



Voices on Reporting

Quarterly updates

October 2016



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Voices on Reporting, is a series of knowledge sharing calls, organised by KPMG in India, which covers current and emerging reporting challenges and is usually scheduled towards the end of each month.

In this newsletter, we have summarised important topics relating to the quarter ending 30 September 2016 from the Ministry of Corporate Affairs (MCA), the Securities and Exchange Board of India (SEBI) and the Institute of Chartered Accountants of India (ICAI).

We will continue to provide such a summary of relevant quarterly updates in future quarters. We hope you find it of use and relevance.





Updates relating to the Companies Act, 2013

The MCA issues amendments for consolidated financial statements of wholly-owned and partially-owned subsidiaries

Section 129(3) of the Companies Act, 2013 (2013 Act) prescribes the requirements for preparation of the Consolidated Financial Statements (CFS) by Indian companies. On 14 October 2014, MCA provided an exemption from the preparation of CFS to wholly-owned intermediate companies incorporated in India under certain circumstances.

The MCA through a notification dated 27 July 2016 issued the Companies (Accounts) Amendment Rules, 2016 and made following amendments to the given Rules:

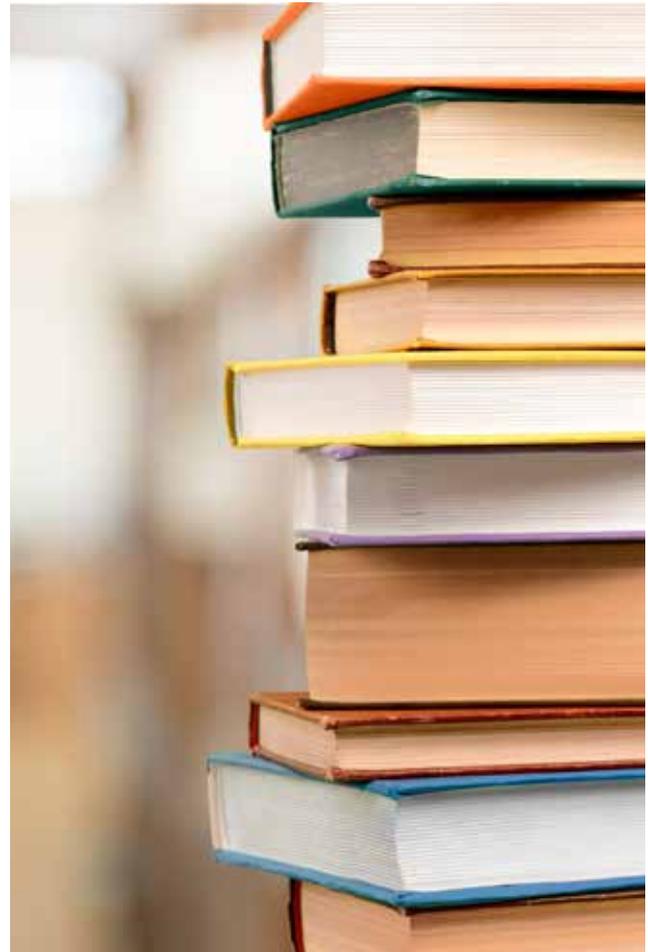
Rule 6: Manner of consolidation of accounts

This Rule pertains to Section 129(3) of the 2013 Act and presently exempts intermediate wholly-owned subsidiary companies incorporated in India from the preparation of CFS, if their immediate parent company is incorporated in India. However, the Rule does not grant an exemption to partially-owned companies or wholly-owned subsidiaries of foreign companies in India.

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

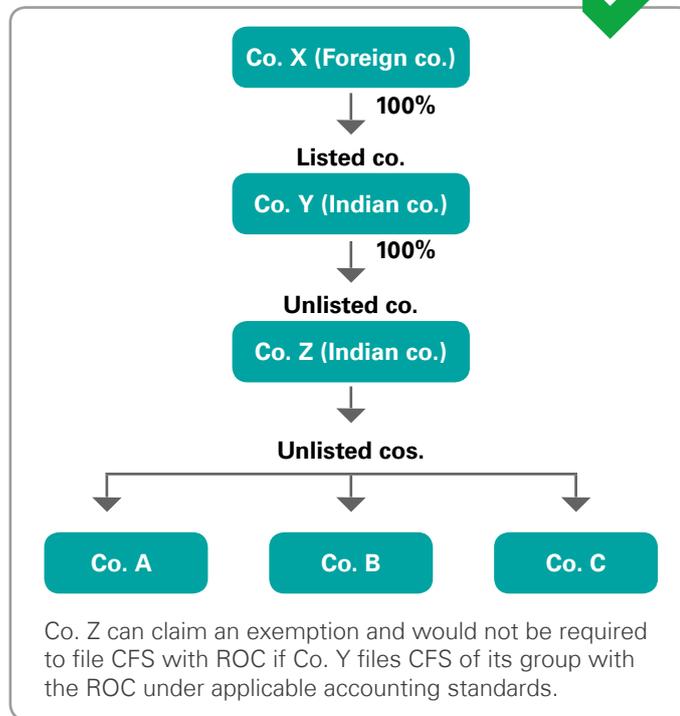
- It is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members (including those not otherwise entitled to vote) have been intimated in writing and for which the proof of delivery of such an intimation is available with the company, do not object to the company not presenting CFS
- 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
- Its ultimate or any intermediate holding company files CFS with the Registrar of Companies (ROC) which are in compliance with the applicable accounting standards.

The amendment grants relief to wholly-owned and partially-owned companies if their ultimate or any intermediate holding company prepares a CFS. However, such ultimate or intermediate parent companies would have to file CFS with the ROC in compliance with the Accounting Standards under the 2013 Act. It is important to note that Rule 6 does not grant any exemption to subsidiaries of foreign companies in India.

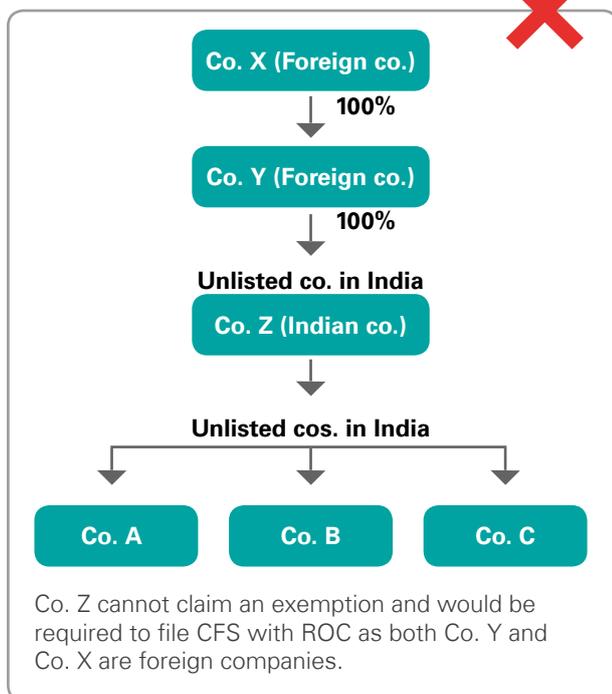


Following are the examples of situations that will get covered under the Rules:

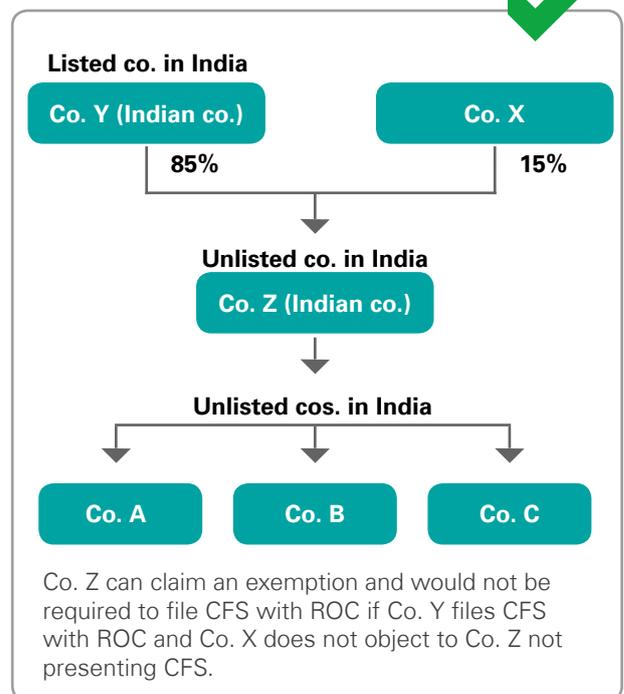
Situation 1



Situation 2



Situation 3



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

Rule 8: Matters to be included in the board's report

Currently, Rule 8(1) requires that the board's report should contain a separate section which provides the report on performance and financial position of each of the subsidiaries, associates and joint ventures included in the CFS.

The amended Rules impose that the board is required to report on the highlights of the performance of its subsidiaries, associates and joint venture companies and their contribution to the overall performance of the company for the reporting period.

Rule 13: Companies are required to appoint an internal auditor

Following two amendments have been made in the Rule:

- An internal auditor may either be an individual, a partnership firm or a body corporate and
- A cost accountant could also be an internal auditor.

Others

Following two revised forms have also been issued by the MCA:

- 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.

Key takeaways

- Earlier the relief was available only to the intermediate wholly-owned subsidiary companies incorporated in India from the preparation of CFS, if their immediate parent company is incorporated in India. The amendment broadens the scope of relief to unlisted subsidiary companies (wholly-owned and partially-owned of Indian parents) in line with the requirements of Ind AS 110, *Consolidated Financial Statements*.
- The rule does not grant any exemption to subsidiaries of foreign companies in India.
- The MCA amendment on matters to be reported in the Board's report helps to reduce the reporting requirements under Rule 8(1) and is consistent with the Company Law Committee's (CLC) recommendations as provided in the Report of the Companies Law Committee issued in February 2016.

(Source: MCA notification dated 27 July 2016 and First Notes released by KPMG in India on 16 August 2016)



The central government amends limits of managerial remuneration

Section 197 of the 2013 Act prescribes the conditions for overall maximum managerial remuneration and managerial remuneration in case of absence or inadequacy of profits. Schedule V to the 2013 Act provides certain conditions to be fulfilled by a company to pay managerial remuneration. Schedule V consists of the 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 central government
- Part II - Remuneration
- Part III - Provisions applicable to Parts I and II
- Part IV - The central government may, by notification, exempt any class or classes of companies from any of the requirements in Schedule V.

On 12 September 2016, the Central Government (CG) notified the following amendments to Schedule V to the 2013 Act relating to remuneration payable by companies having no profit or inadequate profit without CG approval. These amendments are effective from the date of its publication in the Official Gazette i.e. 12 September 2016.

A. Limits in Section II of Part II

Currently, Section II of the Schedule V to the 2013 Act specifies the limit of remuneration to be made to managerial personnel by a company having no profits/inadequate profits without CG approval.

The recent notification has amended the limits. Revised limits are as follows:

Sr. no.	Where the effective capital is	Limit of yearly remuneration payable shall not exceed*
1.	Negative or less than INR5 crore	INR60 lakh (earlier INR30 lakh)
2.	INR5 crore and above but less than INR100 crore	INR84 lakh (earlier INR42 lakh)
2.	INR100 crore and above but less than INR250 crore	INR120 lakh (earlier INR60 lakh)
3.	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.

B. New provision for managerial personnel functioning in a professional capacity

If a managerial personnel is functioning in a professional capacity and possesses graduate level qualification with an expertise and specialised knowledge in the field in which the company operates then approval of the CG is not required if such managerial person, at any time during the last two years before or on after the date of appointment, does not have:

- Any interest in the capital of the company/its holding company/any of its subsidiaries directly or indirectly or through any other statutory structures and
- Any direct/indirect interest or related to the directors/promoters of the company or its holding company/ any of its subsidiaries.

The notification specifies that any employee of a company holding shares of the company not exceeding 0.5 per cent of its paid up share capital under any scheme formulated for the allotment of shares to such employees including Employees Stock Option Plan or by way of qualification 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

The notification also provides that the following conditions need to be satisfied for applying the above mentioned limits:

- Payment of remuneration should be approved by a resolution passed by the board and also by the Nomination and Remuneration Committee in case a company is covered under Section 178(1).
- A company has not committed any default in repayment of any of its debts (including public deposits) or debentures/interest payable thereon for a continuous period of 30 days in the preceding financial year before the date of appointment of such managerial person. **In case of default, the company obtains prior approval from secured creditors for the proposed remuneration and the fact of such prior approval has been obtained needs to be mentioned in the explanatory statement of the notice that is to be circulated in the general meeting.**
- An **ordinary resolution** would be required to be passed for payment of remuneration as per limits mentioned above in (A) and a special resolution is required to be passed, if the limits specified above in (A) are to be doubled, at the general meeting of the company for a period not exceeding three years.

- **A special resolution is required to be passed for payment of remuneration as specified in (B) above**, at the general meeting of the company for a period not exceeding three years.
- A statement along with a notice calling the general meeting should be given to the shareholders containing the information prescribed.

(Emphasis added to present changes introduced by the notification)

- **MCA has also nullified the following requirement**

'in the case of a managerial person who was not a security holder holding securities of the company of nominal value of INR5 lakh or more or an employee or a director of the company or not related to any director or promoter at any time during the two years prior to his appointment as a managerial person, - 2.5 per cent of the current relevant profit:

Provided further that the limits specified under this section shall apply if:

- Payment of remuneration is approved by a resolution passed by the board and in the case of a company under Section 178(1) also by the Nomination and Remuneration Committee*
- The company has not made any default in repayment of any of its debts (including public deposits) or debentures or interest payable thereon for a continuous period of 30 days in the preceding financial year before the date of appointment of such managerial person*
- A special resolution has been passed at the general meeting of the company for payment of remuneration for a period not exceeding three years*
- A statement along with a notice calling the general meeting referred to in clause (iii) is given to the shareholders, containing the specified information'.*

Key takeaways

- **International benchmarking**

The CLC's report recommending amendments to both the 2013 Act and the Rules to the 2013 Act had made recommendations to amend the managerial remuneration limits specified in Schedule V of the 2013 Act. These recommendations were made after comparing managerial remuneration levels in other countries. It also recommended to substitute special resolution by shareholders with an ordinary resolution in certain cases.

The MCA has considered these suggestions made by the CLC and has amended Schedule V.

- **Approval from secured creditors in case of default in repayment of debt**

The revised Schedule V adds a new requirement for payment of managerial remuneration. It requires a company with no profits or inadequate profits to obtain approval from secured creditors if the company defaults in repayment of its debts or interest payable, for a continuous period of 30 days in the preceding financial year before the date of appointment of such managerial person.

- **Special resolution required only in two cases**

Before the amendment, managerial remuneration could be paid by a company that does not have any profit or inadequate profit, within the limits specified in Schedule V if a special resolution was passed.

Now managerial remuneration within the limits specified can be paid by passing an ordinary resolution. However, to double the limit specified in Schedule V, a company would have to pass a special resolution.

In the case, managerial personnel is functioning in a professional capacity, then to pay managerial remuneration to such an individual, when company has no profits or inadequate profits, a special resolution has to be passed.

(Source: MCA notification dated 12 September 2016 and First Notes released by KPMG in India on 20 September 2016)





Updates relating to SEBI regulations

SEBI issues clarification on revenue recognition inclusive of excise duty

On 30 November 2015, SEBI issued a circular (CIR/CFD/CMD/15/2015) which prescribed formats for listed companies publishing financial results as per the requirements of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

SEBI, in its circular dated 5 July 2016 (CIR/CFD/FAC/62/2016) provided certain relaxations to listed entities that were transitioning to Indian Accounting Standards (Ind AS) from 1 April 2016. As part of this circular, SEBI requires listed entities to comply with the existing formats prescribed under the SEBI circular dated 30 November 2015, for reporting financial results until the period ending 31 December 2016. Thereafter, financial results are required to be provided as per the formats prescribed in Schedule III to the 2013 Act.

The format prescribed by SEBI permits 'income from operations' to be disclosed net of excise duty. However, Schedule III to the 2013 Act notified on 6 April 2016, requires 'revenue from operations' to be disclosed inclusive of excise duty.

As a result of the above, there is divergence in practice with some companies disclosing 'revenue from operations' excluding excise duty and others disclosing revenue inclusive of excise duty in their financial results for the quarter ended 30 June 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.

This clarification is based on the guidance in the SEBI circular (CIR/CFD/FAC/62/2016) dated 5 July 2016, which stated that 'in case of any technical difficulty in the interpretation of any specific item in the formats or implementation of this circular while publishing the financial results, the listed entities shall be guided by the relevant provisions of the Companies (Indian Accounting Standards) Rules, 2015 (Ind AS Rules)/ Companies (Accounting Standards) Rules, 2006 (AS Rules) and Schedule III to the 2013 Act and may make suitable modifications, as applicable'.

The clarification is also consistent with the view proposed by the Ind AS Transition Facilitation Group (ITFG) of the ICAI in its fourth bulletin. The ITFG, based on guidance in Ind AS 18, *Revenue* and Schedule III to the 2013 Act, considered excise duty to be a liability of the manufacturer, which forms part of the cost of production. Accordingly, revenue should be presented as a gross amount inclusive of excise duty, which should therefore be reflected as an expense.

Key takeaways

- In the Ind AS financial results for the quarter ended 30 June 2016, approximately 40 per cent of the companies that are part of the BSE 100 have presented revenue inclusive of excise duty, indicating significant divergence in practice. This clarification is now expected to bring uniformity and consistency in the presentation of revenue by listed companies that are preparing their financial results for the quarter ended 30 September 2016.
- The notifications issued by the BSE and NSE state that 'income from operations' may be disclosed inclusive of excise duty, which brings in some ambiguity and could be interpreted as being optional. However, SEBI's intent is to ensure that companies follow a uniform approach. In addition, the notification requires listed companies to take note of the clarification provided and comply accordingly. This indicates that the notification is probably more prescriptive in nature and companies are required to present income from operations inclusive of excise duty.
- A clarification may be required from SEBI to determine whether companies that have presented revenue net of excise duty in their first quarter results are required to revise their comparatives when presenting their second quarter financial results.

(Source: BSE notification no. DCS/COMP/10/2016-17 and NSE notification no. NSE/CML/2016/12 dated 20 September 2016 and IFRS Notes released by KPMG in India on 22 September 2016)

SEBI provides relaxations for Ind AS results published by companies that have listed debt securities

SEBI, on 10 August 2016, issued a circular (the circular) (CIR/IMD/DF1/69/2016) prescribing formats for the disclosure of half-yearly and annual financial results by entities that have listed their debt securities and/or non-cumulative redeemable preference shares (listed companies). These are as follows:

1. Use existing formats up to 31 December 2016: Listed companies to use and comply with the formats prescribed under the SEBI circular dated 27 November 2015 for the:

- 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.

Table below provides the format prescribed in SEBI circular dated 27 November 2015:

Particulars	6 months ended (dd/mm/yyyy)	Corresponding 6 months in the PY# (dd/mm/yyyy)	YTD figures for current period ended (dd/mm/yyyy)	Previous accounting year ended (dd/mm/yyyy)
	Audited/unaudited*	Audited/unaudited*	Audited/unaudited*	Audited/unaudited*

*PY - Previous Year

2. Use new formats for the period ending after 31 December 2016: Listed companies would have to use and comply with the new formats (excluding notes and detailed sub-classification) prescribed under Schedule III to the 2013 Act for the:

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

Further, entities are required to disclose figures relating to the following periods while publishing their half-yearly and annual financial results (tables below depict those requirements):

Statement of profit and loss

Particulars	6 months (Current 6 months) ended (dd/mm/yyyy)	6 months (Corresponding 6 months in the PY) ended (dd/mm/yyyy)	YTD figures ended (dd/mm/yyyy)	PY ended (dd/mm/yyyy)
	Audited/unaudited*	Audited/unaudited*	Audited/unaudited*	Audited

Balance sheet

Particulars	As at (current half year end/ year end date) (dd/mm/yyyy)	As at (PY end date) (dd/mm/yyyy)
	Audited/unaudited*	Audited

*Clearly specify whether the figures are audited or unaudited

- Banks and insurance companies are required to follow the formats as specified in the applicable regulations.
- Additionally, SEBI has revised the formats of the financial results to be published in the newspapers and prescribed that the comparatives filed along with the half yearly/annual financial results should be Ind AS compliant.

Relaxations for first half year of the adoption of Ind AS

The SEBI circular also provides certain relaxations to these listed companies for the first half year of adoption of Ind AS. These are described in the table below.

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.
Submission date extended	14 December 2016 (earlier 14 November 2016)			

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

*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, the listed company should provide adequate disclosure about the fact that:

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

Following additional relaxations are provided 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*
Equity reconciliation for the previous year		✗		✗ ² If submitted, equity reconciliation is required
Net profit/loss reconciliation		✓		✗

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

²Reconciliation of equity for the PY, i.e. year 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.

Other clarifications on issues relating to implementation of Ind AS

1. Technical difficulty

The SEBI circular also clarifies that if a listed company faces any technical difficulty in the interpretation of any specific item in the formats or implementation of the circular while publishing its financial results, it may take guidance from the provisions of the Ind AS Rules/AS Rules and Schedule III to the 2013 Act and make suitable modifications and provide appropriate explanations and clarifications for the same.

2. Year-end other than 31 March

Further, in case a company has previously adopted a financial year end apart from 31 March, then such company should disclose, with due prominence, the fact that the comparative figures presented in the half-yearly/annual financial results are not entirely comparable.

Key takeaways

- **Submission date extended:** The submission date for half-yearly financial results for the period ended 30 September 2016 has been extended to 14 December 2016 (earlier 14 November 2016).
- **Ind AS compliant results:** Comparative financial results filed along with the half-yearly/annual financial results should be Ind AS compliant.

(Source: SEBI circular no. CIR/IMD/DF1/69/2016 dated 10 August 2016 and IFRS Notes released by KPMG in India on 19 August 2016)

Relaxation for Ind AS compliant quarterly results of equity listed companies

SEBI through its circular (CIR/CFD/FAC/62/2016) dated 5 July 2016 provided certain relaxations to the equity listed companies including extending the timeline to submit financial results for the quarter ended 30 September 2016 up to 14 December 2016 (earlier up to 14 November 2016).

Additionally, equity listed companies could also opt to present quarterly/YTD CFS in the second quarter of the FY and this option shall not change during the remaining part of the FY.

The table below provides the reporting requirements for the quarter ended 30 September 2016:

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	✓	✓	✓	✓	✓	✗ (Note a)	✗ (Note b)	✗ (Note a)	Optional

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

Notes:

a. 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.

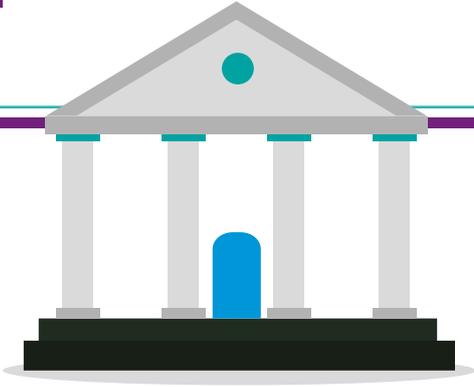
b. Ind AS quarterly financial results for the comparative period are not required to be audited or reviewed. Companies should disclose the fact that the financial results have not been audited/reviewed.

Key takeaways

- The Circular will bring significant relief to companies that are implementing Ind AS in this FY in filing their half yearly financial results. Following are some relaxations for listed entities for quarter ending September 2016 provided by SEBI:
 - Revised formats of balance sheet: The format of balance sheet for the half-year ended 30 September 2016 will be as per the format of the balance sheet (excluding notes and detailed sub classifications) as prescribed in Schedule III to the 2013 Act.
 - Relaxations with respect to implementation of Ind AS: Following are the relaxations with respect to Ind AS implementation:
 - Ind AS compliant financial results for the corresponding YTD/quarter ended 30 September 2015 shall be provided. Limited review or audit of the same is not mandatory.
 - Submission of Ind AS compliant financial results and balance sheet for the PY ended 31 March 2016 is not mandatory. However, in case entity intends to submit these results, limited review or audit of the same is not mandatory.
 - Consolidated financial statements: Listed entity can opt to submit quarterly/YTD consolidated financial results in the second quarter of the FY and this option cannot be changed during the remaining part of the FY.
 - Reconciliation of equity for the previous year ended 31 March 2016: If an entity opts to submit financial results for the PY ended 31 March 2016 as comparative with the financial results for the period ended 30 September 2016 then reconciliation of its equity for the PY ended 31 March 2016 should be provided.
 - Reconciliation of net profit/loss: Reconciliation of its net profit/loss for the quarter ended 30 September 2016 should be provided for the corresponding quarter of the PY.
- The relaxation for the comparative results presented with the half-yearly financial results requires specific disclosure and places emphasis on the management to exercise due diligence to ensure that the financial results present a true and fair view of the company's affairs.
- Listed companies transitioning to Ind AS in FY2016-17 should initiate and manage their communication with relevant stakeholders in order to enable a clear understanding of the impact of Ind AS on their financial position, financial performance and liquidity. They would be required to evaluate whether additional information should be provided voluntarily along with their half-yearly and financial results for their investors to identify the impacts arising from the transition to Ind AS.

(Source: SEBI circular no. CIR/CFD/FAC/62/2016 dated 5 July 2016, circular no. CIR/CFD/CMD/15/2015 dated 30 November 2015 and IFRS Notes released by KPMG in India on 13 July 2016)





Ind AS updates

ITFG issues clarifications bulletin 4

The Ind AS Transition Facilitation Group (ITFG) formed by the ICAI held its fourth meeting on 19 August 2016, and issued its bulletin (Bulletin 4) to provide clarifications on four issues relating to the application of Ind AS, as considered in its meeting.

The ITFG considered and provided following responses to Ind AS implementation issues:

Inclusion of excise duty or other taxes in revenue

Excise duty

Under the current Indian GAAP as per 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.

Paragraph 8 of Ind AS 18, *Revenue* states that '*Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue*'.

Further, Division II of Schedule III to the 2013 Act requires a separate disclosure in the notes relating to revenue from operations for 'sale of products

(including excise duty)'. The format specified in Division II is in compliance with Ind AS notified under Ind AS Rules and is mandatorily applicable to companies implementing Ind AS.

The ITFG considers excise duty to be a liability of the manufacturer, which forms part of the cost of production, irrespective of whether the goods are sold or not. The recovery of excise duty flows to the entity on its own account and should be included in the amount of revenue. Accordingly, the ITFG has recommended a consistent approach and clarified that revenue should be presented as a gross amount including excise duty in the statement of profit and loss prepared under Ind AS. The excise duty payable should be reflected as an expense.

Service tax

Where an entity receives revenue from a customer inclusive of service tax, the ITFG has clarified that paragraph 8 of Ind AS 18 provides that amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and should be excluded from revenue. Since, service tax represents the amount collected on behalf of a third party i.e. the government, it should not be included in revenue. Accordingly, revenue should be recognised net of service tax collected.

Applicability of the Ind AS road map

Negative net worth and Ind AS implementation date

As per the Ind AS road map, Ind AS is applicable to listed and unlisted companies from FY2016-17, only if their net worth is INR500 crore or more. If a company (whether listed or unlisted) has negative net worth, then Ind AS is not applicable to such company from the FY2016-17.

However, Ind AS would be applicable from FY2017-18 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. Accordingly, Ind AS would be applicable to a listed company from FY2017-18 irrespective of its negative net worth.

Date of transition

The date of transition to Ind AS should be determined as per the requirements of Ind AS 101 and the Ind AS road map. A company covered in Phase I of the Ind AS road map is mandatorily required to prepare its financial statements as per Ind AS for the year ended 31 March 2017 with comparatives for the period ending 31 March 2016. The date of transition for such a company is 1 April 2015 and it is not permitted to voluntarily select a transition date prior to 1 April 2015. In case a company wishes to present comparative information for two years when presenting its first Ind AS financial statements for the period ending 31 March 2017, would not be allowed to select 1 April 2014 as the date of transition and present two years' comparatives. The date of transition for such a company would mandatorily be 1 April 2015 and it would therefore, only be able to present comparative information for the preceding year in its first Ind AS financial statements.

Key takeaway

- The clarification bulletins issued by the ITFG are expected to assist companies transitioning to Ind AS by resolving diversity in practice and enabling a more consistent interpretation of Ind AS requirements. Therefore, companies should consider these interpretations in their implementation efforts.

(Source: ICAI - ITFG Bulletin 4 dated 19 August 2016 and IFRS Notes released by KPMG in India on 26 August 2016)



Other regulatory updates

EAC opinions issued by ICAI during the quarter ended September 2016

Sr. no.	Particulars	Month
1.	Accounting treatment for the project assets under construction	July 2016
2.	Treatment of expenditure incurred by the company on roads for transportation of coal	August 2016
3.	Accounting treatment of machinery/capital spares on replacement of worn out parts	September 2016

(Source: The ICAI Journal, The Chartered Accountant for the months of July, August and September 2016)

Implementation guides issued by ICAI

In August 2016, ICAI issued the following two implementation guides:

Implementation Guide on Audit of Internal Financial Controls over Financial Reporting with Specific Reference to Smaller, Less Complex Companies (IG on IFC)

Under Section 143(3)(i) of the 2013 Act, an auditor is required to state in their audit report whether the company has an adequate Internal Financial Controls (IFC) system in place and the operating effectiveness of such controls. Explanation to Section 134(5)(e) of the 2013 Act defines IFC to include policies and procedures adopted by the company for ensuring orderly and efficient conduct of its business, accuracy and completeness of the accounting records, and timely preparation of reliable financial information.

In September 2015, ICAI issued a Guidance Note on Audit of Internal Financial Controls over Financial Reporting (GN). The IG on IFC discusses how the guidance given in the GN may be applied to audits of IFC over financial reporting in case of smaller, less complex companies and addresses some of the practical difficulties that may arise in audits of IFC over financial reporting of such companies. The IG on IFC is in the form of Frequently Asked Questions (FAQs) arising from practical difficulties faced by auditors in the audit of IFC over financial reporting of the said companies.



Implementation Guide on Auditor's Reports under Indian Accounting Standards for transition phase

As per the Ind AS road map issued by MCA on 16 February 2015, Ind AS is applicable in a phased manner on a mandatory basis for the accounting periods beginning on or after 1 April 2016, with comparatives for the periods ending 31 March 2016, or thereafter.

First time implementation of Ind AS poses many challenges in defining the auditor's responsibilities towards the audit of comparative information including opening balance sheet and reconciliations as at the transition date and its implication on the auditor's reporting.

Therefore, ICAI in August 2016, issued an implementation guide on auditor's reports under Ind AS for transition phase which provides guidance on reporting responsibilities of the auditors for the audit of:

- a. Ind AS financial statements prepared for the first year in which Ind AS are applicable to the company.
- b. Ind AS financial results prepared by a listed entity under SEBI Listing Regulations during the first year of adoption of Ind AS.
- c. Special purpose financial statements for the corresponding period and opening balance sheet as per Ind AS which will be presented by the company as part of its first Ind AS financial statements.

Additionally, the implementation guide provides certain illustrative formats of the auditor's report.

Key takeaway

- Companies should take cognisance of the requirements stated in the implementation guides.

(Source: Implementation guides issued by ICAI in August 2016)

MCA notifies commencement of certain sections of the Insolvency and Bankruptcy Code, 2016

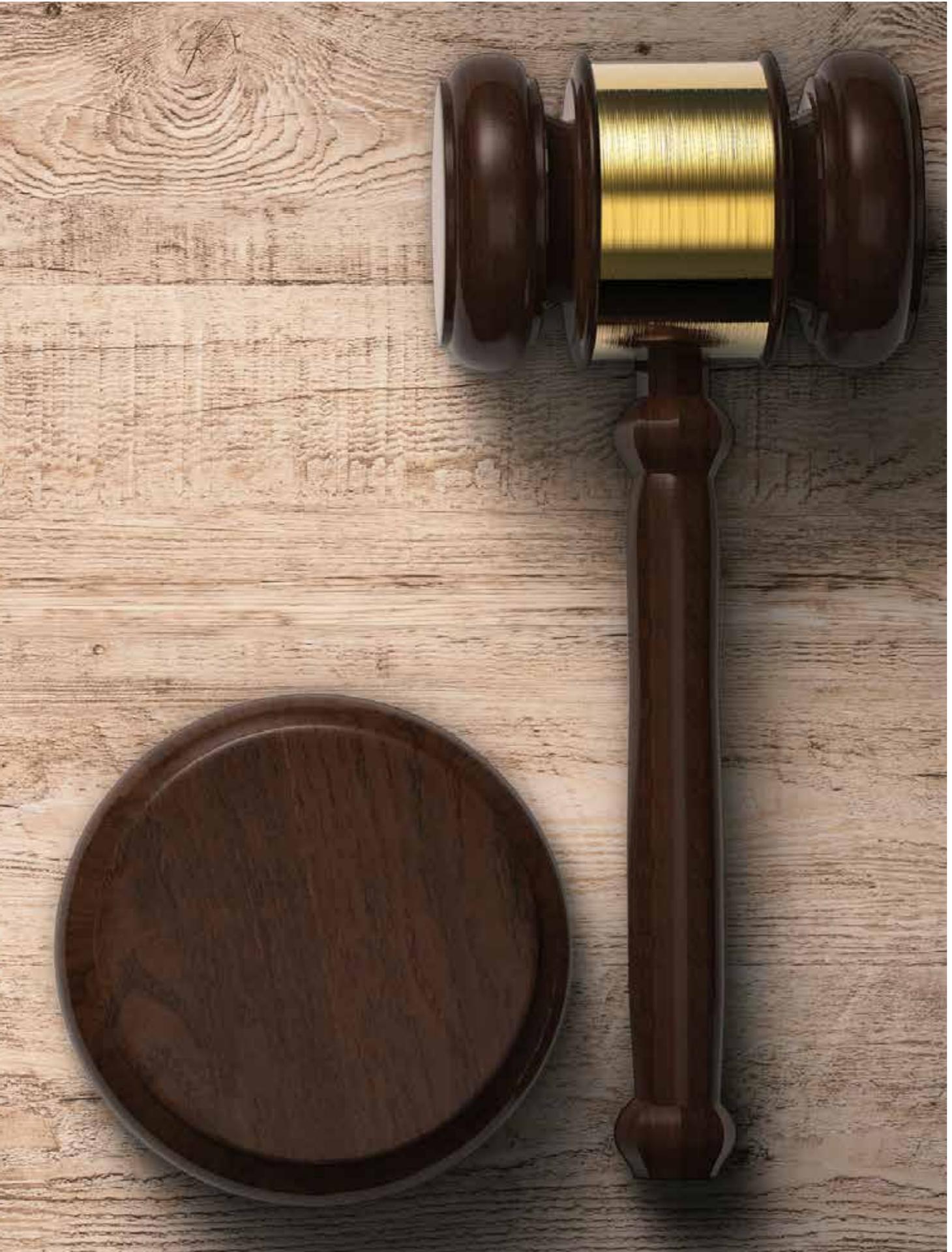
The Insolvency and Bankruptcy Code, 2016 (the Code) issued by the Ministry of Law and Justice in May 2016 consolidate and amend the laws relating to reorganisation and insolvency resolution of corporate persons, partnership firms and individuals in a time bound manner. It is aimed at maximisation of value of assets of such persons, to promote entrepreneurship, availability of credit and balance the interests of all the stakeholders including alteration in the order of priority of payment of government dues and to establish an Insolvency and Bankruptcy Board of India (the Board), and for matters connected therewith or incidental thereto.

Recently, MCA notified certain sections of the Code which are effective from 5 August 2016 and 19 August 2016, respectively. These sections, *inter alia*, relates to establishment and incorporation of the Board, grants by CG to the Board, power of the CG to make rules/regulations, etc.

(Source: MCA notifications dated 5 August 2016 and 19 August 2016)

Glossary

MCA	The Ministry of Corporate Affairs
SEBI	The Securities and Exchange Board of India
ICAI	The Institute of Chartered Accountants of India
2013 Act	The Companies Act, 2013
1956 Act	The Companies Act, 1956
FY	Financial Year
PY	Previous Year
YTD	Year to Date
Ind AS	Indian Accounting Standards
Ind AS Rules	Companies (Indian Accounting Standards) Rules, 2015
AS Rules	Companies (Accounting Standards) Rules, 2006
CFS	Consolidated Financial Statements
ROC	Registrar of Companies
CLC	Company Law Committee
BSE	Bombay Stock Exchange
NSE	National Stock Exchange
CG	Central Government
ITFG	Ind AS Transition Facilitation Group
IFC	Internal Financial Controls
EAC	Expert Advisory Committee
FAQ	Frequently Asked Questions





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Visit KPMG in India's IFRS institute - a web-based platform, which seeks to act as a wide-ranging site for information and updates on IFRS implementation in India.

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

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.

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



The CBDT notifies revised ICDS

5 October 2016

The Central Board of Direct Taxes (CBDT) through its notification No. 87/2016 dated 29 September 2016 notified revised ICDS and repealed its earlier Notification No. 32/2015, dated 31 March 2015.

Further, CBDT through its notification No. 88/2016, dated 29 September 2016 has also amended Tax Audit Report Form No. 3CD in the Income-tax Rules, 1962 by inserting a new sub-clause in the Form No. 3CD to provide details of adjustments with respect to ICDS and disclosures as per ICDS. There are no amendments to three ICDSs relating to accounting policies, government grants and provisions, contingent liabilities and contingent assets. All other ICDS have amendments.

This issue of First Notes aims to highlight the key amendments to those ICDS.



Accounting and Auditing Update

Issue no. 2 | September 2016

This month the Accounting and Auditing Update focusses on the emerging new trends and approaches in the field of accounting and auditing.

This month's edition provides an introduction to Data and Analytics (D&A). D&A has ushered in a virtual revolution in many organisations which are investing significant time, resources and capital to achieve desired business and controlling results. D&A is also acting as a significant disrupter in the way auditors are likely to perform audits in future. Therefore, from this month we begin a series of articles that will discuss how D&A is expected to affect audit, insights that could be provided to companies and how D&A tools are expected to change the conventional audit process.

Our article on Ind AS 102, Share-based Payment summarises the new concepts that companies should focus while accounting for share-based payments under Ind AS.

Financial instruments accounting can be complex as companies in India that enter into foreign currency transactions to purchase or sell machinery, inventory, etc. and such transaction are affected by the guidance under Ind AS 109, Financial Instruments. Companies that invest in financial assets are also impacted by the guidance in Ind AS 109. This publication analyses two such issues: foreign currency embedded derivatives and classification of investments in preference shares.

We also cast our lens on guidelines on presentation of non-GAAP measures and unconsolidated structured entities.

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

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