

**N.A.SHAH ASSOCIATES LLP**  
Chartered Accountants

## INDEX

1. Accounting .....	5
1.1. Expert advisory opinions.....	5
1.2. Exposure drafts for amendments in Ind AS issued by ICAI .....	7
1.3. Bulletins on Ind AS issued by ITFG.....	7
1.4. Amendment in Companies (Indian Accounting Standard) Rule 2015.....	11
2. Company Law.....	12
2.1. Amendment in schedule III of the Companies Act 2013 .....	12
2.2. Amendment in Companies (Meeting of Board and its Powers) Rule 2014.....	12

The contents provided in this newsletter are for information purpose only and are intended, but not promised or guaranteed, to be correct, complete and up-to-date. The firm hereby disclaims any liability to any person for any loss or damage caused by errors or omissions, whether such errors or omissions result from negligence, accident or any other cause.

## EXECUTIVE SUMMARY

- **Accounting**

- The Institute of Chartered Accountants of India (ICAI) has issued an expert advisory opinion on accounting treatment for revenue recognized on forfeiture of bank guarantees (BG) given by the contractors. As per the opinion, BG forfeited for non-performance or non-compliance with the terms of contract, shall be accounted as income and shall not be adjusted against cost of the capital work.

Further as per the opinion, for the purpose of determining whether the amount of income recognised on forfeiture of BG is material or not, factors to consider includes nature of item, impact on profit/loss, volume of transactions and turnover of the company.

- Exposure draft issued by the ICAI on Ind AS 21- Foreign Currency Transactions and Advance Consideration clarifies that the date of the transaction for determining the exchange rate to be used on initial recognition of the related asset, expense or income, is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in foreign currency.
- Exposure draft issued by the ICAI on amendments to Ind AS 40- Investment Property clarifies whether property under construction or development that was previously classified as inventory could be classified as investment property when there was evidence of a change in use.
- Clarifications are given by the 'Ind AS Transition Facilitation Group' (ITFG) of the ICAI on issues relating to applicability and / or implementation of the Ind AS.
- Amendments to Ind AS which will be effective from 1<sup>st</sup> April 2017
  - 102 – Share Based Payments: - Guidance for accounting for the effects of vesting conditions on cash-settled share-based payments.
  - Ind AS 7 – Statement of Cash Flow: - The amendments require disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities.

- **Company Law**

- Financial statements of the Company should provide disclosure of the details of Specified Bank Notes (SBN) held and transacted during the period 08/11/2016 to 30/12/2016 in a prescribed form.

Further, auditors should report on compliance with above disclosure requirement and report whether these are in accordance with the books of account maintained. In regard to above, the ICAI has issued implementation guide.

- Threshold limits prescribed Rule 15 (3) (a) of the Companies (Meeting of Board and its Powers) Rules 2014 in respect of certain transactions with related party has been amended to specify "10 % or more" in place of "exceeding 10 %".



**1. Accounting**

**1.1. Expert advisory opinions  
Forfeiture of Bank Guarantees of Contractors:**

**A. Facts of the case**

- A Company is engaged in the business of electricity distribution (governed by the provisions of the Electricity Act, 2003). The Company is receiving funds as a loan under Restructured Accelerated Power Development and Reforms Program (RAPDRP) Scheme for executing capital projects under the Scheme. Company in turn invited bids from contractors for carrying out the project. Contractors have to submit two types of securities as under:
  - a. Bid security commonly known as earnest money deposit (EMD). This security shall be forfeited by the company if the contractor fails to accept the allotted work or in other specified circumstances including failure of the bidder to furnish performance security.
  - b. Performance security for satisfactory execution of work. This security shall be forfeited by the company on the breach of condition of contract during the execution of work.
- Due to default of contractors (as mentioned below) in execution of RAPDRP capital works, the Company forfeited the BG and accounted income of Rs. 21.24 crore in the statement of profit & loss.
  - Contractor denied to provide requisite performance guarantee to the Company and Contractor expressed inability to execute the work after the contract was awarded.
- Auditors of the company were of the view that since the company has incurred extra expenditure on the scheme by awarding of work at higher cost, the income should be adjusted against the project cost instead of treating it as income.
- The company is of the view that the amount of forfeiture of bank guarantee/liquidated damages recovered from the contractors or suppliers, are not directly attributable, like rebates and trade discounts, to acquisition of asset. Therefore, such claims received from the contractors/ suppliers cannot be adjusted in the cost of the assets. This view is also supported by EAO issued by ICAI (Query no. 1.15 of volume XIII). Further, Accounting Standards are intended to apply only to material items.

**B. Query**

- Correct Accounting treatment of forfeiture of bank guarantees of contractors.
- Amount of income is Rs. 21.24 crore as against the total turnover of the company Rs. 6,956 crore. Therefore, in the light of principle of materiality, whether the treatment given by the company in its books of account is correct or not.

**C. Points considered by the committee**

- According to the definition of the term 'income' as per paragraph 69(a) and paragraphs 91 and 92 of the Framework for the Preparation and Presentation of Financial Statements, the Committee is of the view that an increase in future economic benefits related to an increase in asset which can be measured reliably should be recognized as income in the statement of profit and loss.
- As per paragraph 5 of Accounting Standard (AS) 5- Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies, any item of income can be adjusted against the cost of the fixed asset/project only when relevant AS requires the same. In this regard, the Committee is of the view that there is no specific requirement in AS for adjusting income recognised on forfeiture of BG against cost of the project/asset(s).
- The Committee further notes that the income from forfeiture/invoking in the extant case is of the nature of a penalty on the contractors due to non-fulfillment of the tender/contract conditions and hence the same should be recognized in the statement of profit and loss and cannot be adjusted against the cost of the asset / project.
- For the issue raised in relation to materiality, the Committee is of the view that assessment of materiality is a matter of judgement and needs to be determined under the specific facts and circumstances of the company concerned.

**D. Opinion**

The treatment given by the company is correct. However, consideration of materiality should be applied based on the specific facts and circumstances of the given case.

## 1.2. Exposure drafts for amendments in Ind AS issued by ICAI

- Appendix B of Ind AS 21, Foreign Currency Transactions and Advance Consideration

There are circumstances when an entity pays or receive consideration in advance in a foreign currency. This gives rise to a non-monetary asset or non-monetary liability before recognition of the related asset, expense or income. The Appendix clarifies that the date of the transaction for determining the exchange rate to be used on initial recognition of the related asset, expense or income, is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in foreign currency.

ICAI proposes to make these amendments applicable from 1 April 2018.

- Ind AS 40, Investment Property

It clarifies whether property under construction or development that was previously classified as inventory could be classified as investment property when there was evidence of a change in use.

The amendments have been made to bring the Ind AS at par with International Accounting Standard (IAS).

## 1.3. Bulletins on Ind AS issued by ITFG

The Ind AS Transition Facilitation Group (ITFG) of the ICAI has clarified issues related to the applicability and/or implementation of Ind AS under the Companies (Indian Accounting Standards) Rules, 2015, raised by preparers, users and other stakeholders in its Clarification Bulletin 7 as given below:

Issue. No.	Query	Clarification
1.	Whether the company, which has opted para 46/46A of AS 11 to deduct or add the exchange gain/loss on foreign currency loan for PPE, can use the exemption of para D13AA of Ind AS 101 (to continue the policy of IGAAP) for part of the loan drawn after 1 <sup>st</sup> April 2016?	No, The exemption under paragraph D13AA for the exchange gain/loss on foreign currency loan is available only for the exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements immediately before

Issue. No.	Query	Clarification
		the beginning of the first Ind AS financial reporting period & hence will not be available for undrawn foreign currency monetary items.
2.	i. Whether subsidiary company is required to prepare financial statement in INR for parent company though functional currency of subsidiary is USD?	i. Ind AS does not prohibit the use of any currency as presentation currency. An entity may present its financial statements in any currency by applying the translation procedures from functional to presentation currency.
3.	A Company is a first-time adopter of Ind AS and has availed the exemption given under paragraph D7AA (Deemed cost exemption) of Ind AS 101, however, it wishes to retrospectively reverse the effect of paragraph 46/46A from its PPE. Whether the Company is allowed to do so?	No, It may be noted that when an entity opts for deemed cost exemption under paragraph D7AA of Ind AS 101 then it cannot make any adjustments to the carrying amount of PPE.
4.	Can an entity, who has applied the provisions of paragraph of 46/46A of AS 11 and intends to continue the same accounting policy in accordance with paragraph D13AA of Ind AS 101, apply the exemption of para D13AA to long-term forward exchange contracts as such contracts were also covered by paragraph 36 of AS 11.	No, Long term forward exchange contracts generally meet the definition of 'Derivatives' which are within the scope of Ind AS 109, <i>Financial Instruments</i> . Therefore, the company has to follow the accounting requirements of Ind AS 109 for accounting long term forward exchange contracts.
5.	A company has obtained a land from the government on a long-term lease basis which spans 99 years and above. At the end of the lease term, the lease could be extended for another term or the land could be returned to the	Classification as operating or finance lease requires exercise of judgment based on evaluation of facts and circumstances in each case, while considering the indicators envisaged below. Where in substance there is no



Issue. No.	Query	Clarification
	government authority. Whether such land leases should be classified as finance lease or operating lease in the financial statements of the company prepared in accordance with Ind AS?	transfer of risks and rewards, it should be considered as an operating lease. Some of the indicators to consider in the overall context of whether there is transfer of risks and rewards incidental to ownership include the lessee's ability to renew lease for another term at substantially below market rent or lessee's option to purchase at price significantly below fair value etc..
6.	A company has declared dividend on a financial instrument (which has been classified as a liability in accordance with Ind AS 32, <i>Financial Instruments: Presentation</i> ), after the end of the reporting period. Whether the Company is required to accrue such dividends in the financial statements for the year even if it is declared after the end of the reporting period?	It may be noted that the paragraph 12 of Ind AS 10 (dividend not to be recognised if declared after year end) applies only to those financial instruments which are classified as equity instruments. The payment of dividend/interest to financial instruments classified as liability accrues at the end of the reporting period even if it is paid or declared after the end of the reporting period. Accordingly, in the given case, the Company is required to account for the dividend, even if it is declared after the end of the reporting period.
7.	Whether deferred tax asset should be created on sale of freehold land under slump-sale?	If the land is sold through slump sale, then the tax base of the land will be the same as the carrying amount of the land, as indexation benefit is not available in case of slump sale (as per Income Tax Act, 1961) and hence there will not be any temporary difference. However, if any non-depreciable asset is measured using the

Issue No.	Query	Clarification
		revaluation model, then an entity is required to measure the DTA/DTL considering the tax consequences of recovering the carrying amount through sale.
8.	Holding company has investment in shares as well as debentures in subsidiary. Whether an investment in debentures of subsidiary company would be covered under the scope of paragraph 10 of Ind AS 27, Separate Financial Statements and exemptions provided under D15 of Ind AS 101, First-time Adoption of Indian Accounting Standards (i.e. cost as per IND AS 27 or deemed cost) ?	The Company needs to assess the terms of the debentures to determine whether the instrument can be considered as an investment in subsidiary as per Ind AS 27 or a financial asset as per Ind AS 109. If the debentures meet the definition of equity as per Ind AS 32 (Financial Instrument Presentation) from the issuer's perspective (i.e. subsidiary), then it can be considered to be part of parent's investment in subsidiary and hence accounted for under Ind AS 27 and exemption under Ind AS 101 is available. However, where the instrument fails to meet the definition of equity from issuer's perspective (i.e. a liability of the subsidiary), it shall be classified as a financial asset and accounted for under Ind AS 109.
9.	Paragraph 7AA of Ind AS 38, Intangible Assets read with paragraph D22 of Ind AS 101, First-time Adoption of Indian Accounting Standards permits revenue based amortisation for the intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS reporting period. Can the	No, Exemption can be availed in respect of intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements before the beginning of first Ind AS reporting period hence the company cannot avail the said exemption because the intangible asset is in progress and the same has not been recognized before the beginning

Issue. No.	Query	Clarification
	company avail the above exemption in respect of toll roads under construction/development as on 1st April, 2016	of first Ind AS reporting period and amortization has not begun.

#### 1.4. Amendment in Companies (Indian Accounting Standard) Rule 2015

Particulars	Summary of changes
Ind AS 7 – Statements of cash flows	The amendments require disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are to be applied prospectively for annual periods beginning on or after 1 April, 2017
Ind AS 102 – Share-based payments	Guidance for accounting for the effects of vesting conditions on cash-settled share-based payments. Also guidance in regard to accounting for a modification to the terms and conditions of a share-based payment transaction that changes the transaction from cash-settled to equity-settled. The above amendments are effective for annual period beginning on or after 1 <sup>st</sup> April, 2017.

## 2. Company Law

### 2.1. Amendment in schedule III of the Companies Act 2013

Schedule III of the Companies Act, 2013 has been amended to incorporate the following disclosure in the financial statements:

Every company shall disclose the details of Specified Bank Notes (SBN) held and transacted during the period 08/11/2016 to 30/12/2016 in the manner as provided in the table below:

Particulars	SBNs	Other denomination notes	Total
Closing cash in hand as on 08.11.2016			
(+) Permitted receipts			
(-) Permitted payments			
(-) Amount deposited in Banks			
Closing cash in hand as on 30.12.2016			

Further, the auditors of the company has to also report whether above disclosures are in accordance with the books of account maintained by the company. In regard to above, the ICAI has issued implementation guide.

### 2.2. Amendment in Companies (Meeting of Board and its Powers) Rule 2014

Rule 15(3) of the Companies (Meetings of Board and its Powers) Rules, 2014 specifies the limits for transactions beyond which related party transactions would require shareholders' approval. Earlier the limits for turnover / net-worth was exceeding 10% which is now revised to 10% or more.

From:

N. A. Shah Associates LLP

Chartered Accountants

Address: B 41-45, Paragon Centre, Pandurang Budhkar Marg, Mumbai – 400 013.

Tel: 91-022-4073 3000, Fax: 91-022-4073 3090

E-mail Id: [info@nashah.com](mailto:info@nashah.com)