

The MCA provides transitional relief in the norms relating to the consolidated financial statements 22 January 2015



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Sector:

All

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All

Audit committee
CFO
Others

Transition:

Immediately

Within the next 3 months
Post 3 months but within 6 months
Post 6 months

Background

While the Companies Act, 2013 (the Act) has been largely operationalised from 1 April 2014, the Ministry of Corporate Affairs (MCA) has been issuing various amendments and clarifications to the Act and the corresponding Rules to ease the implementation of the Act.

The Act, vide section 129(3), prescribes the requirements for preparation of the consolidated financial statements (CFS). On 14 October 2014, the MCA had provided clarifications/ amendments relating to the preparation of CFS covering the following:

- Exemption from the preparation of CFS by the wholly owned intermediate parent companies incorporated in India in certain circumstances
- Granting of a transition period from the preparation of CFS by companies having just an associate or a joint venture, and
- Exempting certain disclosures as per Schedule III made in the standalone financial statements from being repeated in the CFS.

Recent notification

Through a notification issued on 16 January 2015, the MCA has provided transitional relief to companies that have one or more subsidiaries incorporated outside India from preparation of CFS for the purpose of reporting for the first financial year under the Act. According to the notification, the requirements of preparing CFS in Rule 6 of the Companies (Accounts) Rules will not apply to those companies that have subsidiary or subsidiaries incorporated outside India only for the financial year commencing on or after 1 April 2014.

Rule 6 pertains to section 129(3) and an explanation of section 129(3) provides that the term 'subsidiary' shall include an associate company and a joint venture. It appears, therefore, that for the purpose of this Rule the term 'subsidiary' would include an associate company and a joint venture.

However, it may be also noted that the term 'subsidiary' has been defined under section 2(87) of the Act where the term does not include an associate company and a joint venture. Therefore, there is some lack of clarity on whether this transitional relief is available to only subsidiary companies or it could be extended to associate companies and joint ventures incorporated outside India.

Our comments

- The definition of subsidiary is different under the Act vis-à-vis the accounting standards. It will be helpful if the MCA clarifies on two aspects. One, whether the term 'subsidiary' includes an associate company and a joint venture and two, which definition (accounting standards or the Act) should be used to apply the requirements for preparation of CFS.
- The transitional period would provide additional preparation time for the companies with operations abroad to help align the accounting framework requirements in India with the reporting requirements of other countries in which such subsidiaries would have operations. The companies should invest and gear up their processes in preparation of the CFS as they would need to provide comparative information for the financial year 2014-15 in the CFS of the financial year 2015-16.
- While this amendment does not differentiate between listed and unlisted companies, we believe that the requirement for listed companies to present CFS will continue to prevail and will be an incremental requirement under the Equity Listing Agreement per prescribed by the Securities and Exchange Board of India, as it has been prior to the Act coming into effect. Therefore, it seems that this transitional relief would effectively be available only to the unlisted companies in India with subsidiaries abroad.

The bottom line

The recent amendment further reiterates the fact that the MCA continues to consider the practical challenges faced by corporates in India while implementing the Act, and has responded with amendments to make the law more pragmatic and yet achieve its objective.



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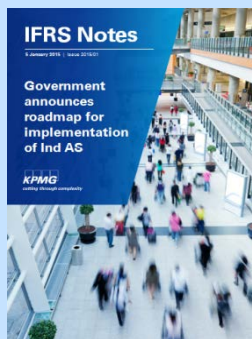
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Introducing IFRS Notes



IFRS convergence: Government announces roadmap for implementation of Ind AS

The new year heralds an important update; on 2 January 2015 the Ministry of Corporate Affairs (MCA) issued a press release announcing a revised roadmap for implementation of Indian Accounting Standards (Ind AS), converged with International Financial Reporting Standards (IFRS). This roadmap is applicable to companies other than banking companies, insurance companies and non-banking finance companies.

This roadmap was developed after consultations with various stakeholders and regulators. It comes as a follow up to the announcement by the Finance Minister in his budget speech that Ind AS will be made mandatory from the financial year 2016-2017.

In this issue of IFRS Notes we have provided an overview of the revised roadmap of implementation of Ind AS along with our points of view.

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



December 2014

The December 2014 edition of the Accounting and Auditing Update contains an anthology of our articles, on the key aspects of the Companies Act, 2013. These articles have been updated to include clarifications and implementation related insights that have been gained as companies have sought to apply in practice this landmark legislation.

As is the case each month, we covered key regulatory developments during the recent past as well as highlight the salient aspects of the recently issued guidance note by the Institute of Chartered Accountants of India on the area of internal financial controls.



The Ministry of Finance issues revised drafts on tax computation standards

Currently, the Income-tax Act, 1961 (the Act) notifies two accounting standards: one relating to disclosure of accounting policies and disclosure of prior period and extraordinary items and the other on changes in accounting policies.

The Ministry of Corporate Affairs had earlier announced a roadmap for transition to Indian Accounting Standards (Ind AS) from 1 April 2011. At that time, there was lack of clarity of tax implications on adoption of Ind AS by the companies. Therefore, in December 2010, under the aegis of the Central Board of Direct Taxes (CBDT) a committee was constituted to harmonise the accounting standards issued by the Institute of Chartered Accountants of India with the provisions of the Act. In August 2012, the committee, after deliberations issued 14 draft accounting standards to be applicable in computation of 'profits and gains of business or profession' or 'income from other sources' for taxpayers following a mercantile system. These accounting standards are now termed as Income Computation and Disclosure Standards (ICDS). After the release of the draft ICDS (2012) by the CBDT, concerns were raised by various stakeholders since it had significant differences with generally accepted accounting principles. In order to address some of these concerns, the Ministry of Finance reworked on the standards on 8 January 2015 issued revised drafts of 12 ICDS (2015) for public comments. Our First Notes provides an overview of key revisions made in the revised draft ICDS (2015).



KPMG in India is pleased to present Voices on Reporting – a monthly series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

On 20 January 2015, we covered key aspects of the following topics:

- 1) the Ministry of Corporate Affairs' (MCA) press release on 2 January 2015 relating to the Ind AS implementation roadmap
- 2) revised drafts of 12 Income Computation and Disclosure Standards (ICDS) issued by the Ministry of Finance (MoF) on 8 January 2015
- 3) exposure draft on the Guidance Note on Accounting for Derivative Contracts issued by the Institute of Chartered Accountants of India (ICAI).

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

Back issues are available to download from: www.kpmg.com/in

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