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**The Companies (Accounting Standard)
Amendment Rule, 2016**

18.04.2016

COMPANIES (ACCOUNTING STANDARDS) AMENDMENT RULES, 2016

Background:

The Companies Act, 2013 in provisions 128 requires every company to maintain books of account on accrual basis and according to double entry system. Further under section 133, the power has been conferred by Central Government to prescribe accounting standards which are to be followed in maintenance of such books of accounts.

Rule 7 of The Companies (Accounts) Rules, 2014 states that the standards of accounting for the preparation and presentation of the financial statement as specified under the Companies Act, 1956, that is, The Companies (Accounting Standard) Rules, 2006 will be deemed to be the accounting standards until accounting standards are specified by the Central Government u/s 133.

The Central Government, vide Gazette notification dated 30th March 2016, has introduced **Companies (Accounting Standards) Amendment Rules, 2016** to amend the principal rules of the parent rule Companies (Accounting Standard) Rules, 2006.

We have tried to capture a comparative analysis of the erstwhile rules and the current changes.

Comparative Analysis:

Sl. No.	Amended Rule	Pre Amendment	Post Amendment
Amendments to definition			
1	Rule 2 (a) & 2 (b) – Definition of Accounting Standards & Act	a) “Accounting Standards” means the Accounting Standards as specified in rule 3 of these rules b) “Act” means the Companies Act, 1956 (1 of 1956)	For clause (b), the following clauses will be substituted, namely: b) “Act” means the Companies Act, 1956 (1 of 1956) or the Companies Act, 2013 (18 of 2013), as the case may be.
2	Rule 2 (a) & 2 (b) – Definition of Financial Statement & Enterprise	d) “General Purpose Financial Statements” include balance sheet, statement of profit and loss, cash flow statement (wherever applicable), and other statements and explanatory notes which form part thereof. (e) “Enterprise” means a company as defined in section 3 of the Companies Act, 1956.	For clauses (d) and (e), the following clauses shall be substituted, namely:- (d) “Financial Statements” means financial statements as defined in sub-section (40) of section 2 of the Companies Act, 2013; (e) “Enterprise” means a ‘company’ as defined in sub-section (20) of section 2 of the Companies Act, 2013 or as defined in section 3 of the Companies Act, 1956, as the case may be;’.
Amendment to Scope of the Standards			
3	Rule 4 (2) - Obligation to comply with the Accounting Standards	In sub-rule 2, The preparation of AS was for General Purpose Financial Statements.	In sub-rule (2), the words “General Purpose” will now be omitted.

4	Annexure A (General purpose) Para 5	The Annexure A (General purpose) had Para 1 to Para 4.	Further, Para 5 is being inserted, namely: Para 5 - The reference to 'Schedule VI' or 'Companies Act, 1956' will now mean 'Schedule III' and 'Companies Act, 2013', respectively.
Amendment to Accounting Standards			
5	AS 2 - Valuation of Inventories	<p>Para 4 –It had reference to Accounting Standard (AS) 10, Accounting for Fixed Assets</p> <p>Para 27 – Classification of inventories are:</p> <p>a) materials and components b) work in progress c) finished goods d) stores and spares e) loose tools</p>	<p>AS 10 is now called as “Property, Plant and Equipment” (Formally known as AS 10 - Accounting for Fixed Assets)</p> <p>Para 27 – New classification of inventories are:</p> <p>a) Raw materials and components b) Work-in-progress c) Finished goods d) Stock-in-trade (in respect of goods acquired for trading) e) Stores and spares f) Loose tools g) Others (specify nature)</p>
6	AS 4 - Contingencies and Events Occurring After the Balance Sheet Date	Para 8.5 & Para 14 – Dividends declared by the enterprise after the balance sheet date but before approval of the financial statements, should be adjusted.	Para 8.5 & Para 14 – Dividends declared by the enterprise after the balance sheet date but before approval of the financial statements, the enterprise should not recognise those dividends as a liability at the balance sheet date unless a statute requires otherwise. Such dividends should be disclosed in notes.
6	AS 6 - Depreciation Accounting	AS 6 - Depreciation Accounting	Withdrawn as the substantial aspects of depreciation would be subsumed under AS 10 - Property, Plant and Equipment.
7	AS 10 (Revised) - Property, Plant and Equipment	<p>There are far reaching changes that have been brought out in the new AS - 10. The key changes as compared to erstwhile AS 10 have been enlisted below:</p> <ul style="list-style-type: none"> ➤ AS 10 - Accounting for Fixed Assets is now called as AS 10 (Revised) - Property, Plant and Equipment. ➤ Substantial aspects of depreciation as per AS 6 – Depreciation Accounting has been covered in this standard and AS-6 is omitted ➤ This standard does not apply to biological assets related to agricultural activity and wasting assets. The standard however mentions that there is an Accounting Standard on Agriculture that is under preparation, which once introduced will provide guidance on accounting of livestock. Till then this AS will apply for that as well. ➤ For Measurement tow models viz. cost model and revaluation model are provided. ➤ If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued. ➤ Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be 	

		<p>depreciated separately.</p> <ul style="list-style-type: none"> ➤ The depreciation charge for each period should be recognised in the statement of profit and loss. ➤ The depreciable amount of an asset should be allocated on a systematic basis over its useful life. ➤ Cease of depreciation – retired from active use or held for disposal ➤ Depreciation Method - Straight-line depreciation, Diminishing balance method and Units of production method ➤ Derecognition - on disposal or when no future economic benefits are expected from its use or disposal. <p>Guidance on accounting change in liability which will impact the cost of property, plant or equipment has been provided.</p>	
8	AS 13 - Accounting for Investments	<p>Para 20 - Investment Properties The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property</p>	<p>Para 20 - Investment Properties An investment property is accounted for in accordance with cost model as prescribed in Accounting Standard (AS) 10, Property, Plant and Equipment. The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property</p>
		<p>Para 30 - Investment Properties An enterprise holding investment properties should account for them as long term investments.</p>	<p>Para 30 - Investment Properties An enterprise holding investment properties should account for them in accordance with cost model as prescribed in AS 10 - Property, Plant and Equipment.</p>
9	AS 14 - Accounting for Amalgamations	<p>Para 42 - Treatment of Reserves Specified in a Scheme of Amalgamation The treatment of reserves of the transferor company after amalgamation to be in accordance with the AS 14. If the statute prescribes different treatment the same to be followed. Had no treatment been prescribed by the scheme, the details of the same to be disclosed.</p>	<p>Para 42 - Treatment of Reserves Specified in a Scheme of Amalgamation Paragraph 42 will not apply to any scheme of amalgamation approved under the Companies Act, 2013.</p>
10	AS 21 - Consolidated Financial Statements	<p>Para 9 - Scope of Consolidated Financial Statements A parent company which presents consolidated financial statements should consolidate all subsidiaries, domestic as well as foreign</p>	<p>Para 9 - Scope of Consolidated Financial Statements The scope of para 9 has been increased to state that where companies do not have subsidiaries are and required to prepare Consolidated Financial Statements, will do it in the following manner a) Company having Associate enterprise – To prepare consolidated financial statements</p>

			<p>as per AS 23 - Accounting for Associates in Consolidated Financial Statements</p> <p>b) Company having joint venture enterprises - To prepare consolidated financial statements as per AS 27 - Financial Reporting of Interests in Joint Ventures respectively.</p>
11	AS 29 - Provisions, Contingent Liabilities and Contingent Assets	<p>Para 35 - Best Estimate</p> <p>The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The amount of a provision should not be discounted to its present value.</p>	<p>Para 35 - Best Estimate</p> <p>Further, exceptions for discounting the present value are –</p> <ul style="list-style-type: none"> ➤ Decommissioning, restoration and similar liabilities that are recognised as cost. The discount rate (or rates) should be a pre-tax rate (or rates).
		<p>There were 72 paragraphs.</p>	<p>Para 73 is been inserted.</p> <p>All the existing provisions for decommissioning, restoration and similar liabilities should be discounted prospectively.</p>

Conclusion

Seemingly simple and routine but certain significant changes have been brought in especially in AS 10. Further certain ambiguous areas have been addressed, which should provide necessary guidance on such areas. While some of the amendments made as above were already in practices, making them a part of the standard itself will avoid unnecessary differences of opinion between management and the auditors. Further, Companies Act, 2013 had mandated Consolidation of Financial statements for companies having only associates and Joint Ventures but the mode of doing the same weren't available. The amendment brought in AS 21 provides the necessary guidance on that as well. Since this rule was notified on 30.03.2016, it should be applicable for any financial statements prepared after that date. However there exists another interpretation that it could also be applicable for financial year commencing after such date.

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