



#KPMGjosh

# Voices on Reporting

4 April 2019

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# Welcome



01

Series of knowledge sharing calls



02

Covering current and emerging reporting issues



03

Scheduled towards the end of each month



04

Look out for our Accounting and Auditing Update, IFRS Notes and First Notes publications



# Speakers for the call



## Sharad Chaudhry

Partner

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Assurance  
KPMG in India

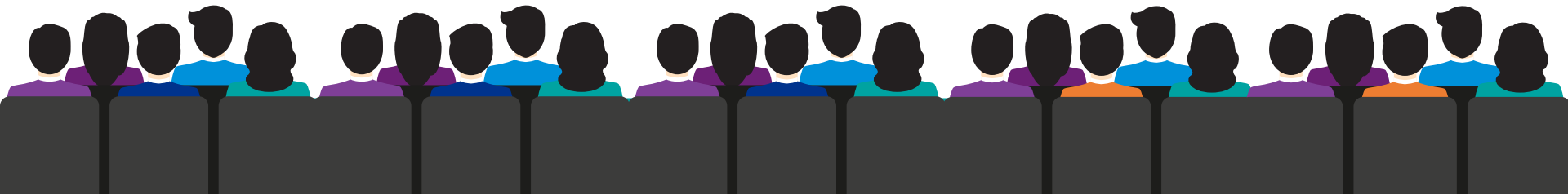


## Ruchi Rastogi

Partner

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Assurance  
KPMG in India



# Agenda

## 1. Updates relating to the Companies Act, 2013

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2. SC ruling on applicability of PF contribution on allowances

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3. SEBI amendments pursuant to Kotak Committee applicable from 1 April 2019

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4. Ind AS 116, *Leases* and amendments to other Ind ASs

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5. New/revised Standards on Auditing (SAs)

# Mandatory filing for transactions not considered as deposits



Effective from  
22 January 2019<sup>1</sup>



- **Every company** (other than a government company) is required to file **Form DPT-3** for:
  - **All the transactions not considered as deposits** during the year: **Up to 30 June of every year.**
  - Receipt of money/loan by a company **outstanding from 1 April 2014 to 22 January 2019: Up to 22 April 2019.**
- **Form DPT-3** contains a **detailed section for reporting of receipt of money/loan** by a company but **not considered as deposits** at the end of FY.
  - 13 categories of financial transactions are covered in the form, for example:
    - a) Amounts received from governments (Indian or foreign)
    - b) Loans from banks and financial institutions
    - c) Loans from directors.

One-time  
return

# Mandatory return for supplies from micro and small enterprises



Effective from 22 January 2019<sup>2</sup>

## Requirement

- Every **specified company** is required to file (in **MSME Form I**):
  - Details of all outstanding dues to micro or small enterprises **existing as on 22 January 2019: Within 30 days from the date of deployment of e-form on MCA21 portal.**
  - **Half-yearly return:**
    - a) **April to September: by 31 October**
    - b) **October to March: by 30 April.**

One-time return

## Specified companies

- **Receives supplies** of goods or services **from micro and small enterprises** and
- Whose **payments to micro and small suppliers exceed 45 days** from the date of acceptance or the date of deemed acceptance of the goods or services.

## Disclosures in return

- **The amount of payment due** and
- **Reasons for delay.**

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# SC ruling on applicability of PF contribution on allowances



## Current provisions of EPF Act

Contribution towards PF will be calculated on a monthly pay comprising the following components:

- Basic wages
- DA (all cash payments paid to an employee on account of a rise in the cost of living)
- Retaining allowance
- Cash value of any food concession.

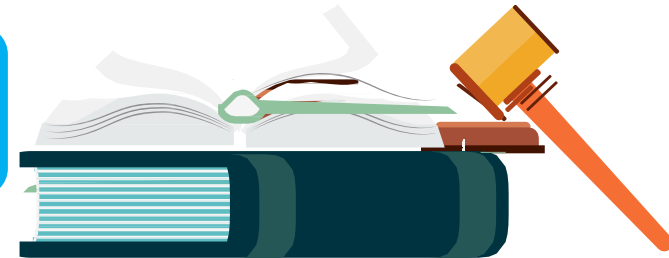


## Basic wages do not include:

- Cash value of any food concession
- DA
- HRA
- Overtime allowance
- Bonus
- Commission
- Any other similar allowance payable to an employee in respect of his/her employment or
- Any presents given by the employer.

## Petition filed

Whether other allowance such as travel allowance, canteen allowance, special allowance, management allowance and conveyance allowance paid by an establishment to its employees would fall within the expression 'basic wages' for computation of contribution towards PF?



## SC ruling<sup>3</sup>

- An amount will be excluded from the basic wages if it could be shown that the employee had become eligible to get this extra amount beyond the normal work which he/she was otherwise required to put in.
- In the cases before the SC, it could not be demonstrated that the allowances paid to employees were:
  - Variable
  - Linked to any incentive for production resulting in greater output by an employee
  - Not paid across the board to all employees in a particular category or
  - Paid especially to those who avail the opportunity.
- Based on the above, SC concluded that the **allowances were essentially a part of the basic wages.**



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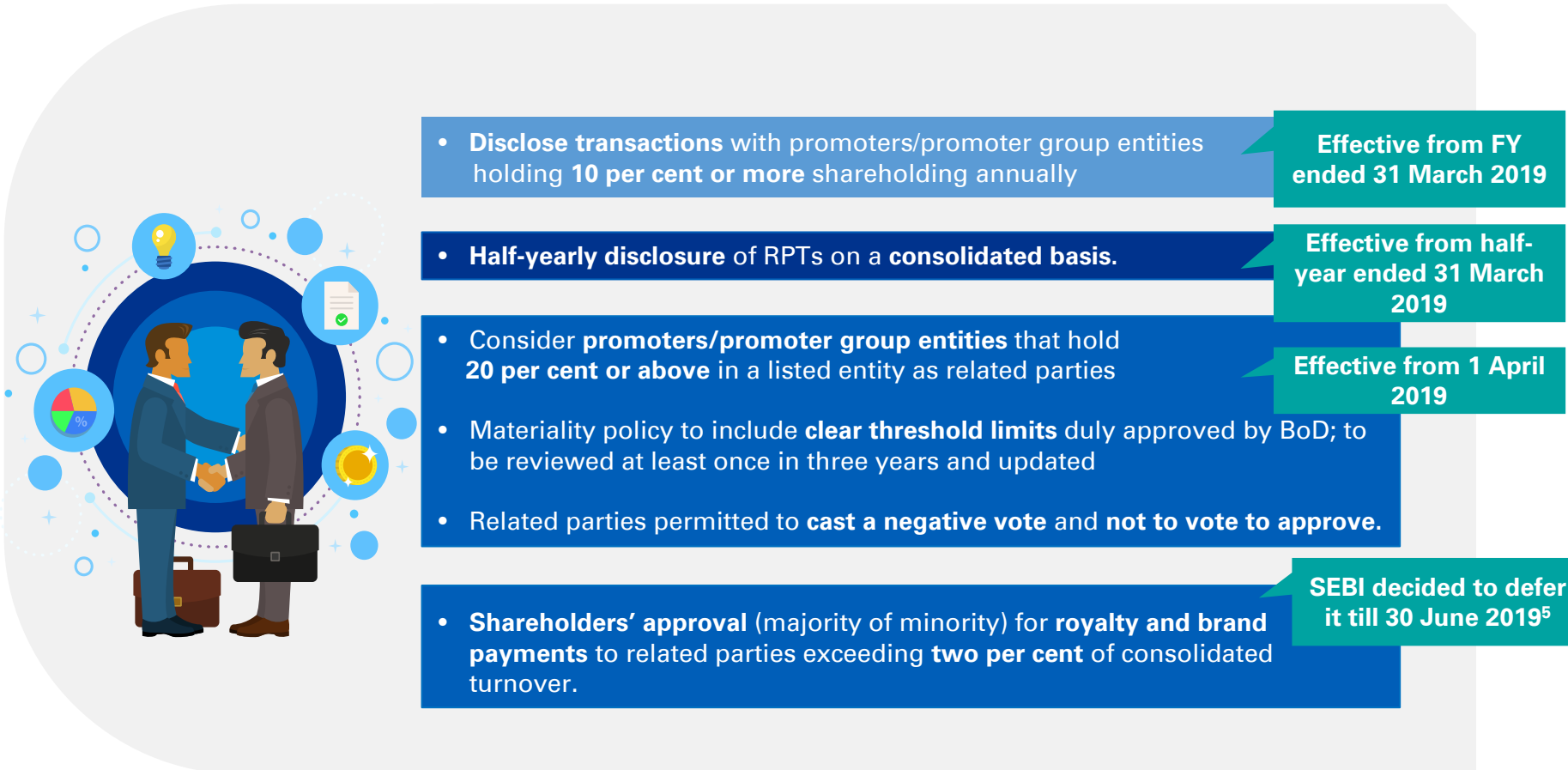
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# Related Party Transactions (RPTs)<sup>4</sup>



# Accounting and audit related matters



## Quarterly financial disclosures

Effective from  
1 April 2019



- **Mandatory** disclosure of **consolidated financial results** on a **quarterly** basis
- Limited review/audit of at least **80 per cent** of the financial information of the group i.e. consolidated revenue, assets and profits
- **Mandatory** disclosure of **cash flow statement** on a **half-yearly** basis
- Financial results in respect of **last quarter** could be audited/**limited reviewed**
- Disclose by way of note aggregate effect of **material adjustments** made in the results of the **last quarter** pertaining to **earlier periods**.

# Accounting and audit related matters (cont.)



## Other significant matters

Effective from  
1 April 2019



- **Mandatory quantification of audit qualifications** – exception for matters like going concern or sub-judice matters
- **Disclose:**
  - **Basis of recommendation** for appointment of an auditor
  - Total **fees** paid to the **statutory auditor (including entities in the network firm/entity)**
  - **Reasons for resignation** of an auditor/audit firm.
- **Group audit: Statutory auditor** of the listed entity shall undertake a **limited review of the audit** of all the entities/companies whose accounts are to be **consolidated with the listed entity**.

# Group audit – guidance by SEBI



Effective from 1 April 2019<sup>6</sup>

- Statutory auditor of the parent entity should obtain desired information about the components to be consolidated as per the guidance given in:

- SA 600, *Using the Work of Another Auditor*
- Guidance Note on Audit of CFS issued by ICAI.

- The statutory auditor of the parent is required to identify significant components.

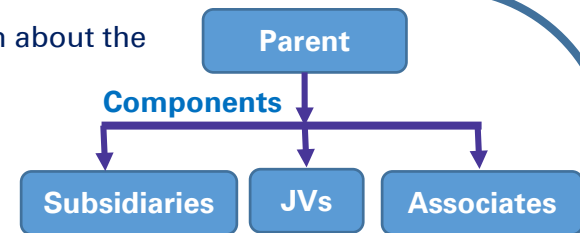
**Significant components** would be those components which together with the parent entity would represent 80 per cent of each of the consolidated:

- Revenue
- Assets and
- Profits.

- Audit/limited review of the components would continue to be undertaken by the respective auditors of the components.

- The statutory auditor of the parent entity would communicate key matters with the component auditor, e.g.:

- Threshold for material misstatements in the component's financial results
- List of related parties and work to be performed on intra-group transactions/account balances
- Significant risks of material misstatement due to error or fraud
- Areas requiring special consideration
- Significant deficiencies in internal control at the component level.



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# Lessee accounting<sup>7</sup>



Lessees face major changes

**All major leases on balance sheet**

## Balance sheet

### Asset

= 'Right-of-use' of underlying asset

### Liability

= Obligation to make lease payments

## Profit/loss

### Lease expense

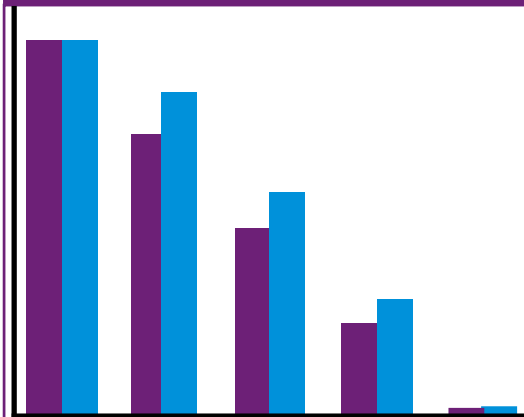
Depreciation + Interest

= Front-loaded total lease expense

# Impact on financial statements



## Balance sheet

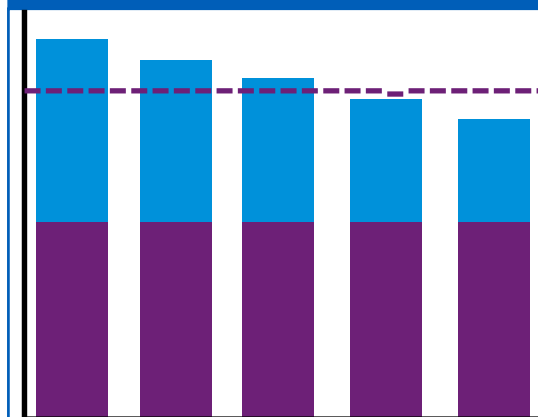


■ Asset ■ Liability

Companies with operating leases will appear to be more asset-rich, but also more heavily indebted.

*Balance sheet to be significantly grossed up*

## Profit/loss



■ Depreciation ■ Interest  
- - - Cash rental payments

Total lease expense is *front-loaded* even when cash rentals are constant.

*EBITDA\* will improve*

(\*EBITDA - Earnings Before Interest, Tax, Depreciation and Amortisation)



# Transition options



Approach	31 March 2019	31 March 2020	Date of equity adjustment
Full retrospective (no practical expedients)	Ind AS 116* Ind AS 17*	Ind AS 116	1 April 2018
Modified retrospective (with practical expedients)	Ind AS 17	Ind AS 116	1 April 2019

*(\*The company will apply Ind AS 17 in preparing its financial statements for 31 March 2019. It will then apply Ind AS 116 to prepare comparative financial information to be included in its 2019-20 financial statements.)*

# Sectors with significant impact of Ind AS 116



## Property leases

- Lease of commercial or office space
- Lease of retail or warehouse space
- Lease of residential premises
- Lease of hotel rooms or service apartments
- Lease of car parking space
- Determination of lease term with renewal options.



## Transport, logistics and leisure

- Aviation, hotels and shipping
- Assessment of substitution rights
- Foreign currency impact in the aviation sector
- Accounting of sale-and-leaseback transactions.



## Consumer market and retail

- Lease arrangements with variable rent
- Asset restoration obligation
- Contract manufacturing.



## Automotive

- Agreement with component manufacturers
- Agreement regarding tools and moulds.



## Telecom

- Site-sharing and capacity sharing agreements
- Separation of non-lease components.



# Amendments to other Ind ASs



Effective from 1 April 2019<sup>7</sup>

Standard	Overview of the amendments
<b>Ind AS 12, <i>Income Taxes</i></b>	<ul style="list-style-type: none"><li>• Clarification on the accounting for income-tax consequences on distribution of profits.</li><li>• Appendix C has been added to Ind AS 12 which seeks to bring clarity to the accounting for uncertainties on income tax treatments that are yet to be accepted by tax authorities and to reflect it in the measurement of current and deferred taxes (in line with IFRIC 23, <i>Uncertainty over Income Tax Treatments</i>).</li></ul>
<b>Ind AS 23, <i>Borrowing Costs</i></b>	<ul style="list-style-type: none"><li>• Clarification on borrowing costs to be considered for capitalisation.</li></ul>
<b>Ind AS 28, <i>Investment in Associates and Joint Ventures</i></b>	<ul style="list-style-type: none"><li>• Clarification on the accounting for the share of losses of an associate or joint venture after the equity interest has been reduced to nil.</li></ul>
<b>Ind AS 103, <i>Business Combinations</i> and Ind AS 111, <i>Joint Arrangements</i></b>	<ul style="list-style-type: none"><li>• Additional guidance has been provided on acquisition accounting where:<ul style="list-style-type: none"><li>– An entity obtains control of a joint operation (Ind AS 103) or</li><li>– A participant in a joint operation not having joint control, obtains joint control over the same (Ind AS 111).</li></ul></li></ul>
<b>Ind AS 109, <i>Financial Instruments</i></b>	<ul style="list-style-type: none"><li>• Clarification on the accounting of financial assets with prepayment features that may yield a negative compensation on prepayment.</li></ul>
<b>Ind AS 19, <i>Employee Benefits</i></b>	<ul style="list-style-type: none"><li>• Clarification on the accounting for defined benefit plans on plan amendment, curtailment and settlement.</li></ul>

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# New/revised SAs



## SA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*<sup>8</sup>

Applicable to audits of financial statements for periods beginning on or after 1 April 2018.



- An auditor is required to describe '**Key Audit Matters**' (KAMs) in the auditor's report.
- Each KAM to be disclosed in a separate section under the heading 'Key Audit Matters'
- Use of Emphasis of Matter (EOM) and other matter paragraph is not a substitute for a modified opinion to be expressed by an auditor when required by the circumstances.

Matters communicated to those charged with governance

Matters that required significant auditor attention in performing the audit

KAMs  
(Matters of most significance)

## SA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*<sup>8</sup>

Applicable to audits of financial statements for periods beginning on or after 1 April 2018.



### Revised format of an auditor's report

- Reordering of an auditor's report: Audit opinion at the beginning, followed by a basis for opinion paragraph
- Description of KAMs, including why and how for each identified KAM
- Enhanced description of the responsibilities of management and the auditor's including assessment of going concern assumption
- Inclusion of a statement of required independence by the auditors.

# New/revised SAs (cont.)



## SA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*<sup>9</sup>

Applicable to audits of financial statements for periods beginning on or after 1 April 2018.



- An auditor is required to read and consider the other information – financial or non-financial and:
  - Consider whether there is a material inconsistency between the other information and the financial statements and
  - Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit,in the context of audit evidence obtained and conclusions reached in the audit and respond/report appropriately.
- The auditor's report, includes a separate 'other information' section:
  - When the auditor has obtained some or all of the other information as of the date of the auditor's report of listed or unlisted corporate entities
  - In case of listed entities, also if the auditor expects to obtain other information after the date of the auditor's report.





# Q&A



# Sources



1. MCA notification no. G.S.R. 42(E) dated 22 January 2019.
2. MCA notification no. S.O. 368(E) dated 22 January 2019.
3. SC ruling dated 28 February 2019.
4. SEBI circular no. SEBI/LAD-NRO/GN/2018/10 dated 9 May 2018.
5. SEBI press release no. PR No.11/2019 dated 27 March 2019.
6. SEBI circular no. CIR/CFD/CMD1/44/2019 dated 29 March 2019.
7. MCA notification dated 30 March 2019.
8. ICAI announcement dated 17 May 2016 and 1 April 2017.
9. ICAI announcement dated 21 January 2018.





# Glossary



- 2013 Act - The Companies Act, 2013
- AS - Accounting Standard
- BoD - Board of Directors
- CFS - Consolidated Financial Statements
- CG - Central Government
- DA - Dearness Allowance
- DDT - Dividend Distribution Tax
- EPF Act - Employees' Provident Funds and Miscellaneous Provision Act, 1952
- FY - Financial Year
- HRA - House Rent Allowance
- ICAI - The Institute of Chartered Accountants of India
- IFRS - International Financial Reporting Standards
- IFRIC - IFRS Interpretation Committee
- Ind AS - Indian Accounting Standards
- JV - Joint Venture
- KAM - Key Audit Matter
- LLP - Limited Liability Partnership
- MCA - The Ministry of Corporate Affairs
- PF - Provident Fund
- RPT - Related Party Transaction
- SC - Supreme Court
- SEBI - The Securities and Exchange Board of India



# Links to previous recordings of VOR

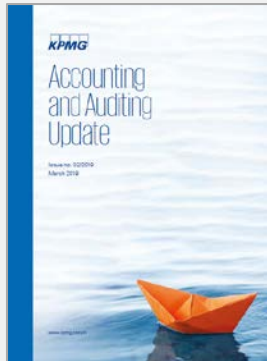


Month	Topics	Link
<b>October 2018</b>	<ul style="list-style-type: none"><li>• Ind AS Transition Facilitation Group (ITFG) clarification - Bulletin 16</li><li>• SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018</li><li>• Certain sections of the Companies (Amendment) Act, 2017 and related rules notified</li><li>• Amendments to Ind AS 20, <i>Accounting for Government Grants and Disclosure of Government Assistance</i>.</li></ul>	Click <a href="#">here</a>
<b>November 2018 (special session)</b>	<ul style="list-style-type: none"><li>• Impact of Ind AS 103 and Ind AS 115 on technology sector</li></ul>	Click <a href="#">here</a>
<b>December 2018 (special session)</b>	<ul style="list-style-type: none"><li>• Ind AS 115 and IFRS 16 - Impact on Transport, leisure and sports sector</li></ul>	Click <a href="#">here</a>
<b>January 2019</b>	<ul style="list-style-type: none"><li>• Ind AS Transition Facilitation Group (ITFG) clarification - Bulletin 17</li><li>• Amendments to the Companies Act, 2013 and key clarifications</li><li>• Framework for fund raising by issue of debt securities by large corporates</li></ul>	Click <a href="#">here</a>
<b>February 2019 (special session)</b>	<ul style="list-style-type: none"><li>• Ind AS 115 and IFRS 16 - Impact on healthcare sector</li></ul>	Click <a href="#">here</a>
<b>February 2019 (special session)</b>	<ul style="list-style-type: none"><li>• Key Audit Matters (KAMs) and new standard on leases - Impact on technology sector</li></ul>	Click <a href="#">here</a>

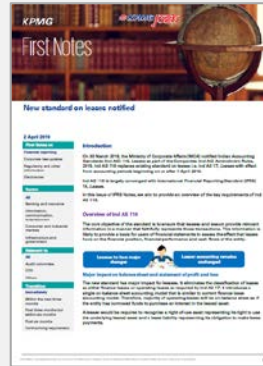
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# Our publications

## Accounting and Auditing Update



## First Notes



## Coming up next

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- Accounting and Auditing Update
- First Notes

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## IFRS Notes





# Thank you

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