# Comments of the Accounting Standards Board of The Institute of Chartered Accountants of India on the IASB Exposure Draft on Conceptual Framework for Financial Reporting: The Reporting Entity

Q.1 Do you agree that a reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided? (See paragraphs RE2 and BC4–BC7.) If not, why?

## **Response:**

We do not agree with the above description of a reporting entity.

A reporting entity's financial information should have the potential to be useful not only to the providers of resources to the entity but also to other users of financial information, such as, customers, governments, employees, contractors, analysts, public, etc. In case the financial information is useful only to the providers of resources, i.e., equity investors, lenders and other creditors, the financial statements do not remain to be 'general purpose financial statements' rather they become 'special purpose' for making decisions about providing resources to the entity. It is strongly felt that the objective of general purpose financial reporting is to provide potentially useful financial information to various users and not only to the providers of resources.

Also, the use of the phrase 'efficient and effective use of resources' is not appropriate. A lender might be more concerned with the ability of the entity to pay back and its solvency, rather than the effective and efficient use of resources. Similarly, other users may use the financial information for varied purposes and not only to assess whether the management and the governing board have made efficient and effective use of the resources.

Accordingly, we suggest that a 'reporting entity' should be described as below:

"A reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders, creditors and other users who cannot directly obtain the information they need."

Accordingly, consequential amendments are required to be made in RE1, RE3 and RE6.

Q.2 Do you agree that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements? Do you agree with the definition of control of an entity? (See paragraphs RE7, RE8 and BC18–BC23.) If not, why?

# **Response:**

Yes, we agree that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements. However, the definition of 'control' of an entity should be harmonized with the definition of 'control' given in the Exposure Draft of IAS 27 on 'Consolidated Financial Statements'.

In para RE7 & RE9 '(or limit losses to)' should be deleted as 'benefits' include 'losses'.

Q.3 Do you agree that a portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity? (See paragraphs RE6 and BC10.)If not, why?

## **Response:**

We agree that a portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions. However, we do not agree that the usefulness in making decisions should be linked to providing resources to that portion of the entity. We are strongly of the view that the financial information should have the potential of being generally useful. If it is useful in making decisions only about providing resources to that portion of the entity, it no longer remains general purpose financial reporting, rather it becomes special purpose financial reporting. It is felt that the providers of resources can, in any case, obtain the information they require from the entity to which the resources are to be provided.

Accordingly, we suggest that RE6 should read as under:

"RE6 A portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished objectively from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions."

The rest of the contents of RE6 should be deleted.

Q.4 The IASB and the FASB are working together to develop common standards on consolidation that would apply to all types of entities. Do you agree that completion of the reporting entity concept should not be delayed until those standards have been issued? (See paragraph BC27.) If not, why?

#### **Response:**

The Conceptual Framework for Financial Reporting should be simultaneously brought out with the common Standard being developed by IASB and FASB. This would ensure that there is no conflict in the way 'control' is defined/described in the Standard and the Framework. Any difference in the two documents with respect to the definition/description of 'control' would lead to anomalous situations.