Announcement on Applicability of Amendments for Intermediate May, 2017 Examination

PART I Amendment in Accounting Standards

The Ministry of Corporate Affairs (MCA) has notified Companies (Accounting Standards) Amendment Rules, 2016 (G.S.R. 364(E) dated 30.03.2016)[1]. MCA has omitted AS 6, Depreciation Accounting and amended the following Accounting Standards issued under Companies (Accounting Standards) Rules, 2006:

i. AS 2, Valuation of Inventories
ii. AS 4, Contingencies and Events Occurring After the Balance Sheet Date
iii. AS 10, Property, Plant and Equipment
iv. AS 13, Accounting for Investments
v. AS 14, Accounting for Amalgamations
vi. AS 21, Consolidated Financial Statements[2]
vii. AS 29, Provisions, Contingent Liabilities and Contingent Assets

It may be noted that these amendments are applicable for May, 2017 Examination.

Paper 1 Accounting at Intermediate Level

The revisions in AS 2, AS 10, AS 13 and AS 14 are relevant for Students appearing for Paper 1 "Accounting" in May, 2017 Examinations. Those students who have July 2015 Edition of the Study Material Paper 1 "Accounting" are advised to ignore Para 2.4.4 on Deprecation Accounting and Para 2.4.7 on Accounting for Fixed Assets because AS 6 'Deprecation Accounting' And AS 10 'Accounting for Fixed Assets' have been withdrawn after issuance of AS 10 'Property, Plant and Equipment'. The students are also advised to ignore the questions numbered 21 to 33 (based on AS 6) and 46 to 55 (based on AS 10) given in April, 2016 Edition of Practice Manual. They are also suggested to refer the **Supplementary material on AS** 10, Property, Plant and Equipment uploaded on the link http://resource.cdn.icai.org/44440bos34351.PDF along with the RTP for May, 2017 Examination.

Paper 5 Advanced Accounting at Intermediate level

The revisions in AS 4, AS 14 and AS 29 are applicable for Students appearing for Paper 5 "Advanced Accounting" in May, 2017 Examinations. Those students who have July 2015 Edition of Paper 5 Advanced Accounting are advised to refer the RTP for May, 2017 Examination.

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[1] *These rules have come into force on the date of their publication in the Official Gazette (ie. 30 March 2016).*

(Link:http://mca.gov.in/Ministry/pdf/Notification_30032016.pdf)

[2] *AS 21 is not covered at Intermediate level.*

For easy reference of students, the changes in the above-mentioned Accounting Standards are tabularised as follows:

Name of the standard	**Para no.**	**As per the Companies (Accounting Standards) Rules, 2006**	**As per the Companies (Accounting Standards) Amendment Rules, 2016**	**Implications**
AS 2	4 (an extract)	Inventories do not include machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular; such machinery spares are accounted for in accordance with Accounting Standard (AS) 10, Accounting for Fixed Assets.	Inventories do not include spare parts, servicing equipment and standby equipment which meet the definition of property, plant and equipment as per AS 10, *Property, Plant and Equipment*. Such items are accounted for in accordance with Accounting Standard (AS) 10, *Property, Plant and Equipment*.	Now, inventories also do not include servicing equipment and standby equipment other than spare parts if they meet the definition of property, plant and equipment as per AS 10, *Property, Plant and Equipment*.
	27	Common classifications of inventories are raw materials and components, work in progress, finished goods,	Common classifications of inventories are: (a) Raw materials and components (b) Work-in-progress	Para 27 of AS 2 requires disclosure of inventories under different classifications. One residual category has been added to the said paragraph i.e.

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implications
		stores and spares, and loose tools.	(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)".	'Others'.
AS 4	Footnote to AS 4	Pursuant to AS 29, Provisions, Contingent Liabilities and Contingent Assets, becoming mandatory in respect of accounting periods commencing on or after 1-4-2004, all paragraphs of this Standard that deal with contingencies (viz. paragraphs 1(a), 2, 3.1, 4 (4.1 to 4.4), 5 (5.1 to 5.6), 6, 7 (7.1 to 7.3), 9.1 (relevant portion), 9.2, 10, 11, 12 and 16) stand withdrawn except to the extent they	All paragraphs of this Standard that deal with contingencies are applicable only to the extent not covered by other Accounting Standards prescribed by the Central Government. For example, the impairment of financial assets such as impairment of receivables (commonly known as provision for bad and doubtful debts) is governed by this Standard.	Footnote has been modified.

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implications
		deal with impairment of assets not covered by other Indian Accounting Standards. For example, impairment of receivables (commonly referred to as the provision for bad and doubtful debts), would continue to be covered by AS 4.		
	8.5	There are events which, although they take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. Such items include the amount of dividend proposed or declared by the enterprise after the balance sheet date in	There are events which, although they take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. For example, if dividends are declared after the balance sheet date but before the financial statements are approved for issue, the dividends are not	No liability for proposed dividends has to be created now. Such proposed dividends are to be disclosed in the notes.

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implications
		respect of the period covered by the financial statements.	recognised as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes.	
	14	Dividends stated to be in respect of the period covered by the financial statements, which are proposed or declared by the enterprise after the balance sheet date but before approval of the financial statements, should be adjusted.	If an enterprise declares dividends to shareholders after the balance sheet date, 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.	No liability for proposed dividends has to be created now. Such proposed dividends are to be disclosed in the notes.
AS 10	All	Fixed Assets	Property, Plant and Equipment	Entire standard has been revised with the title AS 10: 'Property, Plant and Equipment'.
AS 13	20	The cost of any shares in a co-operative society or a company, the holding of which is	An investment property is accounted for in accordance with cost model as prescribed in Accounting	Accounting of investment property was not stated in this para but now incorporated i.e.

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implications
		directly related to the right to hold the investment property, is added to the carrying amount of the investment property.	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.	at cost model.
	30	An enterprise holding investment properties should account for them as long term investments.	An enterprise holding investment properties should account for them in accordance with cost model as prescribed in AS 10, Property, Plant and Equipment.	Accounting of investment property shall now be in accordance with AS 10 i.e. at cost model
AS 14	3(a)	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.	Definition of Amalgamation has been made broader by specifically including 'merger'.
	18 and 39	In such cases the statutory reserves are	In such cases the statutory reserves are recorded in	Corresponding debit on account of statutory

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implications
		recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Account') which is disclosed as a part of 'miscellaneous expenditure' or other similar category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account arereversed.	the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Reserve') which is presented as a separate line item. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	reserve in case of amalgamation in the nature of purchase is termed as 'Amalgamation Adjustment Reserve' and is now to be presented as a separate line item since there is not sub-heading like 'miscellaneous expenditure' in Schedule III to the Companies Act, 2013
AS 29	35 (An extract)	The amount of a provision should not be discounted to its present value.	The amount of a provision should not be discounted to its present value except in case of decommissioning, restoration and similar liabilities that are	Now discounting of provision for decommissioning, restoration and similar liabilities has to be done as per the pre-tax discount rate as mentioned

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implications
			recognised ascost of Property, Plant and Equipment. The discount rate (or rates) should be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted. Periodic unwinding of discount should be recognised in the statement of profit and loss.	therein.
	73		**Transitional Provisions** All the existing provisions for decommissioning, restoration and similar liabilities (see paragraph 35) should be discounted prospectively, with the corresponding effect to the related item of property, plant and equipment.	Discounting of above existing provisions and similar liabilities should be prospectively, with the corresponding effect to the related item of property, plant and equipment.

PART II Amendment in Schedule V

The Ministry of Corporate Affairs vide Notification S.O. 2922(E) dated 12th September 2016 has amended Schedule V of the Companies Act, 2013. According to the notification in part II, for Section II, the following section shall be substituted with effect from the date of its publication in the official gazette-

Section II

Remuneration payable by companies having no profit or inadequate profit without Central Government approval

Where in any financial year during the currency of tenure of a managerial person, a company has no profits or its profits are inadequate, it may, without Central Government approval, pay remuneration to the managerial person not exceeding, the limits under (A) and (B) given below:-

(A)

(1)	***Limits as per new amendment***	Limits before amendment (Earlier limits)
Where the effective capital is	***Limit of yearly remuneration payable shall not exceed (Rupees)***	Limit of yearly remuneration payable shall not exceed (Rupees)
(i) Negative or less than 5 crores	***60 Lakhs***	30 lakhs
(ii) 5 crores and above but less than100 crores	***84 Lakhs***	42 lakhs
(iii) 100 crores and above but less than 250 crores	***120 Lakhs***	60 lakhs
(iv) 250 crores and above	***120 lakhs plus 0.01% of the effective capital in excess of Rs. 250 crores:***	60 lakhs plus 0.01% of the effective capital in excess of ` 250 crores.

Provided that the above limits shall be doubled if the resolution passed by the shareholders is a special resolution.

Explanation.- It is hereby clarified that for a period less than one year, the limits shall be pro-rated.

(B) In case of a managerial person who is functioning in a professional capacity, no approval of Central Government is required, if such managerial person is not having any interest in the capital of the company or its holding company or any of its subsidiaries directly or indirectly or through any other statutory structures and not having any, direct or indirect interest or related to the directors or promoters of the company or its holding company or any of its subsidiaries at any time during the last two years before or on or after the date of appointment and possesses graduate level qualification with expertise and specialised knowledge in the field in which the company operates:

Provided that any employee of a company holding shares of the company not exceeding 0.5% of its paid up share capital under any scheme formulated for allotment of shares to such employees including Employees Stock Option Plan or by way of qualification shall be deemed to be a person not having any interest in the capital of the company;

Provided further that the limits specified under items (A) ant (B) of this section shall apply, if-

(i) payment of remuneration is approved by a resolution passed by the Board and, in the case of a company covered under sub-section (1) of section 178 also by the Nomination and Remuneration Committee;

(ii) the company has not committed any default in repayment of any of its debts (including public deposits) or debentures or interest payable thereon for a continuous period of thirty days in the preceding financial year before the date of appointment of such managerial person and in case of a default, the company obtains prior approval from secured creditors for the proposed remuneration and the fact of such prior approval having been obtained is mentioned in the explanatory statement to the notice convening the general meeting;

(iii) an ordinary resolution or a special resolution, as the case may be, has been passed for payment of Remuneration as per the limits laid down in item (A) or a special resolution has been passed for payment of remuneration as per item (B), at the general meeting of the company for a period not exceeding three years.

Note: Those students who have July 2015 Edition of Paper 1 "Accounting" Study Material are advised to ignore the contents i.e. table stating limits for yearly remuneration (given on page no. 2.9) and points (i), (ii) and (iii) given on page no. 2.10 under the heading "Section II - Remuneration payable by companies having no profit or inadequate profit without Central Government approval". It may be noted that there is no change in point (iv) given on page no. 2.10 consequent to the amendment.

The students are also advised to refer the above-mentioned amendment and consider these new limits prescribed under Section II while solving the problems based on managerial remuneration for the companies having no profit or inadequate profit.