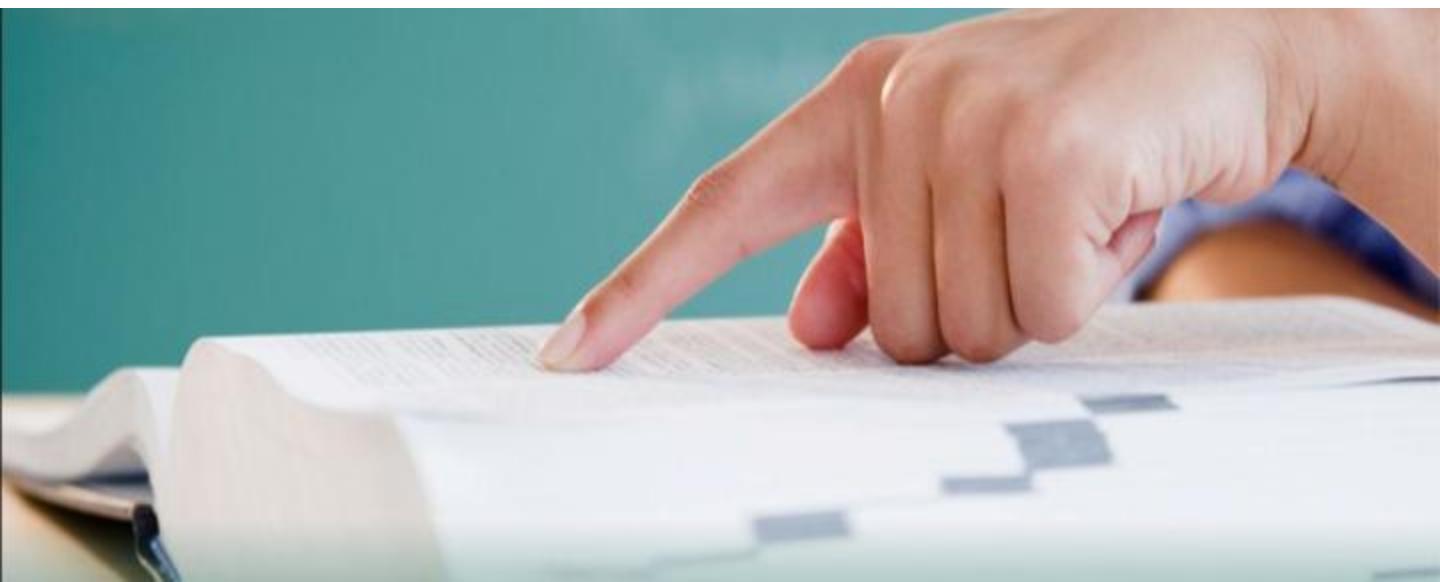


The MCA amends norms relating to the preparation of financial statements

9 September 2015

**First Notes on:****Financial Reporting**

Corporate law updates

Regulatory and other information

Disclosures

Sector:**All**

Banking and Insurance

Information, Communication, Entertainment

Consumer and Industrial Markets

Infrastructure and Government

Relevant to:**All**

Audit committee

CFO

Others

Transition:**Immediately**

Within the next 3 months

Post 3 months but within 6 months

Post 6 months

Background

The Ministry of Corporate Affairs (MCA) has been issuing various amendments and clarifications to the Companies Act, 2013 (2013 Act) and to the corresponding Rules to remove practical challenges faced by companies while implementing certain provisions of the 2013 Act. Recently, the MCA amended the Companies (Accounts) Rules, 2014 (Rules) and Schedule III to the 2013 Act.

Amendments to the above Rules and Schedule III to the 2013 Act will come into force from the date of publication in the Official Gazette.

This issue of First Notes summarises the important aspects arising from the amended Rules and Schedule III to the 2013 Act.

Reference to Indian Accounting Standards (Ind AS)

The Companies (Accounts) Rules, 2014 has been amended to include Ind AS as referred to in Rule 3 and the Annexure to the Companies (Indian Accounting Standards) Rules, 2015.

Preparation of financial statements: Which definition to follow?

Currently, there is conflict in the definitions used in the Accounting Standards (AS) and the 2013 Act.

For example:

1. **Definition of subsidiary:** As per AS 21, *Consolidated Financial Statements*, subsidiary means an enterprise that is controlled by another enterprise (known as the parent), where control has been defined as:
 - a) The ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise, or
 - b) Control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.

However, as per the 2013 Act, a subsidiary, in relation to any other company (that is to say the holding company) means a company in which the holding company

- (i) Controls the composition of the Board of Directors, or
- (ii) Exercises or controls more than one-half of the total share capital either on its own or together with one or more of its subsidiary companies.

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

2. *Definition of associate:* Similarly as per AS 23, *Accounting for Investments in Associates in Consolidated Financial Statements*, an associate is defined as an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

However as per the 2013 Act, an associate in relation to another company means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such an influence and includes a joint venture company.

3. As per AS 18, *Related Party Disclosures*, parties are considered to be related if at any time during the reporting period, one party has the ability to control the other party or exercises significant influence over the other party in making financial and/or operating decisions.

However, the definition of a related party in the 2013 Act extends to include a holding company, subsidiary company, sister subsidiary, associate company, directors, key management personnel (including relatives) and firms/companies where directors/relatives are interested.

The MCA amendment

The MCA has addressed these concerns and accordingly, has inserted a new Rule 4A which states that the financial statements should be in the form specified in Schedule III to the 2013 Act and should comply with the AS or Ind AS as applicable.

Therefore, the items contained in the financial statements should be prepared in accordance with the definitions and other requirements as specified in the AS or the Ind AS, as the case may be.

Disclosures for micro and small enterprises in Schedule III to the 2013 Act

In the present Schedule III to the 2013 Act, 'Trade Payables' is being shown as a single line item under the head 'Current Liabilities' under 'Equity and Liabilities'.

However, as per the recent notification issued by the MCA dated 4 September 2015, Trade Payables will now be further categorised into:

- A) Total outstanding dues of micro enterprises and small enterprises, and
- B) Total outstanding dues of creditors other than micro enterprises and small enterprises.

Accordingly, under the head of 'Notes: General Instructions for Preparation of Balance Sheet', following details relating to micro, small and medium enterprises should also be disclosed:

- a) The principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year;
- b) The amount of interest paid by the buyer in terms of Section 16 of the Micro, Small and Medium Enterprises Development Act, 2006, along with the amount of the payment made to the supplier beyond the appointed day during each accounting year;
- c) The amount of interest due and payable for the period of delay in making the payment (which has been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006;
- d) The amount of interest accrued and remaining unpaid at the end of each accounting year, and
- e) The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under Section 23 of the Micro, Small and Medium Enterprises Development Act, 2006.

Others

Currently, Rule 12(1) of the Companies (Accounts) Rules, 2014 requires that every company should file their financial statements with the Registrar together with Form AOC-4.

Now the amended Rules requires that every company should file:

- the financial statements with the Registrar together with Form AOC-4
- the consolidated financial statement, if any, together with Form AOC-4 CFS.

The MCA has also issued revised Form AOC-4 and AOC-4 CFS.

Some of the new additions in the revised forms vis-à-vis old forms are as follows:

- a) Revised forms require digital signatures and Directors Identification Number (DIN) of the directors unlike earlier when Managing Director and directors were authorised to sign.
- b) Income-tax Permanent Account Number (Income-tax PAN) of Chief Executive Officer (CEO) or Chief Financial Officer (CFO), as the case may be, is also to be quoted.
- c) Corporate Social Responsibility (CSR) expenditure relating to administrative overheads is required to be separately stated.
- d) Number of contracts/material contracts/arrangements/transactions which have not been entered at an arm's length by the company with the related parties is specifically required to be given.
- e) Revised form includes a separate section on auditor's report which requires the details relating to the remarks made by the auditor and the applicability of CARO 2015.
- f) A new section 'Miscellaneous' requiring details of secretarial audit has also been included.

Our comments

- With the introduction of new Rule 4A in the Companies (Accounts) Rules, 2014 the MCA has tried to resolve the ongoing conflict of using definitions as per AS/Ind AS or the 2013 Act and clarified that the financial statements should be prepared in accordance with the definitions contained in the AS or the Ind AS, whichever is applicable.
- Such an amendment in the Rules is expected to have a significant impact while assessing the provisions relating to related party transactions and consolidated financial statements.

The bottom line

It seems that the AS/Ind AS would prevail over the 2013 Act for financial reporting purposes only. For other matters, the requirements of the 2013 Act will continue to apply.



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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



The IASB proposes clarifications to the new revenue standard

7 August 2015

Based on the discussions with the Transition Research Group, on 30 July 2015, the International Accounting Standards Board (IASB) published for public consultation, proposed clarifications (exposure draft) with respect to the following topics:

- Identifying performance obligations
- Principal vs agent considerations
- Licensing and
- Transitional relief.

The IASB's deadline for receiving comments is 28 October 2015.

Our issue of IFRS Notes provides an overview of key clarifications proposed by the IASB to IFRS 15, *Revenue from Contracts with Customers* and also highlights what the FASB is proposing to do in these areas.

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



August 2015

The August 2015 edition of the Accounting and Auditing Update examines the impact of Ind AS 115, *Revenue from Contracts with Customers* on the real estate sector in light of the guidance available in the current Indian GAAP.

We have also covered significant observations made by the Financial Reporting Review Board of the Institute of Chartered Accountants of India with respect to reporting practices under the Revised Schedule VI of the Companies Act, 1956. The requirements relating to the preparation and presentation of the financial statements under Schedule III to the Companies Act, 2013 are similar as that of the Revised Schedule VI.

Recently, the International Accounting Standards Board (IASB) proposed clarifications to IFRS 15, *Revenue from Contracts with Customers* for public consultation. We provide an overview of these clarifications and also highlight the U.S. Financial Accounting Standards Board's thinking on these proposals.

Finally, in addition to our regular round up of regulatory updates, we also furnish a summary of important proposals set out in the exposure draft on the Conceptual Framework for Financial Reporting issued by the IASB.



MCA clarifications regarding circulation and filing of financial statements under the Companies Act, 2013

24 July 2015

The Ministry of Corporate Affairs (MCA) received representations from various stakeholders in relation to circulation and filing of financial statements under the Companies Act, 2013 (2013 Act). On 21 July 2015, the MCA issued a general circular no.11/2015, which provided clarifications with regard to the following provisions of the 2013 Act:

Section 101 – notice of meeting

Section 136 – right of member to copies of audited financial statements

Section 137 – copy of financial statements to be filed with the Registrar of Companies.

Our issue of First Notes provides an overview of the clarifications issued by the MCA.



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 19 August 2015, we covered following topics:

- (1) Overview of Ind AS 28, *Investment in Associates and Joint Ventures*, Ind AS 111, *Joint Arrangements* and Ind AS 112, *Disclosure of Interests in Other Entities*
- (2) Key differences between AS 23, *Accounting for Investment in Associates in Consolidated Financial Statements* and Ind AS 28 and between AS 27, *Financial Reporting of Interests in Joint Ventures* and Ind AS 111
- (3) Overview of key clarifications to IFRS 15, *Revenue from Contracts with Customers* proposed by the IASB.

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

Previous editions are available to download from: www.kpmg.com/in

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