



Accounting and auditing update – Significant recent developments

Quarter ended 30 June 2017

Agenda

GST – good and simple tax?



MCA updates



Resolution framework to handle insolvency



Other updates



GST – good and simple tax?

Framework



- Dual GST for Centre and States
- IGST on inter-state transactions and import of goods and services
- Destination based consumption tax - tax on supply rather than manufacture, sale, etc.
 - Broad definition of 'supply'

Coverage



- Most of the central and state taxes subsumed e.g. excise, VAT
- Multi- stage collection mechanism
 - Credit available for tax paid at previous stage and is available for set off in prescribed manner

Other matters



- Tier wise tax rate structure
 - Maximum rates capped
- Transition provisions available

The Government has notified the provisions with effect from 1 July 2017

GST - accounting implications

- Revenue will be recognised exclusive of GST
 - Revenue will decrease to the extent of excise duty (if applicable) included earlier
- Timing (and/or amount) of revenue recognition as per applicable accounting standards may not coincide with that for GST
- Decrease in cost of acquisition of property, plant and equipment and inventory
 - Refundable taxes are not considered as a cost of acquisition under accounting standards (AS as well as Ind AS)

Various indirect taxes, such as octroi, entry tax, which were earlier not eligible for tax credit (and hence included in cost as non-refundable taxes) will be subsumed within GST (and hence excluded from cost)
- Raw material consumption and other expenses
 - Seamless input credit for intra-state and inter-state purchases of goods to result in reduction of cost of raw material
 - GST paid on many services like legal consultation, audit fees, engineering consultation, etc. can be setoff against output GST.
Currently input credit of service tax paid cannot be adjusted against output excise/VAT
- Accounting of excise duty on inventory as at 30 June 2017
- Updation of chart of accounts
- Modification of existing agreements, purchase orders and other documentation for compliance with GST

MCA further relaxes norms for private companies

(1/3)

Ministry of Corporate Affairs (MCA) has on 13 June 2017 amended its notification of June 2015 regarding exceptions/modifications of provisions of Companies Act, 2013 (2013 Act) as applicable to private companies

Henceforth, all modifications/exceptions (including existing ones) will apply only if the private company has not defaulted in filing financial statements or annual return with Registrar of Companies (RoC)

Further exceptions/ modifications

Auditors not required to report on IFC of a private company:

- which is a one person or a small company, or
- which has a turnover < INR50 crore as per latest audited financial statements, or has aggregate borrowings from banks/ financial institution/ any body corporate at any point of time during the financial year < INR25 crore

Interested director will be counted for quorum of a board of directors meeting (where at any time the number of interested directors exceeds or is equal to two-third of BoD) if disclosure of interest is made in the prescribed manner

Exemption from compliance with certain provisions relating to acceptance of deposits from members (e.g., issuance and filing of circular, deposit repayment reserve, deposit insurance) by a private company which:

- accepts monies from members not exceeding 100 per cent of aggregate of the paid up share capital, free reserves and securities premium account (earlier, securities premium account not included) or;
- is not an associate or subsidiary company and has:
 - borrowings from banks/ FI/ body corporate < twice the paid up share capital or INR 50crore, whichever is lower; and
 - not defaulted in the repayment of such borrowings subsisting at the time of accepting deposits

Submit details of monies to RoC in the prescribed manner

MCA further relaxes norms for a private company (which is a startup company*) (3/3)

- Not required to prepare a cash flow statement
- Exemption from compliance with certain provisions relating to acceptance of deposits from members [clause (a) to (e) Section 73(2) of 2013] for five years from incorporation
 - Submit details of monies to RoC in the prescribed manner
- Annual Return to be signed by a company secretary (if appointed) or by the director
- Permitted to hold one BoD meeting in each half of a calendar year
 - The gap between two meetings should be not less than 90 days

* Start-up company recognised as such by Ministry of Commerce and Industry

Exemptions for a section 8 company modified (companies with charitable objects, etc.)

- Requirement of having minimum number of directors reinstated
- Permitted to give loan for funding industrial research and development projects (in furtherance of its objects) with interest rate lower than the prevailing yield of a Government security closest to the tenor of the loan if 26 per cent or more of the paid-up share capital is held by the Central Government or one or more State Governments or both

Exemptions (including existing ones) available only if the Section 8 company has not defaulted in filing financial statements or annual return with RoC

Norms for cross border mergers notified

Provisions relating to merger/ amalgamation of a foreign company with an Indian company and vice versa (Section 234) come into force on 13 April 2017. As per the relevant Rules notified by the MCA in this regard:

- All cross border mergers require:
 - prior Reserve Bank of India approval
 - compliance with requirements of merger/ amalgamation (i.e. Sections 230 - 232 to the 2013 Act and the relevant Rules)
- Transferee company to ensure additional requirements in case of merger of an Indian company with a foreign company:
 - Permitted only with a foreign company from a permitted jurisdiction – such jurisdictions have been specified
 - Valuation conducted by valuers who are member of a recognised body in the jurisdiction of transferee company (foreign company)
 - Valuation should be in line with internationally accepted principles of accounting and valuation
 - Declaration to this effect should be attached with the application for RBI approval

Transfer of shares to IEPF

Investor Education and Protection Fund Authority Amendment Rules, 2017 provided that where the seven year time limit for transfer of shares to IEPF Authority expires during 7 September 2016 to 31 May 2017, the due date of such transfer is 31 May 2017

- MCA has clarified that:

- Till the opening of special demat accounts by the Investor Education and Protection Fund, the due date for transfer of shares stands extended
- Revised due date for transfer of shares is expected to be notified soon; however companies are advised to complete all formalities

[Might impact the auditor's response while reporting on this matter under Rule 11(c) of Companies (Audit and Auditors) Rules, 2014]

Norms for auditor rotation relaxed

- MCA has amended the Companies (Audit and Auditors) Rules, 2014 to relax the norms relating to rotation of auditors for private companies. The amendment comes into force on 22 June 2017 – the date of publication in the Gazette
- The minimum paid up capital criterion for rotation of auditors by private companies has been increased to INR50 crores (earlier INR20 crores)

MCA proposes norms for restriction on layers of subsidiaries

MCA proposes to restrict certain classes of holding company from having more than prescribed layers of subsidiaries by giving effect to the proviso to Section 2(87) of the 2013 Act

Aims to mitigate diversion of funds and as a measure of minority investor protection

Proposed Rules

- Holding company to have maximum two layers of subsidiaries
 - The two layers of investment companies as permitted under Section 186(1) will be included in the count
 - One layer of wholly owned subsidiary excluded
- Restriction on layers of investment companies [as per Section 186(1)]

Proposed restriction will not apply to:

- Holding company for acquiring a foreign subsidiary (if such subsidiary has subsidiaries as per the foreign laws)
- Banking company
- Systemically Important NBFC registered with the RBI
- Insurance company
- Government company

- Proposed to apply prospectively only
- Existing holding companies do not need to reduce excess layers of subsidiaries
 - Subject to a return to the RoC giving details of layers of subsidiaries in the prescribed form being filed
 - Cannot add additional layer

Comments may be sent by 20 July 2017

Resolution framework to handle insolvency of Companies/ NPAs made operational

- Eleven benches of the National Company Law Tribunal (NCLT), the adjudicating authority, set up; the number may increase
- If required, dedicated benches of NCLT to deal with NPAs resolution and insolvency will be set up
- NCLT also deals with a large number of other issues of Company Law including mergers, restructuring, etc.

The Insolvency and Bankruptcy Board of India (IBBI) was set up with the responsibility of developing and regulating insolvency professionals and Insolvency Professional Agencies

Insolvency professionals – company secretaries, chartered accountants, cost accountants and advocates with ten years of total experience are eligible to take online examination for life time registration

- About 400 professionals are already registered as insolvency professionals for life time
- Challenging assignment: requires management, financial and legal skills, knowledge of business and innovative ideas

Procedure to resolve insolvency put into effect

- In case of default of INR1 lakh or more, either a creditor or the debtor himself to apply to the NCLT which has to be satisfied that there has been a default
- NCLT may appoint the suggested interim insolvency professional for one month. He becomes de-facto MD and compiles a list of claimants – on the basis of which Committee of Creditors is formed which may or may not change the insolvency professional who runs the company with the approval of the Committee on major decisions
- Plan for resolving insolvency/ non performing asset issue to be made. Should be approved by a majority of creditors and submitted to NCLT which may approve it or the company may be put into liquidation

SEBI revamps norms for monitoring agency on use of proceeds of issue of shares

Key amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR) include:

- Monitoring agency (public financial institution or a scheduled commercial bank) to monitor use of proceeds of issue (excluding the size of offer for sale by selling shareholders) in excess of INR100 crores instead of the earlier limit of INR500 crores

- Monitoring agency to submit quarterly report to issuer (instead of half yearly) till 95 per cent of the proceeds excluding proceeds for general corporate purpose is utilised (earlier requirement- full utilisation of entire proceeds)
 - Prescribed format of report has been substantially amended
- BoD and the management of the company to provide comments on the report by the monitoring agency

Company to:

- upload the report of the monitoring agency on its website and
- submit the report to the stock exchange (where its equity shares are listed)

within 45 days from the end of the quarter

SEBI proposes relaxations from preferential issue/ open offer

Key decisions from SEBI Board Meeting on 21 June 2017:

Relaxations from compliance with preferential issue requirements under SEBI ICDR and open offer obligations under SEBI takeovers regulations extended to:

- New investors acquiring shares in distressed companies pursuant to Strategic Debt Restructuring schemes
(These relaxations are subject to certain conditions e.g approval of shareholders by special resolution and lock-in of their shareholding for a minimum period of three years)
- Other restructuring schemes undertaken as per RBI Guidelines
- Acquisitions pursuant to resolution plans approved by the NCLT under the Insolvency and Bankruptcy Code, 2016. (These would be exempt from open offer obligations)

Aimed at facilitating turnaround of listed companies in distress – a process that may involve making of preferential issue/ open offer

Draft ICDS on real estate transactions

The Central Board of Direct Taxes (CBDT) has issued a draft standard for computation and disclosure of income for tax purposes in respect of real estate transactions

Largely aligned with the Institute of Chartered Accountants of India (ICAI) Guidance Note (GN) on Accounting for Real Estate. However, it seems that income computed as per the proposed Income Computation and Disclosure Standards would generally be higher than net profit as per GN. Key differences are as follows:

- Definition of the term 'project' in ICDS could result in a smaller group of units as compared to the GN
- No cap on recognition of revenue under draft ICDS
 - Where a method of determination of stage of completion other than project costs incurred method (e.g., survey of work done) is followed, the GN caps recognition of revenue based on the stage of completion determined with reference to project costs incurred – draft ICDS does not cap such recognition of revenue
- If development rights are acquired by way of giving up of rights over existing structures/ open land, transferable development rights should be recorded at their fair value - GN (AS) requires such rights to be recorded at the lower of the fair market value or net book value while the GN (Ind AS) requires measurement at fair value except in specified cases
- As per the GN, where it is probable that total project costs will exceed total project revenues, the expected loss should be recognised as expense immediately – the proposed ICDS does not state so
- Unlike the GN, draft ICDS does not include the condition of obtaining all critical approvals for recognition of revenue
 - Argued to be irrelevant in view of newly enacted Real Estate Regulation Act

ITFG Bulletins: clarifications by ICAI

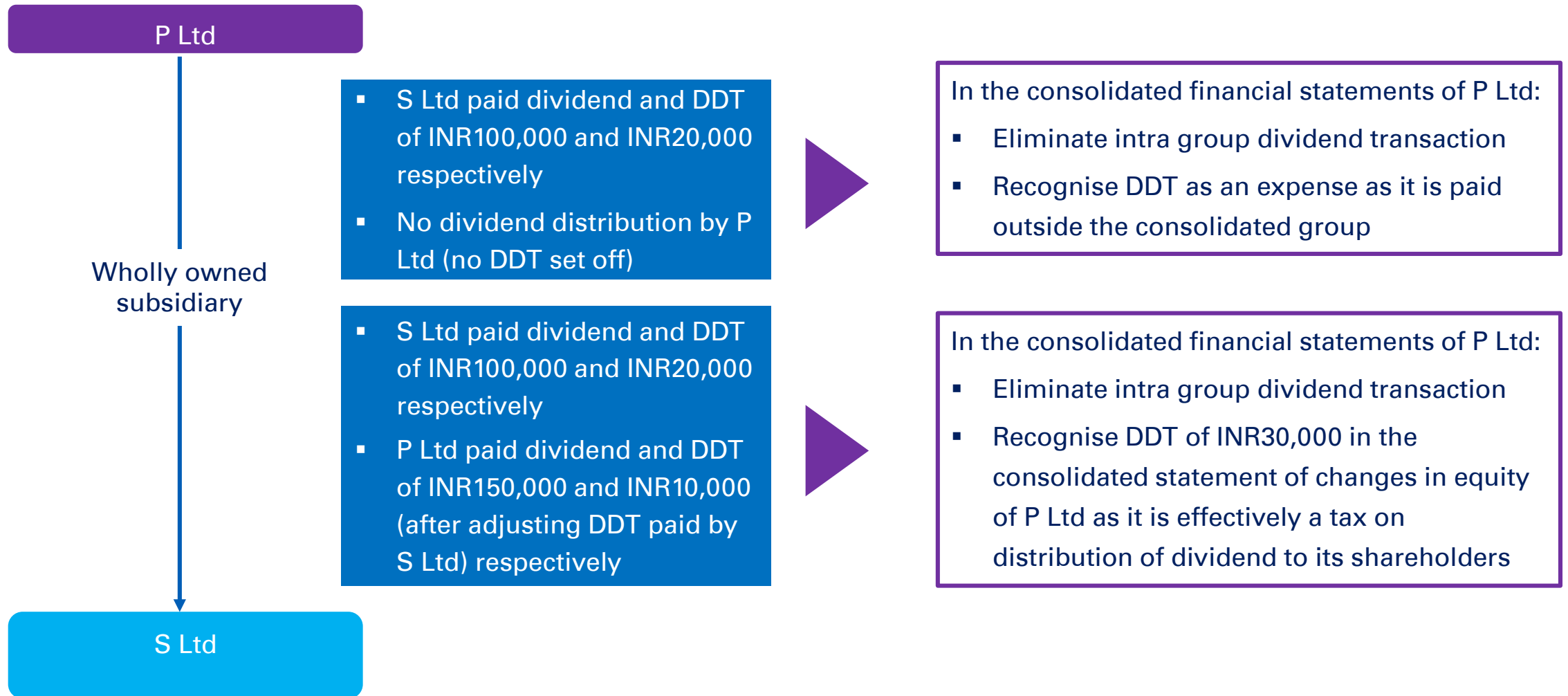
ICAI has set up an expert group, Ind AS Transition Facilitation Group (ITFG) to provide clarifications on a timely basis on various issues relating to applicability and implementation of Ind AS. The Group has issued a large number of clarifications, which though do not necessarily represent the views of the ICAI, nevertheless provide useful guidance. While most of the clarifications are on complex technical issues which would be of interest only to accountants facing such problems, the following clarification on unspent CSR amount may be of general interest.

Provision for unspent corporate social responsibility amount under Ind AS

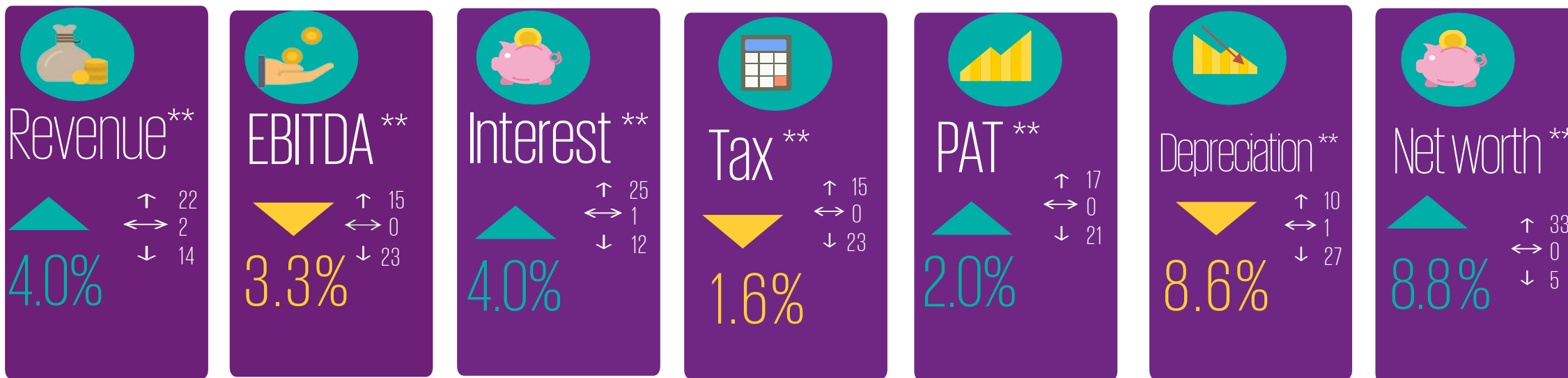
Provision may not be required for any shortfall (i.e. difference between minimum amount required to be spent as per the 2013 Act and amount actually spent) unless the company has a:

- Contractual obligation, or
- Constructive obligation

ITFG Bulletins: Accounting for Dividend Distribution Tax (DDT)



Impact of Ind AS on key performance indicators of 38 Nifty 50 companies*



*The above is based on results of 38 companies listed on the Nifty 50 which have published their Ind AS results for the year ended 31 March 2017 (including comparatives for the year ended 31 March 2016). These results have been compiled above. The impact of the transition to Ind AS presented above is based on the reported results for the year ended 31 March 2016 as per 'AS' and as per 'Ind AS' for the year ended 31 March 2016. Where available, 'AS' consolidated results have been considered

**The percentage change reflected in the tables above has been compiled with reference to the aggregate movement in the respective measure for the comparative period ending 31 March 2016 of the companies covered

Source: Ind AS Practical perspectives as published by KPMG in India

Key Ind AS impact areas



Common control transactions and business combinations



Foreign exchange differences capitalised



Enabling assets



Government grants



Embedded leases



Share-based payments



Expected credit loss model



Preference share classification



Operating segments



Borrowing costs



Deferred tax on indexation benefits on land

Roadmap for implementation of Ind AS - a reminder

(1/4)

| Companies – Phase II | |
|----------------------|--|
| Year of adoption | FY 2017 - 18 |
| Comparative year | FY 2016 – 2017 |
| Companies covered | <ul style="list-style-type: none">▪ Listed companies with equity/ debt listed or in the process of being listed in/ outside India (excluding those listed or in the process of being listed on the SME exchange)▪ Companies having net worth \geq INR250 crore |
| Group companies | Holding, subsidiaries, joint ventures, or associates of companies covered above. |
| Net worth | As per separate financial statements as on 31 March 2014 or the latest audited financial statements for accounting period ending after that date |



Apart from the above, any company (and its holding, subsidiary, joint venture or associate company) may voluntarily adopt Ind AS on a consistent basis

SEBI relaxations in reporting of first Ind AS financial results

(2/4)

- The format of financial results (i.e. statement of profit and loss and half yearly balance sheet) to be as per Schedule III of 2013 Act (excluding notes/ detailed sub-classification) to be applied by companies other than banking and insurance entities
- To facilitate transition to Ind AS, SEBI has provided certain relaxations in submitting Ind AS based financial results by listed companies covered by Phase II of the Ind AS roadmap

| | QE June 2017 | QE September 2017 | QE December 2017 |
|---|---|---|---|
| Deadline for submission extended | 14 September 2017 | 14 December 2017 | No change |
| Consolidated financial results (optional) | Option can be exercised by the second quarter i.e. September 2017 instead of the first quarter | | |
| Results – mandatory | <ul style="list-style-type: none">▪ QE June 2017▪ QE June 2016* | <ul style="list-style-type: none">▪ QE and YTD September 2017▪ QE June 2017▪ QE and YTD September 2016* | <ul style="list-style-type: none">▪ QE and YTD December 2017▪ QE September 2017▪ QE and YTD December 2016 |
| | *need not be reviewed/ audited. Management to state such fact and ensure that the financial results provide a true and fair view of its affairs | | |

SEBI relaxations in reporting of first Ind AS financial results

(3/4)

| | QE June 2017 | QE September 2017 | QE December 2017 |
|---------------------|---|---|---|
| Results – voluntary | <ul style="list-style-type: none">▪ QE March 2017*▪ YE March 2017* | <ul style="list-style-type: none">▪ YE March 2017*▪ Balance sheet for YE March 2017* | <ul style="list-style-type: none">▪ YE March 2017 |
| If presented | *need not be reviewed/ audited. Management to state such fact and ensure that the financial results provide a true and fair view of its affairs | | If presented, need to be reviewed/ audited |

- Equity reconciliation for the previous year (i.e. YE March 2017) to be submitted along with :
 - annual audited financial results (e.g., 31 March 2018)
 - first half year if company voluntarily submits comparative results for the previous year e.g. 31 March 2017
- Profit/ loss (under Ind AS) of the corresponding quarter of the previous year should be reconciled with profit/ loss reported under the previous GAAP
- Specific guidance for financial year comprising a period different from the normal 12 months

Roadmap for implementation of Ind AS - a reminder

(4/4)

| Year of adoption | NBFCs - Phase I | NBFCs - Phase II | Banking entities |
|------------------|---|------------------|--|
| | FY 2018 - 2019 | FY 2019 – 2020 | |
| Comparative year | FY 2017 - 2018 | FY 2018 – 2019 | FY 2017 - 2018 |
| Entities covered | <p>All NBFCs having net worth \geq INR 500 crore</p> <ul style="list-style-type: none"> Equity or debt listed NBFCs or NBFCs which are in the process of being listed and having net worth* $<$ INR 500 crores Other NBFCs having net worth* \geq INR 250 crore but $<$ INR 500 crore | | Scheduled commercial banks (excluding RRBs and Exim Bank/ NABARD/ NHB/ SIDBI) |
| Group entities | Applicable to holding, subsidiaries, joint ventures, or associates of companies covered above, other than those covered under roadmap for other companies | | Holding, subsidiaries, joint ventures or associates of banks to follow this Roadmap even if covered under roadmap applicable for other companies |

Voluntary adoption not permitted

*As per separate financial statements as at 31 March 2016 or latest audited financial statements for accounting period ending after that date

Roadmap for implementation of Ind AS – Insurance entities

- As per the earlier roadmap, Ind AS were applicable to insurance entities from accounting periods beginning on or after 1 April 2018
- In view of issuance of IFRS 17, Insurance Contracts, by International Accounting Standards Board (IASB), which replaces the interim standard on this subject and deals specifically with the insurance industry, Insurance Regulatory and Development Authority (IRDA) has deferred the application of Ind AS for two years
 - Ind AS will now apply to insurance entities from financial year 2020-21

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