



Voices on Reporting

28 September 2016

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Welcome



Series of knowledge sharing calls

Covering current and emerging reporting issues

Scheduled towards the end of each month

Look out for our Accounting and Auditing Update, IFRS Notes and First Notes publications

Speaker for the call



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Agenda

- **Updates on the 2013 Act**
- Updates on Ind AS
- Updates on SEBI regulations
- Other regulatory updates

MCA issues amendments for CFS of wholly-owned and partially-owned subsidiaries¹



On 27 July 2016, MCA issued the Companies (Accounts) Amendment Rules, 2016 and made following amendments to the given Rules:

- **Rule 6: Manner of consolidation of accounts**

New proviso inserted which provides that a company is not required to prepare CFS, if it meets the following conditions:

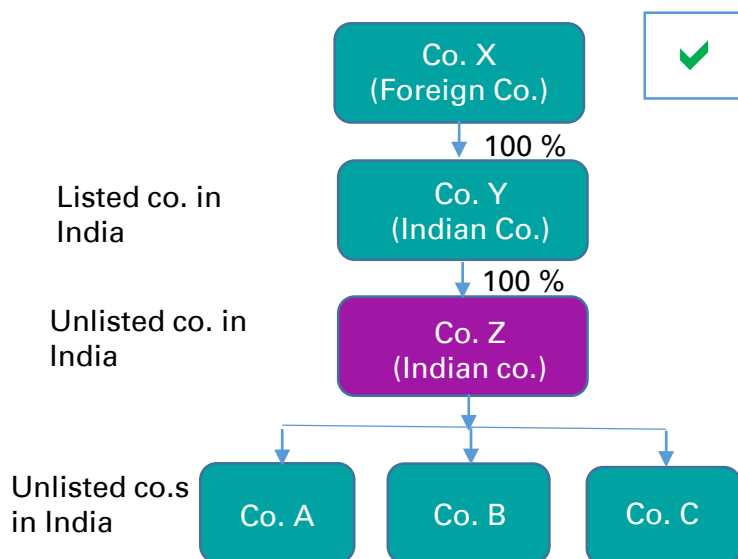
- i. It is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members (including those not otherwise entitled to vote) have been intimated in writing and for which the proof of delivery of such an intimation is available with the company, do not object to the company not presenting CFS
- ii. It is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India, and
- iii. Its ultimate or any intermediate holding company files CFS with the ROC which are in compliance with the applicable accounting standards.

The amendment is in line with the requirements of Ind AS 110, *Consolidated Financial Statements*.

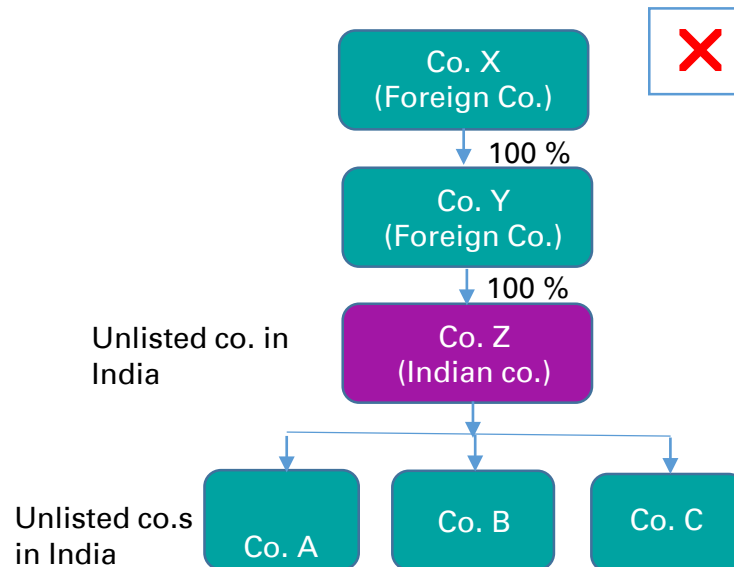
However, no relief to subsidiaries of foreign companies.

MCA issues amendments for CFS of wholly-owned and partially-owned subsidiaries¹ (cont.)

Few situations that will get covered under the Rules are as follows:



Co. Z can claim exemption and would not be required to file CFS with ROC if Co. Y files CFS of its group with the ROC under applicable accounting standards.

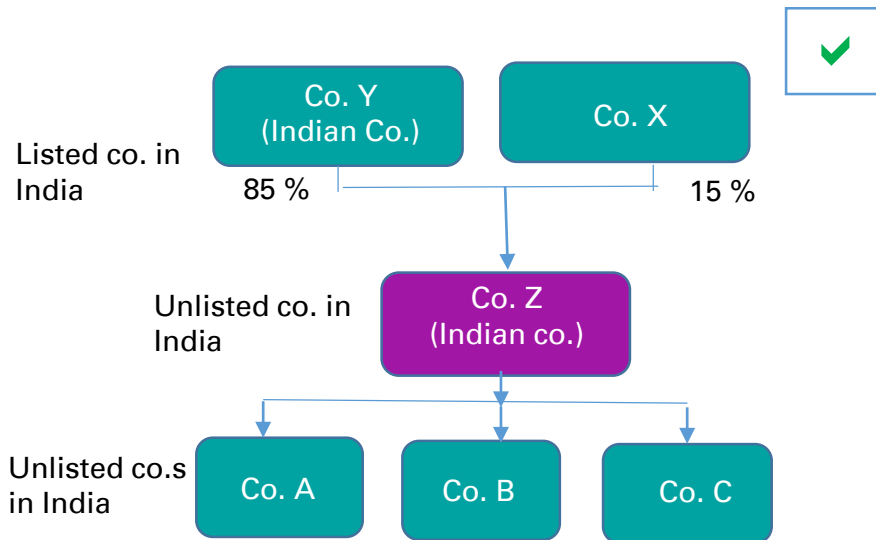


Co. Z cannot claim exemption and would be required to file CFS with ROC as both Co. Y and Co. X are foreign companies.

(Source: KPMG in India's analysis, 2016)

MCA issues amendments for CFS of wholly-owned and partially-owned subsidiaries¹ (cont.)

Few situations that will get covered under the Rules are as follows (cont.):



Co. Z can claim exemption and would not be required to file CFS with ROC if Co. Y files CFS with ROC and Co. X does not object to Co. Z not presenting CFS.

(Source: KPMG in India's analysis, 2016)

MCA issues amendments for CFS of wholly-owned and partially-owned subsidiaries¹ (cont.)

Other amendments

Rule 8	Matters to be included in the Board's report: The Board has to report the highlights of the performance of its subsidiaries/associates/joint venture companies and their contribution to the overall performance of the company during the period under report.
Rule 13	Companies are required to appoint an internal auditor: Following are the two amendments: <ol style="list-style-type: none">An internal auditor may either be an individual/a partnership firm/a body corporate andA cost accountant could also be an internal auditor.
Others	Two revised forms have also been issued by the MCA: <ul style="list-style-type: none">Form AOC 1 'Statement containing salient features of the financial statement of subsidiaries/associate companies/joint ventures': No major changes made.Form AOC 4 'Form for filing statement and other documents with the Registrar': Additional disclosures have been introduced.

Additionally, MCA has extended the last date of filing Form AOC-4, AOC-4 (XBRL), AOC-4 (CFS) and MGT-7 until 29 October 2016 (where the due date for holding an Annual General Meeting is on or after 1 April 2016) without payment of additional fees.

The Central Government (CG) amends limits of MR²

- Schedule V to the 2013 Act provides certain conditions to be fulfilled by a company to pay Managerial Remuneration (MR). The Schedule V has following four parts:
 - Part I - Conditions to be fulfilled for the appointment of a manager or whole-time director or a manager without the approval of the CG
 - Part II - Remuneration
 - Part III - Provisions applicable to Parts I and II
 - Part IV - CG may, by notification, exempt any class or classes of companies from any of the requirements contain in Schedule V.
- On 12 September 2016, CG notified certain amendments to Schedule V relating to remuneration payable by companies having no profit or inadequate profit without CG approval.

Overview of amendments

- A. Limit in Section II of Part II:** Currently, Section II of Part II of the Schedule V to the 2013 Act prescribes that the remuneration to managerial personnel should not be paid in excess of specified limits.

Revised limits are as follows:

Where the effective capital is	Limit of yearly remuneration payable shall not exceed*
Negative or less than INR5 crore	INR60 lakh (earlier INR30 lakh)
INR5 crore and above but less than INR100 crore	INR84 lakh (earlier INR42 lakh)
INR100 crore and above but less than INR250 crore	INR120 lakh (earlier INR60 lakh)
INR250 crore and above	INR120 lakh plus 0.01 per cent of the effective capital in excess of INR250 crore (earlier INR60 lakh)

**Limits specified can be doubled if a special resolution is passed.*

The CG amends limits of MR² (cont.)

B. New provision for the managerial personnel functioning in a professional capacity: Managerial personnel functioning in a professional capacity and possessing an expertise and specialised knowledge in the field in which a company operates, approval of CG is not required if such person, at any time during the last two years before or on after the date of appointment, does not have:

- Any direct/indirect interest* in the capital of the company/its holding company/any of its subsidiaries
- Any direct/indirect interest* or related to the directors/promoters of the company or its holding company/any of its subsidiaries.

** Any employee holding shares of the company not exceeding 0.5 per cent of its paid-up share capital under any scheme formulated for allotment of shares including ESOP shall be deemed to be a person not having any interest in the capital of the company.*

C. Other conditions to be fulfilled to apply the above limits:

- Payment of remuneration to be approved by a Board resolution; also by Nomination and Remuneration Committee in case of companies covered under Section 178(1).
- No default in payment of any debt by the company for a period of 30 days in preceding financial year before the date of appointment of such managerial person. In case of default, obtain prior approval from secured creditors for proposed remuneration and disclose the fact in the notice of general meeting.
- For payment of remuneration given in (A) above - Ordinary resolution if remuneration within the specified limits. Special resolution if limits are to be doubled.
For payment of remuneration given in (B) above - Special resolution to be passed.

- Statement of notice calling the general meeting with prescribed information to be given to shareholders.



Agenda

- Updates on the 2013 Act
- **Updates on Ind AS**
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Ind AS Transition Facilitation Group: Clarification Bulletin 4³

The ITFG of ICAI held its fourth meeting on 19 August 2016, and issued Bulletin 4 to provide clarifications on the following four issues relating to the application of Ind AS:

Excise duty

- Under AS 9, *Revenue Recognition*, excise duty included in the turnover is presented as reduction from the gross turnover on the face of the statement of profit or loss.
- ITFG considers excise duty to be a liability of the manufacturer and recommended that revenue should be presented as a gross amount including excise duty in the statement of profit and loss.
- Excise duty payable should be reflected as an expense.

Service tax

- Service tax not to be included in revenue as it represents the amount collected on behalf of a third party i.e. the government.

Negative net worth and Ind AS implementation date

- **For FY2016-17:**
 - Ind AS is applicable to all companies (listed and unlisted) only if their net worth is INR500 crore or more.
- **For FY2017-18:**
 - Ind AS would be applicable to all listed companies with net worth less than INR500 crore and to unlisted companies with net worth of INR250 crore or more but less than INR500 crore.

Date of transition for company wishing to present two years' comparatives

- Date of transition to Ind AS should be determined as per Ind AS 101 and Ind AS road map.
- Date of transition for a company covered under phase I of the road map is 1 April 2015. Voluntary selection of a date prior to 1 April 2015 is not permitted.



Agenda

- Updates on the 2013 Act
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Equity listed - for Ind AS compliant quarterly results⁴



Relaxation - relevant for second quarter

- For quarter ending 30 September 2016 - SEBI provided certain relaxations including extending the timeline to submit quarterly results up to 14 December 2016.
- Stand-alone/CFS - Exercise the option in the second quarter.

Reporting requirements	3 months ended	Preceding 3 months ended	Corresponding 3 months ended in the PY	YTD figures for current period ended	YTD figures for the PY ended	PY ended 31 March 2016	Audit/review of PY comparative period	Audit or review of period ended 31 March 2016	Disclosure of reserves (excluding revaluation reserves)
30 September 2016	√	√	√	√	√	x (Note a)	x (Note b)	x (Note a)	Optional

Notes



- Companies may voluntarily provide Ind AS comparatives for the year ended 31 March 2016. However, these are not required to be audited or reviewed. Companies should disclose the fact that the financial results have not been audited/reviewed.
- Ind AS quarterly financial results for the comparative period are not required to be audited or reviewed. Companies should disclose the fact that the financial results have not been audited/reviewed.

Debt-listed securities - SEBI relaxes norms for Ind AS compliant half-yearly and annual results⁵

**Use existing formats
up to 31 December
2016**

- Half-yearly financial results for the period ending on or before 31 December 2016
- Annual financial results for the period ending on or before 31 December 2016.

**Use new formats*
for the period 31
March 2017**

- Half-yearly financial results (i.e. balance sheet and the statement of profit and loss) for the period ending after 31 December 2016
- Annual financial results (i.e. balance sheet and the statement of profit and loss) for the period ending 31 December 2016.

*As prescribed in Schedule III to the 2013 Act

Submission date extended for half-yearly financial results for the period ending 30 September 2016 to 14 December 2016 (earlier 14 November 2016)

Comparative financial results filed along with the half-yearly/annual financial results should also be Ind AS compliant.

Debt-listed securities - SEBI relaxes norms for Ind AS compliant half-yearly and annual results⁵ (cont.)



Implementation of Ind AS - relaxations for the half-year ending 30 September 2016

Particulars-	6 months ended (dd/mm/yyyy)	Corresponding 6 months in the PY (dd/mm/yyyy)	YTD figures for current period (dd/mm/yyyy)	Previous accounting year ended (dd/mm/yyyy)
	Audited/unaudited*	Audited/unaudited*	Audited/unaudited*	Audited/unaudited*
Compliance with Ind AS, if applicable	✓	✓	N.A.	✓
Filing of comparative financial results		✓	N.A.	✗
Limited review or audit of financial results		✗ ¹ Limited review or audit is not mandatory. However, adequate disclosure is required.	N.A.	✗ ¹ If submitted, then limited review or audit is not mandatory. However, adequate disclosure is required.

**Clearly specify whether the figures are audited or unaudited*

¹Where the comparative half-yearly results and/or annual results are not subjected to limited review or audit, provide adequate disclosure about the fact that:

- a) The said comparative results have not been subjected to limited review or audit, and
- b) Management has exercised necessary due diligence to ensure that the comparative results provide a true and fair view of its affairs.

Debt-listed securities - SEBI relaxes norms for Ind AS compliant half-yearly and annual results⁵ (cont.)

Implementation of Ind AS - relaxations for the half-year ending 30 September 2016 (cont.)

Particulars	6 months ended (dd/mm/yyyy)	Corresponding 6 months in the PY (dd/mm/yyyy)	YTD figures for current period (dd/mm/yyyy)	Previous accounting year ended (dd/mm/yyyy)
	Audited/ unaudited*	Audited/ unaudited*	Audited/unaudited*	Audited/unaudited*
Equity reconciliation for the previous year		✗		✗ ² If submitted, equity reconciliation is required.
Net profit/loss reconciliation		✓		✗

²Reconciliation of equity for the PY ended 31 March 2016, should be provided while submitting the annual financial results for the first year of adoption, i.e. year ended 31 March 2017.

Reconciliation of equity for the PY should also be provided in case the company opts to furnish financial results for the PY along with financial results for the first half-year, i.e. half year ended 30 September 2016.

SEBI issues clarification on revenue recognition inclusive of excise duty⁶



- On 30 November 2015, SEBI issued a circular which prescribed formats for listed companies publishing financial results as per the requirements of Regulation 33 of the Listing Regulations.
- The format prescribed by SEBI permit 'income from operations' to be disclosed net of excise duty.
- Schedule III to the 2013 Act requires 'revenue from operations' to be disclosed inclusive of excise duty.
- Due to this, there has been divergence in practice followed by companies in disclosing 'revenue from operations'.
- On 20 September 2016, BSE and NSE issued a notification on behalf of SEBI, clarifying that 'income from operations' may be disclosed inclusive of excise duty.
- ITFG of ICAI in its Bulletin 4 carried the same view and considered excise duty to be a liability of the manufacturer, which forms part of the cost of production. Revenue should be presented as a gross amount inclusive of excise duty.



Agenda

- Updates on the 2013 Act
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- **Other regulatory updates**

Important Expert Advisory Committee (EAC) opinions issued by ICAI

Accounting treatment for the project assets under construction⁷

- The fixed asset/project should be capitalised once it is ready to commence commercial production.
- The units/parts of the project which are ready for their intended use and can be operated independently of the remaining units/parts, should be capitalised as and when they are ready.
- The identified units of account should be capitalised as and when these are ready to commence commercial production irrespective of the fact that these are functioning at sub-optimal capacity and not at intended full capacity.
- Such capitalisation should be done using appropriate heads of assets, considering the requirements of Schedule II and Schedule III to the 2013 Act.
- Any subsequent expenditure on the project should be evaluated for capitalisation as per the requirements of AS 10, *Accounting for Fixed Assets*.

Treatment of expenditure incurred by the company on roads for transportation of coal⁸

- As per AS 26, *Intangible Assets*:
 - An expenditure incurred by an enterprise can be recognised as an asset only if it is a 'resource controlled by the enterprise'.
 - An enterprise controls an asset if the enterprise has the power to obtain the future economic benefits flowing from the underlying resource and also can restrict the access of others to those benefits.
- In the present case, it appears that although the work of widening the road will facilitate unrestricted movement of coal for the company, the company does not enjoy control in terms of restriction of access of others to the benefits arising from the widened road facility.
- Accordingly, expenditure incurred on widening and construction of road on the land which is not owned by the company does not meet the definitions of the terms 'asset' and 'intangible asset' and hence cannot be capitalised as an intangible asset.

Important EAC opinions issued by ICAI (cont.)

Accounting treatment of machinery/capital spares on replacement of worn-out parts⁹

- Component accounting requires a company to identify and depreciate significant components with different useful lives separately.
- On application of component accounting (either voluntarily or otherwise considering the requirements of 2013 Act), in case of replacement of worn-out/old part or component:
 - The cost of a new replaced part should be capitalised as a separate component of the concerned plant and machinery and the carrying amount of the replaced worn-out part/component should be decapitalised.
 - The cost of the new replaced part may be used as an indication of what the cost of the replaced part was at the time it was acquired or constructed.
 - Additionally, the company needs to apply transitional provisions given under Note 7 of Schedule II to the 2013 Act from the date it applies component accounting (i.e. 1 April 2014 or 1 April 2015 as the case may be).
 - Under transitional provisions, if the carrying amount of the component whose useful life is nil as on the date of transition, the same should be transferred directly to retained earnings.
- Where component accounting is not applied:
 - Practice of not derecognising written down/carrying value of a worn-out part in the fixed asset that is being replaced with a spare is appropriate
 - The cost of a replaced part is to be charged to the statement of profit and loss (unless it results in increase in future benefits).



Q&A

Sources

1. MCA notification dated 27 July 2016
2. MCA notification dated 12 September 2016
3. ICAI - ITFG Bulletin 4 dated 19 August 2016
4. SEBI circular no. CIR/CFD/CMD/15/2015 dated 30 November 2015 and SEBI circular no. CIR/IMD/DF1/69/2016 dated 5 July 2016
5. SEBI circular no. CIR/IMD/DF1/9/2015 dated 27 November 2015 and SEBI circular no. CIR/IMD/DF1/69/2016 dated 10 August 2016
6. BSE notification no. DCS/COMP/10/2016-17 and NSE notification no. NSE/CML/2016/12 dated 20 September 2016
7. The ICAI Journal: The Chartered Accountant for the month of July 2016
8. The ICAI Journal: The Chartered Accountant for the month of August 2016
9. The ICAI Journal: The Chartered Accountant for the month of September 2016.

Glossary

- 2013 Act - The Companies Act, 2013
- MCA - The Ministry of Corporate Affairs
- CFS - Consolidated Financial Statements
- SEBI - The Securities and Exchange Board of India
- Ind AS - Indian Accounting Standard
- MR - Managerial Remuneration
- CG - Central Government
- PY - Previous Year
- FY - Financial Year
- YTD - Year to date
- ITFG - Ind AS Transition Facilitation Group
- ICAI - The Institute of Chartered Accountants of India
- CA - Chartered Accountant
- Ind AS Rules - Companies (Indian Accounting Standards) Rules, 2015
- AS Rules - Companies (Accounting Standards) Rules, 2006
- NSE - National Stock Exchange
- BSE - Bombay Stock Exchange
- ESOP - Employee Stock Option Plans

Links to previous recordings of VOR

Month	Topics	Link
February 2016	<ul style="list-style-type: none"> • Report of the Companies Law Committee • Securities and Exchange Board of India (SEBI) issues the Frequently Asked Question (FAQs) on the SEBI Listing Regulations, 2015. 	Click here
April 2016	<ul style="list-style-type: none"> • Updates on Ind AS convergence • Updates on SEBI regulations • Updates on the Companies Act, 2013 (2013 Act) • Updates on accounting and financial reporting 	Click here
May 2016 (Special session)	<ul style="list-style-type: none"> • Framework proposed by the MAT-Ind AS committee – new development 	Click here
May 2016	<ul style="list-style-type: none"> • ITFG clarification Bulletin 2 • Amendments to Accounting Standards • Guidance Note on Accounting for Real Estate Transactions 	Click here
June 2016	<ul style="list-style-type: none"> • Ind AS reminders • Updates on the 2013 Act • Updates on SEBI regulations • Updates on accounting and financial reporting 	Click here
July 2016	<ul style="list-style-type: none"> • SEBI relaxes norms for Ind AS compliant quarterly results • MoF defers ICDS by one year • ITFG: Clarification Bulletin 3 	Click here
August 2016	<ul style="list-style-type: none"> • Revisions to the Framework proposed by the MAT - Ind AS Committee 	Click here

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<https://www.in.kpmg.com/IFRS>

You can reach us for feedback and questions at:

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SEBI issues clarification on revenue recognition inclusive of excise duty

22 September 2016

The Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) issued a notification on behalf of SEBI, on 20 September 2016, which clarifies that companies should follow a uniform approach in their revenue disclosures. Accordingly, 'income from operations' may be disclosed inclusive of excise duty, instead of net of excise duty, as specified in the 2013 Act.

Our IFRS Notes provide an overview of the notifications issued by the BSE and NSE.

Topics discussed in AAU and First Notes

Accounting and Auditing Update (AAU)



Issue no. 2 – September 2016

- Data analytics and technology
- Foreign currency embedded derivatives
- Share-based payment accounting – new concepts
- Unconsolidated structured entities
- Classification of investments in preference shares
- Non-GAAP financial measures – IOSCO’s final statement
- Regulatory updates.

First Notes



The central government amends limits of managerial remuneration

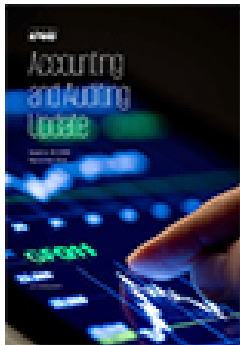
20 September 2016

Section 197 of the Companies Act, 2013 (2013 Act) prescribes the conditions for overall maximum managerial remuneration and managerial remuneration in case of absence or inadequacy of profits. The Schedule V to the 2013 Act provides certain conditions to be fulfilled by a company to pay managerial remuneration.

On 12 September 2016, the central government notified amendments to Section II of Part II of the Schedule V of the 2013 Act. The notification is effective from the date of its publication in the Gazette i.e. 12 September 2016.

Our issue of First Notes provide an overview of the key amendments in Schedule V relating to remuneration payable by companies having no profit or inadequate profit without central government approval.

Missed an issue of Accounting and Auditing Update



Missed an issue of First Notes



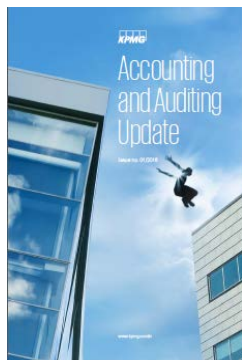
Coming up next

Issue 3 -October 2016

New issue of:

- Accounting and Auditing Update
- First Notes
- IFRS Notes

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Thank you

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