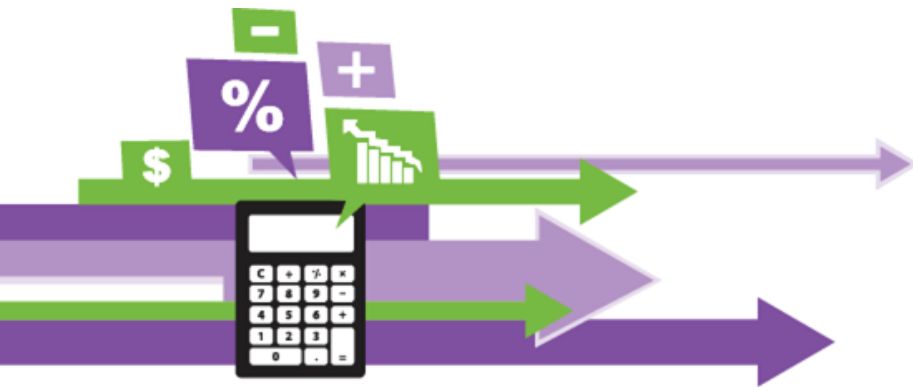




Grant Thornton

An instinct for growth™



# GAAP Reporter

Quarterly bulletin on accounting, auditing and related updates

September 2014





# Introduction

Dear reader,

Grant Thornton in India is delighted to present the latest edition of 'GAAP Reporter', a quarterly bulletin that summarises significant accounting, auditing and related updates. This publication has been compiled to meet the needs of dynamic Indian businesses and focuses on key developments in India and across the globe. To access the source of information, you can click the hyperlink text in blue wherever applicable; for complete details, please refer the original pronouncements.

We would be pleased to receive your feedback. Please write to us at [contact@in.gt.com](mailto:contact@in.gt.com) with your comments, questions or suggestions.

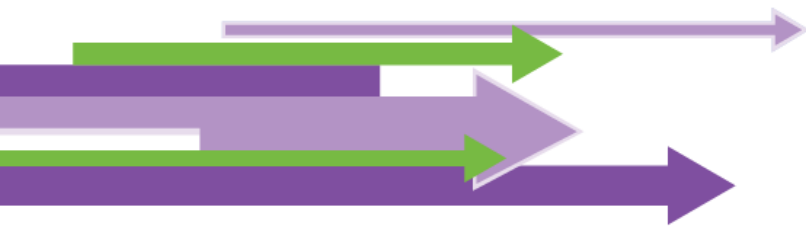
This edition covers updates from the quarter ended September 2014. Following is the index of updates summarised below:

## India

Amendments to Schedule II of the Companies Act 2013	Accounting
Capitalisation of costs incurred during extended delay in commercial production for reasons beyond the developer's control	Accounting
Applicability of the limit for tax audits to be determined in relation to an assessment year	Auditing
Revised Forms 3CA, 3CB and 3CD	Auditing
Extension of due date for furnishing of tax audit report	Auditing
ICAI Guidance Note on Tax Audit u/s 44AB of the Income Tax Act 1961	Auditing
Amendments to Clause 49	Others
Amendments to definition of related party	Others
Changes to thresholds triggering approval of related party transaction	Others
Clarifications on matters relating to related party transactions	Others
Clarificatory amendment to exclude independent director from related party	Others
Amendments related to meetings of board through video conferencing	Others
Amendments related to CSR provisions	Others
FAQs on the Companies Act 2013	Others

## International

IASB issues final version of IFRS 9	Accounting
IASB issues amendments to IAS 27	Accounting
IASB issues amendments to IFRS 10 and IAS 28	Accounting
Joint Transition Resource Group for Revenue Recognition	Accounting



## America

FASB issues amendment for disclosure of going concern issues  
AICPA amends the guidance for comfort letters

Accounting  
Auditing

## Accounting updates

---

### Amendments to Schedule II of the Companies Act 2013

#### Useful lives and residual values different from Schedule II

The MCA, vide its notification dated 29 August 2014, has issued certain amendments to Schedule II of the Companies Act 2013.

As per the current text of Schedule II, the useful life of an asset shall not be longer than the useful lives specified in Part C, and the residual value of an asset shall not be more than 5% of the original cost of the asset. Further, where a company adopts a different useful life or residual value, justification for the same is to be disclosed in its financial statements.

The amendment, in relation to the useful lives, now replaces the word 'longer' with the word 'different' to suggest that the companies are now permitted to adopt useful lives, either longer or shorter than those specified in Schedule II.

The amendment further adds a new requirement that the justification for adopting a different useful life or residual value must now also be duly supported by a technical advice.

#### Separate useful lives of significant parts of an asset mandatory from 1 April 2015

The amendments provide that the requirement to determine the useful lives of significant parts of an asset separately shall be voluntary for the financial year, commencing on or after 1 April 2014 and mandatory for the financial years commencing on or after 1 April 2015.

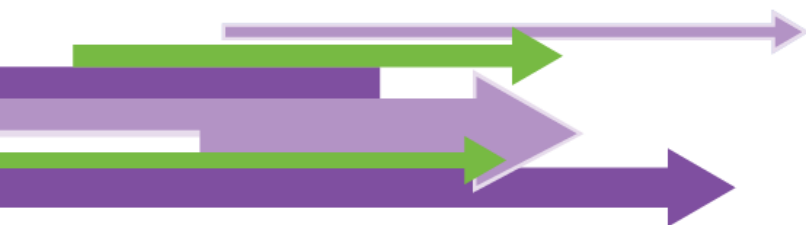
#### Amendments to the transitional provisions

As per the current text of Schedule II, on adopting the revised provisions of Act 2013, where the remaining useful life of an asset is nil, the carrying amount of that asset, after retaining the residual value, shall be recognised in the opening balance of retained earnings. The amendment now replaces the word 'shall' with the word 'may' to suggest that the companies now can recognise the amount either in opening reserves or as a charge against the current profit or loss account.

Click [here](#) for the MCA notification.

#### Capitalisation of costs incurred during extended delay in commercial production for reasons beyond the developer's control

The Ministry of Corporate Affairs (MCA), vide its General Circular No. 35/2014 dated 27 August 2014, has clarified that costs incurred during the extended delay in commencement of commercial production after the plant is otherwise ready for use cannot be capitalised as such costs do not increase the worth of fixed assets.



The MCA circular also clarifies that in case one of the units of the project is ready for commercial production and is capable of being used while construction continues for other units, capitalisation should cease in relation to the completed unit once it is ready for commercial production.

The announcement comes in response to representations received by the Government seeking clarification in relation to the capitalisation of borrowing costs incurred during extended delay in commercial production for reasons beyond the developer's control.

Click [here](#) for the MCA circular.

### **Auditing updates**

---

#### **Applicability of the limit for tax audits to be determined in relation to an assessment year**

The Council of the Institute Chartered Accountants of India (ICAI), vide its announcement dated 2 July 2014, has modified the current text of Para 6 of Chapter VI of the Council Guidelines No. 1-CA(7)/02/2008 dated 8 August, 2008 contained in Appendix No. (34) to the Chartered Accountants Act, 1949 to provide that the limit for tax audits would be determined in relation to an 'assessment year' as against the existing stipulation of a financial year.

Click [here](#) for the ICAI announcement.

#### **Revised Forms 3CA, 3CB and 3CD**

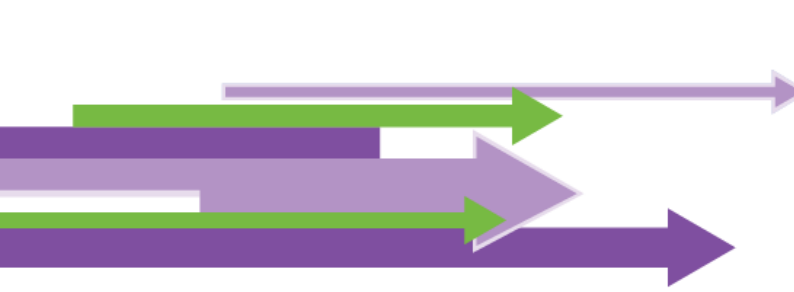
The Central Board of Direct Taxes (CBDT), vide its notification dated 25 July 2014, has issued the Income Tax (7th Amendment) Rules, 2014 to provide the revised formats of Forms 3CA, 3CB and 3CD for furnishing tax audit report under Section 44AB of the Income Tax Act 1961. These new forms bring in numerous changes.

Click [here](#) for the CBDT notification.

#### **Extension of due date for furnishing of tax audit report**

The CBDT, vide its order dated 20 August 2014, has extended the due date for obtaining and furnishing the tax audit report for the assessment year 2014-15 from 30 September 2014 to 30 November 2014. The order also clarifies that the tax audit reports filed on the pre-revised forms before the date of issue of new forms shall be treated as 'valid' reports.

Click [here](#) for the CBDT order.



## ICAI Guidance Note on Tax Audit u/s 44AB of the Income Tax Act 1961

The ICAI has released the revised edition of the Guidance Note on Tax Audit u/s 44AB of the Income Tax Act 1961.

Click [here](#) for the ICAI publication.

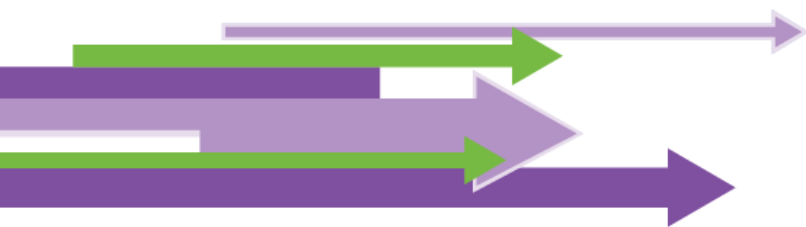
### Other updates

---

#### Amendments to Clause 49

The Securities and Exchange board of India (SEBI), vide its circular CIR/CFD/POLICY CELL/7/2014 dated 15 September 2014, has issued certain amendments to Clauses 35B and 49 of the Equity Listing Agreement. These amendments are in continuation of the earlier amendments dated 17 April 2014. The select highlights of the amendments are as follows:

1. Certain classes of companies have been exempt from complying with these provisions for the time being.
2. The date of appointing a woman director has been deferred from 1 October 2014 to 1 April 2015.
3. Amendments relating to requirements for independent directors:
  - a director will not be independent if he has any material pecuniary relationships with the company and others; the word 'material' has been newly added;
  - provisions of the Companies Act 2013 shall now be applicable for calculating the maximum tenure.
4. Amendments relating to the requirements for related party transactions:
  - the term 'transaction' has been defined;
  - the existing definition has been deleted and the new definition has been added consistent with the Companies Act 2013 and the applicable accounting standards;
  - the existing threshold for materiality has been changed to 10% of the annual consolidated turnover of the company;
  - an omnibus approval may be obtained from audit committee instead of separate approval of each transaction subject to meeting certain conditions;
  - the requirement for prior approval of the audit committee is no longer required in case of transactions between government companies and between a holding company and its wholly owned subsidiary subject to meeting certain conditions;
  - all related parties shall abstain from voting on any transaction, irrespective of whether they are interested in that or not;
5. With respect to disposal of material subsidiary:
  - prior approval of shareholders would not be required in cases where scheme has been approved by a Court or Tribunal;



- the limit of 20% to be considered on an aggregate basis for the assets sold during a financial year.

The amended provisions of Clause 49 would be applicable with effect from 1 October 2014 except the provisions regarding appointment of woman director, which shall be applicable with effect from 1 April 2015.

Click [here](#) for the SEBI circular.

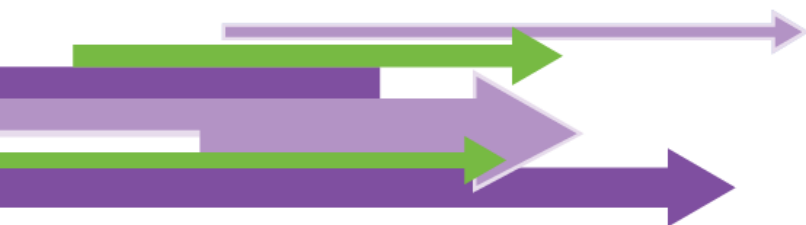
### **Amendments to definition of related party**

The MCA, vide its order dated 9 July 2014, has amended the wordings in section 2(76)(v) of the Companies Act 2013 and modified the definition of a 'related party' to now provide that 'related party' in the context of a company means a public company in which a director or manager is a director [and] holds along with his relatives, more than 2% of its paid-up share capital. Previously, inadvertently, the word 'or holds' appeared in place of 'and holds', thus defeating the intention of the statute.

Click [here](#) for the MCA order.

Further, the MCA, vide its order dated 24 July 2014, has amended the wordings in section 2(76)(iv) of the Companies Act 2013 and modified the definition of a 'related party' to now provide that 'related party' in the context of a company means a private company in which a director or a manager [or his relative] is a member or director. Previously, difficulties arose in interpreting the said clause due to the absence of the word 'relative' resulting in a disharmonious interpretation of the said definition.

Click [here](#) for the MCA order.



## Changes to thresholds triggering approval of related party transaction

The MCA, vide its notification dated 14 August 2014, has amended Rule 15(3) of the Companies (Meetings of Board and its Powers) Rules, 2014 to remove the threshold for paid-up share capital. The revised thresholds, effective 14 August 2014, are as follows:

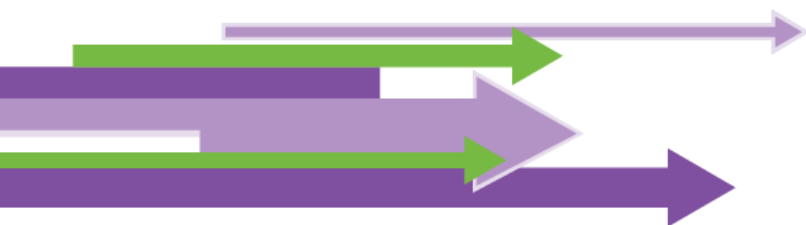
Nature of related party transactions	Earlier thresholds	Revised thresholds
Sale, purchase or supply of any goods or materials directly or through appointment of agents	Exceeding 25% of annual turnover	Exceeding 10% of annual turnover or Rs 100 Cr. (whichever is lower)
Selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agents	Exceeding 10% of net worth	Exceeding 10% of net worth or Rs.100 Cr. (whichever is lower)
Leasing of property of any kind	Exceeding 10% of annual turnover or exceeding 10% of net worth	Exceeding 10% of net worth or 10% of annual turnover or Rs 100 Cr. (whichever is lower)
Availing or rendering of any services directly or through appointment of agents	Exceeding 10% of net worth	Exceeding 10 % of annual turnover or Rs. 50 Cr. (whichever is lower)
Appointment to any office or place of profit in the company, its subsidiary company or associate company	Monthly remuneration exceeding Rs. 2.5 lakhs	No change
Remuneration for underwriting the subscription of any securities or derivative	Exceeding 1% of net worth	No change

Click [here](#) for the MCA notification.

## Clarifications on matters relating to related party transactions

The MCA, vide its General Circular No. 30/2014 dated 17 July 2014, has clarified that related party ineligible to vote on a special resolution to approve the contract or arrangement in terms of second proviso to section 188(1) of the Companies Act 2013 shall be construed with reference only to the contract or arrangement for which the said special resolution is being passed. Thus, only the interested related parties would be required to abstain from voting on such special resolution. The circular further clarifies that the transactions arising out of compromises, arrangements and amalgamations will not attract requirements of section 188 of the Companies Act 2013. Further, contracts which were entered into by companies before the





commencement of section 188 of the Companies Act 2013 do not require fresh approval until the expiry of original term of such contracts; however any modifications to such contracts on or after 1 April 2014 would fall under the new requirements.

Click [here](#) for the MCA circular.

### **Clarificatory amendment to exclude independent director from related party**

The MCA, vide its notification dated 17 July 2014, has made a clarificatory amendment to Companies (Specification of definitions details) Rules, 2014 to the effect that a director other than an independent director] or key managerial personnel of the holding company or his relative with reference to a company shall be deemed to be a related party.

Click [here](#) for the MCA notification.

### **Amendments related to meetings of board through video conferencing**

The MCA, vide its notification dated 14 August 2014, has amended Companies (Meetings of Board and its Powers) Rules, 2014 to remove the requirement that provided that the scheduled venue for meetings conducted through video conferencing should be in India to now suggest that the scheduled venue for such meetings can be at any place, even outside India.

The notification further amends the restriction on consideration of accounts of a company in audit committee meetings to refer consideration of financial statement including consolidated financial statement, if any, to be approved by the Board under section 134(1) of the Companies Act 2013.

Click [here](#) for the MCA notification.

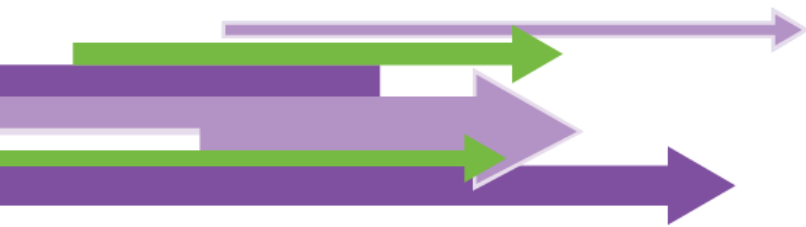
### **Amendments related to CSR provisions**

The MCA, vide its notification dated 6 August 2014, has added a new item 'slum area development' as an eligible CSR activity in Schedule VII of the Companies Act 2013.

Click [here](#) for the MCA notification.

Further, the MCA, vide its notification dated 12 September 2014, has amended the Companies (Corporate Social Responsibility Policy) Rules, 2014 to now provide that expenditure on administrative overheads can also be included within the 5% limit of total CSR expenditure which a company may spend for building CSR capacity of their own personnel as well as those of through external institution.

Click [here](#) for the MCA notification.



### **FAQs on the Companies Act 2013**

The Institute of Company Secretaries of India (ICSI) has published a handbook titled FAQs on the Companies Act, 2013. The handbook is a compilation of the queries received by the ICSI and their responses based on the interpretation of provisions, the rules and the clarifications, notifications and orders issued by the MCA.

Click [here](#) for the ICSI publication.



# International

## Accounting updates

---

### IASB issues final version of IFRS 9

The International Accounting Standard Board (IASB), on 24 July 2014, published the complete final version of IFRS 9 *Financial Instruments*. The new standard revamps the guidance for accounting of financial instruments, and is a culmination of IASB's projects on measurement and classification, impairment and hedge accounting. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The IASB has completed IFRS 9 in phases. In the first phase, the IASB issued new classification and measurement model for financial assets in 2009 followed by accounting for financial liabilities and guidance on derecognition of financial assets in 2010. In the second phase, the IASB issued new general hedge accounting guidance. Recently, the IASB completed the final phase of IFRS 9 to provide guidance for impairment of financial assets and made certain other amendments to the guidance previously issued in IFRS 9.

### Expected loss impairment model

IFRS 9 now introduces a new impairment model, under which expected credit losses are required to be recognised. Expected credit losses are to be measured based on reasonable and supportable historical, current and forecasted information. This is a significant change from the existing 'incurred' credit loss model of IAS 39. The new impairment guidance also adds extensive disclosure requirements to IFRS 7 on entity's credit risk management and its effects on, and methods and assumptions used for measuring expected credit loss.

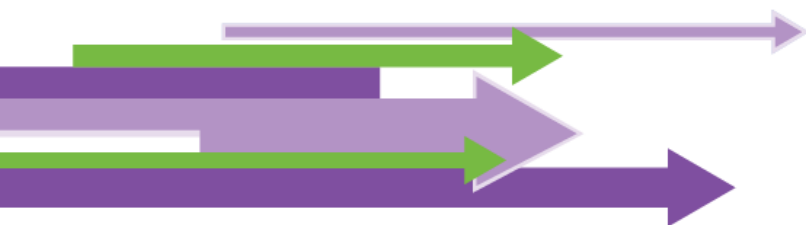
### Amendments to classification and measurement of financial assets

IFRS 9 now adds a new classification, 'fair value through other comprehensive income' (FVTOCI). A debt instrument must have simple principal and interest cash flows and be held in a business model in which both holding and selling financial assets are integral to meeting management's objectives for classification as FVTOCI. The IASB has also introduced new guidance on assessment of the contractual cash flow characteristics in certain cases.

IFRS 9 becomes effective for annual periods beginning on or after 1 January 2018; early application is permitted. Click [here](#) for the IASB announcement.

### IASB issues amendments to IAS 27

The IASB has published *Equity Method in Separate Financial Statements (Amendments to IAS 27)*. Under the amendments, in the standalone financial statements, an entity can apply the option to account for investments in subsidiaries, associates and joint ventures using the equity method, as provided in IAS 28 *Investments in Associates and Joint Ventures*.



The amendments would be effective for annual periods beginning on or after 1 January 2016; early application is permitted. Click [here](#) for the IASB announcement.

### **IASB issues amendments to IFRS 10 and IAS 28**

The IASB has published *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*. The amendments provide that in case of contribution of a business (whether it is housed in a subsidiary or not) to a joint venture or an associate, full gain or loss should be recognised. However, in case of contributions of assets that do not constitute a business, or a subsidiary that does not meet the definition of a business under IFRS 3 *Business Combinations*, recognition of gain/loss would only be to the extent of unrelated investors' interest in the associate or joint venture.

The amendments would be effective for annual periods beginning on or after 1 January 2016; early application is permitted. Click [here](#) for the IASB announcement.

### **Joint Transition Resource Group for Revenue Recognition**

The IASB and the FASB have formed a Joint Transition Resource Group (TRG) for Revenue Recognition:

- to solicit, analyse, and discuss stakeholder issues arising from implementation of the new Standard;
- to inform the IASB and the FASB about those implementation issues, which will help the boards determine what, if any, action will be needed to address those issues; and
- to provide a forum for stakeholders to learn about the new Standard from others involved with implementation

TRG will inform the IASB and the FASB about potential implementation issues that could arise when entities implement the new Standard.

Click [here](#) to track the meetings of TRG. Click [here](#) to submit an issue to TRG.

## Accounting updates

---

### FASB issues amendment for disclosure of going concern issues

The FASB has issued ASU 2014-15 *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*. The ASU provides guidance for the entity to consider, while evaluating the entity’s ability to continue as a going concern, and providing disclosures on the matter. The ASU requires management to evaluate based on relevant conditions and events that are known and reasonably knowable, at the date that the financial statements are issued. The ASU provides that substantial doubt about an entity’s ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. The ASU also provides the disclosure requirements.

Click [here](#) for the ASU

For all entities: The ASU becomes effective from annual periods ending after 15 December 2016 and for interim periods and annual periods thereafter; early application is permitted.

## Auditing updates

---

### AICPA amends the guidance for comfort letters

To address unintended changes to previous practice as a result of its Clarity Project, the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) has issued Statement on Auditing Standards (SAS) No. 129, *Amendment to Statement on Auditing Standards No. 122 Section 920, Letters for Underwriters and Certain Other Requesting Parties, as Amended* (AICPA, Professional Standards, AU-C sec. 920).

AU-C section 920 addresses the auditor’s responsibilities when engaged to issue letters (commonly referred to as comfort letters) to requesting parties in connection with a non-issuer entity’s financial statements included in a registration statement or other securities offerings.

Click [here](#) to download the summary.



# About us

## **Grant Thornton International Ltd.**

---

Grant Thornton is one of the world's leading organizations of independent assurance, tax and advisory firms. These firms help dynamic organizations unlock their potential for growth by providing meaningful, forward looking advice. Proactive teams led by approachable partners in these firms, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions. More than 38,500 Grant Thornton people, across over 130 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work.

## **Grant Thornton in India**

---

Grant Thornton in India is a member firm within Grant Thornton International Ltd. The firm has today grown to be one of the largest accountancy and advisory firms in India with over 2,000 staff in New Delhi, Bangalore, Chandigarh, Chennai, Gurgaon, Hyderabad, Kolkata, Mumbai, Noida and Pune, and affiliate arrangements in most of the major towns and cities across the country. The firm specializes in providing assurance, tax and advisory services to growth-oriented, entrepreneurial companies.

## **International Attest Services (IAS)**

---

International Attest Services (IAS) of Grant Thornton India LLP is a group of auditing professionals with significant hands-on experience in providing attest and assurance services to companies reporting under IFRS or US GAAP, including those listed with the SEC in the US, or on the AIM Exchange in London. Presently IAS in India consists of more than 100 experienced professionals located across the country.

## **Financial Reporting Advisory Services (FRAS)**

---

Financial Reporting Advisory Services (FRAS) of Grant Thornton India LLP is a group of accounting professionals with significant hands-on experience in providing end-to-end solutions and services relating to complex financial reporting and advisory requirements in a wide range of scenarios such as domestic and international capital raising (IPOs and private equity); restructuring, acquisitions and divestitures (M&A); transaction support and accounting advisory, group reporting needs, accounting and consolidation manuals, amongst others. Presently, FRAS in India consists of more than 50 experienced professionals located across the country with access to the global network of FRAS groups of Grant Thornton International.



# Contact us

To know more about Grant Thornton India LLP, please visit [www.grantthornton.in](http://www.grantthornton.in) or contact any of our offices as mentioned below:

---

## **NEW DELHI**

National Office  
Outer Circle  
L 41 Connaught Circus  
New Delhi 110 001  
T +91 11 4278 7070

## **BENGALURU**

“Wings”, 1st floor  
16/1 Cambridge Road  
Ulsoor  
Bengaluru 560 008  
T +91 80 4243 0700

## **CHANDIGARH**

SCO 17  
2nd floor  
Sector 17 E  
Chandigarh 160 017  
T +91 172 4338 000

## **CHENNAI**

Arihant Nitco Park, 6th floor  
No.90, Dr. Radhakrishnan Salai  
Mylapore  
Chennai 600 004  
T +91 44 4294 0000

## **GURGAON**

21st floor, DLF Square  
Jacaranda Marg  
DLF Phase II  
Gurgaon 122 002  
T +91 124 462 8000

## **HYDERABAD**

7th floor, Block III  
White House  
Kundan Bagh,  
Begumpet  
Hyderabad 500 016  
T +91 40 6630 8200

## **KOLKATA**

10C Hungerford Street  
5th floor  
Kolkata 700 017  
T +91 33 4050 8000

## **MUMBAI**

16th floor, Tower II  
Indiabulls Finance Centre  
SB Marg, Elphinstone (W)  
Mumbai 400 013  
T +91 22 6626 2600

## **NOIDA**

Plot No. 19A, 7th Floor  
Sector – 16A,  
Noida – 201301  
T +91 120 7109001

## **PUNE**

401 Century Arcade  
Narangi Baug Road  
Off Boat Club Road  
Pune 411 001  
T +91 20 4105 7000

---

© Grant Thornton India LLP. All rights reserved.

Grant Thornton India LLP (formerly Grant Thornton India) is registered with limited liability with identity number AAA-7677 and its registered office at L-41 Connaught Circus, New Delhi, 110001.

Grant Thornton India LLP is a member firm within Grant Thornton International Ltd (‘Grant Thornton International’).

Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

For more information or for any queries, write to us at [contact@in.gt.com](mailto:contact@in.gt.com)

[www.grantthornton.in](http://www.grantthornton.in)