THE INSTITUTE OF
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EXECUTIVE PROGRAMME

(NEW SYLLABUS)

CORPORATE AND MANAGEMENT ACCOUNTING

(Relevant for Students appearing in December, 2019 Examination

MODULE II, PAPER 5

This supplement is for Executive programme (New Syllabus). The students are advised to read their Study Material along with these updates. These academic updates are to facilitate the students to acquaint themselves with the amendments in various laws and regulatory prescriptions upto June 2019, applicable for December, 2019 Examination. The students are advised to read all the relevant regulatory amendments made and applicable upto June 2019 along with the study material. In the event of any doubt, students may write to the Institute for clarifications at academics@icsi.edu

The students who do not have the latest version of the study material may refer the latest study material relevant for December 2019 session available on the weblink: https://www.icsi.edu/media/webmodules/Corporate%20and%20Management%20Accounting.pdf.

Lesson 1

Page no. 2

Add Definition of Accounting

The definition given by the American Institute of Certified Public Accountants (‘AICPA’) clearly brings out the meaning of accounting. According to it, accounting is “the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof”. The definition brings out the following as attributes of accounting :

(i) Accounting is an art. Accounting is classified as an art, as it helps us in attaining our aim of ascertaining the financial results, that is, operating profit and financial position through analysis and interpretation of financial data which requires special knowledge, experience and judgment.

(ii) It involves recording, classifying and summarizing. Recording means systematically writing down the transactions and events in account books soon after their occurrence. Classifying is the process of grouping transactions or entries of the same type at one place. This is done by opening accounts in a book called ledger. Summarizing involves the preparation of reports and statements from the classified data (ledger), understandable and useful to management and other interested parties. This involves preparation of final accounts namely profit and loss account and balance sheet.

(iii) It records transactions in terms of money. All transactions are recorded in terms of common measure i.e. money which increases the understanding of the state of affairs of the business.

(iv) It records only those transactions and events which are of financial character. If an event has no financial character then it will not be capable of being measured in terms of money ; it will not be, therefore, recorded.

(v) It is the art of interpreting the results of operations to determine the financial position of the enterprise, the progress it has made and how well it is getting along.

Lesson 3

Page no. 107

In the Definition of Sweat equity shares below explanations will be added:

For the purposes of above-

(i) the expressions ‘‘Employee’’ means-

(a) a permanent employee of the company who has been working in India or outside India; or
(b) a director of the company, whether a whole time director or not; or
(c) an employee or a director as defined in sub-clauses (a) or (b) above of a subsidiary, in India or outside India, or of a holding company of the company;

(ii) the expression ‘Value additions’ means actual or anticipated economic benefits derived or to be derived by the company from an expert or a professional for providing know-how or making available rights in the nature of intellectual property rights, by such person to whom sweat equity is being issued for which the consideration is not paid or included in the normal remuneration payable under the contract of employment, in the case of an employee.

Lesson 4

Page no. 149

Under Debenture Redemption Reserve (DRR) add point no. (xi) at the end

(xi) For other companies including manufacturing and infrastructure companies, the adequacy of DRR will be 25% of the value of outstanding debentures issued through public issue as per present SEBI (Issue and Listing of Debt Securities), Regulations 2008 and also 25% DRR is required in the case of privately placed debentures by listed companies. For unlisted companies issuing debentures on private placement basis, the DRR will be 25% of the value of outstanding debentures.

Further, where a company intends to redeem its debentures prematurely, it may provide for transfer of such amount in Debenture Redemption Reserve as is necessary for redemption of such debentures even if it exceeds the limits specified in this sub-rule.

Lesson 5

Page no. 172

Replace the matter of SEBI Guidelines till Escrow account with the below matter:

SEBI (Buy-back of Securities) Regulations, 2018

The Securities and Exchange Board of India, has issued the SEBI (Buy-back of Securities) Regulations, 2018 with regard to buy-back of shares or other specified securities by companies.

Modes of buy-back

A company may buy-back its shares or other specified securities by any one of the following methods:

a) from the existing share holders or other specified securities holders on a proportionate basis through the tender offer;

b) from the open market through—

i) book-building process,
ii) stock exchange;

c) from odd-lot holders, provided that no offer of buy-back for fifteen per cent or more of the paid up capital and free reserves of the company shall be made from the open market.

Disclosures, filing requirements and timelines for public announcement and draft letter of offer

When a company proposes to buy-back its own shares, and it has been authorised by a special resolution or a resolution passed by the board of directors, as the case may be, shall make a public announcement within two working days from the date of declaration of results of the postal ballot for special resolution/board of directors resolution in at least one English National Daily, one Hindi National Daily and one Regional language daily, all with wide circulation at the place where the Registered Office of the company is situated and the said public announcement shall contain all the material information as specified in these Regulations. A copy of the public announcement along with the soft copy, shall also be submitted to SEBI, simultaneously, through a merchant banker.

The company shall within five working days of the public announcement file the following :

a) A draft letter of offer, along with a soft copy, containing disclosures as specified in these regulations through a merchant banker who is not associated with the company.
b) A declaration of solvency in specified form and in a manner provided in Section 68(8) of the Companies Act, 2013.
c) Prescribed fees as specified in these regulations.

SEBI may provide its comments on the draft letter of offer within seven working days of the receipt of the draft letter of offer. Letter of Offer shall be dispatch to the Shareholders

The company shall dispatch the letter of offer along with the tender form to all securities holders which are eligible to participate in the buy-back offer not later than five working days from the receipt of communication of comments from SEBI.

Note:

- Letter of Offer may also be dispatched through electronic mode in accordance with the provisions of the Companies Act, 2013.
- On receipt of a request from any shareholder to receive a copy of the letter of offer in physical form, the same shall be provided.

If in case an eligible public shareholder does not receive the tender offer/offer form, even though he can participate in the buy-back offer and tender shares in the manner as provided by SEBI.

The date of the opening of the offer shall be not later than five working days from the date of dispatch of the letter of offer. It shall be remain opened for a period of ten working days.

The company shall provide the facilities for tendering of shares by the shareholders and settlement of the same, through the stock exchange mechanism in the manner as provided by SEBI.

Additional Conditions for Buyback of Shares or Other Securities

A company shall not buy-back its shares or other specified securities :

a) so as to delist its shares or other specified securities from the stock exchange.
b) from any person through negotiated deals, whether on or off the stock exchange or through spot transactions or through any private arrangement.

A company shall not make any offer of buy-back within a period of one year reckoned from the date of expiry of buyback period of the preceding offer of buy-back, if any.

A company shall not allow buy-back of its shares unless the consequent reduction of its share capital is affected.

Escrow account

Regulation 9(xi) of SEBI (Buy back of Securities) Regulations, 2018 provides that a company shall, as and by way of security for performance of its obligations under the regulations, on or before the opening of the offer, deposit in an escrow account such sum as specified below:

The escrow amount shall be payable in the following manner:

a) if the consideration payable does not exceed Rupees 100 crores; 25 per cent of the consideration payable;
b) if the consideration payable exceeds Rupees 100 crores; 25 per cent upto Rupees 100 crores and 10 per cent thereafter.

The escrow account referred to in this regulation shall consist of,

(i) cash deposited with a scheduled commercial bank, or

(ii) bank guarantee in favour of the merchant banker, or

(iii) deposit of acceptable securities with appropriate margin, with the merchant banker, or

(iv) a combination of (i), (ii) and (iii) above.

Page no. 181

Replace the matter from SEBI on creation of Debenture redemption Reserve (DRR) till Accounting entries at page 185 with below matter:

CREATION OF DEBENTURE REDEMPTION RESERVE (DRR) ACCOUNT

According to Sub rule 7 of Rule 18 of The Companies (Share Capital and Debentures) Rules, 2014, The company shall create a Debenture Redemption Reserve for the purpose of redemption of debentures, in accordance with the conditions given below-

(a) the Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend;

(b) the company shall create Debenture Redemption Reserve (DRR) in accordance with following conditions:-

(i) No DRR is required for debentures issued by All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures. For other Financial Institutions (FIs) within the meaning of clause (72) of section 2 of the Companies Act, 2013, DRR will be as applicable to NBFCs registered with RBI.

(ii) For NBFCs registered with the RBI under Section 45-IA of the RBI (Amendment) Act, 1997, and for housing finance companies registered with the national housing bank] 'the adequacy' of DRR will be 25% of the value of outstanding debentures issued through public issue as per present SEBI (Issue and Listing of Debt Securities) Regulations, 2008, and no DRR is required in the case of privately placed debentures.

(iii) For other companies including manufacturing and infrastructure companies, the adequacy of DRR will be 25% of the value of outstanding debentures issued through public issue as per present SEBI (Issue and Listing of Debt Securities), Regulations 2008 and also 25% DRR is required in the case of privately placed debentures by listed companies. For unlisted companies issuing debentures on private placement basis, the DRR will be 25% of the value of outstanding debentures.

Provided that where a company intends to redeem its debentures prematurely, it may provide for transfer of such amount in Debenture Redemption Reserve as is necessary for redemption of such debentures even if it exceeds the limits specified in this sub-rule.

(c) every company required to create Debenture Redemption Reserve shall on or before the 30th day of April in each year, invest or deposit, as the case may be, a sum which shall not be less than fifteen percent, of the amount of its debentures maturing during the year ending on the 31st day of March of the next year, in any one or more of the following methods, namely:-

(i) in deposits with any scheduled bank, free from any charge or lien;

(ii) in unencumbered securities of the Central Government or of any State Government;

(iii) in unencumbered securities mentioned in sub-clauses (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882;

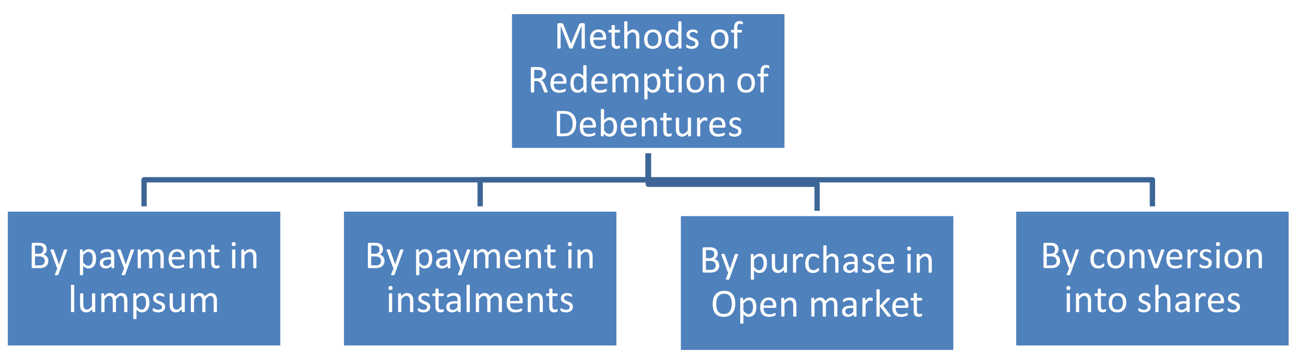
(iv) in unencumbered bonds issued by any other company w hich is notified under sub-clause (f) of section 20 of the Indian Trusts Act, 1882;

(v) the amount invested or deposited as above shall not be used for any purpose other than for redemption of debentures maturing during the year referred above: Provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below fifteen per cent of the amount of t he debentures maturing during the year ending on the 31 st day of March of that year;

(d) in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.

(e) the amount credited to the Debenture Redemption Reserve shall not be utilised by the company except for the purpose of redemption of debentures

METHODS OF REDEMPTION OF DEBENTURES



Redemption of debentures must be done according to the terms of issue of debentures and any deviation there from will be treated as a default by the company. Redemption by paying off the debt on account of debentures issued can be done in one of the following methods:

1. By payment in lumpsum

Under payment in lumpsum method, at maturity or at the expiry of a specified period of debenture the payment of entire debenture is made in one lot or even before the expiry of the specified period.

2. By payment in Instalments

Under payment in installments method, the payment of specified portion of debenture is made in installments at specified intervals.

3. Purchase of Debentures in Open Market

Debentures sometimes are purchased in open market; where there is a Debenture Redemption Reserve out of the reserve and, if there is none, as a general investment; the Debenture Investment Account or Own Debenture Account is debited.

4. Conversion into Shares

A company may issue convertible debentures, giving options to the debenture holders to exchange their debentures for equity shares or preference shares in the company.

Lesson 6

Page no. 204

Replace the matter on Presentation of Financial Statement (International Accounting Standard 1) (IAS 1) with the below matter:

Ind AS 1, Presentation of Financial Statements

Ind AS 1 prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Financial Statements

The Standard requires an entity to present a complete set of financial statements at least annually, with comparative amounts for the preceding year (including comparative amounts in the notes). A complete set of financial statements comprises of:

(a) a balance sheet as at the end of the period ;

(b) a statement of profit and loss for the period;

(c) a statement of changes in equity for the period;

(d) a statement of cash flows for the period;

(e) notes, comprising significant accounting policies and other explanatory information;

(f) comparative information in respect of the preceding period; and

(g) a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

The Standard requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e., comprehensive income) are required to be presented in single statement of profit and loss, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.

The Standard requires that an entity whose financial statements comply with Ind AS must make an explicit and unreserved statement of such compliance in the notes. An entity must not describe financial statements as complying with Ind AS unless they comply with all the requirements of Ind AS. The application of Ind AS, with additional disclosure when necessary, is presumed to result in financial statements that achieve a presentation of true and fair view.

The Standard also deals with going concern issues, offsetting and changes in presentation or classification.

Structure and Content

The Standard requires that an entity shall clearly identify the financial statements and distinguish them from other information in the same published document. The Standard requires some line items to be presented in the balance sheet. It also prescribes the information to be presented in statement of profit and loss, other comprehensive income section and statement of changes in equity.

Other Comprehensive Income

Other comprehensive income comprises items of income and expenses (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Ind AS.

The Standard requires an entity to disclose reclassification adjustments and income tax relating to each component of other comprehensive income. Reclassification adjustments are the amounts reclassified to profit or loss in the current period that were previously recognised in other comprehensive income.

The other comprehensive income section shall present line items for amounts for the period of:

(a) items of other comprehensive income (excluding amounts in paragraph (b)), classified by nature and grouped into those that, in accordance with other Ind AS:

(i) will not be reclassified subsequently to profit or loss; and

(ii) will be reclassified subsequently to profit or loss when specific conditions are met.

(b) the share of the other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that, in accordance with other Ind AS:

(a) will not be reclassified subsequently to profit or loss; and

(b) will be reclassified subsequently to profit or loss when specific conditions are met.

Current/non-current distinction

The Standard requires that an entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in the order of their liquidity.

The Standard also requires that whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) no more than twelve months after the reporting period, and

(b) more than twelve months after the reporting period. The Standard, among other things, requires that:

(a) An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

(b) An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(c) An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. An entity shall also provide additional disclosures on puttable financial instruments classified as equity instruments.

Page no. 212

Replace the matter from Determination of Managerial remuneration till end of Segment Reporting with the below matter:

DETERMINATION OF MANAGERIAL REMUNERATION

Managerial persons implies Managing Director, Whole-time Director, Part-time Director and managers who shall be paid remuneration subject to and in accordance with the provision of Section 197 of the Companies Act, 2013. Managerial remuneration in simple words is the remuneration paid to managerial personals.

Remuneration allowed to Managerial personnel

According to Section 197 of the Companies Act, 2013, the total managerial remuneration payable by a public company, to its directors, including managing director and whole-time director, and its manager in respect of any financial year shall not exceed 11% of the net profits of that company for that financial year except that the remuneration of the directors shall not be deducted from the gross profits. However, the company in general meeting may, authorise the payment of remuneration exceeding 11% of the net profits of the company, subject to the provisions of Schedule V of the Act.

Provided further that, except with the approval of the company in general meeting by a special resolution-

(i) the remuneration payable to any one managing director; or whole-time director or manager shall not exceed 5% of the net profits of the company and if there is more than one such director remuneration shall not exceed 10% of the net profits to all such directors and manager taken together;
(ii) the remuneration payable to directors who are neither managing directors nor whole-time directors shall not exceed,—

a) 1% of the net profits of the company, if there is a managing or whole-time director or manager;
b) 3% of the net profits in any other case.

Further, where the company has defaulted in payment of dues to any bank or public financial institution or non-convertible debenture holders or any other secured creditor, the prior approval of the bank or public financial institution concerned or the non-convertible debenture holders or other secured creditor, as the case may be, shall be obtained by the company before obtaining the approval in the general meeting.

To summaries the above the total managerial remuneration payable by a public company, to its directors, managing director and whole-time director and its manager in respect of any financial year is:

Condition	**Maximum Remuneration in any financial year**
Company with one Managing director/whole time director/manager	5% of the net profits of the company
Company with more than one Managing director/whole time director/manager	10% of the net profits of the company
Overall Limit on Managerial Remuneration	11% of the net profits of the company
Remuneration payable to directors who are neither managing directors nor whole-time directors	
For directors who are neither managing director or whole-time directors	1% of the net profits of the company if there is a managing director/whole time director
If there is a director who is neither a Managing director/whole time director	3% of the net profits of the company if there is no managing director/whole time director

Maximum Remuneration payable by a company to its Managerial personnel when the company has inadequate profits/no profits:

In case a company has inadequate profits/no profits in any financial year, no amount shall be payable by way of remuneration except if these provisions are followed.

Where the effective capital is	**Limit of yearly remuneration payable shall not exceed (Rupees)**
Negative or less than 5 crores	60 Lakhs
5 crores and above but less than 100 crores	84 Lakhs
100 crores and above but less than 250 crores	120 Lakhs
250 crores and above	120 lakhs plus 0.01% of the effective capital in excess of Rs. 250 crores:

Provided that the remuneration in excess of above limits may be paid if the resolution passed by the shareholders is a special resolution.

Manner of Determination of Managerial Remuneration

The remuneration payable to such directors of a company shall be determined either by the articles of the company, or by a resolution or, if the articles so require, by a special resolution, passed by the company in general meeting.

Remuneration Includes:

The remuneration payable to a director determined aforesaid shall be inclusive of the remuneration payable to him for the services rendered by him in any other capacity provided that any remuneration for services rendered by any such director in other capacity shall not be so included if—

(a) the services rendered are of a professional nature; and

(b) in the opinion of the Nomination and Remuneration Committee, if the company is covered under sub-section (1) of section 178, or the Board of Directors in other cases, the director possesses the requisite qualification for the practice of the profession.

Maximum amount of Sitting Fees

A company may pay a sitting fee to a director for attending meetings of the Board or committees thereof, such sum as may be decided by the Board of directors thereof which shall not exceed one lakh rupees per meeting of the Board or committee thereof:

Further, for Independent Directors and Women Directors, the sitting fee shall not be less than the sitting fee payable to other directors.

Method of Payment of Managerial remuneration

A director or manager may be paid remuneration either by way of a monthly payment or at a specified percentage of the net profits of the company or partly by one way and partly by the other.

Remuneration not allowed to Independent Directors

An Independent Director shall not be entitled to any stock option and may receive remuneration by way of sitting fees provided under sub-section (5), reimbursement of expenses for participation in the Board and other meetings and profit related commission as may be approved by the members.

Recovery of Remuneration received by director in contravention of section 197 of the Companies Act, 2013

If any director draws or receives, directly or indirectly, by way of remuneration any such sums in excess of the limit prescribed by this section or without approval required under this section, he shall refund such sums to the company, within two years or such lesser period as may be allowed by the company, and until such sum is refunded, hold it in trust for the company.

Fine in case of contravention of provisions of section 197

If any person contravenes the provision of this section, he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees.

CORPORATE SOCIAL RESPONSIBILITY SPEND

Every company having net worth of Rupees 500 crore or more, or turnover of rupees 1,000 crore or more or a net profit of rupees 5 crore or more during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

Provided that where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have in its Corporate Social Responsibility Committee two or more directors.

Role of Board of Directors

The role of the Board of Directors is explained below

- After considering the recommendations made by the CSR Committee, approve the CSR policy for the Company.
- The Board must ensure only those activities must be undertaken which are mentioned in the policy
- The Board of Directors shall make sure that the company spends in every financial year, minimum 2% of the average net profits made during the 3 immediately preceding financial years as per CSR policy.

- The Board's Report shall disclose –
    - CSR Committee's composition
    - the contents of CSR Policy
    - the reasons for not spending the amount of 2% as per CSR Policy (in case the company fails to spend such amount).

CSR Expenditure

CSR Expenditure shall include all expenditure including contribution to corpus, for projects or programs relating to CSR activities approved by the board on the recommendation of its CSR Committee, but does not include any expenditure on an item not in conformity or not in line with activities which fall within the purview of Schedule VII of the Act.

CSR Reporting

With respect to CSR Reporting, the provisions are as follows:

- The Board's Report referring to any financial year initiating on or after the 1st day of April 2014 shall include an annual report on CSR.
- In case of a foreign company, the balance sheet filed shall contain an annexure regarding report on CSR.

RELATED PARTY DISCLOSURE

As per section 2(76) of Companies Act, 2013 the term Related party with reference to a company means-

1. A director or his relative
2. A key managerial personnel or his relative
3. A firm, in which a director, manager or his relative is a partner
4. A private company in which a director or manager is a member or director
5. A public company in which a director or manager is a director or holds along with his relative more than 2% of his paid up share capital
6. Anybody corporate whose board of directors, managing director or manager is accustomed to act In accordance with the advice, directions or instructions of a director or manager.

7. any person on whose advice, directions or instructions a director or manager is accustomed to act:

   Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

8. Any body corporate which is—

   (A) a holding, subsidiary or an associate company of such company;

   (B) a subsidiary of a holding company to which it is also a subsidiary; or

   (C) an investing company or the venturer of the company;";

9. A director or key managerial personnel of the holding, subsidiary or associate company of such company or his relative

10. Any person appointed in senior management in the company or its holding, subsidiary or associate company i.e. personnel of the company or its holding, subsidiary or associate company who are core management team excluding board of directors comprising all members of management one level below the executive directors, including functional heads.

According to section 188 of the Companies Act, 2013, the following transactions are deemed to be related party transaction between a company and its related party-

a) sale, purchase or supply of any goods or materials;
b) selling or otherwise disposing of, or buying, property of any kind;
c) leasing of property of any kind;
d) availing or rendering of any services;
e) appointment of any agent for purchase or sale of goods, materials, services or property;
f) such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
g) underwriting the subscription of any securities or derivatives thereof, of the company:

Provided that no contract or arrangement, in the case of a company having a paid-up share capital of not less than such amount, or transactions not exceeding such sums, as may be prescribed, shall be entered into except with the prior approval of the company by a resolution.

Further, no member of the company shall vote on such resolution, to approve any contract or arrangement which may be entered into by the company, if such member is a related party.Also that nothing contained in the second proviso shall apply to a company in which ninety per cent. or more members, in number, are relatives of promoters or are related parties

Provided also that nothing in this sub-section shall apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.

Provided also that the requirement of passing the resolution under first proviso shall not be applicable for transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

Fine for Contravention

Any director or any other employee of a company, who had entered into or authorised the contract or arrangement in violation of the provisions of section 188 shall,—
(i) in case of listed company, be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees, or with both; and
(ii) In case of any other company, be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees.

Related party disclosure according to AS 18

According to Accounting Standard (AS) 18: Related party Disclosure, the objective of the Standard is to establish requirements for disclosure of:

(a) related party relationships; and

(b) transactions between a reporting enterprise and its related parties.

For the purpose of this Standard, Related party means parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Related party transaction means a transfer of resources or obligations between related parties, regardless of whether or not a price is charged.

This Standard should be applied in reporting related party relationships and transactions between a reporting enterprise and its related parties. The requirements of this Standard apply to the financial statements of each reporting enterprise as also to consolidated financial statements presented by a holding company.

Related party disclosure requirements as laid down in this Standard do not apply in circumstances where providing such disclosures would conflict with the reporting enterprise's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority.

SEGMENT REPORTING (AS 17)

The objective of this Standard is to establish principles for reporting financial information, about the different types of products and services an enterprise produces and the different geographical areas in which it operates. Such information helps users of financial statements:

(a) better understand the performance of the enterprise;
(b) better assess the risks and returns of the enterprise; and
(c) make more informed judgements about the enterprise as a whole.

Scope

1. This Standard should be applied in presenting general purpose financial statements.
2. The requirements of this Standard are also applicable in case of consolidated financial statements.
3. An enterprise should comply with the requirements of this Standard fully and not selectively.
4. If a single financial report contains both consolidated financial statements and the separate financial statements of the parent, segment information need be presented only on the basis of the consolidated financial statements. In the context of reporting of segment information in consolidated financial statements, the references in this Standard to any financial statement items should construed to be the relevant item as appearing in the consolidated financial statements.

Business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

Factors that should be considered in determining whether products or services are related include:

(a) the nature of the products or services;
(b) the nature of the production processes;
(c) the type or class of customers for the products or services;
(d) the methods used to distribute the products or provide the services; and
(e) if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities.

A **geographical segment** is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. Factors that should be considered in identifying geographical segments include: (a) similarity of economic and political conditions;

(b) relationships between operations in different geographical areas;

(c) proximity of operations;

(d) special risks associated with operations in a particular area;

(e) exchange control regulations; and

(f) the underlying currency risks.

A reportable segment is a business segment or a geographical segment identified on the basis of foregoing definitions for which segment information is required to be disclosed by this Standard.

A business segment or geographical segment should be identified as a reportable segment if:

(a) its revenue from sales to external customers and from transactions with other segments is 10 per cent or more of the total revenue, external and internal, of all segments; or

(b) its segment result, whether profit or loss, is 10 per cent or more of - (i) the combined result of all segments in profit, or (ii) the combined result of all segments in loss, whichever is greater in absolute amount; or

(c) its segment assets are 10 per cent or more of the total assets of all segments.

Segment information should be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the enterprise as a whole.

Page no. 220

Replace matter on How to read and interpret Financial statements with below matter:

Financial statements are statement which provides net results from operations, cash flows from various activities and financial position of the company for a particular year. Financial statements should be prepared using globally acceptable accounting principles (such as Ind AS or AS in India) that makes these financials easy to understand and have wider acceptability.

Types of Financial Statements:

1. Balance sheet;
2. Statement of profit and loss, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
3. Cash flow statement;
4. Statement of changes in equity (if applicable) and ;
5. Any explanatory notes annexed to, or forming part of, any document referred to point (1) to (3) above.

Objectives of Financial Statements:

Financial statements are prepared with an objective to provide information about the financial position of the entity, performance and changes in financial position of an entity, cash flows during the year to help users in comparing results and making economic decisions.

1. Balance Sheet

A balance sheet is a financial statement that compares the assets and liabilities of a company to find the shareholder's equity at a specific time.

The balance sheet adheres to the following formula:

Assets = Liabilities + Shareholders' Equity

A Balance sheet contains the following:

(a) **Assets:** Assets in balance sheet shows the amount of assets an entity holds on the date of balance sheet.
(b) **Liabilities:** Liabilities in balance sheet shows the amount of liability an entity is liable to pay in future (determined on the date of balance sheet).
(c) **Equity & Reserves:** Equity and reserves is the amount of capital entity has including reserves balances, if any. Higher amount of equity and reserves indicate higher net worth of the entity.

2. Statement of profit and loss or income and expenditure account

A company prepares statement of profit and loss to show the net result (profit or loss) from the revenue earned and expense incurred. In case of a company carrying on activity not for profit, income and expenditure account is prepared for the financial year which shows the income earned and expense incurred during the year, showing surplus (when income is more than expense) or deficit (when expense is more than income).

The main purpose is to know how much profit or loss the entity has made during a particular year.

3. Cash flow statement

Last part of a company's finances is its cash flow statement. Cash flow statement (also known as statements of cash flow) shows the flow of cash and cash equivalents during the period under report and breaks the analysis down to operating, investing and financing activities**. .** It helps in assessing liquidity and solvency of a company and to check efficient cash management.

Three key components of Cash flow statements:

- **Cash from operating activities:** This includes all the cash inflows and outflows generated by the revenue-generating activities of an enterprise like sale & purchase of raw materials, goods, labor cost, building inventory, advertising, and shipping the product etc.
- **Cash from investing activities:** These activities include all cash inflows and outflows involving the investments that the company made in a specific time period such as the purchase of new plant, property, equipment, improvements capital expenditures, cash involved in purchasing other businesses or investments.
- **Cash from financial activities:** This activity includes inflow of cash from investors such as banks and shareholders by getting loans, offering new shares etc, as well as the outflow of cash to shareholders as dividends as the company generates income. They reflect the change in capital & borrowings of the business.

In simple words, there can be cash inflow or the cash outflow from all three activities i.e. operation, investing and finance of a company. The sum of the total cash flows from all these activities can tell how much is the company's total cash inflow/outflow in a specific period of time**.**

4. Statement of changes in equity (if applicable):

Statement of changes in equity is statement that shows reconciliation of beginning and ending balances in a company's equity during a reporting period. It represents any change in equity that took place during the year.

5. Any explanatory notes annexed to, or forming part of, any statement referred above

These are working notes or information that are relevant and are required to be disclosed in relation to any of the statements discussed above. These are critical to identify the additional information relating to an entity. Explanatory notes contain details about the transactions (accounted and not accounted but disclosed).

Lesson 8

Page no. 260
Replace the matter on Auditor's Report with the below matter:

AUDITORS REPORT

An audit report is a key deliverable for any organisation which shows the end results of the entire audit process. The users of financial statements like Investors, Lenders, Customers, and others base their decisions and plans on audit reports of any enterprise. An audit report is always critical to influencing the perceived value of any financial statement's audit.

The auditor should be careful in issuing the audit report as there is are a large number of people placing reliance on such report and taking decisions accordingly. The report should be issued by being unbiased and objective in discharging the functions.

Requirements of the Companies Act, 2013

Section 143 of the Companies Act, 2013 deals with the auditors report which should fulfil following requirements :

1) The auditor shall make a report to the members of the company on the accounts examined by him, and on every financial statement and on every other document, which is to be a part of or Annexed to the Balance Sheet or Profit and Loss Account.
2) The report shall state whether, in his opinion and to the best of his information and according to the explanations given to him the said accounts.
   a) Give the information required by the Companies Act in the manner so required and ;
   b) Give a true and fair view ;
   – In the case of the Balance Sheet, of the state of the company's affairs as at the end of its financial year;
   – In the case of the Profit and Loss Account of the profit or loss in that financial year; and
   – In the case of the cash flow statement, of the cash flows for that financial year.
3) The auditor's report shall also state :
   a) Whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit and if not, the details thereof and the effect of such information on the financial statements.
   b) Whether, in his opinion, proper books of account as required by law have been kept by the company, and proper returns adequate for the purpose for his audit have been received from branches not visited by him.
   c) Whether the report on the accounts of any branch office audited by a person other than the company's auditor has been forwarded to him, and how he has dealt with the same in preparing the auditor's report.
   d) Whether the company's Balance Sheet and Profit and Loss Account dealt with by the report are in agreement with the books of account and return.
   e) Whether, in his opinion, the financial statements comply with the accounting standards.
   f) The observations or comments of the auditor's on financial transaction or matter which have any adverse effect on the functioning of the company.
   g) Whether any director is disqualified from being appointed as director under Sub-Section (2) of Section 164.

h) Any qualification, reservation or adverse remark relating to the maintenance of accounts and other matter connected therewith.
i) Whether the company has adequate financial control with reference to financial statements in place and the operating effectiveness of such controls.

The clause mentioned above disqualifies a person from being appointed as a company director if such person is already a director of a public company which

- Has not filed the annual accounts and annual returns for any continuous three financial years; or
- Has failed to repay its deposit or interest thereon on due date or redeem its debentures on due date or pay dividend on due date and such failure continues for one year or more.

4) Where any of the matters referred to in above is answered in the negative, or with an disqualification, the auditor's report shall state the reasons thereof.

5) In the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Government, or partly by the Central Government and partly by one or more State Government, the Comptroller and Auditor-General of India shall appoint the auditor under sub-section (5) or sub-section (7) of section 139 and direct such auditor the manner in which the accounts of the company are required to be audited and" thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India which, among other things, include the directions, if any, issued by the Comptroller and Auditor-General of India, the action taken thereon and its impact on the accounts and financial statement of the company.

(6) The Comptroller and Auditor-General of India shall within sixty days from the date of receipt of the audit report have a right to,—
(a) conduct a supplementary audit of the financial statement of the company by such person or persons as he may authorise in this behalf; and for the purposes of such audit, require information or additional information to be furnished to any person or persons, so authorised, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General of India may direct; and
(b) comment upon or supplement such audit report:

Provided that any comments given by the Comptroller and Auditor-General of India upon, or supplement to, the audit report shall be sent by the company to every person entitled to copies of audited financial statements under sub section (1) of section 136 and also be placed before the annual general meeting of the company at the same time and in the same manner as the audit report.

(7) The Comptroller and Auditor General of India may, in case of any government company if he considers necessary, by an order, cause test audit to be conducted of the accounts of such company and the provisions of section 19A of the Comptroller and Auditor-General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to the report of such test audit.

(8) Where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under this Act or by any other person qualified for appointment as an auditor of the company under this Act

and appointed as such under section 139, or where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed.

Provided that the branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.

(9) Every auditor shall comply with the auditing standards.

(10) The Central Government may prescribe the standards of auditing or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under section 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority:

Provided that until any auditing standards are notified, any standard or standards of auditing specified by the Institute of Chartered Accountants of India shall be deemed to be the auditing standards.

11) The Central Government may, in consultation with the National Financial Reporting Authority, by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein.

Provided that until the National Financial Reporting Authority is constituted under section 132, the Central Government may hold consultation required under this sub- section with the Committee chaired by an officer of the rank of Joint Secretary or equivalent in the Ministry of corporate Affairs and the committee shall have the representatives from the Institute of Chartered Accountants of India and Industry Chambers and also special invitees from the National Advisory Committee on Accounting Standards and the office of the Comptroller and Auditor-General.

12) Notwithstanding anything contained in this section, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as may be prescribed, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed:

Provided that in case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed:

Provided further that the companies, whose auditors have reported frauds under this sub-section to the audit committee or the Board but not reported to the Central Government, shall disclose the details about such frauds in the Board's report in such manner as may be prescribed.

(13) No duty to which an auditor of a company may be subject to shall be regarded as having been contravened by reason of his reporting the matter referred to in sub-section (12) if it is done in good faith.

(14) The provisions of this section shall mutatis mutandis apply to—

(a) the cost accountant conducting cost audit under section 148; or
(b) the company secretary in practice conducting secretarial audit under section 204.

(15) If any auditor, cost accountant or company secretary in practice do not comply with the provisions of sub-section (12), he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

Boards' Report

(1) The financial statement, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board by the chairperson of the company where he is authorised by the Board or by two directors out of which one shall be managing director, if any, and the Chief Executive Officer, the Chief Financial Officer and the company secretary of the company, wherever they are appointed, or in the case of One Person Company, only by one director, for submission to the auditor for his report thereon.

The auditors' report shall be attached to every financial statement.

(2) There shall be attached to statements laid before a company in general meeting, a report by its Board of Directors, which shall include—

(a) the web address, if any, where annual return referred to in sub-section (3) of section 92 has been placed

(b) number of meetings of the Board;

(c) Directors' Responsibility Statement;

(d) details in respect of frauds reported by auditors under sub-section (12) of section 143 other than those which are reportable to the Central Government;

(e) a statement on declaration given by independent directors under sub-section (6) of section 149;

(f) in case of a company covered under sub-section (1) of section 178, company's policy on directors' appointment and remuneration including criteria for determining qualifications, positive attributes, independence of a director and other matters provided under sub-section (3) of section 178;

(g) explanations or comments by the Board on every qualification, reservation or adverse remark or disclaimer made—

(i) by the auditor in his report; and

(ii) by the company secretary in practice in his secretarial audit report;

(h) particulars of loans, guarantees or investments under section 186;

(i) particulars of contracts or arrangements with related parties referred to in sub-section (1) of section 188 in the prescribed form;

(j) the state of the company's affairs;

(k) the amounts, if any, which it proposes to carry to any reserves;

(l) the amount, if any, which it recommends should be paid by way of dividend;

(m) material changes and commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the financial statements relate and the date of the report;

(n) the conservation of energy, technology absorption, foreign exchange earnings and outgo, in such manner as may be prescribed;

(o) a statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company;

(p) the details about the policy developed and implemented by the company on corporate social responsibility initiatives taken during the year;
in case of a listed company and every other public company having such paid-up share capital as may be prescribed, a statement indicating the manner in which formal annual evaluation of the performance of the Board, its Committees and of individual directors has been made;

(q) such other matters as may be prescribed.

Provided further that where the policy referred to in clause (e) or clause (o) is made available on company's website, if any, it shall be sufficient compliance of the requirements under such clauses if the salient features of the policy and any change therein are specified in brief in the Board's report and the web-address is indicated therein at which the complete policy is available

(3) The Central Government may prescribe an abridged Board's report, for the purpose of compliance with this section by One Person Company or small company

(4) The report of the Board of Directors to be attached to the financial statement under this section shall, in case of a One Person Company, mean a report containing explanations or comments by the Board on every qualification, reservation or adverse remark or disclaimer made by the auditor in his report.

(5) The Directors' Responsibility Statement shall state that—

(a) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

(b) the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;

(c) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

(d) the directors had prepared the annual accounts on a going concern basis; and

(e) the directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.

It may be noted that the term "internal financial controls" means the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information;

(f) the directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

(6) The Board's report and any annexures thereto shall be signed by its chairperson of the company if he is authorised by the Board and where he is not so authorised, shall be signed by at least two directors, one of whom shall be a managing director, or by the director where there is one director.

(7) A signed copy of every financial statement, including consolidated financial statement, if any, shall be issued, circulated or published along with a copy each of—

a) any notes annexed to or forming part of such financial statement;

b) the auditor's report; and

c) the Board's report.

(8) If a company contravenes the provisions of section 134 of the Companies Act, the company shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

Page no. 261
Replace the matter under Companies (Auditors' Report) Order, 2003 or CARO with the following matter and add matter on Corporate Governance:

Company Auditor's Report Order (CARO), 2016 – Reporting Requirements

The Ministry of Corporate Affairs (MCA) issued Company Auditor's Report Order (CARO), 2016 on 29th March 2016. This order supersedes the earlier order (CARO 2015).

1. The Existence of CARO, 2016

MCA was of the objective that there are certain particular issues which are important to be reported with the financial statements for certain entities as a part of their audit reports. The auditor of such prescribed entities is required to report on the points mentioned under this order after performing procedures for verification of the same.

2. Applicability of CARO 2016

CARO 2016 is applicable to all the companies except the following (which) are specifically excluded from its purview:

A. Banking Companies
B. Insurance Companies
C. Companies registered for Charitable Purposes
D. One Person Company
E. Small Companies (*Companies with Paid up capital less than or equal to Rs. 50 Lakhs and Last reported turnover less than or equal to Rs. 2 Crores*)

F. The following *Private Companies* are also exempt from the requirements of CARO, 2016

i. Not a holding or subsidiary of a Public company
ii. Paid up Capital *plus* Reserves less than or equal to Rs. 1 Crore as at the reporting date
iii. Borrowings less than or equal to Rs. 1 Crore at any time during the year
iv. Revenue less than or equal to Rs. 10 Crores in the financial year

The auditors of all other class or classes of companies are required to report on the matters specified in this order. This order applies to foreign companies also and thus, the auditors for such companies are also required to report on the matters specified in CARO, 2016.

3. Matters specified in CARO 2016

The *Company Auditor's Report Order (CARO), 2016* includes the following matters on which the auditor is required to report mandatorily:

A. Fixed Assets

B. Inventory

C. Loans given by Company

D. Loan to Directors and Investment by the Company

E. Deposits

F. Cost records

G. Statutory Dues

H. Repayment of Loans

I. The utilisation of funds

J. Reporting of Fraud

K. Approval of Managerial Remuneration

L. Nidhi Company

M. Related Party Transactions

N. Private placement of Preferential Issues

O. Non-Cash Transactions

P. Registration under RBI Act

4. Reporting Requirement Under Each Clause

A brief of reporting requirements under each of the above clauses is hereunder:

A. Fixed Assets

i. Whether the company maintains proper records showing full particulars including details of quantity and situation of the fixed assets
ii. Whether physical verification of the fixed assets is conducted by the management at reasonable intervals
iii. If any material discrepancies were noticed on physical verification, whether it has been accounted for in books of accounts

B. Inventory

i. Whether at reasonable intervals the management has conducted physical verification of inventory
ii. If any material discrepancies were noticed on physical verification, whether it has been accounted for in books of accounts

C. Loans given by Company

Whether the company has granted any secured or unsecured loans to related parties. IF they have granted such loans, to check the following:

i. Whether the terms of such loans are not prejudicial to company's interest
ii. Whether the repayment and its receipt are proper

iii. To report with loans repayment outstanding for more than 90 days and what is the recovery position

D. Loan to Directors and Investment by the Company

Whether the loans and guarantees to directors are in order and in compliance with the limits prescribed.

E. Deposits

Whether the company has accepted any deposits and if yes, have they followed RBI's directives as under:

i. The provisions regarding acceptance of deposits under section 73 to 76 of the Companies Act, 2013 have been followed
ii. If the order is passed by the court or any other tribunal like RBI, CLB, etc
iii. In case of non-compliance, the nature of the same has to be reported

F. Cost Records

If Central Government has prescribed maintaining cost records, whether the same have been properly maintained or not.

G. Statutory Dues

The auditor shall report whether the company:

i. Is regularly depositing its statutory dues
ii. If not regular, statutory dues outstanding for more than 6 months should be disclosed
iii. If any taxes have not been deposited because of any dispute, the amount of dispute and the forum where the litigation is ongoing should be disclosed

H. Repayment of Loans

If the company has defaulted in repayment of loans to banks, government, debenture-holders, etc. then the amount and period of default is to be reported.

I. Utilisation of funds

If any funds were raised under a public offer or loan, have they been applied to the purpose for which they were raised. Also, the auditor has to report in case of any delay and defaults.

J. Reporting of Fraud

If any fraud by the company or its employees has occurred during the year. If yes, nature and amount involved have to be reported.

K. Approval of Managerial Remuneration

Whether the limits prescribed under the Company's Act 2013 for managerial remuneration have been adhered to. If not, the amount of excess amount involved and steps for recovery being taken have to be reported.

L. Nidhi Company

In case of a Nidhi company, whether the following have been complied with has complied with:

i. Maintain net owned funds to deposit in the ratio of 1:20 to meet out the liability

ii. Maintain 10% unattached term deposits to meet out the liability

M. Related Party Transactions

The compliances with rules specified in Companies Act 2013 for transactions with related parties have been complied with or not. Also, the same is disclosed appropriately in the financial statements or not.

N. Private placement of Preferential Issues

Whether the company has made any preferential or private allotments of shares and debentures. Also, whether the amount Raised has been utilized towards the purpose for which it was raised.

O. Non-Cash Transactions

Whether the company has followed the limits and conditions as per Companies Act 2013 in respect of non-cash transactions with directors or their relatives.

P. Registration under RBI Act

Whether the company is required to be registered under RBI Act and if yes, then whether the registration is obtained or not.

All the above-stated clauses are mandatory to be reported on. Also, the disclosures are to be given appropriately.

CORPORATE GOVERNANCE

Corporate Governance is how a corporation is administered or controlled. It is a set of processes, customs, policies, laws and instructions affecting the way a corporation is directed, administered or controlled. The participants in the process include employees, suppliers, partners, customers, government, and professional organization regulators, and the communities in which the organization has presence. The main theme of corporate governance is to integrate sound management policies in the corporate framework in such a manner to bring economic efficiency in the organization in order to achieve twin goals of profit maximization and shareholder welfare.

Definitions of Corporate Governance

"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."

G20/OECD Principles of Corporate Governance

"Corporate governance deals with laws, procedures, practices and implicit rules that determine a company's ability to take informed managerial decisions vis-à-vis its claimants - in particular, its shareholders, creditors, customers, the State and employees. There is a global consensus about the objective of 'good' corporate governance: maximising long-term shareholder value."

Confederation of Indian Industry (CII) – Desirable Corporate Governance Code (1998)

"Corporate Governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company."

Report of N.R. Narayana Murthy Committee on Corporate Governance constituted by SEBI (2003)

"Corporate Governance is the application of best Management Practices, Compliance of Laws in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders."

The Institute of Company Secretaries of India

Objectives of Corporate Governance

The objectives of corporate governance include:

- To create social responsibility
- To create a transparent working system
- To create a management accountable for corporate functioning
- To protect and promote the interest of shareholders
- To develop an efficient organization culture
- To aid in achieving social and economic goals
- To improve social cohesion
- To minimise wastages, corruption etc.

Need of Corporate governance

The significance of good corporate governance system has widened because of the increasing conflict between ownership and management disciplines, the non-compliance of financial reporting by auditors which inflicts heavy losses on investors and lack of fair and transparent culture in the company which has lowered the investor trust in the financial viability of the company and its ethical standards. Thus there arises a need to imbibe a good corporate governance system for the betterment of all the stakeholders. It is important for the following reasons***:***

1. Corporate governance lays down the foundation of a properly structured Board and strives to a healthy balance between management and ownership which is capable of taking independent decisions for creating long-term trust between the company and external stakeholders of the company.
2. It strengthens strategic thinking at the top management by taking independent directors on the board who bring intellectual experience to the company and unbiased approach to deal with matters related to companies welfare.
3. It instills transparent and fair practices in the board management which results in financial transparency and integrity of the audit reports.
4. It sets the benchmark for the company’s management to comply with laws in true letter and spirit while adhering to ethical standards of the company for bringing out effective management solutions in order to discharge its responsibility for smooth functioning of the company.
5. It inculcates loyalty among investors as their interest is looked after in the best manner by a company who adopts good management practices.

Corporate Governance under Companies Act, 2013

The Companies Act, 2013 has introduced various key provisions and mandatory disclosure requirements which have changed the corporate regime in such a way so as to run the corporate machinery in alignment with the globalised corporate world. The scope of corporate governance is no longer restricted to only listed public companies but it has also included unlisted public companies.

One of the important areas of corporate governance introduced in Companies Act, 2013 has been introduction of:

1. Independent Director

Under the Companies Act, 2013 the strength of number of Independent directors for the prescribed companies under Section 149(4) read with Rule 4 of Companies (Appointment and Qualifications of Directors) Rules, 2014 is as follows:

Listed Public Company	At least one third of total number of directors
Public Companies having turnover of 100	At least 2 directors

crores rupees or more	
Public companies having paid up capital of 10 crores rupees or more	At least 2 directors

2. Woman Director

Section 149 (1) of the Companies Act, 2013 prescribes the following classes of companies to have at least one woman director.

i. All listed companies

ii. Non-listed public companies having paid up share capital of Rs.100 crores or more or having turnover of Rs.300 crores or more

3. Audit Committees

The Companies Act, 2013 has increased the ambit of companies to constitute audit committees. The Audit Committee shall consist of a minimum of 3 directors with independent directors forming a majority. The majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement. It shall be applicable to all the listed companies or non-listed public companies having paid up share capital of Rs.10 crores or more, Turnover of Rs.100 crores or more, aggregate outstanding loan of Rs. 50 crores or more.

4. Composition of Nomination & Remuneration Committee & Stakeholder relationship Committee

Section 178(1) of the Companies Act prescribes appointment of Nomination and Remuneration committee. The duty of the Committee shall be to identify the persons who are qualified to become directors and who can be appointed in the senior management and carry out the evaluation of directors. Section 178(5) prescribed appointment of stakeholder relationship Committee to resolve grievances of security holders of company

5. Internal Audit

Companies Act, 2013 has mandated the internal audit for certain classes of companies under Section 138. These companies includes all the listed companies, All listed companies having paid up share capital of Rs. 50 crores or more, all the non-listed companies having paid up share capital of Rs.50 crores or more, turnover of Rs.200 crores or more in the preceding financial year, outstanding loans or borrowings from the banks or public financial institutions of Rs.100 crores or more.

6. Serious Fraud Investigation Office (SFIO)

Section 211 (1) of the Companies Act, 2013 shall establish an office called the Serious Fraud Investigation office to investigate fraud relating to Company. SFIO can investigate into the affairs of the company or on receipt of report of Registrar or inspector or in the public interest or request from any Department of Central Government or State Government.

7. Corporate Social Responsibility

Section 135(1) of Companies Act, 2013 prescribes that every company shall constitute Corporate Social Responsibility Committee constituting of three or more directors with at least one independent director. These companies includes companies having net worth of Rs. 500 crores or more, turnover of Rs.1000 crore or more, or net profit of Rs.5 crores or more during any financial year.

Corporate Governance Report

The SEBI (Listing Obligation and Disclosure Requirement) Regulation, 2015 under Regulation 34(3) and 53(f) provides for disclosure to be made in the Annual Report *(*Schedule V of SEBI (LODR) Regulations 2015)

According to Schedule V of SEBI (LODR) Regulations 2015 the following disclosures shall be made in the section on the corporate governance of the annual report:

(1) A brief statement on listed entity's philosophy on code of governance.

(2) Board of directors:

- (a) composition and category of directors (e.g. promoter, executive, non-executive, independent non-executive, nominee director - institution represented and whether as lender or as equity investor);
- (b) attendance of each director at the meeting of the board of directors and the last annual general meeting;
- (c) number of other board of directors or committees in which a directors is a member or chairperson126[, and with effect from the Annual Report for the year ended 31st March 2019, including separately the names of the listed entities where the person is a director and the category of directorship];
- (d) number of meetings of the board of directors held and dates on which held;
- (e) disclosure of relationships between directors inter-se;
- (f) number of shares and convertible instruments held by non- executive directors;
- (g) web link where details of familiarisation programmes imparted to independent directors is disclosed.
- (h) A chart or a matrix setting out the skills/expertise/competence of the board of directors specifying the following:

(i) With effect from the financial year ending March 31, 2019, the list of core skills/expertise/competencies identified by the board of directors as required in the context of its business(es) and sector(s) for it to function effectively and those actually available with the board; and

(ii) With effect from the financial year ended March 31, 2020, the names of directors who have such skills / expertise / competence

(i) confirmation that in the opinion of the board, the independent directors fulfill the conditions specified in these regulations and are independent of the management.

(j) detailed reasons for the resignation of an independent director who resigns before the expiry of his tenure along with a confirmation by such director that there are no other material reasons other than those provided.]

(3) Audit committee:

(a) brief description of terms of reference;

(b) composition, name of members and chairperson;

(c) meetings and attendance during the year.

(4) Nomination and Remuneration Committee:

(a) brief description of terms of reference;

(b) composition, name of members and chairperson;

(c) meeting and attendance during the year;

(d) performance evaluation criteria for independent directors.

(5) Remuneration of Directors:

(a) all pecuniary relationship or transactions of the non-executive directors vis-à-vis the listed entity shall be disclosed in the annual report;

(b) criteria of making payments to non-executive directors. alternatively, this may be disseminated on the listed entity's website and reference drawn thereto in the annual report;

(c) disclosures with respect to remuneration: in addition to disclosures required under the Companies Act, 2013, the following disclosures shall be made:

(ii) all elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, pension etc;

(iii) details of fixed component and performance linked incentives, along with the performance criteria;

(iv) service contracts, notice period, severance fees;

(v) stock option details, if any and whether issued at a discount as well as the period over which accrued and over which exercisable.

(6) Stakeholders' grievance committee:

(a) name of non-executive director heading the committee;

(b) name and designation of compliance officer;

(c) number of shareholders' complaints received so far;

(d) number not solved to the satisfaction of shareholders;

(e) number of pending complaints.

(7) General body meetings:

(a) location and time, where last three annual general meetings held;
(b) whether any special resolutions passed in the previous three annual general meetings;
(c) whether any special resolution passed last year through postal ballot – details of voting pattern;
(d) person who conducted the postal ballot exercise;
(e) whether any special resolution is proposed to be conducted through postal ballot;
(f) procedure for postal ballot.

(8) Means of communication:

(b) quarterly results;
(c) newspapers wherein results normally published;
(d) any website, where displayed;
(e) whether it also displays official news releases; and
(f) presentations made to institutional investors or to the analysts.

(9) General shareholder information:

(a) annual general meeting - date, time and venue;
(b) financial year;
(c) dividend payment date;
(d) the name and address of each stock exchange(s) at which the listed entity's securities are listed and a confirmation about payment of annual listing fee to each of such stock exchange(s);
(e) stock code;
(f) market price data- high, low during each month in last financial year;
(g) performance in comparison to broad-based indices such as BSE sensex, CRISIL Index etc;
(h) in case the securities are suspended from trading, the directors report shall explain the reason thereof;
(i) registrar to an issue and share transfer agents;
(j) share transfer system;
(k) distribution of shareholding;
(l) dematerialization of shares and liquidity;
(m) outstanding global depository receipts or american depository receipts or warrants or any convertible instruments, conversion date and likely impact on equity;
(n) commodity price risk or foreign exchange risk and hedging activities;
(o) plant locations;
(p) address for correspondence.
(q) list of all credit ratings obtained by the entity along with any revisions thereto during the relevant financial year, for all debt instruments of such entity or any fixed deposit programme or any scheme or proposal of the listed entity involving mobilization of funds, whether in India or abroad.

(10) Other Disclosures:

(b) disclosures on materially significant related party transactions that may have potential conflict with the interests of listed entity at large;

(c) details of non-compliance by the listed entity, penalties, strictures imposed on the listed entity by stock exchange(s) or the board or any statutory authority, on any matter related to capital markets, during the last three years;

(d) details of establishment of vigil mechanism, whistle blower policy, and affirmation that no personnel has been denied access to the audit committee;

(e) details of compliance with mandatory requirements and adoption of the non-mandatory requirements;

(f) web link where policy for determining 'material' subsidiaries is disclosed;

(g) web link where policy on dealing with related party transactions;

(h) disclosure of commodity price risks and commodity hedging activities.

(i) Details of utilization of funds raised through preferential allotment or qualified institutions placement as specified under Regulation 32 (7A).

(j) a certificate from a company secretary in practice that none of the directors on the board of the company have been debarred or disqualified from being appointed or continuing as directors of companies by the Board/Ministry of Corporate Affairs or any such statutory authority.

(k) where the board had not accepted any recommendation of any committee of the board which is mandatorily required, in the relevant financial year, the same to be disclosed along with reasons thereof:

    (b) Provided that the clause shall only apply where recommendation of / submission by the committee is required for the approval of the Board of Directors and shall not apply where prior approval of the relevant committee is required for undertaking any transaction under these Regulations.

(l) total fees for all services paid by the listed entity and its subsidiaries, on a consolidated basis, to the statutory auditor and all entities in the network firm/network entity of which the statutory auditor is a part.]

(m) disclosures in relation to the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013:

    a. number of complaints filed during the financial year
    b. number of complaints disposed of during the financial year
    c. number of complaints pending as on end of the financial year.]

(11) Non-compliance of any requirement of corporate governance report of sub-paras (2) to (10) above, with reasons thereof shall be disclosed.

(12) The corporate governance report shall also disclose the extent to which the discretionary requirements as specified in Part E of Schedule II have been adopted.

(13) The disclosures of the compliance with corporate governance requirements specified in regulation 17 to 27 and clauses (b) to (i) of sub-regulation (2) of regulation 46 shall be made in the section on corporate governance of the annual report.

Lesson 10

Page no. 303

Add the following matter before Benefits and limitations:

ACCOUNTING STANDARD AND AUDITORS

It is the duty of the auditors that while discharging their function they have to ensure that the Accounting Standards issued and made mandatory by the Central Government are compiled with. Section 143(3)(e) of the Companies Act 2013 requires that the auditor to report whether in his opinion the financial statements comply with the Accounting Standards referred in section 133 of the Companies Act, 2013.

ACCOUNTING STANDARD AND BOARD'S REPORT

Section 134(5)(a) of the Companies Act, 2013 states that Directors Responsibility statement should include that in the preparation of the annual accounts the applicable Accounting Standards had been followed along with proper explanations relating to material departure.

Page 303

Add in the end, under head How many Accounting Standards?

List of Accounting Standards as issued by ICAI

AS 1 Disclosure of Accounting Policies

AS 2 (Revised) Valuation of Inventories

AS 3 Cash Flow Statements

AS 4 (Revised) Contingencies and Events Occurring After Balance Sheet Date

AS 5 Net profit or Loss for the period, Prior Period Items and Changes in Accounting Policies

AS 7 Construction Contracts

AS 9 Revenue Recognition

AS 10 (Revised) Property, Plant and Equipment

AS 11 The Effects of Changes in Foreign Exchange Rates

AS 12 Government Grants

AS 13 (Revised) Accounting for Investments

AS 14 (Revised) Accounting for Amalgamations

AS 15 Employee Benefits

AS 16 Borrowing Costs

AS 17 Segment Reporting

AS 18 Related Party Disclosures

AS 19 Leases

AS 20 Earnings Per Share

AS 21 (Revised) Consolidated Financial Statements

AS 22 Accounting for Taxes on Income

AS 23 Accounting for Investments in Associates

AS 24 Discontinuing Operations

AS 25 Interim Financial Reporting

AS 26 Intangible Assets

AS 27 Financial Reporting of Interests in Joint Ventures

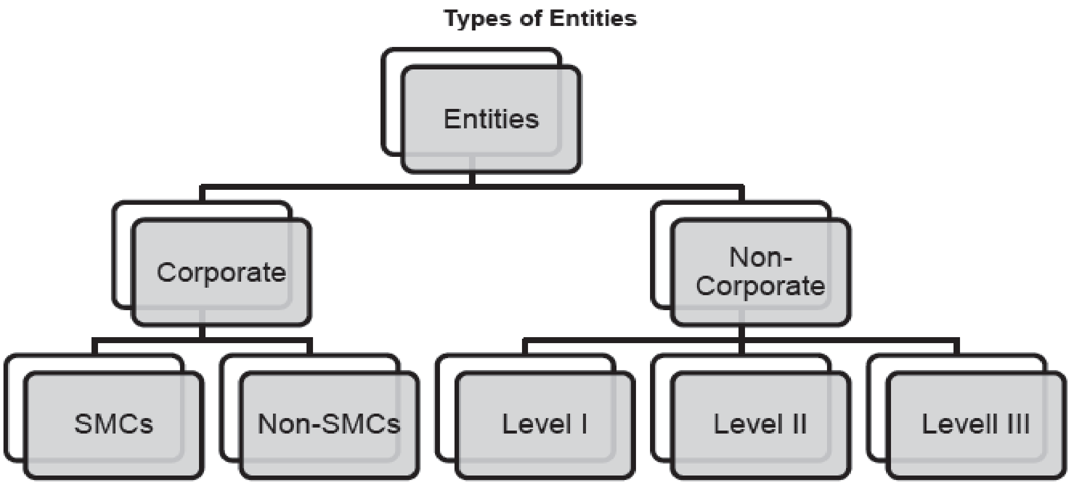
AS 28 Impairment of Assets

AS 29 (Revised) Provisions, Contingent Liabilities and Contingent Assets

Page no. 304

Replace the following matter under head Applicability of Accounting Standards

For the purpose of applicability, entities are grouped as follows:



Classification of Entities in detail:

Corporate Entities: For the purpose of applicability of AS, companies are categorised as follows:

Small and Medium Companies (SMCs): SMCs are companies that satisfy the following conditions:

a) Equity and debt securities of the company are not listed or are not in the process of listing of any stock exchange, whether in India or outside India

b) Company is not a bank or financial institution or insurance company

c) Company's turnover (excluding other income) does not exceed Rs. 50 crores in the immediately preceding accounting year

d) Company does not have borrowing (including public deposits) exceeding Rs. 10 crores at any time during the immediately preceding accounting year and

e) Company is not a holding company or subsidiary of a non-SMC.

Partial Exemption:

Certain relaxations are provided with respect to following AS:
AS 17- Segment Reporting

AS 15- Employee Benefits
AS 19- Leases
AS 20- Earnings Per Share (EPS)
AS 29- Provisions, contingent liabilities and contingent assets
Full Exemption
AS 3- Cash Flow Statements, shall not apply to SMCs if it is a One Person Company (OPC), dormant company and Small company.

Non-SMCs: All the accounting standards are applicable to Non-SMCs.

Non-Corporate Entities: Non-corporate entities are entities other than companies (as defined in the Companies Act, 2013). It includes:

1. Cooperative society and charitable entity if they carry on any commercial, industrial or business activities (even if a very small portion), in such cases AS will apply to its entire activity (whether charitable or otherwise)

2. Partnership firms and sole proprietary concerns

3. Societies registered under Societies registration Act, Hindu Undivided Family (HUF) and Association of Person (AOP).

Non-corporate entities are not under any obligatory requirement to follow accounting standards, but if such entities are required to get its financial statements attested, it will be duty of member of ICAI (CA in practice) to examine whether AS have been complied with. So indirectly, non-corporate entities are also required to follow accounting standards on the basis of level in which it falls.

Levels of non-corporate entities are discussed below:

Level	***Conditions***	***Accounting Standards applicable***
Level I	•Entities whose equity or debt instruments are listed or are in process of listing on any stock exchange (in or outside India) •Banks (including co-operative banks), financial institutions or entities carrying on Insurance business •All commercial, industrial or business reporting entities having: ➢ Borrowings > 10 crores (at any time during immediately	All the accounting standards are applicable to Level I entities. However AS 21, 23 and 27 will apply based on regulatory requirement.

	preceding accounting year) ➢ Turnover > 50 crores (during preceding accounting year) • Holding or subsidiary entities of any of the above.	
Level II	• Other than Level I entities if they fall under the following limit. • All commercial, industrial or business reporting entities having: ➢ Borrowings > 1 crores (at any time during immediately preceding accounting year) ➢ Turnover > 10 crores (during preceding accounting year) • Holding or subsidiary entities of any of the above.	*Fully applicable AS* All accounting standards are applicable to Level II entities except AS 21, 23, 25, 27 and those discussed below. *AS applicable but certain relaxations regarding disclosure requirement* AS 19 - Leases AS 20 - Earning Per Share AS 29 – Provisions, contingent liabilities and contingent assets. *Accounting standards not applicable* AS 3 - Cash Flow Statement AS 17 – Segment Reporting
Level III	• All non-corporate entities other than Level I and Level II.	In addition to partial and full exemption as given in Level II, full exemption with respect to these two are also available: AS 18 – Related Party Disclosures AS 24 – Discontinuing Operations

Requirement to follow Accounting Standards

Corporate entities are required to follow accounting standards while preparing its financial statements as per Section 129 of the Companies Act, 2013 and as discussed above, non-corporate entities are also required to comply Accounting standards if they want to get their accounts attested from a practicing Chartered Accountant.

Entities shall comply with AS 25 only if entity is required (or it voluntarily opts) to prepare and present an interim financial report.

In case of conflict between Act and Accounting standards

In case there is any conflict between provisions of any applicable Act and Accounting Standard (AS), the provisions of the Act shall prevail to that extent.

Applicability of Accounting Standards for Companies

At present there are two sets of Accounting Standards under Companies Act as under:

1. Accounting Standards (AS) as notified by the Companies (Accounting Standards) Rules, 2006. These are from AS-1 to AS-5, AS-7 and AS-9 to AS-29, as amended by notification dated 30th March, 2016.
2. Indian Accounting Standards (Ind AS) as notified by the Companies (Indian Accounting Standards) Rules, 2015. These are from Ind AS-1 to Ind AS-41 and Ind AS-101 to Ind AS-114 as amended by Companies (Ind AS) Amendment Rules, 2016 dated 30th March, 2016.

The Central Govt, in exercise of powers under section 211(3C) of the Companies Act, 1956 notified the Companies (Accounting Standards) Rules, 2006 in the Official Gazette w.e.f. accounting period commencing on or after 7-12-2006 (now deemed to be Accounting Standard as specified under section 133 of the Companies Act, 2013):

- The rules provide that Accounting Standards 1 to 5 & 7 and 9 to 29 recommended by the Institute of Chartered Accountants of India shall be the "Accounting Standards" (referred to as the "Notified Accounting Standards") for the purposes of section 129(1) and section 143(3)(e) of the Companies Act, 2013.
- The notified accounting standards for the most part, are a verbatim reproduction of the Accounting Standards as issued by the Institute of Chartered Accountants of India.
- All the 30 Accounting Standards Interpretations issued by Institute of Chartered Accountants of India have been incorporated at the relevant places by way of explanation except Accounting Standards Interpretations 11, 12, 27 and 29.
- The notified Accounting Standards are mandatory for all companies and their auditors except as exempted/relaxed for SMCs.
- Exemptions/relaxations to Small and Medium Companies (SMCs) have been given.

Transitional Provision under Rule 7 of Chapter IX of the new Companies Act, 2013 provides the standards of accounting as specified under the Companies Act, 1956 (1 of 1956) shall be deemed to be the accounting standards until accounting standards are specified by the Central Government under section 133.

Applicability of Ind AS to specified companies

Indian Accounting Standards (Ind AS) are another set of accounting standards notified by the Ministry of Corporate Affairs, Government of India which are converged with International Financial Reporting Standards (IFRS). These accounting standards are formulated by Accounting Standards Board of Institute of Chartered Accountants of India.

The Ind AS are named and numbered in the same way as the corresponding IFRS. The MCA has notified 41 Ind ASs as Companies (Indian Accounting Standards) Rules, 2015 as amended by Companies (Indian Accounting Standards) Amendments Rules, 2016. Ind AS are discussed in detail in Lesson 12: Adoption, Convergence and Interpretation of International Financial Reporting Standards (IFRS) and Accounting Standards in India.

Lesson 11

Page no. 332

Replace the matter given under the head The Institute of Company Secretaries of India (ICSI) with the below matter:

THE INSTITUTE OF COMPANY SECRETARIES OF INDIA (ICSI)

The Institute of Company Secretaries of India (ICSI) is the only recognized professional body in India to develop and regulate the profession of Company Secretaries in India. It is a premier national professional body set up under an act of Parliament, the Company Secretaries Act, 1980. ICSI functions under the jurisdiction of the Ministry of Corporate Affairs, Government of India. The Institute provides top-quality education to the students Company Secretaries (CS) Course pursuing and provides the best set standards to CS Members. At present, there are more than 50,000 members and about 4,00,000 students on the roll of ICSI.

VISION, MISSION, MOTTO AND CORE VALUES

The Vision Statement of the ICSI "To be a global leader in promoting Good Corporate Governance" reflects the collective aspirations of the stakeholders and provides a defined goal for the ICSI.

The Mission Statement of the ICSI "To develop the high calibre professionals facilitating good Corporate Governance", brings perspective to the ICSI by way of defining explicitly and clearly the direction of all its activities.

The Motto of the ICSI, "Satyam Vada, Dharam Chara" adopted from Taittirya Upnishad means 'Speak the Truth, Abide by the Law', speaks the very spirit of the profession of Company Secretaries.

Core values are the expression of beliefs, followed by an individual, group or community in their personal or professional behaviour, individually or collectively. The ICSI identifies for itself and its members the core values namely Integrity, Ethics, Reliability, Ownership, and Being Stakeholder centric.

Objectives

- To equip the students with relevant education, training and skills meeting the expectations of the Trade and Industry, Government and Regulators.
- To equip members in employment with knowledge and skills necessary to act as "Corporate Managers" responsible for total compliance management, management of Board processes and adoption of good governance practices along with adding value for the company and its stakeholders.

- To equip members in practice to act as “Corporate Advisors” providing quality advisory, procedural, compliance, certification, audit and representation services to the trade and industry.

Page no. 337

Replace the matter under Financial Reporting Council (FRC), FRRP, AADB, POB and APB with the below matter:

Financial Reporting Council (FRC) (UK)

The Financial Reporting Council (FRC) is an independent regulator in the UK and Ireland, responsible for regulating auditors, accountants and actuaries, and setting the UK's Corporate Governance and Stewardship Codes. The FRC seeks to promote transparency and integrity in business by aiming its work at investors and others who rely on company reports, audits and high-quality risk management.

The Financial Reporting Council (FRC) is the UK’s regulator for the accounting, audit and actuarial professions and is also responsible for corporate governance in the UK.

The FRC is a company limited by guarantee, partly funded by government and partly by the industry; its Board of Directors is appointed by the Secretary of State for Business, Innovation and Skills. The FRS and its subsidiaries play crucial roles in the oversight and development of corporate governance standards in the UK and the Republic of Ireland, such as the UK Corporate Governance Code and standards for the accounting industry.

The FRC Board is responsible for the overall governance and strategy of the FRC and ultimately approves all codes and standards issued by the FRC. The chair and deputy chair are appointed by the Secretary of State for Business, Innovation and Skills. Other Board members are appointed by the Board. The Board is supported by three governance committees (Audit Committee, Nominations Committee and Remuneration Committee) and by two business committees (Codes & Standards Committee and Conduct Committee). The Codes & Standards Committee is supported by three Councils which advise on Corporate Reporting, Audit & Assurance and Actuarial matters. The CRR Committee, AQR Committee and the Case Management Committee support the Conduct Committee and have specific responsibilities as set out in the FRC’s monitoring, review and disciplinary procedures. The Financial Reporting Review Panel and the disciplinary Tribunal Panel are maintained pursuant to the Conduct Committee Operating procedures and the FRC’s Disciplinary Schemes.

Page no. 341

Replace the matter on AASB and The Institute of Chartered Accountants in Australia with the below matter:

AUSTRALIAN ACCOUNTING STANDARDS BOARD (AASB)

The AASB is an Australian Government agency under the Australian Securities and Investments Commission Act 2001. Under that Act, the statutory functions of the AASB are:

- to develop a conceptual framework for the purpose of evaluating proposed standards;
- to make accounting standards under section 334 of the Corporations Act 2001;
- to formulate accounting standards for other purposes;
- to participate in and contribute to the development of a single set of accounting standards for worldwide use;
- and to advance and promote the main objects of Part 12 of the ASIC Act, which include reducing the cost of capital, enabling Australian entities to compete effectively overseas and maintaining investor confidence in the Australian economy.

AASB Vision

• Contribute to stakeholder confidence in the Australian economy, including its capital markets, and in external reporting.

AASB Mission

• Develop, issue and maintain principles-based Australian accounting and external reporting standards and guidance that meet user needs and enhance external reporting consistency and quality.

• Contribute to the development of a single set of accounting and external reporting standards for world-wide use.

The AASB develops and maintains financial reporting standards applicable to entities in the private and public sectors of the Australian economy. Also, the AASB contributes to the development of global financial reporting standards and facilitates the participation of the Australian community in global standard-setting. The AASB's functions and its powers are set out in the Australian Securities and Investments Commission Act 2001.The Australian Securities and Investments Commission's (ASIC's) role is to enforce and regulate company and financial services' laws to protect Australian consumers, investors and creditors. The AASB uses a conceptual framework to develop and evaluate accounting standards.

The AASB makes Australian Accounting Standards, including Interpretations, to be applied by:

(a) entities required by the Corporations Act 2001 to prepare financial reports;

(b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and

(c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

AASB 1053 Application of Tiers of Australian Accounting Standards establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

(a) **Tier 1**: Australian Accounting Standards; and

(b) **Tier 2**: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 1 requirements incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Publicly accountable (defined in AASB 1053) for-profit private sector entities are required to adopt Tier 1 requirements, and therefore are required to comply with IFRSs. Furthermore, other for-profit private sector entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Some other entities complying with Tier 1 requirements will also simultaneously comply with IFRSs.

Tier 2 Requirements comprise the recognition, measurement and presentation requirements of Tier 1, but substantially reduced disclosure requirements in comparison with Tier 1.Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors, or include additional disclosures that address domestic, regulatory or other issues. These requirements do not prevent publicly accountable for-profit private sector entities from complying with IFRSs. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

AASB Board

AASB Board comprises 12 members including the Chair. The Chair is appointed by the relevant Minister and members, from a variety of backgrounds, are appointed by the Financial Reporting Council (FRC).

The AASB is committed to developing, in the public interest, a single set of high quality, understandable accounting standards that require transparent and comparable information in general purpose financial statements.

CHARTERED ACCOUNTANTS AUSTRALIA AND NEW ZEALAND (CA ANZ)

The Institute of Chartered Accountants in Australia was the professional accounting body representing Chartered Accountants in Australia. It had over 61,000 members and some 12,000 students. It was one of three major legally recognized Professional Accountancy bodies in Australia. The others being CPA Australia and Institute of Public Accountants. It is a founding member of the Global Accounting Alliance (GAA). Members of the Institute are part of the international accounting coalition of the world's premier accounting bodies, the GAA. Chartered Accountants audit 100 per cent of the Top ASX-listed companies in Australia.

On December 31, 2014, The Institute of Chartered Accountants in Australia and the New Zealand Institute of Chartered Accountants (NZICA) amalgamated to become one body—Chartered Accountants Australia and New Zealand (CA ANZ). CA ANZ has members in both Australia and New Zealand and its vision is to empower members to become leaders and shapers of finance and business in Australia and New Zealand. CA ANZ's key strategic objectives are to support its members and the profession to maintain their relevance and skills at a global level.

Page no. 343

Replace the matter on CICA and XRB, New Zealand with matter below:

CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS (CICA)

The Canadian Institute of Chartered Accountants was incorporated by an Act of the Parliament of Canada in 1902, which later became known as the Canadian Institute of Chartered Accountants Act.

CICA is non-profit organization for accounting professionals in Canada. CICA has developed GAAP (generally accepted accounting principles) for Canadian accounting, and publishes guidance and educational materials on a number of accounting-related topics. It is one of the founding members of the International Federation of Accountants (IFAC) and the Global Accounting Alliance (GAA).

The CICA developed and supported accounting, auditing and assurance standards for organizations in Canada, developed and delivered education programs, and issued the professional designation of Chartered Accountant. The CICA was a founding member of the International Federation of Accountants and the Global Accounting Alliance. In 2014, CICA merged with Canada's two other major accounting delegations to form the Chartered Professional Accountants of Canada.

EXTERNAL REPORTING BOARD (XRB), NEW ZEALAND

The External Reporting Board (XRB) is an Independent Crown Entity established under the Financial Reporting Act 1993 and subject to the Crown Entities Act 2004.

The XRB came into existence on 1 July 2011 when amendments to the Financial Reporting Act 1993 came into force. The XRB was reconstituted from the Accounting Standards Review Board.

The functions of the XRB are prescribed by the Financial Reporting Act 1993 and comprise:

• developing and implementing an overall strategy for financial reporting standards and auditing and assurance standards (including developing and implementing tiers of financial reporting and assurance); preparing and issuing accounting standards;

• preparing and issuing auditing and assurance standards, including the professional and ethical standards that will govern the professional conduct of auditors; and liaising with national and international organizations that exercise functions that correspond with, or are similar to, those conferred on the XRB.

The Board is the governing body of the XRB and comprises nine members appointed by the Governor General on the recommendation of the responsible Minister.

The XRB Board has three core responsibilities:

• establishing and maintaining New Zealand's financial reporting strategy

• governance

• appointment and monitoring of the NZ Accounting Standards Board (NZASB) and the NZ Auditing and Assurance Standards Board (NZAuASB)

The Board is responsible for establishing the XRB's strategic plan and monitoring and reporting on its progress. It also approves the operating policies, procedures, authorities and delegations for the XRB.

The Board has established two standard setting boards , one that has responsibility for accounting standard setting (the New Zealand Accounting Standards Board) and the other with responsibility for auditing and assurance standard setting (the New Zealand Auditing and Assurance Standards Board). This structure is designed to not only ensure that the technical resources are available and that standard-setting is undertaken in accordance with best practice, but also to enhance functional equivalence with Australia.

Lesson 12

Kindly refer complete Lesson 12 of the revised study of Corporate and Management Accounting uploaded on the link: https://www.icsi.edu/media/webmodules/Corporate%20and%20Management%20Accounting.pdf.

Lesson 13

Page no. 382
After Time-keeping add below matter on Time Booking

Time-Booking

The objectives of time-booking are:

(i) to apportion overheads against jobs;

(ii) to calculate the labour cost of jobs done;

(ii) to ascertain idle time for the purpose of control;

(iv) to find out that the time during which a worker is in the factory is properly utilised;

(v) to evaluate labour performance, to compare actual and budgeted time;

(vi) to determine overhead rates of absorbing overhead expenses under the labour hour and machine hour methods;

(vii) to calculate wages and bonus provided the system of payment depends on the time taken.

Lesson 17

Page no. 461
Replace the matter with the below matter:

The Need for Management Reporting

Inefficient reporting processes that yield inaccurate and outdated information normally cause more harm than good. A strong management reporting is a necessity to produce timely and reliable information in order to make high-quality business decisions about the future of the company. Insight gathered from reporting allows for deeper analysis to understand problems, provides accurate comparisons against competitors and implement controls to hold employees accountable for budgets.

Effective processes uncover material financial misstatements prior to circulating information with investors and other stakeholders, and identify and address problem areas before they elevate to unmanageable levels. Without management reporting, employees may know there is a problem, but would be unable to identify its origin. Reporting identifies the problem's source, so you can begin working toward a solution. It also allows you to understand your current financial position compared to your competitors, in order to focus or realign business strategies to improve specific operating activities.

Management reporting systems help in capturing data that is needed by managers to run an effective business. Data could range from financial data, employee headcount, client, accounts, products, client assets in custody, investment performance, etc. The scope of a management reporting system is wide. However, here are the six reasons why an enterprise needs an effective management reporting system:

- Constant need of reports for decision making and analysis of trends
- Reports being unavailable with the right stakeholders at the right time
- Lack of visibility and a single holistic view of the enterprise performance
- Data redundancy, duplication of data leading to data management and quality issues leading to error prone reports
- High value resources
- Changing a global report to fit local needs
- An effective management reporting system helps:
- Improve decision making
- Improves management effectiveness
- Improves responsiveness to issues
- Improve efficiency of resources in the delivery of organizational services

Challenges in Management Reporting systems

Traditionally, Management Reporting systems were only used to pull up information. However, the system has undergone tremendous transformation over the years, making it a robust platform for reporting and management. Due to the advancement in technology, it can now provide financial and non-financial information, which can help management take the necessary action to control their business activity.

Often, businesses attempt to develop reporting processes, but miss the mark in achieving desired results. Common challenges in way include:

- Selecting appropriately and correctly using the right system to develop and deliver reports.
- Manipulating data in order to display the best metrics to make better business decisions and understand the company's current position.
- Implementing an inefficient accounting close process that does not allow for timely report delivery to stakeholders.
- Ensuring the integrity of the data.
- Adopting management reporting processes at the incorrect stakeholder levels throughout the organization.

Lesson 18

Kindly refer complete Lesson 18 of the revised study of Corporate and Management Accounting uploaded on the link: https://www.icsi.edu/media/webmodules/Corporate%20and%20Management%20Accounting.pdf

Lesson 19

Replace IAS 32, IAS 33, IAS 113 with Ind AS 32, Ind AS 33, Ind AS 113 respectively wherever mentioned in the lesson.

Page no. 522
Replace matter on IND AS 33- Earnings per share with the below matter

IND AS 33- Earnings per share

Objective

To prescribe principles for the determination and presentation of earnings per share, so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity.

Scope

- To companies that have issued ordinary shares to which Indian Accounting Standards (Ind ASs) notified under the Companies Act apply.
- An entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.
- When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with Ind AS, the disclosures required by this Standard shall be presented both in the consolidated financial statements and separate financial statements.

Definition

- Anti dilution is an increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.
- Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

Measurement

Basic earnings per share

- An entity shall calculate basic earnings per share attributable to ordinary equity holders of the entity and, if presented, profit or loss from continuing operations attributable to those equity holders.
- Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the entity (numerator) by the weighted average number of ordinary shares outstanding (denominator) during the period.

Earnings :-

Adjusted for

- After tax amount of preference dividend.
- Difference arising on the settlement of preference shares.
- Income/expense debited or credited to securities premium/other reserves that was otherwise required to be recognised in profit & loss in accordance with Ind As.

Weighted average number of shares :-

- No. Of ordinary share outstanding at the beginning of period.
- Adjusted by no. Of outstanding shares bought back or issued.
- Multiplied by time weighting factor.
- Adjusted for events (other than the conversion of potential ordinary shares), that have changed the number of ordinary shares outstanding without a corresponding change in resources. (eg, share split , reverse share split(share consolidation) , bonus element in rights issue to existing shareholders)

Diluted earnings per share

- An entity shall calculate diluted earnings per share attributable to ordinary equity holders of the entity and, if presented, profit or loss from continuing operations attributable to those equity holders.
- Diluted earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the entity (numerator) by the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares (denominator) during the period.

Earnings :-

Adjust the earnings calculated for the purpose of Basic EPS by the tax effect of

- Interest/dividends related to dilutive potential ordinary shares.
- Any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.

Weighted average number of shares :-

- The weighted average number of ordinary shares as calculated for BEPS plus additional ordinary shares that would be issued on the conversion or exercise of potential ordinary shares.
- The potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares.
- If conversion/exercise options lapse during the period, the number of shares would be pro-rated for the part of the year that the potential common shares were outstanding, i.e. they are included in the calculation of diluted earnings per share only for the portion of the period during which they are outstanding.
- The dilutive weighted average common shares are calculated independently for each period presented(interim vs annual).
- Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

Retrospective adjustment

- If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively.
- If these changes occur after the reporting period but before the financial statements are approved for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares.

Disclosure

If EPS is presented, the following disclosures are required :

- the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to profit or loss attributable to the entity for the period.

- the weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other.
- instruments (including contingently issuable shares) that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the period(s) presented.
- A description of those ordinary share transactions or potential ordinary share transactions, that occur after the reporting period and that would have changed significantly the number of ordinary shares or potential ordinary shares outstanding at the end of the period if those transactions had occurred before the end of the reporting period.

Lesson 20

Page no. 552
Replace matter on Regulatory valuations with below matter:

VALUATION GUIDELINES-REGULATORY REQUIREMENTS

Valuation guidelines prescribed by The Companies Act, 2013

As per section 247 of The Companies Act, 2013, where a valuation is required to be made in respect to any property, stocks, shares, debentures, securities, goodwill, or any other assets or net worth of a company or its liabilities, shall be valued by a person having such qualifications and experience and registered as a valuer ("Registered Valuer"). Further, for valuation requirements of a company, the Registered Valuer shall be appointed by the Company's Audit Committee or in its absence, by the Company's Board of Directors.

The valuer appointed shall,—

(a) make an impartial, true and fair valuation of any assets which may be required to be valued;

(b) exercise due diligence while performing the functions as valuer;

(c) make the valuation in accordance with such rules as may be prescribed; and

(d) not undertake valuation of any assets in which he has a direct or indirect interest or becomes so interested at any time during a period of three years prior to his appointment as valuer or three years after the valuation of assets was conducted by him.

Valuation guidelines prescribed by the RBI under The Foreign Exchange Management Act, 1999

The Reserve Bank of India (the "RBI") is India's central banking institution, which controls the monetary policy of the Indian rupee (similar to the Federal Reserve System in the U.S.). Valuation guidelines are prescribed in the Master Circular on Foreign Investment in India (the "FEMA Circular") issued by the RBI, dated July 1, 2013.

The RBI, in its monetary policy announced on April 1, 2014, stated that it has decided to withdraw the valuation norms governing issue and transfer of shares under the foreign direct investment ("FDI") route and, going forward, transactions will be valued based on acceptable market practices. The announcement also indicated that the operating guidelines governing the same shall be notified separately.

All Indian companies issuing equity shares, fully and mandatorily convertible debentures, and fully and mandatorily convertible preference shares are subject to the pricing guidelines / valuation norms and reporting requirements, amongst other requirements, as prescribed under

FEMA Regulations. To understand the valuation guidelines in an easier manner, the same have been bifurcated into inbound and outbound transactions as below:

Inbound Transactions (Money Coming Into India)

Transfer or issue of shares by an Indian resident to a non-resident:

- In case of an unlisted entity: The RBI guideline states that the price for transfer or issue of shares by an Indian resident to a non-resident shall not be less than the Fair Value of shares as determined by:

- A Category I Merchant Banker registered with the Securities and Exchange Board of India (the "SEBI"), or
- A Chartered Accountant who is a member of the Institute of Chartered Accountants of India ("ICAI")

The sole valuation method prescribed by the FEMA Circular for the above stated purpose is the Discounted Free Cash Flow ("DCF") Method

- In case of a listed entity: The RBI guideline states that the price for transfer or issue of shares by an Indian resident to a non-resident shall not be less than the market price of the shares as determined under the "SEBI guidelines for allotment of shares on preferential basis," which is as follows:

The issue of shares on preferential basis shall be made at a price not less than higher of the following:

- The average of the weekly high and low of the closing prices of the company's shares quoted on the stock exchange during the six months preceding the relevant date, or
- The average of the weekly high and low of the closing prices of the related shares quoted on a stock exchange during the two weeks preceding the relevant date.

Outbound Transactions (Money Going Out of India)

Transfer of shares by a non-resident to an Indian resident:

- In case transfer of funds exceed USD 5 million: The RBI guideline states that the price for transfer of shares by a non-resident to an Indian resident shall not be more than the Fair Value of shares as determined by:
- A Category I Merchant Banker registered with the SEBI
- In any other case: The RBI guideline states that the price for transfer of shares by a non-resident to an Indian resident shall not be more than the Fair Value of shares as determined by:

- A Category I Merchant Banker registered with the SEBI, or
- A Chartered Accountant who is member of the ICAI

In case of an outbound transaction, no specific valuation methodologies have been prescribed by the RBI; however, the following valuation methods have been recommended:

- For valuing a minority stake
- Guideline Public Company Method
- For valuing a controlling stake
- DCF Method
- Merger and Acquisition Method

Valuation guidelines under SEBI

Valuation under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011

As per Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, the open offer for acquiring shares under regulation 3, regulation 4, regulation 5 or regulation 6 shall be made at a price not lower than the price determined in accordance with sub-regulation (2) or sub-regulation (3), as the case may be.

As per regulation 3, a person acquiring shares of a company has to make a public announcement of an open offer for acquiring shares of the company if,

- As per the SAST regulations, any person acquiring 25% or more of voting rights of a target company
- If already holding 25%, any person acquiring further voting rights of 5% or more

As per regulation 4, making a public announcement of an open offer for acquiring shares of the company will be required if a person acquires directly or indirectly, control over such target company.

Regulation 5(1) covers indirect acquisition by any person and persons acting in concert which may enable him to exercise or direct the exercise of such percentage of voting rights in, or control over, a target company.

Regulation 5(2) specifies when indirect acquisition will be treated as direct acquisition.

(a) the proportionate net asset value of the target company as a percentage of the consolidated net asset value of the entity or business being acquired;

(b) the proportionate sales turnover of the target company as a percentage of the consolidated sales turnover of the entity or business being acquired; or

(c) the proportionate market capitalisation of the target company as a percentage of the enterprise value for the entity or business being acquired;

is in excess of eighty per cent, on the basis of the most recent audited annual financial statements, such indirect acquisition shall be regarded as a direct acquisition of the target company for all purposes of these regulations including without limitation, the obligations relating to timing, pricing and other compliance requirements for the open offer.

For the purposes of computing the percentage referred to in clause (c) of this sub-regulation, the market capitalisation of the target company shall be taken into account on the basis of the volume-weighted average market price of such shares on the stock exchange for a period of sixty trading days preceding the earlier of, the date on which the primary acquisition is contracted, and the date on which the intention or the decision to make the primary acquisition is announced in the public domain, as traded on the stock exchange where the maximum volume of trading in the shares of the target company are recorded during such period.

Valuation and issue of Sweat Equity Shares

Sweat equity shares are issued for consideration other than cash such as technical knowhow, brand equity, design, patent or any other intangible asset. The intangible asset could come from promoters or director or even employee of the company.

Section 54 of the Companies Act, 2013, specifies the conditions under which sweat equity shares may be issued.

A company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely:

(a) the issue is authorised by a special resolution passed by the company;

(b) the resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;

(c) not less than one year has, at the date of such issue, elapsed since the date on which the company had commenced business; and

(d) where the equity shares of the company are listed on a recognised stock exchange, the sweat equity shares are issued in accordance with the regulations made by the Securities and Exchange Board in this behalf and if they are not so listed, the sweat equity shares are issued in accordance with such rules as may be prescribed.

(2) The rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall be applicable to the sweat equity shares issued under this section and the holders of such shares shall rank paripassu with other equity shareholders.

Valuation of sweat equity shares involves two steps:

i. Valuation of the share price
ii. Valuation of the intangible asset

The valuation of the share price shall be done by a registered valuer and the intangible asset also will be valued by a registered valuer.

Valuation of Stock Options under the SEBI (ESOP) Guidelines

Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 provides for regulation of all schemes by companies for the benefit of their employees. The regulations apply to the following schemes:

- employee stock option schemes;
- employee stock purchase schemes;
- stock appreciation rights schemes;
- general employee benefits schemes; and
- retirement benefit schemes.

ESOP or employee stock option scheme means a scheme under which a company grants employee stock option directly or through a trust. A company may provide a scheme under which an employee has an option to buy the shares of the company at a predetermined date at a predetermined price. The value of the share price for ESOP can be determined in two ways.

- Intrinsic value method
- Fair value method

Valuation of Shares under the SEBI (Delisting of Securities) Guidelines

SEBI (Delisting of Equity Shares) Regulations, 2009 specifies provisions for delisting of equity shares of a company from stock exchanges where the company's shares are listed.

A company can voluntarily delist its shares due to various reasons such as it may find it expensive to maintain the listing requirements or its share is not frequently traded or it may by closing down its business etc.,

Compulsory Delisting of the companies happens when the whereabouts of the directors of promoters is not known or when there is a reduction of public shareholding below the required limit. The shareholders are required to pass a special resolution approving the delisting which shall be valid for a period of one year within which a final application should be made to the stock exchange for the listing. There are two options for delisting. In the first option no Exit opportunity is given when the shares of the company continues to be listed in one of the stock exchanges. The second option exit opportunity is given through reverse book building when equity share do not remain listed in any Stock Exchange.

Acquirer or promoters shall within 1 working days from the date of receipt of in principle approval from the stock exchange make a public announcement giving all the material information as specified in schedule 1 of the regulations. A letter of offer to the public shareholders of equity shares shall be sent not later than 2 working days from the date of public announcement. The office will remain open for 5 days. The offer price shall be determined through book building in the manner specified in schedule II after fixation of floor price and disclosure of the same in the public announcement in the letter of offer. Reverse book building is a process where sell order from the shareholders are collected online for a buyback. Reverse book building helps to discover a price for the buyback which will be equal to or above the floor price. Floor price is the minimum price at which the bids can be placed and is determined on the basis of regulation 15. The floor price shall be determined in terms of regulation 8 of securities and exchange board of India (substantial acquisition of shares and takeovers) regulations.

In terms of Regulation 8 of the Takeover Regulations, the floor price shall be higher of the following:

1. the highest negotiated price per share of the target company for any acquisition under the agreement attracting the obligation to make a public announcement of an open offer;
2. the volume-weighted average price paid or payable for acquisitions, whether by the acquirer or by any person acting in concert with him, during the fifty-two weeks immediately preceding the date of the public announcement;
3. the highest price paid or payable for any acquisition, whether by the acquirer or by any person acting in concert with him, during the twenty six weeks immediately preceding the date of the public announcement;
4. the volume-weighted average market price of such shares for a period of sixty trading days immediately preceding the date of the public announcement as traded on the stock exchange where the maximum volume of trading in the shares of the target company are recorded during such period, provided such shares are frequently traded;
5. where the shares are not frequently traded, the price determined by the acquirer and the manager to the open offer taking into account valuation parameters including, book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such companies;
6. the per share value computed under Regulation 8(5) of the Takeover Regulations.

The “Discovered Price” is the minimum price per Offer Share payable by the Acquirer for the Offer Shares it acquires pursuant to the Delisting Offer, as determined in accordance with the Delisting Regulations, which will be the price at which the shareholding of the Acquirer Group reaches 90% pursuant to a reverse book-building process conducted in the manner specified in Schedule II of the Delisting Regulations and shall not be lower than the Floor Price.

The SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018– Chapter V and Schedule XX

On 11 September 2018, the Securities and Exchange Board of India (SEBI) notified the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (“ICDR Regulations”). The ICDR Regulation 2018 shall supersede the earlier ICDR Regulation 2009.

Applicability of the regulations

These regulations apply to the following:

- A public issue;
- A rights issue, where the total value of specified securities offered is fifty lakh rupees or more;
- A preferential issue;
- An issue of bonus shares;
- A qualified institutions placement;
- An issue of Indian Depository Receipts

Preferential Issue

A preferential issue is issuance of equity shares or convertible securities under Section 62(1)(c) of the Companies Act, 2013. Company’s consider preferential issues as it is one of the faster ways to raise equity capital. In order to raise capital through the preferential issue a company must comply with the Companies Act and the requirements laid down in Chapter V of the SEBI (ICDR) regulations which inter-alia include pricing, disclosures in notice etc.

Conditions for preferential issue – A listed issuer making a preferential issue shall ensure that:

a) Only fully paid equity shares can be allotted by way of preferential issue
b) A special resolution passed by shareholders;
c) all equity shares held by the proposed allottees in the issuer are in dematerialised form;
d) the issuer is in compliance with the conditions for continuous listing of equity shares as specified in the listing agreement
e) the issuer has obtained the Permanent Account Numbers of the proposed allottees

Relevant date:

Thirty days prior to the date of shareholders meeting is considered date for the proposed preferential issue.

Tenure of convertible securities:

In the case of convertible securities, the tenure of the security cannot exceed eighteen months from the date of allotment.

Schedule XX: Conditions and manner of providing exit opportunity to dissenting shareholders

The provisions of this schedule will apply to an exit offer made by the promoters or shareholders in control of an issuer to the dissenting shareholders.

"Dissenting shareholders" are those shareholders who have voted against the resolution for change in objects or variation in terms of a contract relating to objects, referred to in the offer document of the issuer.

The schedule provides provisions related to the conditions for an exit offer, pricing of the offer, manner of providing an exit, etc.

Conditions for exit offer

- At least 10% of shareholder dissent the proposal for a change in objects or variation; and
- Less than 75% of the amount raised will be utilized for objects other than mentioned in the offer document.

Exit price

The 'exit price' is the price that is payable to the dissenting shareholders. The regulation provides various mechanism in which the exit price should be determined.

Manner of providing exit to dissenting shareholders

(1) The notice proposing the change of the objects of the issue shall contain information about the provision for an exit offer to the dissenting shareholders.

(2) Promoter/shareholders shall provide explanatory statement that an exit opportunity will be to the dissenting shareholders.

(3) After passing of the special resolution for change of the objects of issue, the issuer shall submit the voting results to the stock exchange(s).

(4) The issuer shall also submit the list of dissenting shareholders, as certified by its compliance officer, to the stock exchange(s).

(5) The promoter /shareholders shall appoint a merchant banker and finalize the exit offer price in accordance with these regulations.

(6) The issuer shall intimate the stock exchange(s) about the exit offer to dissenting shareholders and the price at which such offer is being given.

(7) The stock exchange(s) shall disseminate the information to the public.

(8) The promoter or shareholders shall create an escrow account and deposit the aggregate consideration in the escrow account at least two working days prior to opening of the tendering period.

(9) The tendering period shall start not later than seven working days from the passing of the special resolution and shall remain open for ten working days.

(10) The dissenting shareholders who have tendered their shares in acceptance of the exit offer shall have the option to withdraw such acceptance till the date of closure of the tendering period

(11) The promoter /shareholders shall facilitate tendering of shares by the shareholders and settlement of the same through the stock exchange.

(12) The promoter /shareholders within a period of ten working days from the last date of the tendering period, make payment of the consideration to the dissenting shareholders who have accepted the exit offer.

(13) Within a period of two working days from the payment of the consideration, the issuer shall furnish to the stock exchange(s), disclosures giving details of aggregate number of shares tendered, accepted, payment of the consideration and the post-offer shareholding pattern of the issuer and a report by the lead manager(s) that the payment has been duly made to all the dissenting shareholders whose shares have been accepted in the exit offer.

Valuation under Income Tax Act, 1961

In case of Valuation of Shares, determining the fair market value (FMV) of shares is difficult particularly in case of unquoted equity shares.

Rule 11UA of the Income Tax Rules, 1962 prescribes a specific formula based on “Net Asset Value Approach”. The Finance Act, 2017 has inserted Section 56(2) (x) so as to widen the scope of taxability of receipt of sum of money or property without/inadequate consideration.

New Valuation Guidelines (Rule 11UAA of Income Tax Rules, 1962)

Year of applicability: The valuation guideline is applicable from assessment year 2018-19 (i.e. financial year 2017-18).

The FMV of unquoted equity shares on the valuation date = $(A+B+C+D - L) \times (PV)/(PE)$

Where

A= book value of all the assets (other than jewellery, artistic work, shares, securities and immovable property) in the balance-sheet as reduced by,- i) any amount of income-tax paid, if any, less the amount of income-tax refund claimed, if any; and ii) any amount shown as asset including the unamortised amount of deferred expenditure which does not represent the value of any asset;

B = the price which the jewellery and artistic work would fetch if sold in the open market on the basis of the valuation report obtained from a registered valuer;

C = FMV of shares and securities as determined in the manner provided in this rule;

D = the value adopted or assessed or assessable by any authority of the Government for the purpose of payment of stamp duty in respect of the immovable property;

L = book value of liabilities shown in the balance sheet, but not including the following amounts, namely:

i) the paid-up capital in respect of equity shares;

ii) the amount set apart for payment of dividends on preference shares and equity shares where such dividends have not been declared before the date of transfer at a general body meeting of the company;

iii) reserves and surplus, by whatever name called, even if the resulting figure is negative, other than those set apart towards depreciation;

iv) any amount representing provision for taxation, other than amount of income-tax paid, if any, less the amount of income-tax claimed as refund, if any, to the extent of the excess over the tax payable with reference to the book profits in accordance with the law applicable thereto;

v) any amount representing provisions made for meeting liabilities, other than ascertained liabilities;

vi) any amount representing contingent liabilities other than arrears of dividends payable in respect of cumulative preference shares PE = total amount of paid up equity share capital as shown in the balance-sheet

PE = total amount of paid up equity share capital as shown in the balance-sheet

PV = the paid up value of such equity shares

Quoted shares and securities

- If received by way of transaction through recognized stock exchange the FMV would be the transaction value as recorded on such recognised stock exchange.
- If received by way of transaction carried out other than through any recognised stock exchange, the FMV would be: a) Average of the lowest and the highest price of the

shares or securities quoted on recognised stock exchange on the valuation date; b) Where shares or securities are not traded on recognised stock exchange on the specified date, average of the lowest and the highest price of the shares or securities quoted on recognised stock exchange on a date immediately preceding the valuation date

Unquoted equity shares

FMV = (A +B+C+D – L) x (PV) / (PE) (i.e., same valuation approach as described above)

Unquoted shares and securities (other than unquoted equity shares)

FMV would be the amount which would be fetched if sold in the open market on the specified date. This has to be supported by Valuation report by Merchant banker or a chartered accountant.

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