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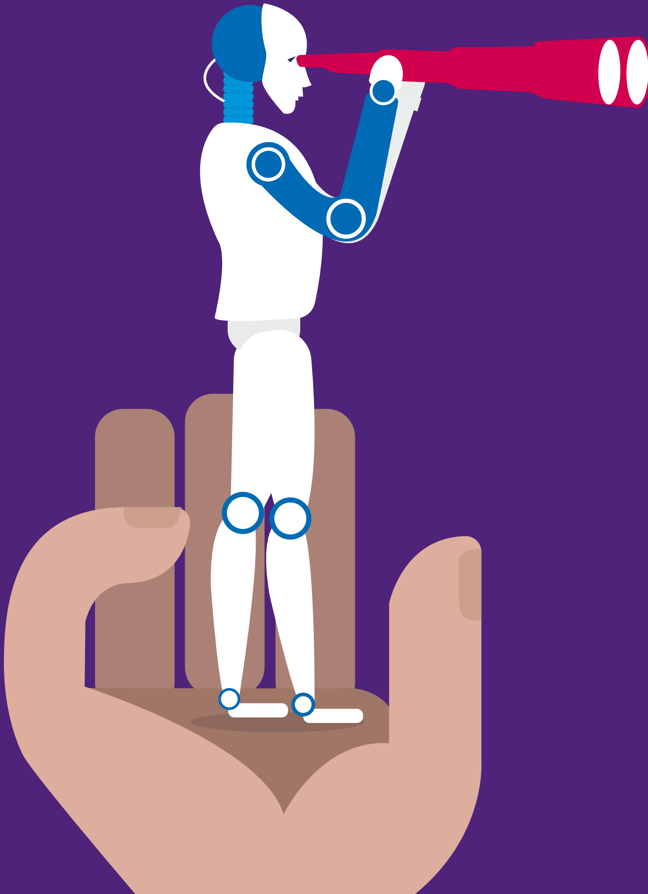
Editorial



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Internationally, IFRS 16, *Leases* would be applicable from 1 January 2019. It is expected that in India this standard would replace Ind AS 17, *Leases*. The standard envisages to bring leases on-balance sheet for lessees. Many companies lease major assets for use in their business and the application of the new standard on leases will give rise to an increase in reported assets and liabilities. This standard is expected to affect a wide variety of sectors, from airlines that lease aircraft to retailers that lease stores. In this edition of the Accounting and Auditing Update (AAU), we have included an article on the impact of IFRS 16 on the Information Technology sector.

The new revenue standard, Ind AS 115, *Revenue from Contracts with Customers* changes the core principle that requires companies to evaluate their transactions in a new way. The standard would also impact the healthcare sector and our article highlights the key areas where more judgement and estimation would be required.

Ind AS introduces the concept of annual impairment testing of goodwill and moves away from amortisation of goodwill. An article elaborates this concept from the perspective of a subsidiary, associate and joint venture in the consolidated financial statements of an investor.

As is the case each month, we also cover a regular round-up of some recent regulatory updates in India and internationally.

We would be delighted to receive feedback/ suggestions from you on the topics we should cover in the forthcoming editions of AAU.

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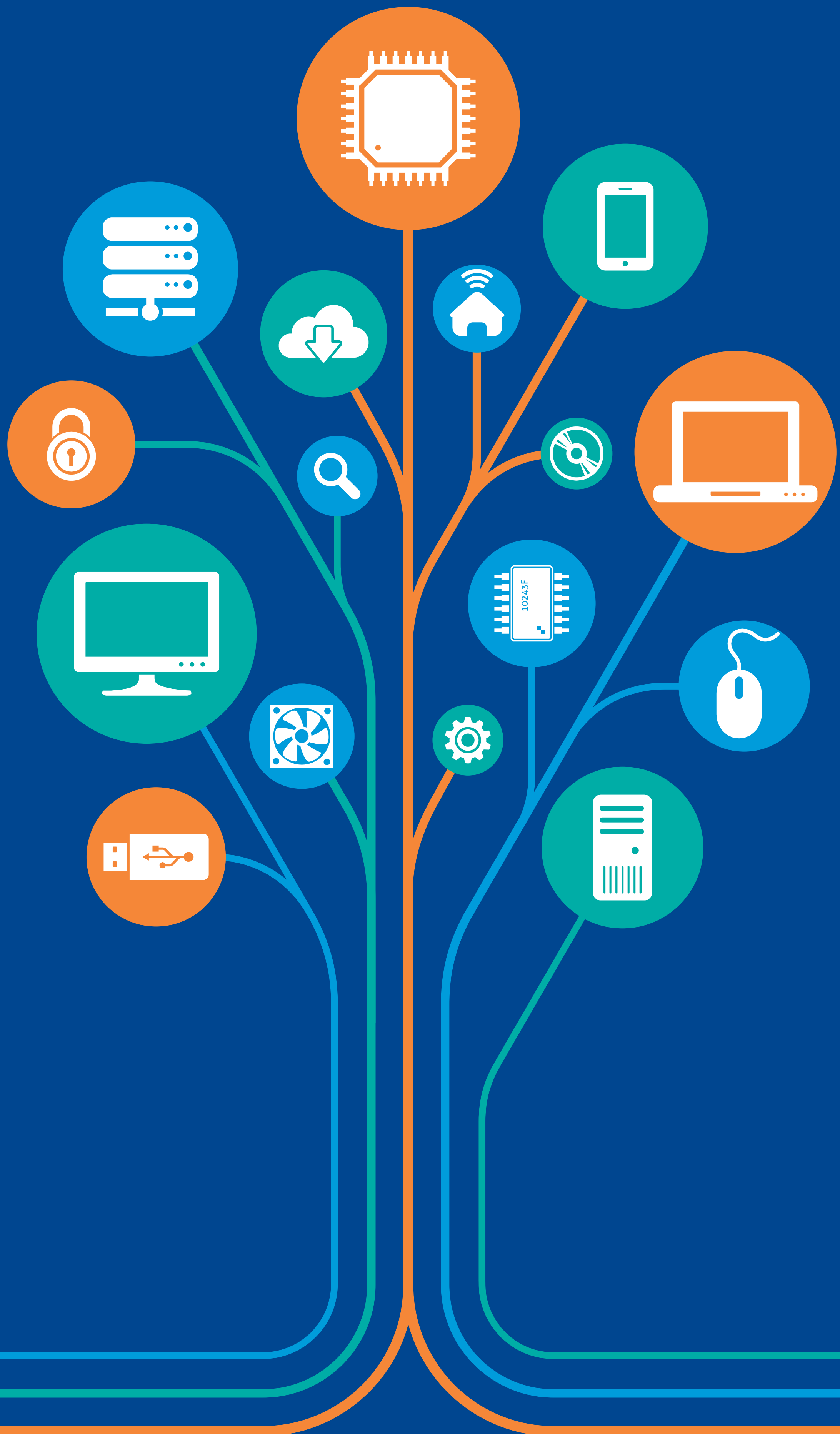

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IFRS 16, *Leases*: Impact on the IT sector

This article aims to:

- Provide an overview of the key changes made by IFRS 16 from lessee's perspective and
- Discuss the consequent impact of IFRS 16 on the IT sector.

Background

International Financial Reporting Standard (IFRS) 16, *Leases* was issued by the International Accounting Standards Board (IASB) in January 2016 and it replaces International Accounting Standard (IAS) 17, *Leases*. The new standard comes into effect for reporting periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers* on or before the date of the initial application of this standard.

IFRS 16 brings about a paramount shift in lease accounting by bringing off balance sheet leases on the balance sheet, thereby making significant changes to the way in which leasing transactions are reported in the financial statements of lessees (although not in the financial statements of lessors). It practically eliminates the difference between a finance and an operating lease.

In July 2017, the Accounting Standard Board (ASB) of the Institute of Chartered Accountants of India (ICAI) had issued an exposure draft of Ind AS 116, *Leases* which is largely converged with IFRS 16. The exposure draft is proposed to be effective for annual periods beginning on or after 1 April 2019. It is now awaiting MCA notification.

The purpose of this article is to highlight the key changes in accounting introduced by IFRS 16 from the perspective of the lessee and how these may impact a company's financial reporting and operations in Information Technology (IT) sector.

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1. High level impact of IFRS 16 on IT Sector

The new lease accounting standard will fundamentally change the accounting for lease transactions and is likely to have significant business implications. Almost all leases will be recognised on the balance sheet, with a Right of Use (ROU) asset and financial liability that recognise more expenses in profit or loss during the earlier life of a lease as IFRS 16 eliminates the dual accounting model of leases in the books of lessee.

Leases in the IT industry are prevalent. Many IT companies enter into lease agreements (generally as lessees) for lease of property, equipment, etc. Therefore, the companies will need to evaluate the impact of such transactions on their financial statements.

An arrangement containing a lease requires a careful analysis, to conclude if an underlying asset is explicitly or implicitly identified and use of the asset is controlled by the customer. IFRS 16 provides detailed application guidance for applying the definition, which may result in differences from the current practice. Companies will need to specifically evaluate revenue contracts which relate to supply of hardware, installation, networking and commissioning and others like data center arrangements. In such instances, consideration would need to be given as to whether the contract contains a lease and if so, how the payments should be allocated to lease and services provided.

In respect of leases embedded within service arrangements the application of IFRIC 4, *Determining Whether an Arrangement Contains a Lease* has historically been a judgemental area. For many, the embedded lease was generally viewed as an operating arrangement which typically did not impact the Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). IFRS 16 brings in new conditions to be assessed in the determination of whether the agreement contains a lease and recognition of leases on balance sheet. This may impact current industry customs and practice.

Other considerations

Implementing the standard would also require entities to consider the following:

- Adequacy of systems to capture the necessary data and perform the calculations
- Inventory of all leases and the information needed to compute assets/liabilities
- Reconsidering contract terms and creating awareness amongst concern departments e.g. finance, commercial, tax, etc.
- Communication to internal and external stakeholders on the financial statements implications and on internal reporting
- Impact on Key Performance Indicators (KPIs), profitability ratios and compensation linked to such KPIs.

2. Determining as to whether a contract is, or contains, a lease

An entity is required to assess whether a contract contains a lease at the inception of the contract, rather than at the commencement of the lease term. If an arrangement explicitly identifies the asset to be used, but the supplier has a substantive contractual right to substitute such asset, then the arrangement does not contain an identified asset.

Under the new standard, a lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To be considered a lease, a contract must convey the right to control the use of an identified asset, which could be a physically distinct portion of an asset such as a floor of a building.

A contract conveys the right to control the use of an identified asset if, throughout the period of use, the customer has the right to:

- Obtain substantially all of the economic benefits from the use of the identified asset and
- Direct the use of the identified asset (i.e. direct how and for what purpose the asset is used).

However, if a supplier has the substantive right to substitute the asset throughout the period of use, there is no identified asset and the contract does not contain a lease. This is because the supplier, and not the customer, controls the use of the asset in such circumstances. A substitution right is substantive if the supplier has the practical ability to substitute alternative assets throughout the period of use and the supplier would benefit economically from exercising its right to substitute the asset.

If a substitution clause is not substantive, because it does not change the substance of the contract, that substitution clause does not affect an entity's assessment as to whether a contract contains a lease.

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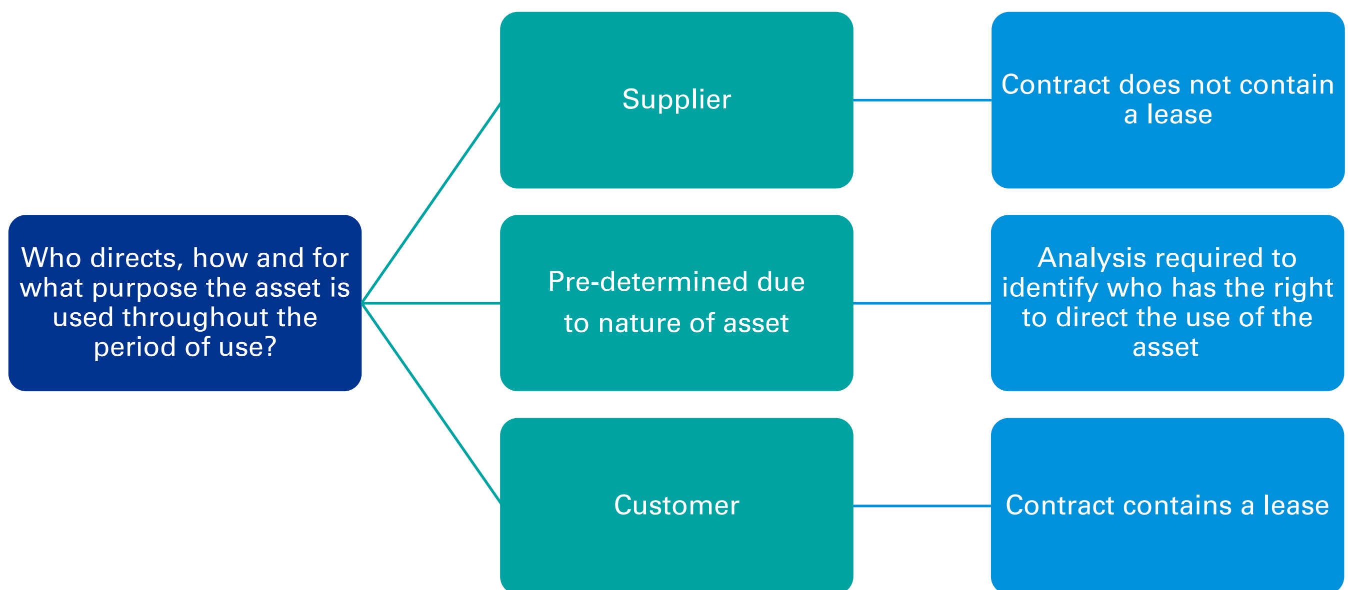
IT companies enter into a variety of supply arrangements that will need to be evaluated to determine whether they involve the use of an identified asset. For example, some contract arrangements require the use of an explicitly or implicitly specified asset (e.g. supply of hardware, installation, networking, commissioning, dedicated facilities, etc.). Even if the arrangement specifies an asset, companies will need to carefully evaluate whether the supplier has substantive substitution rights (i.e., whether, throughout the period of use, it can practically use another asset and economically benefit from doing so) to determine if there is an identified asset subject to lease accounting.

3. Right to direct use of the asset

The guidance on determining who has the right to direct the use of the asset is focussed on control. The following chart will help to understand the impact of IFRS 16 based on who has the right to direct the use of the asset:



(Source: KPMG IFRG Limited 'First Impressions: IFRS 16, *Leases*', January 2016)

The decision about how and for what purpose an asset is used are more important in determining control of the use of an asset than other decisions to be made about use, including decisions about operating and maintaining the asset. This is because decisions about how and for what purpose an asset is used determine how and what, economic benefits are derived from use.

However, right to operate an asset may grant the customer the right to direct the use of the asset if the relevant decisions about how and for what purpose the asset is used are pre-determined in the contract.

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Example:

ABC company enters into a five year service contract with the customer. Under the contract, the company is required to provide support and maintenance services of customer IT infrastructure. As a part of the contract, the company is also required to supply end user assets such as laptops, desktops and network assets such as routers, switches, WAN optimisers which would be used exclusively by the company in its provision of support and maintenance service to the customer. These assets would be specifically procured by the company based on the customer's demand and would be for the exclusive use of the customer. Accordingly, the fulfillment of the arrangement appears to be dependent on the use of specific assets. The company needs to obtain customer approval for substitution of assets.

Analysis:

Under the contract, the company is required to provide support and maintenance service of customer's IT infrastructure for a period of five years and also supply end user specified assets as per the requirements of the customer. These assets in turn are required to be used by the company in its provision of the service under the contract. According to the standard, for an arrangement to qualify as a lease there should be an identified asset.

In the current example of IT arrangement, specific assets are explicitly identified in a contract. As per the standard, a contract may not contain a lease if fulfilment of the arrangement does not depend on specified assets. In this case, if the company is obliged to provide assets, but if it has the right and ability to provide services by substituting the asset then the arrangement is not dependent on the use of specific assets. Hence, it is important to assess whether the assets specified in the contracts, provide the right of use of those specified assets. One would need to understand all facts and circumstances and whether the objective of providing the assets to the customer is to aid the maintenance services. Though to substitute the assets, the company needs customer's approval but one should evaluate if approval for substitution is a protective right i.e. for avoiding hindrance to the execution of the service.

(Source: KPMG in India's analysis, 2018)

4. Impact on financial reporting

IFRS 16 primarily impacts operating leases in the books of leasee. It has minimal impact on the lessor accounting. Essentially in an operating lease arrangement, the lease would now be required to record the lease on the balance sheet as a ROU asset with the corresponding lease liability. Consequently, the erstwhile lease expense would be bifurcated as an amortisation of the ROU asset and interest expense on the liability. This is a significant change and has a direct positive bearing on the operating profits of the companies. In the IT sector, it is a common practice to use EBITDA multiples as a valuation matrix. The above change accordingly may have a significant impact on the valuations of companies. Refer an example below.

Example:

Lease commencement date	1 January 2018
Lease payment	INR1 million per month at the commencement
Lease escalation	10 per cent after every five years
Lock in period	Three years
Discount rate	8.5 per cent (assumed)
Lease expiration date	31 December 2022 (Five years - primary period)

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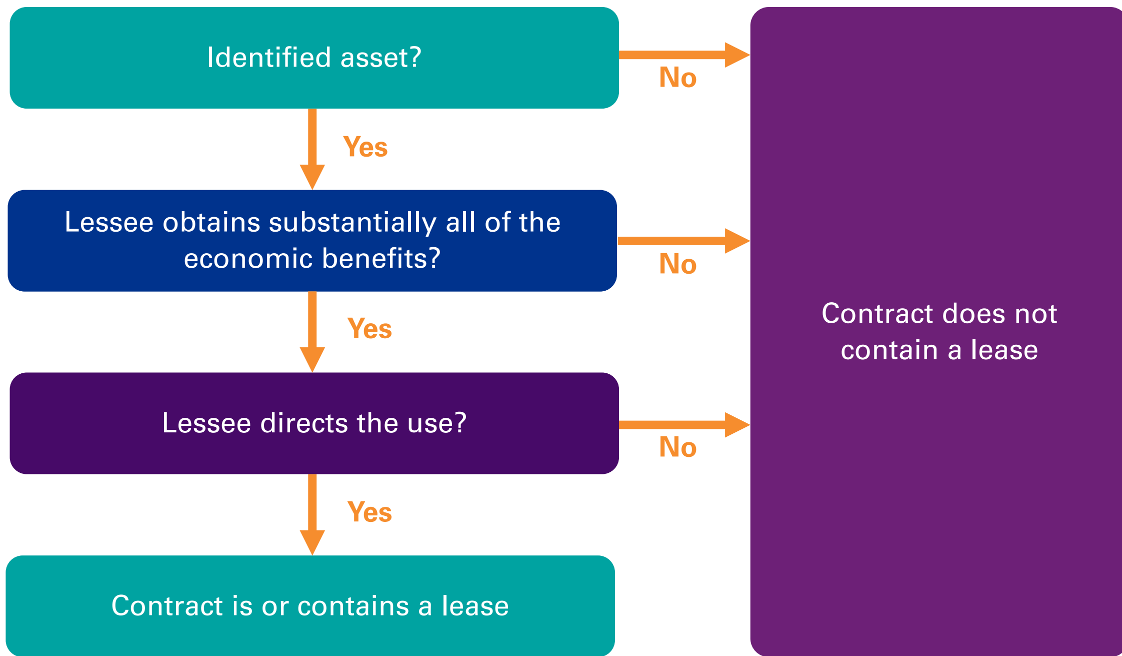
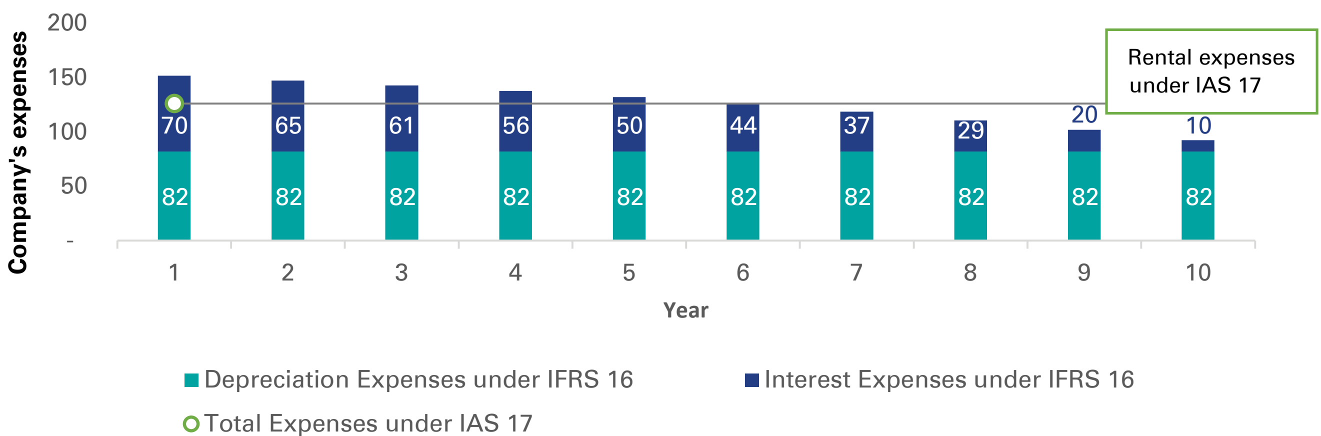
The lease would auto-renew after the primary period for five years i.e. up to 31 December 2027. After that, the lease may be renewed for a further period of five years at the mutual consent of both parties.



(Source: KPMG IFRG Limited 'First Impressions: IFRS 16, *Leases*', January 2016)

Impact on financial performance if lease term is considered as 10 years



(Source: KPMG in India's analysis, 2018)

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Impact on balance sheet and statement of profit and loss under IAS 17 and IFRS 16

Particulars	Inception	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Balance Sheet under IAS 17												
Assets		-	-	-	-	-	-	-	-	-	-	
Liabilities		-	-	-	-	-	-	-	-	-	-	
Balance Sheet under IFRS 16												
ROU Asset	819	737	655	573	491	409	328	246	164	82	-	
Lease Liability	(819)	(768)	(714)	(654)	(590)	(520)	(432)	(337)	(234)	(122)	-	
Net Equity	-	(31)	(59)	(81)	(99)	(111)	(104)	(91)	(70)	(40)	-	
Particulars	**Inception**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**	**Total**
Statement of profit and loss under IAS 17												
Operating Lease Expenses (A)		126	126	126	126	126	126	126	126	126	126	1,260
Statement of profit and loss under IFRS 16												
Amortisation Expenses		82	82	82	82	82	82	82	82	82	82	820
Interest Expense		70	65	61	56	50	44	37	29	20	10	442
Total Expense(B)		152	147	143	138	132	126	119	111	102	92	1,262
Difference (A-B)		(26)	(21)	(17)	(12)	(6)	-	7	15	24	34	-

(Source: KPMG in India's analysis, 2018)

5. Discount rate on initial recognition

All the components of the lease liability are required to be discounted to reflect the expected timing of the payments. The rate is required to be the rate implicit in the lease, unless it cannot readily be determined, in which case the lessee's incremental rate of borrowing is to be used.

The rate implicit in the lease would be the rate that would cause the present value of the lease payments and unguaranteed residual to equal the sum of the fair value of the underlying asset(s) and initial direct costs incurred. Using the implicit rate presents the true financing cost of leasing an asset as opposed to paying for it up-front or buying it outright without financing.

The simplification of allowing the incremental rate of borrowing to be used if the implicit rate cannot readily be determined acknowledges the fact that the implicit rate is often not determinable to a lessee. A lessor often does not disclose the rate in the contract, or may offer a rate as being promotional (e.g. below market interest rates, when the lessor ultimately charges above-market lease rates instead). Many lessees may end up using their internal rate of borrowing for a wide variety of leases as the rate is likely to be relatively easy to obtain. In this case, the rate used should reflect the incremental rate of borrowing for a lessee in the same currency, with similar terms such as collateral and for a similar period of time.

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6. Transition considerations

S. no.	Topic	Decision points	
1	**Lease definition**	The companies may apply practical expedient, to grandfather their previous assessment of their existing contracts as to whether they contain leases.	
2	**Non-lease component**	The companies may elect a practical expedient to not separate lease components from any associated non-lease components.	
3	**Approach**	The companies have an option to choose retrospective approach or modified retrospective approach for transition to IFRS 16. In case the company selects retrospective approach, the start date of contract will be the date of inception of lease. If the company selects modified retrospective approach, then it will have to provide an explanation of any difference between the present value of the operating lease commitments disclosed in the previous set of annual financial statements, discounted at the rate used to calculate lease liabilities at the date of initial application and the lease liabilities recognised at that date.	
		Retrospective approach	**Modified retrospective approach**
4	**Lease term**	Lease term to be determined based on facts and circumstances at the inception of the contract.	Management may use hindsight in determining lease term on transition.
5	**Discount rate**	Company to calculate incremental borrowing rate at the inception of the contract.	Company to calculate incremental borrowing rate at date of initial application. Also, a single discount rate may be applied to leases with similar terms and characteristics.
6	**Lease liability**	Company to consider all payments that fall in the definition of lease payments from inception of the contract to calculate lease liability.	Company to consider remaining lease payments from date of initial application to calculate lease liability.
7	**ROU asset**	Company to calculate ROU asset from inception of the contract. ROU asset will also include prepaid lease payments from the inception of the contract.	The company has two options to calculate ROU asset. One to measure it retrospectively using the incremental borrowing rate at the date of initial application. Second, to measure it at an amount equal to the lease liability (subject to certain adjustments).
8	**Initial direct cost**	ROU asset will include initial direct costs.	The company has an option to exclude initial direct costs from ROU asset.
9	**Others**	The company may apply the following practical expedients and transitions options: • Recognition exemption for leases with term less than 12 months. • Recognition exemption for low value leases (less than USD5,000) • Transition option for onerous contracts • Transition option for leases expiring within 12 months of date of initial application.	

(Source: KPMG IFRG Limited 'First Impressions: IFRS 16, *Leases*', January 2016, 'Leases Transition Options', November 2016 and 'Disclosures under IFRS 16', February 2018)

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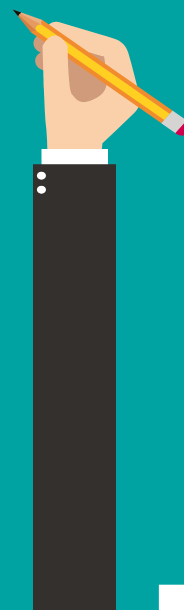
Key highlights

The main impact of IFRS 16 will be to bring assets held under operating leases and the lease liabilities onto balance sheets. Profitability and leverage ratios would also be affected. Although, over the life of a lease there should be no profitability impact, the same need not hold true in any given year. In case of IT sector, the key challenge will remain to identify whether the contract is a lease or contains one or more lease components and to segregate the lease components.

Although, there will be significant IT and accounting system implementation and compliance cost for IFRS 16, bringing the leases on to the face of the financial statements is likely to have a number of benefits for users of financial statements:

- It could facilitate assessment of a lessee's financial position and credit risk
- It would limit companies' ability to manipulate the lease contracts to some extent so that they are classified as off-balance sheet debt
- Highlight the resources being used to generate cash flows
- Finally, including the information on operating leases on the balance sheet and statement of profit and loss would mean that this information would be easily available to all investors to enable accurate estimation of a company's liabilities.



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Impact of the new revenue standard on the healthcare sector

This article aims to:

- This article aims to highlight the key impact of Ind AS 115 on healthcare service providers.

Summary

While assessing existence of an enforceable contract, specific facts and circumstances need to be evaluated to determining whether and when an agreement with a patient creates legally enforceable rights and obligations.

For principal versus agent evaluation all the indicators are considered in making the assessment.

Variability in transaction price may be explicit or implicit, arising from customary business practices e.g. price concessions.

There are detailed disclosure requirements under Ind AS 115 along with the transition options.

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Introduction

Ind AS 115, *Revenue from Contracts with Customers* is the standard on revenue recognition that is converged with IFRS 15, *Revenue from Contracts with Customers*.

The core principle of Ind AS 115 is that revenue should be recognised when an entity transfers control of goods or services to a customer at the amount to which an entity expects to be entitled. To achieve the core principle, the new standard establishes a five-step model that entities would need to apply to determine when to recognise revenue, and at what amount. Therefore, a single model applies to contracts with customers across all industries.

The new revenue standard is likely to throw up challenges from an accounting perspective in the healthcare sector, out of which we have attempted to provide our insights on specific issues confronting the companies in this sector.

Existence of an enforceable contract

Under the new standard, a contract is an agreement between two or more parties that creates enforceable rights and obligations. Contracts can be written, oral or implied by an entity's customary business practices. Enforceability is a matter of law.

- Collection of consideration is considered probable
- Rights to goods or services and payment terms can be identified
- It is approved and the parties are committed to their obligations
- It has commercial substance.

(Source: KPMG in India analysis 2018)

Healthcare services generally involve multiple parties. In addition to the patient and the healthcare service provider, there is often a third-party. The third-party could be a government administered scheme or an insurer and they are involved in paying for some or all of the services on the patient's behalf to the healthcare service provider.

In such situations, there is a question as to whether the patient or the third-party payer is the 'customer'. For the purposes of the new standard, the 'contract with the customer' refers to the arrangement between the healthcare service provider and the patient.

However, the healthcare service provider should also evaluate its contractual arrangement with the third-party payer. The terms of that arrangement may impact certain aspects of the contracts with patients covered by that health plan (this is explained further in the 'transaction price' section below).

A healthcare service provider should also consider specific facts and circumstances in determining whether and when an agreement with a patient creates legally enforceable rights and obligations. The agreement with a patient can be written, oral or implied by an entity's customary business practices. An entity is generally unable to recognise revenue if an enforceable contract does not exist.

This issue is relevant when services are provided before obtaining information from the patient e.g. emergency services provided to an unconscious patient.

Transaction price

An entity estimates the transaction price at the inception of the contract, including any variable consideration. Under the new standard, price concessions, discounts, etc. constitute 'variable consideration'. The transaction price includes amounts that are not paid by the customer e.g. a healthcare service provider may include amounts to be received from the patient and third-party payer in determining the transaction price.

Under Ind AS 18, *Revenue* healthcare service providers recognised revenues for the amounts billed to patients. Often, this resulted in recognition of an amount of revenue for which collectability was doubtful. In practice, this led to recognition of provision for doubtful debts or bad debt expense at a future date.

The new model is expected to lower the volume of bad debt expense which were historically reported in such situations, and also result in a corresponding reduction in revenues. The reduction in revenues are likely to occur due to 'implicit price concession' while 'estimating the amount of variable consideration'.

Implicit price concessions: An implicit price concession does not have to be specifically communicated or offered by the healthcare service provider to the patient. Healthcare service providers need to use judgement to determine whether they have implicitly provided price concession to their patients.

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As per the new standard, implicit price concession is present if:

The customer has a valid expectation arising from an entity's customary business practices, published policies or specific statements that the entity will accept an amount of consideration that is less than the price stated in the contract; or

Other facts and circumstances indicate that the entity's intention, when entering into the contract with the customer, was to offer a price concession to the customer.

(Source: KPMG in India analysis 2018)

The new guidance uses a different model than the practice followed in the past that the transaction price is the amount billed to the patient. Under the new guidance, the transaction price is the amount the healthcare service provider 'expects to receive'.

Where services are provided to uninsured patients, the transaction price for revenue recognition purposes is likely to be less than the amount billed. In certain cases, hospitals providing services to uninsured patients do so knowing that on an average, they will not collect a certain percentage of the amount billed.

As a result of the uncertainty, amounts earned from providing services to uninsured patients often represent a 'variable consideration due to implicit price concessions'.

An implicit price concession may be estimated based on historical collection experience from similar patients. If on a subsequent reassessment of the estimated implicit price concession, a healthcare service provider expects to collect more than originally estimated, it recognises the additional amount as patient service revenue in the period the change is identified. If it expects to collect less than originally estimated, it recognises the shortfall as a reduction of patient service revenue. An exception would be if there is a specific event known to the healthcare service provider that suggests that the patient no longer has the ability and intent to pay the due amount e.g. patient is bankrupt. In that circumstance, the healthcare service provider recognises the change in the estimate as a bad debt expense and not as a reduction of patient service revenue.

Example:

A hospital treats an uninsured patient and does not access the patient's ability to pay at the time of service. The hospital bills the patient INR100,000. Although hospital expects to pursue collection of that amount, its experience with similar patients indicates that it will collect only INR90,000.

In this example, the hospital determines that the transaction price is INR90,000. The INR10,000 that it does not expect to collect is an implicit price concession as opposed to a bad debt because the hospital did not perform credit assessment of the patient before providing the service. Accordingly, hospital recognises revenue of INR90,000.

Subsequently, the hospital collects only INR85,000. The difference of INR5,000 (INR90,000 less INR85,000) is recorded as a reduction in patient service revenue.

Estimating the amount of variable consideration: In our experience, the healthcare service providers in India have a huge amount of bad debts on the amounts billed under the government administered schemes e.g. Central Government Health Scheme (CGHS), Employees'' State Insurance Corporation (ESIC), etc. Under these schemes, payments for services provided to the patients are determined as per the arrangement entered into by CGHS/ESIC with the healthcare service provider (generally, the prices for services rendered under the aforementioned schemes are lower than that charged to other patients). Often, they may subject the healthcare service provider to retrospective adjustments on the revenue; thus, the amount ultimately earned may not be known with certainty for several months.

As a result of the uncertainty, a portion of the amounts earned from providing services to government administered scheme beneficiaries often represent 'variable consideration' under the new standard.

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Currently, management makes its best estimate of the third-party settlement adjustment based on its knowledge and experience about past and current events. The new standard specifically provides guidance in relation to estimation of the consideration using either of the following methods:

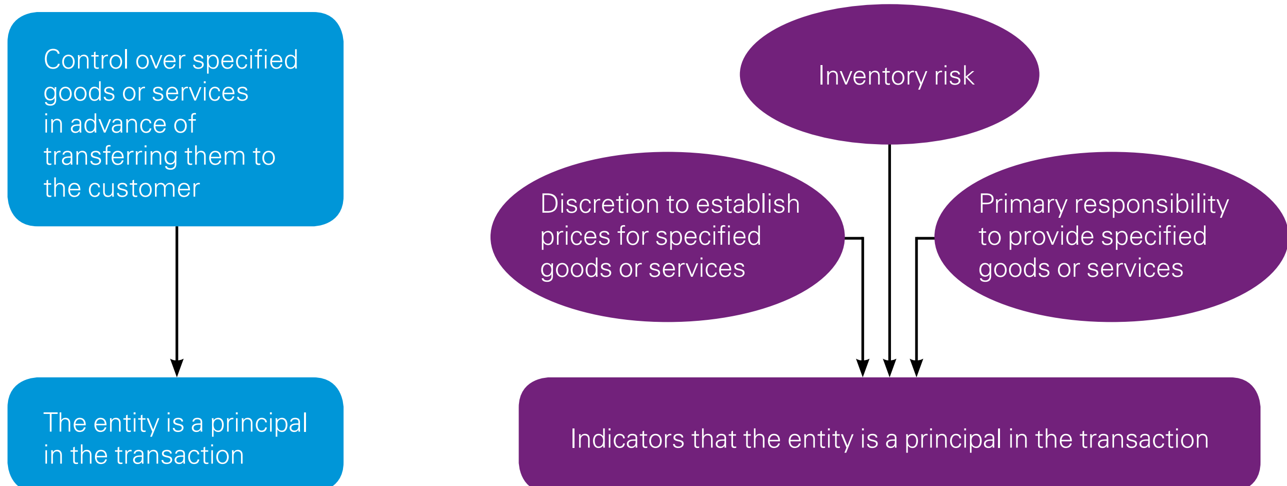
Expected value	Most likely amount
The sum of the probability-weighted amounts in a range of possible amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.	The single most likely amount in a range of possible consideration amounts. The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes.

The amount determined based on either of the above methods should be recognised only to the extent it is probable that a significant reversal of cumulative revenue will not occur. This concept is referred to as a constraint on the amount of variable consideration included in the transaction price.

While this will change how estimates are approached, it will also have an impact on the amount of revenue recognised.

Principal versus agent

Ind AS 115 has introduced specific guidance on principal versus agent considerations, which represents a change in approach from Ind AS 18. While Ind AS 18 was based on the risks and reward approach, Ind AS 115 is based on the transfer of control approach. Further, credit risk is no longer an indicator that an entity is a principal.



(Source: Revenue Issues In-Depth, KPMG IFRG Limited's publication, May 2016)

Careful evaluation may be needed of certain contracts such as arrangements with consultant doctors and operation and maintenance arrangements of healthcare service providers with other persons.

For instance, the primary responsibility to provide necessary treatment to the patient in most of the cases is of the hospital and not the consultant doctors. If a particular consultant doctor who was treating the patient would not be available henceforth, then it is the responsibility of the hospital to ensure that another consultant doctor is identified to provide necessary treatment to the patient. In cases of professional negligence also, the hospital has to make good the losses to patients and not the consultant doctors. Further, if the pricing for services provided by the hospital, are also decided by the hospital then the hospital is acting as a principal.

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Healthcare service providers should also evaluate the various operation and maintenance arrangements they have entered into with other persons. If the primary obligation to provide the services is of the hospital and the pricing for services are also decided by them, then hospital will become the principal.

If hospital is acting as a principal	If hospital is acting as an agent
• Revenue will be recognised at gross amount paid by patient/third-party payer • Amount paid to consultant doctor will be recorded as an expense • Any other cost incurred in providing services to patient will be recorded.	• Revenue will be recognised as the net of consultant doctor fees.

Example:

A hospital treats a patient registered under a state government scheme (scheme). For the treatment given to patient, the price for the services is pre-agreed at INR180,000. This is price as per the arrangement between the scheme and the hospital. The pre-agreed price has cap on various services/ goods that can be rendered/consumed for treating the patient. One such cap is on the number of visits of a consultant doctor (the cap is of one visit). However, due to complexity of the case the consultant doctor had to make two visits. The hospital bills of the patient amounted to INR190,000; increase of INR10,000 (INR190,000 less INR180,000) from the agreed price. This is on account of incremental visit of the consultant doctor.

From the past experience, hospital expects to collect INR10,000 from the scheme in 60 per cent of the cases. Therefore, INR186,000 (INR180,000 plus INR6,000 (INR10,000 * 60 per cent)) is the transaction price.

Transition options

Ind AS 115 provides the following transition options:

a. Retrospective method: Under this method, entities recognise the cumulative effect of applying Ind AS 115 at the start of the earliest comparative period presented. As part of this method, an entity could use certain practical expedients for a smooth transition.

b. Cumulative effect method: Under this method, an entity recognises the cumulative effect of applying Ind AS 115 at the date of initial application, with no restatement of the comparative periods presented i.e., the comparative periods are presented in accordance with Ind AS 18. Entities using this method are required to disclose the quantitative effect of Ind AS 115 and an explanation of the significant changes between the reported results under Ind AS 115, and those that would have been reported under Ind AS 18.

Both these approaches have their pros and cons and hence, would require a careful evaluation.

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Disclosures:

The stated objective of the revenue disclosures is to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

To meet this objective, the entity is required to provide the following disclosures about its contracts with customers:

- Disaggregation of revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Examples of disaggregation include: type of good or service, geography, market, type of customer and type of contract. The entity is also required to disclose sufficient information to enable users to understand the relationship between the disclosure of disaggregated revenue and revenue information that is disclosed for each reportable segment
- Narrative disclosure to describe changes in contract assets, contract liabilities and contract costs
- Impairment losses recognised on any receivable or contract assets
- Information about the entity's performance obligations in its contracts with customers
- Amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognise the allocated amounts.

(Source: Revenue for healthcare providers, KPMG LLP, U.S. publication, November, 2016)

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Accounting for goodwill under Ind AS

This article aims to:

- Discuss the accounting treatment of goodwill under Ind AS in respect of subsidiaries, associates and jointly controlled entities in consolidated financial statements.

Introduction

Under Accounting Standards (AS), accounting for goodwill is driven by multiple accounting guidance on application of erstwhile AS 10, *Accounting for Fixed Assets* in case of asset purchase, AS 14, *Accounting for Amalgamations* in respect of mergers and acquisitions and AS 21, *Consolidated Financial Statements* by virtue of equity interests of the reporting entity in other entities.

Under Indian Accounting Standards (Ind AS), recognition of goodwill is allowed only when there is a business combination as per Ind AS 103, *Business Combinations*. As per Ind AS 103, goodwill is defined as an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

Further, the first time adoption principles in Ind AS 101, *First-time Adoption of Indian Accounting Standards* lay down all transition related requirements when a company moves from accounting as per the current principles (Indian GAAP) to Ind AS. As a basic principle, the requirements of Ind AS need to be applied retrospectively. However, to ease the transition, companies have the choice of electing certain exemptions from such retrospective application.

In this article, we aim to discuss the accounting treatment of goodwill under Ind AS in respect of subsidiaries, associates and jointly controlled entities in the Consolidated Financial Statements (CFS). Recently, the Expert Advisory Committee (EAC) (the committee) of the Institute of Chartered Accountants of India (ICAI)[1] issued an opinion on 'Amortisation of goodwill in respect of subsidiaries and jointly controlled entities recognised as an asset in consolidated financial statements'.

1. EAC opinion issued by ICAI in June 2018.

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Case study – Accounting for goodwill under Ind AS

A Ltd. (the company) is a wholly-owned subsidiary of a listed government company. The company is in the business of exploration and production of oil and gas and other hydrocarbon related activities outside India. The company operates overseas projects directly and/ or through subsidiaries by participation in various joint arrangements and investments in associates.

The company in its CFS recognised goodwill in respect of subsidiaries, associates and jointly controlled entities in accordance with AS 21, AS 23, *Accounting for Associates in Consolidated Financial Statements* and AS 27, *Financial Reporting of Interests in Joint Ventures*. The company considered that in sectors such as oil and gas, exploration and production, the goodwill generated on acquisition of mineral rights either through jointly controlled entities or subsidiaries, inherently derives its value from the underlying mineral rights and, accordingly, value of such goodwill depletes as the underlying mineral resources are extracted. Accordingly, under the Indian GAAP, the company framed an accounting policy for amortisation of the goodwill in respect of its subsidiaries/jointly controlled assets over the life of the underlying mineral rights using the Unit of Production (UOP) method.

The company adopted Ind AS from 1 April 2016. The company availed the transition exemption under Ind AS 101 and has not restated its past business combinations retrospectively. Accordingly, the company did not fair value the acquisition of shares in joint ventures and subsidiaries which occurred before the transition date. The carrying amount of goodwill at the date of transition to Ind AS in accordance with Indian GAAP has been taken as the carrying value of the goodwill in the opening Ind AS balance sheet. The company intends to continue amortisation of the goodwill recognised under Indian GAAP over the life of the underlying mineral rights using UOP method post transition date also.

Guidance under Ind AS

1. **Accounting for subsidiaries:** Guidance in Ind AS 101 provides that for business combinations that occurred before the date of transition to Ind AS, an entity being a first time adopter of Ind AS has the following choices:

   - Restate all past business combinations
   - Restate all business combinations after a particular date, or
   - Do not restate any its past business combinations.

   The business combinations exemption applies equally to acquisitions of investments in associates, interests in joint ventures and interests in joint operations in which the activity of the joint operation constitutes a business that occurred before the date of transition.

   In case an entity elects not to restate past business combination, then the previous acquisition accounting remains unchanged. However, some adjustments such as reclassification of intangibles and goodwill may be required. Goodwill acquired in an unrestated business combination is not amortised but tested for impairment in accordance with Ind AS 36, *Impairment of Assets* at the date of transition. Any resulting impairment loss is recognised directly in retained earnings at the date of transition to Ind AS.

   In case an entity elects to restate past business combinations retrospectively, then goodwill is recomputed in line with Ind AS 103 and is tested for impairment as per Ind AS 36 at the date of transition even if there is no indication that an impairment exists at transition date.

   Post transition, Ind AS 36 requires goodwill to be tested for impairment in the annual mandatory impairment testing, without there being an indication of impairment in the underlying cash generating unit. Ind AS prohibits amortisation of goodwill.

2. **Joint ventures – Proportionate consolidation to the equity method:** On first-time adoption of Ind AS, an entity when changing from proportionate consolidation to the equity method is required to recognise its investment in the joint venture at the date of transition. As per guidance in Ind AS 101, when changing from proportionate consolidation to the equity method, an entity should recognise its investment in the joint venture at the transition date to Ind AS. The initial investment should be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity should allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged. The balance of the investment in the joint venture at the date of transition to Ind AS is regarded as the deemed cost of the investment at initial recognition.

   When an entity changes from proportionate consolidation to the equity method, a first-time adopter should test investment in joint venture for impairment in accordance with Ind AS 36 at the date of transition to Ind ASs regardless of whether there is any indication that the investment may be impaired.

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3. **Accounting for goodwill in case of associates and joint ventures:** Under Ind AS 28, *Investments in Associates and Joint Ventures*, goodwill is not separately accounted rather it is included as part of the carrying value of investments. As per guidance in Ind AS 28, an entity is required to account for investments in associates and joint ventures using the equity method except in limited circumstances. On the date of acquisition of an equity - accounted investee, fair values are attributed to the investee's identifiable assets and liabilities. Any positive difference between the cost of the investment and the investor's share of the fair values of the identifiable net assets acquired is goodwill.

   Goodwill is included in the carrying amount of the investment in the equity - accounted investee and is not shown separately. Goodwill is not amortised and therefore amortisation is not included in the determination of the investor's share of the investee's profit or loss. Goodwill attributable to the investment is not tested for impairment annually. Instead, after applying equity accounting, the investment is tested for impairment when there is an indication of a possible impairment.

Conclusion

In the given case, the accounting policy proposed by the company to continue amortisation of goodwill under Ind AS on consolidation of subsidiary or jointly controlled entity is not appropriate. As per the principles of Ind AS the carrying amount of goodwill or goodwill acquired under business combination should be tested for impairment periodically as per guidance under Ind AS 36.

While investment in associates and joint ventures would be tested for impairment if there is an indication of impairment.

Consider this:

- Under Ind AS, goodwill is recognised only when there is a business combination
- On first-time transition to Ind AS, an entity can avail the transition exemption from retrospective application in respect of past business combinations.
- If an entity does not restate past business combinations, the carrying amount of goodwill at the date of transition to Ind AS in accordance with Indian GAAP becomes the carrying value of the goodwill in the opening Ind AS balance sheet.
- Under Ind AS, goodwill is not amortised.
- Goodwill is tested for impairment on first-time adoption of Ind AS regardless of whether there is any indication that the goodwill may be impaired.

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Regulatory updates

MCA further amends the Companies Act, 2013 through an ordinance

The government of India constituted a committee[1] to review the existing framework dealing with offences under the Companies Act, 2013 (2013 Act) and related matters. The committee was required to make recommendations to promote better corporate compliance.

The committee submitted its report on 27 August 2018.

New development

On 2 November 2018, the Ministry of Law and Justice issued the Companies (Amendment) Ordinance, 2018 (ordinance) and amended the 2013 Act based on the recommendations of the committee.

The ordinance is effective from 2 November 2018.

1. The committee was formed on 13 July 2018 under the chairmanship of Mr. Injeti Srinivas, Secretary, MCA.

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The amendments have been categorised under the following categories:

Topic	Key amendments
Changes in main provisions of the 2013 Act	• Power vested with the central government (instead of Tribunal) to approve changes to the financial year and alteration of articles pursuant to conversion of public companies into private companies • An additional disqualification has been added that would prevent a person to be appointed as a director • Additional events added which can lead to removal of name of a company from the Registrar of Companies (ROC) • Revised timeline prescribed for registration of a charge by companies.
Changes in penal provisions	• Non-compliance with provisions relating to issue of shares at discount would amount only to a penalty, instead of imposition of fine, imprisonment or both • Furnishing false/incorrect information at the time of creating charge would be liable to action under Section 447 of the 2013 Act (i.e. fraud) • Failure to file an annual return would result in a penalty instead of a fine or imprisonment.

Please refer KPMG in India's First Notes dated 28 November 2018 which provided an overview of the key amendments made by the ordinance to the provisions of the 2013 Act.

(Source: The Companies (Amendment) Ordinance, 2018 dated 2 November 2018)

MCA proposes amendments to the 2013 Act

The Ministry of Corporate Affairs (MCA) considered certain amendments to the 2013 Act while deliberating the recommendations made by the Report of the Committee to review Offences under the 2013 Act.

There was a comment period up to 20 November 2018.

Key amendments proposed are:

- Appointment and qualification of directors: Following relating to independent director have been proposed:
  - Impose a cap on computation of total pecuniary relationship (including remuneration) of an independent director with the company, its holding, subsidiary or associate company, or their promoters, or directors, i.e. it should not exceed 25 per cent of his/her total income
  - An independent director to also file a return with the ROC, containing particulars of his/her independence, as may be prescribed
  - Resigning independent director should forward a copy of his/her resignation along with detailed reasons for the resignation to the ROC within seven days of giving notice of his/her resignation
  - An independent director can be removed by a company by passing special resolution at any time of his/her tenure
- Corporate Social Responsibility (CSR): The MCA clarifies that companies which have not completed the period of three financial years since their incorporation would be required to spend two per cent of the average net profits for period computed since its incorporation as per its CSR policy. Further, a company that has not been able to spend the entire CSR amount in a financial year, then the amount remaining unspent would be required to be transferred to a special bank account in a scheduled bank within 30 days from the end of the financial year. The company would be required to spend this amount in accordance with its CSR policy within three financial years from the date of transfer of funds.
- Application to Tribunal: In addition to making an application to Tribunal (National Company Law Tribunal (NCLT)) when the affairs of a company are being conducted in a manner prejudicial to public interest, there is a proposal that government would make an application to NCLT against certain individuals in certain scenarios.
- Constitution of National Financial Reporting Authority (NFRA): The MCA proposes certain provisions relating to constitution of divisions under NFRA to ensure effective constitution of NFRA.

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- Others: There are certain other provisions proposed relating to NCLT, Section 8 companies and significant beneficial owner to ensure effective framework for companies.

Please refer KPMG in India's First Notes dated 21 November 2018 which provided detailed overview of the key amendments proposed by MCA.

(Source: The Amendments in the Companies Act, 2013 notice issued by MCA)

National Financial Reporting Authority (NFRA) Rules

The 2013 Act provides regulatory framework for composition and constitution of NFRA. Section 132 of the 2013 Act provides that NFRA would be responsible for recommending accounting and auditing standards and oversight of the work of auditors and audit firms. The NFRA also has the power to levy monetary penalties or order debarment from practice on the auditors and audit firms. The MCA appointed 1 October 2018 as the date of constitution of the NFRA.

Recently on 13 November 2018, MCA has notified the NFRA Rules, 2018. These rules empower NFRA to monitor and enforce compliance with both accounting and auditing standards, oversee the quality of service or undertake investigation of the auditors of the specified entities. The entities covered by the rules are:

a. Companies whose securities are listed on any stock exchange in India or outside India

b. Unlisted public companies having paid-up capital of not less than INR500 crore or having annual turnover of not less than INR1,000 crore or in aggregate, outstanding loans, debentures and deposits of not less than INR500 crore as on the 31 March of immediately preceding financial year

c. Insurance companies, banking companies, companies engaged in the generation or supply of electricity, companies governed by any special Act for the time being in force or those bodies corporates referred to it by the central government

d. Any body corporate or company or person, or any class of bodies corporate or companies or persons, referred by the central government in public interest to NFRA

e. A body corporate which is incorporated or registered outside India, if it is a subsidiary or associate company of any specified entity (as referred above) and if the income or net worth of such subsidiary or associate company exceeds 20 per cent of the consolidated income or consolidated net worth of such specified entity.

These rules lay down the functions and duties of NFRA, key amongst them are as following:

- Maintain details of particulars of auditors appointed in the specified companies and bodies corporate
- Recommend both accounting and auditing standards for approval by the central government
- Monitor and enforce compliance with accounting and auditing standards
- Oversee the quality of service of the professions associated with ensuring compliance with accounting and auditing standards and suggest measures for improvement in the quality of service.

Additionally, NFRA has been empowered with wide powers of investigation and if during investigation, NFRA has evidence to believe that any company or body corporate has not complied with the requirements under the 2013 Act or rules which involve or may involve fraud of INR1 crore or more, the NFRA would need to report its findings to the central government.

Further, the rules also lay down the manner of initiation of disciplinary proceedings against the auditors along with the manner of enforcement of orders passed in such proceedings.

The rules are effective from 14 November 2018.

(Source: MCA notification G.S.R.1111 (E). dated 13 November 2018 issued NFRA Rules, 2018)

MCA issued amendments to Valuation Rules

On 18 October 2017, MCA notified Section 247 of the 2013 Act and also issued the Companies (Registered Valuers and Valuation) Rules, 2017 (Valuation Rules). The aforesaid section and Valuation Rules lay down provisions relating to valuation by registered valuers.

Recently, MCA through its notification dated 13 November 2018 issued Companies (Registered Valuers and Valuation) Fourth Amendment Rules, 2018 (Amendment Rules) to amend the existing Valuation Rules.

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The Amendment Rules clarify that the Valuation Rules would apply for valuation in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets or net worth of a company or its liabilities under the provision of the 2013 Act or Valuation Rules. The conduct of valuation under any other law would not be affected by Valuation Rules.

Further, the Amendment Rules inserted an explanation relating to the eligibility qualification and experience requirement for registration as valuer. Currently the valuer requires a 'Bachelor's degree or equivalent, in the specified discipline, from a University or Institute established, recognised or incorporated by law in India and at least five years of experience in the specified discipline thereafter'.

As per the newly inserted explanation `equivalent' would mean 'professional and technical qualifications which are recognised by the Ministry of Human Resources and Development as equivalent to professional and technical degree'.

(Source: MCA notification G.S.R.1108(E). dated 13 November 2018)

Clarification on formats for publishing financial results

The Schedule III to the 2013 Act provides general instructions for presentation of financial statements of a company under both Accounting Standards (AS) and Indian Accounting Standards (Ind AS). The Schedule III has two parts and they are as follows:

- Division I is applicable to a company whose financial statements are prepared in accordance with AS
- Division II is applicable to a company whose financial statements are prepared in accordance with Ind AS (other than Non-Banking Financial Companies (NBFCs)).

On 11 October 2018, MCA through its notification has amended Schedule III to the 2013 Act. The amendments, inter alia, have incorporated a new division to Schedule III i.e. Division III which provides general instructions for presentation of financial statements of an NBFC. It also made certain changes to Division I and II. The amendments to Schedule III are applicable from 11 October 2018. However, it was not clear from which quarter the financial results should follow the amended formats of the financial results.

Therefore, the Securities and Exchange Board of India (SEBI) on 22 November 2018, clarified following relating to the applicability of formats for presentation of financial results:

- The listed entities should follow existing formats till the quarter ending 31 December 2018. However, entities may opt to submit financial statements as per the new format prescribed by MCA, in addition to existing formats prescribed under the 2013 Act
- Entities would follow amended formats, new Schedule III of the 2013 Act, for annual financial statement and for quarter ending on or after 31 March 2019.

(Source: BSE circular LIST/COMP/27/2018-19 dated 22 November 2018)

Disclosure of reasons for delay in the submission of financial results

Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations), *inter-alia,* specifies timelines for submission of financial results by listed entities. Accordingly, the quarterly and annual financial results are to be submitted by listed entities to stock exchanges within 45 days from the end of the quarter and 60 days from the end of the financial year. The listed entities are expected to adhere to the aforesaid timelines for submission of financial results.

The SEBI through its recent circular stated that in case of any delay in submission of financial results by listed entities, the reasons for the delay should be disclosed to the stock exchange. The disclosure should be made within one working day of the due date of submission for the results as required under Regulation 33 or date of decision (if the decision to delay the results was taken by the listed entity prior to the due date)

Further, the circular provides that in case of non-compliance of various provisions of the Listing Regulations including non-submission/delayed submission of financial results, SEBI has prescribed a standard operating procedure (providing for levy of penalties, freezing of promoter shareholding, suspension of trading, etc.) through certain circulars. Such penalties, freezing of promoter shareholdings, etc. act as deterrents for listed entities to delay disclosure of their financial results.

The circular is effective from 19 November 2018.

(Source: SEBI circular CIR/CFD/CMD-1/142/2018 dated 19 November 2018)

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SEBI issued amendments to provisions relating to reclassification of promoters

Currently, Regulation 31A of the SEBI Listing Regulations permits reclassification of promoters of listed entities as public shareholders in different scenarios, subject to the specified conditions. The reclassification scenarios, *inter alia,* include the following:

- When a promoter is replaced by a new promoter
- Where a company ceases to have any promoters (i.e. becomes professionally managed).

Basis the recommendations from the Kotak Committee on Corporate Governance in its report, SEBI decided to revamp the existing provisions governing reclassification of promoters/classification of entities as professionally managed.

Accordingly, on 16 November 2018, SEBI issued amendments to Listing Regulations to amend the provisions relating to reclassification of promoters.

Key conditions relating to reclassification of promoters:

- **Process to be followed for reclassification:** The new provisions provides a uniform process to be followed for reclassification of promoters. An application for reclassification of a promoter as a public shareholder would be filed by the listed entity within 30 days of receiving the approval by shareholders in general meeting. The procedure for reclassification is as follows:
  - A request from the promoter would be filed to the listed entity seeking reclassification and rationale for such request.
  - The board of directors should analyse the request and would place the resulting recommendations (positive/ negative) before the shareholders. Additionally, a listed entity would be required to ensure a time gap (a cooling off period) of at least six months between the date of board meeting and the shareholders' meeting that would consider the request of the promoter.
  - The request of the promoters should be approved in the general meeting by an ordinary resolution.
- **Conditions to be satisfied to seek reclassification:** The amendment revises the eligibility conditions for reclassification of promoters of a listed entity as public shareholders. The new provision provides that the promoter(s) (seeking reclassification), and the persons related to such promoters should not:
  i. Hold more than 10 per cent of the total voting power in the listed entity
  ii. Exercise control over the affairs of the listed entity directly or indirectly
  iii. Have any special rights with respect to the listed entity through formal or informal arrangements including through any shareholders' agreements
  iv. Be represented on the board of directors (including not having a nominee director) of the listed entity
  v. Act as a key managerial person in the listed entity
  vi. Be a wilful defaulter as per the Reserve Bank of India guidelines
  vii. Be a fugitive economic offender.
- **Compliant listed entity:** A listed entity would be eligible to apply for reclassification, only if such an entity complies with the following conditions:
  i. It is in compliance with the minimum public shareholding requirement
  ii. Its shares have not been suspended from trading by the stock exchanges
  iii. It does not have any outstanding dues to SEBI, the stock exchanges, or the depositories.
- **Disclosure of material events:** Regulation 31A requires disclosure of certain events by a listed entity to the stock exchanges as material events not later than 24-hours from the occurrence of such event. The disclosures are as follows:
  a. Receipt of request for reclassification from the promoter by the listed entity
  b. Minutes of the board meeting considering such request which would include the views of the board of directors on the request
  c. Submission of application for reclassification to stock exchanges
  d. Decision of the stock exchanges on such application as communicated to the listed entity.
- **Transfer of shares by way of transmission/ succession/inheritance/gift:** The SEBI provides following clarifications in case of transfer of shares by way of transmission/succession/ inheritance/gift:
  a. The recipient should be classified as a promoter immediately on such transfer

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b. In case the recipient (currently classified as a promoter) subsequently proposes to seek reclassification of status as a public shareholder, it could do so, subject to compliance with the conditions specified above

c. In case of death of a promoter, such a person would automatically cease to be included as a promoter subsequent to transmission of shares to a recipient.

(Source: SEBI Listing Regulations (Sixth Amendment) Regulations, 2018 dated 16 November 2018)

ICAI issued Technical Guide on the functioning of Audit Committee and its Review Checklist

Recently, on 29 October 2018, the Institute of Chartered Accountants of India (ICAI) issued its first edition of 'Technical Guide on the functioning of Audit Committee and its Review Checklist' (the guide). The guide aims to provide comprehensive guidance on the duties and role of Audit Committees to ensure their effectiveness. Additionally the guide contains Frequently Asked Questions (FAQs) and a specimen checklist for performance evaluation of an audit committee.

(Source: ICAI issued Technical Guide on the functioning of Audit Committee and its Review Checklist – July 2018 edition)

IASB clarified definition of 'material'

On 31 October 2018, the International Accounting Standards Board (IASB) issued amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates* and provided revised definition of the term 'material' to make it easier to understand. The new definition is now aligned across IFRS Standards and the Conceptual Framework.

Accordingly, the revised definition of 'material' included in IAS 1 and IAS 8 is as follows:

'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The concept of materiality needs to be clearly understood so that preparers of financial statements can apply it appropriately. The amendments provide a definition and explanatory paragraphs in one place. The IASB promoted the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the IASB increased the threshold of 'could influence' to 'could reasonably be expected to influence'.

However, the IASB has also removed the definition of material omissions or misstatements from IAS 8. The refined definition of material complements the guidance the IASB released last year, which outlines a four-step process that preparers can use to help them make materiality judgements.

Under a separate project, *Disclosure Initiative – Accounting Policies,* the IASB is also considering issuing additional guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The IASB is yet to determine the timing of the exposure draft.

Effective date: The revised definition has been made effective from 1 January 2020. However, early adoption is permitted.

(Source: IASB press release dated 31 October 2018)

IAASB issued an exposure draft on agreed-upon procedures

On 15 November 2018, the International Auditing and Assurance Standards Board (IAASB) issued an exposure draft of proposed International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements.*

The Agreed-Upon Procedures (AUP) engagements are widely used in many jurisdictions and the demand for these engagements continues to grow. The IAASB with an aim to ensure that the standard on AUP engagements remains relevant in the current business environment, proposes to enhance key concepts in the standard, including:

- The role of professional judgement in an AUP engagement
- Disclosures relating to the practitioner's independence or lack thereof
- Guidance on appropriate or inappropriate terminology to describe procedures and findings in AUP reports
- The use of a practitioner's expert in an AUP engagement
- Restrictions on the distribution and use of the AUP report.

The exposure draft is open for comments and last date to provide comment is 15 March 2019.

(Source: IAASB press release dated 15 November 2018)

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Sector – V, Salt Lake,
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Tower-A, Plot# 7, Sector 142,
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IFRS Notes

MCA issued Ind AS presentation format (Schedule III) for NBFCs

26 October 2018

On 11 October 2018, the Ministry of Corporate Affairs (MCA) through its notification has amended Schedule III to the Companies Act, 2013 (2013 Act). The amendments, inter alia, have incorporated a new division to Schedule III i.e. Division III which provides general instructions for presentation of financial statements of a Non-Banking Financial Company (NBFC).

The amendments to Schedule III are applicable from 11 October 2018.

This issue of IFRS Notes provides an overview of the key changes made to Division I and II and also highlights the key requirements of Division III (applicable to NBFCs) to Schedule III of the 2013 Act.

First Notes

MCA further amends Companies Act, 2013 through an ordinance

28 November 2018

The Government of India constituted a committee to review the existing framework dealing with offences under the Companies Act, 2013 (2013 Act) and related matters. The committee was required to make recommendations to promote better corporate compliance.

The committee submitted its report on 27 August 2018.

New development

On 2 November 2018, the Ministry of Law and Justice issued the Companies (Amendment) Ordinance, 2018 (ordinance) and amended the 2013 Act based on the recommendations of the committee.

The ordinance is effective from 2 November 2018.

This issue of First Notes provides an overview of the key amendments made by the ordinance.

Voices on Reporting

KPMG in India is pleased to present Voices on Reporting – a series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

In a special session held on 19 November 2018, we discussed significant impact areas of Ind AS 103, *Business Combinations* and Ind AS 115, *Revenue from Contracts with Customers* on technology sector.

Please access KPMG in India website for audio recording and presentation.

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