PARTNERS BEYOND BOUNDARIES

GLOBAL ACCOUNTING UPDATE

JANUARY 2019

US GAAP (US Generally Accepted Accounting Principles)

Held to maturity securities excluded from transitory relief under ASC 326

Impact: All entities

In its recent meeting, the FASB made an exception for valuation requirements for held-to-maturity securities upon adoption of ASC 326 - Financial Instruments - Credit Losses. Entities have an option to make an irrevocable one-time election to measure financial assets measured at amortized cost using the fair value option upon adoption of the new credit losses standard. This transitory relief would not be applicable for held-to-maturity securities.

The FASB expects to issue the proposal with a 30-day comment period by the end of the first quarter of 2019.

Relief on disclosures requirements for Income taxes under topic 740

Impact: All entities

During its recent discussions, FASB clarified that an entity need not disclose the amount of the transition tax liability resulting from the Tax Cuts and Jobs Act and the line item in the statement of financial position in which the liability is presented.

Disclosures pertaining to an entity's agreement with the government including the duration of the agreement, the commitments made with the government under that agreement, and the amount of benefit that reduces or may reduce its income tax burden are also not required.

Summary of accounting standards effective January 2019

ASC 842 – Accounting for leases

Effective for periods beginning after December 15 ,2018 for public companies and December 15, 2019 for private companies, the new leases standard requires "lessees"—to recognize the assets and liabilities related to the rights and obligations under the lease arrangements on the balance sheets. This is expected to have a huge impact on entities with operating leases as under the new guidance even operating leases would be recognized on the balance sheet.

Along with the classification, disclosure requirements have also been significantly revamped to provide more detailed information on amount, timing and uncertainty of cash flows arising from leases.

The new standard is expected to result in fewer opportunities for organizations to structure leasing transactions to achieve a particular outcome on the balance sheet. Further, it clarifies the definition of lease to address practice issues within current GAAP and to align concept of control with control principle used in revenue recognition and consolidations.

ASC 815 - Hedge accounting

ASU No. 2017-12, Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities, is set to align accounting rules with a company's risk management activities, better reflect the economic results of hedging in the financial statements and simplify hedge accounting treatment.

Expand hedge accounting for nonfinancial and financial risk components to allow companies to qualify for hedge accounting for more of their risk management activities

Reduce the cost and complexity of applying hedge accounting by simplifying the way assessments of hedge effectiveness may be performed.

New Hedge Accounting Rules

Enhance transparency, comparability, and understandability of hedge results through enhanced disclosures and changing the presentation of hedge results to align the effects of the hedging instrument and the hedged item

Decrease the complexity of preparing and understanding hedge results by eliminating the separate measurement and reporting of hedge ineffectiveness

ASC 606- Revenue Recognition

Effective for periods beginning after December 15,2018 for private companies, the new revenue recognition standard establishes consistent principles (regardless of industry or geography) to report useful information about the nature, amount, timing, and uncertainty of revenue from contracts with customers.

Core principle under the new standard is:
"Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services."

Comparison of key changes:

Previous Guidance	New Guidance
➢ Guidance by industry/geography etc.	➢ Consistent guidance to be followed irrespective of industry/geography
➢ Limited disclosures	➢ Extensive and cohesive disclosures to provide detailed information on revenue
➢ Multiple goods/services promised under the contract not considered distinct revenue generating transactions even if distinct	➢ Identification of distinct performance obligation and revenue allocated and recognized as each performance obligation is satisfied
➢ Allocation of revenue to delivered goods or services in multiple element arrangement constrained to revenue that is not contingent on delivering future goods or services	➢ Allocation of transaction price to each performance obligation based on standalone selling price except when a discount or variable consideration relates specifically to one or more performance obligation
➢ Accounting for variable consideration varied by industry	➢ A single model for all forms of variable consideration.

ASC 718 – Accounting for share-based payment to non-employees

Topic 718, Compensation—Stock Compensation has been amended to include share based- payments to non-employees. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned and the amended guidance supersedes Subtopic 505-50, Equity—Equity-Based Payments to Non-Employees.
However, share based payments used to provide financing to the issuer or awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under ASC 606 remain out of scope of ASC 718.
With the ASU going into effect, the cost, complexity and financial reporting for share based payments to non-employees will be substantially improved making it easier to account for share based payments to service providers, suppliers and other non-employees.

ASU ON Stranded income tax effects UNDER TOPIC 220- Income Statement — Reporting Comprehensive Income

Generally Accepted Accounting Principles (GAAP) requires that deferred tax liabilities and assets be adjusted for the effect of a change in tax laws or rates. Such effect would be included in income from continuing operations in the reporting period that includes the enactment date of the change. With the passing of Tax Cuts and Jobs Act, there were concerns on applying this guidance to deferred tax assets and liabilities related to items presented in accumulated other comprehensive income.
The update effective January 2019, addresses certain stranded income tax effects in accumulated other comprehensive income (AOCI) resulting from the Tax Cuts and Jobs Act by providing the financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded.
The ASU requires financial statement preparers to disclose:

- A description of the accounting policy for releasing income tax effects from AOCI;
- Whether they elect to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act; and
- Information about the other income tax effects that are reclassified.

IFRS (International Financial Reporting Standards)

Increased emphasis on learning and development for continuing professional development

Impact: All professionals required to meet continued professional development requirements

Revising the standard on Continuing Professional Development, the International Accounting Education Standards Board made clear that all professional accountants must develop and maintain professional competence to perform their role. Revised International Education Standard (IES 7), Continuing Professional Development places greater emphasis on learning and development needed for professional accountants' roles and responsibilities rather than focusing on a minimum number of hours. The standard clarifies the principles and requirements on how professional accountancy organizations measure, monitor and enforce their continuing professional development systems

Ind AS (Indian Accounting Standards)

Guidance note on reports in Company prospectus

Impact: Companies required to report under SEBI's (Capital and Disclosure Requirements) Regulations

ICAI has issued a revised Guidance note on requirements for financial information reports in Company prospectuses to be included in the public filing/offer documents for IPO, rights issue, placement document for QIBs etc.
The revised guidance note has been issued to meet the requirements as per the revisions to SEBI's (Capital and Disclosure Requirements) Regulations, 2018 and is applicable to documents which are filed on or after Jan 21, 2019.

Lok Sabha passes Companies (Amendment) Bill 2019

Impact: All companies reporting under Companies Act

The Companies (Amendment) Bill was introduced in the Lok Sabha on December 20, 2018 and passed by the Lok Sabha on January 4, 2019. The Ordinance issued by Ministry of Law and Justice during November 2018 to amend the Companies Act 2013 has now been replaced with Companies (Amendment) Ordinance 2019 while the Bill is pending approval from Rajya Sabha and President's assent. Major changes planned through the amendment are:

- Power to approve changes to financial year and alteration of articles pursuant to conversion of public companies into private companies to vest with Central Government.
- Additional disqualification criteria added for appointment of directors.
- Events leading to removal of name of a company from register of companies increased.
- Revised timeline with respect to registration of charges (such as mortgages) with the registrar.
- Changes in penal provisions related to issuance of shares at a discount, failure to file annual return and furnishing false information while creating a charge.

MCA issues Companies (Acceptance of Deposits) Amendment Rules, 2019

Impact: All companies

As per the notification issued by MCA amending the Companies (Acceptance of Deposits) Rules, the following changes have been made:

- Amounts received from Real Estate Investment Trusts (REITs) excluded from definition of deposits.
- Filing form DPT-3 made mandatory going forward for transactions not considered a deposit as will. A one time return for outstanding receipts not considered a deposit for the period 1 April 2014-22 January 2019 when the update goes into effect.
- Changes to information required in form DPT-3 submitted with the department.

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