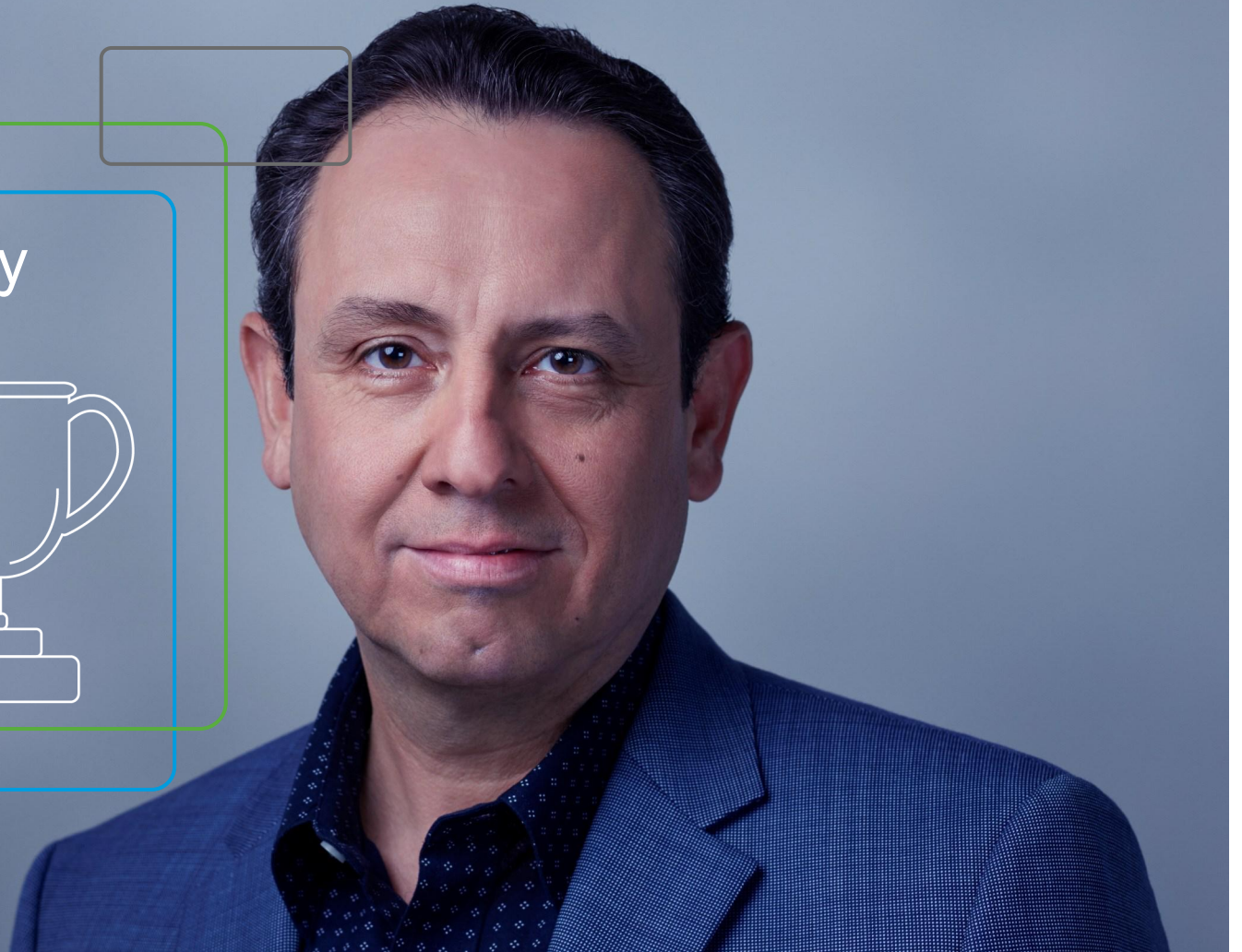


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Newsflash: Ind AS Transition Facilitation Group (ITFG) issues Clarifications – Bulletin 6

1.0 Background

- 1.1 Indian Accounting Standards (Ind AS) is effective in phases for the covered companies from 1 April 2016 onwards. The Institute of Chartered Accountants of India (ICAI) constituted 'Ind AS Transition Facilitation Group' (ITFG) in order to provide clarifications on various Ind AS applicability and implementation issues.
- 1.2 ITFG considered four issues around Ind AS applicability and decided to issue clarifications on 29 November 2016 by way of Bulletin 6.
- 1.3 Prior to this bulletin, earlier this year, ITFG had issued five bulletins to provide guidance on Ind AS issues. This newsflash summarizes the ITFG clarifications through its Bulletin 6.
- 1.4 Following is a summary of the clarifications:

Background	Question Raised	ITFG Response
Net worth criterion: Once applicable, no escape		
Rule 4(1)(ii) of Companies (Indian Accounting Standards) Rules, 2015 requires, amongst others, companies with net worth of Rs.500 crores or more to apply Ind AS from FY 2016-17(Phase 1). For this purpose net worth is calculated based on the audited stand alone (Indian GAAP) financial statements of a company as at 31 March 2014. Companies not in existence on 31 March 2014 or those having net worth below the above threshold on 31 March 2014 are required to apply Ind AS from the immediate next accounting year.	<p><i>There is a debt-listed company with net worth as follows:</i></p> <ul style="list-style-type: none">• 31 Mar 2014 Rs. 1,260.83 crores.• 31 Mar 2015 Rs. 1,411.43 crores.• 31 Mar 2016 Rs. 485.22 crores. <p><i>Whether the company is required to apply Ind AS from FY 2017-18?</i></p>	The net worth is calculated as per the stand alone financial statements of the company as on 31 March 2014. If the net worth threshold criterion is once met, then it shall be required to comply with Ind AS, irrespective of the fact that at a later date its net worth falls below the threshold. Therefore, the company will be required to apply Ind AS from FY 2016-17.
No exemption from Ind AS for charitable companies under section 8 meeting Ind AS criteria		
Holding, subsidiary, joint ventures and associate companies of companies falling under any of the thresholds specified in Rule 4(1) (ii), mentioned above, are required to apply Ind AS from FY 2016-17.	<p><i>Company X is covered under Phase 1 of Ind AS i.e. from FY 2016-17 onwards. Company Y, a charitable organisation under section 8 of Companies Act, 2013, is an associate company of company X.</i></p> <p><i>Whether Y is required apply Ind AS from FY 2016-17, along with X?</i></p>	Rule 4(1)(ii) covers associates of Phase 1 of Ind AS companies. Companies covered under section 8 are required to comply with the provisions of Companies Act unless any specific exemption is provided. There are no exemptions from the requirements of section 133 or section 129 of Companies Act. Therefore, Y is required to apply Ind AS from FY 2016-17.

Background	Question Raised	ITFG Response
Dual financials for non-NBFC subsidiary of a NBFC parent		
Rule 4(1)(iv)(b) of Companies (Indian Accounting Standards) Rules, 2015 read with Companies (Indian Accounting Standards) (Amendment) Rules, 2016 require unlisted NBFCs with net worth of Rs.250 crores or more to apply Ind AS from FY 2019-20 onwards. An explanation to the above states that if in a group of companies, some entities apply Indian GAAP and others apply Ind AS, each entity should prepare individual financial statements as per their respective applicable GAAP.	<p>Y, an unlisted NBFC with net worth Rs. 285 crores. (Ind AS effective from FY 2019-20 onwards)</p> <p style="text-align: center;">Subsidiary ↓</p> <p>Company X in phase 2 of Ind AS roadmap (Ind AS effective from FY 2017-18 onwards)</p> <p><i>Since Ind AS applicability date for parent NBFC is different from the applicability date for corporate subsidiary, how will the consolidated financial statements of the NBFC parent be prepared?</i></p>	Y, the NBFC parent, shall apply Ind AS from 1 April 2019 onwards. Subsidiary X shall apply Ind AS in its individual financial statements for FY 2017-18 onwards (as per the corporate roadmap). For FY 2017-18 and FY 2018-19, subsidiary X should also prepare its Indian GAAP financial statements in order to facilitate consolidation by its NBFC parent Y.
Capital reserve resulting from Government grant in the nature of promoter's contribution considered for net worth		
One of the criteria for Ind AS applicability is amount of net worth of the company. Under section 2(57) of Companies Act, 2013 'net worth' is the aggregate value of paid up share capital all free reserves along with securities premium.	<p><i>A company had received government grant in the nature of promoters' contribution and recognized in capital reserves as per AS 12¹ under Indian GAAP.</i></p> <p><i>Is such capital reserve considered for the purpose of net worth to assess Ind AS applicability ?</i></p>	In substance, the capital reserve in the nature of promoter's contribution is a capital contribution by promoters and should be included in the calculation of net worth. Further AS 12 also states that government grants in the nature of promoter's contribution are recognized as shareholders' funds. Therefore, such capital reserve is considered for the purpose of calculation of net worth for the purpose of Ind AS applicability. This should not be applied by analogy for determining net worth under other provisions of Companies Act, 2013.

The notification is available at the link <http://resource.cdn.icai.org/44024indas33794.pdf>

¹ AS 12 *Accounting for Government Grants* under Indian GAAP. It must be noted that this treatment is not allowed under Ind AS.

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This newsflash is general in nature. In this newsflash, we have summarised the clarifications issued by the ICAI Ind AS Transition Facilitation Group (ITFG), dated 29 November 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.

5 December 2016