

Ind AS Transition Facilitation Group (ITFG) Clarification Bulletin 6

‘Ind AS Transition Facilitation Group’ (ITFG) of Ind AS (IFRS) Implementation Committee has been constituted for providing clarifications on timely basis on various issues related to the applicability and/or implementation of Ind AS under the Companies (Indian Accounting Standards) Rules, 2015, raised by preparers, users and other stakeholders.

Ind AS Transition Facilitation Group (ITFG) considered some issues received from members and decided to issue following clarifications¹ on November 29, 2016:

Issue 1

A debt-listed company has net worth for the last 3 years as follows:

(i) Net worth as on 31.03.2014 is Rs. 1260.83 crores

(ii) Net worth as on 31.03.2015 is Rs. 1411.43 crores

(iii) Net worth as on 31.03.2016 is Rs. 485.22 cores

Whether Company A is required to comply with Ind AS from financial year 2017-18?

Response

Rule 4(1) (ii) of Companies (Indian Accounting Standards) Rules, 2015, states as under:

“(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

- (a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;*
- (b) companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;*
- (c) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be; and”.*

Further, Rule 4(2) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

“(2) For the purposes of calculation of net worth of companies under sub-rule (1), the following principles shall apply, namely:-

¹Clarifications given or views expressed by the Ind AS Transition Facilitation Group (ITFG) represent the views of the members of the ITFG and are not necessarily the views of the Ind AS (IFRS) Implementation Committee or the Council of the Institute. The clarifications/views are based on the accounting principles as on the date the Group finalises the particular clarification. The date of finalisation of each clarification is indicated along with the clarification. The clarification must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of clarifications by the Group.

(a) the net worth shall be calculated in accordance with the stand-alone financial statements of the company as on 31st March, 2014 or the first audited financial statements for accounting period which ends after that date;

(b) for companies which are not in existence on 31st March, 2014 or an existing company falling under any of thresholds specified in sub-rule (1) for the first time after 31st March, 2014, the net worth shall be calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds specified in sub-rule (1).

Explanation - For the purposes of sub-clause (b), the companies meeting the specified thresholds given in sub-rule (1) for the first time at the end of an accounting year shall apply Indian Accounting Standards (Ind AS) from the immediate next accounting year in the manner specified in sub-rule (1)."

In view of the above requirements, it may be noted that the net worth shall be calculated in accordance with the stand-alone financial statements of the company as on 31st March, 2014. Accordingly, if the net worth threshold criteria for a company are once met, then it shall be required to comply with Ind AS, irrespective of the fact that as on later date its net worth falls below the criteria specified.

In view of the above, the Company A will be required to follow Ind AS from financial year 2016-17.

It may be noted that Issue 8 of ITFG Clarification Bulletin 3 addressed an issue wherein as on March 31, 2014 an entity was listed, however subsequently the entity got delisted before the mandatory applicability date. In the said issue, it was clarified that immediately before the mandatory applicability date, if the **threshold criteria** for a company are not met, then it shall not be required to comply with Ind AS, irrespective of the fact that as on March 31, 2014, the criteria was met. In this regard, it may be clarified the above guidance was related to only listing criteria and the same is not related to net worth criteria.

Issue 2

Company X Ltd. is being covered under Phase I of Ind AS and needs to apply Ind AS from financial year 2016-17. Company Y which is an associate company of Company X Ltd. is a charitable organisation and registered under section 8 of the Companies Act, 2013.

Whether Company Y is required to comply with Ind AS from financial year 2016-17?

Response

Rule 4(1)(ii) of Companies (Indian Accounting Standards) Rules, 2015, states as under:

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;

(c) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub-rule (1) as the case may be; and”.

In accordance with the above, it may be noted that holding, subsidiary, joint venture, **associate** companies of companies falling under any of the thresholds specified in Rule 4(1)(ii) are required to comply with Ind AS from financial year 2016-17.

Further, it may be noted that the companies covered under Section 8 are required to comply the provisions of the Companies Act, 2013, unless and until any exemption is provided. Section 8 companies are not exempted from the requirements of section 133 and section 129 of the Companies Act, 2013.

In view of the above, in the given case, Company Y will be required to apply Ind AS from financial year 2016-17.

Issue 3

Company X is falling under Phase II of MCA roadmap for companies and hence Ind AS are applicable to it from the financial year 2017-18. Company X is a subsidiary of Company Y. Company Y is an unlisted NBFC company having net worth of Rs. 285 crores. What will be the date of applicability of Ind AS for company X and company Y? If Ind AS applicability date for parent NBFC is different from the applicability date of corporate subsidiary, then, how will the consolidated financial statements of parent NBFC be prepared?

Response

Rule 4(1)(iv)(b) of Companies (Indian Accounting Standards) Rules, 2015 read with Companies (Indian Accounting Standards) (Amendment) Rules, 2016 states as under:

“

(b) The following NBFCs shall comply with the Indian Accounting Standards (Ind AS) for accounting periods beginning on or after the 1st April, 2019, with comparatives for the periods ending on 31st March, 2019, or thereafter-

(A) NBFCs whose equity or debt securities are listed or in the process of listing on any stock exchanges in India or outside India and having net worth less than rupees five hundred crore;

(B) NBFCs, that are unlisted companies, having net worth of rupees two-hundred and fifty crore or more but less than rupees five hundred crore; and

(C) holding, subsidiary, joint venture or associate companies of companies covered under item (A) or item (B) of sub-clause (b), other than those already covered in clauses (i), (ii) and (iii) of sub-rule (1) or item (B) of sub-clause (a) of clause (iv).”

In accordance with the above, it may be noted that NBFCs having net worth of less than 500 crore shall apply Ind AS from 1.4.2019 onwards. Further, the holding, subsidiary, joint venture or associate company of such an NBFC other than those covered by corporate roadmap shall also apply Ind AS from 1.4.2019.

Further, explanation to clause (iv), states as under:

“Explanation. – For the purposes of clause (iv), if in a group of Companies, some entities apply Accounting Standards specified in the Annexure to the Companies (Accounting Standards) Rules, 2006 and others apply accounting standards as specified in the Annexure to these rules, in such cases, for the purpose of individual financial statements, the entities should apply respective standards applicable to them. For preparation of consolidated financial statements, the following conditions are to be followed, namely:-

(i) where an NBFC is a parent (at ultimate level or at intermediate level), and prepares consolidated financial statements as per Accounting Standards specified in the Annexure to the Companies (Accounting Standards) Rules, 2006, and its subsidiaries, associates and joint ventures, if covered by clause (i), (ii) and (iii) of sub-rule (1) has to provide the relevant financial statement data in accordance with the accounting policies followed by the parent company for consolidation purposes (until the NBFC is covered under clause (iv) of sub-rule (1);

(ii) where a parent is a company covered under clause (i), (ii) and (iii) of sub-rule (1) and has an NBFC subsidiary, associate or a joint venture, the parent has to prepare Ind AS- compliant consolidated financial statements and the NBFC subsidiary, associate or a joint venture has to provide the relevant financial statement data in accordance with the accounting policies followed by the parent company for consolidation purposes (until the NBFC is covered under clause (iv) of sub-rule (1).”

Accordingly, in the given case, Company Y (NBFC) shall apply Ind AS from 1.4.2019. Company X shall apply Ind AS in its individual financial statements from financial year 2017-18 (as per the corporate roadmap) and for the financial year 2017-18 and 2018-19, Company X shall also prepare its individual financial statements as per the Companies

(Accounting Standards) Rules, 2006 to facilitate the preparation of consolidated financial statement by parent Company Y (NBFC).

Issue 4

A company received grant from government which is in the nature of promoter's contribution and the same was included in capital reserve. This grant has been accounted as per AS 12, *Accounting for Government Grants*. Is such capital reserve required to be included for computation of net worth to assess Ind AS applicability?

Response

As per Rule 2(1)(f) of Companies (Indian Accounting Standards) Rules, 2015 "net worth" shall have the meaning assigned to it in clause (57) of section 2 of the Act.

Section 2(57) of Companies Act, 2013, defines 'net worth' as follows:

"net worth" means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation;

From the definition of Section 2(57), it may be noted that all reserves created out of the profits are included in calculation of 'net worth'.

In the given case, the capital reserve has arisen pursuant to grant received from government, which is in the nature of promoter's contribution. On a literal interpretation of the definition, it may be concluded that capital reserve in the nature of promoter's contribution should not be included to calculate net worth as the same is not explicitly mentioned in the definition of net worth. However, in substance, the capital reserve in the nature of promoter's contribution is a capital contribution by promoters and should be included in the calculation of net worth. Further, Accounting Standard (AS) 12 also states that government grants in the nature of promoter's contribution are recognised in shareholders' funds. Therefore, such a capital reserve should be included for computation of 'net worth'.

However, it may be noted that capital reserve in the nature of promoter's contribution should be included in the net worth only for the purpose of Ind AS applicability. This definition should not be applied by analogy for determining net worth under other provisions of the Companies Act, 2013.

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