see it

In assessing the information including the level of detail on its rate-regulated activities to be disclosed in the notes to the financial statements in accordance with IFRS 20, an entity is required to consider the overall disclosure objective as well as the specific disclosure requirements in the standard.

Effective date and transition

An entity is required to apply IFRS 20 for annual reporting periods beginning on or after 1 January 2029, with early application permitted. When IFRS 20 is applied, IFRS 14 Regulatory Deferral Accounts will be withdrawn.

IFRS 20 requires an entity to apply the requirements either retrospectively in accordance with IAS 8 Basis of Preparation of Financial Statements or using the modified retrospective approach which includes certain transition reliefs from the application of IAS 8.

Regardless of the approach chosen, an entity is required to:

a) Recognize the net adjustment in opening retained earnings (or other component of equity, as appropriate) at the transition date

b) Present adjusted comparative information for the annual reporting period immediately preceding the date of initial application and

c) Disclose, to the extent practicable, the earnings per share information and the amount of adjustment for each financial statement line item affected in the financial statements of the annual reporting period immediately preceding the date of initial application

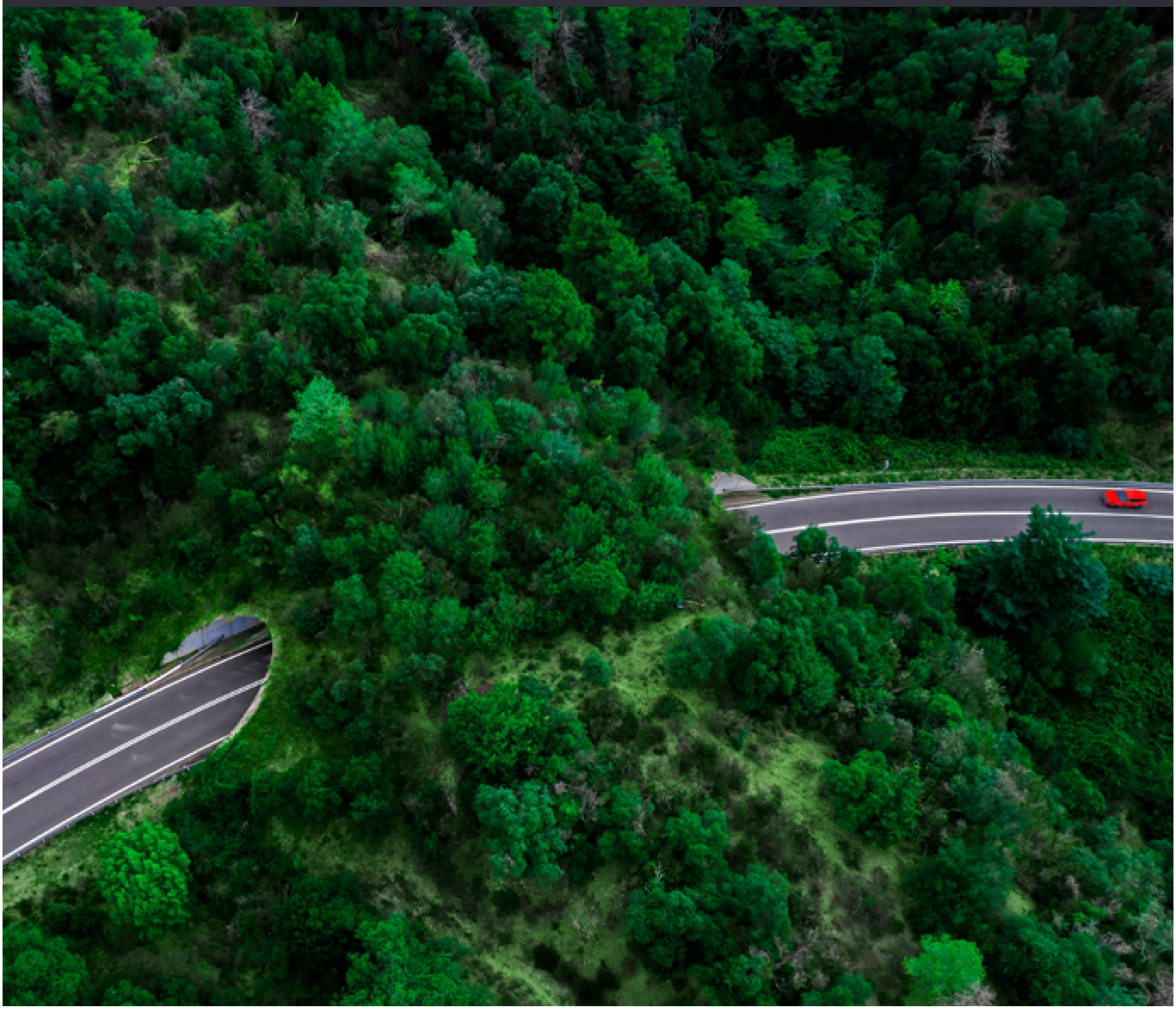
Applicability in India

In line with past practices, we expect the Institute of Chartered Accountants of India (ICAI), the National Financial Reporting Authority (NFRA) and the Ministry of Corporate Affairs (MCA) to formulate and notify Indian Accounting Standard (Ind AS) corresponding to IFRS 20 such that it becomes applicable along with IFRS 20 adoption. Hence, it is imperative that Indian entities likely to be impacted by IFRS 20, its Ind AS equivalent, also start preparing for the same.

How we see it

While there might appear to be ample time before the effective date of IFRS 20, entities are encouraged to determine the impact of the new requirements at their earliest convenience. Management needs to plan ahead as the transition process could require considerable time and resources to prepare and disclose comparative information for the prior reporting period. Successful implementation of IFRS 20 may require changes to the internal control system and supporting IT applications.

Furthermore, entities will need ample time to assess the anticipated effects of applying IFRS 20 in their business plan, on financial covenants, and on other performance conditions that relate to share-based payment plans and other long-term employee benefits other than post-employment benefits.



3 Liquidation basis of accounting: Practical challenges and key considerations

'Going concern' is one critical consideration in the preparation of financial statements[2]. Going concern consideration requires the management to make an assessment of the entity's ability to continue as a going concern. In making this assessment, management takes into account all available information about the future period, covering a minimum of 12 months from the end of the reporting period. The 12-month period for considering the entity's future is a minimum requirement. If there is evidence of events occurring after 12 months impacting the entity's ability to continue as a going concern, then the entity needs to consider those events as well. For example, if an entity has decided to cease its operations 16 months after the reporting date, the entity may still not be able to prepare financial statements on a going concern basis.

The extent of assessment required by management to form a view on the entity's ability to continue as a going concern is a matter of significant judgment and depends on the specific facts and circumstances of each case.

For instance, where an entity has a consistent history of profitable operations, a positive net worth, strong working capital position and ready access to financial resources, and where there are no indicators suggesting that such performance is unlikely to continue, the management may conclude that the going concern basis of accounting remains appropriate without the need for a detailed analysis.

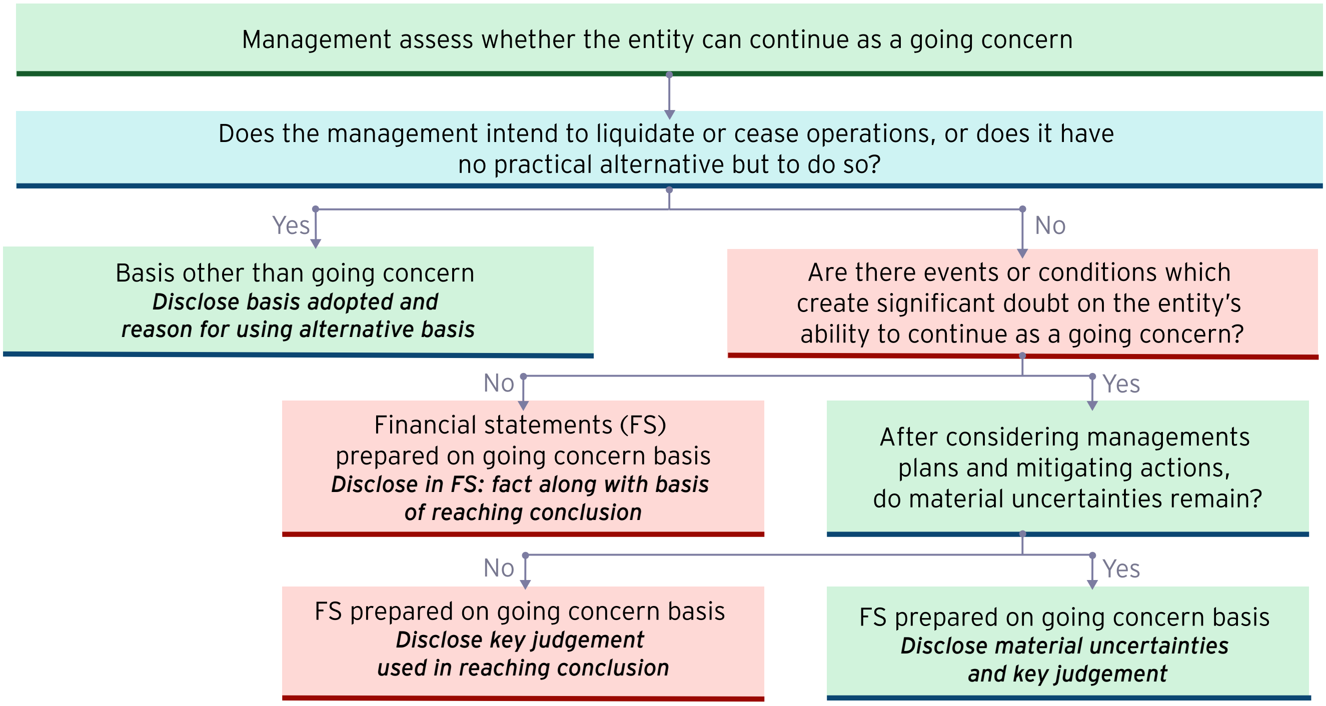
However, in certain situations, management may be required to perform a comprehensive evaluation of multiple financial, operational and regulatory factors. Based on such an assessment, including appropriate legal considerations where necessary, management can arrive at a well-informed conclusion on the appropriateness of the going concern assumption. Key considerations may include:

- Whether there are any regulatory restrictions or actions impacting operations (e.g., Reserve Bank of India (RBI)-imposed lending restrictions on financial institutions)

2. Under Indian GAAP, going concern is treated as a fundamental accounting assumption in the preparation of financial statements, whereas under Ind AS, it is considered as a one of the critical consideration requiring active assessment and appropriate disclosure.

- Whether there are investigations or actions by regulatory authorities such as Securities and Exchange Board of India (SEBI), Ministry of Corporate Affairs (MCA), Serious Fraud Investigation Office (SFIO), or Goods and Services Tax (GST) authorities that could affect business continuity
- Whether critical licenses or approvals are at risk of suspension, cancellation, or non-renewal (e.g., telecom spectrum, mining leases, environmental clearances)
- Whether the business model remains commercially viable or is being challenged by new entrants, technological changes, or shifting market dynamics. (e.g., traditional retail vs. e-commerce, thermal power vs. renewable energy transition)
- Whether sustained losses or weak financial performance have adversely impacted investor confidence and funding prospects
- Whether there are material litigations, tax disputes, or arbitration matters that could result in significant outflows (e.g., GST demands, retrospective tax claims)
- Whether the company has adequate liquidity to meet its obligations over the next 12 months (e.g., Non-Banking Financial Company (NBFC) facing asset-liability mismatches due to delayed recoveries)
- Whether loan repayments and interest servicing are being made on time, and whether any defaults or delays have been reported to lenders or regulators (e.g., classification as SMA-2 or NPA by banks)
- Whether long-term assets are being financed through short-term borrowings (e.g., infrastructure projects funded through working capital lines)
- Whether there are ongoing or planned debt restructuring arrangements or one-time settlements (OTS) with lenders
- Whether financial or operational covenants have been breached, and the stance of lenders in such cases
- Whether the entity has entered, or is likely to enter, insolvency proceedings under the Insolvency and Bankruptcy Code (IBC), such as admission into the Corporate Insolvency Resolution Process (CIRP) by the National Company Law Tribunal (NCLT)
- Whether there is significant dependency on key customers or suppliers, and potential risks arising from the loss of major contracts or markets
- Whether the entity relies on financial support from promoters or group entities, and whether such parties are themselves under financial or regulatory stress
- Whether the going concern assumption depends on the sale of assets or investments, and whether such assets are realistically realizable at expected values
- Whether there are weaknesses in internal controls or indications of fraud affecting the reliability of financial information
- Whether any post-balance sheet events (e.g., loan recalls, adverse legal orders, loss of funding) have materially worsened the position
- Whether the company has lost key contracts, customers, or funding arrangements after the reporting date

Paragraph 25 of Ind AS 1 Presentation of ***Financial Statements*** states that an entity will prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. The paragraph also states that if there are uncertainties which may cast doubt on the entity's ability to continue as a going concern, then those uncertainties need to be disclosed. Depending on management's assessment of the entity's ability to continue as a going concern, the following outcomes seem possible:



a) **There are no material uncertainties regarding the entity's ability to continue as a going concern.** Financial statements of the entity are prepared on a going concern basis, and a disclosure is made in the financial statements of this fact, along with the entity's basis for reaching the conclusion.

b) **Though there are material uncertainties regarding the entity's ability to continue as a going concern, the management/shareholders are working on mitigating actions and do not intend to liquidate the entity or to cease trading. The going concern evaluation performed by management indicates that realistic alternatives exist for the entity to continue as a going concern.** Financial statements of the entity may be prepared on a going concern basis. However, the uncertainties involved and the basis of conclusion should be disclosed. Disclosures required include:

   - A description of principal events or conditions giving rise to significant uncertainty regarding the entity's ability to continue in operation and management's plans to deal with these events or conditions, and
   - A clear statement as to whether there is a material uncertainty related to events or conditions which might cast significant doubt on the entity's ability to continue as a going concern, such that it might be unable to realize its assets and discharge its liabilities in the normal course of business

c) **The management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so.** Financial statements of the entity are prepared not on a going concern basis. The entity will disclose this fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

Ind AS 10 Events after the Reporting Period is clear that an entity should not prepare its financial statements on a going concern basis even if the management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so. Hence, any event after the reporting period indicating that it is not appropriate to apply the going concern basis of accounting is always an adjusting event.

How to prepare financial statements when the going concern basis is inappropriate?

Paragraph 25 of Ind AS 1, among other matters, requires an entity to prepare its financial statements on a going concern basis unless the management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. The paragraph further states that when an entity does not prepare financial statements on a going concern basis, it will disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern. Similar requirements are reiterated in paragraph 16 of Ind AS 10. Further, paragraph 3.9 of the ***Conceptual Framework for Financial Reporting under Indian Accounting Standards*** (Ind AS), issued by the Institute of Chartered Accountants of India (ICAI) indicates that if the going concern basis is not appropriate, financial statements may need to be prepared on an alternative basis and the financial statements should describe the basis used.

Ind AS are primarily written from the perspective of an entity which is a going concern. Ind AS 1, Ind AS 10 and the Conceptual Framework recognize that the financial statements may be prepared on an alternative basis with appropriate disclosures if the going concern basis of accounting is no longer appropriate. However, they do not address what an alternative basis of accounting should be. To deal with this matter further, the Research Committee of the ICAI has recently issued a report titled 'Liquidation Accounting.' Though the report is not mandatory, it provides useful guidance on the matter, which may help generate further evaluation of this matter.

Based on practices prevalent globally, the report recognizes three broad approaches to prepare financial statements on a non-going concern basis/liquidation basis of accounting. While the approaches outlined below refer to Ind AS, similar considerations would be relevant under Indian GAAP as well, in the absence of specific guidance.

I *Approach:*

Continue to apply Ind AS recognition and measurement principles

Under this approach, the entity continues to prepare financial statements in accordance with the requirements of applicable Ind AS. In applying those Ind AS, appropriate adjustments are made to reflect the fact that the entity is no longer a going concern. Given below are a few examples:

a) For non-financial assets such as property, plant and equipment and intangible assets, impairment testing is performed in accordance with Ind AS 36 ***Impairment of Assets***. In most cases, the fact that the entity is no longer a going concern may be considered an indicator of impairment requiring detailed impairment testing. Further, in performing the impairment assessment, value in use may no longer be relevant or may shrink significantly once the entity intends to liquidate or cease operations. The recoverable amount may therefore move closer to fair value less costs of disposal

b) For financial assets such as trade receivables and loans, expected credit loss measurement under Ind AS 109 ***Financial Instruments*** may become more relevant

c) The requirement for the entity to wind up operations in the foreseeable future may require it to settle obligations such as decommissioning and extended producer responsibility (EPR) obligations earlier than originally estimated. This may potentially impact the discounting/ measurement of such obligations

d) An assessment of whether an executory contract is onerous may change, requiring the entity to create an additional provision

e) The fact that financial statements are no longer prepared on going concern basis may trigger non-compliance with debt covenants. This may impact the current versus non-current classification of liabilities

However, under this approach, no adjustment is made to the carrying amount of assets and liabilities which are otherwise not allowed under Ind AS. For example, the following adjustments will not be made:

a) The carrying amount of the financial liability is not reduced merely because management expects a haircut or a negotiated settlement. Under Ind AS 109, derecognition of a financial liability occurs only when the liability is extinguished or settled

b) Expected profit on the sale of an asset cannot be recognized before the asset is sold, unless that asset is measured at fair value through profit or loss, as per the applicable Ind AS

c) An expected gain on disposal of one asset or cash-generating unit (CGU) cannot be offset against the impairment of another asset or CGU

d) A provision/liability for potential obligations such as closure/restructuring costs is not recognized unless there is a present obligation at the reporting date

II *Approach:*

Net realizable or realization-based approach

Under this approach, assets are measured at the amounts expected to be realized/collected upon sale of the asset (e.g., net realizable value), which may be higher or lower than the carrying amount. The net realizable value may be the same as or different from the fair value. For example, a difference from fair value can arise if the process of liquidation is expected to involve distressed or forced sales of assets. Some likely implications of this approach are:

a) Trademarks/internally generated intangible assets not previously recognized may get recorded

b) Property, plant and equipment/intangible assets may not be depreciated or amortized

c) Instead of testing assets for impairment, they may get measured at the amount of cash expected to be realized/collected upon sale. This amount may be higher or lower than their carrying amounts

d) Prepaid expenses and other assets which will not be converted to cash or other considerations are written off

Under this approach, liabilities continue to be measured at the amounts required by the applicable Ind AS. However, as explained in Approach I, assumptions in the measurement of the liability may need to be adjusted to reflect current expectations. Even under this approach, anticipated haircuts or negotiated settlements should not be recognized unless the relevant derecognition or measurement requirements are met.

III *Approach:*

Break-up value basis

Under this approach, assets are measured at the amounts expected to be realized/collected on their sale. Hence, this approach is very similar to Approach II in the measurement of assets. With regard to recognition and measurement of liabilities, a provision is recognized even for losses arising subsequent to the end of the reporting period and for the costs of winding up the business, irrespective of whether an irrevocable decision to cease trading has been made at or after the end of the reporting period. For example:

a) A provision is recognized for losses subsequent to the reporting period even if no legal or constructive obligation existed as at the reporting date

b) The cost of winding up the business is accrued even if the decision to cease trading was made after the end of the reporting period

While this approach may provide useful wind-up information to the users, it seems to involve recognition and measurement outcomes that may not be strictly Ind AS compliant.

Other key considerations

Limited-life entities

A limited-life entity is an entity that has a predetermined lifespan, often specified in its formation/governing documents. For example, an Alternative Investment Fund (AIF) may be established with a specific duration, such as 10 years, during which it conducts its business activities, such as investing in other entities with the goal of capital appreciation. The entity's purpose and exit strategies for its investments are typically outlined at the time of its formation, and it may plan to liquidate or dispose of its assets upon reaching the end of its designated life.

It seems clear that in the initial years of its life cycle, the Fund will prepare financial statements using the going concern basis of accounting. However, toward the end of life, say, while preparing financial statements for years 8 and 9, an issue may arise whether the Fund can still prepare financial statements using the going concern basis of accounting or whether the liquidation basis needs to be used?

The Research Report, among other matters, states that in such cases, the benefits of switching to the liquidation basis of accounting may not justify the costs. An entity may also determine that the liquidation basis of accounting would not be useful to users of the financial statements if the majority of assets held by the entity are already measured at fair value. Entities should therefore use judgement to determine the most appropriate basis for users of financial statements based on the facts and circumstances.

Consolidation

Consider a scenario where a subsidiary in the consolidated group ceases to be a going concern because it has decided to cease operations. In this case, it seems clear that the financial statements of the subsidiary will be prepared using the liquidation basis of accounting. It also seems clear that if the consolidated group has other operations which are expected to continue for the foreseeable future, then consolidated financial statements (CFS) of the group will be prepared using the going concern basis of accounting.

In preparing CFS of the group, an issue may arise whether the parent should use financial statements of the subsidiary prepared using liquidation basis of accounting for consolidation, or whether the subsidiary should prepare another set of financial statements using going concern basis of accounting for consolidation? The Research Report states that in accordance with Ind AS 110 ***Consolidated Financial Statements,*** uniform group accounting policies need to be used to determine the amounts to be included in the CFS for like transactions and other events in similar circumstances. Thus, consolidation adjustments should be made whereby the subsidiary's transactions and other events in similar circumstances are measured using accounting policies followed in the Group CFS.

Comparative information

A change from a going concern basis to a liquidation basis of accounting is a change in circumstances in which the financial statements are prepared. Thus, the new basis of accounting is applied prospectively, and it does not impact comparative information presented in the financial statements for the period in which the liquidation basis of accounting is applied for the first time.

Disclosure

When financial statements of an entity are prepared using a liquidation basis of accounting, appropriate disclosure needs to be provided in the financial statements so that the users of the financial statements have the relevant information. In addition to Ind AS 1 and Ind AS 10 requirements, the research report suggests the following disclosures to be made:

a) The fact that the entity is not a going concern

b) The reason why the entity is no longer a going concern

c) The accounting policies followed for the recognition and measurement of income, expenses, assets and liabilities

d) The methods and significant assumptions used to measure assets and liabilities

e) The plan for liquidation, including the manner of realizing assets and settling liabilities

f) The expected date for the completion of the liquidation

How we see it

We welcome the Research Report on 'Liquidation Accounting' issued by the Research Committee of the ICAI. We believe that the Report will help in providing clarity and generating discussion on accounting in scenarios where it is concluded that the going concern basis is no longer appropriate. In our view, the following aspects may need further clarification:

a) It is clear that Approach I referred to in the Report complies with the requirements of Ind AS and, therefore, an entity (which is no longer a going concern) using Approach I will be able to demonstrate and state compliance with Ind AS in the basis of preparation of the financial statements. However, an issue may arise whether financial statements can be stated as compliant with Ind AS if they are prepared using Approach II or III?

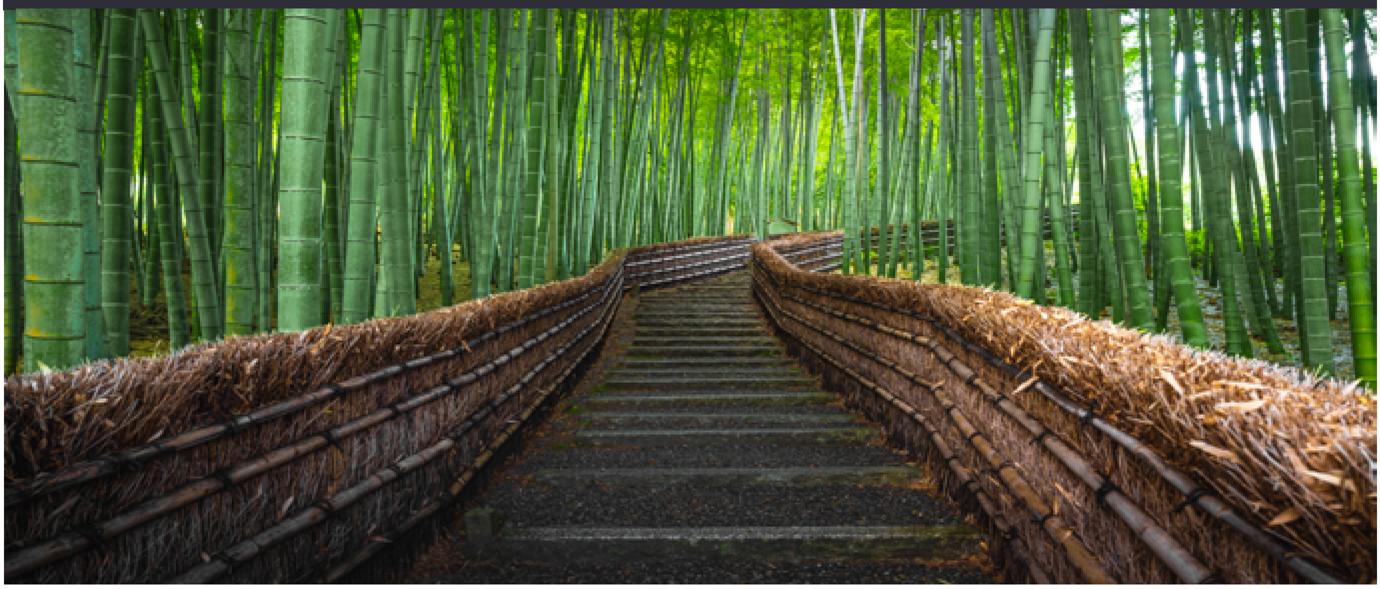
   One argument can be that Ind AS are written from the perspective that an entity is a going concern. Thus, in the case of a non-going concern entity, the recognition and measurement requirements of Ind AS must be assessed to determine whether they provide relevant information that faithfully represents the "non-going concern" circumstances. If they do not, the entity may apply accounting policies other than those applicable to entities that are going concerns.

   The counter argument is that neither Ind AS 1 nor Ind AS 10 nor any other Ind AS provides exemption from the application of Ind AS requirements to an entity which is no longer a going concern. Hence, Ind AS to the extent relevant should be followed after making appropriate adjustments such as those described in Approach I to reflect the fact that the entity is no longer a going concern.

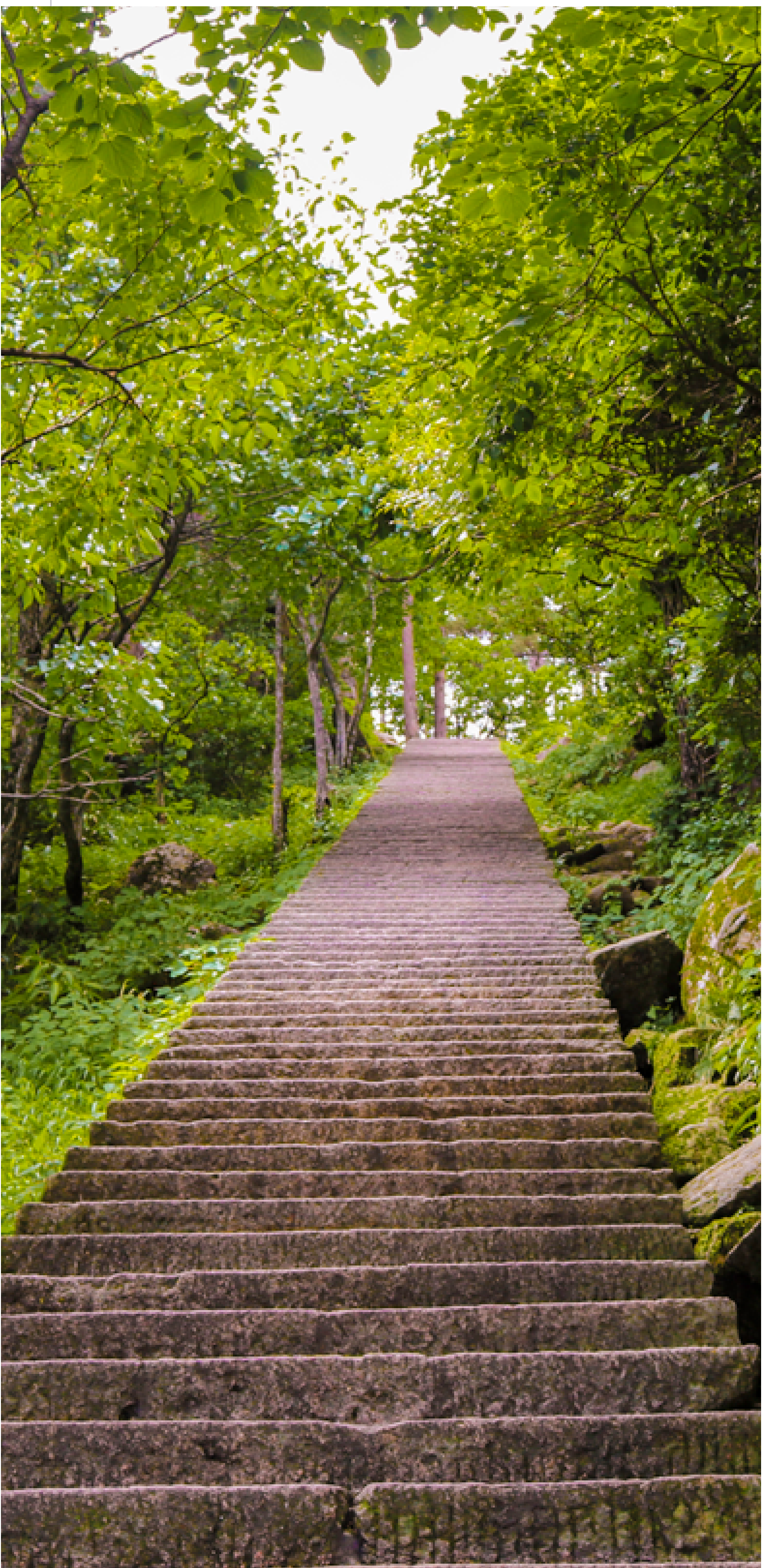
b) Ind AS 1 does not differentiate between limited-life entities and other entities with regard to going concern assessment and consequent application of liquidation basis of accounting. Hence, one may argue that even limited-life entities need to apply the liquidation basis of accounting toward the end of their life. Since most of the assets are already stated at fair value, this may not have any material impact on the recognition and measurement of assets and liabilities in the financial statements. In any case, the entity may need to state that financial statements are prepared on a basis other than the going concern basis of accounting.

c) With regard to CFS of the group where a subsidiary ceases to be a going concern, one may argue that the facts and circumstances of the group differ from other entities in the group. Hence, adoption of different basis of accounting in accordance with Approach I for the subsidiary transactions, income, expense, assets and liabilities may still be justified, and there is no need to reverse those impacts while preparing the CFS.

We recommend that the ICAI, the National Financial Reporting Authority (NFRA) and/or the Ministry of Corporate Affairs (MCA) may consider providing authoritative guidance on the matter to address it comprehensively.



4 Navigating the evolving sustainability reporting landscape: A roadmap for corporates



Sustainability reporting in India is moving from a regulatory requirement to a strategic imperative. What began as a regulatory disclosure exercise has evolved into a core element of corporate strategy, driven by SEBI's Business Responsibility and Sustainability Reporting (BRSR) framework and growing expectations of investors.

As international frameworks such as sustainability-related disclosure standards (IFRS Sustainability Disclosure Standards) issued by International Sustainability Standards Board (ISSB) and the EU's Corporate Sustainability Reporting Directive (CSRD) gain traction, Indian companies face a new reality: aligning domestic compliance with global expectations while maintaining clarity, efficiency and credibility.

This shift matters because reporting obligations are expanding beyond home-jurisdiction requirements. In several markets, the scope of regulation extends not only to listed entities but also, in certain cases, to large non-listed entities, subsidiaries, branches and value-chain participants. At the same time, investors, lenders and other stakeholders increasingly expect comparable, decision-useful sustainability information that can be understood across markets.

India's sustainability reporting journey: From BRR to BRSR

India has been among the early adopters of structured ESG reporting frameworks in emerging markets.

- 2012–2020: Business Responsibility Reporting (BRR) introduced for large, listed entities
- 2021 onwards: Business Responsibility and Sustainability Reporting (BRSR) introduced by SEBI, aligned with global ESG expectations
- Current phase: Mandatory reporting and assurance or assessment[3] on BRSR Core, a focused subset of sustainability KPIs accompanied by assurance requirements. The assurance requirement is applicable in a phased glide path manner, beginning with the top 150 listed entities for FY23-24, expanding to the top 250 for FY24-25, the top 500 for FY25-26 and the top 1,000 thereafter

3. SEBI has not issued any standard on assessment yet.

BRSR represents a significant shift in India's sustainability reporting landscape – moving from largely narrative disclosures to quantitative, metric-driven reporting, from voluntary reporting practices to mandatory requirements for top listed companies, and from standalone ESG disclosures to deeper integration with corporate strategy and decision-making frameworks. It also provides a foundation for Indian companies to build broader reporting systems capable of supporting multiple frameworks where required.

Increasing global convergence: How certain global sustainability-related reporting requirements may impact multinationals

While BRSR provides a strong domestic foundation, Indian corporates, especially with a global presence, must now navigate a reporting landscape in which sustainability-related requirements are proliferating across jurisdictions, often with different scope thresholds, reporting boundaries, implementation timelines and assurance expectations. The direction of travel is toward greater convergence, but not toward complete uniformity. The ISSB Standards are increasingly serving as an important global reference point for investor-focused reporting, yet many jurisdictions are adopting them with local adaptations or embedding them into existing legal and listing-rule structures.

The requirements in most jurisdictions apply to listed entities in that jurisdiction. However, some also require large non-listed entities to comply. As a result, entities with multinational operations may have subsidiaries or other components that are or will be required to report sustainability-related information and value chain entities that may need to provide underlying data. Global frameworks are also gaining relevance as investors increasingly demand comparable, decision-useful disclosures across markets and as Indian companies integrate deeper into global supply chains.

This means the real challenge for companies is not simply choosing a reporting framework. Rather, it is designing a reporting model that can support multiple frameworks at the same time. A group may report primarily under BRSR in India, face climate-reporting requirements at a subsidiary level in Australia, monitor ISSB-aligned climate expectations in Singapore and assess potential ESRS-based obligations in Europe. In practice, the primary challenge frequently lies not in preparing disclosures, but in determining whether an organization possesses the necessary systems, controls, governance frameworks and data architecture to produce dependable information across various reporting perspectives.

Entities with multinational operations need to understand which regulations apply to them, comply with relevant reporting requirements, and assess how these frameworks may affect their reporting strategies, processes and internal controls.

Jurisdictional perspectives on sustainability reporting

European Union (EU)

The EU's Corporate Sustainability Reporting Directive (CSRD) significantly expands sustainability reporting by requiring in-scope entities to disclose information in line with the European Sustainability Reporting Standards (ESRS). The scope of the CSRD is far-reaching and affects non-EU-based public and private entities with operations in the EU through subsidiaries or branches in the EU. In addition, the CSRD contains certain reporting requirements that only apply to non-EU entities. Non-EU entities that have subsidiaries in scope but that are not listed have several reporting options under the CSRD, including reporting at the ultimate parent level.

The EU position has changed materially through the Omnibus I simplification process. By July 2026, the European Commission had adopted revised ESRS designed to reduce the number of companies and datapoints in scope. Groups therefore reassess applicability under the latest rules[4].

Implementation is being phased in, with many non EU group subsidiaries expected to begin reporting in 2028 (for FY27 data), followed by consolidated non EU parent reporting from 2029 (for FY28 data). Importantly, CSRD also introduces a requirement for mandatory limited assurance on sustainability disclosures, to be provided by the statutory auditor or another accredited independent assurance provider, reinforcing the reliability of reported information[5].

For Indian companies, the practical implication is clear: where there is meaningful EU activity – through subsidiaries, branches, listings or customer relationships – CSRD cannot be treated as a distant European development. It may affect reporting obligations directly, or indirectly influence expectations around data quality, governance and value-chain visibility.

4. Source: https://finance.ec.europa.eu/news/commission-adopts-revised-sustainability-reporting-standards-reduce-administrative-burdens-eu-2026-07-03_en

5. Refer to related Technical Line publication, How the EU's Corporate Sustainability Reporting Directive affects non-EU based multinationals, for the latest developments.

IFRS sustainability disclosure standards

The IFRS Foundation established the International Sustainability Standards Board (ISSB) in November 2021 at COP26 to develop a global baseline of sustainability-related disclosure standards focused on the needs of investors and capital markets. In June 2023, the ISSB issued its first two standards – IFRS S1, which sets out general requirements for sustainability-related financial disclosures, and IFRS S2, which specifically addresses climate-related risks and opportunities – together forming the foundation for consistent and decision-useful reporting.

The ISSB is continuing to expand its agenda, including research projects on biodiversity, ecosystems and human capital, reflecting the evolving scope of sustainability risks. Adoption momentum is building globally, with a growing number of jurisdictions either adopting or progressing toward implementation, positioning ISSB Standards as an emerging global baseline for sustainability disclosures, though timelines and extent of adoption vary across regions.

Australia

Australia provides a good example of a jurisdiction adopting ISSB-aligned climate reporting through domestic legislation and standards. New climate-related financial reporting rules commenced on **1 January 2025** and are being phased in. In-scope entities that prepare financial reports under **Chapter 2M** of the Corporations Act and meet the relevant thresholds are required to prepare sustainability reports containing climate-related disclosures in accordance with **AASB S2**, while **AASB S1** remains available on a voluntary basis. Importantly for multinational groups, Australian requirements generally operate at the reporting-entity level, which means an Australian subsidiary of a non-Australian parent may not always satisfy its local compliance obligations simply by relying on the parent's consolidated report.

This is a useful reminder for Indian-headquartered groups that consolidated sustainability reporting at the parent level does not necessarily eliminate local reporting requirements. Entity-level filing and jurisdiction-specific reporting obligations can still arise, even where the group already publishes broader sustainability disclosures.5

Singapore

Singapore has adopted a phased approach toward ISSB-aligned climate reporting. The roadmap developed by Accounting and Corporate Regulatory Authority (ACRA) and Singapore Exchange Regulation (SGX RegCo provides for climate-related disclosures for listed issuers from **FY25**, building on an earlier Task Force on Climate-related Financial Disclosures (TCFD)-based regime and progressively embedding ISSB-style climate requirements into listing rules. This illustrates how jurisdictions are not always adopting the full ISSB package in a single step; instead, some begin with climate-related disclosures and expand over time.

For Indian groups with Singapore-listed entities, regional operations or financing platforms, this phased model reinforces the need for flexible reporting systems. Companies need to be able to support climate-first requirements today while remaining adaptable to broader sustainability disclosure expectations tomorrow.

5. Refer to related publication, Mandatory climate-related financial disclosures: What you need to know, for more information.

Where voluntary frameworks still matter

Many companies already undertake voluntary sustainability reporting using established frameworks such as the Global Reporting Initiative **(GRI)** and, historically, **TCFD-aligned** climate reporting, often on a consolidated basis. These frameworks continue to be relevant, particularly for broader stakeholder communication and international benchmarking. However, the more important strategic issue is no longer whether a company reports under one framework or another; it is whether the organization's underlying systems can support **mapping, reconciliation and consistency** across frameworks that may differ in scope, concepts and materiality.

That is why the next phase of maturity is not simply "more disclosure" but a stronger reporting infrastructure. Companies need processes that can capture data once, apply common definitions, preserve audit trails and translate outputs across BRSR, ISSB-aligned requirements, ESRS-style expectations and relevant voluntary frameworks. Interoperability – not framework silos – will increasingly determine both reporting efficiency and reporting credibility.

The assurance lens is becoming central

As sustainability reporting matures, assurance is becoming a core part of the reporting conversation. Several regimes either already require assurance or are moving in that direction, often starting with limited assurance. For many current sustainability assurance engagements, ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information or SSAE 3000, Assurance Engagements on Sustainability Information has served as the overarching international benchmark for non-financial assurance engagements, including sustainability information. At the same time, the IAASB issued ISSA 5000, General Requirements for Sustainability Assurance Engagements, in November 2024 as a purpose-built global standard for sustainability assurance engagements, designed for use across frameworks and for both limited and reasonable assurance engagements. Its effective date applies to periods beginning on or after **15 December 2026**. The Institute of Chartered Accountants of India has also issued SSA 5000 General Requirements for Sustainability Assurance Engagements for public comment.

Corporates should view assurance readiness as integral from the beginning, not just a final check. By defining, capturing, reviewing, governing and evidencing data early, and embedding documentation, control, management review and traceability into reporting processes, companies are better prepared than those rushing to add assurance near deadlines.

Why the CFO's role is becoming more prominent

The evolution of sustainability reporting has brought the finance function much closer to ESG reporting. This is not simply because sustainability information is becoming more visible to investors, but because the nature of the challenge increasingly resembles a finance-quality reporting issue: establishing definitions, ensuring consistency, strengthening controls, exercising judgment, aligning reporting boundaries and preparing for assurance.

In practice, the CFO is increasingly expected to help embed sustainability into governance structures, reporting controls, risk management processes and capital allocation decisions. This includes strengthening the control environment around ESG data, supporting assurance readiness and helping management connect sustainability performance with business strategy.

The CFO also has an important role in external communication. As sustainability metrics become more relevant to investor discussions, financing decisions and perceptions of long-term resilience, finance leadership is often best placed to present a balanced and evidence-based narrative to boards, audit committees, lenders and the market.

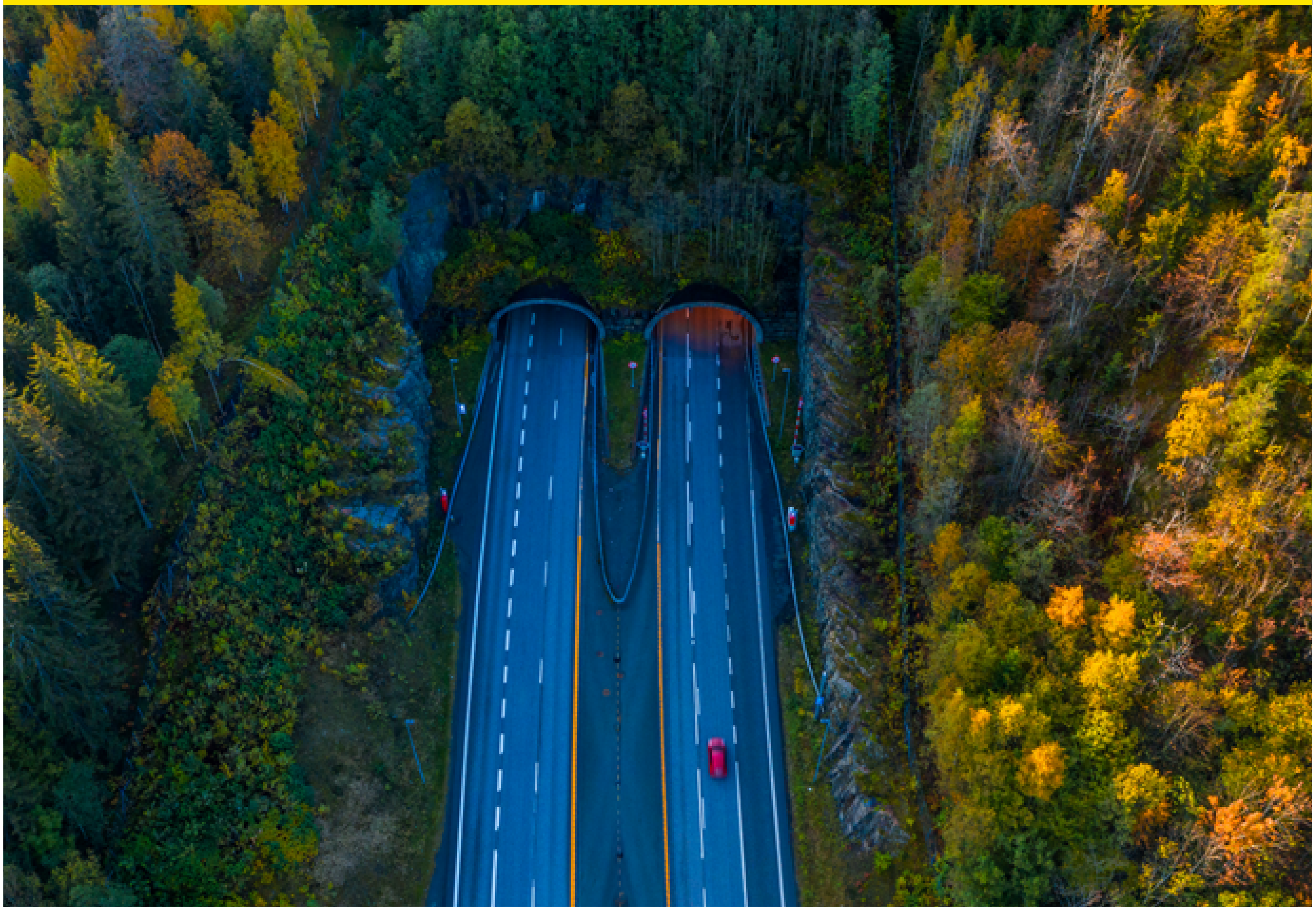
Key actions for corporates

Indian companies seeking to respond effectively to the evolving sustainability reporting landscape should focus on the following priorities:

- **Build a "BRSR-first, global-ready" foundation** by using BRSR as the domestic baseline while mapping key overlaps and differences against ISSB-aligned requirements, ESRS-related expectations and other relevant frameworks
- **Identify jurisdictional triggers early,** especially where the group has operations, subsidiaries, branches, listings or significant customer exposure in the EU, Australia, Singapore, Hong Kong or other active reporting jurisdictions
- **Invest in reporting infrastructure** that supports common data definitions, cross-functional workflows, evidence retention and reusability of information across frameworks
- **Strengthen governance and accountability,** with clear ownership across sustainability, finance, risk, legal and operations, and regular oversight by the board and audit committee
- **Prepare for assurance early,** including dry runs, control testing, audit trails and timely engagement with assurance providers in light of current ISAE 3000/SSAE 3000 practice and the transition toward ISSA 5000

Conclusion

The real transformation in sustainability reporting is not merely the growth of disclosure requirements; it is the shift from fragmented, framework-specific compliance to a more integrated reporting model underpinned by stronger systems, clearer governance and assurance-ready information. Companies that move early from compliance-driven reporting to integrated, system-driven and assurance-ready sustainability reporting will be best positioned to navigate the rapidly evolving global landscape.



5 Assurance and regulatory updates

NFRA updates

Auditor – Audit Committee Interaction Series - Audit of Provisions, Contingent Liabilities and Contingent Assets: Ind AS 37, SA 540, and SA 501

The NFRA, from time-to-time, has emphasized the importance of effective communication between the statutory auditors and Those Charged with Governance (TCWG), particularly Audit Committees. This need aligns with the requirements under the Companies Act, 2013 (as amended), relevant Standards on Auditing (SA 260 (Revised), SA 265, other SAs) and the Standard on Quality Control (SQC 1).

To enhance audit quality and promote awareness of auditing standards, the NFRA has been publishing a series of Auditor–Audit Committee Interactions. The focus of these series is on significant accounting and auditing areas, aiming to strengthen auditor responsibilities, improve audit quality and uphold public and investor protection.

As part of this initiative, the NFRA has previously issued four series, viz., Accounting estimates and ECL (Series 1- Part 1), Income Taxes (Series 1 – Part 2), Audit Strategy and Planning (Series 2), Related Parties (Series 3) and Impairment of Non-Financial Assets (Series 4). More information about these parts of the series is available in the April 2025 and January 2026 editions of Assurance EYe. In continuation, the NFRA has now released its fifth series under the ***"Auditor–Audit Committee Interaction Series"*** on Audit of Provisions, Contingent Liabilities, and Contingent Assets: Ind AS 37, SA 540, and SA 501.

This series outlines a set of questions that the Audit Committee or Board of Directors may consider asking auditors in relation to these areas. Some of the key questions are reproduced below:

- Has the auditor evaluated and tested internal controls over identification of constructive obligations, onerous contracts, restructuring events, contingent obligations due to litigations, liabilities due to special events like participation in overseas jurisdictions attracting waste management liabilities, environmental restoration obligations, etc.?

- Has the auditor considered litigation/claims as a risk of material misstatement and communicated directly with external legal counsel? If not, what alternate procedures were performed?
- What audit procedures are performed to ensure completeness of provision for constructive obligations, and litigations and claims?
- What is the auditor's view on the entity's disclosures regarding contingent liabilities, litigation and claims?
- Is the disclosure clear enough for users of the financial statements to understand the nature, size and uncertainty of the underlying item?
- Is the measurement approach used by the management for estimating and quantifying provisions appropriate i.e., whether statistical methods such as 'expected value method' are used for large population of items say product warranty obligations?
- Are there cases of single obligation of large impact such as environmental damage, tax avoidance litigation liabilities, etc.? Is the approach used for estimating provision or contingent liability reflects best estimate out of possible range of outcomes?
- Are there any provisions where the cash outflows are expected over longer period, therefore, time value of money is material? In such cases, how has the auditor ensured discount rates are reasonable and appropriate, cash outflows or discount rates consider risks and uncertainties etc.
- In case the company has recognized any asset for reimbursement from any third party, how has the auditor checked that the reimbursement is virtually certain?
- Has the auditor checked whether entity has considered executory contracts also in evaluating need for provision for onerous contracts?
- Has the auditor reviewed events/contracts such as binding negotiations/agreement with employee unions for Voluntary Retirement Schemes leading to restructuring or discontinuation of business operations, change in the ownership or management of the entity or applicability of new laws/regulations imposing binding legal obligations, to ensure completeness and correctness of recognition of restructuring provision by the entity?
- What are other major obligations arising from environment related matters or other commitments made by the entity? What is the management process to ensure completeness on such matters?
- Has the auditor verified the adequacy and appropriateness of the disclosures of movement in provision balances, contingent liabilities, contingent assets and interests in restoration and rehabilitation funds?
- Has the auditor reviewed movements in provision balances with sufficient professional skepticism to identify any management bias or susceptibility for earnings management?
- Has the auditor validated that the contingent assets are disclosed only when the inflow of economic benefits is probable i.e., probability that the event will occur is greater than the probability it will not? Has the auditor verified whether the disclosure is not misleading to indicate the likelihood of income arising?

How we see it

The audit of provisions, contingent liabilities and contingent assets represents a convergence of accounting complexity, significant management estimates/judgments and audit judgment. The accounting for these areas is characterized by uncertainty, probability assessment, the use of legal/other specialists and significant reliance on management judgment, making them inherently sensitive and prone to misstatement.

In this context, the NFRA's expectations highlight the need for enhanced professional skepticism, robust audit procedures supported by credible evidence, and effective engagement with management, experts and TCWG.

Ensuring the reliability of financial statements in these areas requires a balanced approach that integrates technical expertise, critical thinking and transparent communication. As financial reporting evolves, the role of auditors and audit committees in maintaining the integrity of estimates and disclosures remains critical in safeguarding stakeholder confidence.

Applicability of ICAI Guidance Notes on Financial Statements of Non-Corporate Entities and LLPs

The ICAI had originally issued the 'Guidance Note on Financial Statements of Non-Corporate Entities' and 'Guidance Note on Financial Statements of Limited Liability Partnerships' (Guidance Notes) with applicability from accounting periods beginning on or after 1 April 2024. However, considering implementation challenges, the ICAI had provided a relaxation for FY24-25, making the application optional for that year, although entities might choose to apply them voluntarily.

Subsequently, at its 451st Council meeting held on 30 March 2026-31 March 2026, the ICAI decided to defer and phase the applicability of these Guidance Notes. Accordingly, they apply from 1 April 2025 to entities having a turnover exceeding INR5 crores, and from 1 April 2026 to all entities. In addition, ICAI has also issued Frequently Asked Questions (FAQs) to provide further clarity on the application of the Guidance Note on Financial Statements of Non-Corporate Entities.

The Technical Guide on Financial Statements of Non-Corporate Entities and the Technical Guide on Financial Statements of Limited Liability Partnerships, issued in June 2022, stand superseded by these Guidance Notes.

These Guidance Notes prescribe the formats for the presentation of the financial statements of Non-corporate Entities and LLPs. The objective is to standardize the formats of financial statements for these entities and to enhance the quality and comprehensiveness of financial reporting by these entities.

Non-Corporate Entities include all Business or Professional Entities, other than Companies incorporated under the Companies Act and Limited Liability Partnerships incorporated under the Limited Liability Partnership Act.

These Guidance Notes are relevant for the purpose of preparation of the financial statements of the above mentioned Non-Corporate Entities and LLPs, unless any formats/principles are specifically prescribed by the relevant Statute or Regulator or any Authority.

Acknowledgement

- Vikas Pansari
- Vishal Bansal
- Jigar Parikh
- Navneet Mehta
- Deepa Agarwal
- Manan Lakhani
- Jalpa S Sonchhatra
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