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

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KPMG in India

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Associate Director
Accounting Advisory Services
KPMG in India
Agenda

• Background
• Adjustments relating to annual Ind AS financial statements
• Adjustments relating to first-time adoption of Ind AS
• Other proposals
• Matters to consider
MAT/ICDS implementation in India: Story so far

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

October 2012
- The Finance Bill 2014 amended Section 145(2) of the IT Act. ICDS applicable from 1 April 2015
- ICDS to be notified separately
- Compliance required by 2015 first quarter.

July 2014
- CBDT issued draft of 12 ICDS, after incorporating suggestions by stakeholders and providing transitional provisions for these ICDS.

January 2015
- 10 ICDS notified effective 1 April 2015
- Press release in November 2015 - CBDT requested for comments on the issues/challenges for proper implementation of ICDS.

March 2015
- 2 interim reports on MAT framework for Ind AS compliant companies issued
- First interim report issued in March 2016.
- Second interim report issued in August 2016
- Final report submitted on 22 December 2016.

March 2016 and July 2016
- Based on the representations, the MAT-Ind AS Committee recommended amendments to ICDS and clarifications on points raised by stakeholders.
- ICDS deferred - applicable from 1 April 2016.
- CBDT notifies revised ICDS to be applicable w.e.f. AY2017-18. Also amends Form 3CD.

July 2016 and Sep 2016
- Rationalisation of provisions of Section 115JB in line with Ind AS announced in Budget 2017-18
- Clarity on first-time adoption adjustments and MAT on a going forward basis.

February 2017 Budget
- Rationalisation of provisions of Section 115JB in line with Ind AS announced in Budget 2017-18
- Clarity on first-time adoption adjustments and MAT on a going forward basis.
On 1 February 2017, the Finance Minister presented the Finance Bill, 2017 (the Bill) which contained the following proposals:

- Bill proposes a separate formulae for computation of book profit for companies implementing Ind AS by applying the following:
  - No further adjustments should be made to the net profits of Ind AS compliant companies, other than those specified in Section 115JB of the IT Act
  - Certain items included in OCI, that are permanently recorded in reserves and never reclassified into the statement of profit and loss, be included in book profits for MAT at an appropriate point of time
  - Certain adjustments relating to values of assets and liabilities transferred in a demerger to be made by both the demerged company as well as the resulting company
  - Certain adjustments recorded in retained earnings (other equity) on first-time adoption of Ind AS, that would never subsequently be reclassified into the statement of profit and loss should be included in book profits (for the purpose of levy of MAT) in a deferred manner.

Adjustments to book profits can be grouped into two categories:

- Adjustments relating to annual Ind AS financial statements
- Adjustments relating to first-time adoption of Ind AS.
Ind AS impact on MAT

Total Comprehensive Income for Ind AS compliant companies

- Net profit or loss for the year (including notional/unrealised gains and losses)
- Other Comprehensive Income (OCI)

- Items which will never be reclassified to profit or loss
- Items to be reclassified to profit or loss subsequently

- Starting point for computation of book profit for purposes of MAT
- To be included in book profits in the year of reclassification
- To be included in book profits at the appropriate time

(Source: KPMG in India’s analysis, 2017)
Agenda

• Background
• Adjustments relating to annual Ind AS financial statements
• Adjustments relating to first-time adoption of Ind AS
• Other proposals
• Matters to consider
Adjustments relating to annual Ind AS financial statements

Components of OCI

- Those that will be reclassified to profit or loss in the future when certain conditions are met, e.g. foreign operations – foreign currency translation differences, net investment hedge, etc.

- Items of OCI that will never be subsequently reclassified to profit or loss e.g.

<table>
<thead>
<tr>
<th>Sr. no.</th>
<th>Items</th>
<th>Proposals of the Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td>Remeasurements of defined benefit plans (Ind AS 19, <em>Employee Benefits</em>)</td>
<td>To be included in book profits every year as the remeasurements gains and losses arise.</td>
</tr>
<tr>
<td>3.</td>
<td>Gains and losses from investments in equity instruments designated at fair value through OCI (Ind AS 109, <em>Financial Instruments</em>)</td>
<td>To be included in book profits at the time of realisation/disposal/retirement/otherwise transferred.</td>
</tr>
<tr>
<td>4.</td>
<td>Any other item</td>
<td>To be included in book profits every year as the gains and losses arise.</td>
</tr>
</tbody>
</table>
### Demerger

In case of a demerger, the difference between the fair value and the costs of the assets transferred is required to be recognised as a gain or loss in the statement of profit and loss and correspondingly, the distribution to shareholders is reflected at the fair value of the assets transferred under Ind AS.

### Gains/losses to be excluded in the computation of book profits

<table>
<thead>
<tr>
<th>Sr. no.</th>
<th>Items</th>
<th>Proposals of the Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>In the case of a <em>demerged company</em>, any increase or decrease in profits due to gain or loss recognised on distribution of non-cash assets to shareholders in a demerger in accordance with Appendix A of the Ind AS 10, <em>Events After The Reporting Period</em></td>
<td>To be excluded in book profits in the year of demerger.</td>
</tr>
<tr>
<td>2.</td>
<td>In the case of a <em>resulting company</em>, any change in the recorded values of assets and liabilities taken over on a demerger, as compared to the values as per books of the demerged company</td>
<td>To be ignored in the books of the resulting company, i.e. the book profits of the resulting company are to be computed using the values of assets and liabilities as they appeared in the books of the demerged company.</td>
</tr>
</tbody>
</table>
Agenda

- Background
- Adjustments relating to annual Ind AS financial statements
- Adjustments relating to first-time adoption of Ind AS
- Other proposals
- Matters to consider
Adjustments relating to first-time adoption of Ind AS

- Ind AS financial statements contain comparative information of the preceding year.

- On first-time adoption, a series of adjustments relating to transition from AS to Ind AS would be recorded in retained earnings (other equity) in the opening Ind AS balance sheet.

- To compute book profits for the first-year of adoption of Ind AS (convergence date), the amounts adjusted as on the opening date of the first year of adoption should be considered.

For example, companies which adopt Ind AS with effect from 1 April 2016 are required to prepare their financial statements for the year 2016-17 as per requirements of Ind AS. Such companies are also required to prepare an opening balance sheet as of 1 April 2015 and restate the financial statements for the comparative period 2015-16.

In such a case, the first-time adoption adjustments as on 31 March 2016 equity reconciliation should be considered for computation of MAT liability for previous year 2016-17 (AY2017-18) and thereafter. Further, in this case, the period of five years proposed above should be previous years 2016-17, 2017-18, 2018-19, 2019-20 and 2020-21.
### Other equity as per Schedule III for Ind AS

<table>
<thead>
<tr>
<th>Share application money pending allotment</th>
<th>Equity component of compound financial instruments</th>
<th>Reserves and Surplus</th>
<th>Debt instruments through OCI</th>
</tr>
</thead>
<tbody>
<tr>
<td>XX</td>
<td>XX</td>
<td>XX  XX</td>
<td>XX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity instruments through OCI</th>
<th>Effective portion of cash flow hedges</th>
<th>Revaluation surplus</th>
<th>Exchange differences on translating the financial statements of a foreign operation</th>
<th>Other items of OCI (specify nature)</th>
<th>Money received against share warrants</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
<td>XX</td>
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</tbody>
</table>
For the adjustments recorded in OCI and other equity based on the amounts reflected on the convergence date i.e. the beginning of the first Ind AS reporting period, the Bill proposes following adjustments to book profits:

<table>
<thead>
<tr>
<th>Sr. no.</th>
<th>Adjustments</th>
<th>Proposals of the Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The adjustments recorded in OCI that would be subsequently reclassified to profit or loss</td>
<td>Adjust book profits in the year in which those adjustments are reclassified to profit or loss</td>
</tr>
</tbody>
</table>
| 2.     | The adjustments recorded in OCI that would never be reclassified to profit or loss | a) Deemed cost adjustment to PPE and intangible assets  
                b) Gains and losses from investments in equity instruments designated at fair value through OCI  
                c) Cumulative translation differences of a foreign operation in accordance with para D13 of Ind AS 101  
                d) Investments in subsidiaries, joint ventures and associates |
| 3.     | All other adjustments recorded in ‘other equity’ i.e. transition amount. Certain exclusions have been specified. | Adjust book profits equally over a period of five years starting from the first-time adoption of Ind AS. |
### Adjustments relating to first-time adoption of Ind AS (cont.)

#### Adjustments recorded in OCI that would never be reclassified to profit or loss

**Property, plant and equipment and intangible assets – adjustments to retained earnings (other equity)**

<table>
<thead>
<tr>
<th>PPE and intangible assets</th>
<th>Proposal in the Bill</th>
</tr>
</thead>
</table>
| When fair value as deemed cost (para D5 and D7 of Ind AS 101)                             | • The adjustment due to one-time fair value of the PPE and intangible assets on the date of transition to Ind AS would be included in book profits in the year in which the asset is retired/disposed/realised/otherwise transferred.  
• Other adjustments such as asset restoration obligations, foreign exchange capitalisation/decapitaliation, borrowing costs adjustments, etc. will be considered in the transition amount.          |
| When revaluation model as been adopted as an accounting policy for PPE and intangible assets | • One-time adjustment to retained earnings (other equity) on transition to revaluation policy should be included in the book profits at the time when the asset is realised/disposed/realised/otherwise transferred. |
| When PPE and intangible asset carrying values recomputed retrospectively or previous GAAP deemed cost approach followed | • Other adjustments such as asset restoration obligations, foreign exchange capitalisation/decapitalisation, borrowing costs adjustments, etc. will be considered in the transition amount. |
### Adjustments relating to first-time adoption of Ind AS (cont.)

#### Adjustments recorded in OCI that would never be reclassified to profit or loss (cont.)

<table>
<thead>
<tr>
<th>Topic</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gains and losses from investments in equity instruments designated at fair value through OCI</strong></td>
<td></td>
</tr>
</tbody>
</table>
  - One-time adjustment to retained earnings (other equity) should be excluded from the transition amount.  
  - Such amounts to be included in book profits when the equity instrument is realised/disposed/retired/transferred. |
| **Cumulative translation differences of a foreign operation on the convergence date** |  
  - Translation differences that arose before the date of transition to Ind AS should be ignored in computation of book profits.  
  - Include such adjustment in book profits at the time of disposal/transferred in relation to such foreign operation. |
| **Investments in subsidiaries, joint ventures and associates in Ind AS separate financial statements** |  
  - Ignore adjustments in retained earnings (other equity) relating to investments in subsidiaries, associates and joint ventures, on first-time adoption of Ind AS.  
  - Include such adjustment of such investment in book profits at the time of realisation/disposal/retirement/otherwise transferred. |
Adjustments relating to first-time adoption of Ind AS (cont.)

Transition amount means the amount or the aggregate of the amount adjusted in the other equity (excluding equity component of compound financial instruments, capital reserve and securities premium reserve) on the date of adoption of Ind AS but excluding the following:

<table>
<thead>
<tr>
<th>Sr. no.</th>
<th>Adjustments</th>
<th>See slide no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Amount or aggregate of the amounts adjusted in the OCI on the convergence date which would be subsequently reclassified to profit or loss</td>
<td>14</td>
</tr>
<tr>
<td>2.</td>
<td>Revaluation surplus for assets in accordance with Ind AS 16 and Ind AS 38 adjusted on the convergence date</td>
<td>15</td>
</tr>
<tr>
<td>3.</td>
<td>Gains or losses from investments in equity instruments designated at fair value through OCI in accordance with the Ind AS 109 adjusted on the convergence date</td>
<td>16</td>
</tr>
<tr>
<td>4.</td>
<td>Adjustments relating to items of property, plant and equipment and intangible assets recorded at fair value as deemed cost in accordance with paragraphs D5 and D7 of Ind AS 101 on the convergence date</td>
<td>15</td>
</tr>
<tr>
<td>5.</td>
<td>Adjustments relating to investments in subsidiaries, joint ventures and associates recorded at fair value as deemed cost in accordance with paragraph D15 of Ind AS 101 on the convergence date</td>
<td>16</td>
</tr>
<tr>
<td>6.</td>
<td>Adjustments relating to cumulative translation differences of a foreign operation in accordance with paragraph D13 of Ind AS 101 on the convergence date</td>
<td>16</td>
</tr>
</tbody>
</table>
Adjustments relating to first-time adoption of Ind AS (cont.)

Examples of items that can be included in the transition amount are as following:

<table>
<thead>
<tr>
<th>Sr. no.</th>
<th>Examples</th>
<th>Sr. no.</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>PPE and intangible assets measured retrospectively as per Ind AS 16 or Ind AS 38 or measured as per previous GAAP deemed cost approach</td>
<td>8.</td>
<td>Investments – fair value adjustments through profit or loss</td>
</tr>
<tr>
<td>2.</td>
<td>PPE and intangible asset adjustment relating to asset restoration obligations, foreign exchange capitalisation/decapitalisation, borrowing costs adjustments, etc.</td>
<td>9.</td>
<td>Share-based payments adjustments (in the case of cash settled schemes)</td>
</tr>
<tr>
<td>3.</td>
<td>Leases – straight-lining of lease rentals</td>
<td>10.</td>
<td>Accounting for exploration costs</td>
</tr>
<tr>
<td>4.</td>
<td>Adjustments to financial assets or liabilities recognised at amortised cost using effective interest rate method</td>
<td>11.</td>
<td>Discounting of provisions</td>
</tr>
<tr>
<td>5.</td>
<td>Gains and losses on initial recognition of any asset or liability</td>
<td>12.</td>
<td>Government grant accounting</td>
</tr>
<tr>
<td>6.</td>
<td>Embedded lease accounting</td>
<td></td>
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<tr>
<td>7.</td>
<td>Service concession accounting</td>
<td></td>
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</tr>
</tbody>
</table>
Agenda

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• Matters to consider
Other proposals

ICDS

Memorandum to the Bill acknowledges that to ensure horizontal equity across the companies (irrespective of fact that whether they follow Ind AS or existing GAAP), ICDS have been issued.

Alignment with the Companies Act, 2013

The Bill proposes to replace/modify references to the Companies Act, 1956 with reference to the Companies Act, 2013.

MAT credit allowed for 15 AYs

Period for carry forward of tax credit shall be extended from 10 AYs to 15 AYs.
• Background
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Matters to consider

CBDT has attempted to simplify the MAT implications and provided a pragmatic approach. However, certain matters that need to be considered are as follows:

• Taxation of unrealised gains and losses without any actual realisation of the related gain.
• Additional efforts may be required for maintaining parallel records.
• Clarification on the adjustment to PPE and intangible assets on revaluation.
• Clarification on the effective date of MAT provisions for early adopters of Ind AS.
• Inconsistency between requirements of the memorandum and the Bill.
Sources

1. Final report of the Committee constituted for formulating ASs for the purposes of notification under Section 145(2) of the IT Act issued in October 2012.
2. The CBDT notification no. 33/2015 dated 31 March 2015.
5. The report of the MAT-Ind AS committee dated 5 August 2016.
8. CBDT notification no. 87/2016 dated 29 September 2016.
Glossary

- CBDT – The Central Board of Direct Taxes
- MAT – Minimum Alternate Tax
- the Bill – Finance Bill, 2017
- Ind AS – Indian Accounting Standards
- OCI – Other Comprehensive Income
- AY – Assessment Year
- ICDS – Income Computation and Disclosure Standards
- PPE – Property, Plant and Equipment
- GAAP – Generally Accepted Accounting Principles
## Links to previous recordings of VOR

<table>
<thead>
<tr>
<th>Month</th>
<th>Topics</th>
<th>Link</th>
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</thead>
<tbody>
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<td>June 2016</td>
<td>• Ind AS reminders&lt;br&gt;• Updates on the 2013 Act&lt;br&gt;• Updates on SEBI regulations&lt;br&gt;• Updates on accounting and financial reporting</td>
<td>Click <a href="#">here</a></td>
</tr>
<tr>
<td>July 2016</td>
<td>• SEBI relaxes norms for Ind AS compliant quarterly results&lt;br&gt;• MoF defers ICDS by one year&lt;br&gt;• ITFG: Clarification Bulletin 3</td>
<td>Click <a href="#">here</a></td>
</tr>
<tr>
<td>August 2016</td>
<td>• Revisions to the Framework proposed by the MAT - Ind AS Committee</td>
<td>Click <a href="#">here</a></td>
</tr>
<tr>
<td>September 2016</td>
<td>• Updates on the 2013 Act&lt;br&gt;• Updates on Ind AS&lt;br&gt;• Updates on SEBI regulations&lt;br&gt;• Other regulatory updates</td>
<td>Click <a href="#">here</a></td>
</tr>
<tr>
<td>October 2016</td>
<td>• Special session on revised Income Computation and Disclosure Standards (ICDS)</td>
<td>Click <a href="#">here</a></td>
</tr>
<tr>
<td>January 2017</td>
<td>• MCA updates&lt;br&gt;• SEBI updates&lt;br&gt;• Ind AS updates&lt;br&gt;• RBI updates&lt;br&gt;• Other updates</td>
<td>Click <a href="#">here</a></td>
</tr>
</tbody>
</table>

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

You can reach us for feedback and questions at:
in-fmkpmgifrsinst@kpmg.com
The Finance Bill, 2017 – a financial reporting perspective

7 February 2017

On 1 February 2017, the Finance Minister presented the Finance Bill, 2017 (the Bill) which contains a number of proposals. This issue of IFRS Notes provides a detailed analysis and certain matters that should be considered on the following topics:

• Computation of book profit for Ind AS compliant companies for the purpose of levy of Minimum Alternate Tax (MAT) under Section 115JB of the Income Tax Act, 1961
• Income Computation and Disclosure Standards
• Change in base of cost inflation index from 1 April 1981 to 1 April 2001
• MAT credit allowed to be carried forward to 15 Assessment Years.

Ind AS - Practical perspectives

KPMG in India’s Ind AS - Practical perspectives through aims to put a finger on the pulse of India Inc’s adoption of Ind AS and capture emerging trends and practices.

Our impact assessment is based on Nifty 50 companies which would be the first group of companies to report Ind AS results. The Nifty 50 companies have started reporting their financial results for the quarter ended 31 December 2016.

Out of the companies comprising Nifty 50 index, eight companies are banks, one is Non-Banking Financial Company (NBFC) and two companies follow a different date of transition to Ind AS. Therefore, our analysis would comprises the remaining 39 companies.

This can be accessed on KPMG in India website - ‘Ind AS- Practical perspectives’ webpage.
Topics discussed in AAU and First Notes

Issue no. 6 – January 2017

- Derecognition of financial liabilities
- Business combinations of entities under common control
- Related party transactions
- Initial Public Offering in India – Big decision and challenges
- Accounting for government incentives under Ind AS
- Regulatory updates.

MCA issued relaxation for an IFSC company located in an SEZ
17 January 2017

The Ministry of Corporate Affairs (MCA) on 4 January 2017 issued two notifications (G.S.R. 08(E) and G.S.R. 09(E)), to propose exceptions from, and modifications and adaptations of various provisions of the Companies Act, 2013 (2013 Act) for an International Financial Services Centre (IFSC) company.

Such an IFSC company would be licensed to operate by the Reserve Bank of India or the SEBI or the IRDA from an IFSC located in an approved multi services SEZ set-up under the SEZ Act, 2005 read with the SEZ Rules, 2006.

The notification provides that certain provisions of the 2013 Act should not apply to an IFSC unlisted public or private company. Further, certain provisions of the 2013 Act would apply with specified exceptions or modifications.

This issue of First Notes provides an overview of the key sections of the 2013 Act that are applicable to an IFSC company with these modifications.
Coming up next

Issue 7 - February 2017

New issue of:
• Accounting and Auditing Update
• First Notes
• IFRS Notes

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Thank you

KPMG in India contacts:

[Contact details for Madhu Sudan Kankani and Nabin Ballodia]

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

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