



Voices on Reporting

25 May 2016

KPMG.com/in



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

Speaker for the call



Nirav Patel
Partner
Assurance
KPMG in India



Ajit Viswanath
Director
Accounting Advisory Services
KPMG in India



Agenda

- **ITFG clarification Bulletin 2**
- Amendments to Accounting Standards
- Guidance Note on Accounting for Real Estate Transactions

Ind AS Transition Facilitation Group: Clarification Bulletin 2¹

- The Ind AS Transition Facilitation Group (ITFG) of ICAI held its second meeting on 12 April 2016 and has issued its second bulletin (Bulletin 2) on 10 May 2016 which provides guidance on six issues relating to the application of Ind AS.
- These issues relate to topics such as:
 - Application of the option (under Ind AS 101, *First-time Adoption of India Accounting Standards*) to continue with the accounting policy under para 46A of AS 11, *The Effects of Changes in Foreign Exchange Rates*, would be available for those long-term foreign currency loans which were taken before the beginning of the first Ind AS reporting period.
 - The balance of FCMITDA should be amortised over the balance period of such long-term liability and be routed through profit or loss and not through OCI.
 - Upfront cost/processing fee incurred for a foreign currency loan may have been initially charged to the statement of profit and loss. However, on first-time application of Ind AS, the principles of Ind AS 109, *Financial Instruments* should be applied.
 - In case of an Indian subsidiary of a foreign parent, the net worth of the foreign parent should not be considered as the basis for determining whether the Indian subsidiary is required to comply with Ind AS or not.
 - All Indian companies should determine the date of transition to Ind AS as per the requirements of Ind AS 101, voluntary selection of transition date is not permitted.
 - In case where spare parts are recognised as PPE in accordance with criteria under Ind AS 16, *Property, Plant and Equipment*, then depreciation on such items should begin from the date when the asset is available for use.
 - The expenditure incurred on construction of assets on land not owned by a company should be capitalised based on the principles of Ind AS 16 after consideration of facts and circumstances of each case.
- Companies should consider the interpretations issued by ITFG while transitioning to Ind AS.



Agenda

- ITFG clarification Bulletin 2
- **Amendments to Accounting Standards**
- Guidance Note on Accounting for Real Estate Transactions

MCA approves changes to the existing Accounting Standards²

The MCA through its notification dated 30 March 2016, issued the Companies (Accounting Standards) Amendment Rules, 2016 to amend existing Accounting Standards (ASs).

Key amendments

Name of the standard	Key revision
AS 2, <i>Valuation of Inventories</i>	<ul style="list-style-type: none">Aligned spare parts accounting with revised AS 10.
AS 4, <i>Contingencies and Events After the Balance sheet Date</i>	<ul style="list-style-type: none">Dividend declared after the balance sheet date, but before the financial statements are approved for issue would be a non-adjusting item.
AS 6, <i>Depreciation Accounting</i>	<ul style="list-style-type: none">Requirements for depreciation are now incorporated in revised AS 10.
AS 10, <i>Property, Plant and Equipment</i> (new name)	<ul style="list-style-type: none">Cost of an item of PPE would be cash price equivalent at the recognition date.Component accounting mandatory (in line with the Schedule II to the 2013 Act).Depreciation method applied to asset would be required to be reviewed at least at each financial year-end.Clarity on spare parts accounting - Definition and recognition principles would be applicable to spare parts accounting.Decommissioning liability on a discounted basis.
AS 13, <i>Accounting for Investments</i>	<ul style="list-style-type: none">Investment property to be accounted for in accordance with cost model as prescribed in revised AS 10.

MCA approves changes to the existing Accounting Standards (cont.)²

Name of the standard	Key revision
AS 14, <i>Accounting for Amalgamations</i>	<ul style="list-style-type: none">Limited revision to include reference to 2013 Act in the standard.
AS 21, <i>Consolidated Financial Statements (CFS)</i>	<ul style="list-style-type: none">A company without a subsidiary but with associates and joint ventures to prepare CFS.
AS 29, <i>Provisions, Contingent Liabilities and Contingent Assets</i>	<ul style="list-style-type: none">Decommissioning liability provision would be on a discounted basis.

Applicability³

- The amended ASs are applicable to companies other than covered in Phase I of the Ind AS corporate road map
- The ICAI and MCA issued notifications to clarify the applicability date of the amended ASs
- The amended AS should be used for preparation of financial statements for accounting periods commencing on or after the date of notification i.e. 30 March 2016.

MCA approves changes to the existing Accounting Standards (cont.)²

Transitional provisions

For the revisions where specific transitional provisions have not been prescribed, the requirements of AS 5, *Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies* for changes in accounting policies shall apply i.e. companies will be required to apply the changes retrospectively.

AS 10

- An item of PPE (earlier recognised in the statement of profit and loss) would be eligible to be capitalised as per new requirements retrospectively.
- The principle of initial measurement of an item of PPE acquired in exchange of assets (monetary/non-monetary) be applied prospectively to transactions entered into after revised AS 10 becomes mandatory.

AS 29

- Spare parts (which were classified as inventory) if meet the criteria for recognition as PPE would be capitalised in accordance with the revised requirements at their respective carrying amounts.
- Revaluation model under revised guidance to be applied prospectively.
- Prospective application of discounting requirements for existing provisions for decommissioning, restoration and similar liabilities with the corresponding impact on the related item of PPE.



Agenda

- ITFG Clarification Bulletin 2
- Amendments to Accounting Standards
- **Guidance Note on Accounting for Real Estate Transactions**

Overview of the Guidance Note on Accounting for Real Estate Transactions⁴

Background

- On 30 March 2016, the MCA issued two Ind ASs on revenue.
- Ind AS 18, *Revenue* does not provide guidance on revenue from real estate transactions.
- The MCA had stated that revenue would be recognised by real estate developers in accordance with a Guidance Note which would be issued by ICAI on this subject.

Carve-out
from IFRS

New development

- The ICAI issued the Guidance Note on Accounting for Real Estate Transactions (GN) on 10 May 2016 which lays down the accounting treatment for entities dealing in real estate as sellers or developers.
- The GN is applicable to all projects relating to real estate by entities to which Ind AS is applicable.

Guidance

- For recognition of revenue it is necessary that all the conditions specified in Ind AS 18 are satisfied.
- The GN provides guidance on:
 - Application of the principles of Ind AS 18 in respect of sale of goods to a real estate project when the revenue recognition process is completed.
 - Application of the percentage completion method based on Ind AS 11, *Construction Contracts* methodology where economic substance of the transaction is similar to construction contracts.
- The GN also provides guidance on accounting for the following:
 - Sale of plots or land (without any development), sale of developed plots
 - Transferable development rights
 - Transactions with multiple elements.
- The GN lists down the disclosure requirements for real estate developers and projects in progress at the end of the reporting period.



Q&A

Sources

1. ICAI - ITFG clarification bulletin 2 dated 10 May 2016
2. The MCA notification dated 30 March 2016 on the Companies (Accounting Standard) (Amendment) Rules, 2016.
3. The ICAI clarification dated 26 April 2016 and MCA notification dated 27 April 2016.
4. The Guidance Note on Accounting for Real Estate Transactions issued by ICAI dated 10 May 2016.

Glossary

- 2013 Act – The Companies Act, 2013
- ICAI – The Institute of Chartered Accountants of India
- MCA – The Ministry of Corporate Affairs
- IFRS - International Financial Reporting Standards
- Ind AS - Indian Accounting Standards
- PPE - Property, Plant and Equipment
- CFS - Consolidated Financial Statements
- FCMITDA - Foreign Currency Monetary Item Translation Difference Account
- GN - Guidance Note on Accounting for Real Estate Transactions
- OCI - Other comprehensive Income

Links to previous recordings of VOR

Month	Topics	Link
November 2015	<ul style="list-style-type: none">• Overview of Ind AS 109, <i>Financial Instruments</i>• Draft interpretations on IAS 12, <i>Income Taxes</i> and IAS 21, <i>The Effects of Changes in Foreign Exchange Rates</i>	Click here
December 2015	<ul style="list-style-type: none">• Ind AS road map, IFC and ICDS• The SEBI matters• The accounting matters	Click here
January 2016	<ul style="list-style-type: none">• Overview of Ind AS 21, <i>The Effects of Changes in Foreign Exchange Rates</i>• Key regulatory updates.	Click here
February 2016	<ul style="list-style-type: none">• Report of the Companies Law Committee• Securities and Exchange Board of India (SEBI) issues the Frequently Asked Question (FAQs) on the SEBI Listing Regulations, 2015.	Click here
April 2016	<ul style="list-style-type: none">• Updates on Ind AS convergence• Updates on SEBI regulations• Updates on the Companies Act, 2013 (2013 Act)• Updates on accounting and financial reporting	Click here
May 2016	<ul style="list-style-type: none">• Framework proposed by the MAT-Ind AS committee – new development	Click here

For other archives of VOR calls, visit www.KPMG.com/in

KPMG in India's IFRS institute

Visit KPMG in India's IFRS institute - a web-based platform, which seeks to act as a wide-ranging site for information and updates on IFRS implementation in India.

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 on the evolving global financial reporting framework.



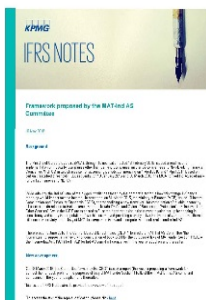
In addition to proprietary KPMG content, the website provides links to several other sources of information related to IFRS and its implementation. The site can be accessed by all interested parties at no cost. Additionally, the site provides the facility of registering as a member by providing certain minimal information.

To download KPMG content, become registered members of the website by following a few easy steps.

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

You can reach us for feedback and questions at:

in-fmkpmgifsinst@kpmg.com



Framework proposed by the MAT-Ind AS Committee

10 May 2016

On 8 June 2015, the Central Board of Direct Taxes (CBDT) formed the MAT-Ind AS Committee (the Committee) to suggest a framework for computation of book profit for the purpose of levy of MAT under Section 115JB of the Income-tax Act, 1961 (the IT Act) for Ind AS compliant companies in the year of adoption and thereafter.

On 18 March 2016, the Committee formed by the CBDT issued a report (the report) proposing a framework for computation of book profit for the purposes of levy of MAT under Section 115JB of the IT Act for Ind AS compliant companies in the year of adoption and thereafter.

This issue of IFRS Notes provides an overview of the report.



First Impressions: Revised IFRS 15, Revenue from Contracts with Customers

20 April 2016

The International Accounting Standards Board (IASB) issued amendments to IFRS 15 on 12 April 2016, to clarify some requirements and provide additional transitional relief to companies that are implementing IFRS 15.

The amendments do not change the underlying principles of IFRS 15 but clarify how these principles are to be applied. This was a result of the discussions of the Transition Resource Group (TRG) which was set up jointly by the IASB and the U.S. Financial Accounting Standards Board (FASB).

This issue of IFRS Notes provides an overview of the revised guidance.

Topics discussed in AAU and First Notes

Accounting and Auditing Update (AAU)



Issue no. 8/2016 | Financial Services

- Ind AS impact on the financial services sector
- Impact of new adjustments on derivative valuation
- Conversation with Mr. Keki Mistry
- Private equity/venture capital funds
- The Reserve Bank of India's framework for revitalising distressed assets in the economy
- Non-performing assets recognition for banks in India
- Financial statement ratios: Are they always comparable?
- Deferred tax liability on special reserve under the Income Tax Act, 1961
- Impact of ICDS on the financial services sector
- Impact of GST on the financial services sector
- Regulatory updates.

First Notes



MCA approves changes to the existing Accounting Standards

13 May 2016

Background

On 16 February 2016, the Ministry of Corporate Affairs (MCA) issued the draft Companies (Accounting Standards) Amendment Rules, 2016 to upgrade Accounting Standards (ASs), as notified under Companies (Accounting Standards) Rules, 2006, in order to align them with Ind AS.

New developments

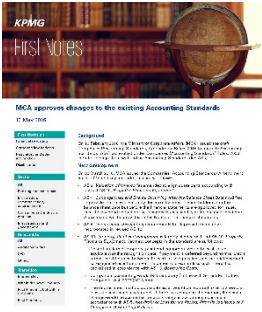
On 30 March 2016, MCA issued the Companies (Accounting Standards) Amendment Rules, 2016 to amend existing accounting standards applicable for companies covered in phase II of Ind AS road map.

This issue of First Notes provides an overview of these amendments.

Missed an issue of Accounting and Auditing Update



Missed an issue of First Notes



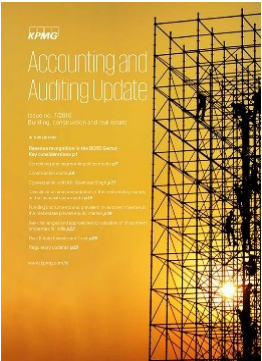
Coming up next

May 2016

New issue of:

- Accounting and Auditing Update
- First Notes
- IFRS Notes

Download from www.kpmg.com/in





Thank you

KPMG in India contact:

Nirav Patel
Partner

Assurance
KPMG in India
E-mail: niravp@kpmg.com

Ajit Viswanath
Director

Accounting Advisory Services
KPMG in India
E-mail: ajit@kpmg.com

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

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

©2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

This document is meant for e-communication only.