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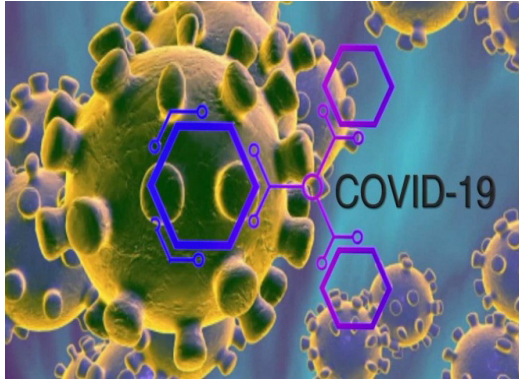
# NEWSLETTER

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## COVID 19 Relief Measures and Impact Analysis on Financial Reporting

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## **COVID-19 Relief Measures and Impact Analysis on Financial Reporting**

The outbreak of coronavirus or COVID-19, and subsequent lockdown to prevent its spread, has created unprecedented problems for everyone, may it be government, businesses, bankers, insurers, chartered accountants, medical professionals, regulators, courts, law enforcement agencies, shopkeepers, casual workers, common citizens or corporate czars.

For how long this coronavirus pandemic will last could be anybody's guess at this point of time. Its impact on the economy will be negative and the extent of the devastation, in the words of Reserve Bank of India Governor Shaktikanta Das, will depend on the "intensity, spread and duration" of the deadly virus. COVID-19 has already infected over 7 lakh people and taken more than 34,000 lives across the globe and the figures are continuing to mount rapidly.

Responding to this unprecedented situation, Finance Minister Nirmala Sitharaman and other regulatory bodies like SEBI and IRDAI have announced a host of initiatives to help businesses combat the crisis and at the same time remain on the right side of the law. The Finance Minister has granted relief either by extending the due dates or by reducing the rate of interest in respect of compliances that will fall due in the months of March, 2020 to June, 2020 in the areas of Income-tax, GST, Customs & Central Excise, Corporate Affairs, Insolvency & Bankruptcy Code (IBC) and Banking Sector

The summary of such reliefs is given below:



## **Goods and Service Tax (GST)**

The highlights of the press conference relating to Goods and Services Tax are given below:

1. Due date to file GSTR-3B for the months of February, March and April, 2020 will be 30-6-2020 for registered persons having aggregate annual turnover less than Rs. 5 Crore. No interest, late fee, and penalty to be charged if the return is filed within the said due date.
2. For registered persons having aggregate annual turnover of Rs. 5 Crore and above can also file returns for the months of February, March and April, 2020 by the last week of June, 2020. However, the same would attract interest at the lower rate of 9 % per annum from 15 days after the due date. In this case also, no late fee and penalty to be charged, if return filing is completed till 30-6-2020.
3. Due date to opt for composition scheme has been extended till the last week of June, 2020. The last date for making payments (CMP-08) for the quarter ending on 31-3-2020 and filing of returns (GSTR-4) for the Financial Year 2019-20 by the composition dealers will also be extended till the last week of June, 2020.
4. Extension of due date for filing GST annual returns in Form GSTR-9/9A for the Financial Year 2018-19 to 30-6-2020 from the existing due date of 31-3-2020.
5. Time limit for issuance of notice, notification, approval order, sanction order, filing of appeal, furnishing of return, statements, applications, reports, any other documents or any compliance under the GST laws where the due date is expiring between 20-3-2020 to 29-6-2020 shall be extended to 30-6-2020.
6. Date of making payment under Sabka Vishwas (Legacy Dispute Resolution) Scheme shall be extended to 30-06-2020. No interest will be charged if the amount is paid by 30-6-2020.
7. Necessary legal circulars and legislative amendments to give effect to the aforesaid GST relief shall follow with the approval of GST Council.

## **Ministry of Corporate Affairs (Company Law)**

### **A. MCA takes special measures under the e Companies Act, 2013 and LLP Act, 2008**

1. It was announced that no additional fee will be charged for late filing during a moratorium period from 01-04-2020 to 30-09-2020, in respect of any document, return, statement etc., required to be filed in the MCA-21 Registry, irrespective of the due date.
2. The decision will not only reduce the Compliance burden including the financial burden of companies and LLPs at large but also enable the non-compliant entities to make a 'fresh start'.
3. The mandatory requirement of holding meetings of the board of the companies within the prescribed interval of 120 days under the Companies Act, 2013 has been extended by 60 days till next two quarters ending 30-09-2020.
4. Applicability of Companies (Auditor's Report) Order, 2020 will now come into effect from 2020-21 instead of from 2019-20 as notified earlier. This will significantly ease the burden on companies and their auditors for the time being.
5. As per Schedule 4 to the Companies Act, 2013, Independent Directors are required to hold at least one meeting without the attendance of non-independent directors and members of management. For the year 2019-20, if the Independent Directors of a company have not been able to hold even one meeting, it will not be viewed as a violation.
6. The requirement to create a deposit reserve of 20 per cent of deposits maturing during 2020-21 before 30-04-2020 can now be complied with by 30-06-2020. The requirement to invest 15 per cent of debentures maturing during a particular year in specified instruments before 30-04-2020, can now be done by 30-06-2020.
7. The newly incorporated companies, which are required to file a declaration for the commencement of business within 6 months of incorporation, have been given an additional six months.
8. Non-compliance of minimum residency in India for a period of at least 182 days by at least one director of every company, under Section 149 of the Companies Act, will not be treated as a violation.



## INCOME TAX

1. The following announcements will need to be passed or notified through the legal circulars and legislative amendments:
2. The last date for the belated/revised filing of the income tax returns for the FY 2018-19 (AY 2019-20) is extended from 31st March 2020 to 30th June 2020.
3. The last date for Aadhaar-PAN linking is extended from 31st March 2020 to 30th June 2020.
4. The time limit to avail the Vivad Se Vishwas scheme is extended up to 30th June 2020. The waiver of the 10% additional charge continues up to 30th June 2020 instead of the earlier time limit of 31st March 2020.
5. Interest at a reduced rate of 9% p.a. shall be charged instead of 12% or 18% p.a. towards the delayed payment/deposit of the following income tax levies, made between 20th March 2020 and 30th June 2020. Note that there is no extension in the deadlines.
  - Advance Tax
  - Tax Deduction at Source (TDS)
  - Tax Collection at Source (TCS)
  - Self-assessment tax
  - Equalization levy
  - Security Transaction Tax (STT)
  - Commodity Transaction Tax (CTT)
6. No late fee/penalty shall be charged for any delay relating to this period.
7. The assessee and/or the tax authorities have got an extended time limit of up to 30th June 2020 where the time limit for the following compliance matter expires between 20th March 2020 and 29th June 2020:
  - Issue of notice/intimation/notification/approval order/sanction order
  - Filing of an appeal/furnishing of a return/statements/reports or any other documents
  - The time limit for the completion of proceedings by the tax authority
  - Investment in saving instruments or investments for rollover benefit of capital gains under the Income Tax Act, Wealth Tax Act, Prohibition of Benami Property Transaction Act, Black Money Act, STT law, CTT Law, Equalisation Levy law, and the Vivad Se Vishwas law.

## **Customs**

- All exporters or importers have been assured about not facing any challenges in the customs clearance, as the facility will now operate 24x7 up to 30th June 2020.
- The taxpayers and/or the tax authorities have got an extended time limit of up to 30th June 2020, where the time limit for the following compliance matter expires between 20th March 2020 and 29th June 2020:
  - Issue of notice/notification/approval order/sanction order
  - Filing of an appeal/furnishing of applications/reports or any other documents

## **Financial Services**

The following financial/banking services have been relaxed for up to three months:

- Debit cardholders can withdraw cash for free from any other banks' ATM
- The minimum balance fee has been waived
- The trade finance consumers will be charged with a lower bank charge for all the digital trade transactions.

## **Insolvency and Bankruptcy Code (IBC)**

The COVID-19 crisis has severely hit the businesses across India, especially the MSMEs since they are unable to operate at the same pace and scale. Accordingly, the sections have been redefined to assess the applicability of IBC to the distressed companies as a part of the relief.

- The qualifying threshold amount has been raised from Rs 1 lakh to Rs 1 crore for liquidating a company that has defaulted its corporate debtors under Section 4 of the IBC 2016.
- If the critical situation continues even after 30th April 2020, the Ministry may suspend a few sections of IBC 2016 for six months. It may be done in a bid to disallow the creditors/corporate applicants to initiate the insolvency resolution process under Section 7, 9 and 10.

## Commerce

- Extension of timelines for various compliance and procedures will be given by the Ministry of Commerce through notifications.

## Fisheries

All the Sanitary Permits (SIP) for the import of SPF Shrimp Broodstock and other Agriculture inputs which expires between 1st March 2020 and 15th April 2020 has been extended by three months.

- The late arrival of import consignments by up to one month will not be considered as ‘delayed receipts’.
- Rebooking of quarantine cubicles for those cancelled consignments in the Aquatic Quarantine Facility (AQF) of Chennai can be done without any additional charges.
- The time limit for the verification of documents and issuance of NOC has been reduced from seven days to three days.

## Impact of COVID-19 on Financial Reporting

### 1. Inventory Measurement:

As per the AS 2, IND AS 2, Inventory and its valuation, it is imperative to write down the inventories to the net realizable value. This has been done in light of the reduced selling prices of goods, mobility of inventory, and stock obsolescence in the market.

### 2. Disablement of Non-financial assets:

In accordance with the AS 36 and AS 28, and the impairment of the non-financial assets, the entities have the right to assess if there is any indication of non-financial assets that may be impaired, in the current reporting year. If such a condition exists, then the entity can get the estimated recoverable amount of the asset.

As there might be a temporary suspension of operations accompanied by a decline in the overall demand, the management may use these as indicators for the impairment testing for AS



36 and AS 28.

### **3. Impairment Losses and Financial Instruments:**

The financial instruments within the scope of AS 109 are not measured at the appropriate value of profit and loss. In addition, the Contract and Lease Receivables follow the impaired loss recognition and the measurement based on an approach called Expected Credit Loss (ECL). This approach was introduced in the year 2008 to fight the global recession and to overcome the credit-loss provisions by using a broader aspect of the credit information.

### **4. Leases:**

The enterprises to whom AS 19 and AS 29 are applicable, there might be lease agreements between two parties. In order to combat COVID-19, the lessee may be granted a financial concession by the lessor amid the crisis. However, such information should be accounted for in the books of accounts for leases.

The lease payments may significantly be impacted, especially those that make use of underlying assets due to fewer business operations.

### **5. Revenue:**

Because of COVID-19, there might be a significant increase in sales returns, volume discount decreases, and other prevailing discounts, etc.

According to IND AS 115, these factors should be taken into consideration for evaluating the amount of revenue to be recognized. It also lays down the guidelines for the nature, amount, and unlikelihood of the cash flows resulting from the revenue-generating activities.

Certain entities may have postponed the revenue recognition completely due to a rise in the COVID-19 scenarios tremendously.

### **6. Provisions, Contingent Liabilities, and Contingent Assets:**

Due to the impact of COVID-19, some contracts in the process may become onerous because of reasons such as the cost of material/labor, etc. In this case, management needs to realize which of its contracts have become onerous and the same needs to be disclosed.





As per IND AS 37, it also directs to test the assets for impairment before any liability for the onerous contract is recognized on them.

Along with the onerous contracts, there are certain changes in the treatment of restructuring costs and insurance claims to deal with situations like COVID-19.

#### **7. Modifications or Termination of Contracts or Arrangements:**

It directly follows that companies may modify or terminate contracts that lie under Ind AS and the ASs or guidelines mentioned in it. While following those guidelines, entities are specifically advised to consider the specific requirements of those standards.

#### **8. Going Concern Assessment:**

It is applicable to entities that follow IND AS 1 and AS 10. Going concern concept implies that the firm will continue to function in the foreseeable future. Generally, the financial statements are prepared for a period of 12 months. In this, it should be assessed whether it is appropriate or not due to the consequences of COVID-19.

Due to the impacts of COVID-19, the management should also realize if the firm continues to operate as a going concern after the reporting date or not. It is mandatory for the management to evaluate if the fundamental practices of accounting can be followed.

#### **9. Income Taxes:**

– COVID-19 could decrease the number of deferred tax liabilities and might affect future profits. The firms with deferred tax assets should revalue the predicted profits and the recoverability of deferred tax assets in consideration with Ind AS 12.

– The board should also reconsider its plans to distribute the profits among its subsidiaries.

#### **10. Consolidated Financial Statements:**

Ind AS 110 and AS 21 states that the financial statements of the parent and the subsidiary companies used in the preparation of the consolidated financial statements are to be drawn on the same accounting date.

However, the difference between the reporting dates should not be more than six months.



## **11. Property Plant and Equipment (PPE):**

As per Ind AS 16 and AS 10, the useful life and the residual life of PPE needs to be revised on a yearly basis. Because of COVID-19, the PPE may remain under-utilized for an unknown period of time.

In such cases, the management should value the useful and the residual life of the assets and account for the changes if expectations differ from the previous estimates.

## **12. Presentation of Financial Statements:**

The presentations of financial statements require the entities to disclose information about the unforeseeable events of the future and the predictions it derives from the uncertainties at the end of the financial period.

Ind AS 21 demands the comparative information of financial statements for the preparation and its presentation. This technique requires the users to evaluate their financial statements from time to time in order to find the modifications and compare the same with the other firms. As COVID-19 surely would have affected the financial position, the makers of the financial statements are required to present disclosures and adequate explanatory notes.

## **13. Borrowing Costs:**

It requires the suspension of capitalization interests when the development of an asset comes to a halt while dealing with COVID-19.

## **14. Post Balance Events:**

As per Ind AS 10, the management is required to term the events into two categories i.e Adjusting Events and Non-Adjusting Events.

According to this, the entities must disclose the information regarding the measurement and recognition of uncertainties that occurred due to COVID-19. They should also mention the information on how they tackled the problems that arose due to COVID-19.

## **15. Interim Financial Reporting:**

The application of recognition and measurement equally validates in this standard too. As per



Ind AS 34, there should be greater usage of estimates in the interim financial statements but the information needs to be verified, thus reliable.

Ind AS 34 and AS 25 requires to report events and transactions that are significant to assess the financial position and performance of the firm since the last reporting period.

This clearly indicates that additional information should be given to tackling the adversaries of the COVID-19 and the ways to contain the same.

These are the primary alterations recommended by the Accounting Advisory made by the ICAI to face the future implications of the COVID-19 outbreak in the nation. It should be noted that every entity will have a different outcome while dealing with the prevailing scenario.

Therefore, it is mandatory to exercise the above while keeping the fundamental basics of accounting practices intact.

## **Other Reliefs**

- A. The Government has allowed companies to pay ESI contribution late.
  - 1. The ESI contribution for the month of February, 2020 and March 2020 can now be filed and paid up to April 15, 2020 and May 15, 2020 instead of March 15, 2020 and April 15, 2020 respectively, says a notification issued by the Employees' State Insurance Corporation.



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