ACCOUNTING AND COMPANY LAW

N. A. SHAH BULLETIN

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Chartered Accountants

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EXECUTIVE SUMMARY

- **Accounting and Auditing**

    - The Institute of Chartered Accountants of India (ICAI) has issued an expert advisory opinion on capitalisation of cost incurred towards replacement of economiser coil in a boiler of a thermal power plant. As per the said opinion, since there is no increase the future benefits of the concerned equipment beyond the previously assessed standard of performance, the expenditure incurred on replacement of economiser coil should be charged to the statement of profit and loss unless the company is following component accounting.

    - Accounting Standards Board of ICAI has issued exposure draft of changes proposed to Ind AS 12 – Income Taxes.

    - Auditing and Assurance Standards Board of ICAI has issued exposure draft on Standards on Auditing (SA) 720 (Revised)-The Auditor's Responsibility Relating to Other Information.

- **Company Law**

    Ministry of Corporate Affairs ('MCA') has issued following amendments and clarifications:

    - Rule 18 of Companies (Incorporation) Rules 2014 has been substituted to include the requirement to mention PAN on Certificate of Incorporation and the corresponding changes are made in Form No. INC-11 and INC-32.

    - Exemptions and modifications have been prescribed from applicability of certain provisions of the Companies Act 2013 to a private company or/and unlisted public company which is licensed to operate by the RBI/SEBI/IRDA from the IFSC located in an approved multi services SEZ.

1. Accounting and auditing

1.1. Expert advisory opinions

Capitalisation of cost Incurred towards replacement of major component in a Boiler of a Thermal Power Plant:

A. Facts of the case

- A company is engaged in construction and operation of thermal power plants. Economiser is one of the major components of the boiler in a power plant. During the year 2014-15, the company replaced economiser coils which was rendered un-serviceable due to severe erosion as a result of firing of high ash content coal.

- During the year 2014-15, the company incurred an amount of Rs. 4.31 crore for replacement of economizer upper bank coil of the boiler and the same was capitalized.

B. Query

Whether the accounting treatment made in the accounts for 'capitalisation of Rs. 4.31 crore towards replacement of economiser coil' is in consonance with generally accepted accounting principles and Accounting Standards. If not, suggest the correct treatment.

C. Points considered by the committee

- In the context of Accounting Standard (AS) 10, 'Accounting for Fixed Assets', notified under the 'Rules' (hereinafter referred to as AS 10 (pre revised)), the Committee notes paragraphs 12.1 and 23 of Accounting Standard (AS) 10, 'Accounting for Fixed Assets'.

- The Committee is of the view that normally, expenditure on repairs, including replacement cost necessary to maintain the previously estimated standard of performance, is expensed in the same period and only such expenditures that have the effect of improving the previously assessed standard of performance, e.g. an extension in the asset's useful life, an increase in its capacity, or a substantial improvement in the quality of output or a reduction in previously assessed operating costs are capitalised.

- The Committee is of the view that 'previously assessed standard of performance' is not the actual performance of the asset at the time of repair/improvement etc., but the standard performance of the same asset in its original state. In this context, the Committee notes that the repairs and replacement was made due to frequent forced outage of the boiler due to tube failure/leakages as the coils of the economizer had eroded because of use of coal with high ash content as against the design coal.

- Further, the Committee notes that the querist has stated that the replacement of economizer coils has enhanced the efficiency of the boiler and minimized the tube leakages in economizer area, which has resulted in reduction in operating cost and has helped in bringing the said boiler into more stable working condition. From this, it appears to the Committee that though the replacement of economizer coils result into the increase in efficiency, minimizing the tube leakages and reduction of operating cost but the same is only maintaining/stabilizing the level of the performance of the concerned equipment(s), viz., the boiler, at the time of such repair/replacement and it cannot be considered to increase the future benefits of the concerned equipments beyond the previously assessed standard of performance. Accordingly, the expenditure incurred on replacement should not be capitalised; rather the same should be expensed in the statement of profit and loss.

- If the economizer coil is considered as a major component of the boiler and the same has a different useful life from that of the main asset, viz., boiler, the company may also consider to apply the 'component accounting', as prescribed under Schedule II to the Companies Act, 2013.

D. Opinion

The Committee is of the opinion that the accounting treatment made in the accounts for 'capitalisation of Rs. 4.31 crore towards replacement of economizer coil' is not in consonance with generally accepted accounting principles and Accounting Standards. The expenditure incurred should rather be charged to the statement of profit and loss unless the company is following component accounting.

1.2. Exposure drafts

- Accounting Standards Board of ICAI has issued exposure draft of changes proposed to Ind AS 12 – Income Taxes in respect of deferred tax assets for unrealized losses.

  As per the exposure draft, entity has to consider whether tax laws restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Also deductible temporary differences has to be compared with future taxable profit excluding tax deductions resulting from the reversal of those deductible temporary difference. Further, the estimate of probable future taxable profit may include the recovery of some of an entity's asset for more than their carrying value if there is sufficient evidence that it is probable that entity will achieve this.

- Auditing and Assurance Standards Board of ICAI has issued exposure draft on Standards on Auditing (SA) 720 (Revised)-The Auditor's Responsibility

Relating to Other Information. It emphasizes on auditor's responsibilities for material inconsistencies between other information and financial statements/auditor's knowledge obtained during audit. This SA will not apply to preliminary announcement of financial information or securities offering documents, including prospectuses.

2. Notifications and amendment issued by MCA

2.1. Amendment in the Companies (Incorporation) Rules, 2014

Revised Rule 18 (regarding issue of certificate of incorporation) prescribes that the Certificate of Incorporation shall mention Permanent Account Number of the company if it is issued by the Income-tax department.

2.2. Exemptions to International Financial Services Centre (IFSC)

As per the amendment, certain provisions of the Companies Act 2013 (39 sections for private company and 59 sections for unlisted public company) shall not apply or shall apply with such exemption/modifications to a private company or/and a unlisted public company which is licensed to operate by the RBI/SEBI/IRDA from the IFSC located in an approved multi services SEZ.

Following are the some of the key exemptions /changes applicable to private company and unlisted public company:

Sr. no.	Provisions of the Companies Act, 2013	Exceptions/Modifications/Adaptations
1.	Section 2(41)	Specified IFSC company, which is a subsidiary of a foreign company, the financial year of the subsidiary may be same as the financial year of its holding company and approval of the Tribunal shall not be required.
2.	Section 4(1)(a)	It shall have the suffix "International Financial Service Company" or "IFSC" as part of its name.
3.	Section 4(1)(c)	It shall state its objects to do financial services activities from IFSC located in an approved multi services SEZ.
4.	Section 12(1)	It shall have its registered office at the IFSC located in the approved multi services SEZ
5.	Section 54 (1)(c)	It is allowed to issue sweat equity shares within one year of commencement of business.

6.	Section 135	Provisions related to CSR shall not apply for the period of 5 years from the commencement of business of a specified IFSC company.
7.	Section 138	Provision of internal audit shall apply if the articles of the company provides for the same.
8.	Section 139 (2)	Provisions related to rotation of auditors shall not apply.
9.	Section 149 (3)	Provisions related to resident director shall not be applicable in 1st financial year from the date of incorporation.
10.	Proviso to Section 168 (1)	Intimation by director to the registrar, in case of resignation, is optional.
11.	Section 173 (1)	It shall hold the first meeting of the Board of Directors within 60 days of its incorporation and hold at least one board meeting of the Board of Directors in each half of a calendar year.
12.	Section 185 (1)	Loans to any other person in whom director is interested includes any private company of which any such director is a director or member in which director of the lending company do not have direct or indirect shareholding through themselves or through their relatives and a special resolution is passed to this effect;
13.	Section 186 (1)	Restriction of investment in subsidiary up to 2 layers is not applicable.
14.	Section 186 (2) & (3)	Limit of 60% of [Share capital+ free reserve+ Securities Premium] or 100% of [Free reserves+ Securities premium.] and requirement of special resolution on exceeding the said limit, shall not apply if a company passes a resolution either at meeting of the Board of Directors or by circulation.

Following are the some of the key exemptions/changes applicable only to unlisted public company:

Sr. no.	**Provisions of the Companies Act, 2013**	**Exceptions/Modifications/Adaptations**
1.	Section 2 (76)(viii) - Relative	Any company which is— (*A*) a holding, subsidiary or an associate company of such company; or

		(*B*) a subsidiary of a holding company to which it is also a subsidiary; shall not be considered as the related party w.r.t section 188.
2.	Section 67	Restrictions on purchase by company or giving of loans by it for purchase of its shares shall not apply to unlisted public company; (a) in whose share capital no other body corporate has invested any money; (b) if the borrowings of such company from banks or financial institutions or any body corporate is less than twice of its paid up share capital or fifty crore rupees, whichever is lower; and (c) such a company is not in default in repayment of such borrowings subsisting at the time of making transactions under this section.
3.	Clauses (a) to (e) of section 73 (2)	Compliance with clause (a) to (e) of the said provision shall not apply to a Specified IFSC public company which accepts deposit from its members, not exceeding 100% of aggregate of the paid up share capital and free reserves and such company shall file the details of monies so accepted to the Registrar in such manner as may be specified.
4.	Second proviso to Section 149 (1)	Provision related to having at least one woman director shall not apply.
5.	Section 149 (4) to (11), (12)(i) and (13)	Provisions related to independent director shall not apply.
6.	Section 152 (6) & (7)	Provision relating to rotation of directors shall not apply.
7.	Section 177 and 178	Provisions related to Audit committee, NRC and stakeholders relationship committee shall not apply.
8.	Second proviso to subsection (1) of section 188	Restriction on related party voting has been removed.
9.	Section 196 (4)	Terms and remuneration of the MD, WTD and manager are now not required to be approved by Central Government in case of variation with section 197 and Schedule V.

10.	Section 197	Provisions related to overall maximum managerial remuneration and managerial remuneration in case of absence or inadequacy of profits shall not apply.

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