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# Monthly GAAP Bulletin

April 2016



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Dear Reader,

Grant Thornton in India presents 'Monthly GAAP Bulletin', a 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.

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This edition covers updates for the month of April 2016. Abbreviations used in the publication are explained at the end of the publication.

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## Effective

### Revision to Schedule III of the 2013 Act in compliance with the Companies (Indian Accounting Standards) Rules, 2015

MCA has notified amendments to Schedule III of the Companies Act, 2013 ('2013 Act') with respect to financial statements of Companies which are required to comply with the Companies (Indian Accounting Standards) Rules, 2015 ('Ind AS'). The existing Schedule III has been divided into two parts:

- (a) Division I - applicable to a company whose financial statements are required to comply with the Companies (Accounting Standards) Rules, 2006; and
- (b) Division II - applicable to a company whose financial statements are drawn up in compliance with Ind AS.

The salient features of Division II include:

- It provides for the format of the Balance Sheet and Statement of Profit and Loss and the minimum requirements of disclosure on the face of the same;
- It does not permit companies to present assets and liabilities in the order of liquidity (as provided in Ind AS 1, Presentation of Financial Statements);
- It provides a new component of 'Statement of Changes in Equity';
- The Statement of Cash flows would be prepared, where applicable, in accordance with the requirements of Ind AS 7, Statement of Cash flows;
- Disclosure requirements specified in Schedule III would be in addition to and not in substitution of the disclosure requirements specified in Ind AS.

These amendments are effective from 06 April 2016.

Click [here](#) for notification.

### Applicability of Companies (Accounting Standards) Amendment Rules, 2016

MCA had issued Companies (Accounting Standards) Amendment Rules, 2016 ('Amendment Rules') on 30 March 2016 to amend Companies (Accounting Standards) Rules, 2006. The Amendment Rules provide that these Rules will come into force on the



date of their publication in the Official Gazette, i.e. 30 March 2016. ICAI and MCA have clarified that the Amendment Rules should be used for preparation of accounts for accounting periods commencing on or after the date of the notification.

Click [here](#) for ICAI announcement.

Click [here](#) for MCA circular.

### Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Amendment Rules, 2016

MCA has notified Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Amendment Rules, 2016 (Amendment Rules) to amend the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015. These Amendment Rules provide that the housing finance companies need not file financial statement with registrar of companies using XBRL taxonomy.

These Amendment Rules are effective from 05 April 2016.

Click [here](#) for notification.

### Relaxation of additional fees and extension of last date of filing of various e-forms under the 2013 Act

MCA has issued a circular to relax the additional fees payable on e-forms which are due for filing by companies between 25 March 2016 to 30 April 2016 as one time waiver of additional fees. The circular has further clarified that if such due e-forms are filed after 10 May 2016, no such relaxation will be allowed.

Click [here](#) for circular.

### Limited Liability Partnership (Amendment) Rules, 2016

MCA has notified Limited Liability Partnership (Amendment) Rules, 2016. Existing Form 14 'Form for intimating the Registrar of Firms, of conversion

of the firm into limited liability partnership' has been substituted with new Form 14 *vide* these amendment rules.

These amendment rules are effective from 13 April 2016.

Click [here](#) for notification.

### **Guidance Note on the Companies (Auditor's Report) Order, 2016**

The Auditing and Assurance Standards Board of ICAI has issued Guidance Note ('GN') on the Companies (Auditor's Report) Order, 2016 ('the Order'). This GN supersedes the earlier Statement of Companies (Auditor's Report) Order, 2003 for audit of financial statements for the period beginning on or after 01 April 2015. The purpose of this GN is to enable the auditors to comply with the reporting requirements of the Order.

Click [here](#) for guidance note.

### **FAQs on SEBI (Delisting of Equity Shares) Regulations, 2009**

SEBI has issued updated frequently asked questions (FAQs) on SEBI (Delisting of Equity Shares) Regulations, 2009. The FAQs have clarified that the promoter of a small company would be considered to have complied with the condition specified under regulation 27(3)(d) if the public shareholders, irrespective of their numbers, holding 90% or more of the public shareholding give their positive consent in writing to the proposal for delisting.

Click [here](#) for FAQs.

### **Foreign Investment in units issued by Real Estate Investment Trusts, Infrastructure Investment Trusts and Alternative Investment Funds governed by SEBI regulations**

With a view to rationalise foreign investment regime for Alternative Investment Vehicles and to facilitate foreign investment in collective investment vehicles for real estate and infrastructure sectors, RBI has decided, in consultation with the Government of India, to allow foreign investment in the units of Investment Vehicles registered and regulated by SEBI or any other competent authority.

The Investment Vehicle receiving foreign investment shall be required to make such report and in such

format to RBI or to SEBI as may be prescribed by them from time to time.

Click [here](#) for circular.

### **Amendment to Guidance Note on SEBI (Prohibition of Insider Trading) Regulations, 2015**

SEBI has amended Guidance Note ("GN") on SEBI (Prohibition of Insider Trading) Regulations, 2015 ("the Regulations") in view of the amendment to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 which provided for exit opportunity to dissenting shareholders in terms of sections 13 and 27 of the 2013 Act, with effect from 17 February 2016. The amended GN clarifies that 'exit offer' is also exempted from the restriction on contra trade under the Regulations.

The GN has been amended with effect from 17 February 2016.

Click [here](#) for press release.

Click [here](#) for amended guidance note.

### **Electronic book mechanism for issuance of debt securities on private placement basis**

SEBI has issued circular laying down the framework for private placement of debt securities through electronic book mechanism. As per the framework, electronic book mechanism will be provided by recognised stock exchange(s) only after obtaining prior approval from SEBI. To begin with, this electronic book mechanism would be mandatory for all private placements of debt securities in primary market with an issue size of INR 500 crores and above, inclusive of green shoe option, if any. Electronic book mechanism will be optional for the issues below INR 500 crores, however the issuer shall disclose the coupon, yield, amount raised, number of investors and category of investors to the Electronic Book Provider and/or to the information repository for corporate debt market, in the format as specified by the Board.

The provisions of this circular will be applicable with effect from 01 July 2016.

Click [here](#) for press release.

Click [here](#) for circular.

### **Real Estate (Regulation and Development) Act, 2016**

The Real Estate (Regulation and Development) Act, 2016 ('the Act') received the assent of the President on 25 March 2016.

The Central Government has now appointed 01 May 2016 as the date on which the following provisions of the Act will come into force:

- Section 2 which deals with definitions;
- Sections 20 to 39 which deal with provisions in respect of the Real Estate Regulatory Authority;
- Sections 41 to 58 which deal with provisions in respect of Central Advisory Council and the Real Estate Appellate Tribunal;
- Sections 71 and 72 which deal with provisions in respect of power to adjudicate;
- Section 73 to 78 which deal with provisions in respect of and finance, accounts, audits and reports;
- Sections 81 to 92 which deal with miscellaneous provisions.

Click [here](#) for circular.

### **Foreign Exchange Management (Establishment in India of a branch office or a liaison office or a project office or any other place of business) Regulations, 2016**

RBI has notified Foreign Exchange Management (Establishment in India of a branch office or a liaison office or a project office or any other place of business) Regulations, 2016 ('Regulations') to prohibit, restrict and regulate establishment in India of a branch office or a liaison office or a project office or any other place of business by a person resident outside India. These regulations supersede Foreign Exchange Management (Establishment in India of Branch or Office or other Place of Business) Regulations, 2000 (as amended).

These regulations are effective from 31 March 2016.

Click [here](#) for notification.

### **Updated Master Circulars related to NBFCs**

RBI has issued following updated master circulars related to Non-Banking Financial Companies (NBFCs) (updated up to 11 April 2016):

1. Master Circular – “The Non-Banking Financial Company - Factors (Reserve Bank) Directions, 2012” [Click here](#) for master circular
2. Master Circular – “Frauds - Future approach towards monitoring of frauds in NBFCs” [Click here](#) for master circular
3. Master Circular – “Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007” [Click here](#) for master circular
4. Master Circular – “Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015” [Click here](#) for master circular
5. Master Circular – “Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015” [Click here](#) for master circular
6. Master Circular – “Miscellaneous Instructions to all Non-Banking Financial Companies” [Click here](#) for master circular

### **Overseas Direct Investment – Submission of Annual Performance Report**

RBI has issued a circular giving directions to provide Authorised Dealer (AD) banks greater capability to track submission of Annual Performance Reports (APRs) and also improve compliance level in the matter of submission of APRs by the Indian Parties (IPs)/ Resident Individuals (RIs). These directions, *inter alia*, include:

- a) Certification of APRs by the Statutory Auditor or Chartered Accountant need not be insisted upon in the case of RIs. Self-certifications may be accepted;
- b) An IP/RI, which has set up / acquired a Joint Venture (JV) / Wholly owned subsidiary (WOS) in accordance with the relevant regulations, would submit, to the AD bank every year, an APR in Form ODI Part II in respect of each JV/WOS outside India and other reports or documents by 31 December each year or as may be specified by the RBI from time to time. The APR, so required to be submitted, should be based on the latest audited annual accounts of the JV/WOS unless specifically exempted by the RBI.

Click [here](#) for circular.

### Provisioning pertaining to fraud accounts

RBI has issued notification to amend the provisioning norms in respect of all cases of fraud. These amendments, *inter alia*, provide that the bank can provide for the entire amount due to the bank/ for which the bank is liable, either immediately upon a fraud being detected or over a period, not exceeding four quarters, commencing from the quarter in which the fraud has been detected. The notification also provides the accounting treatment in case where the bank opts to provide for the fraud over two to four quarters and this results in the full provisioning being made in more than one financial year. Further, banks are also required to give certain disclosures with respect to number of frauds reported, amount involved in such frauds, quantum of provision made during the year and quantum of unamortised provision debited from 'other reserves' as at the end of the year.

Click [here](#) for notification.

### Comprehensive Master Directions on amalgamation of Private Sector Banks

RBI has issued Master Directions on amalgamation of Private Sector Banks. These directions consolidate all relevant instructions issued by the RBI so far on the subject and will be applicable to all private sector banks licensed to operate in India by the RBI and to the extent appropriate to the NBFCs registered with the RBI and public sector banks.

Click [here](#) for press release.

Click [here](#) for master directions.

### Applicability of concentration of credit/investment norms

RBI has issued a notification to amend the Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015. As per the amendment, the concentration of credit/investment norms will not apply to a systemically important NBFC not accessing public funds in India, either directly or indirectly and not issuing guarantees.

The amendment is effective with immediate effect.

Click [here](#) for notification.

### Accounting treatment of enhanced provision of pension scheme

The pay revision of the officers and employees has been carried out by the Public Sector General Insurance Companies in the year 2015-16 consequent upon the notification dated 23 January 2016 issued by Ministry of Finance. The Pension Scheme 1995 has been extended to PSU officers and staff members who joined until 31 March 2010. Earlier the pension scheme was applicable to officers and staff members who joined until 31 March 2004. This will lead to an increase in the 'Employee Liability' on account of extension of pension scheme. The said provisions will impact the insurers' profitability significantly as they need to provide for the additional liability in the financial year 2015-16. In view of this, the IRDA has issued circular to permit the insurers to amortise the additional liability on account of extension of pension scheme over the period of five years starting from financial year 2015-16, subject to following conditions:

- The additional liability on account of pension provisions may be fully recognised and charged to Revenue Account/ or Profit and Loss Account for the financial year 2015-16. The expenditure as indicated above, may, if not fully charged to the Revenue Account and/or Profit and Loss Account during the financial year 2015-16, be amortised over a period of five years beginning with the financial year 2015-16 subject to a minimum of 1/5th of the total amount involved every year;
- The unamortised expenditure carried forward should not include any amounts related to separated/retired employees;
- A complete disclosure in the notes to accounts to this effect giving the total amount of liability on this account, and the amount recognised to Revenue/Profit and Loss Account.

Click [here](#) for circular.

### Circular on IRDA (Preparation of Financial Statements and Auditors Report of Insurance Companies) Regulations, 2002

The provisions of sections 10 and 11 have been modified *vide* the Insurance Laws (Amendment) Act, 2015. These amendments have necessitated changes to the IRDA (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations 2002 ('IRDA Regulations, 2002'). Given that the MCA has issued a press release which

provides that Insurance Sector has to move to Ind AS from the financial year 2018-19 with one year comparatives, the IRDAI has kept the draft IRDAI (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2015 in abeyance and directs all insurers to continue to comply with IRDA Regulations, 2002 and the circulars/ guidelines issued thereunder, with certain modifications with respect to:

- a. Segregation of Policyholders' and Shareholders' Funds by the Insurers carrying on General Insurance, Health Insurance and Reinsurance business;
- b. Recoupment of the Deficit;
- c. Unearned Premium Reserve;
- d. Accounting of the Branch office of Reinsurer.

This circular is effective from 01 April 2016.

Click [here](#) for circular.



### **Clarifications to IFRS 15 'Revenue from Contracts with Customers'**

IASB has issued amendments to IFRS 15 'Revenue from Contracts with Customers' clarifying some requirements and providing additional transitional relief for companies that are implementing the new Standard. These amendments clarify how to:

- identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract;
- determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
- determine whether the revenue from granting a licence should be recognised at a point in time or over time.

Also, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

These amendments are effective from 01 January 2018.

Click [here](#) for press release.

### **FASB amends guidance on 'Identifying Performance Obligations and Licensing'**

FASB has issued Accounting Standards Update (ASU) 2016-10, Revenue from Contracts with Customers (Topic 606) - 'Identifying Performance Obligations and Licensing', which amends the new revenue recognition guidance codified in Accounting Standards Codification (ASC) 606 to provide clarification on identifying performance obligations and accounting for licenses of intellectual property. The ASU also provides additional implementation guidance and examples.

Click [here](#) for update.



## Proposed/Exposure Drafts

### Framework for computation of book profit for the purposes of levy of MAT for Ind AS compliant companies

The Committee on Minimum alternate tax (MAT)-Ind AS submitted its report on framework for computation of book profit for the purposes of levy of MAT under section 115JB of the Income-tax Act, 1961 for Indian Accounting Standards (Ind AS) compliant companies in the year of adoption and thereafter.

This report has made, *inter alia*, following recommendations:

1. No further adjustments are required to be made to the net profits (excluding net other comprehensive income) other than those already specified under section 115JB of the Act;
2. Net Profit (excluding net other comprehensive income) under Ind AS may include a sizable amount of notional/unrealized gains or losses. In case MCA prescribes any further adjustments to the current year profits (excluding net other comprehensive income) for computation of distributable profits, the requirement for any additional adjustments to book profit under section 115JB may be examined.
3. Certain items included in net other comprehensive income that will be permanently recorded in reserves and hence never be reclassified to the statement of profit and loss account / included in the computation of book profits, are recommended to be included in book profits for MAT purposes at appropriate point of time. Illustrative list of such items along with recommended treatment for MAT is also provided.
4. Recommendations on account of impact of first time adoption of Ind AS have also been made.

This report has been issued for public comments.

The last date for submission of comments is 10 May 2016.

Click [here](#) for press release.

Click [here](#) for report.

## Consultation paper on Peer to Peer lending

RBI has released consultation paper on peer to peer lending for public comments. Peer to peer lending is a form of crowd-funding which can be defined as the use of an online platform that matches lenders with borrowers in order to provide unsecured loans. The borrower can either be an individual or a business requiring a loan. The lender can also be a natural or a legal person. Fee is paid to the platform by both the lender as well as the borrower. At present, there is no clear regulatory framework in India governing the functioning of the peer to peer lending platforms. The consultation paper outlines the pros and cons of regulating the sector and proposes a suitable framework for regulating this activity, which includes minimum capital, permitted activity, governance requirements, fair practices code for customer dealing and data security.

The last date for submission of comments is 31 May 2016.

Click [here](#) for press release.

Click [here](#) for consultation paper.

## Abbreviations used in this publication

FASB	Financial Accounting Standards Board
ICAI	Institute of Chartered Accountants of India
IRDAI	Insurance Regulatory and Development Authority of India
MCA	Ministry of Corporate Affairs
RBI	Reserve Bank of India
SEBI	Securities and Exchange Board of India

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