

N.A.SHAH ASSOCIATES LLP
Chartered Accountants

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EXECUTIVE SUMMARY

- **Accounting and Auditing**

- As per the expert advisory opinion issued by The Institute of Chartered Accountants of India (ICAI), transitional provision of AS 15 (Revised) was applicable only for FY 2007-08. In case of first time adoption of AS 15 (Revised) subsequent to FY 2007-08, liability of earlier years cannot be adjusted against reserve & surplus and the same needs to be charged off to statement of profit and loss as prior period expenses.
- ICAI has issued following Guidance Notes (GN):
 - Guidance Note on Accounting for Oil and Gas Producing Activities (Ind AS)
 - Guidance Note on Reports in Company Prospectuses (Revised 2016)
- ICAI has issued exposure draft on the Conceptual Framework for General Purpose Financial Reporting by local bodies.

- **Company Law**

- Ministry of Corporate Affairs ('MCA') has notified the date of applicability for various sections of Companies Act, 2013 which have now become effective. Notified sections are mainly related to National Company Law Tribunal and powers of Registrar of Companies.
- MCA has notified following new Rules:
 - The Companies (Compromises, Arrangements and Amalgamations) Rules, 2016
 - National Company Law Tribunal (Procedure for Reduction of Share Capital of Company) Rules, 2016
 - Companies (Removal of Names of Companies from the Register of Companies) Rules, 2016
 - Companies (Transfer of Pending Proceedings) Rules, 2016
 - Investor Education and Protection Fund Authority (Accounting , Audit, Transfer and Refund) Rules, 2016
- MCA has amended following existing Rules:
 - National Company Law Tribunal (amendment) Rules, 2016
 - Companies (Incorporation) Rules, 2014

- MCA has issued Companies (Removal of Difficulties) Fourth order, 2016 for transfer of all pending proceedings under the Companies Act, 1956 including arbitration, compromise, arrangement and reconstruction to the benches of the National Company Law Tribunal exercising respective territorial jurisdiction except proceedings which are reserved for Order.
- **Others**
 - The Employee State Insurance Corporation (ESIC) has raised threshold wage limit to Rs. 21,000 from existing limit of Rs. 15,000. This increase is effective from 1st January 2017.

1. Accounting and auditing

1.1. Expert advisory opinions

Adjustment of the effect of first recognition of group gratuity liability against opening balance of reserves and surplus as an appropriation in the current financial year

a. Facts of the case

- The Company has taken LIC cover for gratuity benefits payable to employees and the same were accounted in the books of account on payment basis till FY 2013-14.
- In the FY 2014-15, the Company has provided for gratuity liability on actuarial valuation based on the requirement of AS 15 (Revised) – 'Employee Benefits'. Further, the liability pertaining to earlier years has been adjusted against opening balance of reserve & surplus by taking the benefit of the transitional paragraph 144 & 145 of AS 15 (Revised).

b. Query

Whether provision for gratuity liability of earlier years can be adjusted against the opening balance of reserve & surplus for FY 2014-15?

c. Points considered by the Committee

- The Committee noted that the basic issue raised relates to first time recognition of gratuity liability for the earlier years and whether the paragraph 144 & 145 of AS 15 (revised) can be invoked at the time of first time adoption of AS 15 (Revised).
- The Committee further noted that mandatory application of AS 15 (Revised) was from FY 2007-08 and accordingly the transitional provisions were applicable for the FY 2007-08 only and not for subsequent years. Therefore, the Company cannot invoke the transitional provision of AS 15 (Revised) in the FY 2014-15.
- The Committee further noted that since the requirements of AS 15 (Revised) were not followed after it is applicable mandatorily from the FY 2007-08, the same would be an accounting error of prior years and therefore, it should be treated as a prior period expenses.

d. Opinion

On the basis of the above, the Committee is of the view that provision for gratuity of earlier years at the time of first time adoption of AS 15 (Revised) in FY 2014-15 cannot be adjusted against the opening reserve & surplus and the same should be immediately charged off to statement of profit and loss as prior period expenses.

1.2. GN on Accounting for Oil and Gas Producing Activities (Ind AS)

This GN provides comprehensive guidance for all the four phases of the upstream oil and gas operations also termed as the exploration and production industry. The GN provides guidance on the accounting principle contained in various Ind AS. However, it does not deal with the issues relating to transporting, refining and marketing of oil and gas activities. The GN is applicable from accounting year commencing on or after 1st April 2017 and its early application is encouraged.

1.3. GN on Reports in Company Prospectuses (Revised 2016)

ICAI has revised the guidance note in respect of reporting requirements that are required in relation to financial information to be included in the prospectus in case of initial public offering (IPO). It is also applicable to other type of filings viz., for the issue of securities such as letter of offer, placement document etc., filings for the issue of units under Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014 and Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014.

With issue of above guidance note, GN on Reports in Company Prospectuses (Revised) issued by ICAI in October 2006 stands withdrawn.

1.4. Exposure draft on the Conceptual Framework for General Purpose Financial Reporting by local bodies

The Committee on Accounting Standards for Local Bodies (CASLB) has issued exposure draft on 'The Conceptual Framework for General Purpose Financial Reporting by Local Bodies'.

This exposure draft establishes the concepts that are to be applied in developing Accounting Standards for Local Bodies that are applicable to the preparation and presentation of general purpose financial reports of local bodies.

2. Company law

2.1. Effective date for applicability of notified sections

MCA has notified following sections of Companies Act, 2013 which are effective now. Notified sections are mainly related to National Company Law Tribunal and powers of Registrar of Companies.

Section No.	Section Relates to
Effective from 15th December 2016	
2(23)	Definition of Company Liquidator
7(7)(c) & (d)	Incorporation of company by furnishing false information
8(9)	Formation of companies with charitable objects
48	Variation of shareholders rights
66	Reduction of share capital
224(2)	Actions to be taken in pursuance of inspector report
226	Voluntary winding up of company
230 to 240	Provisions for Compromise or arrangement with creditors & members
270 to 303	Provisions relating to winding up of company
324	Debts of all descriptions to be admitted to proof
326 to 365	Other provisions for winding up and powers & duties of liquidator
Proviso to 370	Continuation of legal proceedings
372 to 373	Power of court to stay suits & proceedings in case of winding up
375 to 378	Winding up of unregistered, foreign companies, etc.
391(2)	Application of section 34 to 36 and chapter XX
434(1) (c)	Transfer of certain pending proceedings
Effective from 26th December 2016	
248 to 252	removal of name of companies from the register of companies has been notified w.e.f. 26 th December 2016

2.2. Notification of new Rules by MCA

MCA has notified following Rules:

Sr. No.	Rules notified	Purpose of rules
1.	The Companies (Compromises, Arrangements and Amalgamations) Rules, 2016	Prescribe procedure for implementing scheme of compromises, arrangement and amalgamations of the companies

Sr. No.	Rules notified	Purpose of rules
2.	National Company Law Tribunal (Procedure for reduction of share capital of Company) Rules, 2016	Prescribes forms and procedures for reduction of share capital of the company
3.	Companies (Removal of Names of Companies from the Register of Companies) Rules, 2016	Prescribe forms and procedure for removal of names from Register of Companies for various categories of companies registered under Companies Act, 2013
4.	Investor Education & Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016	Prescribes various procedural requirements related to operation of Investor Education & Protection Fund Authority
5.	Companies (Transfer of pending proceedings) Rules, 2016	Prescribe procedure for transfer of proceedings pending various courts (District Court or High Court) to National Company Law Tribunal

2.3. Amendment to National Company Law Tribunal Rules, 2016

MCA has amended Companies (National Company Law Tribunal) Rules, 2016 to allow filing of joint petition, allow multiple remedies for single cause of action, lodging of caveat to tribunal, multiple remedies for single cause of action sought by petitioner etc.

2.4. Amendment to Companies (Incorporation) Rules, 2014

MCA has amended Companies (Incorporation) Rules, 2014 to specify the forms to be filled up for incorporation of companies with charitable objectives, requirement for digital signatures, time limit for re-submission of defective or incomplete Form No INC-32, revision / amendment of existing forms and replacement of old forms.

2.5. Transfer of pending proceedings with various courts to tribunal

MCA has issued Companies (Removal of difficulties) Fourth order, 2016 which provides rules regarding transfer of pending proceedings under Companies Act, 1956 including proceedings relating to arbitration, compromise, arrangements and reconstruction and winding up of companies before any District Court or High

Court, shall stand transferred to the Tribunal as on appointed date (i.e. 15th December 2016).

In this behalf the MCA has also issued the Companies (Transfer of Pending Proceedings) Rules, 2016.

3. Others

3.1. Increase in threshold wage limit for ESIC

ESIC has raised the threshold wage limit from exiting Rs. 15,000 to Rs. 21,000. This increase is effective from 1st January 2017.

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