Chapter IX – Companies Act 2013
Accounts of Companies

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Accounts of Companies

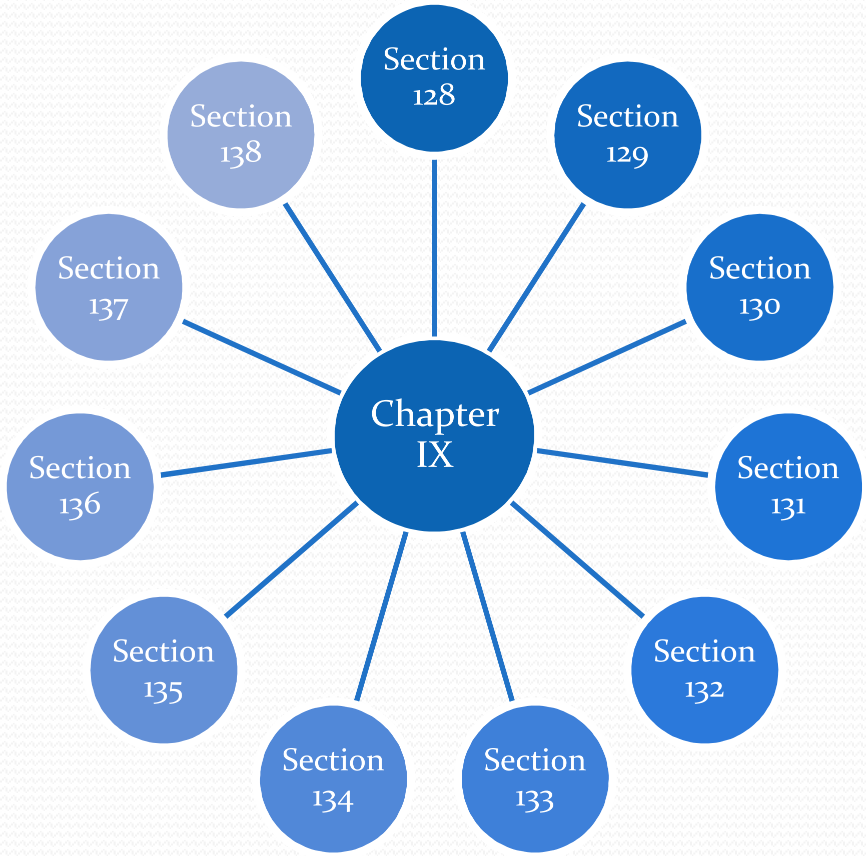
- It has been said that public companies have to work in a glass house, which exposes their working on all sides.
- The belief is that declared, open and disclosed affairs are likely to be more honest than those behind the curtain.
- Fundamental principles underlying the companies act has been that of disclosure.
- Disclosure means publicity. Therefore annual accounts and reports must be published. They must be filed in a public office.
- The annual accounts cannot be prepared unless the companies keep what are called running account books / accounting records.

Major Changes in maintenance of accounting records and preparation of financial statements

- Mainly based on the recommendation made by Dr. Jamshed J Irani Committee –
  - ✓ Institutional mechanism for developing Accounting and Accounting Standards –NFRA
  - ✓ Holding and subsidiary accounts consolidation
  - ✓ Uniform financial year ending 31st March every year
  - ✓ Cash flow statement and Statement of Changes in Equity has been made mandatory
  - ✓ Provisions for re-opening of accounts courts or tribunal order and voluntary re-opening on the basis of Boards report

Section 128 to Section 138

128. Books of account, etc. to be kept by company
129. Financial statement
130. Re-opening of accounts on Court's or Tribunal's orders
131. Voluntary revision of financial statements or Boards' report
132. Constitution of National Financial Reporting Authority
133. Central Government to prescribe accounting standards
134. Financial statement, Board's report etc.
135. Corporate Social Responsibility
136. Right of member to copies of audited financial statement
137. Copy of financial statement to be filed with Registrar
138. Internal audit



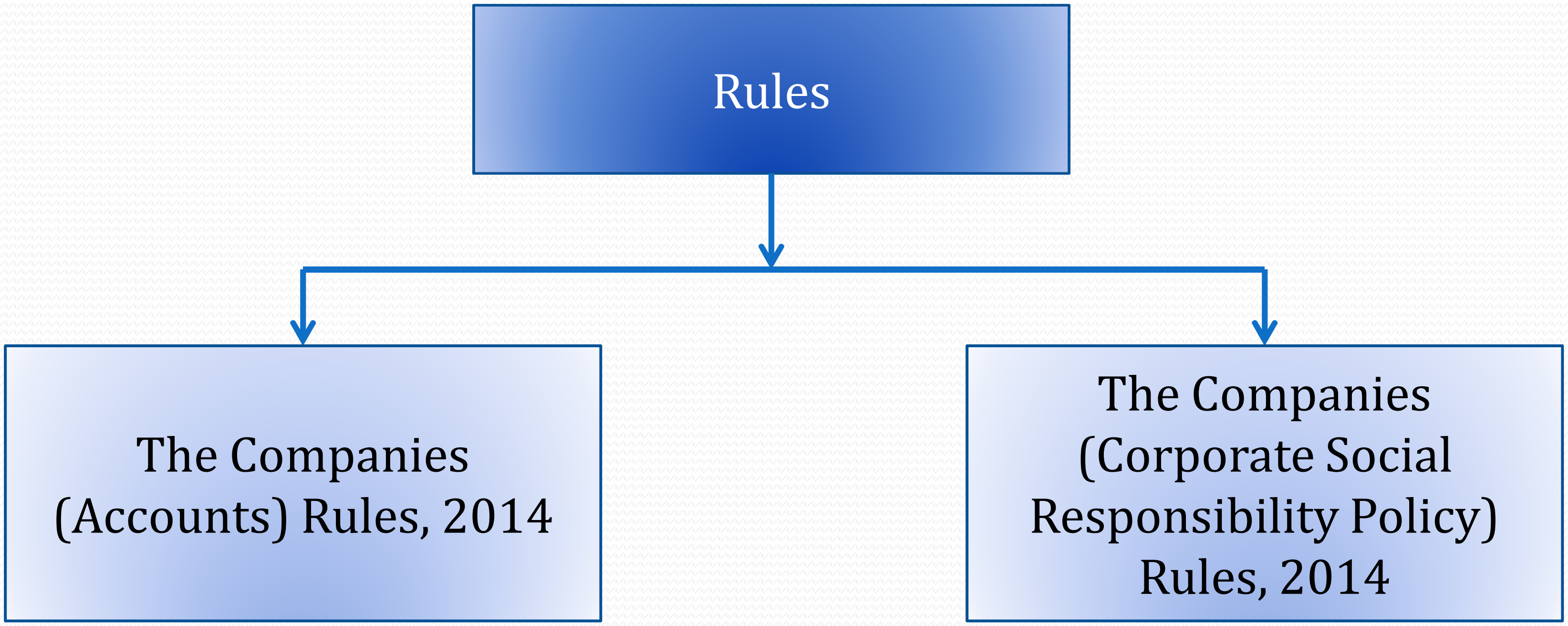
Notification Dates

Sec	Description	Notified On
128	Books of Accounts to be kept by Company	26-Mar-14
129	Financial Statements	26-Mar-14
130	Re-opening of accounts on courts or Tribunal's order	Not Notified
131	Voluntary revision of financial statements or Board's report	Not Notified
132	Constitution of National Financial Reporting Authority	Not Notified
133	Central Government to prescribe accounting standards	12-Sept-13
134	Financial Statement, Board's report, etc.	26-Mar-14
135	Corporate Social Responsibility	27-Feb-14
136	Right of member to copies of audited financial statements	26-Mar-14
137	Copy of financial statement to be filed with Registrar	26-Mar-14
138	Internal Audit	26-Mar-14

Corresponding provisions of Companies Act 1956

Provisions of Companies Act, 2013 as notified (98+1+183= 282 Sections)	Corresponding provisions of Companies Act, 1956	Corresponding provisions of Companies Act, 1956 continue to remain in force
128	209 & 214	NIL
129	210, 211, 212, 213, 221, 222 & 223	NIL
133	211 (3C)	NIL
134	215, 216, 217 & 218	NIL
135	NIL	NIL
136	219	NIL
137	220	NIL
138	NIL	NIL

Applicable Rules



Sec	Description	Relevant Rules of The Companies (Accounts) Rules, 2014
128	Books of Accounts to be kept by Company	• **Rule 3 -** Manner of books of account to be kept in electronic mode • **Rule 4 -** Conditions regarding maintenance and inspection of certain financial information by directors
129	Financial Statements	• **Rule 5 -** Form of statement containing salient features of financial statements of subsidiaries • **Rule 6 -** Manner of consolidation of accounts
130	Re-opening of accounts on courts or Tribunal's order	-
131	Voluntary revision of financial statements or Board's report	-
132	Constitution of National Financial Reporting Authority	-
133	Central Government to prescribe accounting standards	• **Rule 7 -** Transitional provisions with respect to Accounting Standards

Sec	Description	Relevant Rules of The Companies (Accounts) Rules, 2014
134	Financial Statement, Board's report, etc.	• **Rule 8 -** Matters to be included in Board's report
135	Corporate Social Responsibility	• **Rule 9 -** Disclosures about Corporate Social Responsibility ("CSR") policy **&** • **The Companies (Corporate Social Responsibility Policy) Rules, 2014**
136	Right of member to copies of audited financial statements	• **Rule 10 -** Statement containing salient features of financial statements • **Rule 11 -** Manner of circulation of financial statements in certain cases
137	Copy of financial statement to be filed with Registrar	• **Rule 12 -** Filing of financial statements and fees to be paid thereon
138	Internal Audit	• **Rule 13 -** Companies required to appoint internal auditor

Sec	Relevant Forms
128	**Form AOC -5:** Notice of address at which books of accounts are to be maintained.
129	**Form AOC -1:** Statement containing salient features of the financial statement of subsidiaries/associate companies/joint ventures.
130	-
131	-
132	-
133	-
134	**Form AOC -2:**Form for disclosure of particulars of contracts/arrangements entered into by the company with related parties referred to in sub-section (1) of section 188 of the Companies Act, 2013 including certain arms length transactions under third proviso thereto.
135	-
136	**Form AOC -3:**Statement containing salient features of Balance Sheet and Profit and Loss Account.
137	**Form AOC -4:**Form for filing financial statement and other documents with the Registrar.
138	-

Sec – 128 Books of account etc. to be kept by company.

- Section 2(12) – "Books and papers" and "books or papers" include books of account, deeds, vouchers, writings, documents, minutes and registers maintained on paper or in electronic form

- Section 2(13) – Books of account includes records maintained in respect of
  - ✓ All sums of money received and expended by a company and matters in relation to which the receipts and expenditures take place
  - ✓ All sales and purchases of goods and services by the company
  - ✓ The assets and liabilities of the company and
  - ✓ The items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section

Features

- **Books of Account:**

  Every Company is required to maintain Books of Accounts and other relevant books and papers and financial statements for every financial year which give a true and fair view of the state of affairs of the company including that of its branch office or offices.

- **Place and Mode of Maintenance of Books of Account:**
  - ✓ The books of accounts should be kept at the registered office or
  - ✓ Any other place that the Board of Directors may decide in India provided a notice has been given to the register of companies within 7 days of such decision.
  - ✓ The company may even maintain the books in electronic form.

- **Branch office returns:**
  - ✓ A company shall be a deemed compliant of the branch if the books of accounts are maintained by the branch office and proper summarized returns periodically are sent by the branch office to company at its registered office. (Every 3 months as per old sec 209)
  - ✓ Also if the books are maintained outside India the same should be sent to the registered office quarterly.

- **Inspection of Books of Accounts:**
  - ✓ The director of the company may inspect the books of accounts and other relevant books and papers during normal business hours.
  - ✓ Where books are maintained outside india, directors may inspect copies of such financial information subject to conditions as may be prescribed.
  - ✓ The Board of Directors of the holding company can authorize any person to inspect the books of accounts of the subsidiary.

- **Inspection of Books of Accounts by the Registrar:**

  Section 206, 207, 208 of Companies Act 2013 (Chapter XIV – Inspection, inquiry and inspection) empowers Registrar to inspect the books of account of companies and report to central government.

- **Reasonable assistance by officers**

  A new subsection has been inserted which states that it is the responsibility of the company officers and employees to provide reasonable assistance to a person in making an inspection of the books of accounts.

- **Period of maintenance of books of accounts:**
  - ✓ The company should maintain the books of accounts for a period of 8 years.
  - ✓ However, if an investigation has been ordered in case of the company, the Central Government may specify that books of accounts should be kept for such longer period as it may deem fit.

- **Penalty Clause:**

  In case of contravention of these provisions, the person in-charge will be liable to an imprisonment for a term which may extend to 1 year or fine which shall not be less than Rs.50,000/- but which may extent to Rs. 5,00,000/- or with both.

Maintenance of Books of Accounts to be kept in Electronic Mode (Rule 3)

The requirements of the Rule are:

1. The books of accounts and other relevant books and papers maintained shall-
   - ✓ Remain accessible in India and
   - ✓ Retained in a format in which they were originally generated
2. The information received from branch offices should not be altered.
3. The information of the document should be capable to be displayed in a legible manner.
4. There should be a proper system for storage, retrieval, display or printout of the electronic records.
5. The company shall intimate to the Registrar on annual basis at the time of filing of financial statements the name, internet protocol address, the location of the service provider and where the book of accounts and other books and papers are maintained on cloud, such address as provided by the service provider

Significant Implementation Matters arising out of Rule 3

1. **Accessibility of electronic data -** The backups of electronic data should be readily accessible
2. **Maintenance of records in original format -** A proper system of checks and balances should be set up to maintain and ensure the integrity of data once generated.
3. **Audit committee / board approval for -** systems related to storage, retrieval, display or printout of records and periodicity of backups.
4. Backup servers should be **located in India.**
5. **The backups should be taken on periodic basis -** so that the most current information is available on backup servers.
6. **Intimation to Registrar on annual basis -** Companies need to provide detailed records of the service provider to the Registrar at the time of filing financial statements.

Sec 133 – Central Government to prescribe accounting standards

- The Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India constituted under section 3 of the Chartered Accountants Act, 1949 (38 of 1949), in consultation with and after examination of the recommendations made by the National Financial Reporting Authority (NFRA).

Rule 7 – Transitional provisions with respect to Accounting Standards

1. The standards of Accounting as specified under the Companies Act, 1956 shall be deemed to be the accounting standards until accounting standards are specified by the Central Government under section 133.

2. Till the National Financial Reporting Authority is constituted under section 132 of the Act, the Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India in consultation with and after examination of the recommendations made by the National Advisory Committee on Accounting Standards (NACAS) constituted under section 210A of the Companies Act ,1956.

- Based on the transitional provisions on accounting standards as per rule, AS notified on 7th December 2006 by the Central Govt. vide the Companies (Accounting Standards) Rule 2006 under provision of section 211(3C) of Companies Act 1956 still remain valid pending specification of AS by Central Govt. under section 133

Sec 136 – Right of member to copies of audited financial statements

- The copy of financial statements including consolidated financial statements, auditor's report and every other document required by law to be annexed shall be sent to every member, trustee for the debenture-holder and every person so entitled **not less than twenty-one days before the date of meeting.**

- A company shall allow every member or trustee for the debenture holder to inspect the documents at its **registered office during business hours.**

- **Penalty** liable to be paid incase of default in complying with the provisions of this section-
  - ✓ Company-Rs.25,000
  - ✓ Every officer in default-Rs.5,000

Rule 10 - Statement containing salient features of financial statements

1. The statement containing features of documents referred to in first proviso to sub-section (1) of section 136 shall be in Form AOC-3.

Rule 11-Manner of circulation of financial statements in certain cases

1. In case of listed companies and public companies-
   - ✓ Networth Rs.1 crore or more
   - ✓ Turnover Rs.10 crore or more

2. The financial statements may be sent-
   - ✓ By electronic mode whose shareholding is in dematerialized format and whose email ids are registered with Depository.
   - ✓ Where the shareholding is held otherwise than by dematerialized format, to such members who have positively consented in writing for receiving by electronic mode.
   - ✓ By dispatch of physical copies through any recognized mode of in all other cases.

Sec 137 – Copy of Financial Statement to be filed with Registrar

- A copy of financial statements including consolidated financial statements along with all the documents which are required to be attached, which are adopted at the AGM shall be filed with the Registrar within 30 days of the date of AGM with such fees as may be prescribed.
- Where the AGM is not held in any year, the financial statements along with the statements of facts and reasons for not holding the AGM shall be filed with the Registrar as within 30 days of the last date before which the meeting should have been held.
- Penalty for failure to file the copy-
  - ✓ Company-Rs.1,000 every day and not more than Rs.10,00,000
  - ✓ Director-
    1. Rs.1,00,000 or more but not more than Rs.5,00,000 or
    2. Imprisonment for a term which may extend to 6 months or
    3. With both

Rule 12 - Filing of financial statements and fees to be paid thereon

- Every company shall file the financial statements with Registrar together with Form AOC-4.

- The class of companies as may be notified by the Central Government from time to time, shall mandatorily file their financial statement in Extensible Business Reporting Language (XBRL) format and the Central Government may specify the manner of such filing under such notification for such class of companies

- The fees or additional fees referred to in sub-section (1) of section 137 and in the second proviso to the said subsection and in sub-section (2) of the said section shall be as specified in the Companies (Registration Offices and Fees) Rules, 2014.

Sec 138 – Internal Audit

- Such class or classes of companies as may be prescribed shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company

- The Central Government may, by rules, prescribe the manner and the intervals in which the internal audit shall be conducted and reported to the Board.

Rule 13 - Companies required to appoint internal auditor

1. The following class of companies shall be required to appoint an internal auditor or a firm of internal auditors-
   - ✓ Every listed company
   - ✓ Every unlisted public company during the preceding previous year having -
     i. Paid up share capital Rs.50 crore or more
     ii. Turnover Rs.200 crore or more
     iii. Outstanding loans or borrowings from banks or public financial institutions Rs.100 crore or more an any point of time
     iv. Outstanding deposits Rs.25 crore or more

- ✓ Every private company during the preceding previous having-
  i. Turnover Rs.200 crore or more
  ii. Outstanding loans or borrowings from banks or public financial institutions Rs.100 crore or more an any point of time.

  The existing company covered under any of the above criteria shall comply with the requirements of section 138 and this rule within 6 months of commencement of such section.

2. The Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.

As per Companies (Auditor's Report) Order, 2003

- The Concept of Internal audit was not expressly provided in the 1956 Act. However, the importance of internal audit had been well acknowledged in CARO, 2003 by requiring the auditors of certain classes to comment on this area.

- This clause is applicable to the following:
  - ✓ Every listed company
  - ✓ Every unlisted company having-
    1. Share capital and reserves more than Rs.50 lakhs at the commencement of the financial year
    2. Average annual turnover more than Rs.5 crores for a period of three consecutive financial years immediately preceding the financial year concerned.

Applicability of CARO, 2003.

- Sub section (11) of Section 143 empowers the Central Government, in consultation with the National Financial Reporting Authority, to direct by a general or special order that, in the case of specified classes of companies, the auditor's report shall include a statement on such matters as may be specified in its order.

- However the NFRA has not so far been constituted by the GOI and no orders in lieu of CARO has been issued.

- However it may be noted that in form AOC-4 (point no. VI) ‘ Form for filing financial statement and other documents with the registrar’ , the company is required to disclose details with respect to CARO and the auditor's comment on the items specified under CARO.

✓ **It seems that the reporting under CARO may continue under Companies Act, 2013.**

Section 135 – Corporate Social Responsibility

What is CSR

- Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large"

  -Lord Holme and Richard Watts

- "Corporate Social Responsibility(CSR)"means and includes but is not limited to-
  - ✓ Projects for programs relating to activities specified in Schedule VII to the Act
  - ✓ Projects or programs relating activities undertaken by the board od directors of a Company (Board in pursuance of recommendations of the CSR Committee of the Board as per declared CSR Policy of the company subject to the condition that such policy will cover subjects enumerated in Schedule VII of the Act.

  Companies (CSR Policy)Rules 2014

Applicability

- Every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India, which fulfils the criteria specified in subsection (1) of section 135 of the Act shall comply with the provisions of section 135 and the rules

- Companies Mandated to constitute a CSR Committee
  - ✓ Networth of Rs 500 Crore or more
  - ✓ Turnover of Rs 1000 Crore or more
  - ✓ Net profit of Rs 5 Crore or more

Features

- Board's Report shall disclose the constitution of CSR Committee

- CSR Committee to have
  - ✓ Three or more directors
  - ✓ At least one is to be an independent director

- CSR Committee will
  - ✓ Formulate CSR policy and recommend to board indicating the activities to be undertaken as specified in schedule VII
  - ✓ Recommend the amount of expenditure to be incurred
  - ✓ Monitor CSR Policy from time to time

- Board of Directors will-
  - Approve CSR Policy
  - Ensure implementation of CSR policy
  - Disclose the contents of CSR policy in the Board report
  - Place the same on company's website, if any
  - Ensure CSR spending amounting to at least 2% of the average net profit of the preceding three financial years

- Board's Report shall specify the reasons for not spending the specified amount

- There is no penalty for failure to spend 2% of net profit on CSR

CSR Activities – Ways & Restrictions

- The CSR Activities shall be undertaken by the company as per its stated CSR Policy.
- The Board may decide to undertake its CSR Activities approved by the CSR Committee through-
  - ✓ A registered trust or
  - ✓ A registered society or
  - ✓ A company established under section 8 of the Act by the company either singly or along with its holding or subsidiary or associate company, or along with any other company or holding or subsidiary or associate company of such other company or otherwise.

    Provided that-

    - ✓ If such trust, society or company is not established by the company either singly or along with its holding or subsidiary or associate company, or along with any other company or holding or subsidiary or associate company of such other company, it shall have an established track record of 3 years in similar activities.
    - ✓ the company has specified the project or programs to be undertaken, the modalities of utilization of funds and the monitoring and reporting mechanism.

CSR Activities – Ways & Restrictions (Cont...)

- The company may also collaborate with other companies for undertaking CSR activities in such manner that the respective companies are in a position to report separately on these activities.

- Subject to the provisions of sub-section (5) of section 135 of the Act, the CSR activities undertaken in India only shall amount to CSR Expenditure.

- The CSR projects or activities that benefit only the employees and their families are not considered as CSR activities in accordance with the section 135 of the Act.

- Companies may build CSR Capacities of their own personnel as well as those of their Implementing Agencies through Institutions with established track records of at least 3 financial years but such expenditure shall not exceed 5% of total CSR expenditure of the company in one financial year.

- Contribution of any amount directly or indirectly to any political party under section 182 of the Act shall not be considered as CSR Activity.

CSR Policy to include

- List of CSR projects or programs which a company plans to undertake, specifying execution of such projects or programmes and implementation schedules for the same.

- Monitoring process of such projects or programs.

- The CSR Policy of the Company shall specify that the surplus arising out of the CSR projects or programs or activities shall not form part of the business profit of the Company.

Allowable Activities – Schedule VII

- Eradicating extreme hunger & poverty
- Promotion of education
- Promoting gender equality and empowering women
- Reducing child mortality and improving maternal health
- Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases
- Ensuring environment sustainability
- Employment enhancing vocational skills
- Social business projects
- Contributions to Prime Minister Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Caste and Schedule Tribe
- such other matters as may be prescribed

CSR Committees

- An unlisted public company or a private company covered under section 135 (1) which is not required to appoint an independent director shall have its CSR Committee without such director.

- A Private Company having only two directors on its Board shall constitute its CSR Committee with two such directors.

- With respect to Foreign Company the CSR Committee shall comprise of at least two persons of which one person shall be as specified under 380(1)(d) of the Act and another person shall be nominated by the Foreign Company .

- The CSR Committee shall institute a transparent monitoring mechanism for implementation of the CSR activities undertaken by the Company.

CSR Expenditure

CSR Expenditure

Shall Include

All the expenditure including contribution to corpus for projects or programs relating to CSR activities approved by the Board on the recommendation of its CSR Committee.

Shall Not Include

Any expenditure of an item not in conformity or not in line with the activities which fall within the purview of Schedule VII of the Act.

CSR expenditure & **Tax Implications**

- Finance Act 2014, inserted an Explanation 2 to Section 37(1) of The Income Tax Act,1961 which states
  - ✓ any expenditure incurred by an assessee
  - ✓ on the activities related to CSR
  - ✓ shall not be deemed to be an expenditure incurred by the assessee
  - ✓ for the purposes of business or profession.
- Hence, any expenditure in Section 135 of the Companies Act 2013 shall not be allowed as a deduction u/s 37 of the IT Act.
- CSR expenditure which is of nature described in Section 30 to Section 36 of the Income Tax Act shall be allowed as deduction.
- Primarily, the allowable expenditure is related to Section 35 of the IT Act.

Sr. No	Particulars	Deduction admissible u/s
1	Paid for Scientific research related to own business (100%)	35(1)(i) 35(1)(iv)
2	Paid to Research association, college & other institution used for scientific research (175%)	35(1)(ii)
3	Paid to scientific R & D company to be used by it for scientific purpose (125%)	35(1)(iia)
4	Paid to Research association, college & other institution used for social science or statistical research (125%)	35(1)(iii)
5	Donation to national lab/IIT etc. (200%)	35(2AA)
6	Any sum paid to public sector co. or a local authority or to an association or institution approved by the National Committee for carrying out an eligible project or scheme for upliftment of rural areas (100%)	35AC
7	1.Rural Development program 2.Association engaged in training programs in rural area 3.National urban poverty eradication fund (100%)	35CCA
8	Payment to institutions for carrying out programs for conservation of natural resources(100%)	35CCB
9	Expenditure incurred on agricultural extension project as notified by Board(150%)	35CCC
10	Expenditure on skill development program(Claim-150%)	35CCD

Other Deductions

- **Rent expenses**: If any CSR activities are carried out from the premises taken on rent, the rent expenses can be claimed under section 30 of the IT Act.

- **Depreciation:** Any capital assets used for the purpose of carrying out CSR activities, the assessee can claim applicable depreciation under section 32 of the IT Act.

- **Interest expenditure:** If any amount is borrowed to carry out CSR activities, interest expenditure incurred on such borrowed funds shall be allowed under section 36(1)(iii) of the IT Act.

CSR Expenditure & Section 80G deduction

- In case Section 35 of the IT Act projects are not found to be practically feasible by the corporates, the alternate option can be to contribute the amount of CSR to a trust or institution which is registered u/s 12AA for carrying out the CSR activities.

- The amount of contribution can be claimed by the corporate as a eligible donation to the extent of 50% u/s 80G of the IT Act.

- When contributed to the Prime Ministers Relief Fund or any other fund specified in Schedule VII of the Companies Act 2013 100% deduction u/s 80G can be claimed

Depreciation

- Section 123 of the Act came into effect from 1st April 2014 which state that dividend shall not be declared or paid without providing depreciation as per the Schedule II of the Act.

Companies (Amendment) Act 1988 introduced Schedule XIV effective from 2nd April 1987
Prohibited companies from using the rate of depreciation under Income Tax Act 1961

Companies (Amendment) Act 2000 – amended section 350
Permitted companies to consider SLM method of depreciation for determination of net profit for managerial remuneration

Schedule II of the Companies Act 2013 – depart significantly from schedule XIV

- Provides useful life of asset without specifically mentioning the method of computing depreciation
- This does not specifically mention the WDV rate
- Companies can use other method provided the useful life of asset does not exceed the useful life as mentioned
- Companies to disclose the depreciation method used.
- Additional depreciation of 50% in case of double shift
- Additional depreciation 100% in case of triple shift
- Silent about – depreciation at the rate of 100% whose actual cost does not exceed Rs. 5000/-
- Introduced the concept of components of asset

- **Notification No. G.S.R 627(E)** dated 29th August 2014 substituted paragraph 4 of notes to part C of the Schedule II
  - ✓ Useful life of that significant part shall be determined separately
  - ✓ Above requirement is voluntary in respect of financial year commencing from 1st April 2014 and mandatory in respect of financial year commencing from 1st April 2015.
  - ✓ After retaining the residual value, ~~shall~~ may be recognized in the opening balance of retained earnings.

Componentisation

Purpose

- To recognise depreciation cost accurately
- To derecognise the cost of replaced component
- To correctly measure the cost of repairs and maintenance.

Useful life of that significant part (Component of asset) shall be determined separately

- Not defined the word significant.
- Left to the judgement of companies to decide
- Explanation to sub-section 6 of section 2 – for the purpose of this clause Significant Influence means control of at least 20% of total share capital
- AS – 23 Accounting for Investment in Associates in consolidated financial statement presumed 20% or more of voting power in determining the significant influence.
- So 20% may be considered as bench mark

Challenges in Accounting for componentisation of assets

- Identification of cost of significant component is not easy – (Chassis, body, engine and other parts – No separate invoice
- Accounting for FA require parent and child configuration in system
- Inconsistency - Same class of asset may be componentised differently at different point of time
- Disagreement with auditors
- Componentisation of opening block – has to identify each component separately and assign the value to the component
- Consolidation of financial statement – should be prepared using uniform accounting policies. (Not only this company but other companies also)
- Increase in processing time.
- Balance should be maintained between identifying the number of components and legal compliance.

Process of componentisation

- Understand the working of assets – assets requires frequent repairs and maintenance
- Assistance from asset users – can guide use in identifying the different components of asset and useful life
- History of assets – can provide vital information about the replaced components in past years
- Scrutinising repairs and maintenance of accounts in past
- Help of technical expert
- Materiality – Balance should be maintained between hair-splitting exercise and the legal requirements
- Unnecessary hair-splitting of asset to be avoided.
- Cost of component – Easier in some case v/s Difficult in other
- Use of estimate – However estimate should be based on reasonable basis

Process of componentisation

- Ind AS 16 – Each part of an item of PPE with a cost that is significant in relation to the total cost of items shall be depreciated separately.

- Para 45 of Ind AS 16 – Significant part of PPE may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such part may be grouped in determining the depreciation charge.

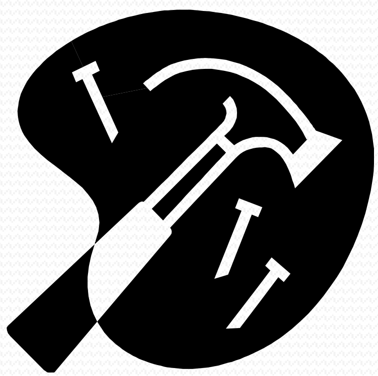
- Para 13 of Ind AS 16 - Once the existing component is replaced with the new component, the replaced component is derecognised and new component is recognised in carrying value of the asset

Steps to be followed

- Identify how long we are using the assets as on 31.03.2014 (Calculate expired life of asset) i.e 31.03.2014 less date of installation.
- Identify useful life of asset as per Schedule II.
- Identify remaining useful life of asset i.e. Life as per Schedule II less used life of asset.
- If remaining useful life is Nil or Negative –w/off opening WDV either against opening reserve or current profit.
- If remaining useful life is Positive – w/off residual value over the remaining useful life of the asset.

Formula for conversion of useful life into WDV rate

- WDV Rate = 1 – (s/c)^(1/n)
  - s = Scrap Value
  - c = Cost/WDV as on 01-04-2014
  - n=No. of years / Remaining useful life of asset



SLM METHOD				
Nature of asset – illustrative	The Companies Act, 2013		The Companies Act, 1956	
	Useful Life	Deemed rate	Useful Life	Deemed rate
General Plant and Machinery other than continuous process plant	15	6.33%	20	4.75%
Continuous process plant	8	11.88%	18	5.28%
General furniture and fittings	10	9.50%	15	6.33%
Office equipment	5	19.00%	20	4.75%
Desktops, laptops, etc.	3	31.67%	5.86	16.21%
Electrical Installations and Equipment	10	9.50%	20	4.75%

WDV METHOD

Nature of asset – illustrative	The Companies Act, 2013		The Companies Act, 1956	
	Useful Life	Deemed rate	Useful Life	Deemed rate
General Plant and Machinery other than continuous process plant	15	18.10%	20	13.91%
Continuous process plant	8	31.23%	18	15.33%
General furniture and fittings	10	25.88%	15	18.10%
Office equipment	5	45.07%	20	13.91%
Desktops, laptops, etc.	3	63.16%	5.86	40.00%
Electrical Installations and Equipment	10	25.88%	20	13.91%

Sec 129 – Financial Statement

- **True and Fair View:**

  The financial statements shall give a true and fair view. The financial statements include balance sheet, the profit and loss account, cash flow statements and statement of changes in equity, if applicable.

- **Compliance with Accounting Standards:**

  The financial statements should be in accordance with the accounting standards and any deviation in complying with the same should be disclosed in the financial statements along with its reason and financial effects arising out of such deviation.

- **Presentation of Financial Statements:**
  - The section requires that the standalone and the consolidation financial statements should be made in accordance with the provisions of **Schedule III** and **Applicable Standards**.
  - Schedule III lays down the general instruction and the form of presentation of balance sheet and statement of profit and loss account.

- **Financial Statements shall be laid at every AGM by the Board:**

  The financial year is defined as the period ending 31st March each year. However, if the company is incorporated on or after 1st January of a year, the financial year will be construed as 1st January or such other later date of that year to the 31st of March of the following year i.e. a period more than 12 months.

- **Applicability of Section 129 to Companies governed by an other Act:**

  Where the forms of financial statements are prescribed under an Act governing certain class of entities, the provision of this section shall not apply. (e.g. Insurance / Banking / Company engaged in generation or supply of electricity)

- **Exemption from applicability of Section 129 :**

  The Central Government may on its own or on application by companies exempt the companies from complying with the requirements of this section.

- **Preparation of Consolidated Financial Statements of subsidiaries:**

  Sub-section 3 requires-

  - The preparation of consolidated financial statements by every company that has a subsidiary, associate or joint venture, even if that company is only a intermediate holding company.

    - Intermediate holding company, is a parent company, which controls one or more subsidiary or subsidiaries and is in turn controlled by another parent company.

  - These consolidated financial statements shall be laid before the AGM along with the standalone.

Definition of Subsidiary, Associate, Joint Venture Company

Holding Company

- Subsidiary company
  - Owns/controls >50% total share capital or exercises control of board Sec 2(87)
- Associate company
  - Owns/controls ≥ 20% total share capital or business decisions under agreement and includes JV company Sec 2(6)

Definition as per AS

- Subsidiary as per AS – 21 - Subsidiary is an enterprise that is controlled by another enterprise (known as parent)
- Associates as per AS- 23 - An associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor
- Significant influence as per AS -23 – Significant influence is the power to participate in the financial and / or operating policy decisions of the investee but not control over those policies.

Control

- The ownership, directly or indirectly through subsidiary (ies), of more than one-half of the voting power of an enterprise or
- Control of the composition of board of directors in the case of company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities

Holding – Subsidiary Company as per Section 2 (87)

Particulars	Qty	Equity Shares (Voting)	Convertible Preference Shares	Total
Total Share Capital of A Ltd. (All FV Rs. 10)	Nos.	10,000	5,000	15,000
Investments by B Ltd. in Share Capital of A Ltd. (All FV Rs. 10)	Nos.	6,000	500	6,500
% of Ownership		60.00%	10.00%	43.33%

Whether A Ltd. is subsidiary of B Ltd. ?

	AS 21	Act 2013
Whether A Ltd. is subsidiary of B Ltd.	Yes	**No**

- **Requirement to attach a separate statement containing salient features of financial statements of subsidiaries:**

  - ✓ The proviso to section requires attachment of a separate statement containing salient features of the financial statements of the subsidiary company. As per Rule 5 the statement should be in Form AOC -1.
  - ✓ Now the requirement of disclosure of salient features covers even a joint venture or an associate (apart from a subsidiary).
  - ✓ Old section 212 required attachment of FS, BoD 's report, auditor's report, statement of holding co.'s interest in subsidiary company which is not required now.
  - ✓ Schedule III contains separate "general instructions' in relation to CFS and requires disclosure of a statement of particulars to be given as part of CFS
  - ✓ Profit or loss attributable to "minority interest" and to owners of the parent in the statement of profit and loss shall be presented as allocation for the period
  - ✓ Minority Interest in CFS Balance Sheet to be shown separately from Equity of owners of Parents

In Consolidated Financial Statements, the following shall be disclosed by way of additional information:

Name of the Entity in the	Net Assets i.e. total assets minus total liabilities		Share in profit or loss	
	As % of Consolidated net assets	Amount	As % of Consolidated profit or loss	Amount
Parent				
Subsidiaries				
Indian				
Foreign				
Minority Interest in all Subsidiaries				
Associates (Investment as per the equity method)				
Indian				
Foreign				
Joint Venture (as per proportionate consolidation/ investment as per the equity method)				
Indian				
Foreign				

Applicability / Exemption from preparation of Consolidated Financial statement:

Applicable from F.Y. 2014-15

- Listed Companies
- Unlisted companies
- Private Companies

Deferred applicability to F.Y. 2015 – 16

- Company which does not have any subsidiary But has one or more Associates / Jvs
- Company having Subsidiary incorporated outside India

Not Applicable

- Insurance companies
- Banking Companies
- Companies engaged in generation or supply of electricity
- Intermediate wholly owned subsidiary company whose immediate parent company is incorporated in India

Thank You