



NEWSLETTER

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MVDCO Advisory Services Pvt. Ltd.

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01. Direct Tax

(Page 2 - 13)

02. Audit

(Page 14 - 16)

DIRECT TAX

ANALYSIS ON FINANCE ACT 2020 - DIRECT TAX

Income Tax Slab for AY 2020-21 & 2021-22:

1. Tax Rates for an Individuals for the AY 2020-21 & 2021-22:

Tax Rates for Individuals				
Income		Rates of Income Tax		
		Individual (Age less than 60 Years)	Senior Citizen (Age above 60 Years)	Super Senior Citizen (Age above 80 Years)
1.	Up to Rs. 2,50,000	Nil	Nil	Nil
2.	Rs. 2,50,000 to Rs. 3,00,000	5%	Nil	Nil
3.	Rs. 3,00,000 to Rs. 5,00,000	5%	5%	Nil
4.	Rs. 5,00,000 to Rs. 10,00,000	20%	20%	20%
5.	Above Rs. 10,00,000	30%	30%	30%

****The above rates are exclusive of surcharge and cess as mentioned below.***

Note: A resident individual is entitled for rebate u/s 87A if his total income does not exceed Rs. 5,00,000. The amount of rebate shall be 100% of income-tax or Rs.12,500, whichever is less.

Tax Slab rate for A.Y 2021-22

Taxable Income Slab (₹)	Existing Tax Rates AY 2020-21 & 2021-22	New Tax Rates (Optional) u/s. 115BAC A.Y 2021-22
0-2.5 Lakh	Exempt	Exempt
2.5-5 Lakh	5%	5%
5-7.5 Lakh	20%	10%
7.5-10 Lakh	20%	15%
10-12.5 Lakh	30%	20%
12.5-15 Lakh	30%	25%
Above 15 Lakh	30%	30%

The above option can only be availed with the waiver of the below deduction / exemptions:

- (i)** Leave travel concession as contained in clause (5) of section 10;
- (ii)** House rent allowance as contained in clause (13A) of section 10;
- (iii)** Some of the allowance as contained in clause (14) of section 10;
- (iv)** Allowances to MPs/MLAs as contained in clause (17) of section 10;
- (v)** Allowance for income of minor as contained in clause (32) of section 10;
- (vi)** Exemption for SEZ unit contained in section 10AA;
- (vii)** Standard deduction, deduction for entertainment allowance and employment/professional tax as contained in section 16;
- (viii)** Interest under section 24 in respect of self-occupied or vacant property referred to in sub-section (2) of section 23. (Loss under the head income from house property for rented house shall not be allowed to be set-off under any other head and would be allowed to be carried forward as per extant law);
- (ix)** Additional depreciation under clause (iia) of sub-section (1) of section 32;
- (x)** Deductions under section 32AD, 33AB, 33ABA;
- (xi)** Various deduction for donation for or expenditure on scientific research contained in sub-clause (ii) or sub-clause (iia) or sub-clause (iii) of sub-section (1) or sub-section (2AA) of section 35;
- (xii)** Deduction under section 35AD or section 35CCC;
- (xiii)** Deduction from family pension under clause (iia) of section 57;
- (xiv)** Any deduction under chapter VIA (like section 80C, 80CCC, 80CCD, 80D, 80DD, 80ddb, 80E, 80EE, 80EEA, 80EEB, 80G, 80GG, 80GGA, 80GGC, 80IA, 80-IAB, 80-IAC, 80-IB, 80-IBA, etc).

However, deduction under sub-section (2) of section 80CCD (employer contribution on account of employee in notified pension scheme) and section 80JJAA (for new employment) can be claimed;

The above option is available every year for non- business/professional income while the above option is available once for business/professional income and will continue for subsequent years. Once quit will not be allowed to opt again.

2. [Tax Rates for Corporate Assessee for the A.Y. 2020-21 & 2021-22:](#)

Tax Rates* for Corporate Assessee for the A.Y. 2020-21		
Status of Taxpayer		Rates of income-tax
1.	Firms/Local Authority	30%
2.	Domestic Company	30%/25%/22%/15%
3	Foreign Company	40%
# Tax rate is 25% if turnover or gross receipts of the domestic company in the previous year 2018-19 doesn't exceed Rs. 400 crore, u/s. 115BA – 25%, u/s. 115BAA - 22% and u/s. 115BAB - 15%. Tax under MAT is 15% excluding the cases 115BAA & 115BAB		

****The above rates are exclusive of surcharge and cess.***

Rate of income tax on total income if the new manufacturing domestic company opts for section 115BAB

S. No.	Nature of Income	
1.	Income derived from manufacturing or production of an article or thing	
	[Section 115BAB(1)]	15%
2.	Income taxable at special rates as per Chapter XII	
	i.e.	
	(i) Short-term capital gain referred to in section 111A	15%
	(ii) Long-term capital gain other than referred to in section 112A	10/20%
	(iii) Long-term capital gain referred to in section 112A	10% exceeding
	Rs. 1 lacs	
3.	Income computed by the AO by applying the specific domestic provisions i.e. where there is close connection between the company and any other person	30%
	[Second proviso to Section 115BAB(1)]	

4. Short-term capital gain on transfer of a capital asset on which no 22% depreciation is allowable [Third proviso to Section 115BAB(1)]
5. Any other income of the company [First proviso to Section 115BAB(1)] 22%

3. [Tax Rates* for Co-operatives Societies for the A.Y. 2020-21 & 2021-22:](#)

Tax Rates* for Co-operatives Societies for the A.Y. 2020-21		
Income		Rates of income-tax
1.	Up to Rs. 10,000	10%
2.	Rs.10,000 – Rs.20,000	20%
3	Above Rs. 20,000	30%

****The above rates are exclusive of surcharge and cess.***

Cooperative societies also have right to opt for taxation u/s. 115BAD

Cooperative societies also have an option to pay tax @22% without claiming deductions / exemptions below:

(i) without any deduction under the provisions of section 10AA (Exemption for SEZ units) or clause (iia) of sub-section (1) of section 32 (additional depreciation) or section 32AD or section 33AB or section 33ABA or sub-clause (ii) or sub-clause (iia) or sub-clause (iii) of sub-section (1) or sub-section (2AA) of section 35 or section 35AD or section 35CCC or under any of the provisions of Chapter VI-A other than the provisions of section 80JJAA (Deduction in respect of employment of new employees - thirty per cent of additional employee cost for 3 years);

(ii) without set off of any loss carried forward or depreciation from any earlier assessment year, if such loss or depreciation is attributable to any of the deductions referred to in clause (i); and

(iii) by claiming the depreciation, if any, under section 32, other than clause (iia) of sub-section (1) of the said section, determined in such manner as may be prescribed.

4. Rates of Surcharge (Apart from health and Education Cess):

Rates of Surcharge						
Particulars		Taxable Income				
		50 Lacs to 1 Crore	1 Crore to 2 Crores	2 Crore to 5 Crores	5 Crore to 10 Crores	Exceeding 10 Crores
1.	Individuals/HUF AOP/BOI/Trust/AJP For capital gains u/s 112A and 111A - 15%	10%	15%	15%	15%	15%
	Individuals/HUF AOP/BOI/Trust/AJP For Others	10%	15%	25%	37%	37%
2.	Firm/ Local Authority/ Co-operative Society	Nil	12%	12%	12%	12%
3.	Domestic Company	Nil	7%	7%	7%	12%
4.	Domestic Company taxable u/s. 115BAA & 115BAB	10%	10%	10%	10%	10%
5.	Foreign Company	Nil	2%	2%	2%	5%

OTHER IMPORTANT AMENDMENTS FOR A.Y 2021-22:

1. Amendments in residential provisions [Section 6] – for those, whose total income accrue or arise in India exceeds Rs.15 Lakhs

NRI to be regarded as resident if he resides 120 days or more in India instead of 182 days earlier and criteria for RNOR is 7 years instead of existing 9 years.

Clause 1A after clause 1 to be inserted to include citizen of India will be deemed to be resident if he is not liable to tax in any other country or territory by reason of

his domicile or residence or any other criteria of similar nature. (even without covered under residential status). Global income will be taxable in India.

2. Amendments in [Section 9] – significant economic presence from 01.04.2022

Significant economic presence of a non-resident in India shall constitute

"business connection" in India and "significant economic presence" for this purpose, shall mean—

(a) transaction in respect of any goods, services or property carried out by a non-resident with any person in India including provision of download of software in India, if the aggregate of payments arising from such transaction or transactions during the previous year exceeds such amount as may be prescribed; or

(b) systematic and continuous soliciting of business activities or engaging in interaction with such number of users in India, as may be prescribed:

Provided that the transactions or activities shall constitute significant economic presence in India, whether or not—

(i) the agreement for such transactions or activities is entered in India; or

(ii) the non-resident has a residence or place of business in India; or

(iii) the non-resident renders services in India:

Provided further that only so much of income as is attributable to the transactions or activities referred to in clause (a) or clause (b) shall be deemed to accrue or arise in India.;

3. Section 10(34) dividend on shares and 10(35) dividends on units / M.F coming from 1st April 2004 are withdrawn from 1st April 2020.

4. Amendments in [Section 17(2)(vii)] – **perquisites include**

By substituting sub-clause (vii) of sub-section (2) to include the amount or the aggregate of amounts of any contribution made to the account of the assessee by the employer—

(a) in a recognized provident fund;

(b) in the scheme referred to in sub-section (1) of section 80CCD (NPS); and

(c) in an approved superannuation fund,

to the extent it exceeds seven lakh and fifty thousand rupees in a previous year

(Upper Cap set)

{Earlier it was approved superannuation fund with limit of Rs. 1.5 lac, 12% PF and 10% NPS of salary}

Annual accretion by way of interest, dividend or any other amount of similar nature during the previous year to the balance at the credit of the fund or scheme shall be treated **as perquisite** to the extent it relates to the employer's contribution which is included in total income as perquisite above.

5. Amendments in [Section 43CA and 50C] – **Value for transfer of assets of capital assets and others.**

Variation of 5% in consideration and assessed value for stamp duty or otherwise is increased upto 10%.

6. Amendments in [Section 44AB] – **Audit of Books of Account**

By inserting fresh proviso to increase threshold limit for any person carrying on business from 1 crore rupees to Rs.5 crore rupees in cases where cash receipts or payments does not exceed 5% of total receipts or payments respectfully.

It means, if an assessee having cash receipts and cash payments not exceeding 5% of the total receipts and total payments respectively and his turnover is less than Rs. 5 Crores, then he is not required to get his accounts audited, instead he can pay tax under presumptive taxation.

Due date for audit of books of account is preponed by 1 month from the due date of filing of return.

For TP case- 31st October and for other audit cases due date is 30th September

7. Amendments in [Section 55(2)(b)] - **FMV in case of Land and building**

It is amended to restrict that FMV should not exceed stamp duty value as on 01.04.2001

8. Amendments in [Section 80IAC] – Tax exemption for start-ups entities

100% tax exemption will be available for eligible start-up entities in any three consecutive assessment years out of 10 assessment years from the start up instead of existing 7 years. Turnover limit is also increased from 25 crore to Rs. 100 crore.

9. Amendments in [section 80GGA] - changes u/s 80GGA- Donation for scientific research or rural development.

The deduction for eligible donations to a donor u/s 35 to be allowed only if a statement in respect of donation is furnished by the donee. Failure to file such statement to attract fees u/s 234G (applicable w.e.f.01.06.2020) @Rs.200 per day for such failure and penalty u/s 271K (applicable w.e.f.01.06.2020) not less than Rs.10,000/- which shall not exceed Rs.1,00,000/- in any case. The deduction of cash donation for scientific research or rural development restricted to INR 2,000 from INR 10000 like other eligible donations.

10. Amendments in [Section 115A] – Relief to non-resident from filing of return on FTS income

If the Non-resident total income includes royalty or fees for technical services (FTS) then he is not required to file the return. Current provisions provide relief only in case of income via Interest or dividend and TDS has been paid on it.

11. Amendments in [Section 115BAB] – Electricity Generation companies under Manufacturing definition

This section now include “business of generation of electricity” under the definition of manufacturing to give benefit of tax @ 15% subject to conditions of this provision.

12. Amendments in [Section 115O & 115R] – Amendment in Sec 115O Dividend Distribution Tax on Shares and Sec 115R Dividend Distribution Tax on UTI/Mutual Funds;

DDT Scraped from 01.04.2020. Because of dividend taxation shifted to the shareholder at applicable rates (as against the domestic company declaring dividends) TDS at 10% u/s 194 if dividend exceeds INR 5,000 for resident shareholders and TDS at 20% (plus applicable surcharge or cess) or lower treaty rate for NR shareholders. Interest expense u/s 57 deductible to the extent of 20% of such dividend income will be allowable. Now dividend not exempt in the hands of recipient u/s 10(34) and 10(35).

13. Amendments in [Section 139] – Due date for filing of Return

Due date for filing of return of audit cases including **all (deleting working) partners** of a firm to be audited is extended from 30th September to 31st October. Due date for filing of return of Transfer Pricing cases remains 30th November.

14. Amendments in [Section 194A, 194C, 194H,194I, 194J] – Monetary limit on TDS deduction

The monetary limit of section 44AB for individual and HUF has been replaced with Rs. 100 lakh for business and Rs. 50 lakh for profession.

15. Amendments in [Section 194J] – TDS on Fees for Technical Services

TDS on fees for technical services is reduced from 10% to 2% however TDS on others remains 10%.

Section 9(vii) Explanation 2.—For the purposes of this clause, "fees for technical services" means any consideration (including any lump sum consideration) for the rendering of any managerial, technical or consultancy services (including the provision of services of technical or other personnel) but does not include consideration for any construction, assembly, mining or like project undertaken by the recipient or consideration which would be income of the recipient chargeable under the head "Salaries".

The Government has reduced the rate of tax deduction to 2% on royalty income arising to a person by way of sale, distribution or exhibition of cinematographic films. This provide relief to the film distributors as currently tax is deducted at the rate of 10% on revenue they earn from sale, distribution or exhibition right of the film which block their working capital.

16. Amendments in [Section 194LC] – **Extension in Period for Rupee Denominated Bond**
Period for issuance of rupee denominated bond to raise fund by a domestic company from outside India is extended from 1st July 2020 upto 1st July 2023 with reduction in TDS rate on interest thereon from 5% to 4%.
17. **Amendment in Section 194N- Threshold** limit reduced to Rs.20 Lakhs for those who has not filed return of income for previous three years immediately preceding the previous year in which cash is withdrawn.

The deduction of tax under this situation shall be at the rate of:

- a) 2% from the amount withdrawn in cash if the aggregate of the amount of withdrawal exceeds Rs. 20 lakhs during the previous year; or

b) 5% from the amount withdrawn in cash if the aggregate of the amount of withdrawal exceeds Rs. 1 crore during the previous year.

18. Amendments in [Section 204] – **Changes in person responsible for paying (Chapter XVII)**
By inserting clause (v), person responsible for paying under chapter XVII and Section 285 (liaison office) is amended that in the case of a person not resident in India, the person himself or any person authorised by such person or the agent of such person in India including any person treated as an agent under section 163.
19. Amendments in [Section 206C applicable from 1st Oct,2020] - **TCS on Tour Packages**

By means of insertion of sub-section (1G),

- (a) **Authorised dealer receiving exceeding seven lakhs in a financial year to remit amount outside India**
 (b) **package tour operator on overseas tour program package**
are liable to collect TCS @ 5% on the above amount if TDS is not deducted in any other provision. In absence of PAN/ Aadhar, TCS is required to be deducted @ 10% u/s. 206CC
 (c) *An authorised dealer (any bank or banking institution or any other financial institution notified by the Central Government) will be required to collect TCS @ 0.5% on the amount remitting out of India for buyer is a loan for section 80E, for the purpose of pursuing any education.*

By means of insertion of sub-section (1H), a person having turnover more than 10 crore in preceding year will collect TCS @ 0.1% on sale of any goods exceeding Rs. 50 lakh other than goods exported and covered in sub-section (1), (1F) and (1G). In absence of PAN/ Aadhar, TCS will be deducted @ 1% u/s. 206CC

20. Amendments in [Section 254 (2A)] - ITAT power to grant stay on demand

ITAT is powered to grant stay for 180 days on the condition of deposit 20% of such disputed tax, interest, penalty, etc. The maximum stay with extension to be granted shall not exceed 365 days at any case.

21. Amendments in [Section 11& 12] – Registration u/s. 12AA becoming inoperative

The registration to the charitable / religious trust, institutions etc. is presently given u/s. 12AA of the Income Tax Act (“Act”) without expiry date. Now, w.e.f. 01st June, 2020 it is proposed to make this section ineffective and to give registration under new section 12AB for five years only however can be reobtained. The institutions etc. which are already registered under existing section 12AA or earlier section 12A / approved under existing provisions of section 10(23C) or section 80G will also be required to obtain fresh registration / approval under new section 12AB / amended section 10(23C) / amended section 80G.

The application for fresh registration of already registered u/s. 12AA is required to be filed u/s. 12AB till September 2020 and consequently fresh application for exemption u/s. 10(23C) or 80G who will get provisional registration for 3 years.

22. Taxation on ESOP

ESOPs will be taxed earlier of 5 years or leaving the Company or sell of shares.

Insertion of New Provisions:

1. New Section 80M has been inserted- Deduction of dividend income

To remove the cascading effect of dividend distributed on or *before the*

due date for filing of tax audit report by a domestic company a deduction is allowable of an amount equal to dividends received from other domestic company/foreign company/business trust as does not exceed the amount of dividend distributed by the first mentioned domestic company.

2. New Section 194K – TDS on income to be transferred from Mutual fund to unit holders

New Section 194K has been inserted which require the Mutual Funds to deduct tax at the rate of 10% while making payment of income exceeding Rs. 5000/- to the unit-holders.

No tax shall be deducted while making payment in respect of capital gain arising from transfer of units.

3. New Section 194O has been inserted- TDS on E-Commerce Operators

This new section is applicable to E-commerce operators (supply of goods or services or both including digital products over digital or electronic network) on payment made by them to E-Commerce Participants for sale of goods or service provided by digital or electronic platform. Threshold limit is available for individual and HUF of such sales or services of Rs.5 Lacs in a year but subject to non-availability of PAN/Aadhaar there will be not such threshold. TDS to be deducted @1% of such amount & @5% for non-PAN/Aadhaar case u/s.206AA. If TDS deducted here will not be deducted under any other section.

4. **New section 250(6A) inserted – New Scheme of E-Appeal**

The Central Government by notification to be issued on or before 31 March 2022 directing for Faceless appeal proceeding.

5. **New section 271AAD inserted – Penalty of Fake Invoice or False Entry**

If any person is found during any proceeding under this act to have passed in the books of account (i) a false entry; or (ii) an omission of any entry which is relevant for computation of total income of such person, to evade tax liability, the AO may direct that such person shall pay by way of penalty a sum equal to the aggregate amount of such false or omitted entry.

Further, any other person **who cause / assist others in above default**, then such other persons may be directed by A.O to pay by way of penalty a sum equal to the **aggregate amount of such false or omitted entry**. “False entry” includes use or intention to use – (a) forged or falsified documents such as a false invoice or, in general, a false piece of documentary evidence; or (b) invoice in respect of supply or receipt of goods or services or both issued by the person or any other person

without actual supply or receipt of such goods or services or both; or (c) invoice in respect of supply or receipt of goods or services or both to or from a person who does not exist.

The Direct Tax Vivad se Vishwas Bill, 2020

By introducing the mechanism to clear 5 lakh cases pending in appeals for around of Rs. 10 lakh cores.

The scheme is available to the appellant for the income tax or corporation tax cases including DRP matters lying in the Supreme Court, the High Courts, the Income Tax Appellate Tribunals, and the Commissioner (Appeals).

Eligibility

1. Appeals pending as on 31.01.2020
2. Orders doe which time for filing appeal has not expired on 31.01.2020
3. Cases pending with DRP on 31.01.2020
4. Direction of DRP issued on or before 31.01.2020 but no order is passed
5. Cases for revision (section 264) filed on or before 31.01.2020
6. Search cases where disputed tax is less than Rs. 5 crore.
7. The appeals / writ filed by tax payer or the department
8. Cases in arbitration in India or abroad.

Disputes covered

Disputed tax, penalty, interest, fees, TDS and TCS

Table 1: Amount payable for resolution of disputes

Disputes relating to	Payable before 31 st December, 2020
Payment of tax	Amount of disputed tax (any interest or penalty associated with such tax will be waived)
Payment of fee, interest, or penalty	25% of the amount under such dispute

In the case of departmental appeal, the assessee can avail the scheme by paying 62.50% of tax in search cases, 50% of tax in other cases, 12.50% of interest and penalty.

Waiver of rights: For dispute resolution, the appellant is required to furnish an undertaking waiving his rights to seek any remedy or claim in relation to that dispute under any law, including the Income Tax Act, 1961 (IT Act). All such claims already filed in relation to the dispute must be withdrawn before filing the declaration.

Immunity to appellant: Once a dispute is resolved, the designated authority cannot levy interest or penalty in relation to that dispute. Further, no appellate forum can make a decision in relation to the matter of dispute once it is resolved. Such matters cannot be reopened in any proceeding under any law, including the IT Act.

Disputes not covered: The proposed mechanism will not cover: (i) where prosecution has been initiated before the declaration is filed, (ii) which involve persons who have been convicted or are being prosecuted for offences under certain laws (such as the Indian Penal Code), or for enforcement of civil liabilities, and (iii) involving undisclosed foreign income or assets.

Equalization Levy

1. Section 165A has been inserted- Scope of Equalization Levy extended to cover E-Commerce operators

The equalisation levy shall be charged at the rate of 2% from the consideration received or receivable by an e-commerce operator from e-commerce supply of goods or services made or provided or facilitated by it to the following persons if turnover exceeds Rs. 2 crore in aggregate in any financial year:

- a) A person who is resident in India;
- b) A person who buys such goods or services or both using internet protocol address located in India;
- c) A non-resident person in the following circumstances:
 - > Sale of advertisement which targets a customer who is resident in India or a customer who accesses the advertisement through internet protocol address located in India; and

> Sale of data collected from a person who is resident in India or from a person who uses internet protocol address located in India.

Consequential amendments have been made to section 10(50) to give tax exemption for the income arising from any e-commerce supply or services made.

Compiled by Income Tax Team, DNV & Co.

AUDIT

IMPACT OF COVID 19 ON FINANCIAL REPORTING

The novel Coronavirus (COVID 19) pandemic is spreading at an alarming rate. It has not only taken its toll on a number of human lives but is also affecting the business and the financial markets. The extent of the same cannot be accounted for. Therefore entities seriously need to consider the accounting implications of this situation.

In this situation transparency is key. There is an utmost need to disclose honest and reliable information and a part of that will be provided through Financial Reporting. It may not be the first thing that comes to mind as a consequence of the outbreak, but there is an important and challenging role here for the preparers of Financial Statements, audit committee and the auditors.

There will be a number of areas for discussion but the top few areas of priorities will be:

1. Going Concern and Liquidity

Evidently businesses affected by the crisis will be concerned about the survival of their organisation. They will focus on the cash flows of their business. When preparing the financial statements, management will have to make an assessment of the company's ability to continue as a going concern, and whether the going concern assumption is appropriate.

Due to the impact, there may have arisen material uncertainties that raise a doubt on the company's ability to operate under the going concern assumption. If the company prepares the financial statements under this assumption, it must disclose these uncertainties (Ind AS 1 – Presentation of financial statements / AS 1 - Disclosure of Accounting Policies).

The impact of COVID-19 after the balance sheet date should also be considered in

assessing whether going concern assumption is appropriate or not. Events occurring after the balance sheet date may indicate that the enterprise ceases to be a going concern (Ind AS 10 – Events after the reporting period / AS 4 - Contingencies and Events occurring after the Balance Sheet Date).

The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions. (SA 560 – Subsequent events)

2. Impairment Assessment (Ind AS and AS 36 - Impairment of Assets)

At the end of each reporting period, companies are required to assess whether there is any impairment for non-financial assets. An asset is impaired when a company is not able to recover its carrying value, either by using it or selling it. Management will need to consider:

- significant changes in the extent or manner in which the asset is used or is expected to be used (For e.g. the company will have to identify the production capacity of the machine in the future)
- A decrease in the market interest rates which would cause a decrease in the asset's value in use.
- The forecasts or the budget based on which the future cash flows will be prepared.

- Whether the market assumptions which will be used to determine the fair value for recoverable amounts needs reconsideration.

3. Fair Value Measurement (Ind AS 113 fair Value Measurement)

Companies are required to measure some of their assets and liabilities at fair value. Various Ind AS prescribe when to measure an asset or liability at fair value. The fair value is measured as per the market conditions on the measurement date. However, with the impact of COVID 19, assumptions used to assess the fair value of the assets and liabilities of a company at the end of the reporting period will require reconsideration.

Along with the market assumptions, there would be significant change in the valuation techniques adopted by the company to arrive at the Fair Value. An appropriate discounting rate will have to be identified taking into consideration the fluctuations in the market (locally as well globally).

4. Inventory

It is apparent that the supply chain distribution must have been disrupted for certain businesses. Inventories of different types such as perishable or seasonal might have been exposed to risk of loss due to damage, contamination, changes in price levels or due to other reasons. Due to the same the companies would need to assess whether on the reporting date, an adjustment is required to the carrying value of their inventory to bring them to their net realisable value in accordance with the principles of Ind AS 2 'Inventories'. Calculating the net realisable value in such volatile market conditions may also be a challenge. The management will also have to review the overhead charges incurred as to whether to include the same in the cost of the inventory or realise the same in Profit and Loss account.

Consideration must also be given to any substantial discounts announced by the company due to COVID-19

Due to the lockdown situation imposed by the government, it may not be practicable for most of the business entities to conduct physical verification of inventory as on the date of the financial statements i.e. 31st March, 2020. The auditor will then be required to identify another subsequent date to carry on the physical verification by performing alternate audit procedures, if need be.

5. Revenue

Revenue of the entity may have declined as a result of the economic impact due to spread of the virus. There could be instances of increase in sales returns, decrease in volume discounts etc. An entity should review its revenue accounting policies to make sure they are still applicable given the current circumstances and if recognition of revenue is postponed, due to significant uncertainties in collection due to Covid-19, a detail disclosure will be required as relevant to the Accounting Standard.

The revenue contracts with various customers may need to be reviewed as they may have been delayed and there may be no need for the demand in the present situation. Management needs to consider whether any contracts are in an 'onerous' position and whether a liability needs to be recognised. Along with such impacts, the number of sales returns or possibilities of bad debts may increase as well.

6. Leases

With the advent of this pandemic, the lessor and the lessee have been impacted. Various areas of lease accounting will require special attention. The terms of the Lease may have been modified along with necessary concessions if any, announced by the government. Therefore, such modifications need to be carefully accounted and reviewed. Discount rates used to calculate the present value of the lease payments as per AS 19 or as

per Ind AS 116 shall be arrived at taking into consideration the impact of COVID-19.

In the case of lessors, they would need to check if any of their lease assets need to be considered for impairment due to revised lease terms or due to a halt in the lease rentals. Entities need to keep a check on whether any of their lease contracts have become onerous in due course.

7. Property, Plant and Equipment

The virus in many industries across the country has left PPE under-utilised or not utilised at all. As per AS 10 and Ind AS 16, the life of the asset needs annual review. The management must account for any change in the useful life. AS per the standard, depreciation shall be provided irrespective of the use of the asset. If there are any indications of impairment, the carrying value of the asset shall be adjusted at cost or the revalued amount as calculated.

8. Borrowing Costs

The provisions of AS 16 and Ind AS 23 state that if there is any suspension in the development of an asset, the capitalisation of the borrowing cost associated to the asset shall be suspended for the period. There could be various

scenarios whereby projects might have been suspended due to COVID-19.

9. Presentation of Financial Statements

- **Loan Agreements:** With the outbreak of the disease, many loan contracts may be breached causing the liability to be of current nature. However, as per paragraph 74 of Ind AS 1, such a liability shall not be classified as current if the lender has agreed not to demand the payment after the reporting period and before the approval of the financial statements.
- **Necessary Disclosures:** An entity shall disclose all the necessary information about the assumption it has made at the end of the reporting period that have a significant risk of resulting in material adjustments to amounts of assets and liabilities as per Paragraph 125 of Ind AS 1.

The framework also requires entities to make adequate disclosures and explanatory notes regarding its affected performance while preparing the comparative financial statements.

Compiled by Article Clerk Kaivan Karia, DNV & Co

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