cutting through complexity

Voices on reporting

30 June 2014

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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 and First Notes publications

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Topics for today

1 **Revenue from contracts with customers - Overview**

2 Companies Act 2013 – clarifications issued by the Ministry of Corporate Affairs (MCA)

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Why is this important?

- Revenue is a key metric for many entities
- As per IFRS 15 a new framework has been introduced for the analysis of revenue transactions
- The impact will vary between entities
- Your stakeholders/investors will want to understand the impact on your business.

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Key Facts – Overview

Remove inconsistencies and weaknesses in existing requirements.

Provide a more robust framework for addressing revenue issues.

IASB/FASB Converged Standard

Provide more useful information through improved disclosure requirements.

Simplify preparation of financial statements by reducing the number of requirements by having one revenue framework.

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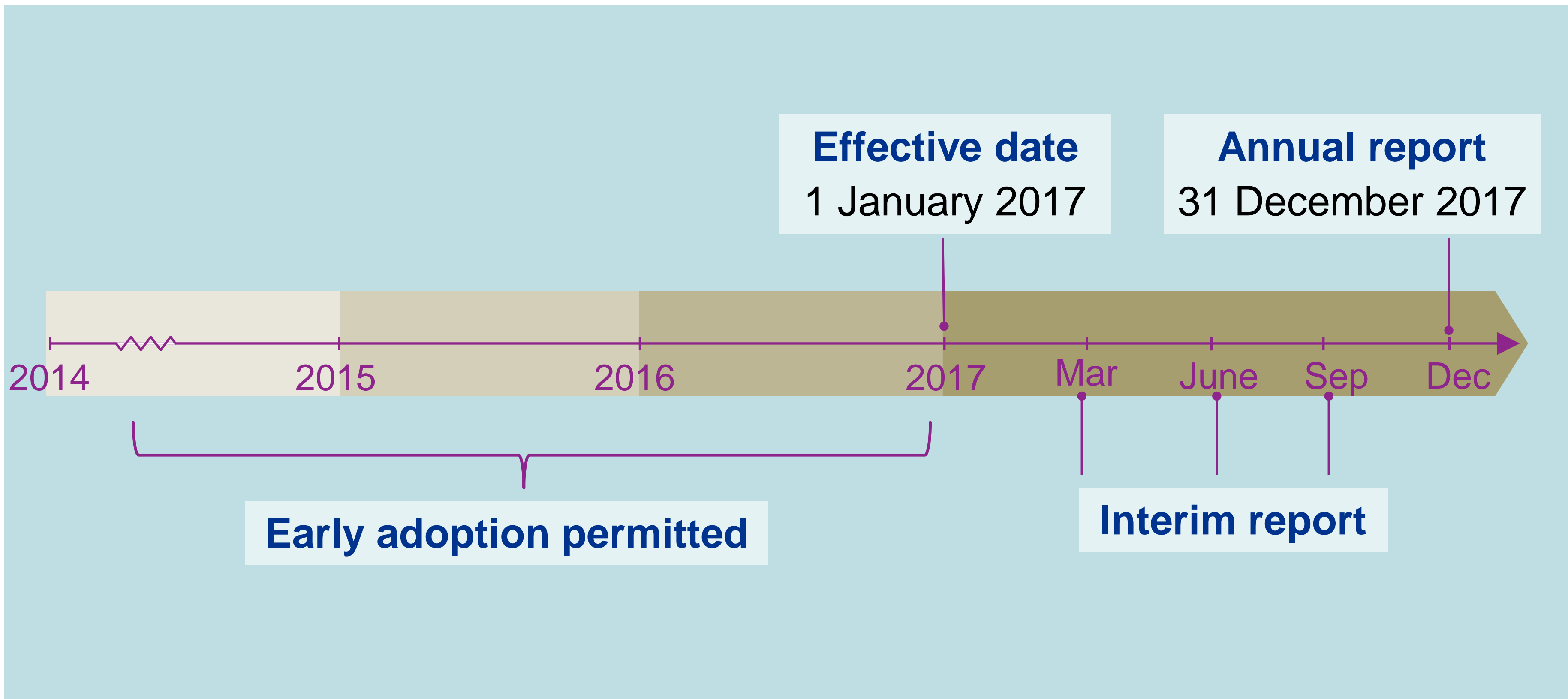
Key Facts – Effective Date as per IFRS 15



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Key Facts – Transition Approaches

Approach	2015	2016	2017	Date of equity adjustment
Full retrospective – no practical expedients	Legacy GAAP	IFRS 15	IFRS 15	1 January 2016
Partial retrospective – practical expedients	Legacy GAAP	Mixed requirements	IFRS 15	1 January 2016
Cumulative effect	Legacy GAAP	Legacy GAAP	IFRS 15 Legacy GAAP	1 January 2017

Cumulative effect approach: entity also needs to disclose revenue amounts that would have been presented under the legacy GAAP.

Based on IFRS 15

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The Five Step Model Overview

1. Identify the contract with a customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognise revenue

KPMG in India analysis based on IFRS 15

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Key changes from the current guidance

2 Identify the performance obligations

Performance obligation → a good or service is **distinct** if:

Benefit on its own + Not separable

Increased separation guidance

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Goods and services unbundled (or bundled) more frequently

- Criteria apply to all contracts.
- Indicators that a performance obligation is separately identifiable – 'not highly dependent or highly interrelated'.

Real Estate and construction

Software

Licensors – pharmaceutical, film and entertainment, franchisors

Telecommunication and cable

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Key changes from the current guidance

3 Determine the transaction price

Consideration → amount entity **expects** to be **entitled** to in exchange for transferring goods or services.

Fair value measurement

Factors to be considered:

Variable consideration

Significant finance component

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What is the impact?

Estimates and timing of recognition for variable amounts may change

- Estimation methods prescribed.
- Amount included in the transaction price is limited to the constrained amount.

Aerospace and defence

Real estate and construction

Asset managers

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Step 5: Key changes from the current guidance

5 Recognise revenue

Control-based model

Over time	or	Point in time
If criteria met		If criteria not met

Risk and rewards based model

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What is the impact?

Revenue may be recognised earlier or later than at present

- Over time criteria may capture more entities.
- New guidance to assess whether licence revenue is recognised over time.

Real estate and construction

Software

Licensors – pharma, film and entertainment, franchisors

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Potential business impacts

Accounting, Tax, and Reporting

- Accounting policies
- Historical results and transition
- Reporting differences
- Disclosure of expected impact
- Tax reporting
- Tax planning

Systems and Processes

- ERP system
- General ledger, subledgers and reporting packages
  - Transition processes
  - New processes
  - Changes to internal controls

Business

- Contractual terms
- Internal reporting and business metrics
- Communication with stakeholders
- Covenant compliance
- Opportunity to rethink business practice
- Coordination with other strategic initiatives

People and Change

- Project management
- Compensation arrangements
- Training (accounting, sales, etc.)
- Multi-national locations

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Extensive new disclosure requirements

- Both qualitative and quantitative disclosures would in the following three categories:
  - Contracts with customers:
    - Disaggregation of revenue
    - Changes in contract assets, liabilities and costs
    - Performance obligations
    - Transaction price allocated to remaining performance obligations
  - Significant judgements, and changes in judgements, in applying the requirements:
    - Determining the timing of satisfaction of performance obligations
    - Determining the transaction price and amounts allocated to performance obligations
  - Assets recognised from the costs to obtain or fulfil a contract with a customer.

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Next Steps – Disclosure Prior to Effective Date

- IAS 8.30 disclosure — known/reasonably estimable of possible impact of IFRS issued, but not yet effective.

Year-end considerations

- Are pre-adoption disclosures progressing in level of detail as your application date approaches?
- Are pre-adoption disclosures meeting the stakeholder expectations?

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Next Steps – Communications with Audit Committees and Stakeholders

Initial Discussion Points

- Highlight the most relevant areas of IFRS 15 and the differences from the current practice
- Discuss initial thoughts on the expected impact of IFRS 15
- Highlight the potentially affected non-accounting areas potentially affected
- Reconsider past accounting policies
- Planned communications with external stakeholders

Next steps

- Start impact assessment
- Consider early adoption?
- What should be the transition approach?

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Key Points to Remember!

New revenue standard will impact all entities, in different ways.

Process of assessing impact should start now.

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Resources from KPMG member firms

Reading material
In the Headlines
First Impressions
Issues In-Depth
Transition Options
Talking about Revenue
Sector-specific publications
IFRS Revenue Handbook
Go to: http://www.kpmg.com/ifrs

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Companies Act 2013 (2013 Act) – clarifications issued by the MCA - Independent directors (ID)

Pecuniary relationships of ID not covered under section 149(6)(c)

- An ID would not be considered to have a pecuniary relationship with a company, its holding, subsidiary or associate company, or its promoters, or directors if the transactions are:
  - in the ordinary course of business
  - at an arm's length.
- For appointment in the holding, subsidiary or associate company, an ID in receipt of remuneration/fees, reimbursement of expenses and profit related commission for participating in Board and other meetings would not be considered to be in a pecuniary relationship with the company.

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Companies Act 2013 – clarifications issued by the MCA - Independent directors (ID)

Appointment and tenure of an ID

- For an ID appointed before 1 April 2014 with remaining tenure
  - remaining tenure as on 1 April 2014 would not be counted for his appointment to/holding office of director under the 2013 Act
  - appointment of existing IDs should be made within one year from 1 April 2014 as per the requirements of section 149(10)/(11) and Schedule IV and adhering to the eligibility and other prescribed conditions
  - appointment of an existing ID under the 2013 Act will be made through a formal letter of appointment.
- ID may be appointed for a term of less than five years but it will be considered as one term.
- ID will have to demit office after two consecutive terms despite the total term in such two consecutive appointments is less than 10 years.

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Companies Act 2013 – Amendments issued by the MCA

Audit Committee

- Grant of one year from the commencement of the amended Rules* or appointment of ID, whichever is earlier, for :
  - constitution of audit committee for the first time under the 2013 Act
  - constitution of nomination and remuneration committee under the 2013 Act.

  Effective date: 12 June 2014

**Companies (Meetings and Powers of Board) Amendment Rules, 2014*

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Companies Act 2013 – Amendments issued by the MCA

Dividend

- Amended rules require set off of carried over previous losses **and** depreciation against the profit of the current year before declaration of dividend instead of
  - set off **lower of** carried over previous losses **or** the depreciation not provided for in previous year against the current year's profit before declaring dividend.
- Amended rules to be effective from the date of publication in the official gazette.

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Companies Act 2013 – Amendments issued by the MCA

Company Secretary

- Amended rules* now require that companies having a paid up share capital of INR 50 million or more should also have a whole-time company secretary
  - earlier the 2013 Act required listed companies and other public companies having a paid-up share capital of INR100 million or more to have a company secretary.

Effective date: 9 June 2014

**The Companies (Appointment and Remuneration of Managerial Personnel) Amendment Rules, 2014*

Board of Company Law Administration

- Until the National Company Law Tribunal is constituted under the 2013 Act, the Board of Company Law Administration shall continue to exercise powers to allow certain companies to follow a different accounting year other than the 31 March ending financial year.

Effective date: 2 June 2014

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Companies Act 2013 – Other updates issued by the MCA

Subsidiaries of companies incorporated outside India

- No section corresponding to section 4(7) of the 1956 Act under the 2013 Act
- MCA's clarification – status of an existing company i.e. private company or a public company as per section 4(7) of the 1956 Act, shall continue.

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Companies Act 2013 – proposed amendments issued by the MCA

Proposal to ease certain norms for private companies

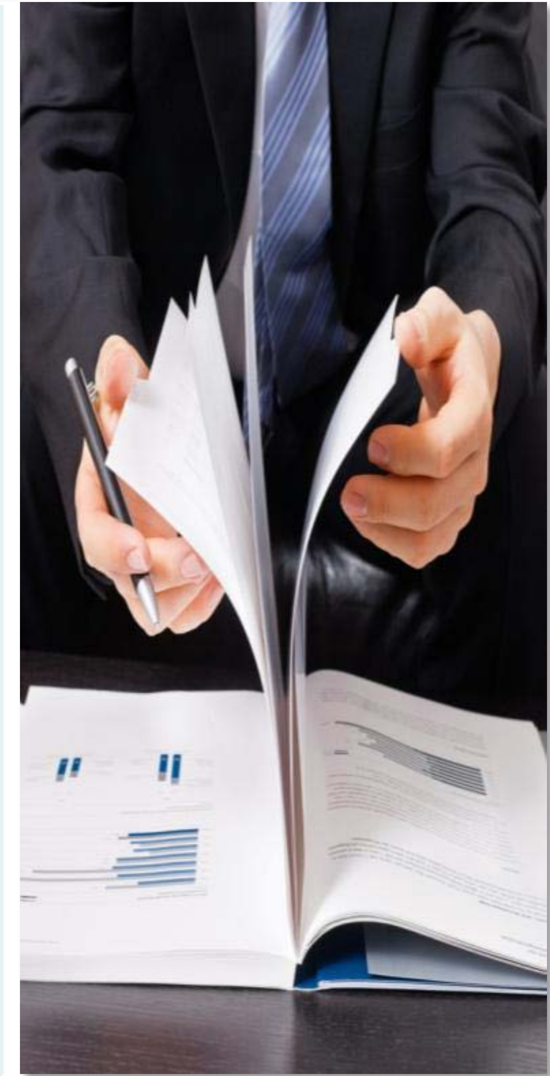
The MCA released a draft notification to amend certain sections of the 2013 Act, hitherto, applicable for private companies:

Key sections/sub-sections that would not apply to any private company

- Section 188 dealing with related party transactions
- Section 160 in relation to rights of persons other than retiring directors to stand for directorship.
- Section 203(3) dealing with whole time key managerial personnel holding office in more than one company.

Key sections/sub-sections that would apply to certain class of private companies

- Section 180 dealing with restriction on powers of board would not be applicable to private companies having 50 or less number of members.



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Companies Act 2013 – proposed amendments issued by the MCA

Key sections/sub-sections that would apply to certain class of private companies (contd.)

- Section 185 dealing with loans to directors. As per the proposed norms this section will not apply to private companies:
  - which have borrowings from banks or financial institutions or any bodies corporate not more than twice of their paid up share capital or INR500 million, whichever is lower and
  - in whose share capital no other body corporate has invested any money.

Key sections/sub-sections that would be amended for private companies

- Section 62(1)(b) deals with a situation where a company proposes to increase its subscribed share capital by issue of further shares to employees under the ESOP scheme
- The section required, inter-alia, passing of special resolution in this regard
- The section is proposed to be amended to require ordinary resolution.

Public comments are invited by 1 July 2014

Note: Amendments/clarifications issued by the MCA in relation to the Companies Act, 2013 are covered up to 26 June 2014

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Q&A

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Thank you

Contact:

Feedback/Queries can be send on aaupdate@kpmg.com

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