



ACCOUNTING AND COMPANY LAW

N. A. SHAH **BULLETIN**

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Chartered Accountants



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EXECUTIVE SUMMARY:

• Accounting

- The Institute of Chartered Accountants of India (ICAI) has issued an expert advisory opinion on appropriateness of the method of charging the depreciation for addition or disposal of fixed assets during the year *pro rata* on quarterly basis.

As per the opinion, as a matter of principle, depreciation should be calculated from the date the asset is available for use (i.e., on daily basis). However, as a matter of administrative convenience, *pro rata* depreciation may be charged on quarterly basis on additions / disposal of assets, provided the amounts involved are not material. If the amounts involved for specific assets are material, depreciation should be charged on some more suitable basis, for example, on monthly or 15 days period basis, etc.

• Company Law

- Ministry of Corporate Affairs (MCA) has amended the Companies (cost records and audit) Rules, 2014 on account of amendments made in the Companies (Indian Accounting Standards) Rules, 2015 and on discontinuance of Central Excise Tariff.
- MCA has introduced "Condonation of Delay Scheme 2018" for companies who had defaulted in filing of annual return or financial statement for a continuous period of three years. It shall remain in force upto 31st March, 2018.
- The Companies (Amendment) Bill, 2017 has been passed by Rajya Sabha to amend the Companies Act, 2013 and President's assent has been received on 3rd January, 2018. The amendments shall come into force from the date of notification by MCA.

• Internal Audit

ICAI has issued following exposure drafts which are open for comments upto 17th January, 2018:

- Proposed 'Framework Governing Internal Audits'
- Proposed revision to the 'Preface to the Framework and Standards on Internal Audit'

1. Accounting

1.1 Expert Advisory Opinion - December 2017

Method of charging depreciation for addition and disposal of fixed assets during the year *pro rata* on quarterly basis.

a. Facts of the case

- Company fully owned by Government of Madhya Pradesh ('the Company'), engaged in the business of electricity distribution is governed by the provisions of the Electricity Act, 2003. As per the accounting policy of the Company, depreciation on addition to fixed assets is provided on *pro rata* basis from beginning of quarter in which the asset was put to use.
- While conducting the audit of annual accounts of the Company for FY 2014-15, the Comptroller and Auditor General of India ('C&AG') stated that calculation of depreciation on addition to fixed assets on quarterly basis, i.e., from the beginning of the quarter in which the asset was put to use, irrespective of the date on which the asset was actually put to use is not in accordance with Accounting Standard ('AS') 6- 'Depreciation Accounting' and its own accounting policy of calculating depreciation on addition to fixed assets on *pro rata* basis. By charging depreciation on *pro rata basis* from beginning of quarter, depreciation was overstated by INR 2.96 crores.
- In response to above, the Company has submitted the following reply:
 - Meaning of '*pro rata basis*' is not defined in AS 6.
 - As per Guidance Note issued by ICAI on Accounting for Depreciation, the Company may group additions and disposals in appropriate time period(s), e.g., 15 days, a month, a quarter etc., for the purpose of charging *pro rata* depreciation in respect of additions and disposals of its assets keeping in view the materiality of the amounts involved.
 - As per the directions issued by Madhya Pradesh Electricity Regulatory Commission ('MPERC'), depreciation shall be chargeable from the first year of commercial operation. In case of commercial operation of the asset for part of the year, depreciation shall be charged on *pro rata* basis.
 - As per an earlier opinion given by Expert Advisory Committee on the related subject matter, it was stated that the Company may group additions and disposals in appropriate time period(s), e.g., 15 days, a month, a quarter etc., for the purpose of charging *pro rata* depreciation

keeping in view the materiality of the amount involved. The same was submitted to C&AG which was not considered by C&AG.

b. Query

Whether the treatment given by the Company of charging depreciation for addition and disposal of fixed assets during the year *pro rata* on quarterly basis is correct or not.

c. Points considered by the Committee

- The Committee points out that the opinion expressed is purely from accounting perspective and not for the perspective of legal interpretation of various legal enactments such as MPERC regulations, Electricity Act, 2003 etc.
- Committee notes the requirements of Note 2 of Schedule II of the Companies Act, 2013 which states that for any additions or on discard of any fixed assets during the year, depreciation shall be calculated on *pro rata* basis from the date of addition or upto the date on which such asset has been sold / discarded / demolished / destroyed.
- Committee further notes the explanation given in paragraph 59 of the 'Guidance Note on Accounting for Depreciation in Companies', in the context of Schedule II to the Companies Act, 2013 which prescribes that for any additions or on discard of any fixed assets during the year, the Company may group additions and disposals in appropriate time period(s), e.g., 15 days, a month, a quarter etc., for the purpose of charging *pro rata* depreciation in respect of additions and disposals of its assets keeping in view the materiality of the amounts involved.
- The Committee is of the view that ideally, as a matter of principle, depreciation should be calculated from the date the asset is available for use (i.e., on daily basis). However, as a matter of administrative convenience, the Guidance Note allows grouping of assets acquired or disposed of on a 15 days / monthly / quarterly basis and calculation of depreciation on such assets accordingly unless the amounts involved are material. The intention behind such grouping is that to the extent possible, the depreciation so calculated should not be materially different from the actual depreciation computed from the date the asset is available for use.

d. Opinion

On the basis of above and without examining the issue from legal perspective and requirements of Accounting Standards revised vide MCA Notification dated March 30, 2016 and Indian Accounting Standards (Ind ASs), the Committee is of the opinion that the Company may continue to charge *pro rata* depreciation on additions / disposal of assets on quarterly basis, provided the amounts involved are not material and if the amounts involved for specific assets are material, depreciation should be charged on some more suitable basis, for example, on monthly or 15 days period basis, etc.

2. Company Law

2.1 Amendment in the Companies (cost records and audit) Rules, 2014

Following amendments are made in by MCA in the Companies (cost records and audit) Rules, 2014:

- On account of amendments made in the Companies (Indian Accounting Standards) Rules, 2015, definition of 'Indian Accounting Standards' is added effective from 1st April, 2016 and accordingly respective forms (CRA-1 and CRA-3) in the annexures are substituted to give its effect.
- On discontinuance of Central Excise Tariff, definition of "Customs Tariff Act Heading" is added to replace "Central Excise Tariff Act Heading" effective from 1st July, 2017. Accordingly, respective forms (CRA-2, CRA-3 and CRA-4) and valuation rules are amended to replace these words.
- Considering above amendments in rules, MCA has decided to extend the last date for filing of Form CRA-4, for the financial year starting on or after 1st April, 2016, without additional fees till 31st December, 2017.

2.2 Condonation of Delay Scheme, 2018

"Condonation of Delay Scheme 2018" shall come into force with effect from 1st January, 2018 and shall remain in force up to 31st March, 2018. Some of the key points of this scheme are as follows:

- Scheme is applicable to all defaulting companies other than the companies which have been stuck off / whose names have been removed from the register of companies under Section 248(5) of the Companies Act, 2013 / the Companies Act, 1956.

- Defaulting company is permitted to file its overdue documents which were due for filing till 30th June, 2017.
- DINs of the concerned disqualified directors shall be temporarily activated during the validity of the scheme.
- Defaulting company shall file the overdue documents in the respective prescribed e-Forms after paying prescribed statutory filing fee and additional fee. After filing overdue documents, defaulting company has to seek condonation of delay by filing form e-CODS along with fees of INR 30,000/-.
- E-Form CODS 2018 would be available from 20th February, 2018 or an alternate date which will be intimated by MCA.
- This scheme shall apply for filing of overdue documents, such as
 - Form 20B / MGT-7 (annual return by a company having share capital),
 - Form 21A / MGT-7 (annual return by a company not having share capital),
 - Form 23AC / 23ACA / 23AC-XBRL, 23ACA-XBRL, AOC-4, AOC-4 (CFS), AOC-4 (XBRL), AOC-4 (Non-XBRL) (Forms for filing Balance Sheet / Statement of Profit and Loss Account),
 - Form 66 (submission of compliance certificate) and
 - Form 23B / ADT-1 (Intimation for appointment of Auditors).

2.3 Amendment in the Companies Act, 2013

The Companies (Amendment) Bill, 2017 was passed by Lok Sabha and Rajya Sabha on 27th July, 2017 and 19th December, 2017 respectively. President's assent has been received on 3rd January, 2018 and these amendments shall come into force from the date of notification by MCA. Summary of the key changes as per the amendment will be separately circulated.

Some of the key changes are as under:

- Changes on private placement process is simplified
- Criteria for applicability and calculation of CSR is clarified
- Auditors appointment- ratification every year not required
- Flexibility in place for holding AGM / EOGM, attending board meeting through VC

- Companies are permitted to give loans to entities in which directors are interested after passing special resolution and adhering to disclosure requirements.
- Chief Executive Officer whether appointed as director or not shall sign the financial statement.
- Penal provision for procedure and technical matters reduced
- Significant beneficial owner, managerial remuneration – CG approval not required in certain cases
- Clarity of applicability of the Act to foreign companies,
- Increase in deposit repayment reserve from 15% to 20%. Deposit insurance requirement is removed.

3. Internal Audit

3.1 Exposure draft of 'Framework Governing Internal Audits'

ICAI has issued exposure draft on proposed 'Framework Governing Internal Audits' which are open for comments upto 17th January, 2018.

3.2 Exposure draft of 'Preface to the Framework and Standards on Internal Audit'

ICAI has issued exposure draft on proposed revision to the 'Preface to the Framework and Standards on Internal Audit' which are open for comments upto 17th January, 2018.

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