

Committed to quality  
and excellence



[www.rsmindia.in](http://www.rsmindia.in)



**Newsflash: Changes to Accounting Standards under Indian GAAP - Effective  
FY 2016-17 Onwards**

## 1.0 Background

On 30 March 2016, the Ministry of Corporate Affairs (MCA) notified *the Companies (Accounting Standards) Amendment Rules, 2016*, for amending the Companies (Accounting Standards) Rules, 2006 (Indian GAAP). Subsequently, MCA general circular dated 4/2016 dated 27<sup>th</sup> April, 2016 clarified that the amended accounting standards should be used in preparation of accounts for accounting periods commencing on or after the date of notification i.e. 30 March 2016. Therefore, the amended standards are effective from financial year ending 2016-17.

## 2.0 The amendment rules contain changes in following standards

- AS 10 *Accounting for Fixed Assets* and AS 6 *Depreciation Accounting*, replaced with a new AS 10 *Property, Plant and Equipment*.
- AS 2 *Valuation of Inventories*
- AS 4 *Contingencies and Event Occurring After Balance Sheet Date*
- AS 13 *Accounting for Investments*
- AS 14 *Accounting for Amalgamations*
- AS 21 *Consolidated Financial Statements*
- AS 29 *Provisions, Contingent Liabilities and Contingent Assets*

## 3.0 In this alert, we provide an overview of key changes and comparative analysis with pre-amended Indian GAAP standards and the corresponding requirements of Indian Accounting Standards (Ind AS).

Pre-revised Indian GAAP	Revised Indian GAAP	Ind AS
<i>Property, plant and equipment – component approach and major repairs and overhaul expense</i>		
Component accounting was not mandatory under accounting standards, although Companies Act, 2013 mandated component.  Major repairs that increase the future benefits from the existing asset beyond its previously assessed standard of performance is capitalized.	Accounting standard has been aligned to the requirements of Companies Act, 2013 by mandating component accounting. Major repairs and overhaul expenditure capitalized as replacement costs, if they satisfy the recognition criteria. The carrying amount of those parts that are replaced is derecognised.	Component approach mandatory. Similar to revised Indian GAAP
<i>Property, plant and equipment – spares parts</i>		
Machinery spares are generally expensed to profit and loss as and when consumed. If spares can be only used in connection with an item of fixed asset and their use is expected to be irregular, they are capitalised and depreciated over the period not exceeding the useful life of the principal item.	Spare parts, stand-by equipment and servicing equipment are capitalised when they are intended to be used for more than a period of 12 months. Otherwise, they are treated as inventory. The transitional provisions state that if a spare part, previously recognized as inventory, is required to be capitalized as a PPE; it is capitalized at its carrying amount and depreciated prospectively over its remaining useful life.	Similar to revised Indian GAAP

Pre-revised Indian GAAP	Revised Indian GAAP	Ind AS
<i>Property, plant and equipment – unit of measure</i>		
<p>No specific guidance for accounting for what is known as enabling assets i.e. expenditure incurred for construction of, for example, an access road on government land in an under developed area to enable access to the company's plant.</p> <p>Past opinion issued by the Expert Advisory Committee (EAC) of the ICAI, that enabling assets can not be capitalised.</p>	<p>Guidance provided on what constitutes the unit of measure for recognition, i.e. the item of PPE. A unit of measure can be a project of construction of a manufacturing plant rather than individual assets comprising the project in appropriate cases for the purpose of capitalisation of expenditure incurred during construction period.</p> <p>The transitional provisions permit companies to apply this amendment retrospectively for a project. Any impact arising from the retrospective application, net of related tax expense, is recognized in the revenue reserves.</p>	Similar to revised Indian GAAP
<i>Property, plant and equipment – decommissioning, restoration and similar liabilities</i>		
Upfront provision required to be created for asset retirement/ site restoration obligations at undiscounted amount. No specific guidance on how the corresponding amount should be adjusted.	<p>Initial estimate of the costs of dismantling &amp; removing and restoring the site on which the asset is located is capitalised.</p> <p>The provision is created at the discounted amount.</p>	Similar to revised Indian GAAP
<i>Property, plant and equipment – change in depreciation method</i>		
Any change in depreciation method treated as an accounting policy change and applied retrospectively.	Change in depreciation method treated as a change in accounting estimate and applied prospectively.	Similar to revised Indian GAAP
<i>Property, plant and equipment – revaluation model option</i>		
No specific guidance on the regularity of revaluation or with regards to at what level- item or class of assets to revalue. In practice, many companies applied revaluation model on an ad hoc basis.	Revaluation required to be made with sufficient regularity. If an item of PPE is revalued, the entire class to which the asset belongs is revalued	Similar to revised Indian GAAP. However, extensive guidance on determination of fair values and related disclosures.
<i>Property, plant and equipment – cost of PPE</i>		
Separation of financing element not required to from cost of an asset purchased on deferred payment basis.	The cost of an item of PPE is its cash price equivalent at the recognition date. If the payment is deferred beyond normal credit terms, the difference between the cash price equivalent and total payment is charged as interest cost.	Similar to revised Indian GAAP

Pre-revised Indian GAAP	Revised Indian GAAP	Ind AS
<i>Accounting for proposed dividend</i>		
Dividend in respect of the period covered by financial statements, which are proposed or declared by the entity after the balance sheet date but before approval of the financial statements, should be adjusted.	Dividends declared after the balance sheet date but before the financial statements are approved for issue, the dividends are not recognized as liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in notes.	Similar to revised Indian GAAP
<i>Depreciation of investment properties</i>		
Investment properties were defined as investment in land or building not intended to be occupied substantially for use by, or in the operations of, the investing entity.  No accounting standard guidance on depreciation. However, an old DCA circular required depreciation of building classified as investment property.	Investment property is land or building or both to earn rentals or for capital appreciation or both.  Investment properties are to be accounted for using cost model under revised-AS 10, i.e., depreciation required on building classified as investment property.	Similar to revised Indian GAAP
<i>Accounting for mergers and amalgamation</i>		
Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute, which may be applicable to companies  There is a legal override, i.e., where the scheme of amalgamation prescribes accounting treatment different from that required under the standard, the accounting as per the court scheme prevails, and disclosures about the deviations are required.	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute, which may be applicable to companies and includes “merger”.  Sections 230 and 232 <sup>1</sup> of the Companies Act, 2013, require accounting treatment proposed in the scheme of compromise or arrangement to be in conformity with the accounting standards. Therefore, deviations from accounting standards would not be allowed for court schemes governed by these sections and, resultantly, the disclosures about deviations would not be relevant.	Ind AS contains entirely different accounting requirement for business combinations depending on whether or not the business combinations are under common control.

1. Relevant sub-sections of these sections have been notified vide Ministry of Corporate Affairs (MCA) notification dated 7<sup>th</sup> December, 2016.

Pre-revised Indian GAAP	Revised Indian GAAP	Ind AS
<i>Preparation of consolidated financial statements</i>		
Under the accounting standards, consolidated financial statements prepared only if companies had one or more subsidiaries. However, under the Companies Act, 2013, a company, which has no subsidiary but has one or more associate/ joint ventures, is required to prepare consolidated financial statements.	A company, which has no subsidiary but has one or more associate/ joint ventures, is required to prepare consolidated financial statements.	Similar to revised Indian GAAP

The amendments are in lines with the corresponding requirements under Ind AS. However, the amendments have not set out clearly the transitional provisions, except for the requirements for capitalization of eligible spares and unit of measure as mentioned above. The transition requirements for other changes, for e.g. separation of financing element in PPE cost, capitalization of major overhaul, etc, are not clear. These will have to be dealt with as per paragraph 32 of AS 5 *Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies*. It requires the impact of and adjustments resulting from any change in accounting policy to be shown in the financial statements of the period in which such change is made, to reflect the effect of such change. Where the effect of such change is not ascertainable, wholly or in part, the fact should be indicated.

The notifications/circulars are available at the links given below

1. [http://www.mca.gov.in/Ministry/pdf/Notification\\_30032016.pdf](http://www.mca.gov.in/Ministry/pdf/Notification_30032016.pdf)
2. [http://www.mca.gov.in/Ministry/pdf/Notification\\_04072016.pdf](http://www.mca.gov.in/Ministry/pdf/Notification_04072016.pdf)



For further information please contact:

RSM Astute Consulting Pvt. Ltd.

13th Floor, Bakhtawar, 229, Nariman Point, Mumbai - 400 021.

T: (91-22) 6108 5555 / 6121 4444

F: (91-22) 6108 5556 / 2287 5771

E: [emails@rsmindia.in](mailto:emails@rsmindia.in)

W: [www.rsmindia.in](http://www.rsmindia.in)

Offices: Mumbai, New Delhi - NCR, Chennai, Kolkata, Bengaluru (Bangalore), Surat, Hyderabad, Ahmedabad, Pune, Gandhidham and Jaipur.



[facebook.com/RSMInIndia](https://facebook.com/RSMInIndia)



[twitter.com/RSM\\_India](https://twitter.com/RSM_India)



[linkedin.com/company/rsm-india](https://linkedin.com/company/rsm-india)

RSM Astute Consulting Pvt. Ltd. (Including its affiliates) is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network.

Each member of the RSM network is an independent accounting and consulting firm each of which practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 50 Cannon Street, London EC4N 6JJ .

The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

This newsflash is general in nature. In this newsflash, we have summarised the MCA notified *Companies (Accounting Standards) Amendment Rules, 2016*, and MCA general circular dated 4/2016 dated 27 April, 2016 clarifying that the amended accounting standards should be used in preparation of accounts for accounting periods commencing on or after the date of notification i.e. 30 March 2016. It may be noted that nothing contained in this newsflash should be regarded as our opinion and facts of each case will need to be analyzed to ascertain applicability or otherwise of the said notification and appropriate professional advice should be sought for applicability of legal provisions based on specific facts. We are not responsible for any liability arising from any statements or errors contained in this newsflash.

16 January 2017