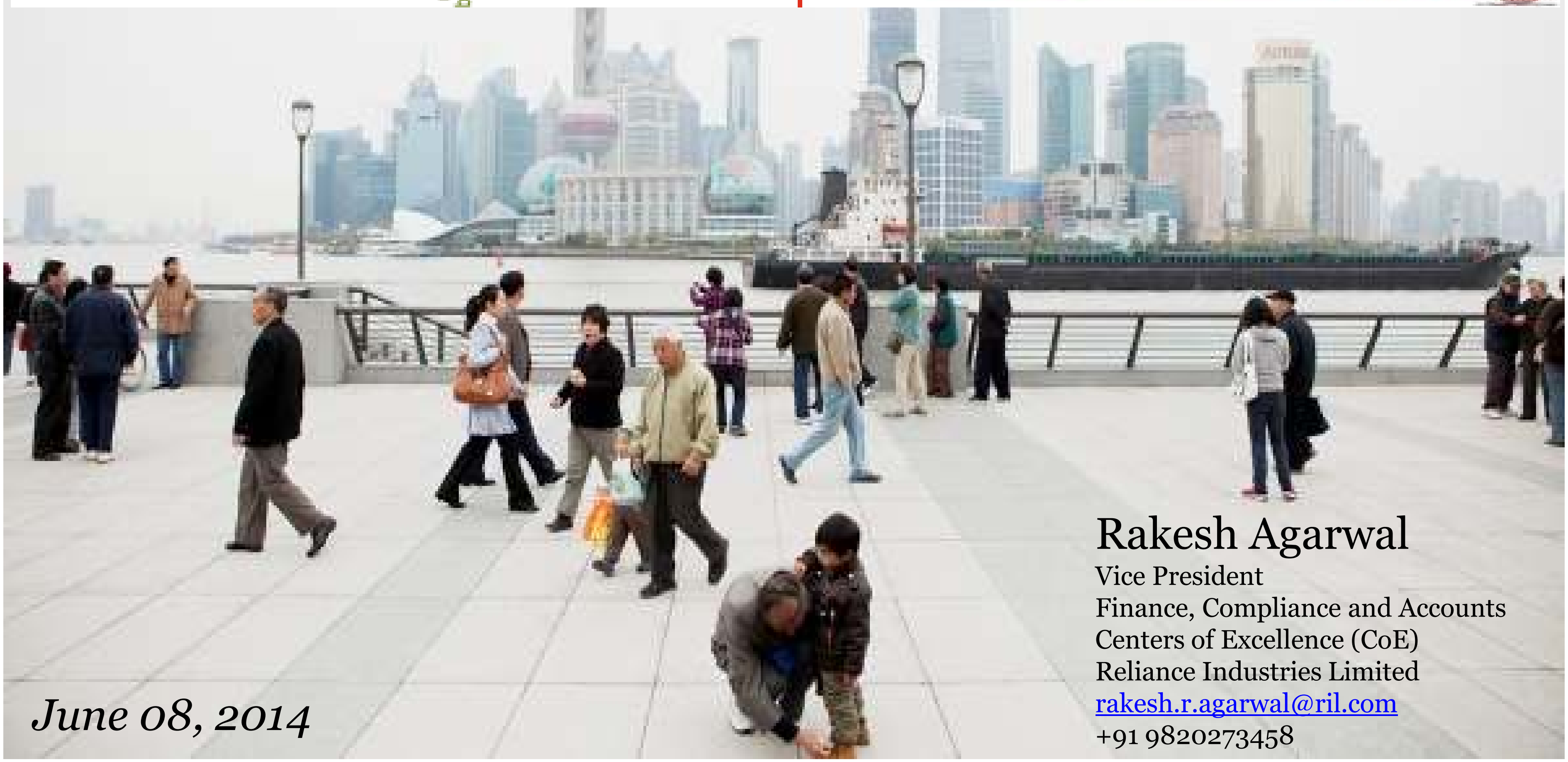
Accounting Standard Refresher with Focus on Companies Act 2013



Rakesh Agarwal
Vice President
Finance, Compliance and Accounts
Centers of Excellence (CoE)
Reliance Industries Limited
rakesh.r.agarwal@ril.com
+91 9820273458

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Recent Media Headlines – Quarter ended March 31

1. Ministry of Corporate Affairs (MCA) has notified most of the Sections (sections 283) of Companies Act 2013 and Companies Rules 2014

2. ICAI suggests revised IFRS road map; to start from April 2016

A. Companies Act 2013

Contents:

1. Company Accounts
2. Changes in Regulation for Depreciation
3. Other Topics

Company Accounts

- Sections notified by MCA relating to Accounts
- Key provisions in 'Rules' relating to Accounts
- Financial Statements – Key changes & provisions
- Books of accounts and revision
- NFRA and cognizance of accounting standards

Quick summary of Notified Sections and Rules

Applicability of Sections notified by MCA:

As a part of the phased implementation of the Companies Act, 2013 (New Act), out of a total of 470 sections, 100 sections were earlier notified by the Ministry of Corporate Affairs (MCA), including section 135 relating to Corporate Social Responsibility.

The MCA has now notified 183 new sections and some sub-sections of sections which were already notified vide notification dated September 12, 2013 and the remaining Schedules on March 26, 2014

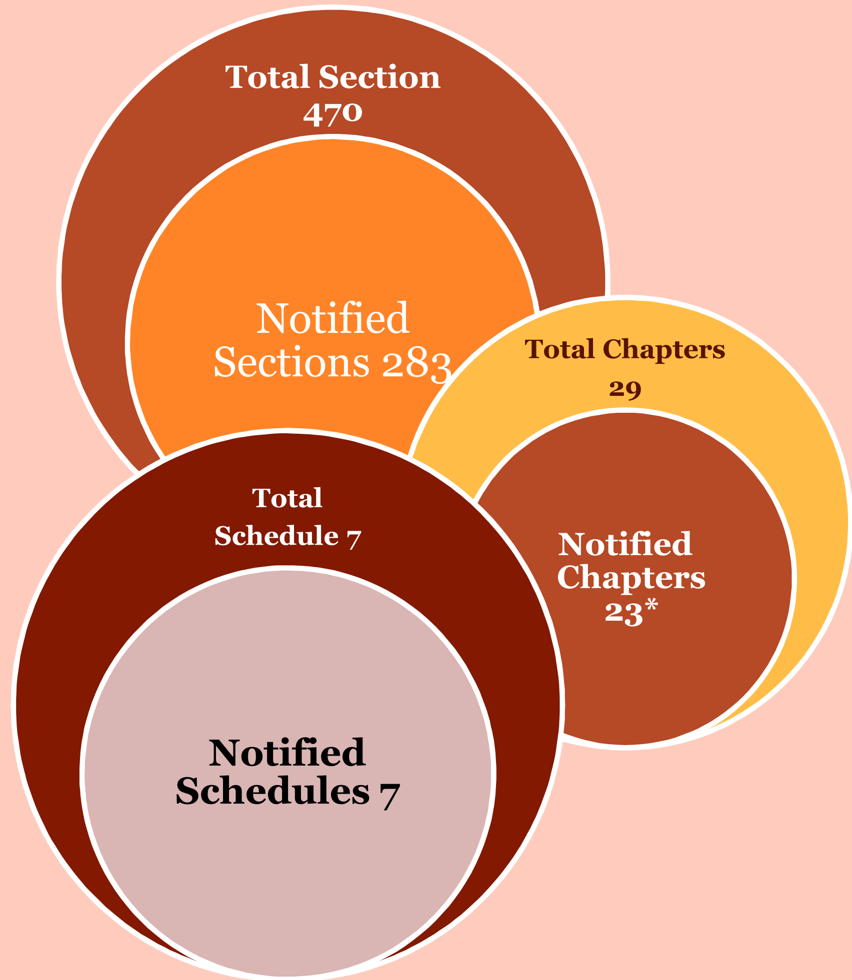
These section would be effective from April 1, 2014, as the same has been clarified by MCA on 4th April 2014 vide its General Circular, stating that the financial statements (and documents required to be attached thereto), Auditor's report and Board report in respect of financial year that commenced earlier than 1st April 2014 shall be governed by the relevant provisions / schedules / rules of the Companies Act 1956.

Out of the total 470 section, 187 section and certain sub-sections of notified sections are yet to be notified by the MCA.

Rules:

MCA, has also notified rules relating to 20 chapters, which will be effective from April 1, 2014.

Statistical snapshot of Companies Act 2013



** Please note that all the sections of notified chapter were not notified. Refer earlier circle to know list of notified sections*

List of sections notified by MCA relating to Accounts

List of sections notified by MCA and corresponding sections of Companies Act 1956

Sections - New Act	Name of Section	Corresponding Section of Companies Act,1956
Chapter IX: Accounts of Companies – Notified Sections		
128	Books of account, etc., to be kept by company	Section 209 - Books of Accounts, etc., to be kept by Company
129	Financial statement	Section 210 - Annual accounts and balance-sheet
133	Central Government to prescribe accounting standards	Section 210A - Constitution of National Advisory Committee on Accounting Standards
134	Financial statement, Board's report	Section 217 - Board's report
135	Corporate Social Responsibility	New Provision
136	Right of member to copies of Audited financial statement	Section 219 - Right of member to copies of balance sheet and auditors' report
137	Copy of financial statement to be filed with Registrar	Section 220 - Three copies of balance-sheet, etc., to be filed with Registrar
138	Internal Audit	New Provision

Sections YET TO BE notified by MCA		
130	Re-opening of accounts on court's or Tribunal's Order	New Provision
131	Voluntary revision of financial statements or Board's Report	New Provision
132	Constitution of National Financial Reporting Agency	New Provision

List of sections notified by MCA relating to Audit and Auditors

List of sections notified by MCA and corresponding sections of Companies Act 1956

Sections - New Act	Name of Section	Corresponding Section of Companies Act,1956
Chapter X: Audit And Auditors		
139	Appointment of auditors	Section 224 - Appointment and remuneration of Auditors
140	Removal, resignation of auditor and giving of special notice *(Except Second Proviso to sub-section 4 to 5)*	[Section 224 (7) and] 225 - Provisions as to resolutions for appointing or removing auditors
141	Eligibility, qualifications and disqualifications of auditors	Section226 - Qualifications and disqualifications of Auditors
142	Remuneration of auditors	Section 224(8) - Appointment and remuneration of Auditors
143	Powers and duties of auditors and auditing standards	Section 227 - Powers and duties of auditors
144	Auditor not to render certain services	New Provision
145	Auditor to sign audit reports, etc.	Section 229 - Signature of audit report, etc.
146	Auditors to attend general Meeting	Section 231 - Right of auditor to attend general meeting
147	Punishment for contravention	Section 232 - Penalty for non-compliance with sections 225 to 231 Section 233 - Penalty for non-compliance by auditor with sections 227 and 229
148	Central Government to specify audit of items of cost in respect of certain Companies	Section 233B - Audit of cost accounts in certain cases

Key provisions in 'Rules' relating to Accounts

Key provisions given in Rules relating to Accounts

MCA has notified 'Companies (Accounts) Rules, 2014' relating chapter IX – Accounts of Companies, covering from Section 128 to Section 138 of the Companies Act 2013.

The key provisions of these rules has been explained below:

Maintenance of books	Financial statements, Board report etc.	Internal Audit
➢ Detailed requirements with respect to **maintenance of accounts** in electronic mode has been given in Rules 3. ➢ Back up of books maintained in electronic mode (including outside India) to be kept on **servers in India** on a periodic basis ➢ Certain details regarding the service provider to be intimated to the Registrar Annually	➢ Consolidated Financial Statement is to be prepared in accordance with **Schedule III** and the applicable accounting standards. ➢ In addition to compliance with the accounting standards, Companies are now required to mandate certain additional disclosures given in Schedule III. ➢ Board's Report to also include a separate section with respect to subsidiaries, associates and JVs	**Applicability:** ➢ Every listed company ➢ Every unlisted company having: • Paid up capital $\geq$ 50 crores • Turnover $\geq$ 200 crores • Outstanding loans / borrowing $\geq$ 100 crores • Outstanding deposit $\geq$ 25 cores ➢ Every private company having: • Paid up capital $\geq$ 50 crores • Turnover $\geq$ 200 crores • Outstanding loans / borrowing $\geq$ 100 crores A **transition period** of 6 months has been provided for compliance by existing companies

Financial Statements – Key changes & provisions

Key changes in the definitions related with Financial Statements:

Particulars	Companies Act 2013	Companies Act 1956
Financial Statement 2 (40)	Financial statement in relation to a company, includes— i) a **balance sheet** as at the end of the financial year; ii) a **profit and loss account**, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year; iii) **cash flow** statement for the financial year; **iv) a statement of changes in equity, if applicable;** & v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv): Provided that the financial statement, with respect to One Person Company, small company and dormant company, **may not include the cash flow statement**;	Not defined
Financial Year (FY) 2 (41)	Financial year of a company / body corporate means the period ending on **31st March every year**. In case a company has been **(newly) incorporated** on or after the 1st day of January of a year, the period ending on the 31st day of March of the following year, will be its first financial year. Exception – A company or body corporate, which is a holding company or a subsidiary of a company incorporated outside India and is required to follow a different FY for consolidation of its accounts outside India, with National Company Law Tribunal (NCLT) approval All existing companies will **need to align** their financial year with the new requirement within two years from the commencement of the new law.	Financial year means, in relation to any body corporate, the period in respect of which any profit and loss account of the body corporate laid before it in annual general meeting is made up, whether that period is a year or not. Exception: In case of Insurance companies, financial year shall mean the calendar year referred to in subsection (1) of section 11 of the Insurance Act, 1938 (4 of 1938)

Financial Statements – Key changes & provisions

Key provisions impacting Financial Statements:

Particulars	Companies Act 2013	Companies Act 1956
Signing of financial statements 134 (1)	Financial Statements to be **signed at least by**: • Chairperson of the company, if authorised by BOD; or • 2 Directors including MD, where there is one and CEO if he is a Director, • **CFO and CS**, (wherever they are appointed) In case of One Person Company balance sheet and statement of profit and loss to be signed by 1 director only	Balance sheet and statement of profit and loss to be signed by manager or secretary and by 2 Directors including MD where there is one.
Consolidated Financial statements 134 (1)	A company has a subsidiary / associate / joint venture, **CFS to be prepared and laid before an AGM in addition** to standalone financial statements Schedule III – Financial Statements --→ Schedule III General Instruction for CFS ---→ CFS	No such concept. • A company required to give specified information about the financials of a subsidiary - Section 212 report - as part of Director's report • Under the Listing Agreement of SEBI, Consolidated Financial Statement (CFS) is mandatory for listed company
Period for maintenance of Books of Accounts 128 (5)	Central Government may direct keeping books of accounts of a company to be maintained for a period **more than 8 years** where any investigation has been ordered.	Companies are required to preserve the Books of Account for a period of 8 years

Financial Statements – Key changes & provisions

Key provisions impacting Consolidated Financial Statements – Sec 129:

Key provisions

- Company having one or more subsidiaries / associates / joint venture to prepare **Consolidated Financial Statement** ('CFS') in addition to standalone financials.
- Act requires **adoption and audit of CFS** in the same manner as stand-alone financial statements of the holding company
- The Company shall attach with its financial statement, a separate statement containing **salient features of financial statement of its Subsidiary**.
- Companies having subsidiaries outside India will need to submit the standalone financial statements of **subsidiary(ies) outside India to the ROC**

Impacts

- **Additional burden** on companies having global presence to:
  a) Prepare CFS including all subsidiaries, associates and joint ventures (whether in India or outside) [Section 129 (3)]
  b) Prepare a summary statement for all its subsidiaries, associates and joint ventures of the salient features of their respective financial statements [Proviso to Section 129 (3)]
  c) Submit the standalone financial statements of subsidiary(ies) outside India to the ROC [Section 137 (1)]
- Additional efforts in preparation and audit of consolidated financial statement.
- Companies having parent company outside India is also required to prepare CFS in the format as specified in Schedule III to the Companies Act, 2013.
- Requirements of **section 212 of** Companies Act, 1956 has been **dispensed with**.
- CFS prepared by the companies under IFRS is not recognised. Hence all the companies will mandatorily require to prepare CFS as per Accounting Standards.

Financial Statements – Key changes & provisions

Circulation of financial statements to members – Sec 136:

Key provisions

Unlisted Company:

- A copy of the financial statements, CFS if any, auditor's report and every other document required by law to be annexed or attached to the financial statements, which are to be laid before a company in its general meeting, shall be **sent to at least 21 days** before the meeting to:
  - Every member of the company;
  - Every trustee for the debenture-holder of any debentures issued by the company; and
  - All other persons entitled to receive

Listed Company

- In addition to provisions applicable to an unlisted company, a listed company is required to:
  - Make these **documents available for inspection** at its registered office during working hours
  - To send a statement **containing salient features** of such documents in the prescribed form or copies of the documents, as the company may deem fit to shareholders unless they ask for full financial statements.
  - place its financial statement, CFS if any, and all other documents required to be attached thereto, on its **website**.
  - to provide a **copy of separate audited financial statements** in respect of each of its subsidiary, to any shareholder of the company who asks for it.

Penalty

- Any contravention will make the Company liable to penalty of Rs.25,000 and every officer who is in default with a penalty of Rs.5,000

Financial Statements – Key changes & provisions

Filing of financial statements with ROC – Sec 137:

Key provisions

- Company to file its financials etc. within **30 days** of its adoption at AGM
- If the financials etc. are not adopted at the AGM or at adjourned meeting even such **un-adopted financials** need to be filed with ROC within 30 days from the date of AGM
- ROC shall take such un-adopted financials **on record as provisional** till the financials are adopted in adjourned AGM for that purpose and filed within 30 days from the date of adjourned AGM
- **Even if AGM of the Company has not been held**, the financials etc. has to be filed within 30 days of the last date before which the AGM should have been held

Penal Provision

- If **Company** do not file the documents within time or extended time limit, the company is liable to pay a fine of Rs. **1,000 per day** during which default continues subject to maximum Rs. 10 ,00,000; and
- **MD and CFO**, and in their absence, any other director in charge by the BOD with this responsibility, and in the absence of such director, all directors are punishable with
  - **imprisonment upto 6 months or**
  - **with fine of Rs. 1,00,000 to Rs. 5,00,000 or**
  - **with both of the above**

Books of accounts and revision *(Sec 128 & 131)*

Key provisions

- **General**
  - The Company may keeps books of accounts and other relevant papers **in electronic mode** in such manner as prescribed in the rules to the Companies Act 2013.
  - In case of companies having branch offices in India or outside India, they are required to send **periodic returns** to registered office.

- **Voluntary revision:**
  A Company shall not re-open its books of accounts unless an application is made by statutory authorities. However, now a company can **voluntarily revise** its financial statements or Board's report if it appears to the director of a company that the financial statement of the company or the Board's report does not comply with the provisions of section 129 (financial statements) and section134 (financial statements and board reports) in respect of **any of three preceding financial years**, after obtaining approval from Tribunal.

- **Mandatory revision:**
  A company can re-open its books of accounts or re-cast its financial statements on the below grounds:
  - that the relevant earlier accounts were prepared in a **fraudulent manne**r; or
  - affairs of the company were **mismanaged** during the relevant period casting a doubt on the reliability of the financial statements

  on an application made statutory by regulatory authorities.

The provision of Company's Act 2013 concerning re-opening / revision of accounts are yet to be notified

Impacts

- Cognizance given to electronic mode - Electronic mode of maintaining books of accounts has been given cognizance.
- Reduction in compliance requirements / costs with respect to returns of branches -Requirement of returns to be sent by branches once in 3 months was done away in Act (stating periodically) but now reinstated in rules.
- The provisions envisaged by the Act in respect of re-opening and voluntary revision of the financial statements and board report is yet to acknowledged by SEBI in the Equity Listing Agreement and thus, pending similar amendment in the equity listing agreement the listed companies may face hardship.

NFRA and cognizance of accounting standards *(Sec 132 & 133)*

Key provisions

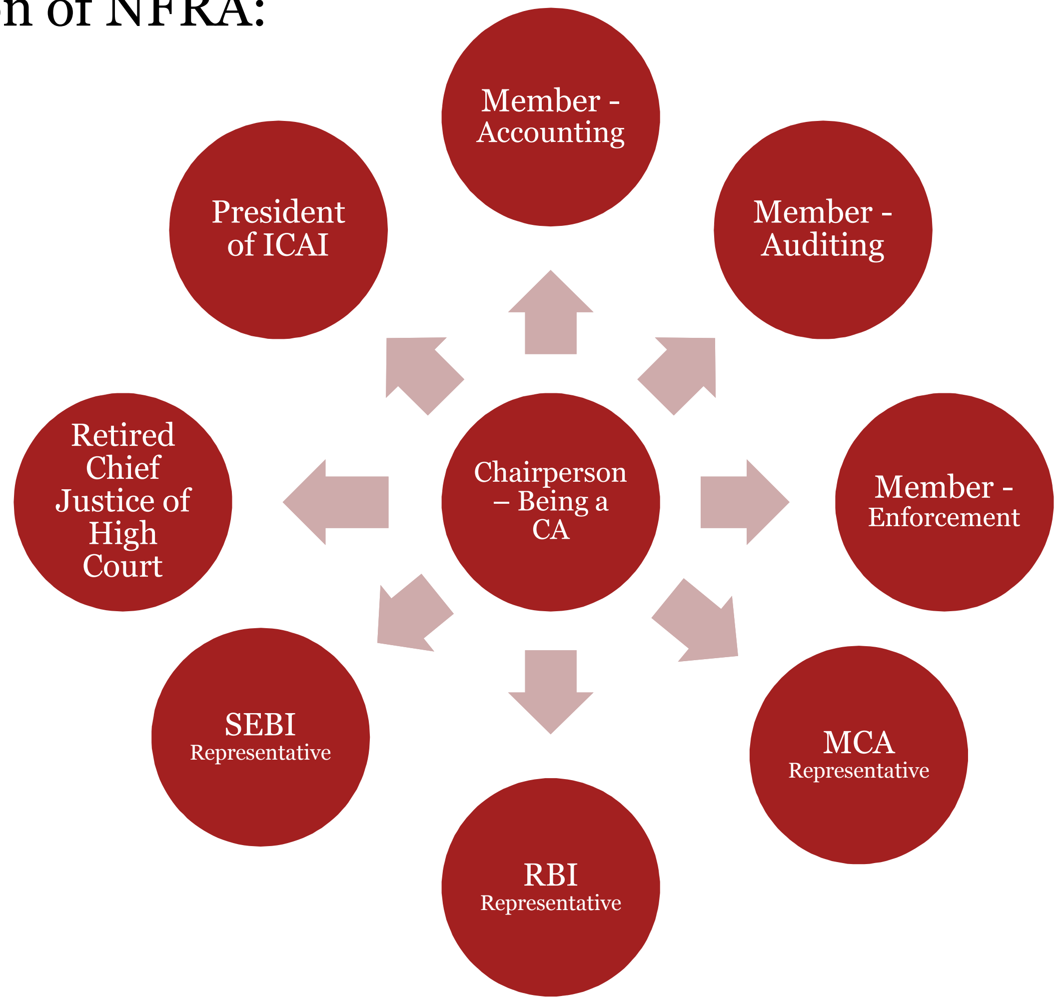
- **The Central Government may, by notification, constitute a National Financial Reporting Authority ('NFRA') which recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors**.
- The definition of *associate company* as defined under section 2 (6) of the Companies Act, 2013 includes joint venture company. As per AS 23 "*An associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.*"
- For the purpose of section 2(6), significant influence means *control of at least 20% of total share capital, or of business decisions under an agreement*.

Impacts

- NFRA (the body replacing the NACAS) has been bestowed with significant powers not only for issuing the authoritative pronouncements on accounting standards, but also to regulate standards on auditing.
- Definitions of term 'associate' and 'significant influence' are not consistent with definitions in AS 18: Related party transaction and AS 23: Accounting for investment in associates in CFS
- It is to be noted that if a company has control with respect to business decisions of another company such other company would in fact tantamount to a subsidiary and not an associate company.

Draft NFRA Rules, 2013 - Composition

Composition of NFRA:



The Final rules relating to NFRA are not yet notified

Draft NFRA Rules, 2013 - Structure

Structure of the Authority:

The Final rules relating to NFRA are not yet notified

Draft NFRA Rules, 2013 – Function of Authority

Functions of the Authority (Major):

1. **Standard Setting:**
   - Receive, consider and **review the recommendations** from the Committee on Accounting Standards and Committee on Auditing Standards.
   - **Recommend the standards** to the Central Government for being considered and notified**.**
2. **Monitoring, compliance review and overseeing quality of audit:**
   - **Receive reports** from the Accounting and Auditing Committees, and approve those reports issued on investigated companies.
   - Forward reports to the Committee on Enforcement for further action along with its recommendations.
3. **Enforcement**
   - **Receive reference** from the Central Government, Member – Accounting, Member – Auditing or *suo motu* **determine** any **investigation** to be undertaken by the Authority.
   - **Forward such requirements** to the Committee on Enforcement.
   - **Receive final investigation** report from the Committee on Enforcement and issue a notice in writing to the company or professional on whom action is proposed to be taken.
   - Providing an **opportunity to be heard** to the company or professional.
   - Take suitable action or pass order imposing penalty or **debarring the Professional or firm** concerned.

The Final rules relating to NFRA are not yet notified

Changes in Regulations for Depreciation

- Depreciation - Key highlights
- Amendments in Schedule II
- Depreciation of CPP and BOT assets

Depreciation - Key highlights

Key Highlights of Schedule II

- Useful life a tangible fixed asset has been restricted to the **useful life** (i.e., number of years) as against the depreciation rates specified by Schedule XIV in the 1956 Act.

- **Significant increase in the rate of depreciation of commonly** used assets as compared to Schedule XIV rates namely furniture and fittings, office equipment, desktops/ laptops, electrical installations, general plant and machinery other than continuous process plant, etc.

- The requirements of Part C would not be applicable for the companies in respect of which the useful life or residual value is notified by a **Regulatory Authority**.

- In case the useful life of the tangible fixed asset is longer than the useful life as per Part C of the Schedule or the residual value is more than 5% of the original cost of the asset, companies would be required to disclose the **justification** in their financial statements.

- **Componentisation** of tangible fixed assets has been recognised and separate capitalisation and depreciation of a part of an asset if its cost is significant to the total cost of the asset and its estimated life is different from the remaining asset.

- **Transitional provisions** included to state that if the remaining revised useful life is nil, the carrying value net of residual value should be recognised in the opening balance of retained earnings.

- **Depreciation/amortisation of intangible assets** would continue to be governed by the provisions of Accounting Standard 26 Intangible Assets (AS 26) except in case of Toll Roads where the amortisation amount would be prescribed by Schedule II (similar to Schedule XIV of the 1956 Act).Where a company arrives at the amortisation amount of such intangible asset accordance with any other method as per AS 26, the same is required to be disclosed in the financial statements.

Amendments in Schedule II

The MCA has published an amendment to Schedule II of the Companies Act, 2013 (to be notified shortly).

Amendments	Impact
➢ Companies are provided with the option of depreciating assets over their useful lives which could be different from the useful lives prescribed in Schedule II. Further, the determination of residual value could also deviate from the five per cent stated in Schedule II.	➢ This move by the MCA is in line with international best practices.
➢ If a company chooses to deviate from the limits indicated in Schedule II, it will be required to disclose a justification for the same in the financial statements.	➢ The requirement to disclose justification for deviation will provide transparency to the users of financial statements.
➢ The notification has clarified that the amortisation of intangible assets created under toll road projects will be depreciated using a revenue based amortisation method. This change reverts back to the position under the erstwhile Companies Act.	➢ Revenue-based amortisation, will maintain status quo for companies having toll road projects.

Amendment Schedule

Depreciation of CPP and BOT assets

Depreciation of CPP, BOT assets and plant used in double / triple shift working:

In the recent amendment to Schedule II to Companies Act, 2013 MCA has provided guidance related to above assets:

Continuous Process Plant	Plant working on Double/ Triple shift	BOT Assets
➢ Useful life of Continuous Process Plant (CPP) has been increased to 25 years . ➢ In addition to above, amendment explains that a company can depreciate its CPP over a period shorter or longer than 25 years with proper justification.	➢ Under Schedule II, no separate rates / lives are prescribed for extra shift working. ➢ However, it mention that an asset used in double shift depreciation will increase by 50% and by 100% in case of triple shift working.	➢ As per amendment to Schedule II to the Companies Act, 2013 a Company was allowed to use revenue based amortisation for intangible assets created under BOT, BOOT or any other form of PPP route. ➢ For amortisation of other intangible assets, AS 26 needs to be applied.

Transitional Provision:

From the date Schedule II comes in effect, the carrying amount of asset as on that date:

a. Will be depreciated over the remaining useful life of the asset as per this schedule

b. After retaining the residual value, will be recognised in the opening balance of retained earnings where the remaining useful life of an asset is nil.

Others topics

- Related party transactions:

  Key provisions & Key changes in definitions

- Compromises, arrangements and amalgamations
- Other important topics

Related party transactions – Key provisions

Key provisions

- **Scope widened** to include leasing of property, appointment of agent for the sale or purchase, related party's appointment to any office or place of profit in company, its subsidiary or associate company .
- Contract or arrangement with related party can be entered into with the **prior approval of the company by special resolution**.
- 'Cash at prevailing market price' has now been substituted with **'Arm's length transaction'**.
- Related Party transactions to be **disclosed in the Director's Report** along with justification thereof.

Impacts

- Companies Act does not require approval of Central Government approval for related party transactions. It can be entered into by passing special resolution.
- Every contract or arrangements entered into with a related party will be referred to in the board's report to shareholders, along with justification for entering into such transactions.
- Key Managerial Person ('KMP') is a related party as per the definition. As per the new definition of KMP, **Chief Financial Officer** and **Company Secretary** are also included resulting into additional disclosure requirement.
- Proper mechanism for the calculation of 'Arm's length transaction' has to be present.

Related party transactions – Key changes

Wider scope of Sec 188:

Particulars	Companies Act 2013	Companies Act 1956
Related party transaction (Section 188): Wide Scope	a) sale, purchase or supply of any **goods** or material; b) buying, selling or disposing of **property** of any kind; **c) leasing** of property of any kind; d) availing or rendering of any **services**; **e) appointment of any agents** for purchase or sale of goods, materials, services or property; f) related party's appointment to any **office or place of profit** in the company, its subsidiary company associate company; or **g) underwriting the subscription** of any shares in or derivatives thereof;	a) sale, purchase or supply of any goods or materials; b) sale, purchase or supply of any services; c) underwriting the subscription of any shares, debentures of a company

- *List of related party transactions widened*
- *Immovable property also brought under the ambit of related party transactions*

Related party transactions – Key changes

Key changes in the definitions:

Particulars	Companies Act 2013	Companies Act 1956
Specified persons with whom contracts are covered Related party Sec 2 (76)	"Related Party" with reference to company means: **i.** **Director** or his relative; **ii.** **KMP** or his relative; **iii.** **firm**, in which a director, manager or his relative is a partner; **iv.** **private company** in which a director or manager is a member or director ; **v.** **public company** in which a director or manager is a director or holds along with his relatives, more than 2% of its paid-up share capital; **vi.** **any body corporate whose BoD**, managing director, or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager; **vii.** **any person under whose** advice, directions or instructions a director or manager is accustomed to act; **viii.** **any company** which is— i. a holding, subsidiary or an associate company of such company; or ii. a subsidiary of a holding company to which it is also a subsidiary **ix.** **such other persons as may be prescribed***	i. Director of the Company ii. Relative of such director iii. A firm in which such director or relative is a partner iv. Any other partner of such firm in which director or relative is a partner v. Private Company in which such director is a director or member

- *The scope of related party is substantially expanded to ensure interest of shareholders.*

** As per rules notified by MCA – "other prescribed persons " means a director or KMP of the holding company or his relative as the related party.*

Compromises, arrangements and amalgamations

- The Companies Act, 2013 features some new provisions in the area of mergers and acquisitions, apart from making certain changes from the existing provisions. While the changes are aimed at simplifying and rationalising the procedures involved, the new provisions are also aimed at ensuring higher accountability for the company and majority shareholders and increasing flexibility for corporates.

- These changes are quite constructive and could go a long way in streamlining the manner in which mergers and other corporate scheme of arrangements are structured and implemented in India. These are:
  - **Streamlining requirements:** The section dealing with compromises and arrangements, deals comprehensively with all forms of compromises as well as arrangements, and extends to the reduction of share capital, buy-back, takeovers and corporate debt restructuring as well.

  - **Mergers or division of companies:** There are certain additional documents mandated to be circulated for the meeting to be held of creditors or a class of members

  - **Certifying the accounting treatment**: Currently, under the Companies Act 1956, there is no mandate requiring companies to ensure compliance with accounting standards or generally accepted accounting principles while proposing the accounting treatment in a scheme. However, listed companies are required to ensure such compliance as the Equity Listing Agreement mandates such companies to obtain an auditor's certificate regarding appropriateness of the accounting treatment proposed in the scheme of arrangement. **Companies Act 2013 requires all companies undertaking any compromise or arrangement to obtain an auditor's certificate**. This requirement will help in streamlining the varied practices as well as ensuring appropriate accounting treatment.

  - **Simplifying procedures:** The current procedural requirements in case of a merger and acquisition in any form are quite cumbersome and complex. There are no exemptions even in the case of mergers between a company and its wholly owned subsidiaries. The Companies Act 2013 now introduces simplification of procedures in two areas, firstly, for holding wholly owned subsidiaries and secondly, for arrangements between small companies

Other important topics

- **Utilisation securities premium:**

  As per Companies Act, 2013, prescribed class of companies will not be allowed to use the securities premium for the following key purposes:
  - issue of fully paid preference shares as bonus shares
  - writing off preliminary expenses of the company
  - writing off debentures and preference shares issue expenses
  - providing for premium payable on redemption of preference shares / debentures

  Central government introduces these restrictions over the use of securities premium to align the accounting requirement with Ind-AS. Since Ind-AS currently are not notified, the rule do not define companies which will be covered under the prescribed class.

  However, it may be noted that ICAI has recently proposed a new roadmap for implementation of Ind-AS.

- **Free reserves:**

  As per Companies Act, 2013, free reserves means 'such reserves which, as per the latest audited balance sheet of a company, are **available for distribution as dividend**; Provided that
  - Any amount representing unrealised gains, **notional gains or revaluation** of assets, whether shown as a reserves or other otherwise or
  - Any change in carrying amount of an asset or of a liability **recognise in equity**, including surplus in profit and loss account on measurement of the asset or the liability at fair value

  Shall not be treated as free reserves.

- **Debenture redemption reserve:**

  As per Companies Act, 2013, where debentures are issued by a company, the company will create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such amount will not be utilised by the company except for the redemption of debentures.

B. Accounting from ICAI

Contents:

1. Status on Accounting Standards
2. Recent EAO issued by ICAI

Status on Accounting Standards

Sources	**Update in literature for period ended March, 2014**
Accounting Standards 1-32 (AS 8 withdrawn and AS 30, 31 and 32 is not mandatory)	None
Accounting Standards Interpretation ASI 1 – 29 (ASI 2, 3 and 11 withdrawn)	None
Limited Revision – Various in the text of the Standards	None
ICAI Announcements – Central Council Decisions	None
Guidance Notes	One (Oil and Gas)
Expert Advisory Opinions (EAO)- issued during the period	Twenty
Financial Reporting Review Board (FRRB) Pronouncements	Activity report of QRB

Recent EAO issued by ICAI

Sr No	Listing of Expert Advisory Opinions issued by ICAI
1	Segment Reporting.
2	Treatment of tax expense on deemed income under section 56(2)(viia) of the Income-tax Act, 1961 arising on purchase of investments.
3	Accounting for payments made in respect of land pending execution of conveyance deeds and borrowing costs incurred in respect thereof.
4	Computation of depreciation on extra shift workings.
5	Revenue recognition in case of construction contracts.
6	Treatment and disclosure of interest on fixed deposits in the financial statements of a financial enterprise.
7	Accounting treatment of liability for unbilled work-in -progress in the books of executing agency.
8	Off-setting of various components of tax and disclosure of tax expenses.
9	Accounting for sales tax exemption benefit under Ind AS.
10	Disclosure of ‘buyer’s credit’ and ‘supplier’s credit’.
11	Revenue recognition in case of project managers.
12	Accounting for sales returns.
13	Accounting for book value of fixed assets demolished for expansion purpose.
14	Provision for warranty under construction contract and corresponding revenue recognition.
15	Disclosure requirements for defined benefit plans in case of group administration plans & Accounting for provident fund contribution in case of provident fund trust run by the holding company.

Recent EAO issued by ICAI

Sr No	Listing of Expert Advisory Opinions issued by ICAI
16	Valuation of stock of gypsum, a by-product.
17	Determination of normal capacity for the purpose of allocation of fixed overheads to cost of inventories and inclusion of various costs in the valuation of inventories.
18	Accounting for preliminary and other pre-operative expenses & Accounting for grants received. & Preparation of profit and loss account for the period before commencement of commercial operations.
19	Accounting for common fixed assets constructed for a project under progress.
20	Treatment of expenditure on stabilisation of expanded plant declared commercial.
21	Capitalisation of borrowing costs.
22	Recognition of expenditure incurred on branding and advertisement.
23	Accounting for unspent expenditure towards Corporate Social Responsibility.
24	Adjustment of Losses on Sale of Fixed Assets, Writing-Off Inventory and Doubtful Receivables against Capital Reserves Arising Out of Acquisition of Business, Capital Redemption Reserves and Revaluation Reserves.
25	Amortisation of Land Right of Way
26	Treatment of Disputed Elements of Cost in Valuation of Inventory of Raw Material.
27	Accounting treatment of share application money pending for allotment invested by holding company in subsidiaries.
28	Recognition of free of Cost Equipment Provided by a Contractee to the Contractor.
29	Treatment of mark to market losses on principal only currency swap.
30	Consolidation of ESOP Trust in the standalone financial statements, Treatment of investment in own shares for EPS calculation in the standalone financial statements and Treatment of ESOP Trust in the financial statements for tax audit purposes

EAO Query – Valuation of Inventory

Inventory Valuation

Question 1

Treatment of Disputed Elements of Cost in Valuation of Inventory of Raw Material.

The querist has sought the opinion of the Expert Advisory Committee as to:

- whether the procedure followed by the company for valuation of inventory with inclusion of disputed items of additional transportation cost for which no agreement has yet been reached between two parties as a part of cost of crude oil is correct or not.

Answer

The accounting is correct.

EAO Query – Free cost of equipment

Free cost of equipment

Question 2

Recognition of free of Cost Equipment Provided by a Contractee to the Contractor.

The querist has sought the opinion of the Expert Advisory Committee as to whether the mark to market losses on POS(Principal only swap) can be treated as exchange rate difference and, accordingly, can be recognised as per paragraphs 46 and 46A of AS 11, notified by the Central Government.

Answer

No.

EAO Query – Treatment of POS

Treatment of POS

Question 3

Treatment of mark to market losses on principal only currency swap.

The querist has sought the opinion of the Expert Advisory Committee as to whether the mark to market losses on POS(Principal only swap) can be treated as exchange rate difference and, accordingly, can be recognised as per paragraphs 46 and 46A of AS 11, notified by the Central Government.

Answer

No

C. Tax Accounting Standards

What is coming…

Tax Accounting Standards

Tax Accounting Standards

TAS	Particulars
AS 4	• Under TAS adjustments for events after balance sheet date are allowed only when Material whereas under AS there is no such requirement of materiality
AS 5	• There is no concept of Prior Period Item under TAS
AS 7	• Anticipated losses are not allowable under TAS but in AS. • Contract cost relating to future activity shall be treated as asset and later shall be considered allowable expense under the provisions of the act. Typically these are expensed under AS.
AS 10	• Under TAS exchange of assets shall be recorded at lower of asset given up or assets acquired
AS 11	• Under TAS exchange losses /forward premium are recorded in financial statement only on settlement
AS 16	• Income on temporary investment of funds shall be considered as income in TAS whereas it is reduced from borrowing cost eligible for capitalisation under AS. • Under TAS, apportionment of general borrowing shall be based on ratio of qualifying assets to total assets whereas it for entire qualifying asset under AS.
AS 19	• Uniformity of classification between lessor and lessee has to be ensured by joint confirmation. There is no such requirement under AS
AS 29	• Contingent asset are recognised when it is reasonably certain as against virtually certain in AS.

D. Ind-AS

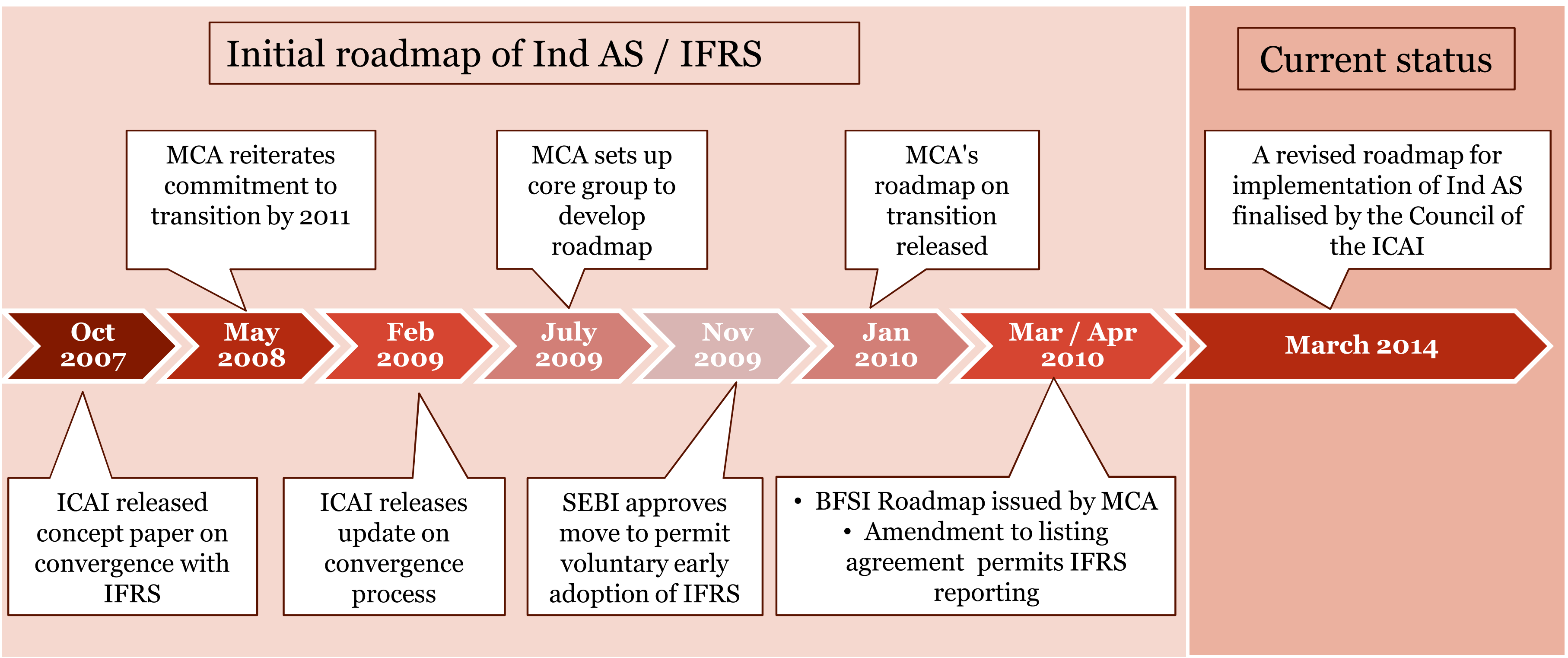
Contents:

1. Ind-AS : Roadmap & Applicability
2. Where are we – Ind AS
3. Comparative listing of standards – Ind AS / IFRS /IGAAP
4. Common IFRS / Ind AS Adjustments
5. Major carve outs in Ind AS from IFRS
6. Impact of IFRS in India

Journey towards ……Ind AS (IFRS)

The Council of the Institute of Chartered Accountants of India (ICAI), at its meeting, held on March 20-22, 2014, has finalised IFRS roadmap. The revised roadmap recommends Indian Accounting Standards (Ind AS) to be implemented for the preparation of Consolidated Financial Statements. The stand-alone financial statements will continue to be prepared as per the existing notified Accounting Standards which would be upgraded over a period of time (in line with IFRS).

The above roadmap has been submitted to the Ministry of Corporate Affairs for its consideration, which is expected to take decision in the matter shortly.



Applicability of proposed Ind AS Roadmap

Applicability of proposed Roadmap:

As discussed in the meeting, implementation of Ind AS would be in phases as was laid down in the previous roadmap. Accordingly, there shall be two separate sets of Accounting Standards notified under the Companies Act, 1956:

1. First set would comprise the **Indian Accounting Standards (Ind AS)** converged with the IFRSs which shall be applicable for preparation of **Consolidated Financial Statements ('CFS')** as defined in the Companies Act, 2013, of the specified class of companies.
2. The second set would comprise the existing notified **Accounting Standards (AS)** and shall be applicable for preparation of individual financial statements of the companies preparing Consolidated financial statements as per Ind AS and for financial statements of other companies.

Date of Applicability	Class of Companies	Computation of net worth	Voluntary Adoption
• Ind AS shall be applied to the specified class of companies for preparing their first Ind AS CFS for the accounting period beginning on or after **April 1, 2016**, with comparatives for the year ending 31st March 2016 or thereafter.	Ind AS shall be applicable to following **Class of companies:** • Whose equity and/or debt securities are **listed** or are in the process of listing on any stock exchange in India or outside India; or • Companies other than those covered in (a) above, having net worth of **Rs. 500 crore** or more • Holding, subsidiary, joint venture or associate companies of companies covered under (a) or (b) above	• The net worth shall be calculated as per the **stand alone audited balance sheet** of the company as at **31st March 2014** or the first balance sheet for accounting periods which end after that date. • The net worth shall be calculated as the paid-up Share Capital plus Reserves and Surplus less Revaluation Reserve.	• Companies not mandatorily required to follow Ind AS shall have the option to apply the Ind AS voluntarily for their CFS • The option to apply the Ind AS voluntarily, once exercised, therefore, shall be irrevocable.

Readiness towards Ind AS

Applicable Standards in Framework – Global and Local

- *Globally* at present, in all there are *40 pronouncements* (i.e. 28 IAS and 12 IFRS which collectively is referred as IFRS) that are effective as at Jan 1, 2014.
- *MCA* has notified *35 standards* in 2011 and have mentioned that implementation date shall be notified later. Out of the remaining 5 standards, for one standard it has been decided as redundant and *for other 4 standards, ICAI has already issued exposure draft* of the standard. In other words, *India is "Standards-Ready"*
- The changes between IFRS and Ind AS are known as *"Carve-Out*". Such carve-outs has been kept at *minimum*.

Advantages

- Existing Accounting Standard shall apply to Standalone Financial Statement. It may be noted that aspects *of MAT, Dividend,* computation of managerial remuneration, etc. shall be based on existing standards.
- *Sufficient time* is available with Industry to prepare for implementation of IFRS.
- *Phase-wise implementation* has been done away which would have added complication for any large conglomerate

Where are we – Ind AS?

Notified Ind AS

Ministry of Corporate Affairs (MCA) has **notified 35 Indian Accounting standards (Ind AS)** on February 25, 2011 that have been synced with IFRS *(refer subsequent slides for list of Ind AS notified by MCA).*
However, <u>the date on which these Ind AS will come into force is yet to be notified</u>.

Carved outs in Ind AS

Although in longer run, India intends to converge all its Ind AS with IFRS, in the short there are some differences between Ind AS and IFRS *(refer subsequent slides for major carve outs in India AS from IFRS)*.

New standards or revision in IFRS:

There are some New Standards or revisions carried out by International Accounting Standard Board (IASB) to the existing standards which are yet to be notified by MCA. The listing and status of these standards or amendments are as follows:

Sr No	IFRS Ref. No	Name of the Standard	Remarks
A	**Standards approved by ICAI**		
1	IFRS 10	Consolidated financial statement	New standard – Under MCA consideration
2	IFRS 11	Joint arrangements	New standard – Under MCA consideration
3	IFRS 12	Disclosure of interests in other entities	New standard – Under MCA consideration
4	IFRS 13	Fair value measurement	New standard – Under MCA consideration
5	IAS 19	Employee benefits (Revised 2011)	Amendment – Under MCA consideration
6	IAS 27	Separate financial statements (revised 2011)	Amendment – Under MCA consideration
7	IAS 28	Investments in associates and joint ventures (rev 2011)	Amendment – Under MCA consideration
B	**Standards not being placed on MCA website**		
1	IFRS 9	Financial Instruments	Not yet formulated as corresponding Ind AS 39 was notified
2	IAS 26	Accounting and reporting by Retirement benefit plans	Not notified
3	IAS 41	Agriculture	Not suitable to Indian environment
4	IFRIC 2	Members' shares in co-operative entities and similar Instruments	Not notified
5	IFRIC 15	Agreements for the construction of real estate	Not notified
6	SIC 7	Introduction to EURO	Not notified

Mapping IFRS vis a vis notified Ind AS

Std. No.	Name of the standard – Notified Ind AS	Corresponding to standards issued by IASB			Whether significant differences between Ind AS and IFRS
		IAS/IFRS	IFRIC	SIC	
Ind AS 101	First-time Adoption of Indian Accounting Standards	IFRS 1	-	-	No
Ind AS 102	Share based Payment	IFRS 2	-	-	No
Ind AS 103	Business Combinations	IFRS 3	-	-	No
Ind AS 104	Insurance Contracts	IFRS 4	-	-	No
Ind AS 105	Non-Current Assets Held for Sale & Discontinued Operations	IFRS 5	-	-	No
Ind AS 106	Exploration for and Evaluation of Mineral Resources	IFRS 6	-	-	No
Ind AS 107	Financial Instruments: Disclosures	IFRS 7	-	-	No
Ind AS 108	Operating Segments	IFRS 8	-	-	No
Ind AS 1	Presentation of Financial Statements	IAS 1	-	-	No
Ind AS 2	Inventories	IAS 2	-	-	No
Ind AS 7	Statement of Cash Flows	IAS 7	-	-	No
Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8	-	-	No
Ind AS 10	Events after the Reporting Period	IAS 10	IFRIC 17	-	No
Ind AS 11	Construction Contracts	IAS 11	IFRIC 12	SIC 29	No
Ind AS 12	Income Taxes	IAS 12	-	SIC 21, 25	No
Ind AS 16	Property, Plant and Equipment	IAS 16	IFRIC 1	-	No
Ind AS 17	Leases	IAS 17	IFRIC 4	SIC 15, 27	No
Ind AS 18	Revenue	IAS 18	IFRIC 13, 15*, 18	SIC 31	No
Ind AS 19	Employee Benefits	IAS 19	IFRIC 14	-	No
Ind AS 20	Accounting for Government Grants & Disclosure of Government Assistance	IAS 20	-	SIC 10	No

** IFRIC 15 - Agreement for Construction of Real Estate prescribes - Not included in Ind AS*

Mapping IFRS vis a vis notified Ind AS

Std. No.	Name of the standard – Notified Ind AS	Corresponding to standards issued by IASB			Whether significant differences between Ind AS and IFRS
		IAS/IFRS	IFRIC	SIC	
Ind AS 21	The Effects of Changes in Foreign Exchange Rates	IAS 21	-	-	No
Ind AS 23	Borrowing Costs	IAS 23	-	-	No
Ind AS 24	Related Party Disclosures	IAS 24	-	-	No
Ind AS 27	Consolidated and Separate Financial Statements	IAS 27	-	SIC 12	No
Ind AS 28	Investments in Associates	IAS 28	-	-	No
Ind AS 29	Financial Reporting in Hyperinflationary Economies	IAS 29	IFRIC 7	-	No
Ind AS 31	Interests in Joint Ventures	IAS 31	-	SIC 13	No
Ind AS 32	Financial Instruments: Presentation	IAS 32	IFRIC 2*	-	No
Ind AS 33	Earnings per Share	IAS 33	-	-	No
Ind AS 34	Interim Financial Reporting	IAS 34	IFRIC 10	-	No
Ind AS 36	Impairment of Assets	IAS 36	-	-	No
Ind AS 37	Provisions, Contingent Liabilities & Contingent Assets	IAS 37	IFRIC 5,6	-	No
Ind AS 38	Intangible Assets	IAS 38	-	SIC 32	No
Ind AS 39	Financial Instruments: Recognition and Measurement	IAS 39	IFRIC 9, 16, 19	-	No
Ind AS 40	Investment Property	IAS 40	-	-	No

** IFRIC 2 - Members' Shares in Co-operative Entities and Similar Instruments - Not included in Ind AS*

Common Experiences (adj) from IGAAP to Ind AS

Consolidation

- Additional entities to be consolidated
- Functional currency
- Deferred tax on consolidation
- Fair value measurement in jointly control entities
- Transitional provision

Property plant and equipment

- Change in residual value
- Capitalisation of exchange losses

Amortisation of goodwill and other intangible assets

Investments

- Change in the fair value of traded investments
- Change in the fair value of investments classified as available for sale
- Interest income shall be recognised using effective interest rate method for investments classified as Held till maturity

Loans and advances - Interest free loans shall be fair valued.

Common Experiences (adj) from IGAAP to Ind AS

Share Capital

- Redeemable preference shares to be classified as financial liability
- Cost incurred for issuance of additional equity

Debentures - Premium on redemption

Current liabilities

- Proposed dividend
- Gratuity
- Leave
- Accounting for forward cover

Other

- ESOP Scheme from Parent
- Correction of errors
- Change in accounting policy

Deferred taxes

- Recognition of deferred taxes on GAAP adjustments.
- Recognition of deferred taxes on items directly debited to reserves
- Consolidation
- Probability v/s Virtually certain

Major Carve Outs in Ind AS from IFRS

IFRS	Ind AS
Ind AS 21 - Effect of changes in foreign exchange rates	
• IAS 21 requires recognition of exchange differences arising on translation of monetary items from foreign currency to functional currency directly in profit or loss	• Ind AS 21 permits an option to recognise exchange difference arising on translation of certain long term monetary items from foreign currency to functional currency directly in equity. In this situation, Ind AS 21 requires the accumulated exchange differences to be amortised to profit or loss in an appropriate manner.
Ind AS 39 – Financial Instrument : Recognistion and Measurement	
• IAS 39 requires all changes in fair values in case of financial liabilities designated at fair value through profit and loss at initial recognition shall be recognised in profit or loss	• A proviso has been added to Ind AS 39 that in determining the fair value of the financial liabilities which upon initial recognition are designated at fair value through profit or loss, any change in fair value subsequent to changes in the entity's own credit risk shall be ignored.
Ind AS 103 – Business Combination	
• IFRS 3 requires bargain purchase gain arising on business combination to be recongnised in profit or loss	• Ind AS 103 requires the same to be recognised in other comprehensive income and accumulated in equity as capital reserve, unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which case, it shall be recognised directly in equity as capital reserve.

Major Carve Outs in Ind AS from IFRS

IFRS	Ind AS
Financial instruments – FCCB	
• Under IFRS, a FCCB is treated as hybrid financial instrument having liability and derivative components. While companies measure liability at amortised cost, the derivative component is measured at fair value through profit or loss at each reporting date.	• Ind AS 32 has been modified in a manner that the derivative component will be treated as fixed equity component and hence will not attract fair value at each reporting date.
Key changes relating to first time adoption of IFRS	
• IFRS 1 defines transition date as beginning of the earliest period for which an entity presents full comparative information under IFRS.	• Ind AS requires an entity to provide comparatives as per the existing notified Accounting Standards.
• IFRS 1 requires reconciliations for opening equity, total comprehensive income, cash flow statement and closing equity for the comparative period to explain the transition to IFRS from previous GAAP.	• Ind AS provides an option to provide comparative period financial statement on memorandum basis.

Impact of IFRS on India Inc.

Transitional experience by India Inc. - Common IFRS Adjustments

Name of the entities	No. of IFRS adj.
Infosys Technologies Limited	1
Wipro Limited	5
Tata Motors Limited	10
Dabur India Limited	5
Rolta India Limited	10
Noida Toll Bridge Co Ltd	5
Total	36

Statistics	No. of IFRS adj.
High adjustment (>20% impact on net-worth / net income)	1
Medium adjustment (5% - 20% impact on net-worth / net income)	5
Low adjustment (1% - 5% impact on net-worth / net income)	30
Total	36

Nature of adjustment identified by India Inc. in their Financial Statement (Publicly available)

High impact adjustments	Medium impact adjustments	Low impact adjustments
• Foreign Exchange Gain or loss of FCCB liability long term foreign currency monetary items	• Deferred tax • Gain on repurchase of FCCB • Imputed Interest on FCCB	• Reversal of Amortised Goodwill and intangibles • Share Based Payment • Difference in revenue recognition norms

E. Updates from SEBI

Contents:

SEBI circular dated 17/04/2014

SEBI circular dated 17/04/2014

Circular

Background:

SEBI on 17^{th} April, 2014 issued circular for amendments in the clause 35B and 49 of the Equity Listing Agreement. These amendments pertains to **corporate governance practices in listed entities**. The circular covers many aspects of corporate governance, however, this presentation will provide insight to changes in **auditing and accounting** areas.

Applicability:

The revised Clause 49 would be applicable to all listed companies with effect from **October 01, 2014**.

Audit Committee:

- The Audit committee shall have **minimum 3 directors** as members.($2/3^{rd}$ to be independent).
- The chairman of committee should be independent and he **should be present at the AGM** to answer shareholder queries.
- The committee should meet at least **4 times** in a year.(Not more than 4 months shall elapse between 2 meetings)
- <u>Powers of Audit Committee:</u>
  - ✓ To investigate any activity within its terms of reference
  - ✓ To seek information from any employee
  - ✓ To obtain outside legal or other professional advice
  - ✓ To secure attendance of outsiders with relevant expertise, if it considers necessary

- Certain major Role of Audit Committee:
  - ✓ Ensure that the **financial statement** is correct, sufficient and credible
  - ✓ Reviewing, with the management, the **quarterly financial statements** before submission to the board for approval
  - ✓ Approval or any subsequent modification of **transactions** of the company **with related parties**
  - ✓ Scrutiny of **inter-corporate loans** and investments
  - ✓ Approval of **appointment of CFO** after assessing the qualifications, experience and background, etc. of the candidate

SEBI circular dated 17/04/2014

Related Party Transaction:

Meaning: A related party transaction is a **transfer** of resources, services or obligations between a company and a related party, regardless of whether a price is charged.

The company shall formulate a **policy on materiality** of related party transactions and also on dealing with Related Party Transactions. *(Provided that a transaction with a related party shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds* ***five percent of the annual turnover or twenty percent of the net worth*** *of the company as per the last audited financial statements of the company, whichever is higher.)*

All Related Party Transactions shall require **prior approval** of the Audit Committee.

All material Related Party Transactions shall require approval of the shareholders through **special resolution** and the related parties shall abstain from voting on such resolutions.

Disclosures:

- **Related Party transactions:**
  - ✓ Details of all material transactions with related parties shall be **disclosed quarterly** along with the compliance report on corporate governance.
  - ✓ The company shall disclose the **policy** on dealing with Related Party Transactions on its **website and in the Annual Report**.

- **Disclosure of Accounting Treatment:**
  Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, **together with the management's explanation** as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction in the Corporate Governance Report.

Rakesh Agarwal
Vice President,
Finance, Compliance and Accounts
Centers of Excellence (CoE)
Reliance Industries Limited
rakesh.r.agarwal@ril.com
+91 9820273458