

Knowledge Round-up – 7th Oct 2016

ITFG clarification bulletin 5

Ind AS Transition Facilitation Group (ITFG) of Ind AS (IFRS) Implementation Committee has issued the fifth set of clarifications on various issues related to the applicability/implementation of Ind AS under Ind AS Rules, which were raised by preparers/users/other stakeholders.

This bulletin includes clarifications on the following areas:

Applicability of Ind AS

- If an entity is Holding company (to which Ind AS is not applicable from financial year ('FY') 2016-17) of a subsidiary company (to which Ind AS is applicable from FY 2016-17) as per Ind AS 110, Consolidated Financial Statements, but such subsidiary company did not get consolidated in view of requirements of paragraph 11 of AS 21, Consolidated Financial Statements, then such Holding Company **should comply with Ind AS** from the FY 2016-17.

Classification into current/non-current liability

- If an entity does not have an unconditional right to defer the settlement of a liability, then the same should be classified as current liability. The expectation of the company that it will not be settled within 12 months is not relevant to classify the liability as a non-current liability.

Deemed cost exemption for PPE in certain cases

- Where there is no change in functional currency on the date of transition to Ind AS, a first-time adopter of Ind AS has the option to elect to continue with the carrying value of all of its Property, Plant and Equipment ('PPE') as at the date of transition measured as per the previous GAAP and use that as its deemed cost at the date of transition. If a first-time adopter chooses this option, then the option of applying this on selective basis to some of the items of PPE and using fair value for others is not available;
- If a company has capitalised processing fees on the loan as part of the relevant PPE as per the previous GAAP and has chosen to avail deemed cost exemption on the date of transition, it is not required to do adjustment to the deemed cost of the PPE for transition adjustments with respect to processing fees as per Ind AS 109, Financial Instruments. However, in the given scenario, the company needs to apply the requirements of Ind AS 109, retrospectively for loans outstanding on the date of transition to Ind AS at amortised cost and the adjustments should be recognised in the retained earnings on the date of transition.

Capitalisation of spare parts under Ind AS

- If spare parts were recognised as inventory in previous GAAP financial statements but these items meet the definition of PPE and satisfy the recognition criteria as per Ind AS 16, they should be recognised as PPE. Spare parts are generally available for use from the date of its purchase. Accordingly, they should be depreciated from the date when the same were available for use.

Straight-lining of lease rentals

- As per Ind AS 17, if payments to the lessor vary because of factors other than general inflation, then lease payments shall be straight-lined. Therefore, it is required to evaluate



the lease agreement to ascertain the real intention and attributes of escalation in lease payments. If the actual increase or decrease in the rate of inflation is not materially different as compared to the expected rate of inflation under the lease agreement (and the purpose of the escalation is to compensate the expected general inflation), it is not required to straight-line the lease payments. But if the escalation of lease rentals is materially different from the rate of inflation, the entire lease payments should be straight-lined since the increase is not a compensation for inflation.

[Click here](#) for clarification bulletin 5.

Guidance note on reports or certificates for special purposes - 01 October 2016

The ICAI has issued guidance note on reports or certificates for special purposes (Revised 2016) ('guidance note').

The purpose of this guidance note is to provide guidance on assurance engagements which require a professional accountant in public practice ('practitioner') to issue reports other than those which are issued in audits or reviews of historical financial information. It also includes the illustrative formats of reports and certificates for special purposes. The guidance note, inter alia, provides detailed guidance on various additional aspects (which were not covered in the erstwhile guidance note (issued in 1984), such as:

- Procedural differences in case of reasonable assurance engagements vis-a-vis limited assurance engagements;
- Conditions for engagement acceptance and continuance;
- Preconditions for assurance engagements;
- Procedures in case of work performed by practitioner's expert, internal auditor, etc.;
- Detailed assurance report content entailing minimum requirements;
- Documentation requirements for assurance report.

[Click here](#) for guidance note.

Revised ICDS notified and amendment in Form No. 3CD - 29 September 2016

The Central Government had notified 10 Income Computation and Disclosure Standards ('ICDS') through [notification](#) dated 31 March 2015. The Central Government has now rescinded this notification.

[Click here](#) for notification.

Further, the Central Government has notified 10 revised ICDS to be followed by all assessees (other than an individual or Hindu undivided family who are not required to get his accounts of the previous year audited in accordance with the provisions of Section 44AB of the Income-tax Act, 1961 ('IT Act')) following mercantile system of accounting, for the purpose of computation of income chargeable to income-tax under the head 'Profits and gains of business or profession' or 'Income from other sources'.



These ICDS will be applicable for the assessment year 2017-18 and subsequent assessment years.

[Click here](#) for notification.

The CBDT has issued notification amending Form No. 3CD in regard to revised ICDS notified. Existing Clause 13(d) will be substituted with new Clauses 13 (d), 13(e) and 13(f) requiring disclosure of following:

- whether any adjustment is required to be made to the profits or loss for complying with the provisions of ICDS notified under section 145(2) of IT Act;
- details of such adjustments;
- disclosure as per ICDS.

The notification will come into force from 01 April 2017.

[Click here](#) for notification.

These notifications are yet to be published in Official Gazette.

Companies (Incorporation) Fourth Amendment Rules, 2016 - 01 October 2016

MCA has issued Companies (Incorporation) Fourth Amendment Rules, 2016 ('amendment rules') to further amend the Companies (Incorporation) Rules, 2014. The amendment rules, inter alia, provide the following:

- New Rule 38 is inserted on 'Simplified Proforma for Incorporating Company Electronically' which will be effective from 02 October 2016;
- New Rule 39 is inserted on 'Conversion of a company limited by guarantee into a company limited by shares' which will be effective from 01 November 2016.

Save as otherwise provided, the amendment rules are applicable from 01 October 2016.

[Click here](#) for amendment rules.

Insolvency and Bankruptcy Board of India

The Central Government has appointed 01 October 2016 as the date of establishment of the Insolvency and Bankruptcy Board of India ('Board'). Further, it has also appointed chairperson of the board with effect from 01 October 2016.

[Click here](#) for notification.

MCA had set-up a working group for making recommendations for drafting regulations for registration and regulation of insolvency professionals and insolvency professional agencies envisaged under the Insolvency and Bankruptcy code, 2016. Based on recommendations of the working group, the following regulations have been drafted:



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- [Insolvency and Bankruptcy \(Registration of Insolvency Professionals\) Regulations, 2016](#)
- [Insolvency and Bankruptcy \(Registration of Insolvency Professional Agencies\) Regulations, 2016](#)
- [Insolvency and Bankruptcy \(Model Bye-laws of Insolvency Professional Agencies\) Regulations, 2016](#)

These draft regulations are issued for public comments. Last date for submission of comments is 28 October 2016.

[Click here](#) for public notice.

Clarification on due date for filing of return of income - 30 September 2016

CBDT had extended due date for filing of Income-tax returns and for Tax audits. CBDT has further clarified that the extension of 'due date' applies to all assesseees who are required to file their return of income by 30 September 2016 as per clause (a) of Explanation 2 to Section 139(1) of IT Act.

[Click here](#) for clarification.