Amendment class - Final - FR April 2015

① Consolidation of Accounts : Foreign Subsy or subsidiaries are not required to be consolidated for year $\boxed{2014\text{-}15}$. This exemption is due to certain expected changes in AS-11. For Exam purpose :→ Concepts of Consolidating Foreign Subsy should be followed. This exemption is not for exam purpose.

② Consolidation of Accounts : If any Indian Parent Co, holds a wholly owned Subsidiary, then such wholly owned subsy is not required to consolidate.

- H Ltd (Indian Co) $\xrightarrow{100\%}$ $\boxed{S_1 \text{ Ltd}}$ $\xrightarrow{60\%}$ S_2 Ltd

[H will Consolidate] [Such S_1 is not required to Consolidate.]

- Yes Consolidation: H Ltd [Indian] → 100% → No Consolidation: S_1 Ltd [Indian] → No Consolidation: [100% S_2 Indian] → 60% S_3 Ltd Indian

- Yes Consolidation: H Ltd Indian → 80% → Yes Consolidation: S_1 Ltd [Indian] → No Consolidation: 100% S_2 Ltd Indian → 60% S_3 Ltd Indian

- Yes Cons.: [H Ltd Foreign Co] → Yes Consolidation: 100% S_1 Ltd Indian → No Cons.: 100% S_2 Ltd Foreign Co → Yes: 100% S_3 Indian → 60% S_4 Ltd

4 Marks

Summary Check

(i) Parent should be Indian Co.

(ii) Subsy should be 100% owned by Parent

then such Subsy is not required to Consolidate with its subsy for 2014-15, 15-16, 16-17 ...... ∝

In Exams Practical Q of H+A+J will be solved as usual, with a note of Exemption.

Q comes as Case, where it asks, about Consolidation, then clearly state exemption only.

(4) Consolidation of Accounts : Exemption on Disclosures

If any Company is reporting its Stand alone financial Statements and Consolidated financial statements, then Notes to Accounts which are relevant to Consolidated Financial Statement (CFS) should be reported. All notes given in Stand alone statements are not relevant for C.F.S.

A Ltd — Standalone FS → Notes to A/c — Consolidated F. Stat. → Notes to A/c

Notes to A/c (Standalone FS) → All to be Reported here also? ⇒ Report only Relevant Disc.

(3) Consolidation of Accounts :

H Ltd → S Ltd → Full Consolidation

H Ltd → A Ltd Associate → Equity (AS-23) Method 9NA Revalue

H Ltd → J Ltd Joint venture → Prop. Cons. Method (AS-27)

H Ltd will Consolidate S Ltd, A Ltd J Ltd as per AS 21, 23, 27

If H Ltd had only A Ltd & J Ltd then

$\boxed{\text{for 2014-15}}$ ⇒ No Consolidation नहीं

For 2015-16 onwards ⇒ Yes Consolidation

In case of any Parent having associates or Joint Ventures only, Consolidation is not required by H Ltd with its associates & J.V for 2014-15 only.

Example $\boxed{H+S+A+J}$ = 2014-15 : Yes
2015-16 onwards: Yes

$\boxed{H+A+J}$ = 2014-15 : NO
2015-16 onwards Yes

⑥ Corporate Social Responsibility (Section 135 / Schedule 7)

(i) Companies are required to spend specified amt on certain activities classified as CSR activities.

(ii) Such spend can be

(a) In nature of assets

(b) In nature of expense

(c) " " " appropriation.

Example Tata's donated 1/5 of its Building in Mumbai for CSR activities. Such 1/5 Building will be covered in CSR spend? Yes.

There are two choices with Tata's

(i) Treat 1/5 Building as CSR spend ⇒ then Dep on such Bld is not CSR spend.

(ii) " 1/5 Building as Asset (not CSR spend) = then Dep is CSR spend for each year.

⑤ CDT Calculation method changed

Example

Dividend Amt ₹ 500,000

Rate of CDT 10%

Calculate CDT

Solution

Old Method $500{,}000 \times 10\% = 50{,}000$

Now

New Method $500{,}000 \times \frac{10}{100-10} = 55{,}555$

This change will affect AS-20, Amalgamation, Holding Co. or any other topic, which requires CDT calculation.

Notes on CSR contd.....

- CSR spend should be disclosed in Notes to Accounts. Separate ledger head can be made in P&L A/c or such CSR spend is shown in its functional heads.

P&L

CSR spend	20,000

OR

P&L

Adm. Exp.	10000
Finance Exp	5000
Other Exp	5000

- CSR spend can be in form of contribution to NGO's, or Govt bodies.

- CSR spend should be treated as Expense if it is related to business
  " " " " " " appropriation " " not " " "

- Calculation of CSR spend limit

$$\left(\text{Avg Profits calculated U/s 198 for last 3 yr}\right) \times 2\% = \text{CSR spend}$$

Section 198 is IPCC MD Remuneration Calculation of Profits Method.

Example Building ₹ 10,00,000 now being used for CSR present in financial statement. Dep 10% SLM

Option 1. P&L

Dep.	100000

B/s

Building	900,000

✓ Disclosure CSR spend ₹ 10,00,000.

Under this option, future depreciation will not be considered as CSR spend.

Option 2 P&L

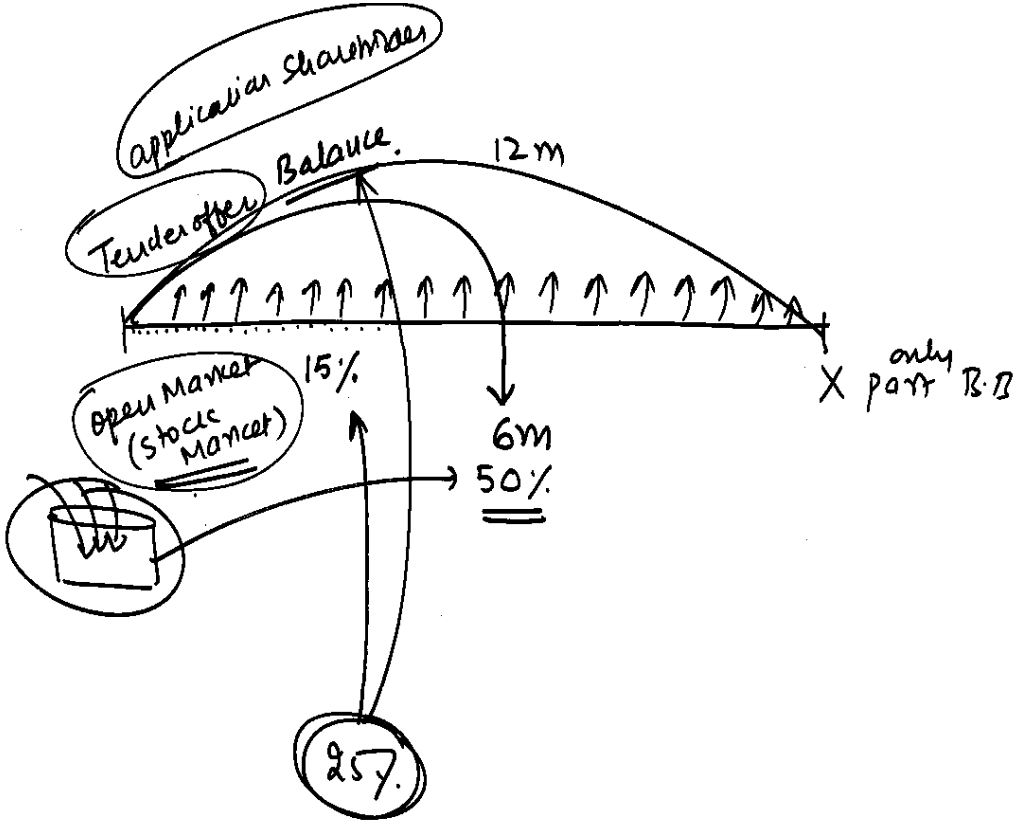
Depreciation	100000

B/s

Building	900000

✓ CSR spend ₹ 100,000.

Under this method, Dep will be considered as CSR spend each yr.



- If CSR spend is less or more than specified, then necessary disclosures are required.

  If CSR activities are in progress, then provision should be made for such obligation under AS-29.

(7) Buy Back of Shares (Section 68)

Limits given in Section 68

$\boxed{\begin{array}{l} \bullet\ 25\% \text{ of outstanding Shares} \\ \bullet\ 25\% \text{ of Paidup + free Reserve} \\ \bullet\ \text{Debt Equity Ratio } 2:1 \end{array}}$ No Change

As per SEBI, B.B. Regulation, Buy Back can be through

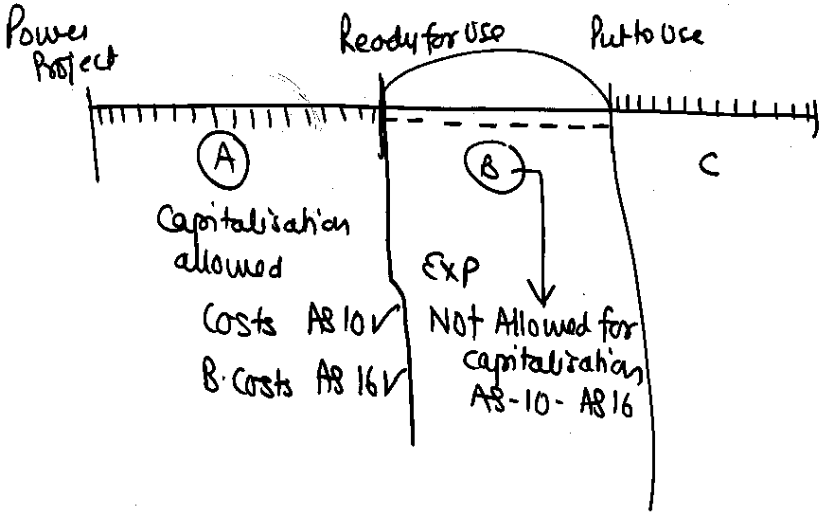
(i) tender offer : where willing shareholders apply directly to Company for Buy Back

(ii) Open Market : where company acquires share through stock Market operations

9) AS-10 and AS-16 for power Projects

Clarification:

In case of $\boxed{\text{Power Project}}$ being installed on basis of $\boxed{\text{bidding}}$ or $\boxed{\text{Cost Plus}}$ Project, any delay in starting of commercial production, expenses incurred during this period will not be capitalised as per AS-10 & AS-16.



Recently SEBI has changed these regulations and mandated that

(i) Open market Method cannot be followed for B.B exceeding 15% of Paidup + free Res.

(ii) At least 50% of funds earmarked for BuyBack should be spent on B.B.

8) SEBI "ESOP" Regulation 1999

Guidance Note

E. Compensation
To ESOP

SEBI-1999

~~Deferred Emp Comp. Dr 100%~~
~~To ESOP~~

~~E. Comp~~
~~To Def. E.C.~~
~~20%~~

NOW

No conflict

SEBI has amended its 1999 Regulation. SEBI(SBP) 2014

Which are Same as per Guidance Note

(11) S-II Depreciation

(i) S-II specifies life of Asset.

(ii) Such life should be followed for Calculating Depreciation

	Before Amendment	After Amendment
Higher life ⇒	NO [Yes with disclosure]	NO [Yes, with Disclosure of Reasons + Technical Advice]
lower life ⇒	Yes	NO

(iii) Residual value should be 5% of original Cost. Any change in this 5% value, mean disclosure with Reason & technical advice.

(iv) Component based Calculation of Depreciation
Voluntary basis for 2014-15
Mandatory basis for 2015-16 onwards

(10) Ind AS : On 16/2/15 MCA notified Ind AS.

Accounting Standards

- Accounting Std in Accounts
  - Company
    - MCA 7-12-06 ⇓ 1-29 ⇓ Based on ICAI Stds
    - MCA 16-2-15 ⇓ Ind AS ⇓ Based on IFRS ⇓
      - from 1/4/15 15-16 Voluntary basis
      - 16-17
        - (i) Listed Co Process Listing having Networth 500 or more Cr
        - (ii) Voluntary
      - 17-18
        - (i) Any Listed Co
        - (ii) Unlisted Co. Worth 250 Cr or more
        - (iii) Voluntary
  - Non Company → ICAI Standard.
- Accounting Std in Tax "31/3/2015" CBDT. "10".

WDV 2014-15 Dep on Aircraft 2015-16 Components

Rate $1 - \left(\frac{600000}{12000000}\right)^{1/18} = 15.32\%$

Dep on 2014-15 1,20,00,000 × 15.32% = 18,38,400

2015-16

Rate for Engine = $1 - \left(\frac{250000}{4234000}\right)^{1/9} = 26.96\%$

" " Body = $1 - \left(\frac{350000}{5927600}\right)^{1/19} = 13.83\%$

Engine = 42,34,000 × 26.96% = 11,41,486

Body = 59,27,600 × 13.83% = 8,19,787

WDV 2014-15 Component Based Dep

Rate Engine = $1 - \left(\frac{250000}{5000000}\right)^{1/10} = 25.87\%$

Body = $1 - \left(\frac{350000}{7000000}\right)^{1/20} = 13.90\%$

2014-15 Engine = 50,00,000 × 25.87% = 12,93,500

Body = 70,00,000 × 13.90% = 9,73,000

2015-16 Engine = (50,00,000 − 1293500) 25.87% = 9,58,872

Body = (70,00,000 − 973000) 13.90% = 8,37,753

Example.

Aircraft has two components

Component A Engine ₹ 50,00,000

Component B Body ₹ 70,00,000

Useful life of Engine 10 yr

Body 20 yr

Aircraft as whole 18 yr.

Calculate Depreciation as per S-II. as per new amendment 29/8/14

Dep as SLM

2014-15 Allowed Dep

Option 1 Aircraft $\frac{1,20,00,000 - 600000}{18} = \boxed{6,33,333}$

OR

OR Voluntary basis

Engine $\frac{50,00,000 - 250,000}{10} = \boxed{475000}$ → Same (2015-16)

Body $\frac{70,00,000 - 350000}{20} = \boxed{332,500}$ → Same

2015-16 Engine $\frac{[50,00,000 - 263888] - 250000}{9} = 4,98,456$

Body $\frac{[70,00,000 - 369444] - 350000}{18} = 3,30,555$

⑥ AS 30, 31, 32 are still not mandatory. No change for Exams.

⑦ Statement of changes in Equity will be prepared if required in Question

	Op Bal	Addition	Deletion	Cl. Bal
Share Cap	XXX	XXX	XXX	XXX
GR	XXX	—	—	—
P&L	XXX	—	—	—
CR	—	—	—	—
S.P	—	—	—	—
RR	—	—	—	—
	—	—	—	—
	XXX	XXX	XXX	XXX

⑧ Dividend out of Past Profits Rules within following limits

(i) Avg Rate of last 3 yr

(ii) Drawings from Past Profits should not exceed 1/10 of Paid cap + Free Reserves

(iii) Minimum Balance in Free Res. should be 15% of Paid up capital

Old Amendments (of Sep 2014)

① Transfer to G. Reserve based on Dividend Rules no more applicable.

② Level II Entities classification

Sale/Turnover ~~40 Lakh~~ 1 Cr.

③ Para 46A introduced in AS-11 of ICAI

It means now Ex. Diff on LTFCMI can be capitalised by Companies as well as non companies.

④ Proposed Dividend is to be considered as Liability (Still not changed)

⑤ Report u/s 212 of Co. Act 1956 in case of Consolidation of Accounts is NOT Required

(10) Statement of Subsy

- Subsy is Temporary as per AS-21
  - ⇓ give Report on subsy as per S-III.
- For Subsy which is Tempory or Permanent
  - ⇓ report on features of subsy should be given in Form AOC-1

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(9) Holding Co.

(1) Check % of Ownership as per C. Act 2013

$$= \frac{(\text{E Share Cap} + \text{P Share Cap}) \text{ owned by Parent}}{\text{Total Eq} + \text{Convertible PSC}}$$

If such ratio is more than 50% then

(2) Consolidate based on Eq holding Ratio

If such ratio is less than 50%, no consolidation.

Note: If Q is silent, assume PShares as Convertible