

Emerging Areas for Company Secretaries

Ind AS and IGAAP!

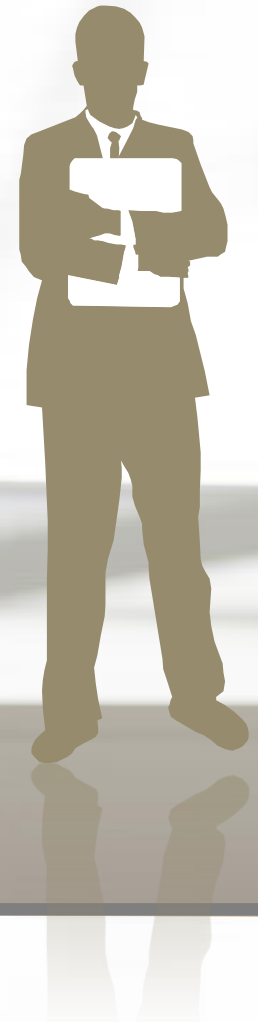


Agenda

Role of Company secretary

Certain key areas of focus

Certain tools



Role of Company secretary



Role of Company secretary

Who is a Key Managerial Personnel (KMP):

The definition of the term KMP is contained in Section 2(51) of the Companies Act, 2013. The said Section states as under:

“key managerial personnel”, in relation to a company, means—

(i) the Chief Executive Officer or the managing director or the manager;

(ii) the company secretary;

(iii) the whole-time director;

(iv) the Chief Financial Officer; and

(v) such other officer as may be prescribed;

One of the roles of KMP is:

*“Financial statements of a company are required to be signed either 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 and the Chief Executive Officer, if he is a director in the company, the Chief Financial Officer and **the company secretary of the company**, wherever they are appointed.”*

Role of Company secretary

As the company secretaries are becoming a party to the financial statements, it becomes very important and relevant to the practicing company secretaries to have a thorough understanding over certain implications of the accounting standards.

As you are aware, the Ministry of Corporate Affairs (MCA) had notified on February 16, 2015, confirming a revised roadmap for the implementation of Ind AS. The roadmap provides a phase-wise approach, primarily based on a Company's net worth.

We would like to bring to your notice certain items which might be helpful while looking at the financial statements



Roadmap to Ind AS adoption (Other than for banking companies and NBFCs)



Mandatorily applicable for following companies

Applicable to companies

- Voluntary Adoption
- Companies whose net worth is Rs. 500 crore or more
- Holding, subsidiary, joint venture or associate companies of above companies
- Companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than Rs. 500 crore.
- Unlisted companies having net worth of Rs. 250 crore or more
- Holding, subsidiary, joint venture or associate companies of above companies

Certain key areas of focus



What comprises of financial statements?

Current IGAAP

- Balance sheet
- Statement of profit and loss
- Cash flow statement
- Notes to financial statements

Ind AS

- Balance sheet
 - Statement of profit and loss along with Other comprehensive income
 - Statement of changes in equity
 - Cash flow statement
 - Notes to financial statements
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Assessment of control

Current IGAAP (AS 21)

- Subsidiary if:
 - the ownership, directly or indirectly through subsidiary(ies), of more than onehalf of the voting power of an enterprise; or
 - control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities

Ind AS (Ind AS 110)

- Assessment of control is very extensive and should consider the following:
 - Potential voting rights
 - Contractual arrangements
 - De-facto control
 - Combination of all the above
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Associate

Under Companies Act 2013:

“associate company”, in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

Explanation.—For the purposes of this clause, “significant influence” means control of at least twenty per cent. of total share capital, or of business decisions under an agreement;

Under Accounting standards:

AS 23:

“An associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor”

Ind AS 28:

“An associate is an enterprise in which the investor has significant influence”

Related Parties

Under Companies Act 2013:

- (a) A director or his relative;
 - (b) KMP or his relative;
 - (c) A firm, in which a director, manager or his relative is a partner;
 - (d) A private company in which a director or manager is a member or director;
 - (e) A public company in which a director or manager is a director and holds along with his relatives, more than 2% of its paid-up share capital;
 - (f) A body corporate whose board, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager, except if advice/ directions/ instructions are given in the professional capacity;
 - (g) Any person on whose advice, directions or instructions a director or manager is accustomed to act, except if advice/ directions/ instructions are given in the professional capacity;
 - (h) Any company which is:
 - (a) A holding, subsidiary or an associate company of such company, or
 - (b) A subsidiary of a holding company to which it is also a subsidiary
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Related Parties

Under AS 18:

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);
 - (b) associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture;
 - (c) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;
 - (d) key management personnel and relatives of such personnel; and
 - (e) enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.
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Related Parties

Under Ind AS 24:

A person or a close member of that person's family is related to a reporting entity if that person:

- (a) has control or joint control of the reporting entity;
 - (b) has significant influence over the reporting entity; or
 - (c) is a member of the key management personnel of the reporting entity or its parent
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Related Parties

Under Ind AS 24:

An entity is related to a reporting entity if:

- a. they are members of the same group
 - b. an entity is an associate or JV of the other entity (or an associate or JV of a group in which the entity is a member)
 - c. both entities are JV's of the same third party.
 - d. one entity is a JV of a third entity and the other entity is an associate of the third entity.
 - e. it is a post-employment benefit plan for the benefit of employees of the reporting entity or a related entity to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - f. it is controlled or jointly controlled by a related person.
 - g. the entity or a group member having control or joint control, provides KMP services to the reporting entity or to its parent.
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Related Parties

Topic	Ind AS 24	IGAAP AS 18
Close member of the family	<p>Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity including:</p> <p>that person's children, spouse or domestic partner, brother, sister, father and mother;</p> <p>children of that person's spouse or domestic partner; and dependents of that person or that person's spouse or domestic partner</p>	<p>No definition of close member of the family. Instead then term 'Relative' has been defined in relation to an individual as the spouse, son, daughter, brother, sister, father, mother who may be expected to influence, or be influenced by, that individual in his / her dealings with the reporting enterprise.</p>
Post-employment benefit plans	<p>Related parties includes post-employment benefit plans for the benefits of employees of the reporting entity or any entity that is related to the reporting entity.</p>	<p>Post-employment benefit plans are not included as related parties.</p>
Key management personnel	<p>Compensation of KMP is disclosed in total and separately for a) Short-term employee benefits; b) Post employment benefits; c) other long-term benefits; d) termination benefits; and e) share-based payments.</p>	<p>Compensation of KMP is disclosed in total as an aggregate of all items of compensation except when a separate disclosure is necessary .</p>

Provision for proposed dividend and tax thereon

Current IGAAP (AS 4)

Ind AS (Ind AS 10)

- Recorded when recommended by the Board of Directors
 - To be recorded after approval of shareholders
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Adjustment of prior period items

Current IGAAP (AS 5)

- Included in determination of net profit or loss of the period in which the error pertaining to a prior period is discovered
- Separately disclosed in statement of profit and loss

Ind AS (Ind AS 1)

- Corrected retrospectively by adjusting the comparative amounts for the prior periods presented in which error occurred
 - If error occurred before the earliest period presented then the opening reserves is adjusted
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Defaults in borrowings

Current IGAAP

- No guidance in existing standards
- Borrowing associated with a covenant violation will be presented as current if the lender demands repayment

Ind AS (Ind AS 1)

- Borrowing associated with a covenant violation must be presented as current unless the lender agree to waive such violation and not demand repayment
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Contingent liabilities – Corporate guarantees

Current IGAAP (AS 29)

Ind AS (Ind AS 109)

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|---|---|
| <ul style="list-style-type: none">• To be disclosed as contingent liability | <ul style="list-style-type: none">• To be accounted as financial guarantee liability under Ind AS 109 |
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Actuarial gains or losses on defined benefit obligations

Current IGAAP (AS 15)

Ind AS (Ind AS 19)

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| <ul style="list-style-type: none">• To be recorded in statement of profit and loss | <ul style="list-style-type: none">• To be recorded in Other comprehensive income |
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Certain minimum disclosures in IGAAP and Ind AS

- Earnings per share
 - Segment reporting
 - Investment property
 - Contingent liabilities
 - Capital commitments
 - Lease disclosures
 - Employee benefit obligation
 - MSME Disclosure
 - Disclosure of Audit fees and CSR activities
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Others – certain key disclosure requirements from applicable Ind AS

Standard	Disclosure
Ind AS 101	<ul style="list-style-type: none">• Exemptions and exceptions availed• Reconciliation of equity, total comprehensive income and other balance sheet items• Other notes on first time adoption
Ind AS 1	<ul style="list-style-type: none">• Significant estimates• Significant judgements• Details of standards entity has not applied i.e., a new Ind AS that has been issued but is not yet effective

Others – certain key disclosure requirements from applicable Ind AS

Standard	Disclosure
Ind AS 109/107/113	<ul style="list-style-type: none">• Fair instrument category wise classification i.e., FVPL or FVOCI or AC• Fair value hierarchy – Level 1 or 2 or 3• Fair value disclosure of financial instruments carried at amortised cost• Valuation technique used for computing the fair value• Incase of level 3 valuation, significant unobservable inputs and their relationship with fair value• Valuation process• Capital management• Financial risk management –<ul style="list-style-type: none">• Credit risk – Credit risk management, approach for expected credit loss;• liquidity risk – Financing arrangements and maturities of financial liabilities; and• market risk – Foreign currency risk, cash flow and fair vale interest rate risk and price risk

Certain tools



Certain tools

It is essential for the company secretaries that they should exercise certain amount of diligence while signing the Financial statements.

For this the company secretaries can seek the help of following tools:

- Financial statements disclosure checklist
- Accounting standard compliance checklists
- Exposure draft of Guidance note on Schedule III under IndAS

Also it is important for the company secretaries to understand the controls put in place by the management.



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Questions & answers

Thank You!

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