ACCOUNTS OF COMPANIES

Organised
By
J.B.NAGAR CPE STUDY CIRCLE
Of
WIRC
Of
The Institute of Chartered Accountants of India

Presentation
By
PARESH H. CLERK

Presentation Outline…

1. **Financial Statements ("FS")**
   - **Scope**
   - **Preparation of Cash Flow Statement as per AS and Schedule III**
   - **Issues**
2. **Consolidated Financial Statements ("CFS")**
   - **Applicability**
   - **Exemptions**
   - **Disclosure**
   - **Issues**

…Presentation Outline…

3 **Depreciation**

- Introduction
- Tangible Assets
- Calculation and Treatment
- Comparison
- Extra Shift Depreciation
- Continuous Processing Plant
- Component Accounting
- Revaluation Reserve
- Intangible Asset

…Presentation Outline

4 **Corporate Social Responsibility ("CSR")**

- Scope
- CSR Committee
- Board's Responsibility
- Accounting Treatment
- Disclosure
- Issues

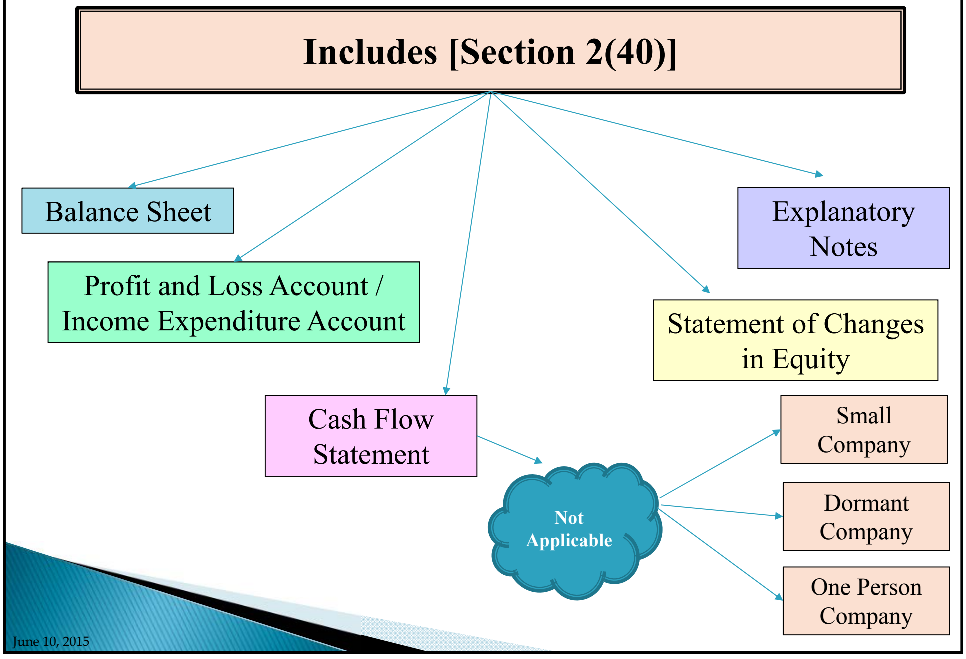
FINANCIAL STATEMENTS

Financial Year ("FY")

- In relation to any company or body corporate
  - Period ending on 31st March every year
- Incorporated on or after 1st day of January
  - Period ending on 31st March of the following year
- On application, Tribunal to allow different FY (even if it is not a year)–
  - In case of a holding company or subsidiary incorporate outside India and required to follow different FY outside India
- To follow the provisions within 2 years from April 1, 2014 (date of commencement of the Act), i.e. by March 31, 2016

June 10, 2015

Financial Statements



Cash Flow Statement…

- Applicability

As per the 2013 Act	As per the Accounting Standard Rules	Whether Cash Flow to be prepared
Small Company	SMC	No
Small Company	Non-SMC	Yes
Not a Small Company	SMC	Yes
Not a Small Company	Non-SMC	Yes

- Thus, exemption to prepare a cash flow statement is available if and only if a company is small company within the meaning of the Companies Act, 2013 and it is also an SMC as per the Rules

…Cash Flow Statement - Issues

- Is a One Person Company (OPC) having turnover of Rs. 2 crore and paid up share capital Rs. 51 lac liable to prepare Cash Flow Statement?
  - To cease to continue as an OPC
  - To get itself compulsorily converted into a private or public company
  - Therefore, to prepare Cash Flow Statement
- What should be done if in the above case, paid up share capital was to be Rs. 49 lac?
- Is a small company having turnover of Rs. 50 crore and paid up share capital Rs. 100 lac liable to prepare Cash Flow Statement?
  - Since share capital and turnover have exceeded the prescribed limits, it will cease to be a small company
  - Therefore, to prepare Cash Flow Statement
- In terms of AS 3, Level II and Level III enterprises are not required to prepare CFS. AS 3 may be required to be modified to harmonise as to the exemption given to small companies under the Act

Scope…

Section 211 - 1956 Act

Section 129 - 2013 Act

- To give a true and fair view of the state of affairs
- To comply and make disclosure as per the Accounting Standards
- For non-compliance, disclose
  - Deviation
  - Reasons
  - Financial effects
- To be in the form provided in Schedule III
- Key changes in Schedule III:
  - Expenditure incurred on Corporate Social Responsibility
  - General instructions for preparation of CFS
  - Section 186(4) – Full particulars and purpose of the loans given, investment made or guarantee given or security provided

...Scope...

- Not to apply to where form of FS has been specified under the relevant Act
  - Insurance company or Banking company
  - Company engaged in the generation or supply of electricity
    - (to apply as no format specified under the Electricity Act, 2003)
  - Any other class of company
  - CG may exempt by way of notification if such exemption is in the public interest
- To be approved by the Board of Directors
  - Audit Committee to examine FS
- To be signed by:
  - Chairperson, if he is authorised
  - 2 directors (One MD / CEO)
  - Chief Financial Officer and Company Secretary, wherever appointed
  - Exception – One Person Company – only by 1 director

...Scope

- To lay before AGM
- To attach auditor's report
- Penalty for Contravention
  - MD, WTD in charge of finance, CFO or any other person charged by the Board – punishable with:
    - Imprisonment upto 1 year, or
    - Fine – Rs. 50,000 to Rs. 5,00,000, or
    - Both

Schedule III…

I. Equity and Liabilities

(1) Shareholders' Funds
(a) Share Capital
(b) Reserves and Surplus
(c) Money Received Against Share Warrants

(2) Share Application Money Pending Allotment

(3) Non-Current Liabilities

(a) Long Term Borrowings
(b) Deferred Tax Liabilities (Net)
(c) Other Long Term Liabilities
(d) Long-Term Provisions

(4) Current Liabilities

(a) Short Term Borrowings
(b) Trade Payables
(c) Other Current Liabilities
(d) Short-Term Provisions

…Schedule III…

II. Assets

(1) **Non-Current Assets**
- (a) Fixed Assets
  - (i) Tangible assets
  - (ii) Intangible Assets
  - (iii) Capital Work-In-Progress
  - (iv) Intangible Assets Under Development
- (b) Non-Current Investments
- (c) Deferred Tax Assets (net)
- (d) Long Term Loans And Advances
- (e) Other Non-Current Assets

(2) **Current Assets**
- (a) Current Investments
- (b) Inventories
- (c) Trade Receivables
- (d) Cash And Cash Equivalents
- (e) Short-Term Loans And Advances
- (f) Other Current Assets

…Schedule III…

Statement of Profit and Loss

I. Revenue from operations
II. Other income
III. Total Revenue (I + II)
IV. Expenses:
1. Cost of materials consumed
2. Purchases of Stock-in-Trade
3. Changes in inventories of finished goods work-in-progress and Stock-in-Trade
4. Employee benefits expense
5. Finance costs
6. Depreciation and amortization expense
7. Other expenses

Total expenses
V. Profit before exceptional and extraordinary items and tax (III + IV)
VI. Exceptional items
VII. Profit before extraordinary items and tax (V –VI)
VIII. Extraordinary Items
IX. Profit before tax (VII – VIII)

…continued

…Schedule III…

Statement of Profit and Loss

X. Tax Expense:
(1) Current Tax
(2) Deferred Tax
XI. Profit (Loss) for the period from Continuing Operations (IX – X)
XII. Profit/(loss) from Discontinuing Operations
XIII. Tax Expense of Discontinuing Operations
XIV. Profit/(loss) from Discontinuing Operations (after tax) (XII – XIII)
XV. Profit (Loss) for the period (XI + XIV)
XVI. Earnings per Equity Share:
(1) Basic
(2) Diluted

Observations / Suggestions…

Sr. No	Observations	Required Disclosure
1	Share Capital – Omit to disclose reconciliation of the number of shares outstanding, rights, preferences attached, etc	To disclose: •Reconciliation of shares outstanding •Rights, preferences and restrictions •Aggregate number of shares bought back
2	Reserves and surplus : Revaluation reserve shown under 'revenue reserve'	Revaluation reserve to be shown under a separate head under 'Reserves and surplus' schedule
3	Debit balance of profit and loss shown on the asset side	To show as a negative figure under the head 'Surplus'
4	Gratuity provision is made but not shown separately in the notes to the Statement of Profit and Loss	Disclose in employee benefits expense under salaries and wages: •Aggregate amounts paid/payable on account of contributions to provident fund and other funds like Gratuity fund, etc.
5	Loans and advances taken on demand by subsidiaries from the holding company – in subsidiary's book, it is shown as non-current	In Subsidiary's books – To show as "Current Loans and advances" – as there is no unconditional right to defer the liability

June 10, 2015

…Observations / Suggestions…

Sr. No	Observations	Required Disclosure
6	Creditors for goods shown under "Sundry Creditors"	To be shown under "Trade Payables"
7	Employee benefits – Amounts are shown under "Short term provisions"	To bifurcate the amounts as "Long term provision" and "Short term provision"
8	Computer software and goodwill – shown as part of tangible assets	Intangible assets classification : •Goodwill •Brands /trademarks •Computer software…
9	Accumulated depreciation was disclosed but depreciation for the year for each class of assets was not disclosed	Depreciation for each class of asset should be disclosed : •Opening Accumulated Depreciation, •Depreciation for the year Deductions/Other adjustments •Closing Accumulated Depreciation
10	An asset is shown under the head 'Others' on which depreciation is charged without disclosing the nature of the asset	Classification of the assets include "others" expressly stating to disclose the nature of such assets

June 10, 2015

…Observations / Suggestions…

Sr. No	Observations	Required Disclosure
11	"Fixed assets held for sale" is shown under fixed asset	Classify it as a current asset
12	Intangible assets under development is shown under "Capital Work-in-Progress"	To show assets separately as "CWIP" and "Intangible Assets under Development"
13	Capital Advances shown under CWIP	To disclose under "Long-term Loans and Advances"
14	Investments were bifurcated as •Quoted •Unquoted	• Non current investments: ➢ Trade ➢ Other • Current investments
15	Investment in subsidiary – classified as "Non-trade Investment"	Should be shown as "Trade Investment"
16	Unbilled revenue was shown under "loans and advances"	To be shown as 'Other Current Assets' as it is not in the nature of loans/ advances
17	Subsidies receivable and Government grants – shown under "Other Current Asset"	To be shown as "Trade Receivables" if it is receivable in respect of normal course of business

June 10, 2015

…Observations / Suggestions…

Sr. No	Observations	Required Disclosure
18	Ambiguity in treatment of MAT Credit Entitlement as current or non-current	Decision will be based on the expectation of the reversibility (nothing but realisation thereof) of the entitlement
19	MAT credit entitlement was adjusted against the deferred tax liability	Disclose MAT as : Current tax (MAT) XX MAT credit <u>XX</u> Net Current tax **XX**
20	Stock of inventory includes stock of DEPB Receivables	Stock of DEPB Receivables – Part of loans and advances
21	Capital goods imported on CIF basis were not disclosed in the notes	Profit and Loss should contain a note for value of goods imported on CIF basis: •Raw materials •Components and spare parts •**Capital goods**
22	Capital goods purchased was disclosed under "Trade payables"	Capital goods purchased should be disclosed under 'Other current liabilities' with a suitable description

June 10, 2015

…Observations / Suggestions

Sr. No	Observations	Required Disclosure
23	Previous year's figures have not been disclosed	Disclose corresponding amounts for the immediately preceding period in the FS including the Notes to Accounts
24	No disclosure pertaining to dividend paid non-resident shareholders was made in the Notes to account	Disclose dividends in foreign currencies and total number of : •Non-resident shareholders •Shares held by them on which the dividends were due and the year to which the dividends relate

June 10, 2015

CONSOLIDATED FINANCIAL STATEMENTS

Applicability

Listing Agreement - 1956 Act – Applicable to public companies

Section 129(3) - 2013 Act – Now applicable to private companies also

- Which companies to prepare CFS ?
  - Mandatory even for unlisted companies - public or private companies
  - Company should have one or more subsidiaries (Associate company/Joint Venture)
    - Effect : CFS to be prepared even if a company has only associate company or joint venture (not for FY 2014-15)
- Members have right to receive CFS and to lay before AGM
- CFS to be in accordance with AS/Schedule III
  - Form : Schedule III – additional requirements
  - Manner of Consolidation : Apply AS – Rule 6

June 10, 2015

Schedule III

- For CFS:
  - Profit / loss attributable to "minority interest" and to owners of the parent in the Statement of Profit and Loss – to be presented as **allocation** for the period.
  - In the Balance Sheet within Equity - "Minority interests" to be presented separately from the equity of the owners of the parent

June 10, 2015

Consolidation Procedures

- Para 13 of AS 21 - Line-by-line basis
  - Add together, items of:
    - Assets, liabilities, incomes and expenses
  - Eliminate parent's share of equity / investment
  - Eliminate inter-company transactions
  - Ascertain goodwill / capital reserve on the date of acquisition
  - Adjust minority interests against the Group's income – disclose this separately
  - Include parent's share of post acquisition profits in the consolidated reserves

June 10, 2015

Exemptions

- CFS prepared by an intermediate WOS, other than WOS whose immediate parent is a company incorporated outside India
  - A – Indian Holding Company
  - B – Wholly owned Indian Subsidiary of A
  - C - Wholly owned Indian Subsidiary of B
  - ✓ B not to prepare CFS since A is in India and will prepare CFS. However, if B was not a WOS of A, B also to prepare CFS
    - A – Foreign Holding Company
    - B – Wholly owned Indian Subsidiary of A
    - C - Wholly owned Indian Subsidiary of B
    - ✓ B to prepare CFS since A is incorporated outside India
- Not to apply to a company having subsidiary(ies) incorporated outside India only for financial year commencing on or after April 1, 2014

June 10, 2015

Disclosures…

- If subsidiaries, associates or Joint ventures - not consolidated – to state the reasons
  - Though AS does not require consolidation, still to disclose reasons
- Apart from CFS, a separate statement containing salient features of the subsidiaries/JV/associates is required to be filed in **Form AOC 1**
- Board's report to have a separate section on performance and financial position of each of the subsidiaries/associates/JVs – Rule 8(1)

Issue

- Are the auditors required to sign Form AOC-1?
  - ✓ To be signed by the persons required to sign the FS
  - ✓ Auditors sign the FS in their professional capacity and not as signatories to the FS
  - ✓ Hence, auditors are not required to sign AOC-1

...Disclosures…

- Are all the disclosures required – e.g., CIF value of import, expenditure in foreign currency, earnings in foreign currency?
  - ✓ General Circular 39/2014 – While preparing CFS, company to give disclosures relevant for CFS only
    - No need to repeat disclosures made by it in standalone accounts being consolidated
  - ✓ Explanation to Para 6 of AS 21 / Illustration to AS 21 – Only following notes to be disclosed:
    - Necessary to present true and fair view of CFS
    - Contains material items
    - Ignore additional statutory information having no bearing on true and fair view, e.g.,
      - Source from which bonus shares are issued
      - Quantitative details
      - Expenditure / earnings in foreign currency, etc.

June 10, 2015

…Disclosures…

2. In Consolidated Financial Statements, the following shall be disclosed by way of additional information:

Name of the entity in the	Net Assets, *i.e.*, total assets minus total liabilities		Share in profit or loss	
	As % of consolidated net assets	Amount	As % of consolidated profit or loss	Amount
1	2	3	4	5
Parent				
Subsidiaries				
Indian				
1.				
2.				
3.				
.				
.				
Foreign				
1.				
2.				
3.				
.				
.				
Minority Interests in all subsidiaries				
Associates (Investment as per the equity method)				

…Disclosures…

1	2	3	4	5
Indian				
1.				
2.				
3.				
.				
.				
Foreign				
1.				
2.				
3.				
.				
.				
TOTAL				

…Disclosures – Illustration…

Disclosure by way of Additional information as required for the preparation of Consolidated Financial Statements under Schedule III to the Companies Act, 2013 :

Name of the entitities in the Consolidated financial Statements	Net Assets (Total Assets minus Total Liabilities)		Share in Profit or Loss	
	As % of Consolidated Net Assets	Rs. in lakhs	As % of Consolidated Profit or Loss	Rs. in lakhs
Parent Company:				
ABC Limited	77.27%	17,000.00	96.90%	5,000.00
Indian Subsidiary Company:				
XYZ Limited	9.09%	2,000.00	3.88%	200.00
Indian Associate Company:				
PQR Limited	4.55%	1,000.00	-1.94%	(100.00)
Minority Interest	9.09%	2,000.00	1.16%	60.00
Total	100.00%	22,000.00	100.00%	5,160.00

...Disclosures – Working...

Profit and Loss

	Particulars	ABC Limited (Parent)	XYZ Limited (Indian Subsidiary Company)	PQR Limited (Indian Associate Company)	Total
a.	Net Profit / (Loss) / Share of Profit / (Loss)	4981.83	218.17	(100.00)	5100
	Inter-company Adjustments and Consolidation Adjustments:				
b.	Add : (Increase) / Decrease in:				
	Commission	18.32	0.15	0	18.47
c.	Less : Increase / (Decrease) in:				
	Rent	-0.15	-18.32	0	-18.47
	Sub-total	5000	200	-100	5100
d.	Minority Interest	60			60
	Net (a+b-c)				5160
e.	% of Consolidated Profit	96.90%	3.88%	-1.94%	98.84%
	Minority Interest (% of Consolidated Profit)	1.16%			1.16%
					100.00%

...Disclosures – Illustration...

Notes to Consolidated Financial Statements

NOTE 37: DISCLOSURE OF ADDITIONAL INFORMATION PERTAINING TO THE PARENT COMPANY, SUBSIDIARIES AND JOINT VENTURES:

₹ in Crores

Name of the Company	Net Assets (Total Assets minus Total Liabilities)		Share in Profit or Loss	
	As % of Consolidated net assets	Net Assets	As % of Consolidated profit or loss	Profit/(Loss)
Parent Company				
Asian Paints Limited	83.9	4,200.54	91.9	1,311.08
Indian Subsidiaries				
Direct Subsidiaries				
Asian Paints Industrial coating Limited	0.2	9.52	0.0	0.38
Multifacet Infrastructure (India) Limited	0.0	(0.04)	0.0	(0.01)
Maxbhumi Developers Limited	0.0	(1.25)	(0.1)	(0.96)
Sleek International Private Limited	(0.1)	(6.43)	(0.6)	(8.53)
Indirect Subsidiaries				
Kitchen Grace (India) Private limited	0.0	1.38	0.1	1.01
Foreign Subsidiaries				
Direct Subsidiaries				
Asian Paints (Nepal) Private Limited	0.8	38.39	0.6	9.02
Asian Paints (International) Limited	2.3	118.21	(0.3)	(4.23)
Indirect Subsidiaries				
Samoa Paints Limited	0.0	0.83	0.0	0.60
Asian Paints (South Pacific) Limited	0.3	15.57	0.5	6.74
Asian Paints (Tonga) Limited	0.0	0.49	0.1	1.25
Asian Paints (S I) Limited	0.1	3.23	0.3	3.74

...Disclosures – Illustration…

Asian Paints (Vanuatu) Limited	0.0	0.24	0.0	0.35
Asian Paints (Middle East) LLC	0.5	24.58	0.2	2.60
Asian Paints (Bangladesh) Limited	0.9	44.93	0.5	6.49
SCIB Chemicals S.A.E.	1.7	86.39	1.2	17.78
Asian Paints (Lanka) Limited	0.1	3.78	(0.1)	(2.03)
Berger International Limited	(1.8)	(89.34)	(0.2)	(2.20)
Berger Paints Singapore Pte Limited	(1.1)	(57.31)	(0.1)	(1.13)
Berger Paints Bahrain W.L.L.	0.8	39.84	0.8	11.89
Berger Paints Emirates LLC	0.6	31.51	0.3	4.47
Nirvana Investments Limited	0.0	2.08	0.0	0.00
Enterprise Paints Limited	(0.4)	(19.94)	0.0	0.00
Universal Paints Limited	1.5	74.13	0.0	0.00
Lewis Berger (Overseas Holdings) Limited	0.1	5.75	0.0	(0.25)
Berger Paints Jamaica Limited	0.0	0.02	0.3	4.43
Berger Paints Trinidad Limited	0.2	8.10	0.1	1.25
Berger Paints Barbados Limited	0.6	29.04	0.2	3.44
Kadisco Paint and Adhesive Industry Share Company	0.1	2.82	0.2	2.81
PT Asian Paints Indonesia	0.0	(0.09)	0.0	(0.09)
Minority Interests in all subsidiaries	5.2	263.67	2.3	32.18
Joint Ventures (as per proportionate consolidation)				
Indian				
PPG Asian Paints Private Limited	3.1	155.47	1.9	26.80
Wholly Owned Subsidiaries of PPG Asian Paints Private Limited:				
Faaber Paints Private Limited	0.1	4.41	0.1	1.14
PPG Asian Paints Lanka Private Limited	0.0	0.83	0.0	0.09
Asian Paints PPG Private Limited	0.3	14.68	(0.2)	(2.78)
TOTAL	**100**	**5,006.03**	**100**	**1,427.33**

Note : The above figures are after eliminating intra group transactions and intra group balances as at 31st March, 2015.

...Disclosures – Illustration…

D. Disclosures mandated by Schedule III of Companies Act 2013, by way of additional information

Name of the Entities	Net Assets i.e. total assets minus total liabilities		Share in profit /(loss)	
	As a % of consolidated net assets	Amount (₹ in lacs)	As a % of consolidated Profit	Amount (₹ in lacs)
Parent:				
Raymond Limited	72.36%	116776.29	86.30%	9999.50
Subsidiary:				
Indian				
Celebration Apparel Limited	0.21%	345.74	(0.76%)	(87.63)
Colorplus Fashions Limited	4.31%	6962.05	(10.96%)	(1269.61)
Everblue Apparel Limited	0.39%	635.31	0.62%	72.30
J.K. Files (India) Limited	4.48%	7222.15	(2.15%)	(248.73)
J.K. Talabot Limited	1.07%	1723.16	0.80%	92.52
Pashmina Holdings Limited	0.73%	1186.20	0.49%	56.84
Raymond Apparel Limited	10.31%	16639.91	13.37%	1548.88
Raymond Woollen Outerwear Limited	0.09%	150.00	0.05%	5.90
*Scissors Engineering Products Limited	4.38%	7064.85	(11.10%)	(1285.69)
Silver Spark Apparel Limited	5.48%	8841.14	14.01%	1623.80
Raymond Luxury Cottons Limited	10.01%	16160.21	15.66%	1814.23
Foreign				
Raymond (Europe) Limited	0.34%	549.05	0.74%	85.39
Jaykay Org AG	1.67%	2698.28	(9.23%)	(1069.30)
Joint Venture:				
Raymond UCO Denim Private Limited	7.02%	11334.89	16.17%	1873.05
Rose Engineering Limited	0.62%	996.43	0.69%	80.04
Subtotal		**199285.63**		**13291.49**
Inter-company Elimination & Consolidation Adjustments	(23.48%)	(37896.89)	(14.71%)	(1704.94)
Grand total:		**161388.75**		**11586.55**
Minority Interest in subsidiaries		(7252.56)		(677.49)
Share of Profit in Associates				372.43

* Figures for Scissors Engineering Products Limited are figures after consolidation with its subsidiaries Ring Plus Aqua Limited and R&A Logistics Limited

…Disclosures – Illustration…

NOTES ON CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

37. Additional Information, as required under Schedule III to the Companies Act, 2013, of enterprises consolidated as Subsidiary / Associates / Joint Ventures.

	Name of the Enterprise	Net Assets i.e. total assets minus total liabilities		Share in profit or loss	
		As % of consolidated net assets	Amount (₹ in crore)	As % of consolidated profit or loss	Amount (₹ in crore)
Parent					
	Reliance Industries Limited	98.94	2,16,158.97	96.41	22,718.93
Subsidiaries					
Indian					
1	Adventure Marketing Private Limited	(0.00)	(3.60)	(0.00)	(0.02)
2	AETN18 Media Private Limited	0.01	31.96	(0.03)	(6.29)
3	Bhagyashri Mercantile Private Limited	(0.00)	(0.95)	(0.00)	(0.05)
4	Big Tree Entertainment Private Limited	0.07	160.22	(0.06)	(13.53)
5	Capital18 Fincap Private Limited	(0.00)	(1.71)	(0.01)	(3.35)
6	Chitrani Mercantile Private Limited	0.00	2.04	0.00	1.01
7	Colorful Media Private Limited	(0.00)	(3.60)	(0.00)	(0.02)
8	Colosceum Media Private Limited	0.01	12.91	0.00	1.17
9	Digital18 Media Limited	(0.02)	(42.16)	0.01	1.40
10	e-Eighteen.com Limited	0.02	34.31	0.05	10.85
11	Equator Trading Enterprises Private Limited	0.09	197.47	(0.00)	(0.10)
12	GenNext Ventures Fund	0.01	14.62	(0.00)	(0.11)
13	Gopesh Commercials Private Limited	0.00	7.70	0.00	0.29
14	Greycells18 Media Limited	0.00	0.89	(0.02)	(3.89)
15	Independent Media Trust	0.50	1,088.98	(0.00)	(0.00)
16	Indiawin Sports Private Limited	(0.05)	(102.29)	(0.02)	(3.87)
17	Infomedia Press Limited	(0.01)	(23.64)	(0.01)	(3.47)
18	Kanhatech Solutions Limited	0.01	22.82	(0.00)	(0.69)
19	Model Economic Township Limited	(0.03)	(65.73)	(0.06)	(15.23)
20	Moneycontrol Dot Com India Limited	(0.00)	(0.11)	0.00	0.07
21	Nemita Commercials Private Limited	0.00	2.52	0.00	0.89

…Disclosures – Illustration

	Name of the Enterprise	As % of consolidated net assets	Amount (₹ in crore)	As % of consolidated profit or loss	Amount (₹ in crore)
Joint Ventures(as per proportionate consolidation/Investment as per the equity method)					
Indian					
1	Brooks Brothers India Private Limited	0.01	13.71	(0.01)	(2.50)
2	D. E. Shaw India Securities Private Limited	0.01	17.88	(0.08)	(20.02)
3	Diesel Fashion India Reliance Private Limited	0.00	10.68	(0.01)	(2.59)
4	Football Sports Development Limited	(0.01)	(31.24)	(0.26)	(61.95)
5	IBN Lokmat News Private Limited	0.00	7.62	0.02	3.85
6	Iconix Lifestyle India Private Limited	0.00	3.11	0.01	1.42
7	IMG Reliance Limited	0.02	53.07	(0.00)	(0.63)
8	India Gas Solutions Private Limited	0.00	3.69	0.00	0.30
9	Indiacast Media Distribution Private Limited	0.00	7.67	0.00	0.77
10	Indiacast UTV Media Distribution Private Limited	0.00	3.67	0.00	0.62
11	Marks and Spencer Reliance India Private Limited	0.07	158.89	(0.17)	(38.90)
12	Reliance Paul & Shark Fashions Private Limited	0.00	5.93	(0.00)	(0.10)
13	Reliance-GrandVision India Supply Private Limited	0.00	8.20	(0.00)	(0.99)
14	Reliance-Vision Express Private Limited	0.01	22.37	(0.03)	(7.27)
15	Supreme Tradelinks Private Limited	(0.00)	(6.77)	0.00	0.13
16	Ubona Technologies Private Limited	0.00	4.61	0.00	0.95
17	Viacom18 Media Private Limited	0.20	443.75	0.36	84.25
18	Zegna South Asia Private Limited	0.00	3.72	(0.01)	(2.96)
Foreign					
1	Indiacast UK Limited	0.00	0.99	0.00	0.41
2	Indiacast US Limited	0.00	0.70	0.00	0.22
3	Roptonal Limited	0.09	204.38	(0.03)	(7.89)
4	Viacom18 Media (UK) Limited	(0.00)	(1.98)	(0.00)	(0.28)
5	Viacom18 US Inc.	(0.00)	(3.60)	(0.00)	(0.26)

Issues…

- Whether previous year's comparable figures are required to be given in CFS as per AS 21?
  - ✓ Para 30 of AS 21 - No need to present comparative figures for the previous years on the 1st occasion when the CFS are presented
  - ✓ Thereafter, to give full comparative figures for the previous period
- Is company required to go back to the date of acquisition for calculating goodwill / capital reserve?
  - ✓ AS 21 - goodwill / capital reserve to be calculated with reference to the date of acquisition
  - ✓ Indian GAAP - company is allowed to amortise goodwill
  - ✓ Company may argue that it has amortised goodwill over its life and net carrying amount as on that date is NIL

June 10, 2015

…Issues

- Whether disclosures to be given for step-down subsidiaries, joint venture and associates?
  - ✓ Yes
  - ✓ Schedule III - All subsidiaries, associates and joint ventures (whether Indian or foreign) will be covered under CFS
- Is goodwill / capital reserve and related amortisation / impairment treated as expense / income of the parent entity or individual entity?
  - ✓ Not included in the books – but considered in CFS
- Should share in profit be before tax or after tax?
  - ✓ Share of profit should be after tax
- Is information for foreign subsidiaries, joint venture and associates based on Indian GAAP or their local GAAP?
  - ✓ To be as per Indian GAAP

June 10, 2015

SCHEDULE II DEPRECIATION

Introduction…

Schedule XIV - 1956 Act

Schedule II - 2013 Act

- Declaration of Dividend
  - **Section 123**
    - To be declared or paid out of profits
    - After providing depreciation in accordance with Schedule II
    - To transfer percentage of profits as considered appropriate to reserves
    - In adequacy or absence of profits, declare dividends out of its free reserves
      - To follow the Companies (Declaration and Payment of Dividend) Rules, 2014

June 10, 2015

…Introduction

Schedule II

- Now in line with the requirements of AS 6/ Move closer to Ind AS
- Systematic allocation of the depreciable amount of an asset over its useful life - Para 1 of **Part A**.
  - It includes amortisation - Para 2 of **Part A**.
- Depreciable Amount = Cost less Residual Value
  - Cost of an asset includes any other amount substituted for cost – Revalued amount
- Depreciation will have pervasive effect on determination of profits, EPS, managerial remuneration, etc

Tangible Assets…

- Useful Life of asset – deals with tangible assets
  - Period over which an asset is expected to be available for use; or
  - Number of production or similar units expected to be obtained from the asset by the entity
  - Any specific asset, as notified for accounting purposes by a Regulatory Authority constituted under the Act of Parliament or by the Central Government - **Part B**
  - Can be different:
    - To provide justification supported by technical advice
    - Financial Statements to disclose such difference
- Residual Value of an asset
  - To be 5% of the asset's original cost
  - Same may be different than that of 5%

…Tangible Assets…

Useful lives as per **Part C -** Illustrative

Nature of Assets	Useful life as per Schedule II	Useful life as per Schedule XIV
Buildings other than RCC	30	60
Fence, wells, tubewells	5	30
Plant and machinery - General	15	20
Furniture and fixtures	10	15
Vehicles	8	10
Computers	3	4

Calculation and Treatment…

Calculation

- On a *pro rata basis*
  - In case of additions - From the date of such addition
  - In case such asset of sale, demolition, destruction - Up to that date

…Calculation and Treatment…

Treatment…

- From the date Schedule II comes into effect, the carrying amount of asset on that date –
  - Depreciated over the remaining useful life
  - Where remaining useful life is Nil – may be recognised in opening balance of retained earnings, after retaining residual value
    - To be reflected Net of Deferred Tax
      - **Option 1**: Debit to Retained Earnings

        Accounting treatment:

        General Reserve Account Dr xx

        To Provision for Depreciation Account xx

        Deferred Tax Liability Account Dr xx

        To General Reserve Account xx

June 10, 2015

…Calculation and Treatment

…Treatment

- **Option 2**: Debit to Statement of Profit and loss

  Depreciation Account Dr xx

  To Provision for Depreciation Account xx

  Profit And Loss Account Dr xx

  To Depreciation xx

  - Deferred tax Liability (or Asset, as the case may be) for the year automatically gets adjusted

June 10, 2015

Comparison

Schedule II	Schedule XIV
Indicative useful life prescribed	Rate of depreciation prescribed
Intangible assets required to be amortized as per AS 26 Exception – BOT	No method suggested for Intangible assets
Unit of production method allowed	Unit of production method not allowed
No reference to method	SLM/ WDV method
Extra shift depreciation- Double shift- increase by 50% Triple shift- increase by100%	Extra shift depreciation- On the basis of number of days and as per rates specified in the schedule
Component accounting mandatory	No reference to component accounting
Treatment of addition for less than Rs. 5,000 –Treated of revenue nature	Treatment of addition less than Rs. 5,000 –Depreciation to be charged 100%

June 10, 2015

Extra Shift Depreciation…

- Not applicable to assets marked with "No Extra Shift Depreciation" (NESD)
- Example:
  - Company purchased machinery 3 years prior to the commencement of the 2013 Act

Shift	2013 Act	1956 Act
Double Shift	Increase by 50%	7.42%
Triple Shift	Increase by 100%	10.34%

  - For all 3 years, machinery worked on triple shift and accordingly, asset is depreciated at 31.02% (as per old rate)
  - Residual value – Nil
  - On transition, balance useful life is -

Option 1:

12 years (15 years – 3 years)

- Carrying amount to be depreciated as -
  - Single Shift - 12 years
  - Double Shift – Increase depreciation by 50%
  - Triple shift - Increase depreciation by 100%

June 10, 2015

…Extra Shift Depreciation

Option 2:

9 years (15 years – 6 years)

[Plant was used on a triple shift basis for previous 3 years]

- Carrying amount to be depreciated as -
  - Single Shift – 9 years
  - Double Shift – Increase depreciation by 50%
  - Triple shift -Increase depreciation by 100%

Option 3:

6 years (15 years – 9 years)

[Plant was used on a triple shift basis for previous 3 years and each shift is considered to depreciate the asset equally]

- Carrying amount to be depreciated as -
  - Single Shift – 6 years
  - Double Shift – Increase depreciation by 50%
  - Triple shift - Increase depreciation by 100%

Continuous Process Plant

- Plant designed to operate for 24 hours a day
- To interpret – technical nature/ technical design of the plant
  - If it can run continuously for 24 hours
  - If it cannot run due to shut down, causing significant damage, energy loss, spoilage – Does not change the inherent technical nature
- Distinct from the repetitive process plant or assembly-line type plants

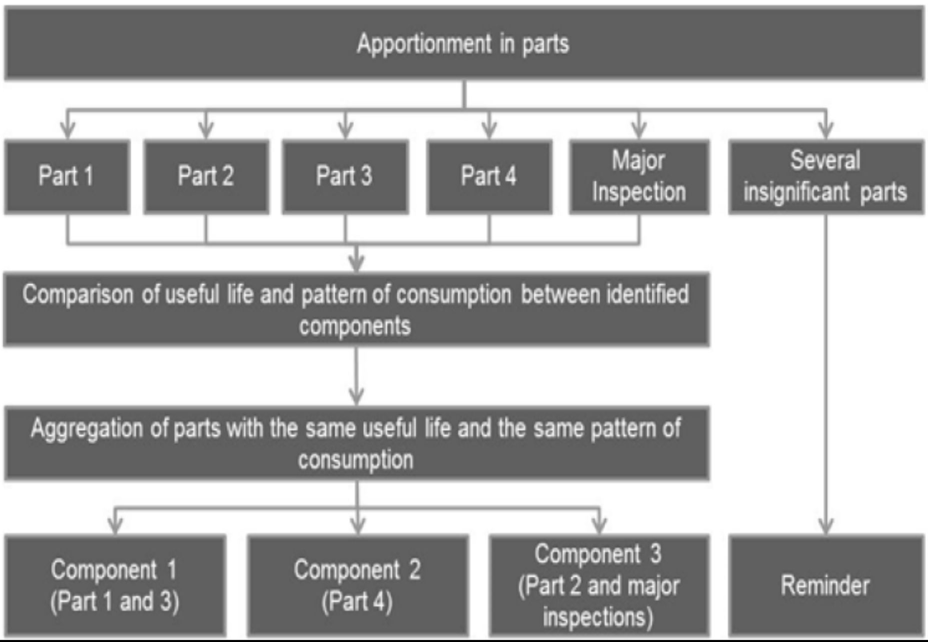
  Eg: an automobile manufacturing plant

Component Accounting…

- Mandatory from FY commencing on or after April 1, 2015
- To determine useful life of significant part (key components) separately
  - Where cost of a part of an asset is significant to total cost of the asset
  - Useful life of that part is different from the useful life of the remaining asset

June 10, 2015

…Component Accounting…



…Component Accounting …

- Split the asset into possible identifiable parts
- Group together identifiable parts having similar useful life
- Insignificant parts identified need not be depreciated – to combine them as a remainder
- Requires technical expertise to identify
  - Separate parts of the assets and
  - Determining their useful lives
- **Replacement Cost**
  - Capitalise these costs as a separate component of the asset after expensing net carrying value of the replaced component
  - If not practicable - to determine carrying amount of the replaced component
    - It may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed

June 10, 2015

…Component Accounting…

- **Major inspection/overhaul** –
- 2 options for accounting of major inspection/overhaul
- Identify major inspection/overhaul as a separate component
  - Major inspection/overhaul is a separate identifiable part – to aggregate with other parts having similar life
  - Other cases – To expense out
- Treat it as repair expense

June 10, 2015

…Component Accounting - Example

- ❑ A new Quarry machine was installed on April 1, 2011
- ❑ Total expenditure on the plant amounted to Rs 1,000 crore

Sr. No	Component	Value (Rs)	Useful Life	% of total assets
A	**Crushers**	300		
B	**Grinding Mill**	700	8 years	
1.	Pre Heater	200	10 years	28.57
2.	Kiln	150	25 years	21.43
3.	Conveyor	250	8 years	35.71
4.	Cement Mill	50	9 years	7.14
5.	Packing Equipment	45	5 years	6.43
6.	Remainder	5	3 years	0.7
	Total Capital Expenditure (A+B)			**1000**

June 10, 2015

…Component Accounting

Mining and Construction

- ❑ Mining and Construction industry – Assets include heavy duty trucks, vehicles, dozers, excavators, loaders & unloaders, tunnelling machinery, etc.
- ❑ Heavy duty machineries - made up of various assembled parts having high values and different useful lives
  - These items to be broken in to their components
- ❑ Entities to estimate mine restoration liabilities and capitalise with the initial cost of the mine

June 10, 2015

Revaluation Reserve

- Revaluation of fixed assets - companies are currently allowed to transfer an amount equivalent to the additional depreciation on account of the upward revaluation of fixed assets from the revaluation reserve to Statement of Profit and Loss. Hence, any upward revaluation of fixed assets does not impact the Statement of Profit and Loss.
- Under the 1956 Act, depreciation was to be provided on the original cost of an asset
- Schedule II requires depreciation to be provided on historical cost or the amount substituted for the historical cost. Hence, depreciation to be provided on revaluation amount
- No change in the position, as Schedule II mandates to charge depreciation on full amount and there is no restriction on withdrawal from reserves

Intangible Assets…

- In case of Intangible FA - amortisation as follows –
  - Toll Roads created under 'Build Operate and Transfer', 'Build, Own, Operate and Transfer' or any other form of public private partnership route in case of road projects
    - To ensure that the whole of the cost of the Intangible asset is amortised over a concession period (Revenue based amortisation)

  - **Calculation –**

(a) Mode of amortisation

$$\text{Amortisation Rate} = \frac{\text{Amortisation Amount}}{\text{Cost of Intangible Assets (A)}} \times 100$$

$$\text{Amortisation Amount} = \text{Cost of Intangible Assets (A)} \times \frac{\text{Actual Revenue for the year (B)}}{\text{Projected Revenue from Intangible Asset (till the end of the concession period) (C)}}$$

…Intangible Assets

- Meaning of particulars are as follows:-
  - Cost of Intangible Assets (A) = Cost incurred by the company in accordance with the accounting standards.
  - Actual Revenue for the year (B) = Actual revenue (Toll Charges) received during the accounting year.
  - Projected Revenue from Intangible Asset (C) = Total projected revenue from the Intangible Assets
  - Others – As per the provisions of AS 26

Disclosures…

- As per **Schedule II**
  - Depreciation methods used; and
  - The useful life of the assets for computing depreciation, if they are different from the life specified in the Schedule
- As per **Para 29 of AS 6**
  - Depreciation methods used; and
  - Depreciation rates or the useful lives of the assets, if they are different from the principal rates specified in the statute governing the enterprise
- Disclosures as per AS 6 and Schedule II are on the same lines except:
  - Amount of additional depreciation on upward revaluation can now be transferred to General Reserve

…Disclosures - Illustrations…

Transfer from retained earnings

			As At March 31, 2015	As At March 31, 2014
3.	**Reserves and Surplus**			
	Capital Reserve			
	As per last Balance Sheet		**9.68**	9.68
	Capital Redemption Reserve			
	As per last Balance Sheet		**25.00**	25.00
	Securities Premium			
	As per last Balance Sheet		**1,290.97**	1,290.97
	General Reserve			
	As per last Balance Sheet	**3,267.82**		2,838.82
	Less : Adjustment as per Schedule II to the Companies Act, 2013 (Refer Note 11.6)	**97.58**		NIL
	Add : Transfer from Surplus	**454.00**		429.00
			3,624.24	3,267.82
	Surplus			
	As per last Balance Sheet	**8,404.57**		5,500.03
	Add: Net Profit after Tax transferred from Statement of Profit and Loss	**4,542.13**		4,288.06
	Less : Appropriations			
	General Reserve	**454.00**		429.00
	Proposed Dividend	**815.86**		815.86
	Tax on Dividend	**166.12**		138.66
			11,510.72	8,404.57
			16,460.61	12,998.04

…Disclosures - Illustrations…

Transfer from retained earnings

Effective from April 1, 2014, the Company has provided depreciation on its tangible Fixed Assets as per useful lives and residual values, as specified in Schedule II to the Companies Act, 2013 or based on internal technical evaluation, reassessed the remaining useful life of assets primarily consisting of Continuous process plants. Accordingly, in respect of the tangible Fixed Assets as on April 1, 2014 the carrying amount, net of residual value, as on that date have been depreciated over the revised remaining useful lives of the assets. As a result, the charge for depreciation is lower by Rs. 73.05 lakh for the year ended March 31, 2015. In cases where the remaining useful life has been completed as on April 1, 2014, the carrying amount of assets after retaining residual value amounting to Rs. 97.58 lakh and deferred tax credit of Rs. 50.25 lakh thereon has been adjusted against the opening balance of General Reserve, the aggregate of which has been shown as Adjustments under Depreciation and Amortisation.

June 10, 2015

…Disclosures - Illustrations

Transfer from Revaluation Reserve to General Reserve

	₹	As At March 31, 2015 ₹	As At March 31, 2014 ₹
3. **Reserves and Surplus**			
Revaluation Reserve			
As per last Balance Sheet	296,21,276		306,07,920
Less: Provision for Impairment (Refer Note 3.2)	69,573		NIL
Less: Transfer to Statement of Profit and Loss	NIL		9,86,644
Less: Transfer to General Reserve (Refer Note 3.1)	7,51,055		NIL
		288,00,648	296,21,276
General Reserve			
As per last Balance Sheet	520,92,444		520,92,444
Add: Transfer from Revaluation Reserve (Refer Note 3.1)	7,51,055		NIL
Less: Adjustment as per Schedule II to the Companies Act, 2013 (Refer Note 11.5)	18,84,623		NIL
		509,58,876	520,92,444
Surplus in the Statement of Profit and Loss			
As per last Balance Sheet	1716,03,321		1640,99,153
Add: Net Profit after Tax transferred from Statement of Profit and Loss	(155,38,642)		75,04,168
		1560,64,679	1716,03,321
TOTAL		2358,24,203	2533,17,041

3.1 As per the Guidance Note on "Treatment on General Reserve on Revaluation of Fixed Assets" issued by the Institute of Chartered Accountants of India (ICAI), for the year ended March 31, 2014, the amount of depreciation, amounting to ₹ 986,644 on the revaluation of Fixed Assets, is transferred to the Statement of Profit and Loss. However, for the year ended March 31, 2015, as suggested in the Application Guide on the Provisions of Schedule II to The Companies Act, 2013 issued by ICAI the amount of depreciation on the revaluation, amounting to ₹ 751,055, is withdrawn and transferred to General Reserve.

E. DEPRECIATION, AMORTISATION AND DEPLETION

Tangible Assets

Depreciation on Fixed Assets is provided to the extent of depreciable amount on the Written Down Value (WDV) Method except in case of assets pertaining to Refining segment and SEZ units / developer where depreciation is provided on Straight Line Method (SLM). Depreciation is provided based on useful life of the assets as prescribed in Schedule II to the Companies Act, 2013 except in respect of the following assets, where useful life is different than those prescribed in Schedule II are used;

SIGNIFICANT ACCOUNTING POLICIES

Particular	Depreciation
Fixed Bed Catalyst (useful life: 2 years or more)	Over its useful life as technically assessed
Fixed Bed Catalyst (useful life: up to 2 years)	100% depreciated in the year of addition
Assets acquired from 1st April, 2001 under finance lease	Over the period of lease term
Premium on Leasehold Land	Over the period of lease term

In respect of additions or extensions forming an integral part of existing assets and insurance spares, including incremental cost arising on account of translation of foreign currency liabilities for acquisition of Fixed Assets, depreciation is provided as aforesaid over the residual life of the respective assets.

Intangible Assets

These are amortised as under:

Particular	Amortisation / Depletion
Technical Know-How	Over the useful life of the underlying assets
Computer Software	Over a period of 5 years
Development Rights	Depleted in proportion of oil and gas production achieved vis-a-vis the proved reserves (net of reserves to be retained to cover abandonment costs as per the production sharing contract and the Government of India's share in the reserves, where applicable) considering the estimated future expenditure on developing the reserves as per technical evaluation
Others	Over the period of agreement of right to use, provided that in case of jetty, the aggregate amount amortised to date is not less than the aggregate rebate availed by the Company.

Issues…

- Proviso to Schedule II - If a company uses a useful life or residual value different from what is specified in Part C, disclosure to be supported by technical advice. How this proviso is to be applied if AS 6 is also to be complied with?

  - ✓ AS 6 - Depreciation rates prescribed under the statute are minimum
  - ✓ If management's estimate of the useful life is shorter than that envisaged under the statute
    - To compute depreciation by applying the higher rate

Example 1

Useful life estimated by management	10 years
Life envisaged in Schedule II	12 years
AS 6 Requirement	10 years

- In this case, the company cannot use 12 years' life
- In addition, Schedule II requires disclosure of justification for using lower life

June 10, 2015

…Issues…

Example 2

Useful life estimated by management	12 years
Life envisaged in Schedule II	10 years

- Company has an option to depreciate the assets either at -
  - 10 Years life as per Schedule II or
  - Estimated useful life as 12 Years
- Where the company depreciates the asset over 12 years
  - To disclose justification for using the higher life supported by technical advice
  - To apply the option selected consistently

Example 3

Particulars	Useful Life	Residual Value
Estimated by management and as per AS 6	10 years	NIL
Life envisaged in Schedule II	10 years	5%

- In this case, AS 6 depreciation is the minimum threshold i.e.10 Years
- Company cannot use 5% of residual value
- Schedule II requires the disclosure of justification for using a lower residual value

June 10, 2015

…Issues…

Example 4

Management estimate and AS 6	Residual Value = 10% of the original cost
Schedule II	Residual Value = 5%

- In this case, the company has an option to depreciate the assets either -
  - 5% residual value prescribed in the Schedule II
  - 10% of original cost estimated under AS 6
- If the company depreciates the asset using 10% estimated residual value - to disclose justification for using the higher residual value.
- To apply the option selected consistently

…Issues…

- Methods of deprecation not available under Schedule II as only useful life has been prescribed and not the rates of depreciation?

  - ✓ Schedule II:
    - To depreciate Plant & Machinery considering life as 15 years and residual value of 5% as follows -
      - @ 6.33% p.a. over 15 years on SLM basis
      - @ 18.10% p.a. over 15 years on WDV basis

Rate of Depreciation (%) = {1- (S/C)^(1/n)} x 100
n = remaining useful life of asset
s = Scrap value at the end of useful life of asset
c = cost of the asset / written down value of asset

…Issues…

- Whether a company calculating depreciation as per the WDV method and wanting to shift to the SLM method from April 1, 2014 be covered under transitional provisions as per Schedule II?
  - ✓ This would be covered under AS 5 and not as per the transitional provision
  - ✓ Change to be made in 2 stages -
    - First – To recalculate carrying value of the assets based on the equivalent rates considering the erstwhile useful lives
      - Deficiency / surplus arising from retrospective computation of depreciation – to charge / credit to the Statement of Profit and Loss
      - Further, to quantify and disclose its effect in the FS
    - Second – To consider revised useful life for depreciating the recalculated carrying values

June 10, 2015

…Issues…

- Can a company have a policy to fully depreciate 100% of cost of asset below certain amount?
  - ✓ 1956 Act - Allowed 100% depreciation of the cost of an asset having individual value of Rs. 5000/- or less
  - ✓ Application Guide to Schedule II –
    - Life of the asset is a matter of estimation - to consider materiality of impact of such charge with reference to the cost of asset
      - Also to consider size of the company
    - Accordingly, company may have a policy to fully depreciate assets upto certain threshold limits considering materiality in the year of acquisition

June 10, 2015

…Issues…

- If the Company has acquired an asset on April 1, 2005, revalued them on April 1, 2011, how is the residual useful life calculated?
  - ✓ Calculate residual life from the acquiring date, i.e. April 1, 2005 - since revaluation only increases the value of the asset and Schedule II deals with useful lives
  - ✓ Due to revaluation - No impact on the useful life - the calculation has to be from the date of acquisition and not date of revaluation
  - ✓ Even if a second-hand asset is acquired, the remaining useful life is to be computed after considering the use of the asset by the earlier owner
    - Compute useful life for each asset – it is *qua* asset and not *qua* entity

…Issues

- Is component accounting to be done for all assets or only for the assets acquired after April 1, 2014 (or April 1, 2015) ?
  - ✓ Component accounting is required to be done for the entire block of assets as at 1 April 1 2014. It cannot be restricted to only new assets acquired after 1 April 2014.
- In case of depreciable amount on transition which is adjusted against retained earnings, should it be net of tax?
  - ✓ Yes, Net of Tax, if adjusted against Retained Earnings
- Whether it is necessary to review useful life every year?
  - ✓ Para 23 of AS 6

SCHEDULE VII – CORPORATE SOCIAL RESPONSIBILITY

Scope

No requirement for CSR -1956 Act
Section 135 - 2013 Act

- Applicable to all companies, including private companies, if it meets the criteria specified
- Effective from April 1, 2014
- Why – To promote welfare initiatives
- Important elements:
  - CSR Committee
  - CSR Policy
  - CSR Spending
- Companies to constitute CSR committee, if , during any FY:
  - Net worth => Rs. 500 crore; or
  - Turnover => Rs. 1000 crore; or
  - Net profit => Rs. 5 crore.

  (As per General Circular No. 21/2014, any financial year implies 'any of the three preceding financial years;)

June 10, 2015

CSR Committee...

- CSR Committee :
  - Composition : Section 135(1) and Rule 5
    - Companies to constitute three or more directors (including 1 Independent Director)("ID")
  - Rule 5 - Formation of a CSR Committee to be different for different companies:
    - For Unlisted Public Company or Private Company:
      If the company is not required to appoint an ID, it shall appoint a committee without ID
    - For Private Company:
      Having only 2 directors on the Board shall constitute the Committee with 2 directors

June 10, 2015

...CSR Committee

- ...CSR Committee:
    - For Foreign Company:
      The CSR committee shall comprise of -
      - one person who is authorised under Section 380(1)(d) of the Act, that is, the person resident in India authorised to accept service of process and notice, and
      - any other person nominated by the foreign company
  - Responsibility of CSR Committee : Section 135(3)
    - To formulate and recommend to BOD, CSR policy indicating activities to be undertaken as per Schedule VII
    - Recommend the amount to be expended
    - Monitor the policy from time to time

June 10, 2015

Board’s Responsibility

- Board : Sections 135(4) and 135(5)
  - To approve CSR Policy
  - Ensure that activities are undertaken
  - Ensure at least 2% of average net profits (as computed under Section 198) of the company made during 3 immediately preceding financial years is spent on such policy in every financial year

- Board's Report to disclose:
  - Composition of the Committee
  - Contents of the CSR Policy as per Form specified in Companies (Corporate Social Responsibility) Rules, 2014.
  - If the company fails to spend, valid reasons to be provided in the BOD’s Report
    - No penal consequence for non-compliance – to provide only valid reasons in the report made under Section 134(3)(o) of the Act

June 10, 2015

CSR Expenditure...

- CSR Spend :
  - Company to spend 2% of the average net profits made immediately during the preceding 3 financial years, in every financial year
  - Give preference to local areas and activities to be within India
  - Activities to be undertaken as per Schedule VII (amended from time to time)
  - Activities to be undertaken as Projects or Programmes
  - Exclude activities undertaken in pursuance of normal course of business

June 10, 2015

...CSR Expenditure...

- BOD may decide to undertake CSR activities through a registered trust or society, or a company established under section 8 (previously section 25) of the Act by the company, either singly or alongwith its holding or subsidiary or associate company, or alongwith any other company or holding or subsidiary or associate company of such other company, or otherwise

- The proviso to Rule 4.2 - If such trust, society or company to have a track record of 3 years, if not established by the company, etc.

  - Company can collaborate with another company for this purpose provided they are in a position to report separately

June 10, 2015

...CSR Expenditure

- Rule 4.6 - Companies may build CSR capacities of :
  - Own Personnel or of their Implementing Agencies
  - Through Institutions which have a track record of at least 3 financial years
  - Such expenditure including expenditure on administrative overheads, shall not exceed 5% of total CSR expenditure in one financial year

June 10, 2015

Accounting Treatment...

- Accounting treatment of CSR Expense (Based on the Guidance Note issued by ICAI)….
  - Expenditure of revenue nature incurred on CSR activities – Charge as an expense to the Statement of Profit and Loss
  - Expenditure incurred is of a nature which gives rise to an asset –
    - If the company has control over the asset and future economic benefits to flow to the company – Recognise in its balance sheet under natural head with specific sub-head `CSR Asset'
    - Else, it is enabling asset - Charge to the Statement of Profit and Loss
  - Depreciation on CSR Asset not to be included in CSR Spend, once the Asset is included in CSR Spend

June 10, 2015

...Accounting Treatment...

- …Accounting treatment of CSR Expense (Based on the Guidance Note issued by ICAI)…
  - Expenses related to activities not to be considered as CSR Expense and charged to the Statement of Profit and Loss –
    - Normal course of business
      - For employees and their families
      - As a pre-condition to setting up of a business
      - Requirement under the relevant regulations
  - Both the types of spends to be aggregated and reported for the purpose of CSR activities
  - Surplus income generated out of CSR activities - not part of business profits but, credited to the Statement of Profit and Loss
    - Since not a business profit, immediately create a `liability'

June 10, 2015

...Accounting Treatment

- …Accounting treatment of CSR Expense (Based on the Guidance Note issued by ICAI)
  - Explanation 2 to Section 37(1) of the Income-tax Act, 1961 (introduced through the Finance Act, 2014) –
    - Any expenditure incurred on the CSR activities – Not deemed to be an expenditure incurred for the purposes of the business or profession
  - Depreciation under Section 32, expenditure on eligible project under Section 35AC and deduction under Section 80G should be available

Disclosure...

- Paras 16 and 17 of the GN – To disclose CSR expenditure by way of Notes forming part to financial statements as shown below:

Expenditure towards Corporate Social Responsibility activities:		
a.	Gross amount required to be spent by the Company during the year towards Corporate Social Responsibility:	XXX
b.	Amount spent and paid on Corporate Social Responsibility during the year other than for Construction /Acquisition of any asset included in the Statement of Profit and Loss is towards:	
	Nature of Expenses:	
	Construction or Acquisition of any asset	xxx
	Other Expenses (Refer Note XX)	xxx
	Total (a+b)	xxx

...Disclosure…

- Para 17 – Also to disclose as relevant in Notes to the Cash Flow Statement :
- Related party transactions (As per AS 18)
- Movement to be disclosed, if the Provision is made for any Contractual obligation entered into by the Company (As per the requirements of Schedule III)

June 10, 2015

...Disclosure - Illustration

26	Corporate Social Responsibility (CSR) Expenditure (Refer Note 26.1)	**35.94**	NIL
	Miscellaneous Expenses (Refer Note 26.3)	**0.02**	0.02
		35.96	0.02
6.1	Expenditure towards Corporate Social Responsibility (CSR) activities:		
a.	Gross amount required to be spent by the Company	**91.12**	
b.	Amount spent and paid on CSR activities included in the Statement of Profit and Loss for the year :		
	Nature of Expenses		
	Other Expenses (Other than for Construction/Acquisition of any asset) (In Note 26)		
	Environment sustainability and Rural development	**7.11**	
	Education/Sports	**15.49**	
	Health/Woman Empowerment	**6.96**	
	Others	**6.38**	
	Total	**35.94**	

Issues...

1. Is there a need to create provision in the event of a shortage in spending?
   - Not to provide for any shortfall in the books of accounts
   - However, if a company has undertaken CSR activity for which a liability has been incurred by way of a contractual obligation, then – to create a provision

2. Can excess amount spent for activities relating to CSR be carried forward to subsequent years and adjusted against the amount to be spent in the futhre ?
   - Any excess amount spent cannot be carried forward to subsequent years
   - However, the company to disclose in their annual reports of subsequent years any such excess spending of previous years while giving reasons for not spending in those later years

3. If any grant is received, the expenditure should be considered as Net of grant

June 10, 2015

...Issues...

4. Are employee welfare expenses included in CSR expenses?

   Notification dated February 27, 2014 - Expenses benefiting **only** employees of the company are not considered as CSR expenses

5. Would CSR be applicable to the holding company as well as subsidiary companies of the company following under section 135(1).

   Notification of February 27, 2014 – CSR applicable to every company including its holding or subsidiary, and a foreign company [Section 2(42) of the Act having its branch office or project office in India which fulfils the criteria of section 135]

6. Can expenditure incurred by a Foreign Holding Company on CSR activities in India be considered as CSR spend by the Indian Subsidiary?

   General Circular No. 21/2014 - Expenditure incurred by Foreign Holding Company for CSR activities in India will qualify as CSR spend of the Indian subsidiary if, the CSR expenditures are routed through Indian subsidiaries and if the Indian subsidiary is required to do so as per section 135 of the Act.

June 10, 2015

...Issues...

7. CSR money is received by the trust (not as corpus donation), but required to be spent based on the criteria agreed with the donor. As on the year end, should the unspent amount be reported as a "liability" or should it be credited to Income and Expenditure account?

- As per As 29: A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.
- As per the facts of the case, the amount should be shown as 'Earmarked Fund' and shown it in the Balance sheet.
- When the money is spent, one could show it as expense and corresponding amount could be transferred to Income and Expenditure account.

June 10, 2015

...Issues...

8. Whether Net Profit to be computed before CSR charge or after the CSR charge?
   - Section 135(1) - the amount of CSR spend should be 2% of the average net profits of the Company made during the three immediately preceding financial years.
   - For the calculation of average net profit, net profit should be considered after CSR expense because if the Company considers net profit before CSR expense, then 2% for the current year would be calculated on the earlier years CSR portion also, which should not be the case.

June 10, 2015

...Issues

9. Whether Service Tax is involved while calculating 2% for CSR expense?
   - The contribution to CSR should be 2% of the average net profits of the Company made during the three immediately preceding financial years.
   - The element of service tax should be included when calculating the total contribution towards CSR, as this service tax was incurred for the purpose of making the CSR, which otherwise would not be payable.

June 10, 2015


Thank You!