MCA approves changes to the existing Accounting Standards

13 May 2016

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Sector

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Audit committee

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Others

Transition

Immediately

Within the next 3 months

Post 3 months but within 6 months

Post 6 months

Background

On 16 February 2016, the Ministry of Corporate Affairs (MCA) issued the draft Companies (Accounting Standards) Amendment Rules, 2016 to upgrade Accounting Standards (ASs), as notified under Companies (Accounting Standards) Rules, 2006, in order to align them with Indian Accounting Standards (Ind ASs).

New development

On 30 March 2016, MCA issued the Companies (Accounting Standards) Amendment Rules, 2016 and key amendments are as follows:

- AS 2, *Valuation of Inventories* amended to align spare parts accounting with revised AS 10, *Property, Plant and Equipment.*
- AS 4, *Contingencies and Events Occurring After the Balance Sheet Date* modified to provide that in case an entity declares dividend to shareholders after the balance sheet date but before the financial statements are approved for issue, then the dividend should not be recognised as a liability at the balance sheet date. A disclosure will be provided in the Notes to the financial statements.
- AS 6, *Depreciation Accounting* requirements for depreciation are now incorporated in revised AS 10.
- AS 10, *Property, Plant and Equipment,* is largely aligned with Ind AS 10, *Property, Plant and Equipment*. Key new concepts in the standard are as follows:
  - Cost of an item of property, plant and equipment would be cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with AS 16, *Borrowing Costs.*
  - Component accounting would be mandatory (in line with Schedule II to the Companies Act, 2013 (2013 Act))
  - The depreciation method applied to asset would be required to be reviewed at least at each financial year-end. If there is a change in the method, then such change would be accounted for as a change in accounting estimate in accordance with AS 5, *Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.*

  - Definition and recognition principles applicable to property, plant and equipment would be applied to determine classification of spare parts as property, plant and equipment or inventory.
  - Decommissioning liability to be part of cost of property, plant and equipment (in line with AS 29, *Provisions, Contingent Liabilities and Contingent Assets*) but on a discounted basis.
- AS 13, *Accounting for Investments*, the accounting for investment property would be in accordance with a cost model as prescribed in revised AS 10.
- AS 14*, Accounting for Amalgamations* introduces a limited revision to include reference to 2013 Act.
- AS 21, *Consolidated Financial Statements* amended to provide that where an entity does not have a subsidiary but has an associate and/or joint venture, then such entity is required to prepare consolidated financial statements. This amendment aligns the requirements of AS with the 2013 Act.
- AS 29, *Provisions, Contingent Liabilities and Contingent Assets* modified to include an exception in the case of recognition of a provision. The amendment requires the use of discounted basis in case of decommissioning, restoration and similar liabilities that are recognised as cost of property, plant and equipment.

Transitional provisions

For the revisions where specific transitional provisions have not been prescribed, the requirements of AS 5 for changes in accounting policies shall apply i.e. companies will be required to apply the changes retrospectively.

Following are the transitional provisions given in the standards:

AS 10

- Where an entity has in past recognised an expenditure in the statement of profit and loss which is eligible to be included as a part of the cost of a project for construction of property, plant and equipment in accordance with the requirements of paragraph 9 of AS 10, it may do so retrospectively for such a project. The effect of such retrospective application of this requirement, should be recognised net-of-tax in revenue reserves.
- When one or more items of property, plant and equipment have been acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, then the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction should be applied prospectively only to transactions entered into after AS 10 becomes mandatory.
- On the date of AS 10 becoming mandatory, the spare parts, which hitherto were being treated as inventory under AS 2 and are now required to be capitalised in accordance with the requirements of AS 10, should be capitalised at their respective carrying amounts. The spare parts so capitalised should be depreciated over their remaining useful lives prospectively as per the requirements of AS 10.
- The revaluation model should be applied prospectively as per the revised guidance. In case an entity does not adopt the revaluation model as its accounting policy but the carrying amount of item(s) of property, plant and equipment reflects any previous revaluation, then it should adjust the amount outstanding in the revaluation reserve against the carrying amount of that item. However, the carrying amount of that item should never be less than residual value and any excess of the amount outstanding as revaluation reserve over the carrying amount of that item should be adjusted in revenue reserves.

AS 29

AS 29 prescribes that in case of existing provision for decommissioning, restoration and similar liabilities the entity should discount it prospectively with the corresponding effect to the related item of property, plant and equipment.

Applicability

The Institute of Chartered Accountants of India (ICAI) and MCA issued notifications to clarify the applicability date of the amended ASs. The ICAI issued a notification on 26 April 2016 to clarify that the amended AS should be used for preparation of financial statements for accounting periods commencing on or after the date of notification. Subsequently, MCA through its circular dated 27 April 2016 issued a similar clarification.

Our Comments

With the issue of these amendments, companies not covered in the Phase I of the Ind AS road map, would have to incorporate the consequential changes to their accounting policies. Introduction of these amendments will enable to bridge the gap between Indian GAAP and Ind AS and will therefore facilitate a smooth transition for companies who are required to adopt Ind AS in the future.

However, some of the transitional provisions for adoption of new ASs are not similar to the transition requirements mentioned in Ind AS 101, *First-time Adoption of Indian Accounting Standards*. This may specifically pose a challenge for companies covered under phase II of the Ind AS road map as they may first be required to implement the amendments to existing standards with reference to the transitional provisions discussed above and may have to recompute some of them while preparing Ind AS financial statements for the comparative period.

Examples of the differences between the transitional provisions and requirements of first time adoption of Ind AS are as follows:

- Under AS 29, provision for decommissioning, restoration and similar liabilities should be discounted prospectively while under Ind AS 101 these are required to be computed retrospectively with certain relaxations in the manner of computation.
- While under Ind AS, cost of property plant and equipment need not be recomputed retrospectively, there is no specific transition provision as part of the amendments for computation of cash equivalent price. This may mean that companies covered in phase II of the Ind AS road map may be required to recompute the adjustment for cash equivalent price retrospectively only for the financial year 2016-17.

The bottom line

Some of the adjustments such as recognition of property, plant and equipment may involve significant efforts and therefore, may require certain listed companies (covered under phase II of the Ind AS road map) to plan in advance in order to meet the quarterly reporting timelines for the quarter ended 30 June 2016.

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The website provides information and resources to help board and audit committee members, executives, management, stakeholders and government representatives gain insight and access to thought leadership publications that are based on the evolving global financial reporting framework.

IFRS Notes

Framework proposed by the MAT-Ind AS Committee

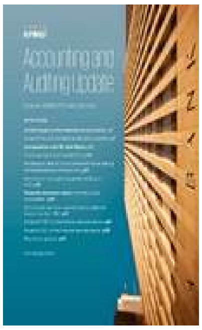
10 May 2016

On 8 June 2015, the Central Board of Direct Taxes (CBDT) formed the MAT-Ind AS Committee (the Committee) to suggest a framework for computation of book profit for the purpose of levy of MAT under Section 115JB of the Income-tax Act, 1961 (the IT Act) for Ind AS compliant companies in the year of adoption and thereafter.

On 18 March 2016, the Committee formed by the CBDT issued a report (the report) proposing a framework for computation of book profit for the purposes of levy of MAT under Section 115JB of the IT Act for Ind AS compliant companies in the year of adoption and thereafter.

This issue of IFRS Notes provides an overview of the report.

Missed an issue of Accounting and Auditing Update or First Notes?



Issue no. 8/2016 – Financial Services

This month the Accounting and Auditing Update focusses on the financial services sector and highlights key matters relating to accounting, financial reporting and regulatory areas relevant to this sector. The Indian financial services sector comprises commercial banks, Non-Banking Finance Companies (NBFCs), insurance companies, mutual fund, Asset Management Companies (AMCs) and broking companies.

The government has put forward the road map for implementation of Ind AS by banks, insurance companies and NBFCs. In this publication, we have summarised the impact of Ind AS on the financial services sector.

This publication also features an interaction with Mr. Keki Mistry, Vice Chairman and CEO of Housing Development Finance Corporation Limited and explores some key accounting, reporting and other topical matters relevant to the industry.

Further, this publication also provides a keen perspective on key regulatory updates issued by the RBI, the impact of the Income Computation and Disclosure Standards (ICDS) and the proposed Goods and Services Tax (GST) on the financial services sector. We also strive to undertake an analysis of the Expert Advisory Opinion on Special Reserves issued by the Institute of Chartered Accountants of India.

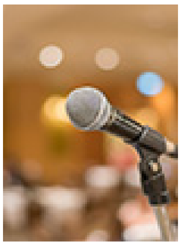
The proposed Companies (Amendment) Bill, 2016

31 March 2016

Based on the recommendations of the CLC report, on 16 March 2016, the government proposed the Companies (Amendment) Bill 2016, (the Bill) on issues arising on account of implementation of the Companies Act, 2013 (2013 Act) in the Lok Sabha to amend the 2013 Act. The Bill considered the suggestions made by the CLC as well as the comments received from the stakeholders and ministries/departments.

The recommendations cover significant areas of the 2013 Act, including definitions, raising of capital, accounts and audit, Corporate Social Responsibility (CSR), managerial remuneration, companies incorporated outside India and offences/penalties.

This issue of First Notes summarises key recommendations of the Bill 2016.



KPMG in India is pleased to present Voices on Reporting – a series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

Framework proposed by the MAT-Ind AS committee – new development

On 18 March 2016, the Minimum Alternate Tax (MAT)-Indian Accounting Standards (Ind AS) Committee (the Committee) formed by the Central Board of Direct Taxes (CBDT) issued a report (the report) proposing a framework for computation of book profit for the purposes of levy of MAT under Section 115JB of the Income-tax Act, 1961 (the IT Act) for Ind AS compliant companies in the year of adoption and thereafter. This report and its recommendations are expected to have a significant impact on the entities covered under the Ind AS road map.

Therefore, in 6 May 2016 call, we provide an overview of the report and recommendations suggested by the CBDT.

Voices on Reporting

Newsletter - Annual update

We have summarised in a brief publication key updates relating to year ending 31 March 2016 from the Ministry of Corporate Affairs, the Securities and Exchange Board of India, the Reserve Bank of India and the Institute of Chartered Accountants of India for your reference.

We will continue to provide a summary of relevant updates in future also. We hope you find this summary to be of use and relevance.

Feedback/queries can be sent to aaupdate@kpmg.com

Previous editions are available to download from: www.kpmg.com/in