



Voices on Reporting

7 October 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

Speakers for the call



Madhu Sudan Kankani
Partner
Accounting Advisory Services
KPMG in India



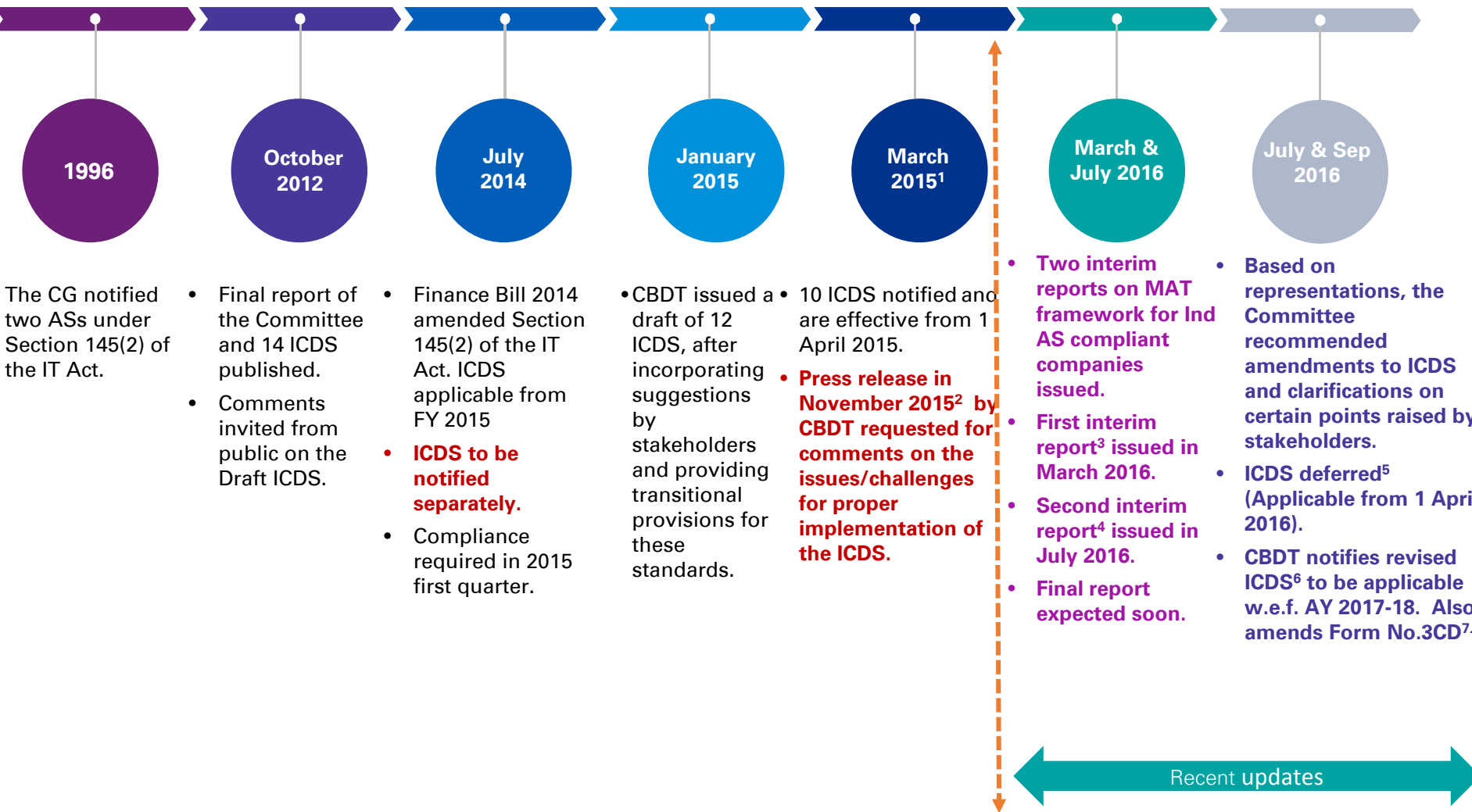
Ruchi Rastogi
Executive Director
Assurance
KPMG in India



Agenda

- **Introduction**
- Overview of the key amendments in ICDS
- Transitional provisions
- MAT updates
- Key implications and next steps

ICDS: Journey so far



1996

The CG notified two ASs under Section 145(2) of the IT Act.

October 2012

- Final report of the Committee and 14 ICDS published.
- Comments invited from public on the Draft ICDS.

July 2014

- Finance Bill 2014 amended Section 145(2) of the IT Act. ICDS applicable from FY 2015
- ICDS to be notified separately.**
- Compliance required in 2015 first quarter.

January 2015

- CBDT issued a draft of 12 ICDS, after incorporating suggestions by stakeholders and providing transitional provisions for these standards.

March 2015¹

- 10 ICDS notified and are effective from 1 April 2015.
- Press release in November 2015² by CBDT requested for comments on the issues/challenges for proper implementation of the ICDS.**

March & July 2016

- Two interim reports on MAT framework for Ind AS compliant companies issued.**
- First interim report³ issued in March 2016.**
- Second interim report⁴ issued in July 2016.**
- Final report expected soon.**

July & Sep 2016

- Based on representations, the Committee recommended amendments to ICDS and clarifications on certain points raised by stakeholders.
- ICDS deferred⁵ (Applicable from 1 April 2016).
- CBDT notifies revised ICDS⁶ to be applicable w.e.f. AY 2017-18. Also amends Form No.3CD⁷.

← Recent updates →

Recent updates



Amendments to ICDS⁶

- CBDT notification dated 29 September 2016 revised seven ICDS except:
 - ICDS I: Accounting Policies
 - ICDS VII: Government Grants
 - ICDS X: Provisions, Contingent Liabilities and Contingent Assets
- Revised ICDS are applicable to all assessees other than an individual or a Hindu undivided family who is not required to get his accounts of the PY audited in accordance with the provisions of Section 44AB of the IT Act.
- Revised ICDS are applicable from AY 2017-18.

Amendments to Tax Audit Report⁷



- Inserted new sub-clauses in clause 13 of Form No.3CD to provide details as follows:
 - Details of adjustments relating to ICDS
 - Disclosures as per ICDS.



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Overview of the key amendments in ICDS

Seven out of 10 ICDS have undergone amendments

No.	ICDS	Amendments	Nature of amendments
ICDS I	Disclosure of Accounting Policies	X	
ICDS II	Valuation of Inventories	✓	Alignment with existing Indian GAAP and Ind AS
ICDS III	Construction Contracts	✓	Transitional provisions simplified
ICDS IV	Revenue Recognition	✓	Relaxation to existing ICDS
ICDS V	Accounting for Tangible Fixed Assets	✓	Inconsistency removed
ICDS VI	The Effects of Changes in Foreign Exchange Rates	✓	Relaxation to existing ICDS
ICDS VII	Government Grants	X	
ICDS VIII	Securities	✓	Additional guidance for banks and certain FI's
ICDS IX	Borrowing Costs	✓	Relaxation to existing ICDS
ICDS X	Provisions, Contingent Liabilities and Contingent Assets	X	



ICDS II: Valuation of Inventories

- i. Revised ICDS allow standard cost method for measuring inventory
- ii. Additional disclosures required when standard cost method is used. The disclosures are as follows:
 - Details of inventories measured at standard cost, and
 - A confirmation that standard cost approximates the actual cost
- iii. Revised ICDS omits the reference to the service provider in cost of services paragraph.

The introduction of the standard cost model for measurement of inventory in revised ICDS II has made the revised ICDS consistent with Ind AS and the existing ASs.



ICDS IV: Revenue Recognition

i. Revenue from service transactions

- Earlier, revenue from service transactions was recognised by using the percentage-of-completion method in all cases. The revised ICDS introduce the following exceptions:
 - When services are provided by an indeterminate number of acts over a specific period of time, revenue may be recognised on a straight line basis over the specific period.
 - Revenue from service contracts with duration of not more than 90 days may be recognised when the rendering of services under that contract is completed or substantially completed.

ii. Use of resources by others yielding interest, royalties or dividends

- Earlier, interest revenue was accrued on time basis determined by the amount outstanding and the rate applicable and did not provide any exception to accrual of interest on time basis on tax, duty and cess.
- The revised ICDS provide that interest on tax, duty or cess would be recognised in the previous year in which it is received. Therefore, accrual on time basis for these interest is not required.

These amendments would come as a relief for short duration services contract and maintenance contracts. Further, interest on payments made under protest to various tax departments are to be taxed on collection and not on accrual.



ICDS V: Tangible fixed assets

- i. Earlier, an entity holding jointly owned tangible fixed assets was required to indicate separately such assets in the tangible fixed assets register.
- ii. The revised ICDS has removed this requirement.

This amendment removes inconsistency and confusion regarding maintenance of a separate FAR for ICDS purposes.



ICDS VI: The Effects of Changes in Foreign Exchange Rates

- i. The revised ICDS discards the classification requirement of a foreign operation into integral and non-integral operations.
- ii. The financial statements of such foreign operation should be translated using the principles and procedures specified for foreign currency transactions considering as if the transaction of the foreign operation had been those of the person himself/herself.
- iii. The revised ICDS now mandates foreign currency inventory (non-monetary item) if carried at net realisable value, should be reported using the exchange rate that existed when such value was determined.

This amendment should come as a relief to entities with non-integral foreign operations for the treatment of FCTR balance, both opening and ongoing.



ICDS VIII: Securities

- Revised ICDS introduce two parts in this standard as follows:
 - **Part A:** for securities held as stock-in trade
 - **Part B:** for securities held by a scheduled bank/public financial institutions.

Part A

- Similar to previously issued ICDS on 31 March 2015.
- Revises definition of securities and aligned it to IT Act.
- Allows use of weighted average cost for subsequent measurement of securities.

Part B

- New addition to the standard.
- Applicable for securities held by a scheduled bank/public financial institutions (aligned to Section 43D of IT Act).
- Securities to be classified, recognised and measured in accordance with the guidelines issued by RBI.
- Any claim for deduction in excess of such guidelines should not be taken into account.
- Provisions of ICDS VI on the effect of changes in foreign exchange rates relating to forward exchange contracts should not apply.



ICDS IX: Borrowing Costs

- i. Definition of qualifying asset under earlier ICDS did not 'qualify' assets basis the time it takes for construction/acquisition or production. Borrowing cost, may need to be capitalised even if an asset does not take substantial period of time to contact.
- ii. The revised ICDS updates the definition of 'qualifying asset' for the purposes of general borrowing cost capitalisation only (and not specific borrowing cost capitalisation).
- iii. In line with existing ASs. It specifies that qualifying asset for the purposes of general borrowing cost capitalisation should be such asset that necessarily requires a period of 12 months or more for its acquisition, construction or production.

This amendment would provide relief to all assesseees with general borrowing cost. Now, only the general borrowing costs related to qualifying assets which take 12 months or more for construction/acquisition or production would be considered for capitalisation as per the formula prescribed in ICDS.



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Transitional provisions



- The overarching principles of the transitional provisions are that no income would escape taxation nor would it suffer double taxation as a result of the transition to this new framework.



- Amendments made to transitional provision relating to ICDS on construction contracts and service contracts which commenced prior to the date of applicability of ICDS, but not completed by the said date.
- The revised ICDS allows companies to recognise contract revenue and contract cost associated with such contracts based on the method followed prior to applicability of the ICDS.



- With deferment of ICDS the transition date for all the ICDS will be 1 April 2016.



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MAT computation under Ind AS

- For companies falling under the purview of Phase I of the Ind AS road map, their profits/losses for FY 2016-17 would be as per Ind AS. Further for determining advance tax payment, MAT computations are required.
- The CBDT had constituted a committee to suggest the framework for computation of MAT under Section 115JB of the IT Act for Ind AS compliant companies. The Committee submitted two interim reports on 18 March 2016 and 23 July 2016.



- Key requirements of the first interim report dated 18 March 2016
 - Book profit to be computed using net profits before OCI. Specific treatment for items of OCI
 - One time Ind AS adjustments to retained earnings on date of transition to be subject to MAT (subject to certain exceptions).



- The second interim report provides additional guidance for MAT on first time transition adjustments
 - Carrying value of fixed assets i.e. tangible/intangible assets would effectively be the previous GAAP book value
 - Retained earning adjustment arising from lease equalisation liability or asset should be included in book profit over three years
 - Fair value adjustments on investments should be included in book profit over three years
 - Any other adjustment also proposed to be included in book profit over three years.

- These recommendations have not yet been accepted by CBDT but indicate the trend of thought of tax authorities.



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Key implications

Perform impact
assessment on tax
liabilities



Need to prepare on the basis
of new reporting requirements
under ICDS



Consistency with existing
accounting practices
(Ind AS/AS)



Re-perform impact
assessment on the basis of
revised ICDS for companies
that have already adopted
ICDS



Diversity on issues due to gap
between accounting standards
and ICDS



Modifications to Form
No. 3CD



Next steps



Frequently asked questions



Additional ICDS



MAT Ind AS Final Report



Q&A

Sources

1. The CBDT notification No. 33/2015 dated 31 March 2015.
2. The CBDT press release dated 26 November 2015.
3. The Report of MAT-Ind AS committee dated 18 March 2016.
4. The Report of MAT-Ind AS committee dated 23 July 2016.
5. The CBDT press release dated 6 July 2016.
6. CBDT notification no. 87/2016 dated 29 September 2016.
7. CBDT notification No. 88/2016 dated 29 September 2016.

Glossary

- ICDS - Income Computation and Disclosure Standards
- CBDT - Central Board of Direct Taxes
- IT Act – Income-tax Act, 1961
- Ind AS - Indian Accounting Standard
- AS - Accounting Standard
- MOF – Ministry of Finance
- CG - Central Government
- PY - Previous Year
- FY - Financial Year
- YTD - Year to date
- The Committee - Expert Committee comprising departmental officers and professionals
- GAAP – Generally Accepted Accounting Practices
- RBI – Reserve Bank of India
- MAT – Minimum Alternate Tax
- OCI – Other Comprehensive Income
- FI – Financial Institutions
- FAR – Fixed Asset Register
- FCTR – Foreign Currency Translation Reserve

Links to previous recordings of VOR

Month	Topics	Link
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
September 2016	<ul style="list-style-type: none">• Updates on the 2013 Act• Updates on Ind AS• Updates on SEBI regulations• Other regulatory updates	Click here

For other archives of VOR calls, visit www.KPMG.com/in

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In addition to proprietary KPMG content, the website provides links to several other sources of information related to IFRS and its implementation. The site can be accessed by all interested parties at no cost. Additionally, the site provides the facility of registering as a member by providing certain minimal information.

To download KPMG content, become registered members of the website by following a few easy steps.

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

You can reach us for feedback and questions at:

in-fmkpmgifsinst@kpmg.com



SEBI issues clarification on revenue recognition inclusive of excise duty

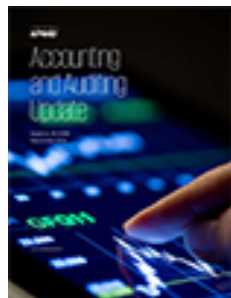
22 September 2016

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 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.

Missed an issue of Accounting and Auditing Update



Missed an issue of First Notes



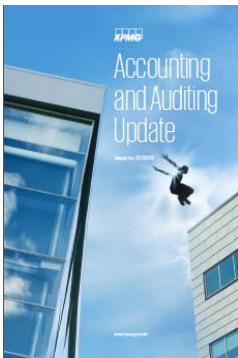
Coming up next

Issue 3 -October 2016

New issue of:

- Accounting and Auditing Update
- First Notes
- IFRS Notes

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Thank you

KPMG in India contacts:

Madhu Sudan Kankani
Partner

Accounting Advisory Services
KPMG in India
E-mail: mkankani@kpmg.com

Ruchi Rastogi
Executive Director

Assurance
E-mail: ruchirastogi@kpmg.com

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

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