NEWSLETTER

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

NOIDA BRANCH OF CIRC

For in house Circulation Only   No. – 14 (2017-2018)   April-2017

FROM THE DESK OF THE CHAIRMAN

Respected Professional Colleagues,

Warm greetings to all of you!

First all I would like to thank you all for your kind support & love I have received in this one month. Let me tell you all that the first month was very joyful for me.

*I am happy to say that Holi festival the we had on 10th Mar'17 at RWA Community Center, Sec-34, NOIDA was a very successful event and I hope that you all enjoyed it to the core. We had **Mr. Pankaj Singh (MLA NOIDA) as our Chief Guest** and we had around 250 participants. We wanted to make this event even bigger but due to elections we couldn't get a booking at Indira Gandhi Kala Kendra, so had to keep it as a small one.*

*On 15th March'17 we organized a Seminar on Registration / Migration under GST where the (Commissioner Service Tax) Shri. Manmohan Singh along with his dedicated Team where presented & deliberated the presentation on Registration & Migration under GST. Second session was taken by CA Shashank Shekhar Gupta who discussed about the critical issues faced by the Assesses by during Registration & Migration under GST. Third session was taken by CA Gaurav Agarwal (Executive Member of NOIDA Branch) where he discussed about rules under GST pertaining to Registration / Migration. These sessions were attended by almost 100 participants & awaited the facility of **Seva Kendra** established by the Service Tax department within the branch premises.*

As we all know that we organized a seminar on Bank Audits at our NOIDA Branch on 20th March'17 with around 100 participants. We had CA Amarjeet Chopra, CA Rajesh Sethi & CA Manish Gupta. We even appreciate the valuable presence of Past Central Council Member CA Anuj Goyal.

On 21st March'17 NOIDA Branch of CIRC of ICAI organized an interaction program with the Principal Chief Commissioner of Income Tax (Western UP & UK) Shri Anand Deep Ji jointly with Chief Commissioner (NOIDA & Gzb) Mrs. Meeta Nambiar along with Principal CIT Mrs. T Ton Sing Prasad, CIT Appeal Shri S K Srivastava, JCIT Mr. Bharat Bhushan Garg, JCIT Mrs. Sudha Singh and other officials from Income Tax Department, NOIDA. Almost 80 Chartered Accountants along with Managing Committee Members had a detailed discussion on the scheme announced by Hon'ble Prime Minister Pradhan Mantri Garib Kalyan Yojna (PMGKY).

Now I believe you all are busy in bank Audits. I would want to wish you all "Happy Bank Audits".

*As we are aware that GST is passed and will be implemented from 1st July'17. To get updated in terms of revised GST provisions NOIDA Branch has decided to host **a workshop on GST** under the agies of Indirect Tax Committee of ICAI on 29th – 30th April'17 at **Shri Kalyan Singh Sabhgar, National Institute of Open Schooling, A-31, Sector - 62, NOIDA.***

We are even organizing a health Check-up & Blood donation Camp on 7tth April'17 at our Branch premises in NOIDA.

NOIDA branch has also got an approval from AASB of ICAI for organizing a certificate Course on Concurrent Audit of Banks on 6th to 7th May'17 / 13th to 14th May'17 / 20th to 21st May May'17. I request you all whosoever has not completed this course can get themselves registered. The same may be useful for them for getting empaneled with various bank & most of the banks will advertise for empanelment in the month of May / June.

I am really happy to share with you all that NOIDA branch is shifting its operations into a bigger space in the same building & created more facilities for students & members which includes reading room, Library, ITT, Advance ITT labs, conference room, three classrooms & other basic amenities. In this new premise, we have decided to have a provision of medical room as well.

As this new premise was handed over by the landlord on 1st March'17 only and the same will be fully operational latest by last of April'17, we would like to keep you all informed the branch is being shifted from Basement to the 2nd and 3rd floor of the same building. Keeping in view the convenience of the senior members of the profession, the Managing Committee has taken the decision to hold the seminars for the members in the Auditorium available at Ground Floor.

As friends, we NOIDA branch are committed for the betterment of the profession in the interest of members & students, & therefore always seek your valuable suggestion & Guidance so that can serve the profession and can hope for a better tomorrow.

Bid-adieu!

With Warm Regards,

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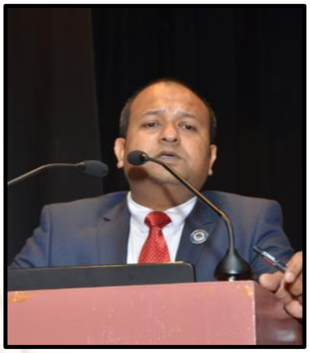
"Success does not lie in Results but in EFFORTS, Being the best is not so important, doing the best is all that matters."



FROM THE DESK OF THE SECRETARY,

Dear Friends,

It is my utmost Pleasure to interact you through April month Newsletter.
I am thankful that through Newsletter of NOIDA Branch, I am regularly in touch of my NOIDA members, as a responsibility of Secretary and I am fortunate to serve NOIDA branch.

I convey my thanks to all the members who presented their professional write-up and valuable subjects for sharing their professional knowledge among the CA fraternity.

I pay my heartiest greetings and best wishes to my Managing committee friends for their unflinching efforts for the NOIDA Branch.

Thanking you
CA Tanuj Kumar Garg
Secretary, NOIDA Branch

Glimpse of Real Estate Regulation and Development Act 2016 (RERA)

The Real Estate Regulation and Development Act 2016 , herein after called as "RERA", which got the ascent of president on 25th March,2016 and published in the Gazette of India on 26th March,2016, which is set to come into effect from May , 2017, this year, has a surfeit of advantages that shall help the home buyers in various ways. RERA has taken into consideration and has tried to improve the things for the better so that the homebuyers do not suffer in the process of home-buying. It would come to the rescue of homebuyers as below.

- RERA establishes the state authority and vests authority on the Real estate regulator to govern both residential and commercial real estate transactions and with this it shall improve the governance hold on the real estate sector reducing disputes to a great extent. The state Real estate regulatory authority shall become the government body to which any grievances, problems, issues can be addressed to for solutions.
- The rule of RERA of depositing around 70 per cent of funds in a dedicated account will ensure sufficient funds for the projects to speed up and lead to getting completed on time. This timely delivery of the project is the biggest factor or cause of concern for the homebuyers and by taking this step if it helps in having a timely delivery, then it shall be a big relief for the homebuyers.
- Another big advantage for the homebuyers now is that RERA shall bring in more clarity in the deals between the developers and the homebuyers leaving out ambiguities. Now the deals and transactions shall be more specific so as the homebuyers do not suffer unnecessarily later on for the lack of clarity.
- Following the above, transparency shall be brought in deals and transactions between the homebuyers and the developers. As the deals and transactions shall become more clear, they shall become more transparent benefitting the homebuyers in the way that they shall be more aware of their buy.
- **RERA** is likely to bring in more transparency in the Real estate sector, it shall lead the sector to be able to attract more FDIs. This is set to improve the feasibility of financing options availability in the market leading to increased investments and propelling more FDIs and thereby making the system more efficient and home-buyers friendly. Taking into consideration all these factors, the ultimate beneficiary is going to be the homebuyer.

Sailent Features of RERA Act:-

- No promoter shall advertise, market, book, sell or offer for sale, or invite persons to purchase in any manner any plot, apartment or building, as the case may be, in any real estate project or part of it, in any planning area, without registering the real estate project with the Real Estate Regulatory Authority established under this Act:
- Every promoter shall make an application to the Authority for registration of the real estate project in such form, manner, within such time and accompanied by such fee as may be specified by the regulations made by the Authority.
- That seventy per cent of the amounts realised for the real estate project from the allottees, from time to time, shall be deposited in a separate account to be maintained in a scheduled bank to cover the cost of construction and the land cost and shall be used only for that purpose.
- Provided further that the amounts from the separate account shall be withdrawn by the promoter after it is certified by an engineer, an architect and a **chartered accountant** in practice that the withdrawal is in proportion to the percentage of completion of the project.
- Provided also that the promoter shall get his accounts audited within six months after the end of every financial year by a chartered accountant in practice, and shall produce a statement of accounts duly certified and signed by such chartered accountant and it shall be verified during the audit that the amounts collected for a particular project have been utilized for the project and the withdrawal has been in compliance with the proportion to the percentage of completion of the project.
- The Authority may, on receipt of a complaint or suo motu in this behalf or on the recommendation of the competent authority, revoke the registration granted under section 5, after being satisfied that—
  (a) the promoter makes default in doing anything required by or under this Act or the rules or the regulations made there under;
  (b) the promoter violates any of the terms or conditions of the approval given by the competent authority;
  (c) the promoter is involved in any kind of unfair practice or irregularities.

- Upon lapse of the registration or on revocation of the registration under this Act, the Authority, may consult the appropriate Government to take such action as it may deem fit including the carrying out of the remaining development works by competent authority or by the association of allottees or in any other manner, as may be determined by the Authority: Provided that no direction, decision or order of the Authority under this section shall take effect until the expiry of the period of appeal provided under the provisions of this Act: Provided further that in case of revocation of registration of a project under this Act, the association of allottees shall have the first right of refusal for carrying out of the remaining development works.

Regards:-

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Accounting for Government Grants and Disclosure of Government Assistance

Background

Almost every government supports certain eligible entities by providing grants or other kind of assistance. Government grants help to fund ideas and projects providing public services and stimulating the economy. Grants support critical recovery initiatives, innovative research and other programs in public interest.

As this is a clear benefit and advantage comparing with other entities without such grants or assistance, it should be properly accounted and disclosed to increase the transparency and comparability in financial statements.

This article provides the accounting for and disclosures of government grants and other form of government assistance under Ind AS 20. It also provides the comparability with existing *Indian GAAP (AS 12)* as well as *IAS 20*.

Applicability of Ind AS 20

Ind AS 20 should be applied in accounting for government grants, and in the disclosure of, government grants and other forms of government assistance.

This Standard does not deal with:

i. the special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature.

ii. government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or that are determined or limited on the basis of income tax liability (such as income tax holidays, investment tax credits, accelerated depreciation).

iii. government participation in the ownership of the entity.

iv. government grants covered by Ind AS 41 *Agriculture*.

Key terms used

i. **Government** refers to government, government agencies and similar bodies whether local, national or international.

ii. **Government grants** are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

iii. **Government assistance** is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria.

Recognition of government grants

A government grants is not recognised until there is reasonable assurance that:

(a) the entity will comply with the conditions attaching to them; and

(b) the grants will be received.

Forgivable Loan

A forgivable loan from government, for which the government has undertaken to waive repayment under certain prescribed conditions, is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.

Under *AS 12*, there is no specific guidance.

Government loan at a below-market rate of interest

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with Ind AS 109 Financial Instruments.

The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109 and the proceeds received.

The benefit so calculated is accounted for in accordance with the general principles of Ind AS 20.

Under *AS 12*, there is no specific guidance.

Recognition in profit or loss

Government grants to be recognised in profit or loss on a systematic basis

Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

Ind AS 20 clearly rules out what is referred to as the 'capital approach' for the accounting treatment of government grants (under which grants are recognised outside profit or loss), in favour of the 'income approach'.

In most cases, it is not difficult to identify the periods over expenditure relating to the government grant is recognised. For example, grants related to depreciable assets are usually recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.

Under AS 12 Two broad approaches may be followed - the capital approach or the income approach. Recognises that some government grants have the characteristics similar to those of promoters' contribution. It requires that such grants should be credited directly to capital reserve and treated as a part of shareholders' funds

Grants related to non-depreciable assets may have certain conditions attached, and thus are recognised in profit or loss over the periods in which the costs of meeting those conditions are incurred. As an example, a grant of land may be conditional upon the erection of a building on the site and it may be appropriate to recognise the grant in profit or loss over the life of the building.

Under AS 12, Grants relating to non-depreciable assets are credited to capital reserve which is a part of shareholder's funds. If such grants require fulfillment of some obligation, such grants should be credited to income over which the cost of meeting the obligation is charged to income.

Government grants subject to multiple conditions

Grants are sometimes received as part of a package of financial or fiscal aids to which a number of conditions are attached. In such circumstances, care is needed in identifying which of the conditions give rise to costs and expenses, since those are the conditions that determine the period over which the grant is earned. It may be appropriate to allocate part of a grant on one basis and part on another.

Government grant receivable as compensation for past expenses or losses, or for the purpose of giving immediate financial support

In some cases, a government grant may be receivable as compensation for expenses or losses already incurred in a previous accounting period.

Alternatively, a grant may be receivable for the purpose of giving immediate financial support to the entity with no future related costs.

In such circumstances, the grant is recognised in profit or loss in the period in which it becomes receivable, with disclosures to ensure the effect is clearly understood.

Measurement of non-monetary government grants

If government grant takes the form of a transfer of a non-monetary asset, such as land or other resources, the fair value of the non-monetary asset are assessed and both grant and asset are accounted for at that fair value.

Under *AS 12*, if the asset is given by the government at a discounted price, the asset and the grant is accounted at the discounted price. Non-monetary grants free of cost are accounted for at nominal values.

Under *IAS 20*, it is not mandatory to recognise non-monetary grants at fair value only. It provides an alternative treatment, that allows the grant and the asset be recognised at a nominal amount also.

Presentation

Grants related to assets

Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet by setting up the grant as deferred income, which is recognised in profit or loss on a systematic basis over the useful life of the asset.

Under *AS 12,* Grants related to depreciable assets are either treated as deferred income and transferred to the statement of profit and loss in proportion of depreciation, or deducted from the cost of the asset.

IAS 20 permits an option to deduct the government grant (including non-monetary grants at fair value) in calculating the carrying amount of the asset, in which case, the grant is recognised in profit or loss over the life of a depreciable asset by way of a reduced depreciation expenses.

Grants related to income

Grants related to income are presented as a

i. Part of profit and loss, either separately or under a general heading such as 'Other income';

ii. Alternatively, they are deducted in reporting the related expense.

Repayment of government grants

A government grant that becomes repayable shall be accounted for as a change in accounting estimate.

Repayment of a grant related to income

Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant.

To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exits, the repayment shall be recognised immediately in profit or loss.

Repayment of a grant related to an asset

Repayment of a grant related to an asset shall be recognised by reducing the deferred income balance by the amount repayable.

Under *AS 12,* recognised either by increasing the carrying amount of the asset or reducing the deferred income or capital reserve, as appropriate, by the amount repayable. If the carrying amount of the asset is increased, depreciation on the revised carrying amount is provided prospectively over the residual life of the asset. Also the repayment of grant is classified as an extra ordinary item.

Under *IAS 20,* if the grant related to asset was reduced in calculating the carrying amount of the asset, repayment of the grant should be recognised by increasing the carrying amount of the asset. In this case, the cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant should be recognised immediately in profit or loss.

Government assistance

Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria.

This standard also requires an indication of forms of government assistance other than government grant from which the entity has directly benefited.

Although the benefit resulting from such forms assistance may not be measureable, the impact of items such as free technical or marketing advice or guarantees should be disclosed where it is significant.

AS 12 does not deal with disclosure of government assistance other than in the form of government grants.

Disclosure

i. Accounting policy adopted and methods of presentation
ii. Nature and extent of government grant recognised
iii. Unfulfilled conditions and other contingencies

Conclusion

IFRS is being used by most countries to account for *Government Grants.* This standard has been issued with the idea that there will be comparability in accounting with other countries.

In general, government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate, which in the case of grants related to assets require setting up the grant as deferred income.

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Thank you

Ind AS 23 Borrowing Costs

Introduction

It is quite common where an entity borrow funds for meeting its various business needs like acquisition of building, day to day operations etc. On such borrowed funds an entity incurs the cost known as borrowing cost. Now, the query arises how such borrowing cost should be treated while preparing the financial statements?

The treatment of such borrowing cost is prescribed under Ind AS 23, AS 16 under IGAAP and IAS 23 under IFRS. The objective of this article is to prescribe the treatment of borrowing cost as prescribed under Ind AS 23 along with highlighting the differences between AS 16 and IAS 23.

Core Principle

- Borrowing costs that are directly attributable to the *acquisition, construction or production* of a qualifying asset are included in the cost of that asset.
- Other borrowing costs are recognised as an expense.

Borrowing costs' that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset.

Other borrowing costs are recognised as an expense.

Qualifying Asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Borrowing Costs – definition

Borrowing costs are defined as interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs may include:

(a) Interest expense calculated using the effective interest method as described in Ind AS 39 Financial Instruments.

(b) Finance charges in respect of finance leases recognised in accordance with Ind AS 17 Leases; and

(c) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Under IGAAP (AS 16) – there is no reference to effectiveinterest rate.

Scope

- This standard is applied in accounting for borrowing cost.
- It does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.

  For example: Dividend paid on equity shares, cost of issuance of equity, cost on Irredeemable preference share capital will not be included as borrowing cost within the purview of this standard.
- This standard is not required to apply on borrowing cost directly attributable to the acquisition, construction or production of:

- Qualifying asset measured at fair value {For example: A biological asset Ind AS 41}
- Inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis

Under IGAAP (AS 16) –Borrowing costs does not include any scope exemptions similar to Ind AS or IAS.

Exchange differences to be included in borrowing costs

With regard to exchange difference required to be treated as borrowing costs in accordance with paragraph 6(e), the manner of arriving at the adjustments stated therein shall be as follows:

(i) the adjustment should be of an amount which is equivalent to the extent to which the exchange loss does not exceed the difference between the cost of borrowing in functional currency when compared to the cost of borrowing in a foreign currency.

(ii) where there is an unrealised exchange loss which is treated as an adjustment to interest and subsequently there is a realised or unrealised gain in respect of the settlement or translation of the same borrowing, the gain to the extent of the loss previously recognised as an adjustment should also be recognised as an adjustment to interest.

Under IAS 23 – Above guidance on how the adjustment prescribed in para 6(e) is to be determined is not found in IAS 23.

Treatment of Borrowing Cost

1) If the borrowing cost incurred is directly attributable to the acquisition, construction or production of qualifying asset, then it should be capitalised as part of the cost of the asset.
2) Otherwise it should be expensed in the profit or loss.
3) Note: In case of hyperinflationary economy, part of borrowing cost which compensates for the inflation during the same period should be expensed in profit of loss.

Borrowing cost eligible for capitalisation

Borrowing cost which is directly attributable to the acquisition, construction or production of a qualifying asset is capitalised. A borrowing cost is said to be directly attributable if it can be avoided when the expenditure on qualifying asset is not made.

Specific borrowing

When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

Amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on those funds during the period reduced by any investment income earned on temporary investment of idle funds.

General borrowing

In case of general borrowings it may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided.

Rate of Capitalisation:

$$\frac{\text{Total general borrowing cost for the period}}{\text{Weighted average total general borrowings}}$$

Expenditure to which the capitalisation rate is applied:-

Particular	Amount
Opening balance of Qualifying Asset (Including borrowing cost previously capitalised)	XXX
Add: Cash expenditure incurred	XXX
Add: Transfer or consumption of other assets and material	XXX
Add: Assumption of Interest bearing liabilities	XXX
Less: Progress payments received	XXX
Less: Pre-Sale Deposit	XXX

Note: Amount of borrowing cost eligible to capitalise should not exceed the actual borrowing cost in case of general borrowing.

Period of capitalisation

Commencement of capitalisation

Borrowing costs are being incurred

Expenditures for the asset are being incurred

Activities that are necessary to prepare the asset for its intended use or sale are in progress

Capitalisation should commence when

Suspension of capitalisation

- Capitalisation should be suspended in the extended periods during which active development of qualifying asset is interrupted.
- Active development interruption means development not taking place due to the abnormal reasons.

Cessation of capitalisation

Capitalisation should cease when:

- Substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.
- Borrowing cost is not being incurred.

Other Key Points:-

1. ***Recognition of an Impairment Loss:*** when the carrying amount or expected cost of a qualifying asset exceeds its recoverable amount or N.R.V, the carrying amount is written down or written off in accordance with requirement of relevant standards IND AS 36 or 2.

Disclosure

a) Amount of borrowing cost capitalised during the period.
b) Capitalisation rate used.

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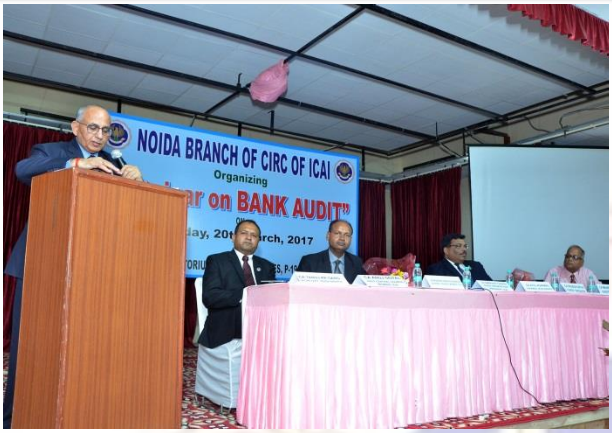
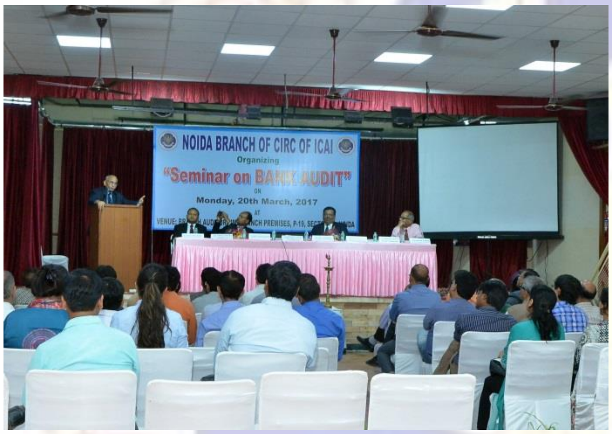
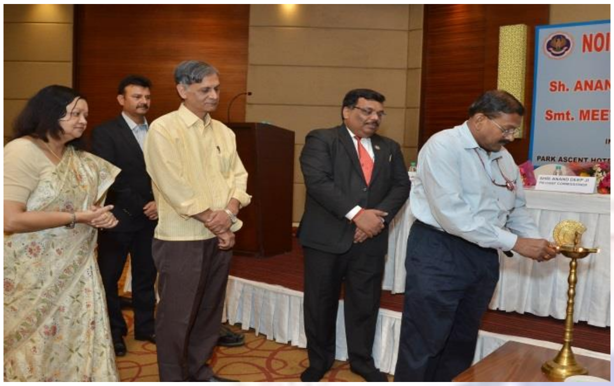
Thank you

SNAPS DURING BANK AUDIT SEMINAR





SNAPS DURING INCOME TAX INTERACTION PROGRAM



MOTTO

Ya esa suptesu jagarti kamam kamam Puruso nirmimanah |
Tadeva sukram tad brahma tadevamrtamucyate |
Tasminlokah sritah sarve tadu natyeti Kascan | etad vai tat ||

य एष सुप्तेषु जागर्ति कामं कामं पुरूषो निर्मिमाण : ।
तदेव शुक्रं तद् ब्रह्म तदेवामृतमुच्यते ।
तस्मिंल्लोकाः श्रिताः सर्वे तदु नात्येति कश्चन । एतद् वै तत् ।।

(That person who is awake in those that sleep, shaping desire after desire, that, indeed, is the pure. That is Brahman, that, indeed, is called the immortal. In it all the worlds rest and no one ever goes beyond it. This, verily, is that, kamam kamam : desire after desire, really objects of desire. Even dream objects like objects of waking consciousness are due to the Supreme Person. Even dream consciousness is a proof of the existence of the self.

No one ever goes beyond it : cf. Eckhart : 'On reaching God all progress ends.')

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