Key Changes in provisions pertaining to Accounts (focus on Depreciation, Consolidation, and Disclosures)

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Schedule III to the Companies Act 2013

- Transition from Schedule VI to Revised Schedule VI under the Companies Act, 1956 was a step towards alignment with IFRS/ Ind AS
- Companies Act, 2013 introduced Schedule III which is on same lines as Revised Schedule VI. Schedule III has also prescribed certain requirements for CFS
- Basic requirements:
  - Identification of Operating Cycle for each Segment
  - Classification of assets and liabilities in to Current and Non-current

Schedule III ……

* Referencing from Balance Sheet and Statement of Profit & Loss Account to Notes on Accounts and vice-versa to be done
* Same denomination of unit of currency to be used across the set of financial statements
* Minimum disclosure requirements
* Requirements of Schedule III do not replace any disclosure requirement of AS / RBI / SEBI / Companies Act / Any other statute
* Balance to be maintained between providing excessive detail and too much aggregation
* General instructions have been prescribed for preparation of CFS of Company also

Depreciation
Schedule II to the Companies Act, 2013

Issues

- Determining Useful life and Residual value as per Schedule II
- Treatment for small value assets
- Componentization
- Determining Continuous Process Plants
- Amortization of intangible assets / leasehold land
- Change in method of depreciation
- Disclosures as per AS 5 / AS 6 / Schedule II
- Depreciation on revaluation component
- Transitional provision

Depreciation – Sch. II & AS 6

* Sec 123(1)/(2) of the Companies Act, 2013 specifies inter-alia that no dividend shall be declared or paid by a Company for any financial year except out of the profit arrived at after providing for depreciation in accordance with Schedule II.
* Depreciation is required to be provided in terms of AS 6 on Depreciation Accounting
* Depreciable amount = cost of an asset less residual value
* Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life

Depreciation – Sch. II & AS 6

- Useful life: period over which an asset is expected to be available for use / no. of production or similar units expected to be obtained from an asset
- Depreciation includes amortization.
- Useful life shall not ordinarily be different from that mentioned in Sch. II
- Residual value shall not ordinarily be more than 5% of Original cost
- If depreciation / residual value is different than that mentioned above, company shall disclose such difference and provide justification for duly supported by technical advice

Depreciation – Sch. II & AS 6

* Useful lives of fixed assets prescribed under Schedule II are different from those envisaged under Schedule XIV
* Schedule II prescribes indicative useful lives.
* Companies are allowed to follow different useful lives / residual value if an appropriate justification is given supported by technical advice
* ICAI has issued Application Guide on the Provisions of the Schedule II to the Companies Act, 2013
* Intangible assets to be amortised as per provisions of AS 26 – Amortization method for "toll road" is prescribed
* Pro rata depreciation shall be calculated in case of asset being acquired, sold, discarded, demolished or destroyed for the period for which asset was used (i.e. from the date of addition or date of removal)

Depreciation on small value items

* Unlike Schedule XIV to the Companies Act, 1956, there is no specific mention about depreciation of small value assets viz. assets costing less than Rs. 5,000
* Company can still apply old principle (may be with revised materiality level) considering materiality concept

Component approach

* Useful life specified in Part C of the Schedule II is for whole of asset. Where cost of a part of the asset is significant to total cost of the asset and useful life of that part is different from the useful life of the remaining asset, useful life of that significant part shall be determined separately
* Voluntary for financial year 2014-15
* Mandatory for financial statements in respect of financial years commencing on or after the April 1, 2015.

Shift working

The useful lives of assets as specified in the Sch. II is based on single shift working

- Hence, if an asset is used for any time during the year for double shift, depreciation will increase by 50% for that period and in case of the triple shift the depreciation shall be calculated on the basis of 100% for that period
- NESD – no extra shift depreciation can be claimed
- "Continuous process plant" is defined as a plant which is required and designed to operate for twenty-four hours a day.

Transitional provision

* Carrying amount of all the assets as on April 01, 2014 (date from which Sch. II is applicable) is required to be depreciated in accordance with Sch II i.e. over the remaining useful life of the asset
* Where the remaining useful life of an asset as of April 1, 2014 is nil, WDV of such assets (after retaining the residual value) may be (earlier “shall be”) recognized in the opening balance of retained earnings
* Option has been given and hence such WDV may be charged to P & L

Change of Method

Company's intention to provide depreciation as per SLM basis as against earlier WDV method:

- Shall be considered as change in accounting policy (para 15 of AS 6)
- Retrospective effect to be given (para 15 of AS 6)
- Impact of change in accounting policy to be given in statement of profit and loss as per para 32 of AS 5

Steps to be taken

* Get list of all fixed assets with details of cost / WDV and year of addition
* Ascertain whether components are required to be identified or not
* Ascertain useful life of such assets / residual value – from users / suppliers / technical experts
* Estimate value of components
* Decide whether to use useful life prescribed by Schedule II or life ascertained as above
* Ascertain assets (or components) whose useful life is already over as on April 1, 2014 and adjust its WDV against opening balance of Profit & Loss or charged it to Profit & Loss
* Depreciate other assets / components based on useful life
* SLM or WDV – both options are available

Steps to be taken

* In cases of assets where WDV method of depreciation was followed, number of years already depreciated can be calculated with following formula in excel:

  Depreciated life = log(WDV / Original cost) / log (1-depreciation rate / 100)

* Depreciation rate for an asset based on estimated useful life may be arrived at with the help of following formula:

  Depreciation rate = (1- ((residual value) / cost)^(1 / useful life))*100

* Depreciation rate for the balance useful life may be arrived at with following formula:

  Depreciation rate = (1- ((residual value) / WDV)^(1 / balance useful life))*100

Consolidated Financial Statement

Applicability

Old Proviso:-

* Listing Agreement - 1956 Act – Applicable to Listed companies

New Proviso:-

* Section 129(3) - 2013 Act – Now applicable to private companies also

Consolidated Financial Statements (CFS)

- Which companies to prepare CFS ?
  - ✓ Mandatory even for unlisted companies - public or private companies
  - ✓ Company should have one or more subsidiaries (Only Associate company/Joint Venture??)
    - Effect : CFS to be prepared even if a company has only associate company or joint venture (not for FY 2014-15)
- Members have right to receive CFS and to lay before AGM. Also Members have to approve the Consolidated Financial Statements
- CFS to be in accordance with AS/Schedule III
  - Form : Schedule III – additional requirements
  - Manner of Consolidation : Apply AS as per Rule 6 of Companies (Accounts) Rules 2014.

CFS..

- For CFS:
  - Profit / loss attributable to “minority interest” and to owners of the parent in the Statement of Profit and Loss – to be presented as allocation for the period.
  - In the Balance Sheet within Equity - “Minority interests” to be presented separately from the equity of the owners of the parent
- Transitional Provisions.
  - Previous period Comparative??
  - Cash Flow Statement – Indirect Method
- Are all the disclosures required – e.g., CIF value of import, expenditure in foreign currency, earnings in foreign currency?
  - General Circular 39/2014 – While preparing CFS, company to give disclosures relevant for CFS only
  - No need to repeat disclosures made by it in standalone accounts being consolidated

Consolidation Procedures

- Para 13 of AS 21 - Line-by-line basis
  - Add together, items of: Assets, liabilities, incomes and expenses
  - Eliminate parent’s share of equity / investment
  - Eliminate inter-company transactions
  - Ascertain goodwill / capital reserve on the date of acquisition
  - Adjust minority interests against the Group’s income – disclose this separately
  - Include parent’s share of post acquisition profits in the consolidated reserves

Exemptions

- CFS prepared by an intermediate WOS, other than WOS whose immediate parent is a company incorporated outside India
  - Eg - 1
    - A – Indian Holding Company
    - B – Wholly owned Indian Subsidiary of A
    - C - Wholly owned Indian Subsidiary of B
    - ✓ B not to prepare CFS since A is in India and will prepare CFS. However, if B was not a WOS of A, B also to prepare CFS
  - Eg - 2
    - A – Foreign Holding Company
    - B – Wholly owned Indian Subsidiary of A
    - C - Wholly owned Indian Subsidiary of B
    - ✓ B to prepare CFS since A is incorporated outside India
- Not to apply to a company having subsidiary(ies) incorporated outside India only for financial year commencing on or after April 1, 2014

Disclosures on Consolidation

- If subsidiaries, associates or Joint ventures - not consolidated – to state the reasons
  - Though AS does not require consolidation, still to disclose reasons

- Apart from CFS, a separate statement containing salient features of the subsidiaries/JV/associates is required to be filed in **Form AOC 1. The AOC 1** is to be prepared by the Company and does not require the Auditor to certify the same.

- Board's report to have a separate section on performance and financial position of each of the subsidiaries / associates / JVs – Rule 8(1)

- Additional Reporting for CFS required under Schedule III to the Companies Act 2103 as detailed hereinafter.

New Disclosure Requirement- Schedule III

Name of the Entity	Net Assets i.e., Total Asset- Total Liabilities		Share in Profit or Loss	
	% of Consolidated Net Assets	**Rs in lacs**	**% of Consolidated Profit and Loss**	**Amount**
Parent Company: ABC Limited	75%	44,500	85%	8,500
Subsidiaries:-				
Indian : XYZ Limited	(14)%	(7,000)	(5)%	(500)
Foreign:- AA PTE	11%	5,500	13%	1,300
Associates (Investment as per Equity Method)	10%	5,000	5%	500
Minority Interest in all subsidiaries	4%	2,000	2%	200
Total	**100%**	**50,000**	**100%**	**10,000**

CARO for CFS

* Audit report on CFS is to be addressed to the Members of the Company.
* One of the important matters requiring attention is that the Consolidated Financial Statements requires reporting under CARO 2015 including on all the Components.
* The ICAI has issued an illustrative report on CARO on CFS which requires the aggregation of comments of the component auditors.
* ISSUE on FOREIGN COMPONENT ??
* Reporting u/s 143(11) of the Companies Act 2013. Where data of component is not available from Auditors for the reporting u/s 143(11) then necessary carve out required.

Additional Disclosures in Standalone and Consolidated Financial Statements

Disclosures

- **Creation of Charge on Vehicle Loan: 2(16) – Charge**

  Check whether Company has taken Loan on vehicle (after April 1, 2014) then check if charge has been created on the same by filing of e-form CHG-1.

  Creation of Charge on Vehicle Loan is required under the Companies Act, 2013 (the Act) If charge is not created then the FS should contain a note under secured loans.

- **Cash Flow Statement:-**

  Cash Flow Statement is mandatory except One Person Company (OPC) / Small Company (as defined under the Act and not the Companies (Accounting Standards) Rules (AS Rules) / Dormant Company –

  Reference: Definition of "Financial Statements" – sec 2(40)

  Comparative data under AS 3 to be given.

  For this purpose – ignore classification as SMC / Non-SMC as given under AS Rules. Comparative cash flow is to be prepared for 2013-14 as there is no transitional provision in AS-3

- **CSR Expenditure:-**

  Quantum of expenditure – Refer 135(5). GN on CSR expenditure recommends the disclosure of total CSR expenditure to be incurred and major heads under which the expenditure is incurred

Disclosures….

* Creation of Debenture Redemption Reserve part of the Rules now.
* Deposit rules are very stringent and special care is to be given to the Advance from Customers which are outstanding for more than 365 days as at the Balance Sheet date. Special attention is to be paid to deposit from Shareholders. (recent clarification gives some respite)
* Backup of Data to be in India where the data of accounting records are on Cloud!!
* Related Party has multiple meaning and proper care should be taken for the disclosure under the relevant head.

Disclosures

- **Disclosures u/s 186(4):-**

Full particulars of the loans given, investment made or guarantee given or security provided and the purpose for which the loan or guarantee or security is proposed to be utilized by the recipient of the loan or guarantee or security. E.g.

- Nature of transaction (whether loan/ guarantee/ security/acquisition)
- Date of making loan / acquisition / giving guarantee/ providing security
- Name and address of the person or body corporate to whom it is made or given or whose securities have been acquired (Listed / Unlisted entities)
- Amount of loan / security / acquisition / guarantee
- Time period for which it is made / given
- Purpose of loan / acquisition / guarantee / security
- % of loan / acquisition / exposure on guarantee / security provided to the paid up capital, free reserves and securities premium account and % of free reserves and securities premium
- Date of passing Board resolution
- Date of Passing special resolution, if required
- For loans
- Rate of interest
- Date of maturity

Disclosures

- **Schedule II – Depreciation:-**

Appropriate disclosure w.r.t depreciation charged , change in useful life of the asset whether the same is as per Schedule II or the same is based on Management expertise.

- **DIN & Address of Director:-**

Every document shall contain name, designation, address and Director Identification Number of person signing such document

Thank You