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IFRS Notes

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

26 October 2018

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Background

The Schedule III to the Companies Act, 2013 (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)).

As per the Ind AS implementation road map issued by Ministry of Corporate Affairs (MCA) on 30 March 2016, NBFCs are required to adopt Ind AS in a phased manner from accounting periods beginning on or after 1 April 2018 (with comparatives for the periods ending on or after 31 March 2018).

New development

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[1].

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.

The table below provides a summary of the changes made:

Division	Summary of changes
Division I **(Applicable to companies required to follow AS)**	• Minor changes in reference of 'fixed assets' and 'securities premium reserve' in the balance sheet.
Division II **(Applicable to companies required to follow Ind AS (other than NBFCs))**	• New disclosures introduced in relation to 'trade payables' towards Micro, Small and Medium Enterprises (MSME) in the balance sheet and the related notes. • New categories introduced for classification of 'trade receivables' and 'loans receivables' in the notes to the balance sheet. • Description of purpose of each reserve included within 'other equity' to be provided in the notes to the statement of changes in equity.
Division III **(Newly inserted - Applicable to NBFCs required to follow Ind AS)**	• It provides the general instructions for presentation of financial statements of an NBFC that is required to comply with Ind AS.

(Source: KPMG in India's analysis, 2018 based on the amendments to Schedule III to the 2013 Act)

[1]NBFC means a NBFC as defined in Section 45-I(f) of the Reserve Bank of India Act, 1934 and includes housing finance companies, merchant banking companies, micro finance companies, mutual benefit companies, venture capital fund companies, stock broker or sub-broker companies, nidhi companies, chit companies, securitisation and reconstruction companies, mortgage guarantee companies, pension fund companies, asset management companies and core investment companies.

Overview of the amendments

The following section provides an overview of the changes made to the respective divisions of Schedule III to the 2013 Act:

Division I

In the balance sheet and related notes section:

- The term 'fixed assets' has been changed to 'property, plant and equipment'
- The term 'securities premium reserve' has been changed to 'securities premium'.

Division II

- **Trade payables:** In the present Schedule III to the 2013 Act, 'trade payables' is being shown as a single line item in the balance sheet under the head 'Liabilities' (current as well as non-current).

  Amendment

  As per the amendments to Schedule III, 'trade payables' should be further categorised into:

  a) Total outstanding dues to micro enterprises and small enterprises and

  b) Total outstanding dues to creditors other than micro enterprises and small enterprises.

  Accordingly, in the notes to the balance sheet, following details relating to micro[2], small[2] and medium enterprises should also be disclosed:

  a) The principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier[2] at the end of each accounting year

  b) The amount of interest paid by the buyer[2] in terms of Section 16 of the Micro, Small and Medium Enterprises Development Act, 2006, (MSMED Act) along with the amount of the payment made to the supplier beyond the appointed day[2] during each accounting year

  c) The amount of interest due and payable for the period of delay in making payment (which has been paid but beyond the appointed day during the year) but without adding the interest specified under the MSMED Act

  d) The amount of interest accrued and remaining unpaid at the end of each accounting year and

  e) The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise[1], for the purpose of disallowance of a deductible expenditure under Section 23 of the MSMED Act.

- **Trade receivables:** Currently, in the notes to the balance sheet, 'trade receivables' are being classified into the following categories:

  a) Secured, considered good

  b) Unsecured, considered good and

  c) Doubtful.

  Amendment

  As per the amendments to Schedule III, 'trade receivables' should be classified as follows:

  a) Trade receivables considered good – Secured

  b) Trade receivables considered good – Unsecured

  c) Trade receivables which have significant increase in credit risk and

  d) Trade receivables - credit impaired.

- **Loans:** Currently, in the notes to the balance sheet, 'loans' are being classified into the following categories:

  a) Secured, considered good

  b) Unsecured, considered good and

  c) Doubtful allowance for bad and doubtful loans should be disclosed under the relevant heads separately.

  Amendment

  As per the amendment to Schedule III, 'loans receivables' should be classified as follows:

  a) Loans receivables considered good – Secured

  b) Loans receivables considered good – Unsecured

  c) Loans receivables which have significant increase in credit risk and

  d) Loans receivables - credit impaired.

[1]The term would have the same meaning as assigned to it under Section 2 of the MSMED Act.

Overview of the amendments (cont.)

- **Equity:** The amendments to Schedule III requires that a description of the purposes of each reserve included within 'other equity' should be disclosed in the notes to the statement of changes in equity.

Division III

Applicability

- It is applicable to every NBFC to which Ind AS apply in preparation of its financial statements.
- The provisions of Schedule III also apply when a company is required to prepare consolidated financial statements, in addition to the disclosure requirements specified under Ind AS.

Balance sheet

- The division provides a format of the balance sheet and sets out the minimum requirements of disclosure on the face of the balance sheet for NBFCs.
- Items presented in the balance sheet are to be classified as financial and non-financial.
- It permits NBFCs to avail of the option of presenting assets and liabilities in the order of liquidity, as provided by Ind AS 1, *Presentation of Financial Statements.*
- It requires an NBFC to disclose such information that enables users of its financial statements to evaluate the NBFC's objectives, policies and processes for managing capital.
- It requires specific disclosure of derivative financial instruments and subordinated liabilities on the face of the balance sheet.

Statement of profit and loss

- The division provides a format of the statement of profit and loss and sets out the minimum requirements of disclosure on the face of the statement of profit and loss.
- Items comprising 'revenue from operations' and 'other comprehensive income' have to be disclosed on the face of the statement of profit and loss.

Statement of changes in equity

- The statement of changes in equity would reconcile opening to closing amounts for each component of equity including reserves and surplus and items of other comprehensive income.
- NBFCs are specifically required to disclose the statutory reserves as part of 'other equity' in the statement of changes in equity.
- Additionally, a separate disclosure is required for the conditions or restrictions for distribution attached to statutory reserves.

Materiality

- NBFCs are required to disclose all 'material' items in their financial statements i.e., the items if they could, individually or collectively, influence the economic decisions that users make on the basis of financial statements. Materiality depends on the size and nature of the item judged in particular circumstances. However, while preparing the statement of profit and loss, it specifies that an NBFC should disclose a note for any item of 'other income' or 'other expenditure' which exceeds 1 per cent of the total income, in addition to the consideration of materiality.

Compliance with Ind AS and 2013 Act

- In situations where compliance with the requirements of the 2013 Act including Ind AS requires any change in treatment or disclosure (including addition, amendment, substitution or deletion in the head/sub-head or any changes in the financial statements or statements forming part thereof) in the formats given in Schedule III, then Schedule III permits such changes to be made and the requirements of Schedule III would stand modified accordingly.
- It further mentions that disclosure requirements specified in Schedule III would be in addition to and not in substitution of the disclosure requirements specified in Ind AS. NBFCs would be required to make additional disclosures specified in Ind AS either in the notes or by way of additional statement(s) unless required to be disclosed on the face of financial statements. Similarly, all other disclosures as required by the 2013 Act should be made in the notes in addition to the requirements of Schedule III.

Our comments

The notification of the revised Schedule III that incorporates the guidance for presentation of Ind AS financial statements by an NBFC is an important and a much awaited step from MCA. The Ind AS Transition Facilitation Group (ITFG) in its clarifications' bulletin 3 (issue 1)[3] had clarified that the format specified in Division II should be mandatorily applied by companies implementing Ind AS from FY2016-17 onwards.

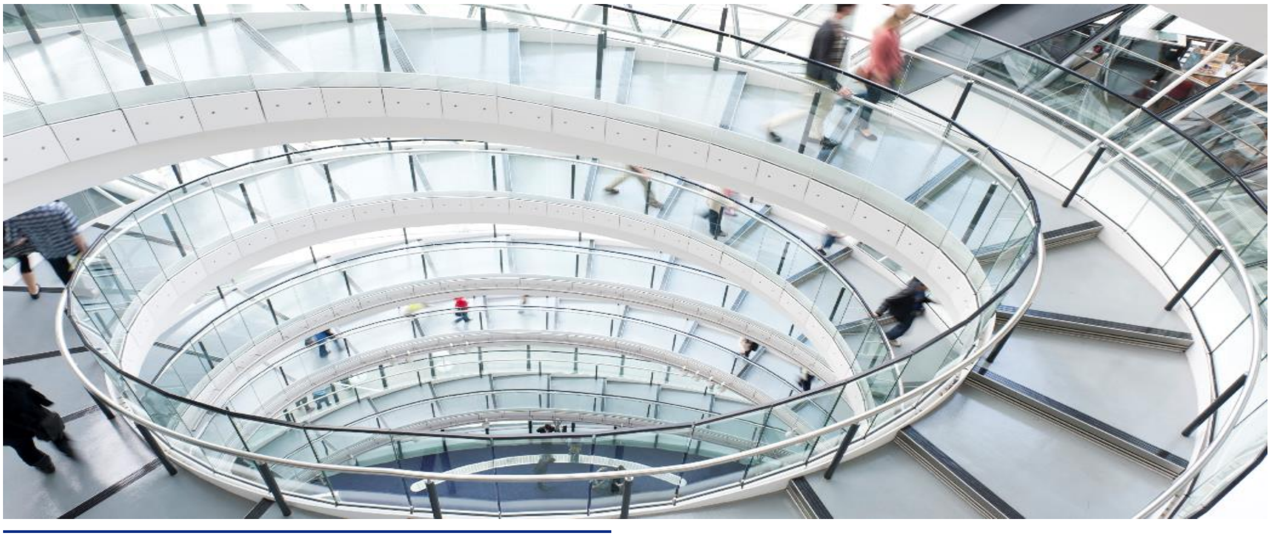
As Ind AS has been made applicable to certain NBFCs from 1 April 2018, therefore, many equity listed NBFCs would have reported their first quarter financial results (i.e. June 2018) under Ind AS on the basis of Division II to Schedule III to the 2013 Act. Division III would be applicable for NBFCs from the date of its publication in the official gazette i.e. 11 October 2018.

However, the notification in its current form does not prescribe any specific accounting period from which the Division III would apply. There is some lack of clarity based on examples in practice as to whether it would be applicable to the financial results for the last quarter (i.e. quarter ended 30 September 2018 which are due to be filed up to 14 December 2018 by listed NBFCs) or would apply from next quarter (i.e. quarter ended 31 December 2018). The MCA should consider providing clarity on this aspect as soon as possible.

The Division III carries presentation requirements for NBFCs and these requirements are similar to Division II (Ind AS) to a large extent except a few which are as follows:

- NBFCs have been allowed to present the items of the balance sheet in order of their liquidity which is not allowed to companies required to follow Division II. Additionally, NBFCs are required to classify items of the balance sheet into financial and non-financial, whereas, other companies are required to classify the items into current and non-current.
- An NBFC is required to separately disclose by way of a note any item of 'other income' or 'other expenditure' which exceeds 1 per cent of the total income. Division II, on the other hand, requires disclosure for any item of income or expenditure which exceeds 1 per cent of the revenue from operations or INR10,00,000, whichever is higher.
- NBFCs are required to separately disclose under 'receivables', the debts due from any Limited Liability Partnership (LLP) in which its director is a partner or member.
- NBFCs are required to disclose items comprising 'revenue from operations' and 'other comprehensive income' on the face of the statement of profit and loss instead of as part of the notes.

With respect to changes to Division II to Schedule III, the key change relates to classification of 'trade receivables' and 'loans receivables'. The amendment require a company to separately disclose those receivables which have significant increase in credit risk and those that are credit impaired.



[3]ICAI-ITFG clarifications' bulletin 3 dated 2 July 2016.

KPMG in India

Ahmedabad
Commerce House V, 9th Floor,
902, Near Vodafone House,
Corporate Road,
Prahlad Nagar,
Ahmedabad – 380 051
Tel: +91 79 4040 2200

Andhra Pradesh
Door No. 54-15-18E, Sai Odyssey,
Gurunanak Nagar Road,NH 5,
Opp. Executive Club,
Vijayawada,
Krishna District , Andhra Pradesh,
520008
Contact: 0866-6691000

Bengaluru
Maruthi Info-Tech Centre
11-12/1, Inner Ring Road
Koramangala,
Bengaluru – 560 071
Tel: +91 80 3980 6000

Chandigarh
SCO 22-23 (1st Floor)
Sector 8C, Madhya Marg
Chandigarh – 160 009
Tel: +91 172 664 4000

Chennai
KRM Towers, Ground Floor,
1, 2 & 3 Floor, Harrington Road
Chetpet, Chennai – 600 031
Tel: +91 44 3914 5000

Gurugram
Building No.10, 8th Floor
DLF Cyber City, Phase II
Gurugram, Haryana – 122 002
Tel: +91 124 307 4000

Hyderabad
Salarpuria Knowledge City, 6th Floor, Unit 3, Phase III, Sy No. 83/1, Plot No 2, Serilingampally Mandal,
Ranga Reddy District,
Hyderabad – 500 081
Tel: +91 40 6111 6000

Jaipur
Regus Radiant Centre Pvt Ltd.,
Level 6, Jaipur Centre Mall,
B2 By pass Tonk Road
Jaipur – 302 018.
Tel: +91 141 - 7103224

Kochi
Syama Business Centre
3rd Floor, NH By Pass Road,
Vytilla, Kochi – 682 019
Tel: +91 484 302 5600

Kolkata
Unit No. 604,
6th Floor, Tower – 1,
Godrej Waterside,
Sector – V, Salt Lake,
Kolkata – 700 091
Tel: +91 33 4403 4000

Mumbai
1st Floor, Lodha Excelus,
Apollo Mills
N. M. Joshi Marg,
Mahalaxmi, Mumbai – 400 011
Tel: +91 22 3989 6000

Noida
Unit No. 501, 5th Floor,
Advant Navis Business Park
Tower-A, Plot# 7, Sector 142,
Expressway Noida, Gautam Budh Nagar,
Noida – 201 305
Tel: +91 0120 386 8000

Pune
9th floor, Business Plaza,
Westin Hotel Campus, 36/3-B,
Koregaon Park Annex, Mundhwa Road, Ghorpadi, Pune – 411 001
Tel: +91 20 6747 7000

Vadodara
Ocean Building, 303, 3rd Floor,
Beside Center Square Mall,
Opp. Vadodara Central Mall,
Dr. Vikram Sarabhai Marg,
Vadodara – 390 023
Tel: +91 265 619 4200

You can reach out to us for feedback and questions at:
in-fmkpmgifrsinst@kpmg.com

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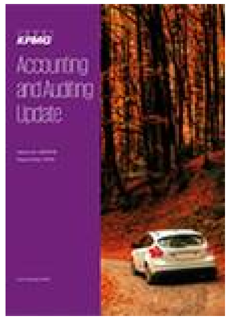
Voices on Reporting

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

In our recent session of Voices on Reporting webinar on 4 October 2018, we covered key financial reporting and regulatory matters that are expected to be relevant for stakeholders for the quarter ended 30 September 2018.

Click here to access the audio recording (mp3) and presentation (pdf).

Missed an issue of our Accounting and Auditing Update or First Notes



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In this edition of Accounting and Auditing Update (AAU), we focus on the automotive sector companies. Ind AS 115 is likely to throw up multifaceted challenges on the automotive sector from an accounting perspective. Our article on this topic highlights the significant impact areas (e.g. determination of performance obligations and variable consideration, etc.) where current guidance in Ind AS is expected to change due to implementation of Ind AS 115.

Our article points out that the impact presented in the first quarter results (on the basis of the results complied) is quite insignificant and this could be due to a combination of factors such as the transition approach adopted by the companies or that their existing revenue recognition policies are in line with requirements under Ind AS 115. We would expect companies to provide more disclosures relating to Ind AS 115 with their year-end financial results.

The publication carries an article on securitisation transactions which describes with the help of an illustration whether a certain securitisation transaction would meet the criteria for derecognition of a financial instrument and application of control definition on such special purpose entities or trusts.

This publication also casts lens on accounting for Property, Plant and Equipment (PPE).

Our publication also carries a regular synopsis of some recent regulatory updates.

ICAI clarifies applicability of disclosure norms relating to Specified Bank Notes (SBNs)

4 September 2018

Background

The Ministry of Corporate Affairs (MCA) introduced a disclosure for Specified Bank Notes (SBNs) in the notes to account to balance sheet on 30 March 2017 following demonetisation.

Therefore, Schedule III of the Companies Act, 2013 (2013 Act) was amended. According to the amendment every company is required to disclose, in the notes to account to balance sheet, the details of SBNs held and transacted during the period from 8 November 2016 to 30 December 2016 in the specified format.

Additionally, the auditor's report had to include the auditor's views and comments on the following matter:

- Whether the company had provided requisite disclosures in its financial statements as to holdings as well as dealings in SBNs during the period from 8 November 2016 to 30 December 2016 and if so, whether these are in accordance with the books of accounts maintained by the company (Rule 11(d) of the Companies (Audit and Auditors) Amendment Rules) .

New development

On 1 September 2018, the Institute of Chartered Accountants of India (ICAI) through an announcement clarified that the above disclosure requirements relating to SBNs (in the notes to account as well as in the auditor's report) are not applicable for the FY2017-18 and subsequent years. Accordingly, consequent disclosures may be given in the financial statements/auditor's reports.

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