N. A. SHAH ASSOCIATES LLP
Chartered Accountants

BULLETIN

ACCOUNTING, AUDITING AND COMPANY LAW – JULY 2026

ACCOUNTING AND AUDITING UPDATES

- **Expert Advisory Opinion**

- **Classification of CLTDs/Flexi Deposits as Cash Equivalents**

The EAC opined that CLTDs/Flexi deposits having an original maturity period of more than 3 months but less than 12 months, and for more than 12 months, may meet the criterion of highly liquid investments, because these can be redeemed at any time and there are no restrictions on their realization. However, such deposits do not qualify as cash equivalents under Ind AS 7, as they are not held for meeting short-term cash commitments.

Accordingly, those deposits with original maturity period exceeding 3 months should be presented as bank balances other than cash equivalents or 'other financial assets', classified as 'current assets' or 'non-current assets', considering the expectation of their realisability within 12 months or after 12 months, respectively, after the reporting date. Deposits having an original maturity of up to 3 months meet all the criteria prescribed in Ind AS 7 and therefore be classified as cash equivalents.

- **EAC Opinion on Consolidation of Section 8 Associate Companies under Ind AS**

The EAC opined that the prohibition on distribution of profits by a Section 8 company does not, by itself, preclude the existence of significant influence under Ind AS 28 or exempt an investor from preparation of consolidated financial statements. Accordingly, where an entity has significant influence over a Section 8 company, the investment should be accounted for using the equity method in the consolidated financial statements, unless a specific exemption is available under Ind AS 28.

The Committee further opined that the investor's share of surplus should be recognised and presented as a separate line item with appropriate labelling to indicate that such surplus is not distributable as dividends. Appropriate disclosures should also be made regarding the nature of the associate, restrictions on transfer of funds and other requirements prescribed under Ind AS 112 and Schedule III to the Companies Act, 2013.

- **EAC opinion on accounting treatment of Grants under Accounting Standard (AS) 12**

The EAC clarified that grants received by a company promoted by the Government are in the nature of promoters' contribution under AS 12, as they are intended to support the company's overall capital outlay and initial operational requirements rather than the acquisition of specific assets or reimbursement of particular revenue expenditure. Accordingly, such grants should be credited to Capital Reserve and should not be recognised as income in the Statement of Profit and Loss.

For more information on all the three EAC opinions, Click here

ICAI UPDATE

- **Guidance Note on Tax Audit under Section 44AB of the Income-tax Act, 1961 (Revised 2026)**

The revised Guidance Note provides updates and clarifications, including the incorporation of TAQRB observations, revised guidance for determining gross receipts, clarification regarding the ceiling on tax audit assignments, guidance on the implementation of Non-Corporate and LLP Financial Statement Formats, and considerations arising from the Digital Personal Data Protection Act, 2023 (DPDP Act).

For more information, Click here

MCA UPDATES

- **Extension of Companies Compliance Facilitation Scheme, 2026 (CCFS-2026) up to 31st August 2026**

MCA has extended the validity of CCFS-2026, which allows companies to complete pending statutory filings, from its earlier deadline of July 15, 2026 to August 31, 2026.

For more information, Click here

- **RoC Notifies Strike-Off and Dissolution of Companies under Section 248(5) of the Companies Act, 2013**

The Registrar of Companies (RoC) has published a list of companies struck off and dissolved under Section 248(5) of the Companies Act, 2013, effective from the respective dates mentioned therein.

For more information, Click here, here, here and here

RBI UPDATES

- **Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Second Amendment Directions, 2026**

RBI has issued new prudential norms for immovable assets acquired by NBFCs in satisfaction of borrower claims, termed "Specified Non-Financial Assets" (SNFAs), effective October 1, 2026.

SNFAs can only be acquired against exposures already classified as non-performing and must be recorded at the lower of the extinguished exposure's net book value or the distress sale value from at least two independent valuers.

NBFCs must dispose of SNFAs within a maximum period of seven years, preferably through public auction, and are prohibited from selling such assets back to the borrower or related parties. SNFAs will be excluded from Gross/Net NPA and stressed asset figures and must instead be separately disclosed on the balance sheet, with periodic reporting to RBI via the CIMS portal. Legacy SNFAs already on NBFC books as on September 30, 2026 must achieve compliance with these norms by September 30, 2027.

For more information, Click here

- **Reserve Bank of India (Non-Banking Financial Companies– Fraud Risk Management) Directions, 2026**

  RBI has issued new directions on fraud risk management for NBFCs. These apply to Upper Layer, Middle Layer, and Base Layer NBFCs (with assets of ₹500 crore and above), and HFCs. The directions take effect immediately wherein applicable NBFCs must have a Board-approved Fraud Risk Management Policy. Provisions include issuing a Show Cause Notice and giving at least 21 days to respond, before classifying an account as fraud; setting up of Special Committee of the Board for Monitoring and Follow-up of Frauds (SCBMF); and maintenance of an Early Warning Signal (EWS) system by Upper & Middle Layer NBFCs.

  For more information, Click here

- **Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Third Amendment Directions, 2026**

  RBI has amended the IRACP (Income Recognition, Asset Classification and Provisioning) Directions, effective October 1, 2026. Provisions require that NBFCs acquiring a Specified Non-Financial Asset (SNFA) to not recognise any pre-acquisition unrealized interest or charges as income and if any such income was already recognized, to reverse it through the statement of Profit or Loss by September 30, 2027, to the extent still unrealized.

  Any income received from an SNFA is to be booked as "non-interest/other income" in the year it is realized. Expenses on upkeep of an SNFA are to be expensed in the year they are incurred.

  For more information, Click here

- **Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Second Amendment Directions, 2026**

  RBI has amended its Directions on Credit Facilities extended by NBFCs, effective immediately. NBFCs can now choose to finance a project as separate independent units, each with its own financial closure, as long as each unit is checked for standalone viability before financing.

  For more information, Click here

- **Reserve Bank of India (Non-Banking Financial Companies - Compliance Function) Directions, 2026**

  The RBI has introduced a dedicated compliance framework for Middle and Upper Layer NBFCs, replacing the existing compliance guidelines. The framework requires the Board/Audit Committee of the Board (ACB) to approve a comprehensive Compliance Policy, while senior management must undertake annual compliance risk assessments.

  The framework also mandates the appointment of an independent Chief Compliance Officer (CCO) with a minimum tenure of three years, prescribed reporting lines, and defined eligibility criteria. NBFCs are required to provide prior intimation to the RBI regarding the appointment, transfer, or removal of the CCO, along with a 'Fit and Proper' certification. Additionally, NBFCs must implement enterprise-wide technology solutions for compliance monitoring and reporting.

  For more information, Click here

- **Reserve Bank of India (Non-Banking Financial Companies - Internal Audit Function) Directions, 2026**

  The RBI has introduced harmonised directions mandating a Risk-Based Internal Audit (RBIA) framework for all deposit-taking NBFCs/HFCs and non-deposit-taking NBFCs/HFCs with an asset size of ₹5,000 crore and above. The Directions require a Board-approved RBIA policy, annual risk-based audit planning, and an independent Internal Audit function headed by a senior executive with direct reporting to the Board/Audit Committee or MD & CEO. The Internal Audit function cannot be outsourced, although external experts may be engaged where required.

  For more information, Click here

- **Reserve Bank of India (Non-Banking Financial Companies - Statutory Audit) Directions, 2026**

  RBI has issued "Reserve Bank of India (NBFC – Statutory Audit) Directions, 2026" replacing the earlier 2021 framework. The Directions largely consolidate the existing requirements without major changes to auditor eligibility, tenure, rotation, independence, joint audit, or branch coverage. The updated framework introduces key clarifications ensuring outgoing auditors complete limited reviews until their successors are formally appointed. Furthermore, it refines conflict assessment protocols, establishing distinct evaluation approaches for RBI-regulated versus non-RBI-regulated group entities.

  For more information, Click here

- **Reserve Bank of India (Non-Banking Financial Companies - Auditor's Report) Directions, 2026**

  RBI has issued revised directions replacing the earlier 2016 Directions. The revised directions are primarily a consolidation and alignment of the existing reporting framework with RBI's updated 2025–26 Master Directions and the Scale Based Regulation (SBR) framework. There are no significant changes to the statutory auditor's reporting responsibilities or the matters required to be certified under the Statutory Auditor's Certificate (SAC).

  For more information, Click here

- **RBI (Non-Banking Financial Companies – Supervisory Returns) Directions, 2026**

  RBI has consolidated the rules on supervisory returns filed by NBFCs, excluding HFCs. These directions take effect immediately and repeal all earlier return-related guidelines for NBFCs. NBFCs must file various returns based on their layer classification. These cover financial parameters, prudential norms, and fraud reporting, among others.

  For more information, Click here

Other UPDATES

- **IRDAI Updates Financial Result Formats for Listed Insurers Under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

  IRDAI has revised the formats for publishing quarterly financial results of listed insurers and reinsurers to align with Ind AS and SEBI LODR requirements. These formats cover quarterly results, segment-wise reporting, limited review reports, audit reports and newspaper publication formats. Insurers granted forbearance from Ind AS implementation for FY 2026-27 will continue with the existing formats. The revised formats are only for compliance with SEBI's LODR requirements and do not change the disclosure requirements under insurance laws and regulations.

  For more information, Click here

- **IRDAI – Clarifications on Implementation of Ind AS for insurers**

  IRDAI has issued clarifications regarding the role of the Appointed Actuary in the preparation of Ind AS financial statements, outlined the framework and scope for Independent Validation by a Chartered Accountant firm on a quarterly basis during the first year of Ind AS implementation, and provided guidance on the continued use of Ind AS 104-based financial statements for consolidation purposes during the forbearance period. It has also released FAQs addressing related disclosure and reporting requirements.

  For more information, Click here

- **IAASB Proposes Targeted Revisions to the ISA for Audits of Less Complex Entities**

  The International Auditing and Assurance Standards Board (IAASB) released an Exposure Draft proposing targeted revisions to the ISA for Audits of Financial Statements of Less Complex Entities (ISA for LCE) to keep the standard relevant and proportionate. The proposed changes address recent developments in auditor responsibilities relating to fraud and going concern, update terminology by replacing "listed entity" with "publicly traded entity", and ensure consistency with the International Code of Ethics for Professional Accountants.

  For more information, Click here

Glossary:

CLTD	Corporate Liquid Term Deposits
EAC	Expert Advisory Committee
DPDP Act	Digital Personal Data Protection (DPDP) Act
TAQRB	Tax Audits Quality Review Board
CCFS - 2026	Companies Compliance Facilitation Scheme - 2026
RoC	Registrar of Companies
SNFA	Specified Non-Financial Assets
NPA	Non-Performing Asset
CIMS	Centralised Information Management System
HFC	Housing Finance Company
SCBMF	Special Committee of the Board for Monitoring and Follow-up of Frauds
EWS	Early Warning Signal
IRACP	Income Recognition, Asset Classification and Provisioning
ACB	Audit Committee of the Board
CCO	Chief Compliance Officer
RBIA	Risk-Based Internal Audit
SBR	Scale Based Regulation
SAC	Statutory Auditor's Certificate
IRDAI	Insurance Regulatory and Development Authority of India
IAASB	International Auditing and Assurance Standards Board
ISA	International Standard on Auditing
LCE	Less Complex Entity

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