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THE CHARTERED ACCOUNTANT JOURNAL

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

SET UP BY AN ACT OF PARLIAMENT



ICAI

Partnering in shaping
a resurgent India



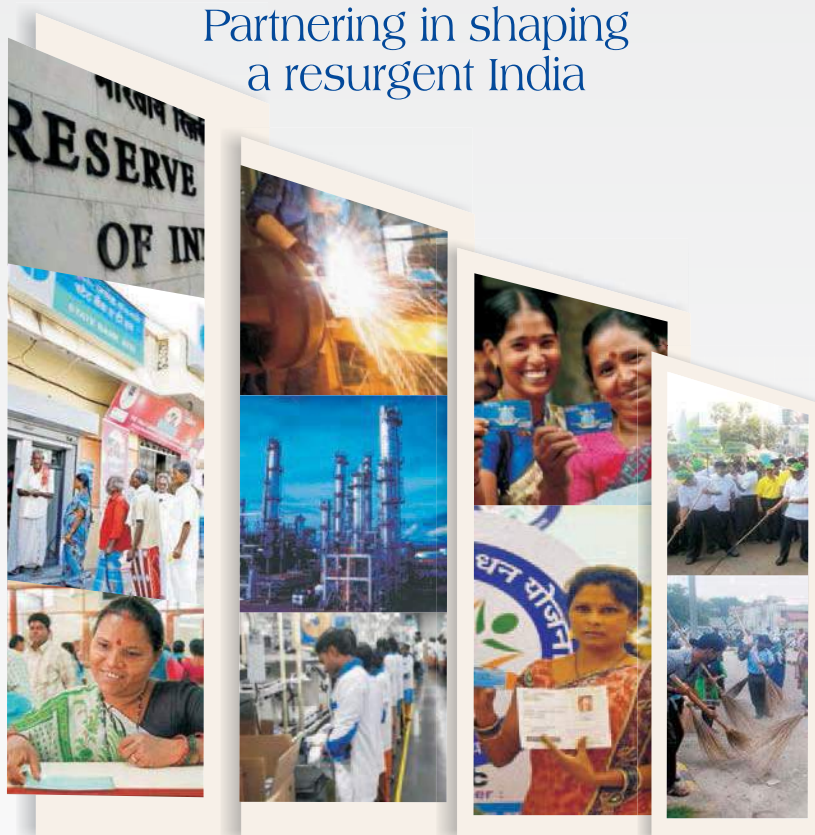
Pradhan Mantri Jan-Dhan Yojana



Make in India



Ek Kadam Swachhata ki Aur
Swachh Bharat Abhiyan



ICAI International Conference
Bangalore Palace, Bengaluru
29-31 January 2015

MOVING TOWARDS NEW FRONTIERS

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ICAI—Partnering in Shaping a Resurgent India

While addressing the chartered accountants once, the Prime Minister, Shri Narendra Modi, had compared their profession with that of a doctor and said, "...very few people know that it is the chartered accountants that take care of societal health." Their responsibility is no less than that of a doctor; rather, it has to be greater since they are held responsible for the collective health, *i.e. economy*, of the nation. With this understanding about the greater role, the accountancy profession in India had very consciously included *responsibility* in the very fabric of its professional sphere. The ICAI has been passing on *responsibility and independence* to its stakeholders, which are greatest gifts one can pass on to the next generation. And the ICAI continues to operate on that line while adhering to its professional ethics.

Being a socially aware and responsible institution, the ICAI has not only whole-heartedly supported the cause of national economy, but rather always contributed actively to its agenda with its share of required actions, initiatives and assistance to various Ministries and Government departments and offices. Amelia Earhart, a courageous aviator, had once said: *Some of us have great runways already built for us. If you have one, take off. But if you don't have one, realise it is your responsibility to grab a shovel and build one for yourself and for those who will follow after you.* The ICAI has actively taken up on its own to endeavour in the interests of the nation. With 10 lakh plus members and students, and a huge infrastructure of five regions, 147 Branches and 23 Chapters abroad, its professional fraternity strongly commits itself to ensure an astounding success of all ambitious programmes and missions of the Government of India.

While the ICAI has already launched its *Clean India* campaign, a detailed action-plan of ICAI is being made ready so that effective contribution to programmes like the national programme of financial inclusion, *Pradhan Mantri Jan Dhan Yojana*, could be made. Motivator Denis Waitley recommends: *There are two primary choices in life: to accept conditions as they exist, or accept the responsibility for changing them.* Assuming its role of partner-in-nation-building, the ICAI has invited suggestions from all its stakeholders in order to ensure success to such initiatives. *Clean India* mission of the Indian Government has a positive economic impact to show, in the wake of a World Bank report that estimates an annual 6.4% loss of GDP due to poor access to sanitation and annual death of more than 1,86,000 under five children triggered by unsafe water and poor sanitation. With a magnanimous presence in

the nation, the stakeholders of ICAI are bound to make a fundamental difference to the existing scene. ICAI employees have undertaken this drive with seriousness and its management is closely monitoring the results while asking them to submit a quarterly report.

Inclusive growth and financial independence are the priority of all policymakers and regulators of national economy. Human rights activist Eleanor Roosevelt says what we are today is because of what we have done in the past: *...the choices we make are ultimately our own responsibility.* Philosophy of accountancy profession can, therefore, be found in the initiatives the ICAI has undertaken, the decisions it has made and the options it has created, in the past.

With the Ministry of Corporate Affairs of the Government, the ICAI shares its inputs relating to corporate laws and related technical matters. It offers its comments/suggestions to the Ministry on the initiatives relating to law reforms, limited liability partnership legislation and e-governance. It works with the Ministry of Commerce by sharing the initiatives relating to the World Trade Organisation. It closely works with the financial regulators of the nation that include RBI, C&AG of India, SEBI, CBDT and IRDA by providing technical inputs on references received and tax administration, bringing reforms in Government accounting, maintaining audit panels, submitting pre- and post-budget suggestions/comments, holding discussions in matters relating to profession, and so on. The ICAI has organised and conducted hundreds of investor-awareness programmes towards financial literacy of the people of India under the aegis of Ministry of Corporate Affairs. The ICAI is constantly being approached by the departments and offices of both Central and State Governments requesting its members' services in the matter relating to economy in expenditure and control mechanism over public funds, etc.

Our social responsibility will never cease to exist in our sphere, since there is no limit to what we take or borrow in our lifetime from others. If we want to be successful, we can do that by reaching our goals, realising our dreams and coming up to what we expect from ourselves. It is all about putting in hard work, being persistence and determined to achieve. And then, a success story can never be complete without being responsible about it. Let us work to change the scene for fellow countrymen and generations to come. ■

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Contents

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VOICE

- 891 Editorial
-ICAI—Partnering in Shaping
a Resurgent India
894 From the President

INTERNATIONAL CONFERENCE

- 898 Accountancy Profession:
Building Global Competitiveness,
Accelerating Growth, January
29-31, 2015 at Bangalore Palace,
Bengaluru



MEMBERS

- 900 Photographs
908 Know Your Ethics
940 Opinion
- Accounting Treatment of
Contribution to a Cluster Project
1028 Classifieds

UPDATES

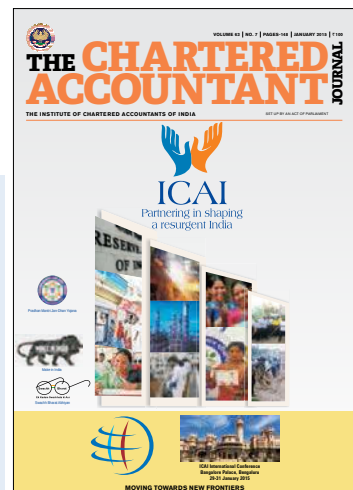
- 912 Legal Update
- Circulars and Notifications
- Legal Decisions
1007 Accountant's Browser
1030 International update

ICAI NEWS

- 939 Certificate Course on Wealth Management and Financial Planning
946 ICAI Technology Initiatives
948 ICAI Job Portal
968 Get Your Copy of Journal at Your Residential Address
980 Non-Receipt of *The Chartered Accountant* Journal
1008 Arrangement of Accounting Software
1008 Quick Heal Security for Android Mobile
1010 EOI as Resource Person for Certificate Course on WM&FP
1012 EOI for Resource Material for Certificate Course on WM&FP
1014 Preference of Soft Copy over Hard Copy of Journal
1016 Microsoft Office 365: Software License
1018 Launch of 100 Hours Advanced ITT course
1018 Online Registration Portal for GMCS, ITT and Orientation Programme
1019 Certificate Course on Concurrent Audit of Banks
1020 Empanelment of Chartered Accountant firms/LLPs for the year 2015-16
1020 ICAI Convocation-2014(II Round)
1021 Chartered Accountants' Benevolent Fund: Appeal for Contribution
1022 Grant of Fellow membership on the basis of service
1022 Invitation for the Articles
1023 E-Learning on Central Excise Duty, Central Sales Tax, Service Tax &
Customs Duty
1024 World CA Women Summit - Dubai
1025 Certificate Course on MBF
1026 New Publications
1027 ICAI-CMII Corporate Forum
1028 Re-registration for MBF Course

EVENTS

- 1029 Forthcoming Events



JANUARY 2015 IN THIS ISSUE...





THE CHARTERED ACCOUNTANT JOURNAL

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SET UP BY AN ACT OF PARLIAMENT

VOLUME 63 | NO. 7 | PAGES-148 | JANUARY 2015 | ₹100



SOCIAL RESPONSIBILITY

- 908** Let's Contribute to CABF
949 ICAI Partnering In Shaping A Resurgent India
954 CA Professionals & SMEs in Make in India
 – CA. Anuj Goyal



SOCIAL AUDIT

- 959** Social Audit Dilated in the Context of Sustainability
 – CA. Priti Baid
963 Sustainability and Social Audit, Its Reporting and the Role of Professionals
 – CA. Ankur Garg



ACCOUNTING

- 969** Depreciation Accounting Using Componentisation Approach
 – CA. Umesh S. Shejwalkar and CA. Kaustubh Prakash Deshpande



TAXATION

- 976** Service Tax on Charitable and Religious Trusts
 – CA. Chunauti H. Dholakia
981 Controversies/Contingencies in Income Tax E-Filing: Assessee's Perspectives
 – CA. Sanjeev Kadel



CORPORATE GOVERNANCE

- 989** Clause 49 (Revised) – Future of Corporate Governance
 – CA. Vikram Advani and CA. Manish Handa



INFORMATION TECHNOLOGY

- 995** Value-Based Pricing Strategies for Enterprise Software
 – CA. Debadatta Banerjee



ENVIRONMENT

- 1002** Greening of Small & Medium Enterprises
 – CA. Arunagiri Vishwanathan

BACKPAGE

- 1032** Cross Word 103
 Smile Please



From the President



CA. K. Raghu, President, ICAI

“My vision has been to establish the footprints and mark of excellence of the Indian CAs across the globe through a strong network of our foreign chapters, which presently have more than 12,000 of ICAI overseas members in their fold. Our Foreign Chapters have been successful in creating a common forum where members can meet, exchange views and interact professionally with the other members and address their professional issues. Taking this mission forward, I recently inaugurated our 24th Overseas Chapter in Vancouver in British Columbia in Canada, which has a sizeable number of Indian accounting professionals working for the growth of the region.”

Dear Professional Colleagues,

“*In the new year, you carry all the experiences of the past years, and that is the greatest power of every new year!*” rightly goes the saying. I firmly believe that “what the new year brings to you will depend a great deal on what you bring to the new year. The same goes for our profession also. To achieve great things in our profession, we not only need to have big dreams but also have deep beliefs in our dreams. Opportunities are knocking at our doors, so let’s open our doors to them this new year. On this positive note, I wish all of you a professionally fulfilling and rewarding New Year 2015. Let me repeat the wise words of Benjamin Franklin, *“Be at war with your vices; at peace with your neighbours, and let every new year find you a better man.”*”

One Among our Fraternity Becomes Railway Minister

Our profession is dedicated to the service of the society and the nation. Many of our professionals have taken this spirit of social service to new heights and have excelled in public life. CA. Suresh Prabhu, who recently joined the Union Cabinet as the Railway Minister is an excellent example of this phenomenon which makes our profession proud. On behalf of the CA fraternity, I heartily congratulate CA. Suresh Prabhu for being chosen for a highly responsible position. He has been actively associated with the Institute in all these years and I look forward to his continued guidance and support to the accountancy profession in India. I wish him all the best and I am sure that the Indian Railways will go a long way under his stewardship.

Meanwhile, I also met CA. Suresh Prabhu and discussed our association with Indian Railways, particularly in unleashing accounting reforms in this important government entity. I am happy to inform you that an MoU pertaining to switching over to Accrual Accounting in Indian Railways is in advanced stage of consideration, and is likely to be signed soon.

The Future Belongs to Us—Let’s Think Big

The reviving economy, fast-paced globalisation and expansion of various sectors are offering an ocean of professional opportunities for the CAs. With the unleashing of accounting reforms in India consequent to the implementation of IFRS Convergence and new avenues emerging in

the wake of the Companies Act, 2013, XBRL, Integrated Reporting, IT and Data Analytics, etc., our profession is upbeat, and the demand for Chartered Accountants is at an all-time high. Accountancy is today one of the most significant segments of the expanding economy and the future of the accountancy profession is going to be very promising.

With this background, it's time for the CA fraternity to have a boom of its own, and this can happen if the members change their mindset and start looking beyond the traditional number crunching and be at ease with new opportunities that are opening up in the economy. So let's think big and consolidate our skills, energies and strengths to become bigger and better. The future belongs to us, so let's continue our march towards a glorious and prosperous tomorrow, and prove our worth as an indispensable 'complete business solution provider' of the modern day business.

Facilitating Efficacy of the Companies Act, 2013

(a) Our Suggestions Accepted in Companies Amendment Bill 2014: I am happy to inform you that the Government has considered our suggestions in the Companies Amendment Bill, 2014 and has addressed many issues raised by us concerning our profession. Here, I particularly welcome the amendment regarding Fraud Reporting under Section 143 (12) of Companies Act, 2013. We had represented to the Ministry of Corporate Affairs that Fraud Reporting be restricted to material frauds and that a threshold limit should be the criteria for reporting fraud. In this regard, we would soon come out with the Guidance Note on Fraud Reporting for our members.

(b) Revised Format of Auditor's Report Finalised: The Council has recently revised the format of Auditor's Report as well as the Engagement Letter for Statutory Audit of the financial statements under the Companies Act, 2013 and the same has been hosted on our website. Moreover, our Auditing and Assurance Standards Board has further set up a Study Group to review the impact of the provisions of the Companies Act, 2013, particularly those relating to the duties and responsibilities of the auditors on the existing suite of Standards on Auditing. I request you to help us in this process by submitting your suggestions in this regard.

Our 24th Overseas Chapter Opened in Vancouver, Canada

My vision has been to establish the footprints and mark of excellence of the Indian CAs across the globe through a strong network of our foreign chapters, which presently have more than 12,000 of ICAI overseas members in their fold. Our Foreign Chapters have been successful in creating a common forum where members can meet, exchange views and interact professionally with the other members and address their professional issues. Taking this mission forward, I recently inaugurated our 24th Overseas Chapter in Vancouver in British Columbia in Canada, which has a sizeable number of Indian accounting professionals working for the growth of the region. Indian Consul and Head of Chancery, Vancouver, Mr. R. Chandarmouli, and Mr. Sav Dhaliwal, Councillor, City of Burnaby, were present on this occasion besides other significant stakeholders.

A combined Canadian accounting profession, built on the strengths of the three legacy designations (Chartered Accountant, Certified Management Accountant and Certified General Accountant), is more than 1,90,000 members strong. I am sure this chapter will prove to be immensely useful for Indian CAs in the region and would network with the members of Accounting Institutes across Canada. I also visited our Toronto chapter to attend their 8th Annual Event and encouraged our members in the region to uphold the mission of Indian and Canadian accounting profession.

Helping Govt in Pre-Budget Exercise

In line with our traditional role of helping the Government in the Budget making exercise, we have submitted a well-thought-out Pre-Budget Memorandum to the Ministry of Finance for Union Budget 2015-16. The Memorandum has been prepared after incorporating suggestions from membership and stakeholders at large in the interest of the nation. The suggestions given by us do not only relate to fiscal laws and taxation but also pertain to overall economic development. The full text of the memorandum has been hosted on our website. I am sure our memorandum would prove to be highly useful to the Government.

MoU with EPFO for Accrual Accounting

We have been actively working to unleash accounting reforms in various organisations across the country. In this regard, I am happy to inform

From the President

you that the ICAI Accounting Research Foundation (ICAI ARF) has signed an MoU with the Employees Provident Fund Organisation (EPFO) to undertake a Pilot Study Project to support EPFO in migrating to Accrual Based Accounting System. This project represents the first phase of the initiative wherein the ICAI ARF will perform the study of EPFO's existing accounting system with an intent to design the strategy for a smooth migration and transition to accrual system of accounting. We will submit a "Report on the Migration Strategy at EPFO" which will form the basis of the next phase of the project. The project offers a unique opportunity to study the complex accounting aspects of the sovereign fund from the professional perspective.

Meeting with SEBI Chairman

Proactively pursuing our role in the position of 'Leadership and Influence', we are closely engaged with various regulators. As part of this vision, we have a tradition of strong association with SEBI and are involved with its various initiatives. To strengthen this mutually beneficial professional relationship further, I recently met the SEBI Chairman, Shri U. K. Sinha, and discussed matters of mutual and professional interest. Among other issues, we discussed a larger role for ICAI in monitoring market intermediaries and committed our proactive support in the Qualified Auditors Report Committee of SEBI. I congratulate him for being recently conferred with the prestigious '*Business Reformer of the Year 2013-14*' award.

Promoting CAs in Industry—Meeting with Mukesh Ambani

Meanwhile, with a view to spread the ICAI Vision and Mission and promote 'brand Indian CA' across industry, I recently met the Chairman-cum-Managing Director of the largest Indian business house of Reliance Industries Limited, Mr. Mukesh Ambani. We discussed various developments taking place in Indian economy including IFRS implementation, the new Companies Act, 2013, GST, and our new CA Curriculum *etc.* The meeting was extremely useful and helped us to understand the changing industry expectations from our profession.

Taking CA Education to a Higher Level: New Syllabus Likely from 2016

Our students and CA education system has been one of my topmost priorities as I believe in

sustained and future-oriented growth of our profession. With a vision that accountancy profession and accountancy education should constantly go hand in hand with global academic, technological and economic advancements, our new scheme for CA Education and Training is now ready for final consideration of the Council and we hope that the new CA Course may be announced from the year 2016. The whole syllabus for CA proficiency test to CA final has been minutely scrutinised and changes have been proposed to make the course more practical in approach to meet the requirements of today's competitive market.

I express my sincere appreciation to our Committee on Review of Education and Training (CRET), Past Presidents, Members of Central Council, Regional Councils and Branch Managing Committees, our members, students and other users of professional services for giving valuable inputs and sending responses on various issues through the online questionnaires. I am sure that this future-oriented drive of the ICAI will go a long way in benchmarking our CA education with the best in the world and will be more industry friendly and practical.

Young Members Practitioners Kit Launched

Post-liberalisation of our economy, the demand from Industry for young Chartered Accountants has increased manifold in various sectors of the economy. There are endless opportunities for practicing young CAs. To help our young members tap these enormous opportunities, I recently launched a *Young Members Practitioners Kit* and a web portal dedicated to our young members. The Kit provides young CAs an insight into the various aspects of practice, including the constitution of the practice entity, areas of specialisation, office infrastructure, branding, staffing and HR management, modern audit tools and techniques, audit programme, *etc.* The information contained in this manual is highly informative and will guide our young members to be effective and successful practitioners.

Let's Make CABF Part of our Social Responsibility

Our Chartered Accountants Benevolent Fund (CABF) is a benevolent initiative by CAs for the CAs. As an effective mode of fulfilling our social

From the President

responsibility towards our profession, the CABF has been our effective answer to the calls of our members in distress. I am happy to acknowledge and thankful for your tremendous response to our appeals to strengthen the corpus of this fund.

Here, I wish to convey my special thanks to one of our prominent professionals, **CA. T. V. Mohandas Pai from Bangalore, for setting an excellent and inspiring example recently by committing a sum of ₹1 crore for the CA Benevolent Fund. I personally collected a cheque of ₹50 lakh out of his commitment** and took note of his various valuable suggestions for the cause of CAs in distress. I am sure that this generous gesture will inspire others among us to follow suit. Earlier during this year, we received an encouraging contribution of ₹56,08,218 between 2nd March to 20th August from our members across the country. Let's keep up this benevolent trend and make this an integral part of our social responsibility. Remember, a candle loses nothing by lighting another one.

Countdown to Three Mega Events of ICAI Begins

I am happy to inform you that the stage is set and the countdown has begun to the three mega ICAI events in January and early February, 2015.

(1) International Conference in Bengaluru: Our 3-day mega International Conference is being held at the historic Bangalore Palace in Bengaluru from 29th to 31st January, 2015 on the theme '*Accountancy Profession: Building Global Competitiveness; Accelerating Growth*', which will bring together 3,000 delegates from across the world. We are trying to have the honourable Prime Minister and other high profile dignitaries to grace this occasion and encourage the Indian CA fraternity. This event will have multiple technical sessions and panel discussions and will also witness parallel sessions on women and young members. A health session by Dr. Devi Prasad Shetty, an eminent cardiologist from Bangalore, and a spiritual session by Sri Sri Ravi Shankar, Founder of the Art of Living Foundation, are the other highlights of the conference. We are also having special pavilions to showcase our International, IT and SMP initiatives besides a special Project Gallery to showcase innovative projects and activities of our branches and overseas chapters. The Conference offers 14 hours CPE credit and will have a galaxy of international speakers.

(2) ICAI Corporate Forum 2014: In line with our annual tradition, another high-profile event—ICAI Corporate Forum 2014, will be organised from 31st January to 1st February, 2015 in Mumbai. This mega event will comprise three concurrent events viz., Corporate Conclave, Financial Services Expo and ICAI Awards, 2014.

(3) ICAI Awards for Excellence in Financial Reporting: In the backdrop of our commitment to encourage, promote and recognise excellence in preparation and presentation of financial information in India, another mega event—'*ICAI Awards for Excellence in Financial Reporting*' has been lined up in Chennai in early February 2015. These prestigious awards for 2013-14 will be given in 13 categories.

Since, all these events will tremendously enhance our global professional outlook, I request all of you to take out time from your schedule to actively participate in these mega programmes.

Friends, January is the month when winter is at its peak and a large part of North India wakes up to foggy mornings and the fragrance of wood smoke from bonfires. Christmas has just marked the beginning of our celebrations. Through the new year celebrations, we will eventually be entering into the mood of festivals—*Lohri* in Punjab, *Makar Sankranti* in North, East, West and Central India, and *Pongal* in the South, Kite Festival in Gujarat, Camel Festival in Rajasthan and of course, the National Festival, the Republic Day on 26th January. These festivals give us reason to smile and come and stand together and to share our happiness and joy. I extend my very warm greetings and good wishes to you and to your near and dear ones for these festivals, particularly our Republic Day.

Best Wishes,



CA. K. Raghu
President, ICAI

New Delhi, December 22, 2014

Bringing together the global stalwarts of accountancy



ICAI International Conference 2015

14 CPE
Hours

“Accountancy Profession:
Building Global Competitiveness; Accelerating Growth”
Jan 29 - 31, Bangalore Palace, Bengaluru

As part of the Continuous Professional development of the members, the Institute of Chartered Accountants of India is organizing a 3-day International Conference on 'Accountancy Profession: Building Global Competitiveness; Accelerating Growth' from January 29 - 31, 2015 at Bangalore Palace, Bengaluru. The event will be marked by prominent keynote speakers from across the globe who will share their expertise and insights into the latest trends of the profession. The Conference would present a unique opportunity to access the emergence of a new thought process on contemporary issues and to professionally upgrade oneself.



Technical Sessions

- ❖ Accountancy Profession – Meeting Governance Mandate
- ❖ India Emerging as Global Hub for Accounting Professionals
- ❖ Corporate Social Responsibility – Responsible Growth; Inclusive Development
- ❖ Towards a Stress Free Healthy Professional Life
- ❖ Essence of Reporting – Governance and Sustainability
 - Moving Towards Integrated Reporting
 - IFRS Implementation: Key Learnings
- ❖ Managing Change: Regulation and Developmental Context
 - Assurance Services: Moving Beyond Regulatory Requirements – Global Perspective
- ❖ Corporate Governance and Risk: A System Approach
- ❖ Make in India: Paving way for a Resurgent India: Role of Profession
- ❖ Management & Leadership: Frontiers of Growth
 - Paradox of Growth and Governance: Regulatory Perspective
 - Mitigating Risk and Promoting Certainty: An Auditor's Perspective
- ❖ State of Karnataka – Emerging Hub for Startup Companies
- ❖ Profession and Emerging Digital Landscape
 - A Holistic Approach to Cybersecurity: From Boardroom to Operations
 - Digital Education for the Profession
- ❖ Professional Avenues for Future Growth
 - Towards Better Global Governance
 - International Taxation – Building Industry Competitiveness in the Borderless Economy
 - Cloud Computing: Emerging Opportunities for the Profession
 - Connected World – the Emerging Landscape: Visualizing the Future
- ❖ Confluence – Profession & Society
 - Essence of Leadership and Contours of Holistic Living
- ❖ India@2025: Agenda for Growth & Development
- ❖ Wealth Creation: Disciplined Approach; Diverse Demands

- ❖ Role of SMPs in Supporting SMEs
- ❖ Financial Services Sector – Agenda for Sustainable Growth
 - Banking Sector @2025– Opportunities & Challenges
 - Insurance Sector – Mitigating Risk; Augmenting Growth
 - Improving Corporate Governance
- ❖ Profession in the Next Decade: Embracing Change
 - Roadmap for GST: Opportunities for Profession / GST- Challenges and way Forward
 - Direct Tax Code: Catalyst for Economic Growth
- ❖ Health Session

Panel Discussions

- ❖ Attracting Foreign Direct Investment
- ❖ Companies Act 2013 – Fraud Reporting, Penalties and Prosecution
- ❖ Empowering SMEs for Development of Region
- ❖ Professional Opportunities Abroad

Concurrent Sessions

- ❖ International Networking Summit for SMPs
- ❖ Young Members Meet
- ❖ Women Empowerment Meet

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Members ACA	₹ 2500
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Keynote Speakers

International Speakers

- Ms. Olivia Kirtley, President, International Federation of Accountants
- Mr. Rob Thomason, Executive General Manager, CPA Australia
- Mr. Michael Armstrong, Regional Director, Middle East, ICAEW
- Mr. Arjuna Herath, President, SAFA and President, CA Sri Lanka
- Mr. Yacoob Suttar, President, ICAP
- Mr. Showkat Hossain, President, ICAB
- Mr. Cormac Fitzgerald, President, CPA Ireland
- Mr. Lee White, CEO, ICA Australia
- Mr. Eamonn Siggins, CEO, CPA Ireland

National Speakers

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- Mr. Suresh Senapaty, ED & CFO, WIPRO
- CA. Amarjit Chopra, Chairman, NACAS
- CA. P.R. Ramesh, FCA
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Special Sessions

- Sri Sri Ravi Shankar, Founder, Art of Living Foundation
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Bangalore Branch of SIRC of ICAI

The Institute of Chartered Accountants of India

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Photographs



Meeting with Union Railway Minister

ICAI President CA. K. Raghu presents bouquet and welcomes Union Railway Minister Shri Suresh Prabhu in the presence of ICAI Vice-President CA. Manoj Fadnis (11 December 2014)



Felicitating Union Minister of State for Commerce & Industry (Independent Charge)

ICAI President CA. K. Raghu presents bouquet and welcomes Union Minister of State for Commerce & Industry (Independent Charge) Smt. Nirmala Sitharaman, while the ICAI Vice-President CA. Manoj Fadnis and SIRC Chairman CA. P. V. Rajarajeswaran, among others, look on (13 December 2014)



Meeting with SEBI Chairman

ICAI President CA. K. Raghu presents bouquet and welcomes the SEBI Chairman Shri U. K. Sinha in the presence of ICAI Vice-President CA. Manoj Fadnis (11 December 2014)

Meeting with Reliance Industries Ltd. Chairman & MD



ICAI President CA. K. Raghu presents bouquet to Shri Mukesh Ambani, in the presence of ICAI Vice-President CA. Manoj Fadnis and Central Council member CA. Nihar N. Jambusaria, among others (5 December 2014)



Meeting with CBDT Chairperson

ICAI Central Council members CA. Sanjiv Chaudhary, CA. G. Sekar, CA. Nihar N. Jambusaria and CA. Atul Kumar Gupta meet CBDT Chairperson Ms. Anita Kapur (15 December 2014)



ICAI President CA. K. Raghu shakes hands with the Reliance Industries Ltd. Chairman and Managing Director Shri Mukesh Ambani (5 December 2014)

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Photographs



Forty-Sixth Regional Conference of SIRC in Madurai

ICAI President and Vice-President CA. K. Raghu and CA. Manoj Fadnis along with Union Minister of State for Commerce & Industry (Independent Charge) Smt. Nirmala Sitharaman, along with Central Council members CA. V. Murali, CA. Babu Abraham Kallivayalil and CA. M. Devaraja Reddy, and SIRC Chairman CA. P. V. Rajarajeswaran, among other members, on the occasion (12 December 2014)

Thirty-Ninth Regional Conference of EIRC in Kolkata



ICAI President CA. K. Raghu along with SAFA President (and ICAI past-President) CA. Subodh Kumar Agrawal, Central Council member CA. Sumantra Guha, EIRC Chairman CA. Subhash Chandra Saraf and EIRC past-Chairman CA. Ranjeet Kumar Agarwal, among other members of EIRC Management Committee (28 November 2014)



ICAI President CA. K. Raghu being welcomed by EIRC Chairman CA. Subhash Chandra Saraf, while Central Council member CA. Sumantra Guha and EIRC past-Chairman CA. Ranjeet Kumar Agarwal, among others, accompany (28 November 2014)

Twenty-Ninth Regional Conference of WIRC in Mumbai



ICAI President and Vice-President CA. K. Raghu and CA. Manoj Fadnis and WIRC Chairman CA. Anil Bhandari share the dais with the Kotak Mahindra Bank Executive Vice-Chairman and Managing Director Shri Uday Kotak, among other members of WIRC Management Committee (5 December 2014)



ICAI President CA. K. Raghu and WIRC Chairman CA. Anil Bhandari present memento and welcome the Kotak Mahindra Bank Executive Vice-Chairman and Managing Director Shri Uday Kotak during the Conference (5 December 2014)



Young Member Practitioners' Kit Launched

ICAI President and Vice-President CA. K. Raghu and CA. Manoj Fadnis along with Central Council members CA. Shrinivas Yeshwant Joshi, CA. Atul Kumar Gupta, CA. Prafulla Premasukh Chhajed, CA. Sumantra Guha, CA. Babu Abraham Kallivayalil and CA. Mukesh Singh Kushwah, among others, release the practitioners' kit, Essential Roadmap of Young Practitioners (16 December 2014)

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MoU with EPFO

ICAI President and Vice-President CA. K. Raghu and CA. Manoj Fadnis, and ICAI Acting Secretary Shri V. Sagar stand together with Shri Sanjay Kumar, IRS (Financial Advisor & Chief Accounts Officer) and other officials of Employees' Provident Fund Organisation and ICAI Central Council members during the signing of MoU (11 December 2014)



National Convention of CA Students in Delhi

ICAI President CA. K. Raghu presents bouquet to the Chief Guest Dr. Subramanian Swamy, an MP and renowned economist, in the presence of Central Council member CA. Prafulla Premasukh Chhajed and NIRC Chairman CA. Radhe Shyam Bansal at the dais (17 December 2014)



Sixth Annual AOSSG Meeting in Hong Kong

ICAI Vice-President CA. Manoj Fadnis along with Central Council member CA. Rajkumar S. Adukia at the sixth meeting of the Asian-Oceanian Standard Setters Group held by Hong Kong Institute of Certified Public Accountants (26-27 November 2014)



British Columbia Chapter of ICAI Inaugurated in Vancouver

ICAI President CA. K. Raghu at the inauguration of British Columbia Chapter of ICAI in Vancouver, along with Chapter Chairman CA. Vijay Kumar Gupta and Toronto Chapter Chairman CA. Amit Goyal, among other members of the Chapter (23 November 2014)



Eighth Annual Event of Toronto Chapter of ICAI

ICAI President CA. K. Raghu is presented a memento by the Chapter Chairman CA. Amit Goyal, in the presence of other members of Management Committee of the Chapter (22 November 2014)

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International Conference in Bahrain

ICAI President CA. K. Raghu is presented memento by Chapter Chairman CA. H. Meenakshi Sundaram in the presence of NACAS Chairman (and ICAI past-President) CA. Amarjit Chopra and other members of the Chapter during the Conference (29 November 2014)



Members Meet at Pune Branch of WIRC

ICAI President CA. K. Raghu presented a memento for his IFAC Board membership by Central Council member CA. Shiwaji Bhikaji Zaware in the presence of Regional Council member CA. Dilip Apte and Branch Chairman CA. Rajeshkumar Patil (26 November 2014)



Past Chairmen Meet at Ernakulam Branch of SIRC

ICAI President CA. K. Raghu along with Central Council member CA. Babu Abraham Kallivayalil and Branch Chairman CA. Poulouse M. O. at the meet of past-Chairmen at the Branch (2 December 2014)



Members Meet at Bellary Branch of SIRC

ICAI President CA. K. Raghu lights the lamp to inaugurate in the presence of his better half, Central Council member CA. M. Devaraja Reddy and SIRC member CA. P. R. Suresh, Branch Chairman CA. Rajshekar, among other members (9 December 2014)



Pimpri Chinchwad Branch Building Inaugurated

ICAI President CA. K. Raghu cuts the ribbons to inaugurate the building in the presence of ICAI past-President CA. Uttamprakash Jagdishprasad Agarwal, Central Council member CA. Shiwaji Bhikaji Zaware, WIRC Chairman CA. Anil Bhandari and Branch Chairman CA. Baban S. Dangale, among others (26 November 2014)



Hubli Branch of SIRC Auditorium Inaugurated

ICAI President CA. K. Raghu inaugurates the auditorium in the presence of Central Council members CA. M. Devaraja Reddy and CA. Babu Abraham Kallivayalil, SIRC Chairman CA. P. V. Rajarajeswaran and Branch Chairman CA. Hitesh Kumar Modi, among other members of Management Committee, (6 December 2014)

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Know Your Ethics

Q. Whether a Chartered Accountant will be deemed to be guilty of professional misconduct if he accepts his appointment as an auditor immediately after intimating his appointment over the phone to the previous auditor?

- A. Yes, the member would be held guilty of professional misconduct for the following reasons:
- (a) That he had failed to communicate with the retiring auditor in writing; and
 - (b) That he did not wait for a reasonable length of time for a reply to be received from him.

Q. Whether a Chartered Accountant who is appointed as tax auditor for conducting special audit under the Income-tax Act by the IT Authorities is required to communicate with statutory auditor?

- A. Yes, Council direction under Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, prescribes that it would be a healthy practice if a tax auditor appointed for conducting special audit under the Income-tax Act, communicates with the member who has conducted the statutory audit.

Q. Whether communication by the Incoming auditor is mandatory with the previous auditor in respect of various audit assignments, like the concurrent audit, revenue audit, tax audit and special audits etc.?

- A. Yes, the requirement for communicating with the previous auditor would apply to all types of audits viz., statutory audit, tax audit, internal audit, concurrent audit or any other kind of audit. The Council has laid down detailed guidelines in this regard and the same are appearing in the Code of Ethics, 2009 edition.

Q. Whether a member in practice can be a director of a company?

- A. Yes. a member in practice is permitted generally to be a Director *Simpliciter* in a company provided he is not a Managing Director or Wholtime Director and is required only in the Board Meetings of the company and not paid any remuneration except for attending such meetings.

* Contributed by the Ethical Standards Board of the ICAI

Let's Contribute to CABF



(CA. K. Raghu, President ICAI, accepting cheque of ₹50 lakh from CA. T. V. Mohandas Pai, Chairman, Manipal Global Education towards contribution to CABF at Bengaluru, 18th December 2014)

Established in 1962, our CABF is one of the largest modes providing welfare and support to the Chartered Accountants fraternity. It provides financial assistance for medical treatment, education, maintenance or any other similar purpose to necessitous persons. Financial assistance in lump sum is also given to the widows/relatives of the deceased member in case of accidental/unnatural death at age

As an effective mode of fulfilling our social responsibility towards our profession, the Chartered Accountants Benevolent Fund(CABF) has been our effective answer to the calls of our members in distress.

CA. T. V. Mohandas Pai, Chairman, Manipal Global Education has recently contributed ₹50 lakh out of his commitment of ₹1 crore for the CABF to strengthen the corpus of this fund to help the families of our members in need. Let's keep up this benevolent trend and enthusiastically contribute to the cause of the needy amongst us.

below 55 years. A considerable number of members/family is already getting such assistance from CABF.

The contribution can be made in the form of 'Life Membership' (₹2500), 'Ordinary Membership' (₹500 annually), or 'Voluntary Contribution' (an amount up to any extent). All subscription and contribution made towards CABF is eligible for deduction under Section 80 (G) of Income Tax Act, 1961.

For more details, please click <http://220.227.161.86/35639mss25103.pdf> ■

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Know Your Ethics

Q. Can a Chartered Accountant in practice disclose information acquired in the course of his professional engagement?

A. No, as per Clause (1) of Part I of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force.

Q. Whether a Chartered Accountant in practice can use the designation 'Corporate Lawyer'?

A. No, a Chartered Accountant in practice is not permitted to use the designation 'Corporate Lawyer'.

Q. Whether the office of a Chartered Accountant is permitted to go in for ISO 9001: 2000 certification or other similar certifications?

A. Yes, there is no bar for a member to go in for ISO 9001:2000 certification or other similar certifications. However, the member cannot use the expression like "ISO Certified" on his professional documents, visiting cards, letter-heads or sign boards etc.

Q. Whether communication with previous auditor is necessary in case of appointment as statutory auditor by nationalised and other Banks?

A. Yes, Clause (8) of Part I of the First Schedule to the Chartered Accountants Act, 1949 is equally applicable in case of nationalised and other Banks and also to Government agencies.

Q. Whether a Chartered Accountant in practice is entitled to accept teaching assignment?

A. Yes, a Chartered Accountant in practice is allowed to accept teaching assignment in university, affiliated colleges, educational institution, coaching organisation, private tutorship, provided the direct teaching hours devoted to such activities taken together do not exceed 25 hours a week with effect from 1.4.2005.

Q. Whether an auditor is required to provide to the client or to main auditor of the Head Office of the same enterprise access to his audit working papers?

A. No, working papers are the property of an auditor. An auditor is not required to provide the client access to his audit working papers. The main

auditors of an enterprise do not have right of access to the audit working papers of the branch auditors, except in case it is required by the Regulatory norms.

Q. Can a Chartered Accountant in Service accepts or agrees to accept any part of fees, profits or gains from a lawyer, a Chartered Accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification?

A. No, Clause (2) of Part II of First Schedule to the Chartered Accountants Act, 1949, prohibits a member in service from accepting or agreeing to accept any part of fees, profits or gains from a lawyer, a Chartered Accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification.

Q. Whether a Member of the Institute shall be deemed to be guilty of professional misconduct, if he includes in any statement, return or form to be submitted to the Council any particulars knowing to be false?

A. Yes, as per Clause (3) of Part III of the First Schedule to the Chartered Accountants Act, 1949, a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct if he includes in any statement, return or form to be submitted to the Council any particulars knowing them to be false.

Q. Can a practicing Chartered Accountant accept a position as auditor previously held by some other Chartered Accountant in such conditions as to constitute undercutting?

A. Yes, a Chartered Accountant in practice can accept a position as auditor previously held by some other Chartered Accountant in such conditions as to constitute undercutting.

Q. Whether a member of the Institute shall be deemed to be guilty of professional misconduct, if he does not supply the information called for, or does not comply with the requirements asked for, by the Institute?

A. Yes, a member of the Institute shall be deemed to be guilty of professional misconduct if he does not supply the information called for, or does not comply with the requirements asked for by the Institute. (As per Clause (2) of Part-III of the First Schedule to the Chartered Accountants Act, 1949). ■

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Circulars/Notifications

Given below are the important Circulars and Notifications issued by the CBDT, CBEC, MCA, RBI, SEBI and IRDA during the last month for information and use of members. Readers are requested to use the citation/website or weblink to access the full text of desired circular/notification. You are requested to please submit your feedback and suggestions on the column at eboard@icai.in



(Matter on Direct Taxes has been contributed by the Direct Taxes Committee of the ICAI)

I. NOTIFICATIONS

1. Resident applicant specified for the determination of tax liability by

Authority for Advance Rulings

Sub-Clause(iia) has been inserted in Section 245N(a) of the Income-tax Act, 1961 by the Finance (No.2) Act, 2014 to provide for determination of the tax liability of a resident applicant by the Authority in relation to the transaction which has been undertaken or is proposed to be undertaken by such applicant. Further, sub-clause (iia) has been inserted in Section 245N(b) defining an applicant to include a resident referred to Section 245N(a)(iia) falling in such class or category of persons as Central Government may specify by notification. In exercise of the powers so conferred, the Central Government has specified a resident, in relation to his tax liability arising out of one or more transactions valuing rupees one hundred crore or more (₹100 crore or more) in total which has been undertaken or proposed to be undertaken, being such class of persons, as “applicant” for the purposes of Chapter XIX-B of the Income-tax Act, 1961.

[Notification No. 73/2014, dated 28-11-2014]

2. Amendment in Rule 44E “Application of and Insertion of Form No. 34DA

In exercise of the powers conferred by Section 245Q read with Section 295 of the Income-tax Act, 1961, the Central Board of Direct taxes has, through Income-tax (12th Amendment) Rules, 2014, amended Rule 44E of the Income-tax Rules, 1962 as follows:

- a) The Board, in the amended Rule 44E, has prescribed Form No. 34DA as the form of application for obtaining advance ruling by a resident applicant as mentioned in Section 245N(iia). The said Form has been inserted in Appendix II after Form No. 34D.

- b) Sub-rule (3) has been inserted to provide that every application under Rule 44E shall be accompanied by the proof of payment of fees.
- c) Sub-Rule (4) has been inserted to provide for the fees payable along with application for advance ruling as follows :

Applicant	Amount of one or more transaction, entered into or proposed to be undertaken, in respect of which Ruling is sought (₹)	Fee (₹)
Applicant referred in Section 245N(b)(i)/(ii)/(iia)	Does not exceed ₹ 100 crore	2 lakh
	Exceeds ₹ 100 crore but does not exceed ₹ 300 crore	5 lakh
	Exceeds ₹ 300 crore	10 lakh
Others	In all cases	10,000

[Notification No.74/2014, dated 28-11-2014]

4. Commissioner of Income-tax (Exemptions) to be prescribed Authority – Section 10(23C)(iv)/(v) of the Income-tax Act, 1961

For the purposes of claiming exemption under Section 10(23C)(iv) and (v), a fund or institution established for charitable purposes and/or a trust or institution wholly for public religious purposes or wholly for public religious and charitable purposes), requires approval of the “prescribed authority”. In pursuance of the provisions contained in Section 10(23C)(iv)/(v) of the Income-tax Act, 1961 read with Rule 2C of the Income-tax Rules, 1962 and in supersession of CBDT notification no. SO 851(E) dated 30.5.2007, the CBDT has, through this notification, authorised the Commissioner of Income-tax (Exemptions) to act as prescribed authority for the purpose of Section 10(23C)(iv)/(v) w.e.f. 15th November, 2014.

[Notification No. 75/2014, dated 01-12-2014]

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5. Commissioner of Income-tax (Exemptions) to be prescribed Authority – Section 10(23C)(vi)/(via) of the Income-tax Act, 1961

For the purposes of claiming exemption under Section 10(23C)(vi) and (via), any university or other educational institution, any hospital or other institution, requires approval of the “prescribed authority”. In pursuance of the provisions contained in Section 10(23C)(vi)/(via) of the Income-tax Act, 1961 read with Rule 2CA of the Income-tax Rules, 1962 and in supersession of CBDT notification no. SO 852(E) dated 30.5.2007, the CBDT has, through this notification, authorised the Commissioner of Income-tax (Exemptions) to act as prescribed authority for the purpose of 10(23C)(vi) and (via) Section w.e.f. 15th November, 2014.

[Notification No. 76/2014, dated 01-12-2014]

6. Insertion of Rule 2BBB - Section 10(23C)(iiiab)/(iiiac)-Percentage of Government grant-substantially financed by the Government

In exercise of the powers conferred by Section 295 read with Section 10(23C)(iiiab)/(iiiac) of the Income-tax Act, 1961, the Central Board of Direct taxes has through Income-tax (13th Amendment) Rules, 2014 amended Income-tax Rules, 1962 by inserting Rule 2BBB which shall come into force on the date of its publication in the Official Gazette.

Rule 2BBB provides that any university or other educational institution referred under Section 10(23C)(iiiab) and hospital or other institution referred under Section 10(23C)(iiiac) shall be considered as being substantially financed by the Government for any previous year, if the Government grant to such university or other educational institution, hospital or other institution exceeds fifty percent of the total receipts including any voluntary contributions of university or other educational institution, hospital or other institution, as the case may be, during the relevant previous year.

[Notification No. 79/2014, dated 12-12-2014]

7. Guidelines for notification of a semiconductor wafer fabrication manufacturing unit as specified business under Section 35AD–Insertion of Rule 11-OB and Form No. 3CS

The Finance (No.2) Act, 2014 inserted in the list of specified business “setting up and operating a semi-conductor wafer fabrication manufacturing unit notified by the Board in accordance with

such guidelines as may be prescribed”. For the said purpose, the Central Board of Direct taxes has through Income-tax (14th Amendment) Rules, 2014 inserted Rule 11-OB providing for such guidelines, which shall come into force on the date of its publication in the Official Gazette. It has also provided that the application for notification of the unit shall be made in Form No.3CS. The said Form has been inserted in Appendix II after Form No. 3CR.

[Notification No. 80/2014, dated 12-12-2014]

The complete text of the above Notifications can be downloaded from the link below: <http://www.incometaxindia.gov.in/Pages/communications/notifications.aspx>

II. CIRCULARS

1. Clarification on Circular No. 3 of 2008, dated 12-3-2008 relating to revised settlement scheme

The provisions relating to settlement of cases by the Income-tax Settlement Commission as contained in Chapter XIX-A of the Act were amended by the Finance Act, 2007 and revised settlement scheme was issued by CBDT through Explanatory Circular No. 3/2008 dated 12.3.2008. Para 61.2 of that circular provided that the assessee may make an application to the Commission at any stage of the proceedings of his case pending before the authority. Further, it was clarified “assessment shall be deemed to be completed only on the date of service of assessment order to the applicant.”

This circular has clarified that aforesaid statement has been made inadvertently since it is not in consonance with the provisions contained in Explanation to Section 245A(b) of the Act which provides that a proceeding for assessment of any assessment year shall be deemed to have been concluded on the date on which the assessment is made. Accordingly, the said statement in para 61.2 has been replaced w.e.f. 01-07-2007 to provide that “the assessment shall be deemed to have been completed on the date on which the assessment order is passed.”

[Circular No. 16/2014, dated 17-11-2014]

2. Deduction of tax at source from salaries u/s 192 during the Financial year 2014-15

The Central Board of Direct Taxes has, through this circular, provided the rates for deduction of income-tax from the payment of income chargeable under the head “Salaries” during the financial year 2014-15

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and explained certain provisions of the Income-tax Act, 1961 and Income-tax Rules, 1962.

[Circular No. 17/2014, dated 10-12-2014]

The complete text of the above circular can be downloaded from the link below: <http://www.incometaxindia.gov.in/Pages/communications/circulars.aspx>

III. PRESS RELEASE

1. Government set up a High Level Committee to interact with Trade and Industry on Tax Laws

The Hon'ble Finance Minister, in his budget speech 2014-15, had announced the setting up of a High Level Committee to interact with trade and industry and ascertain the areas where clarity on tax laws is required. Accordingly, a High Level Committee has been set up with the following composition:

1. Shri Ashok Lahiri, Chairman (Former Chief Economic Advisor, Ministry of Finance)
2. Shri Sidhartha Pradhan, Member, [Retired Member, Settlement Commission (Income tax & Wealth tax)]
3. Shri Gautam Ray, Member, [Retired DG (Audit) Customs & Central Excise]

Further, terms of reference of the Committee have been specified in detail in this Press release.

[Press Release, dated 3-12-2014]

The complete text of the above press release can be downloaded from the link below: <http://www.incometaxindia.gov.in/Pages/communications/circulars.aspx>

IV. ORDERS

1. Further extension of due date for furnishing of return of income in cases of assessee in the state of Jammu & Kashmir

In exercise of the powers conferred by Section 119 of the Income-tax Act, 1961 and in continuation of earlier order dated 16.9.2014, CBDT has further extended the due date of furnishing return of income from 30th November, 2014 to 31st March, 2015 under Section 139(1) of the Act, in cases of assessee in the State of Jammu & Kashmir due to the destruction caused by floods in that State.

Further, the said circular provides that the due date for obtaining and furnishing reports of audit pertaining to such return of income of the assessee in the State of Jammu & Kashmir is also extended to 31st March, 2015.

[Order [F.NO.225/268/2014-ITA.II], dated 28-11-2014]

The complete text of the above order can be downloaded from the link below: <http://www.incometaxindia.gov.in/Pages/communications/circulars.aspx>

V. LETTERS

1. Advisory for conducting scrutiny assessment proceedings in the state of Jammu and Kashmir in the aftermath of the floods

Due to the devastation caused by the floods in the State of Jammu & Kashmir, the income-tax assessee of that State are facing difficulties in ensuring compliance either with the requirements under ongoing scrutiny assessments proceedings or with respect to notices issued u/s 143(2) of the Income-tax Act, 1961 recently. In this regard, CBDT has issued advisory to Assessing Officers for conducting scrutiny assessment proceeding in that State in the aftermath of floods. It lists the points to be kept in mind by the Assessing Officers while finalising assessments in such cases.

[Letter [F.NO. 225/303/2014/ITA.II], dated 28-11-2014]

The complete text of the above Letter can be downloaded from the link below: <http://www.incometaxindia.gov.in/Pages/communications/circulars.aspx>



(Matter on Indirect Taxes has been contributed by the Indirect Taxes Committee of the ICAI)

A. SERVICE TAX

1. Procedure of service tax refund/exemption to SEZ

Notification No. 12/2013-ST dated 01.07.2013 exempts the services liable to service tax under Section 66B, received by a unit located in a SEZ or Developer of SEZ and used for the authorised operation by way of refund of service tax paid. However, SEZ unit or developer has to approach two authorities viz; the SEZ authority and with the Jurisdictional Service Tax authority for upfront exemption under notification No. 12/2013.

In this regard, TRU vide Letter No. F.No. B1/6/2013-TRU dated November 25, 2014 has clarified that SEZ units and developer may, if they so desire, route their application for issuance of authorisation by department and quarterly statement

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in Form A-3 through the specified officer of SEZ instead of submitting directly to the department.

[TRU Letter No. F.No.B1/6/2013-TRU dated November 25, 2014]

2. Amendment in Rule 5A of Service Tax Rules, 1994 towards details to be provided to Audit Party

Notification No. 23/2014-ST, Dated: December 05, 2014 has amended Rule 5A(2) of Service Tax Rules 1994 to provide that every assessee, shall, on demand make available the following to officer empowered under sub-Rule (1) or the audit party deputed by the Commissioner or the Comptroller and Auditor General of India, or a cost accountant or chartered accountant nominated under Section 72A of the Finance Act, 1994:

- i. the records maintained or prepared by him in terms of rule 5(2);
- ii. the cost audit reports, if any, under Section 148 of the Companies Act, 2013; and
- iii. the income-tax audit report, if any, under Section 44AB of the Income-tax Act, 1961,

for the scrutiny of the officer or the audit party, or the cost accountant or chartered accountant, within the time limit specified by the said officer or the audit party or the cost accountant or chartered accountant, as the case may be.

It may also be noted that, prior to this amendment:

- Words “cost accountant or chartered accountant nominated under Section 72A of the Finance Act, 1994” were not specifically mentioned in this rule.
- Time limit with the assessee for providing the requisite documents was 15 days from the date of demand of the documents.
- Words “the cost audit reports, under Section 148 of the Companies Act, 2013,” were not specifically mentioned in this rule.

Further, the CBEC *vide Circular No. 181/7/2014-ST, Dated: December 10, 2014* has clarified that the amendment made by Finance Act 2014, by insertion of a new clause “k” in Section 94(2), provides a statutory backing to the Rule 5A(2) of the Service Tax Rules, 1994. The judgment of the Hon'ble High Court of Delhi in the case of M/s. Travelite (India) [2014-TIOL-1304-HC-DEL-ST] wherein rule 5A (2) was quashed on the grounds of lack of appropriate statutory backing can now be distinguished.

[Notification No. 23/2014-ST, Dated: December 05, 2014, Circular No. 181/7/2014-ST, Dated: December 10, 2014]

B. EXCISE

1. Condition of six months does not apply in case of re-credit of amount reversed

Notification No. 21/2014-CE (N.T.) Dated: July 11, 2014 has amended Rule 4(1) & 4 (7) CENVAT Credit Rules, 2004, to provide that a manufacturer or a service provider shall take credit on inputs and input services within a period of six months from the date of issue of invoice, bill or challan with effect from 1st September, 2014.

In this regard, CBEC *vide Circular No. 990/14/2014-CX-8 dated November 19, 2014* has clarified that the purpose of the amendment made by Notification No. 21 is to ensure that after the issuance of a document under Rule 9(1) of the CENVAT Credit Rules, CENVAT credit is taken for the first time within six months of the issue of the document. Once this condition is met, the limitation would not apply for taking re-credit of amount reversed under Rule 3(5B), Rule 4(5) (a) and Rule 4(7) of CENVAT Credit Rules, 2004.

[Circular No: 990/14/2014-CX-8 dated November 19, 2014]

2. Goods donated for J&K flood affected people exempted from Central Excise duty

Notification No. 25/2014-CE, Dated: December 11, 2014 has exempted goods donated or purchased out of cash donations, for the relief and rehabilitation of the people affected by the floods in the State of Jammu and Kashmir from the duty of excise leviable thereon under the Central Excise Act, 1944. The conditions for availing the exemptions have been prescribed in the notification.

[Notification No. 25/2014-CE, Dated: December 11, 2014]

C. CUSTOMS

1. Duty Drawback - Revised All Industry Rate

The Central Board of Excise and Customs has revised All Industry Rates of Duty Drawback *vide Notification No. 110/2014-Cus. (N.T.), Dated: November 17, 2014*. The revised schedule, notes & conditions and the other details can be obtained from www.cbec.gov.in.

Further *Notification No. 109/2014-Cus. (N.T.), Dated: November 17, 2014* has amended Rule 7(1) of Drawback Rules, 1995 to provide that cases where amount or rate of drawback determined is low under Rule 3 or 4, the manufacturer or

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exporter may within *six months* from the relevant date make an application in writing to the Commissioner of Customs and Central Excise having jurisdiction over the manufacturing unit, for determination of the amount or rate of drawback. Prior to this amendment the time limit for making an application was three months from the relevant date.

[Notification No. 109/2014-Cus.(N.T.), Dated: November 17, 2014, Notification No. 110/2014-Cus.(N.T.), Dated: November 17, 2014; Circular No. 13/2014-Cus, Dated: November 18, 2014]

D. HARYANA VAT

1. Introduction of Amnesty Scheme

Notification No. Leg. 38/2014 Dated: November 20, 2014 has introduced Amnesty Scheme by inserting a new Section 59A in the Haryana Value Added Taxes, in order to recover old arrears of taxes which are outstanding and are difficult to recover in spite of various efforts, for the period prior to 1st April, 2014 subject to such conditions and restrictions, as may be prescribed.

[Notification No. Leg. 38/2014 Dated: November 20, 2014]

E. DELHI VAT

1. Date of Filing of reconciliation return in form 9 extended to 9th January, 2015

The date of filing of online return in form 9, containing details of interstate sale at concessional rates against statutory forms C/F/H, has been extended to 9th January, 2015.

[Circular No. 19/2014-15 No. F7(420)/Policy/2011/PF/536-542 Dated: November 27, 2014]



2. New Form for filing of DP-1

Notification No.F3(352)/Policy/VAT/2013/585-596 Dated: December 15, 2014 directs the registered dealers who have not filed information in Form DP-1 till date, to file information online relating to particulars of business upto 31st March, 2015. The dealers who have filed the information can also update their particulars. The information so filed/updated shall be treated as request for amendment in the registration particulars at par with Application in Form DVAT-07/Form 11 and would be accepted as such.

[Notification No. F3(352)/Policy/VAT/2013/585-596 Dated: December 15, 2014]

F. TAMILNADU VAT

1. Zero rate -ITC Refund- Eligibility criteria- Instructions issued

Circular No. 59/2014 Acts Cell 111/34185/2014-Dated: November 27, 2014 has clarified that the exporters of exempted goods manufactured out of taxable inputs are eligible to avail the benefit of refund of ITC on related purchases of taxable goods to exports as provided under Section 18(2), of the Act, 2006.

[Circular No. 59/2014 Acts Cell III/34185/2014-Dated: November 27, 2014]



(Matter on FEMA has been contributed by CA. Manoj Shah and CA. Hinesh Doshi)

A. Export of Goods/Software/Services- Period of Realisation and Repatriation of Export proceeds for exporters including units in SEZs, Status Holder Exporters, EOU, units in EHTPs, STPs and BTPs

A.P. (DIR Series) Circular No.37 dated November 20, 2014

RBI had *vide* A.P. (DIR Series) Circular No. 105 dated May 20, 2013 had brought down the period for realisation and repatriation to India of the amount representing the full export value of goods or software exported, from twelve months to nine months from the date of export. This was valid till September 30, 2013. Further, in terms of A. P. (DIR Series) Circular No. 35 dated April 01, 2002, A. P. (DIR Series) Circular No. 25 dated November 01, 2004 and A. P. (DIR Series) Circular No. 108 dated June 11, 2013, the units located in SEZs, Status

Holder Exporters, EOU, Units in EHTPs, STPs, and BTPs shall realise and repatriate full value of goods/software/services to India within a period of twelve months from the date of export.

The issue has since been reviewed and it has been decided, in consultation with the Government of India (GOI), that henceforth the period of realisation and repatriation of export proceeds shall be nine months from the date of export for all exporters including units in SEZs, status holder exporters, EOUs, units in EHTPs, STPs & BTPs until further notice.

However, the provisions with regard to period of realisation and repatriation to India of the full exports made to warehouses established outside India remain unchanged.

B. Acquisition/Transfer of Immovable property

Notification No. FEM.321/2014-RB dated September 26, 2014 and A.P. (DIR Series) Circular No. 38 dated November 20, 2014

It has been observed that doubt persists in the members of public regarding requirement of payment of taxes while undertaking property

transactions under Foreign Exchange Management (Acquisition and Transfer of immovable property in India), Regulations.

In view of above, it has been clarified that transactions involving acquisition of immovable property under these regulations shall be subject to the applicable tax laws in India. To give effect to the same Regulation 9 has been added after Regulation 8 in Notification No. FEMA 21/2000-RB dated May 3, 2000.

C. External Commercial Borrowings (ECB) Policy – Parking of ECB Proceeds

A.P. (DIR Series) Circular No. 39 dated November 21, 2014

At present, eligible ECB borrowers are required to bring ECB proceeds, meant for rupee expenditure in India for permitted end uses, such as, local sourcing of capital goods, on-lending to self-help groups or for micro credit, payment for spectrum allocation etc. immediately for credit to their rupee accounts with AD Category I banks in India.

With a view to provide greater flexibility to ECB borrowers in structuring draw down of ECB

proceeds and utilisation of the same for permitted end uses, AD Category I banks are permitted to allow the eligible ECB borrowers to park ECB proceeds (both under automatic and approval routes) in term deposits with AD Category I banks in India for a maximum period of six months pending utilisation for permitted end uses. This facility would be available subject to following conditions:

- a. The applicable guidelines on eligible borrower, recognised lender, average maturity period, all in cost, permitted end uses *etc.* should be complied with.
- b. No charge in any form should be created on such term deposits *i.e.*, term deposits should be kept unencumbered during their currency.
- c. Such term deposits should be exclusive in the name of borrower.
- d. Such term deposits can be liquidated as and when required.

All other aspects of ECB policy remain unchanged.

D. Routing of Funds raised abroad

A. P. (DIR Series) Circular No. 41 dated November 25, 2014

As per the extant guidelines relating to External Commercial Borrowings and Overseas Direct Investment from India, it has come to notice that some Indian companies are accessing overseas market for debt funds through overseas holding/associate/subsidiary/group companies. It has also been reported that such borrowings are raised at rates exceeding the ceiling applicable in terms of extant FEMA regulations and that the funds so raised are routed to the Indian companies which accounts for sole/major operations of the group. Different modalities/structures are resorted to for channeling such funds for Indian operations including investment in rupee bonds floated by the Indian company.

On a review of the matter in light of the existing regulatory framework, it is clarified as under:

- a. Indian companies or their AD Category-I banks are not allowed to issue any direct or indirect guarantee or create any contingent liability or offer any security in any form for such borrowings by their overseas holding/associate/subsidiary/group companies except for the purposes explicitly permitted in the relevant Regulations.
- b. Further, funds raised abroad by overseas holding/

associate/subsidiary/group companies of Indian companies with support of the Indian companies or their AD Category-I banks as mentioned at (a) above cannot be used in India unless it conforms to the general or specific permission granted under the relevant Regulations.

- c. Indian companies or their AD Category-I banks using or establishing structures which contravene the above shall render themselves liable for penal action as prescribed under FEMA, 1999.

E. Import of Gold (under 20: 80 Scheme) by Nominated Banks/Agencies/Entities

A. P. (DIR Series) Circular No. 42 dated November 28, 2014

The Government of India (GOI) has decided to withdraw the 20:80 scheme and restrictions placed on import of gold. Accordingly, all instructions issued about the scheme from time to time starting with *A.P. (DIR Series) Circular No. 25 dated August 14, 2013* shall stand withdrawn with immediate effect.

F. Remittance of Assets-Submission of Auditor's Certificate

Notification No. FEMA. 324/2014-RB dated October 31, 2014 and A.P. (DIR Series) Circular No. 43 dated December 2, 2014

CBDT *vide* its notification dated September 2, 2013 revised the instructions regarding furnishing of tax declarations and submission of Form 15CA and 15 CB. Accordingly, RBI has amended Regulation 4 and 7 of the Notification No. FEMA. 13/ 2000 -RB dated May 3, 2000, through the Foreign Exchange Management (Remittance of Assets) (Amendment) Regulations, 2014 notified *vide Notification No. FEMA. 324/2014-RB dated October 31, 2014*, c.f. G.S.R. No. 803 (E) dated November 14, 2014, with respect to submitting certificates on tax payments.

For detailed amendments, please refer the said notification on RBI website available at: <http://rbidocs.rbi.org.in/rdocs/notification/PDFs/FEMA324FL011214.pdf>

G. Foreign Direct Investment (FDI)

1. Review of FDI policy –Sector Specific conditions

Notification No. FEMA. 312/2014-RB dated July 2, 2014 dated November 13, 2014 and A.P. (DIR Series) Circular No. 45 dated December 8, 2014

The Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce &

Industry, Government of India, had notified the latest FDI policy changes *vide* Consolidated FDI Policy Circular of 2014 on April 17, 2014.

Accordingly, in order to bring uniformity in the sectoral classification/conditionalities for FDI as notified under the said Circular issued by DIPP with the FEMA Regulations, RBI amended Annex B of Schedule 1 to Notification No. FEMA. 20/2000-RB dated 3rd May 2000, as amended from time to time by issue of Notification No. FEMA. 312/2014-RB dated July 2, 2014, dated November 13, 2014.

For detailed amendments, please refer the said notification available on RBI website at: <http://rbidocs.rbi.org.in/rdocs/notification/PDFs/312FEMA011214.pdf>

2. Review of FDI policy – Sector Specific conditions-Defence Notification No. FEMA. 319/2014-RB dated September 5, 2014 and A.P. (DIR Series) Circular No. 46 dated December 8, 2014

In terms of Schedule 1 to the Notification No. FEMA 20/2000-RB dated May 3, 2000, Foreign Direct Investment (FDI) up to 26 per cent is permitted under Government route in Defence industry subject to license under the Industries (Development & Regulation) Act, 1951. Proposals for FDI above 26 percent would be subject to approval of Cabinet Committee on Security on case to case basis, wherever it is likely to result in access to modern and 'state-of-art' technology in the country.

On review, DIPP has now provided a list of defence items as finalised by Department of Defence production, ministry of Defence and has clarified that items not in the list would not require industrial license for defence purposes.

Further on review, with effect from 26th August 2014, foreign investment *i.e.* FDI, FIIs, RFPIs, NRIs, FVCIs and QFIs upto 49% under government route shall be permitted in defence sector subject to conditions specified in Press Note No. 7 (2014 Series) issued by DIPP.

RBI, to bring uniformity in sectoral classification/conditionalities for FDI in defence sector as per the press notes issued by DIPP made respective amendments to Notification *ibid vide* Notification No. FEMA.319/2014-RB dated September 5, 2014.

For detailed amendments, please refer the said notification available on RBI website at: <http://rbidocs.rbi.org.in/rdocs/notification/PDFs/FEMA319FL050914.pdf>

3. Review of FDI policy–Sector Specific conditions-Railway Infrastructure

Notification No. FEMA. 320/2014-RB dated September 5, 2014 and A.P. (DIR Series) Circular No. 47 dated December 8, 2014

In terms of Annex A of Schedule 1 to the Notification No. FEMA 20/2000-RB dated May 3, 2000, Foreign Direct Investment (FDI) is prohibited in activities/sectors not open to private sector investment *e.g.* Atomic Energy and Railway Transport (other than Mass Rapid Transport Systems).

On review, DIPP has now permitted 100% FDI in railway Infrastructure sector under automatic route subject to conditions. Accordingly, it has been decided to permit FDI in the following activities of the Railway Transport sector:

“Construction, operation and maintenance of the following: (i) Suburban corridor projects through PPP, (ii) High speed train projects, (iii) Dedicated freight lines, (iv) Rolling stock including train sets, and locomotives/coaches manufacturing and maintenance facilities, (v) Railway Electrification, (vi) Signaling systems, (vii) Freight terminals, (viii) Passenger terminals, (ix) Infrastructure in industrial park pertaining to railway line/sidings including electrified railway lines and connectivities to main railway line and (x) Mass Rapid Transport Systems. Further, FDI beyond 49 of the equity of the investee company in sensitive areas from security point of view will be brought before the Cabinet Committee on Security (CCS) for consideration on a case to case basis.”

Press Note No. 8 (2014 Series) dated 27th August, 2014 was issued by DIPP in this regard.

RBI to bring uniformity in sectoral classification/conditionalities for FDI in railway transport sector as per the press note issued by DIPP made respective amendments to the Notification *ibid vide* Notification No. FEMA.320/2014-RB dated September 5, 2014.

For detailed amendments, please refer the said notification available on RBI website at: <http://rbidocs.rbi.org.in/rdocs/notification/PDFs/FEMA320FL011214.pdf>

H. Overseas Investments by Alternative Investment Funds

Notification No. FEMA. 326/2014-RB dated November 12, 2014 and A.P. (DIR Series) Circular No. 48 dated December 9, 2014

RBI in consultation with Securities and Exchange Board of India (SEBI) *vide* A. P. (DIR Series) Circular No. 49 dated April 30, 2007 and 50 dated May 04, 2007 had permitted Indian Venture Capital Funds (VCFs) registered with SEBI to invest in equity

and equity-linked instruments of off-shore venture capital undertakings.

On review, RBI has decided to permit an Indian Alternative Investment Fund (AIF), registered with the SEBI, to invest overseas in terms of the provisions issued under A. P. (DIR Series) Circular No. 49 and 50 dated April 30, 2007 and May 04, 2007 respectively.

In connection with the same, RBI has amended Regulation 2 and Regulation 26 of FEMA Notification No. 120/RB-2004 dated July 07, 2004 by issue of Notification No. FEMA.326/RB-2014 dated November 12, 2014.

For detailed amendments, please refer the said notification available on RBI website at: <http://rbidocs.rbi.org.in/rdocs/notification/PDFs/FEMA326NT041214.pdf>

I. Review of Foreign Direct Investment (FDI) Policy on the Construction Development Sector

The Union Cabinet on 29th October 2014 had amended the existing FDI Policy on the ‘Construction Development Sector’ in line with the Budget Announcement of the Government. Department of Industrial Policy & Promotion (DIPP), has thereafter issued a Press Note notifying the changes proposed by the Union Cabinet in the existing FDI Policy on ‘Construction Development Sector’.

Highlights of changes in FDI Policy on Construction sector as proposed by cabinet on 29th October *vis-à-vis* DIPP Press Note 10 dated 3rd December 2014 are as under:

➤ Lock in/exit:

The condition of three year lock in from final date of investment for exit has been removed. The investor will be permitted to exit on completion of project or after development of trunk infrastructure.

➤ Minimum area development:

The clause for combination of project has been removed. Therefore, in case of combination project, minimum development of 20,000 sq. meters of floor area will be required.

➤ Affordable Housing conditions:

Minimum 40 percent of the FAR/FSI to be utilised for dwelling units of floor area not more than 140 sq. meters as against 60 percent FAR/FSI and carpet area of 60 sq. meters.

At least 25 % of affordable housing FSI should be used for houses of floor area not more than 60 sq. meters.

The detailed amendments to the extant FDI Policy as contained in the Consolidated FDI Policy Circular 2014 vide Press Note No. 10 (2014 series) of DIPP are enumerated as under:

Sr. No.	Particulars	Old Provisions till 2 nd December 2014	Proposed by Union Cabinet on 29 th October 2014	Notified by DIPP vide Press Note 10 on 3 rd December 2014
1.	Minimum area to be developed			
	- in case of developed service plots (earlier it was serviced housing plots)	10 hectares	No condition of minimum land (Note: Serviced plots can be commercial)	No condition of minimum land (Note: Serviced plots can be commercial)
	- in case of construction development projects	Minimum built up area of 50,000 sq. meters	Minimum floor area of 20,000 sq. meters	Minimum floor area of 20,000 sq. meters
	- in case of combination project	Any one of the above two conditions need to be complied with	Any one of the above two conditions need to be complied with (Note: Does it mean that in case of combination project, which could be say housing/commercial serviced plots and construction, there is no need for even minimum area requirement of 20,000 sq. mts. Intention doesn't seem to be so, but language leads to such interpretation)	The clause for combination of project has been removed (Note: This would mean that in case of combination project, the requirement of minimum floor area of 20,000 sq. meters needs to be complied with).

Legal Update

Sr. No.	Particulars	Old Provisions till 2 nd December 2014	Proposed by Union Cabinet on 29 th October 2014	Notified by DIPP vide Press Note 10 on 3 rd December 2014
2.	Minimum Capitalisation	USD 10 million for wholly owned subsidiaries and USD 5 million for joint ventures with Indian partners	USD 5 million	USD 5 million
2.1	Period for bringing the funds	Within six months of commencement of project.	Within six months of commencement of project. (Commencement of project will be the date of the approval of the building plan/lay out plan by the statutory authority). Subsequent tranches of FDI can be brought up to 10 years from the commencement of project or before completion of project, whichever expires earlier.	Within six months of commencement of project. (Commencement of project will be the date of the approval of the building plan/lay out plan by the statutory authority). Subsequent tranches of FDI can be brought up to 10 years from the commencement of project or before completion of project, whichever expires earlier.
3.	Repatriation of investment/Exit (Note: Existing policy uses the term 'Repatriation' whereas new documents uses the term 'Exit'. Exit should include transfer between two non residents also)	Repatriation: On completion of project or after three years from date of completion of minimum capitalisation. (three years will apply from date of receipt of each tranche of FDI or from date of completion of minimum capitalisation whichever is later.	Exit: On completion of project or after three years from date of final investment, subject to the development of trunk infrastructure. Repatriation of FDI or transfer of stake by one NR to another NR investor permitted (on a case to case basis) in case where project is not completed with prior approval of FIPB. Note: This could pose new requirement for existing incomplete projects where NR to NR transfer is envisaged	Exit: On completion of project or after the development of trunk infrastructure. Repatriation of FDI or transfer of stake by one NR to another NR investor permitted (on a case to case basis) in case where project is not completed with prior approval of FIPB. Note: This could pose new requirement for existing incomplete projects where NR to NR transfer is envisaged
4.	Minimum completion criteria	At least 50% of project must be developed within 5 years from date of obtaining all the approvals. Also sell of undeveloped plots not permitted.	No percentage prescribed, however, sell of undeveloped plots not permitted. Developed plots mean-where trunk infrastructure including roads, water supply, street lighting, drainage and sewerage, have been made available.	No percentage prescribed, however, sell of undeveloped plots not permitted. Developed plots mean-where trunk infrastructure including roads, water supply, street lighting, drainage and sewerage, have been made available.
5.	Approvals	The investor/investee company shall be responsible for obtaining all the necessary approvals.	The Indian investee company shall be responsible for obtaining all the necessary approvals.	The Indian investee company shall be responsible for obtaining all the necessary approvals.

Notes:

Sr. No.	Old Provisions till 2 nd December 2014	Proposed by Union Cabinet on 29 th October 2014	Notified by DIPP <i>vide</i> Press Note 10 on 3 rd December 2014
a.	FDI is not allowed in real estate business.	It is clarified that FDI is not permitted in an entity engaged in real estate business, construction of farm houses and trading in Transferable Development Rights (TDRs)	It is clarified that FDI is not permitted in an entity engaged in real estate business, construction of farm houses and trading in Transferable Development Rights (TDRs)
b.	The conditions at (1), (2), (3) and (4) above will not apply to Hotels & Tourist resorts; Hospitals; Special Economic Zones (SEZs); Educational Institutions; Old Age Homes and Investment by NRIs.	The conditions at (1), (2) and (3) above will not apply to Hotels & Tourist resorts; Hospitals; Special Economic Zones (SEZs); Educational Institutions; Old Age Homes and Investment by NRIs.	The conditions at (1), (2) and (3) above will not apply to Hotels & Tourist resorts; Hospitals; Special Economic Zones (SEZs); Educational Institutions; Old Age Homes and Investment by NRIs.
c.	No such condition	The conditions at (1) and (2) above will not apply to the investee/joint venture companies which commit at least 30 per cent of the total project cost for low cost affordable housing.	The conditions at (1) and (2) above will not apply to the investee/joint venture companies which commit at least 30 per cent of the total project cost for low cost affordable housing.
d.	No such condition	An Indian company, which is the recipient of FDI, shall procure a certificate from architect empanelled by any authority authorised to sanction building plan to the effect that the minimum floor area required has been fulfilled.	An Indian company, which is the recipient of FDI, shall procure a certificate from architect empanelled by any authority authorised to sanction building plan to the effect that the minimum floor area required has been fulfilled.

Legal Update

Sr. No.	Old Provisions till 2 nd December 2014	Proposed by Union Cabinet on 29 th October 2014	Notified by DIPP <i>vide</i> Press Note 10 on 3 rd December 2014
e.	No such condition	Projects using at least 60 percent of the FAR/FSI for dwelling units of Carpet Area not more than 60 sq. meters will be considered as Affordable Housing Projects. In addition, 35 % of the total number of dwelling units constructed should be of carpet area 21-27 sq. meters for Economically Weaker Section (EWS) category. Such projects can have a mix of EWS/Lower Income Group (LIG)/Higher Category DUs and commercial units. Provision of servant's quarter along with the main dwelling unit will not be counted as dwelling units for EWS/LIG under Affordable Housing (AH) project.	Projects using at least 40 percent of the FAR/FSI for dwelling units of floor area not more than 140 sq. meters will be considered as Affordable Housing Projects. Out of the total FAR/FSI reserved for Affordable Housing, at-least one fourth should be used for houses of floor area not more than 60 sq. meters.
f.	No such note	Floor Area will be defined as per the local laws/regulations of the respective state governments/union territories. Completion of project will be determined as per the local bye-laws/rules and other regulations of state governments.	Floor Area will be defined as per the local laws/regulations of the respective state governments/union territories. Completion of project will be determined as per the local bye-laws/rules and other regulations of state governments.
g.	No such condition	It is clarified that 100 percent FDI under the automatic route is permitted in completed projects for operation and management of townships, malls/ shopping complexes and business centres.	It is clarified that 100 percent FDI under the automatic route is permitted in completed projects for operation and management of townships, malls/ shopping complexes and business centres.

For details of amended conditions and instructions please refer the Press Note issued by DIPP at: http://dipp.nic.in/English/acts_rules/Press_Notes/pn10_2014.pdf



(Matter on Corporate Laws has been contributed by CA. Rahul Joglekar)

SEBI (www.sebi.gov.in)
1. Securities Contracts (Regulation) Third Amendment Rules, 2014

SEBI has amended the Securities Contracts (Regulation) Rules 1957. Sub-Rule 2 dealing with filing with the exchange various documents relating to listing of securities issued to the public. The stock exchange should be satisfied about various

aspects related to post issue capital of the company. Detailed guidance on the matter is available at the link: http://www.sebi.gov.in/cms/sebi_data/attachdocs/1417409035351.pdf

[Notification GSR 819(E) dated 18th November 2014]

RBI (www.rbi.gov.in)

1. RBI has directed that the quantum of securities that can be classified as HTM will be reduced from 200% to 100% of the audited NOF of the PD as at the end of the preceding financial year. The new limits will come into effect from December 31, 2014. PDs are allowed to effect one additional transfer from HTM for the current quarter ending December 31, 2014 to enable them to comply with the new norms. For a complete text of the circular please refer the link: <http://rbi.org.in/scripts/NotificationUser.aspx?Id=9403&Mode=0>

[Circular IDMD.PDRD.No.7/03.64.00/2014-15 dated 15th December 2014]



2. RBI has relaxed the requirement of obtaining physically signed counterparty confirmations in respect of OTC trades in Commercial Papers (CPs) and Certificate of Deposits (CDs); and OTC repo trades in corporate debt securities, CPs, CDs and non-convertible debentures (NCDs) of original maturity less than one year reported on F-TRAC - the reporting platform of Clearcorp Dealing Systems (India) Ltd. (CDSIL). Certain precautions are required to be taken by the parties as listed in the circular. For a complete text of the circular please refer the link: <http://rbi.org.in/scripts/NotificationUser.aspx?Id=9419&Mode=0>

[Circular FMRD.FMID.01/14.01.02/2014-15 dated 19th December 2014]

3. CBDT had earlier revised the instructions regarding furnishing of tax declarations and submission of Form 15CA and 15CB. RBI has therefore amended the FEMA Regulations through the Foreign Exchange Management (Remittance of Assets) (Amendment) Regulations,



2014 notified *vide* Notification No. FEMA. 324/2014-RB dated October 31, 2014, c.f. G.S.R. No. 803 (E) dated November 14, 2014, with respect to submitting certificates on tax payments. For a complete text of the circular please refer the link <http://rbi.org.in/scripts/NotificationUser.aspx?Id=9382&Mode=0>

[A.P. (DIR Series) Circular No.43]. ■

Legal Decisions¹

**DIRECT
TAXES**



Income-tax Act

LD/63/36

Galileo Nederland BV

vs.

*Assistant Director of Income-tax,
Circle-1(2), (Intl. Tax), New Delhi
August 25, 2014 (DEL)*

Section 9 of the Income-tax Act, 1961– Income–Deemed to accrue or arise in India

Dutch travel industry services provider through Computerised Reservation System did all major function such as collection data of various airlines, hotels, etc. and their analysis and development in computers kept in USA and Indian distributor had only given connection to Indian travel agents for booking, no more than 15 per cent of assessee's profit was attributable to India

The appellant, a company incorporated in Netherlands at the relevant time was engaged in the business of providing electronic distribution services to travel industry through Computerised Reservation System (CRS).

The appellant had maintained computer facility at Denver, Colorado in USA, which stored the data fed on real time basis on availability of airlines seats, hotel rooms, car hires, fares *etc.* The appellant-assessee had entered into agreements with different airlines, hotels, car hire companies *etc.* to enable them to acquire, procure and store data. The said functions were performed outside India. The aforesaid CRS enabled travel agents and others who make airline, hotel and car bookings using the data stored on the appellant-assessee's computer on real time basis by communicating their requirements online. The data provided information regarding possible itineraries, availability of seats/room fares *etc.* and enabled booking in airlines, hotels *etc.*

The appellant-assessee has appointed an exclusive distributor in India, M/s Galileo India Private Limited under an agreement. The said distributor negotiated and entered into contracts with various travel agents in India who wished to be connected to the appellant-assessee's CRS and provided connectivity to them. The appellant-assessee did not physically carry any operations in India and did not engage or have employees in India. In order to enable the travel agents in India to connect to the CRS, the appellant assessee has entered into an agreement

with Societe Internationale de Telecommunications Aeronautiques (SITA), an independent and a separate entity.

Travel agents were paid/remunerated by the airlines for the bookings on tickets issued using the appellant assessee's data base, CRS. The appellant-assessee was also paid/remunerated by the airlines for the worldwide bookings including bookings made in India. The appellant-assessee received these payments outside India. The appellant-assessee did not receive any payment from the travel agents in India. The appellant-assessee had received Euro 3 for each completed booking from the airline *etc.* The appellant-assessee had paid Euro 1 for each completed booking to their distributor in India.

The sole question and dispute in the present appeals relate to computation or assessment of the profits/income attributable to Indian operations, *i.e.* income earned by the appellant-assessee through and from their PE in India. Other aspects and issues need not be examined in these appeals.

The High Court of Delhi held as follows:

The Revenue submitted that the estimate of 15% ratio requires reconsideration because of increase in bookings from India. It was submitted that the estimate of 15% was made ten years back, therefore, cannot be considered to be appropriate. The Tribunal has observed that estimation of profits would be ideally based upon number of bookings originating from India in comparison with the bookings in a particular year and on consideration of global accounts. It is not possible to agree with the said submission for several reasons. Firstly, this is not the basis of the assessment made by the Assessing Officer. In fact, the Assessing Officer had mentioned in the assessment orders that the facts and circumstances of the case remain the same. Foundation and basis should have been first made in the assessment order. Secondly, the Tribunal in the earlier appeal in the case of *Galileo International Inc. vs. Dy. CIT* [2008] 19 SOT 257 (Delhi) relating to Assessment Years 1995-96 to 1998-99 had undertaken the FAR Analysis.

The Delhi High Court in *DIT vs. Galileo International Corpn.* [IT Appeal No. 851/2008, dated 25th February, 2009] rejected the submission of the Revenue that the Tribunal had erred in attributing only 15% of the said income as attributed to Indian

¹ Readers are invited to send their comments on the selection of cases and their utility at eboard@icai.in. For full judgment, write to eboard@icai.in

operations. The High Court also rejected the submission that the Tribunal's finding was erroneous as Double Taxation Avoidance Agreement with USA advanced attribution of profits and not revenue, observing that the Tribunal had applied principles of attribution of profits and not revenue. It was specifically held that the Tribunal had undertaken the exercise to assess what would be attributable to operations in India and thereafter found that only a small or miniscule part of CRS operations and functions were performed in India. These were limited to the extent of generating the request and receiving the result in India. The major functioning, i.e., collecting data bases with various airlines, hotels etc. and entering or feeding them into the computer took place outside India. It was in the computer in Denver, USA that various processed data with regard to schedule of flights timing, pricing, availability, meal preference, special facilities *etc.* was stored and process undertaken. The role performed by the computers in India or the Indian agents was to merely get connected or be configured so that the travel agents could perform the booking function. The computers in India were not capable

of processing data, which was processed abroad. Further, the functions required huge investment and capacity, which was not installed and available in the computers at the desk of the travel agents in India but were available in the host computer in the USA. Thus, it was looking at the nature and the character of the functions undertaken in India *viz.*, the functions and assets outside India, 15% was attributed to India. (Aspect of risk has not been discussed but it has never been the case of the revenue that risk factor tilts the scale for higher attribution of income to Indian PE). This worked out to Euro 0.45 and this was less than the commission of Euro 1, which was paid by the appellant-assessee to the distributor in India. There was substantial difference between expense of Euro 1 and attribution of Euro 0.45, as an income, which left a gap of Euro 0.55 per booking.

Thus the Tribunal has wrongly observed that earlier appellant-assessee was in losses. There is no such finding in the earlier orders. The appellant-assessee was maintaining globalised accounts and India specific attribution of profits/losses was not undertaken in the accounts being maintained.

In view of the aforesaid position, the questions have to be answered in favour of the appellant-assessee and against the Revenue.

LD/63/37

Black Pearl Hotels Pvt. Ltd.

vs.

Deputy Commissioner

October 14, 2014 (KAR)

Section 28(i) read with Section 21 & Section 56 of the Income-tax Act, 1961—Business and professional income—Chargeable as

Where assessee-lessee took premises on lease and carried on his business and when it could not carry on business, it permitted commercial activity to be carried on by others by exploiting facilities available thereon in turn of consideration and in fact lease of property was for definite amount with periodical increase every year and payment of rent was not dependent on income derived by commercial exploiting of property, income from said property would be business income of assessee, and not income from house property

The object of the assessee-company is carrying on business and running and operating hotels, retail stores etc. in India. The assessee was running a hotel in the premises taken on lease. The said business was closed. The assessee was using the lease hold building for various purposes like giving the hall on rent, taking franchise business etc. The assessee entered into a conducting agreement with 'BCCL' for a period of 8 years. The assessee engaged the BCCL to conduct a service described in the agreement and appointed them to manage the premises measuring 7900 Sq.Ft. of built-up area being one of the outlets of its chain of retail stores for a consideration of ₹4,75,000 per month as minimum guaranteed conducting fees or 8% of net sales proceeds of business carried on by BCCL whichever is higher. The assessee apart from the floor area, also provided all the ancillary utilities and benefits of licenses and permits listed in the statements annexed to the agreement. The area in commercial complex which belonged to the assessee was taken on lease from Choudri Nagappa Enterprises, who was the absolute owner of the said premises. The assessee was commercially exploiting the said premises and derived income there from. A composite right was given by the assessee to BCCL to run the business.

The assessee filed his returns of income claiming the income derived from conducting agreement

with BCCL under the head "business". The return was selected for scrutiny assessment. The assessing authority held that the income derived by the assessee from conducting agreement with BCCL was liable to be brought to tax under the head 'income from house property' and not from 'income from business'. Aggrieved by the said order, the assessee preferred an appeal to the Commissioner (Appeals) who declined to entertain the appeal and dismissed the same. On appeal, the Tribunal upheld the finding recorded by the earlier authorities. It is against the said orders, the present appeal is filed.

The High Court of Karnataka held as follows:

It is clear what has to be seen is what was the primary object of the assessee while exploiting the property. If the intention is to exploit the commercial property by putting up construction and letting out for the purpose of getting reasonable income, then notwithstanding the fact that the furniture and fittings are provided to the lessee, the income from building fall under the heading "income from house property" but, if the assessee is in the business of taking land, putting up commercial buildings thereon and letting-out such building with all furniture as his profession or business, then notwithstanding the fact that he has constructed the building and he has also provided other facilities and even if there are two separate rental deeds, it does not fall within the heading of "Income from House Property". Therefore, firstly, what has been the intention behind the lease and secondly, what are the facilities given along with the building and documents executed in respect of each of them has to be seen. Thirdly, it has to be found out whether it is inseparable or not. If they are inseparable and the intention is to carry on the business of letting out the commercial property and carrying out complex commercial activity and getting rental income there from, this rental income fall within the heading "Profits and Gains of business."

The assessee is not the owner of the premises which he had handed-over to the conductor. In fact, the lessor took the premises on lease and he was carrying on his business. When he could not carry on business, he had permitted commercial activity to be carried on in the said premises by exploiting the facilities available thereon by others. The terms of the agreement shows there is no demise, there is no transfer of interest in the immovable property. On the contrary, BCCL is permitted to enter the

property, use the facilities thereon, manage the whole property and commercially exploit the entire asset given to them. In turn, the consideration fixed is ₹4,75,000 per month being the minimum or 8% of the total turnover whichever, is higher is payable to the assessee if the premises is let out for rent, consequently such premises are not found in the lease deed. Lease of a property is for a definite amount with periodical increase every year. Payment of rent is not dependent on the income derived from the lessee by the commercial exploiting of the property. That apart, not only, the premises is given to BCCL, but all fittings, furniture, licences, permits which was standing in the name of the assessee is handed-over to BCCL to carry on the commercial activity.

The real intention of the parties as could be covered from the terms of the agreement is not property appreciated. The substantial question of law is answered in favour of the assessee and against the revenue.

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Companies Act

LD/63/38

E. Bapanaiah

vs.

K.S. Raju

November 7, 2014 (SC)

Section 74 of the Companies Act, 2013 corresponding to Section 58A of the Companies Act, 1956 read with Section 12 of the Contempt of Courts Act, 1971– Repayments of Deposits–A finance company failed to repay depositors

Director of finance company gave undertaking before CLB to repay depositors, however, he disobeyed order of CLB and thus he had committed contempt of Court subordinate to High Court; he is liable to conviction and sentence

The respondent K. S. Raju, was promoter director of finance company NFL. NFL failed to repay its depositors. The appellant depositors filed application before the Company Law Board (CLB) under Section 58-A for framing the scheme of repayment. During

the pendency of application, the CLB ordered the Directors to file affidavits giving undertaking that they would abide by the scheme and pay off the amount due to depositors. CLB passed order on the assurance given in the undertakings/affidavits.

The promoter-director filed appeal against the order of CLB. In said appeals, an undertaking was given on behalf of the Company for initially paying the half of the first year's entitlement of the appellant by the date stipulated therein. However, no amount was paid.

Therefore, the contempt petition was filed by the appellant before the High Court for violation of the orders of the Company Law Board.

The Supreme Court of India held as follows:

After giving undertaking, respondent K. S. Raju submitted his resignation, which clearly reflects that the same was done in order to save himself and his company, from making the repayment directed to be made by the CLB, and thereby dishonestly made attempt in not making repayment to the depositor E. Bapanaiah.

Sub-Section (4) of Section 12 of the Contempt of Courts Act, 1971 provides that 'where the person found guilty of contempt of court in respect of any undertaking given to a court is a company, every person who, at the time the contempt was committed, was in charge of, and was responsible to, the company for the conduct of business of the company, as well as the company, shall be deemed to be guilty of the contempt and the punishment may be enforced, with the leave of the court, by the detention in civil prison of each of such person.' It further provides that 'nothing contained in this sub-section shall render any such person liable to such punishment if he proves that the contempt was committed without his knowledge or that he exercised all due diligence to prevent its commission.'

As to the question whether CLB is a court subordinate to High Court or not, in *Canara Bank vs. Nuclear Power Corpn. Of India Ltd.* 1975 Supp (3) SCC 81, this (Supreme) Court has held that CLB in the proceedings before it under Section 111 of the Companies Act since performs curial functions, hence it is a "court" within the meaning of Section 9-A of Special Court (Trial of Offences Relating to Transactions in Securities) Act, 1992.

The present case relates to a civil contempt

wherein an undertaking given to Company Law Board is breached. Normally, the general provisions made under the Contempt of Courts Act are not invoked by the High Courts for forcing a party to obey orders passed by its subordinate courts for the simple reason that there are provisions contained in Code of Civil Procedure, 1908 to get executed its orders and decrees. It is settled principle of law that where there are special law and general law, the provisions of special law would prevail over general law. As such, in normal circumstances a decree holder cannot take recourse of Contempt of Courts Act else it is sure to throw open a floodgate of litigation under contempt jurisdiction. It is not the object of the Contempt of Courts Act to make decree holders rush to the High Courts simply for the reason that the decree passed by the subordinate court is not obeyed. However, there is no such procedure prescribed to execute order of CLB particularly after *proviso* is added to Section 634A of the Companies Act, 1956, *vide* the Companies (Second Amendment) Act, 2002.

K. S. Raju, Director had willfully disobeyed the order of CLB and breached the undertaking given to CLB, and thereby committed contempt of Court subordinate to High Court. The conviction and sentence, recorded against him by the Single Judge was to be continued.

RTI Act

LD/63/39

R.K Jain

vs.

**Chairman, Income Tax Settlement Commission
December 5, 2014 (DEL)**

Section 18 Right to Information Act, 2005-Powers and functions of the Information Commissions, appeal and penalties

*Chairman of Income-Tax Settlement Commission
is not authorised under the RTI Act to interfere
with the orders passed under the RTI Act*

The petitioner had filed an RTI application seeking information with respect to disposal and pendency of matters before the Income Tax Settlement Commission. In response to this application, CPIO and Joint Commissioner of Income Tax, Income Tax Settlement Commission passed an order furnishing certain information to the petitioner. However, by the said order certain

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other information as sought for was denied. The petitioner preferred an appeal before the First Appellate Authority. The said appeal was partly allowed. The petitioner sent to respondent no. 2 the CPIO seeking compliance of the order and received the impugned order.

The impugned order indicated that the order passed by respondent no. 2 under the RTI Act; and the order passed by respondent no. 4 in an appeal were set aside as being *void ab initio* by respondent no. 1 the Chairman as an administrative head of the Income Tax Settlement Commission.

The impugned order referred to an administrative order passed by the Chairman, Income Tax Settlement Commission; the extract of which as quoted in the impugned order reads that the order passed by the JDIT and DIT(Inv) were *ab initio void* and are *annulled*. The RTI application would be disposed of by the Administrative Officer, (CPIO) ITSC.

The High Court of Delhi held as follows:

In this case the orders passed under the RTI Act were in exercise of statutory powers. Such orders could not be declared as a nullity or void by an administrative order without recourse to the hierarchy of authorities as specified in the statute—the RTI Act. In the event, the respondent no.1 Chairman of IT Settlement Commission was of the view that the orders passed by respondent nos. 2 the CPIO & respondent no. 4 the First Appellate Authority were without authority of law, the proper and the only course would be to file an appeal before the Central Information Commission or any other competent judicial forum. However, the said orders could not be nullified by an administrative order.

It is well settled that even if an order is a nullity, it would continue to be effective unless set aside by a competent body or Court. In this case respondent no. 1 Chairman of IT Settlement Commission is not authorised under the RTI Act to interfere with the orders passed under the RTI Act.

Undoubtedly, the CIC would have the power to enquire into any complaint in respect of matters relating to access of information under the RTI Act. However, it is apparent, in the present, case that respondent no.1, the Chairman of IT Settlement Commission has acted without authority of law in nullifying orders passed under the RTI Act; thus, interference with the impugned order is warranted in these proceedings.

The CIC has the necessary power to initiate an enquiry in respect of such complaints by virtue of Section 18(2) of the RTI Act.

In view of the above, the impugned order is set aside. However, it will also be open for the respondents to approach the CIC to assail the orders passed by respondent no.2 the CPIO and respondent no.4 the First Appellate Authority, respectively.

Securities Laws

LD/63/40

Stock Exchange, Bombay

vs.

V. S. Kandalgaonkar

September 25, 2014 (SC)

Section 8, read with section 9 of the Securities Contracts (Regulation) Act, 1956—Power of Central Government to direct Rules to be made or to make Rules

Stock Exchange, being a secured creditor, would have priority over Government dues and thus, if a member of BSE was declared a defaulter, Income-tax department would not have priority over all debts owned by defaulter member

The Stock Exchange, Bombay declared one Shri Suresh Damji Shah as a defaulter with immediate effect as he had failed to meet his obligations and discharge his liabilities. The Income Tax Department wrote to the Stock Exchange and told them that Shri Shah's membership card being liable to be auctioned, the amount realised at such auction should be paid towards Income Tax dues amounting to ₹25.43 lakh. The Stock Exchange, Bombay replied to the said notice and stated that the Stock Exchange the membership right is a personal privilege and is inalienable. Further, under Rule 9 on death or default of a member his right of nomination shall cease and vest in the Exchange and accordingly the membership right of Shri Shah has vested with the Exchange on his being declared a defaulter. This being the case, since the Exchange is now and has always been the owner of the membership card, no amount of tax arrears of Shri Shah are payable by it. By a prohibitory order, the Income Tax Department prohibited and restrained the Stock Exchange from making any payment relating to Shri Shah to any person whomsoever otherwise than to the Income Tax Department. The Solicitors of the Stock Exchange, Bombay wrote to the Income Tax Department calling upon them to withdraw the prohibitory order in view of the fact that the

membership right of the Exchange is a personal privilege and is inalienable. The Tax Department wrote back to the Bombay Stock Exchange refusing to recall its prohibitory order. Meanwhile, Shri Shah applied to be re-admitted to the Stock Exchange which application was rejected by the Stock Exchange.

The following issues arose for determination:

- (A) Whether, on the facts and circumstances of this case, the TRO was right in attaching the sale proceeds of the nomination rights of the Defaulter-Member. If not, whether the TRO was entitled to attach under Rule 26(1) of Schedule-II to the Income-tax Act, the Balance Surplus amount lying with BSE out of the sale proceeds of the nomination rights of the Defaulter-Member under rule 16(1) (iii) framed by BSE r/w the Resolution of the General Body of BSE dated 13.10.1999?
- (B) Whether deposits made by the Defaulting Member under various Heads such as Security Deposit, Margin Money, Securities deposited by Members and Others are attachable under Section 226(3)(i)(x) read with Rule 26(1)(a)(c) of Schedule-II to the Income-tax Act?

The Supreme Court of India held as follows:

A reading of Rules 5 and 9 lead to the conclusion that *a membership card is only a personal permission from the Stock Exchange to exercise the rights and privileges that may be given subject to Rules, Bye-Laws and Regulations of the Exchange. Further, the moment a member is declared a defaulter, his right of nomination shall cease and vest in the Exchange because even the personal privilege given is at that point taken away from the defaulting member. The matter is no longer res integra.*

It is clear that no accrued right to property was ever vested in the defaulting member.

Under Rule 16(iii), whenever the Governing Board exercises the right of nomination in respect of a membership which vests in the Exchange, the ultimate surplus that may remain after the membership card is sold by the Exchange comes only to the Exchange-it does not go to the member. This is in contrast with bye-law 400 (ix) which, as has been noted above deals with the application of the defaulting member's other assets and securities, and in this case ultimately the surplus is paid only to the defaulting member, making it clear

that these amounts really belonged to the defaulting member.

The proceeds of a card which has been auctioned cannot be paid over to the Income Tax Department for the dues of the member by virtue of Rule 16 (iii) as such member at no point owns any property capable of attachment.

Rule 36 specifies that a new member shall on admission provide security and shall maintain such security with the Stock Exchange for a determined sum at all the times that he carries on business. Rule 37 deals with the form of such security and states that it may be in the form of a deposit of cash or deposit receipt of a Bank or in the form of security approved by the Governing Board. Rule 38 deals with how these securities are held. Rule 41 enables the member to withdraw any security provided by him if he provides another security in *lieu* thereof of sufficient value to the satisfaction of the Governing Board. **Rule 43 states that the security provided shall be a first and paramount lien for any sum due to the Stock Exchange** and Rule 44 deals with the return of such security under certain circumstances. On a conjoint reading of these Rules what emerges is as follows:

- (i) The Chapter heading entire Chapter deals only with security to be provided by a member as the states;
- (ii) The security to be furnished can be in various forms. What is important is that cash is in the form of a deposit and securities are also "deposited" with the Stock Exchange under Rule 37;
- (iii) Rule 38 which is crucial provides how securities are to be "held" which is clear from the marginal note appended to it. What falls for construction is the expression "securities shall be transferred to and held".

The expression "transfer" can depending upon its context mean transfer of ownership or transfer of possession. It is clear that what is transferred is only possession as the member only "deposits" these securities. Further, as has been held in *Vasudev Ramchandra Shelat vs. Pranlal Jayanand Thakar* 1975 (1) SCR 534 at 541, a share transfer can be accomplished by physically transferring or delivering a share certificate together with a blank transfer form signed by the transferor. The transfer of shares in favour of the Stock Exchange is only for the purposes of easy liquidity in the event of default.

- (iv) The expression "transferred" must take colour from the expression "lodged" in Rule 38 when it comes to deposits of cash. Understood in this sense, transfer only means delivery for the purposes of holding such shares as securities;
- (v) This is also clear from the language of Rule 38 when it says "such deposit shall be entirely at the risk of the member providing the security". Obviously, first and foremost the cash lodged and the shares transferred are only deposits. Secondly, they are entirely at the risk of the member who provides the security making it clear that such member continues to be the owner of the said shares by way of security for otherwise they cannot possibly be at the member's risk;
- (vi) Under Rule 41 a member may withdraw any security provided by him if he satisfies the conditions of the Rules. This again shows that what is sought to be withdrawn is a security which the member owns;
- (vii) By Rule 43 a *lien* on securities is provided to the Stock Exchange. Such *lien* is only compatible with the member being owner of the security, for otherwise no question arises of an owner (the Stock Exchange, if Shri Datar is right) having a *lien* on its own moveable property;
- (viii) Therefore, when Rule 44 speaks of repayment and transfer it has to be understood in the above sense as the security is being given back to the member under the circumstances mentioned in the Rule;
- (ix) Bye-law 326 and 330 also refer to securities that are "deposited" by the defaulter and recovery of securities and "other assets" due. Obviously, therefore, securities which are handed over to the exchange continue to be assets of the member which can be liquidated on default.
- (x) Shri Datar's argument would also create a dichotomy between "cash lodged" and Bank Deposit Receipts and securities "transferred". The form a particular security takes cannot possibly lead to a conclusion that cash lodged, being only a deposit, continues to belong to the member, whereas Bank Deposit Receipts and securities, being "transferred" would belong to the Stock Exchange.

It is settled law that Government debts have precedence only over unsecured creditors.

What has been argued is that the moment the Stock Exchange has a *lien* over the member's

securities, it would have precedence over income tax dues. There is force in this submission.

In the present case, the first and paramount *lien* given to the Stock Exchange is by Rule 43 of the Rules made under Section 8 of the Securities Contracts (Regulation) Act 1956 deal with the power of recognised Stock Exchanges making rules restricting voting rights; rules relating to Stock Exchanges generally including membership thereof; and rules to carry out the purposes of the Securities Contracts (Regulation) Act respectively. Whereas, the rules made under Section 7A and Section 8 are made by recognised Stock Exchanges with the approval of the Central Government and published in the Official Gazette, rules made under Section 30 are made by the Central Government itself for purposes of carrying into effect the objects of the Securities Contracts (Regulation) Act.

It will be seen that whether a rule is made under Section 7A, Section 8 or Section 30, all rules made under the Act are to be laid before Parliament, making it clear thereby that rules made under each of these provisions are statutory in nature. The fact that the Stock Exchange makes these rules under Sections 7A and 8 as opposed to the Central Government making them under Section 30 does not take the matter very much further. Section 3(51) of the General Clauses Act defines "Rules" as meaning "a rule made in exercise of power conferred by law and shall include a Regulation made as a rule under any enactment." It is clear from this definition of 'Rule' also that the Stock Exchanges who make rules in exercise of powers conferred by the Securities Contracts (Regulation) Act are equally "Rules" and therefore subordinate legislation. This makes it amply clear that the *lien* spoken of by Rule 43 is a *lien*, conferred by Rules under a statute.

The first thing to be noticed is that the Income Tax Act does not provide for any paramountcy of dues by way of income tax. This is why the Court in *Dena Bank vs. Bhikabhai Prabhudas Parekh Co.*, 2005(5) SCC 694 held that Government dues only have priority over unsecured debts.

In the present case, the *lien* possessed by the Stock Exchange makes it a secured creditor. That being the case, it is clear that whether the *lien* under Rule 43 is a statutory *lien* or is a *lien* arising out of agreement does not make much of a difference as the Stock Exchange, being a secured creditor, would have priority over Government dues. ■

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Accounting Treatment of Contribution to a Cluster Project

The following is the opinion given by the Expert Advisory Committee of the Institute in response to a query sent by a member. This is being published for the information of readers.

A. Facts of the Case

1. A company (hereinafter referred to as 'the company') is an unlisted public limited company and an auto-ancillary engaged in the business of manufacture of Cast Iron (C.I.), castings and machining of castings automobile parts. The foundry and the machining facilities are located at Kolhapur in the state of Maharashtra.
2. The company requires to use substantial quantity of silica sand in the foundry for making moulds. The sand once used cannot be used again and it becomes waste sand.
3. The disposal of waste sand is becoming difficult due to non-availability of proper place for dumping and on account of environmental issues and stringent restrictions from pollution control department. The problem of disposal of the waste sand is becoming costly and severe day by day.
4. The availability of fresh sand is also diminishing owing to measures being taken by the State Government to protect the environment for silica sand mining, which in turn, has increased the costs of procurement of silica sand.
5. This problem is faced by all the foundries located in and around Kolhapur and for that matter, anywhere in India. To deal with the said problem, the foundries from Kolhapur came together through their association and decided to undertake a cluster project mainly to set-up a sand reclamation plant. The Central and the State Governments have declared incentives and benefits in the form of subsidies for formation of such cluster projects which provide common utilities and services to its members.
6. Accordingly, a cluster project is undertaken by the industrialists of Kolhapur and the company has joined the said cluster project as one of its members. A limited company registered under section 25 of the Companies Act, 1956 is formed as a Special Purpose Vehicle (SPV).
7. The aforesaid cluster project is being set up to provide various services, utilities and facilities to the cluster members and one of the main activities proposed is to set up a sand reclamation plant.
8. The capital cost of the sand reclamation plant is substantially high and the capacity utilisation thereof for one foundry will not be full. Therefore, for an individual foundry owner, it is not viable/feasible to set up such sand reclamation plant on his own.
9. The features of the cluster project are as under:
 - (i) The project will be funded through contributions from members and subsidies from both the Central and State Governments.
 - (ii) Each member of the cluster has to contribute amounts calculated based on its requirement of sand reclamation.
 - (iii) The services of reclamation of sand of such quantity will be assured to the members at reasonable cost.
 - (iv) The other infrastructure and facilities created in the cluster project will also be available to the members of the cluster at reasonable cost.
 - (v) The objectives of the cluster company (i.e., the SPV) are not to make profit.
10. The company is required to pay a non-refundable one-time contribution on the basis of formula for contribution decided by the cluster (ensuring about 700 M.T. of sand reclamation). This formula is decided by the cluster and is mentioned in the scheme for membership circulated by the cluster under the head 'Membership' Sr. No. 3 which reads as under:

MEMBERSHIP

Sl. No.	Member Category	Contribution
1.	Membership-A	Min. ₹ 1.00 Lac

Sl. No.	Member Category	Contribution
2.	Membership-B	Min. ₹25,000/- (B Class members cannot avail the facility of Export-Import House.) Generous Donation/Contribution are requested from industries once and above the membership etc. *Members will get 25% discount on Testing Facilities.
3.	Sand Reclamation	One time Contribution– ₹6,000 PMT per month. Processing charges: as per actual only. Estimated payback: 2 years

11. The querist has clarified that the company is a general member under 'Sand Reclamation Category'. The contribution for sand reclamation category is one time at ₹6,000/- per metric tonne/per month of sand reclamation requirement. At this rate, the company desires to make one time contribution of ₹42.00 lakhs with a view to book the capacity of 700 tonnes. According to the querist, the sand reclamation benefits are permanent and it is not envisaged that the entitlement would exhaust any time. The mention of the payback period in the Scheme is based on very rough estimation. The above payback period of two years is estimated by the management of the cluster on the basis of saving of about 25 paise per kg/per month, i.e., ₹250/- per month saving for one tonne sand reclamation per month. The one time contribution is ₹6,000/- per tonne. With ₹250/- per month saving, the payback period will be about 24 months i.e. 2 years. The amount of saving per tonne is based on very rough estimation. The actual saving per month will be worked out once the facilities are started, and the more correct estimation of payback period will be worked out to decide the period/years within which the amount of total contribution is to be amortised.

12. The company has paid an advance against its contribution and the balance is required to be paid in five equal installments. The advance paid is shown as advance under long-term loans and advances.

13. The querist has pointed out that it may not be possible to workout the actual saving in the cost of reclamation of sand due to various factors such as no comparative costs being available and various advantages are of qualitative nature such as compliance with environmental issues, etc.

14. The querist has clarified that the company has not received any ownership rights over the SPV and neither the membership nor the benefits can be transferred.

15. The following accounting treatment has been suggested to the company for accounting the expenditure by way of contribution to the cluster project:

- Treat the amount now contributed as an advance till the cluster facility is set up and commences providing the services. Upon such commencement, treat the amount contributed as deferred revenue expenditure and amortise the same over a reasonable period of 3 to 5 years.
- Charge the amortised amount to the statement of profit and loss and balance shall appear in the balance sheet under loans and advances (non-current assets).

B. Query

16. The querist has sought the opinion of the Expert Advisory Committee as to whether on the basis of above facts, the accounting treatment as suggested in paragraph 15 above is proper and in accordance with the generally accepted accounting principles. If not, then what is the appropriate accounting treatment?

C. Points considered by the Committee

17. The Committee notes that the basic issue raised by the querist relates to accounting treatment of the contribution made by the company to a cluster project for a sand reclamation plant through a Special Purpose Vehicle company. The Committee has, therefore, considered only this issue and has not considered any other issue that may arise from the Facts of the Case, such as, legal interpretation of Memorandum and Articles of Association of the SPV (supplied by the querist for the perusal of the Committee), implications of the recommended accounting treatment for income-tax purposes, etc. Since the querist

has mentioned that the company has not received any ownership rights over the SPV, the Committee proceeds on this premise.

18. The Committee notes that as stated in paragraphs 5 and 6 above, a Special Purpose Vehicle (SPV) has been set up by the industrialists in the Kolhapur region in the form of a not-for-profit section 25 company under the Companies Act, 1956, to undertake a cluster project to set up a sand reclamation plant for the benefit of its members including the company. Each member of the SPV company is required to contribute a non-refundable amount towards the cost of setting-up the sand reclamation plant based on its monthly requirement of sand reclamation. The question now arises is whether such contribution can be capitalised as an asset or should be expensed.

19. The Committee notes that Accounting Standard (AS) 26, 'Intangible Assets', notified under the Companies (Accounting Standards) Rules, 2006 (hereinafter referred to as the 'Rules'), requires an enterprise to recognise an intangible asset if, and only if, certain criteria are met. In this context, the Committee notes the definitions of the terms 'intangible asset' and 'asset' given in paragraph 6 of AS 26 and meaning of 'control' dealt with in paragraph 14 thereof as reproduced below:

"6.1 An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes."

"6.2 An asset is a resource:

(a) controlled by an enterprise as a result of past events; and

(b) from which future economic benefits are expected to flow to the enterprise."

"14. An enterprise controls an asset if the enterprise has the power to obtain the future economic benefits flowing from the underlying resource and also can restrict the access of others to those benefits. The capacity of an enterprise to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control.

However, legal enforceability of a right is not a necessary condition for control since an enterprise may be able to control the future economic benefits in some other way."

20. The Committee notes from the above that an item can be classified as an intangible asset only if it fulfills all the three conditions: (a) it is identifiable, (b) the enterprise has control over the resource, and (c) it is expected that future economic benefits will flow to the enterprise. The Committee notes that in the extant case, the contribution entitles the company the service of reclamation of sand upto 700 M.T. per month and various other services, utilities and facilities provided by the SPV at a reasonable cost. Thus, contribution made by the company gives rise to a membership right in the SPV for the company, which is identifiable and from which future economic benefits are expected to flow to the company. Further, with regard to control, the Committee notes that to the extent of its entitlement for sand reclamation of 700 M.T. per month, the company enjoys unrestricted services. Thus, although the company does not get any ownership right over the SPV, the company has the control over sand reclamation entitlement and other benefits attached with the membership rights. Accordingly, the Committee is of the view that the membership right received as a consideration of the total contribution of ₹42 lakh made by the company to the cluster project should be recognised as an intangible asset. In view of this, the accounting treatment proposed by the company to treat the contribution as deferred revenue expenditure is not appropriate. However, till the time such right is not available for its intended use due to cluster project being in progress and other factors, the contribution made by the company should be treated as an advance.

21. With regard to the amortisation of the intangible asset, the Committee notes paragraph 63 of AS 26, notified under the Rules, which requires as below:

"63. The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten

years from the date when the asset is available for use. Amortisation should commence when the asset is available for use.”

The Committee notes from the above that as the future economic benefits embodied in an intangible asset are consumed over time, the cost of the asset should be systematically allocated over the asset's useful life. In this regard, the Committee notes the definition of the term 'useful life' as per paragraph 6.9 of AS 26, notified under the Rules, which provides as follows:

“6.9 Useful life is either:

- (a) the period of time over which an asset is expected to be used by the enterprise; or***
- (b) the number of production or similar units expected to be obtained from the asset by the enterprise.”***

From the above, the Committee notes that useful life is the period of time for which the asset is expected to be used by the enterprise.

The Committee is of the view that useful life is different from the pay-back period, which is merely an estimate of the period over which the cost incurred (contribution towards the cluster project) will be recovered. In the extant case, since the economic benefits of membership right would be available to the company even after the pay-back period, the useful life should be determined considering the period over which the economic benefits are expected to arise from the use of the membership right. Further, the Committee is of the view that for determining the useful life of an intangible asset, various factors, such as, the expected usage of the asset, the period of control over the asset and legal or similar limits on the use of the asset etc., as indicated in paragraph 64 of AS 26, need to be considered. Accordingly, the contribution made by the company to the cluster project should be amortised over its useful life rather than the pay-back period or a period of 3-5 years, considered reasonable by the company, as proposed in paragraph 15

above. In this context, the Committee also notes that the amortisation method should be in accordance with paragraph 72 of AS 26, notified under the Rules, as reproduced below:

“72. The amortisation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise. If that pattern cannot be determined reliably, the straight-line method should be used. The amortisation charge for each period should be recognised as an expense unless another Accounting Standard permits or requires it to be included in the carrying amount of another asset.”

22. With regard to the querist's contention that the sand reclamation benefits are permanent and it is not envisaged that the entitlement would exhaust any time, the Committee further notes paragraphs 67 and 68 of AS 26, notified under the Rules, which state as below:

“67. In some cases, there may be persuasive evidence that the useful life of an intangible asset will be a specific period longer than ten years. In these cases, the presumption that the useful life generally does not exceed ten years is rebutted and the enterprise:

- (a) amortises the intangible asset over the best estimate of its useful life;
- (b) estimates the recoverable amount of the intangible asset at least annually in order to identify any impairment loss (see paragraph 83); and
- (c) discloses the reasons why the presumption is rebutted and the factor(s) that played a significant role in determining the useful life of the asset. ...”

“68. The useful life of an intangible asset may be very long but it is always finite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.”

From the above, the Committee is of the view that an intangible asset may have a useful life longer than ten years but it is always finite. The company should disclose the reasons if the

presumption of useful life of 10 years is rebutted and the factor(s) that played a significant role in determining the useful life of the asset. Thus, keeping in view the facts and circumstances of each case, the useful life of an intangible asset has to be determined.

D. Opinion

23. On the basis of the above, the Committee is of the opinion that as explained in paragraph 20 above, the membership right received as a consideration of the total contribution of ₹42 lakh made by the company to the cluster project should be recognised as an intangible asset. In view of this, the accounting treatment proposed by the company to treat the contribution as deferred revenue expenditure is not appropriate. However, till the time such right is not available for its intended use due to cluster project being in progress and other factors, the contribution made by the company should be treated as an advance. Further, such intangible asset should be amortised over the estimated useful life as explained in paragraphs 21 and 22 above.

1	The Opinion is only that of the Expert Advisory Committee and does not necessarily represent the Opinion of the Council of the Institute.
2	The Opinion is based on the facts supplied and in the specific circumstances of the querist. The Committee finalised the Opinion on July 24, 2014. The Opinion must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of Opinion by the Committee.
3	The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in thirty two volumes. A CD of Compendium of Opinions containing thirty two volumes has also been released by the Committee. These are available for sale at the Institute's office at New Delhi and its regional council offices at Mumbai, Chennai, Kolkata and Kanpur.
4	Recent opinions of the Committee are available on the website of the Institute under the head 'Resources'.
5	Opinions can be obtained from EAC as per its Advisory Service Rules which are available on the website of the ICAI, under the head 'Resources'. For further information, write to eac@icai.in .

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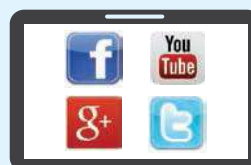
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Committee for Members in Industry (CMII)
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

The Committee for Members in Industry (CMII) of The Institute of Chartered Accountants of India (ICAI) is, inter-alia, the one stop destination for providing the placement services to the members of the Institute. The CMII organizes Campus Placement Programmes to provide placement assistance to the Members twice a year. CMII augments the venture of getting the Chartered Accountants placed in apex industries through the ICAI Job Portal.

We are extremely happy to inform that the ICAI Job Portal supplements the existing placement assistance provided by the Committee for Members in Industry to the Newly qualified Chartered Accountants and Experienced Members, by providing a converging platform for the potential employers as well as the Members of the Institute.

Welcome to the ICAI Job Portal

The ICAI Job Portal has been designed on the lines of the premium Job Sites and aims to provide world-class services free of cost to our Members. This Job Portal is unique in the sense that it serves as one stop destination to Chartered Accountants as they don't need to visit other Job sites for Job Search.

The Prominent Features of this portal are as follows:

For Employers:

- Hot Vacancy-Premium Job Posting Services
- Advanced Search Tools

- Reach through Job Alerts
- Resume Database Access Subscription
- Unlimited writing for Job Advertisement
- Extremely fast display of Job Advertisement
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For Candidates

- Update Alert for CV
- Job Messenger and SMS Facility
- Email Alerts
- Resume Building Services
- Job Search Facility on the Basis of Functional Area, Industry, Experience, Locations, Expected Salary, Job Type, Freshness etc
- Hot Employer/Preferred Employer marking facility

We sincerely hope that this Job Portal will be extremely helpful to the recruiting entities in their venture.

ICAI Job Portal –World Class Job Portal for recruiting World Class Finance and Accounting Professionals.

Chairman, CMII

For more details please contact:

CMII Secretariat at 011-30110548/491/450,
ruchi_gupta@icaai.in; campus@icaai.in; placements@icaai.in



ICAI Partnering In Shaping A Resurgent India

Aiding Proactive Governance



ICAI partnering with the Government

The ICAI is often called upon by various regulatory / statutory authorities of India on issues related to the profession and otherwise. With the vast experience of its structure and members, the ICAI has been constantly playing a vital role in the proactive process towards better governance. In fact, the Institute regularly provides technical advice and necessary inputs in this regard:

Ministry of Corporate Affairs - Shares inputs in matters related to corporate laws and the technical issues, by offering comments or suggestions on receipt of relevant references. The ICAI contributes actively in company Law Reforms, Limited Liability Partnership legislation and e- governance initiatives.

Trade Policy Division, Ministry of Commerce - Enables the Government of India to partake negotiations in a more effective manner under GATS/WTO.

Comptroller and Auditor General of India - Provides technical advice in response to references received, including maintenance of audit panels, issues arising out of audit and accounts of government, companies and public sector undertakings. Besides, ICAI takes part in the C&AG initiative to bring reforms in Government Accounting.

Reserve Bank of India - Gives technical advice and maintains constant touch in the matters pertaining to bank audits and audit of non banking financial companies, etc.

Securities and Exchange Board of India - Maintains constant touch and offers suggestions. Also, holds discussions in all matters touching upon the profession of Chartered Accountancy. The ICAI has been bringing out publications on Capital Market Regulations and Clause 49 of Listing Agreement.

Central Board of Direct Taxes - Actively associates in the process of budget formulation by offering pre-budget and post-budget suggestions or comments. Besides, the ICAI actively offers suggestions to simplify tax laws and their administration for making it more responsive to tax payers.

Insurance Regulatory & Development Authority - Helps the authority in redesigning the format of accounts of insurance companies both in the life and non life sectors, and provides necessary inputs in response to references received.

Several Departments of the Central and State Governments of India are approaching the ICAI for utilizing the services of Chartered Accountants for advice on economy in expenditure, development of control mechanism over public funds, and optimum and effective cost of funds.

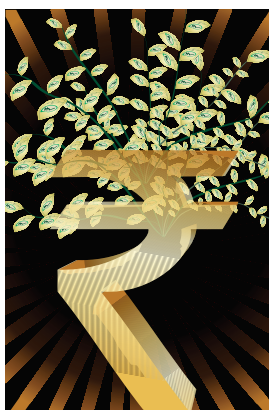


Pradhan Mantri Jan-Dhan Yojana

Role of ICAI



Catalyzing Financial Growth across the Nation



The Institute of Chartered Accountants of India produces financial advisors to the Indian economy and is also responsible for the financial reporting regime in India. Having more than six-decade long and continuous association with the major regulators in the financial services area, the ICAI possesses a great potential as a facilitator in the Pradhan Mantri Jan-Dhan Yojana (PMJDY). The ICAI has planned to undertake the following activities in this regard:

1) Preparation of technical background material in the domain of finance by developing customized modules for each area.

The PMJDY aims at the upliftment of weaker section and low income groups of India. The ICAI will develop reading material known as 'Knowledge Kit' in easy to understand lucid language with pictorial representation for this section in the finance domain and will distribute through its wide network.

2) Extending support to Non-profit organizations and Co-operatives sectors

To enable PMJDY reach the unbanked, the Cooperative sectors and non-profit organizations, ICAI will play a vital role in spreading awareness of the various benefits of the scheme. The ICAI on its part will contribute by conducting various workshops, seminars specially for the staff of Cooperative sector and NPOs and providing knowledge on the PMJDY.

3) Assist in the Financial Literacy Programme of the Scheme

Under the aegis of the Investor Education and Protection Fund of MCA, the ICAI supports the 'Investor Awareness Programme'. In the year 2013-14, total 1,451 such Investor Awareness programmes were conducted for the public at large. On the same lines, the ICAI will enter into an arrangement with the Department of Financial Services, for coordinating and implementing the 'Financial Literacy Programme' campaign at the national level in order to communicate the scheme's benefits to the masses.

4) ICAI Infrastructural support

The ICAI endeavour to extend its infrastructural support by utilizing its network at 5 regions, 147 branches and 23 Chapters abroad, along with Study Circles, ITT centres and PoUs for organizing short term workshops on basic finance such as savings, investments, operating bank accounts and other banking services.





5) Branding and Sensitization of the Scheme

Various ICAI platforms such as the ICAI Journal, Newsletter, Websites, Social media accounts, will be used to invite support and suggestions. Mass-mailers to ICAI members, students and employees will be used to play an important role in sensitising and generating awareness about the scheme.

6) ICAI – Reservoir of technical acumen

From a technical reservoir of 235 thousand chartered accountants and around 850 thousand student-base, the ICAI will invite volunteers to work as Resource Persons (RPs) to support the PMJDY at their respective jurisdictions and extend support to the nearby rural areas as well. The ICAI, with the guidance of RBI and MOF will act significantly in enhancing the coverage of the scheme and ensure its benefits could reach to all.



7) Tie ups with Schools and Colleges for financial inclusions

The ICAI will play a significant role in the implementation of the PMJDY by training the youth in the sphere of the financial inclusion. Counseling for the young generation will be undertaken in the areas of savings, investments and usage of financial instruments along with the Career Counseling program of the ICAI.



8) Coordination with major stakeholders of the Scheme

The ICAI is willing to coordinate and support government bodies like the Department of Financial Services, Panchayati Raj Institutions, RBI, SEBI, State Governments and Educational Institutes in terms of training, knowledge dissemination, awareness and publicity, tool kits, focused campaigns and workshops.

9) Develop and Manage Website for Knowledge Dissemination on Financial Literacy

The ICAI would develop an online platform to proliferate the agenda of financial literacy amongst the youths and citizens. Also, engaging the youth in the movement would make the scheme reach its objective as it would involve all strata of society.



Make in India

Role of ICAI



Making India an Investor Destination

The Institute of Chartered Accountants of India has always been an active participant in various activities aiding towards better governance in our country. With a team of talented CAs and experts of the profession, the institute has decided to undertake several initiatives that will help leading the 'Make in India' campaign towards success. The ICAI, thus, aims to offer the following support services to this project:



1. To develop a Primer booklet for the 'Make in India' campaign which will be popularised through the following channels:
 - € Hosting it on the wide network of ICAI websites and portals.
 - € Circulating to various stakeholders involved in the project.
2. Our large membership base of more than 2,35,000 members will facilitate organizations and prospective investors' in selecting the most appropriate form of doing business in India like Limited Company, Limited Liability Partnership (LLPs) etc that suits their requirements for conducting successful operations in India.
3. Forming a pool of the CAs having specialized knowledge to support organizations looking India as an investment destination for new ventures. This pool will be developed through a series of workshops, seminars, webcasts etc. An initial consultation can be received free of cost by the entities interested in starting venture in India from this designated pool.
4. ICAI through its members will facilitate investment by assisting prospective investors in introduction to local market opportunities, access to export support services, networking into local business community, introduction to academic research expertise, introduction to sartorial companies, tax advice, etc.
5. Developing FAQs on the matter pertaining to taxation, accounting, reporting requirement, statutory compliances, etc.
6. Preparing Sector Specific Advisory Booklets for Start-up requirements for different sectors.
7. Coming out with the accreditation system for the training requirements to ensure supply of skilled workforce in financial domain.
8. Our members will advise and support prospective investors in obtaining benefits of various incentive schemes launched by the Central and State Government like investment allowance, incentives available for units in SEZs etc.
9. To play an active role in skill enhancement by providing the focused training programs for the finance professionals in the emerging disciplines.



Swachh Bharat Abhiyaan

Role of ICAI



ICAI Vision for Clean India

Keeping in mind its social duty and responsibility, the ICAI partakes in the Swachh Bharat Abhiyaan (Clean India Campaign) to achieve a clean India. Therefore, the ICAI has decided to launch the 'ICAI Clean India Campaign' as a nation-wide initiative involving all the members, students and stakeholders.

The key highlights of this campaign will be:

1. Special Cleanliness Drive for all offices, Branches, ITT Centres etc. Guidelines issued to maintain cleanliness across various regional offices, branches and Study Circles to:
 - € Display Sign Boards carrying the message of Swachh Bharat.
 - € Regular cleaning of office premises including staircase, corridors, sale counter, library, toilets, parking lots, and roads adjoining the ICAI office area.
 - € Fixation of sufficient number of wastebins with slogans and encourage people/staff/visitors for using the same.
 - € Fixation of leaking water tabs, water dispenser, etc.
 - € Ensuring safe and clean drinking water supply.
 - € Sensitizing officers and staff to put work station and desk area in order including proper handling of loose papers.
 - € Protecting electrical items by keeping them clean and dust free.
2. Effective use of mass media for spreading the Swachh Bharat campaign as well as for mobilizing support. Facebook campaign to showcase the efforts being made by CA fraternity.
3. Constitution of special dedicated committees of official to give its recommendation from time to time to make the campaign successful.
 - € Door to door visit in some villages will be taken up at any important day.
 - € Aprons, Brooms, Cleaning Mops will be distributed amongst the concerned workers.
4. Raising awareness through competitions, walkathons and workshops. CA Students will be major messengers of the Institute.
5. Promoting paperless environment in the office and emphasizing on tree plantation.
6. Recognition for contribution of members and students in the form of award or their efforts may be displayed on the Institute's website.
7. Cleanliness slogans, logos, and messages to remind people about the importance of clean environment.
8. Printing of Message/advertisements etc. in the regional council magazines/newsletters of ICAI.
9. A Swachhata Saptah - Cleanliness Week, will be declared emphasizing on internal cleaning of departments, sitting places, files and racks.

CA Professionals & SMEs in Make in India



The SME sector plays an important role in economic development i.e. constitutes a major source of employment, provides most of the essential goods and services to the society, generates significant domestic and export earnings and SME development emerges as a key investment in poverty reduction efforts. At the same time, Access to finance is one of the key obstacles to SME development & Lack of guidance in the area of financial reporting by SME's specifically at international level. Chartered Accountants contribute to the growth of the nation in numerous areas like accountancy, direct taxes, indirect taxes, company law matters, strategic decision making, international business and taxation, project finance and many more Regulatory matters. Currently, CA is the part of the decision-making process instead of merely providing inputs for decision-making. With these, CAs and SMEs rightly fit with the Government of India's vision for Make in India and contributing a lot in achieving the same.

Introduction

United Nations recognises Small and Medium Enterprises (SMEs) as the engines of economic growth. SME sector plays an important role in economic development i.e., constitutes a major source of employment, provides most of the essential goods and services to the society, generates

significant domestic and export earnings & SME development emerges as a key investment in poverty reduction efforts. At the same time, Access to finance is one of the key obstacles to SME development & Lack of guidance in the area of financial reporting by SME's specifically at international level. CA professionals required for a simple, understandable and user-friendly accounting reporting system should be provided to these SME's.

World over, it has been recognised that Small and Medium Enterprises (SMEs) have been continuously contributing a good amount to gross domestic product and are a very large source of employment. The SMEs are mostly in the private sector. They always need continued service of small & medium



CA. Anuj Goyal

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CA professionals required for a simple, understandable and user-friendly accounting reporting system should be provided to these SME's

practices (CAs) as the SMEs do not have in-house resources/expertise, something that the CAs can provide. In the SAARC region, small and medium enterprises also contribute significantly to poverty reduction and inclusive growth. SMEs in all SAARC countries have a major part of business providing the highest proportion of employment. Small and Medium Size Practices (SMPs) *i.e.*, Chartered Accountants (CAs) are also continuously providing significant business support services to SMEs in the SAARC region. CAs have a significant share of the professional service market in many countries. CAs have a long relationship and are most approachable for services needed by SMEs in the SAARC region.

Corporates increasingly face more complex business issues and need to rapidly change to keep pace with today's dynamic market. As competition grows and a larger number of industries head for a shakeout, improving business performance (efficiency and effectiveness) is a survival imperative. Meeting the rising expectations of key stakeholders in companies, has led to a greater focus on ensuring better returns on investment.

Having addressed all the obvious areas of improvement, companies are now increasingly looking to develop more innovative ways to improve performance on lead-time, cost, quality and service related parameters. Most management teams realise that developing and implementing improvement initiatives take up a significant amount of their time and efforts. By engaging Chartered Accountants as consultants, they are able to ensure that the initiative does not lose steam after the initial hype, as it so often happens when the initiatives are taken up internally. Chartered Accountants can assist the management in providing the services like Improving customer satisfaction, Reducing process cycle cost, Enhancing quality of delivered services *etc.*

MSME Development Act

The Micro, Small and Medium Enterprises Development Act was notified in 2006, to address policy issues affecting SME's as well as the coverage and investment ceiling of the sector. The salient features of the Act includes setting up of a National Board for SME's, Classification of Enterprises,

Advisory committees to support SME's, Measures for promotion development and enhancement of SME's, Schemes to control delayed payments to SME's & Enactment of rules by State Governments to implement the SME's Act, 2006 in their respective states.

Relationship between SMEs & SMPs (CAs)

The expectations of today's user from the CAs are '**Expertise, Experience and Efficiency**'. However, small and medium practitioners (CAs) may not have adequate manpower, may lack finance and may need soft skills to provide to the diverse needs of business clients. Further, SMEs now expect delivery of professional services at multi-locational areas through a 'Single Point Outlet'. The CAs, usually small in size, may not have requisite expertise in diverse areas. Further, with multinational CA firms in the field, CAs face difficulty in procuring business in today's competitive business environment. CAs need to network with the other Practitioners or CA firms to meet the expectations of the SME clients.

The SMEs market in India is very dynamic, and the regulatory environment which governs SMEs operations is also constantly changing and, as a corollary, the demands of business advisory services are being evolved. SMEs themselves are different in size, age, sector, location, and growth profile and are run by owners, managers with different capabilities and motivation. Such factors inevitably influence the requirement of external services which are being sought from CAs. SMEs are mostly owned by proprietors, partnership, or private limited companies or organisations of similar nature, which are said to be Family Owned Businesses. But market conditions are chaotic, and in order to maintain growth/strong hold on market, financial strength and other such factors for running the enterprises, the next generation of these SMEs is waking up to the new paradigms of marketing nationally or internationally, availing financial facilities in domestic or foreign currencies so as to accelerate their growth, considering affordable exposure to the best available opportunities in the world. CAs are generally very close as family friends in providing services, which can be called as management consultancy services in the areas like Financial management planning and financial policy determination, Capital structure planning and advice regarding raising finance, Working capital management, Preparing project reports and feasibility studies, Preparing cash budget, cash flow

Chartered Accountants (CAs) are also continuously providing significant business support services to SMEs in SAARC region

statements, profitability statements, statements of source and application of funds *etc.*, Budgeting including capital budgets and revenue budgets, Inventory management, material handling and storage, Market research and demand studies, Price fixation and other management decision making, Management accounting system, cost control and value analysis, Control methods and management information and reporting, Personnel recruitment and selection, Setting up executive incentive plans, wage incentive plans *etc.* Management and operational audit, Valuation of shares and business and advice regarding amalgamation, merger and acquisition, Business policy, corporate planning, organisation development, growth and diversification, Organisation structure and behavior, development of human resources including design and conduct of training programmes, work study, job-description, job-evaluation and evaluation of workloads, System analysis and design, and computer related services including selection of hardware and development of software in all areas of services, which can otherwise be rendered by Chartered Accountant in practice and also to carry out any other professional services relating to EDP, Quality Audit, Environment Audit, Energy Audit *etc.*

Opportunities for CAs

'Due Diligence' is a term that is often heard in the corporate world these days in relation to corporate restructuring. Due Diligence can be sub-classified into discipline-wise exercises. It may be mentioned here that these sub-classifications should not to be seen as totally mutually exclusive to each other. If considered mutually exclusive, it might result in a less-than-effective evaluation of the entity. The sub-classification of due diligence exercise could be Commercial or Operational Due Diligence, Financial Due Diligence, Information systems Due Diligence, Legal Due Diligence, Environmental Due Diligence, Personnel Due Diligence *etc.*

CAs have developed their multi disciplinary and skills based over and above the book-keeping. SMEs make use of their services to ensure compliance with various laws and regulations. Such major areas are: Preparation of Statutory Financial Accounts, Audit

of Accounts, Compliance of Tax Laws including Income Tax, Wealth Tax, House and Property Tax, International Tax Service, Sales Tax, Service Tax, Customs, Excise, Value Added Tax, Anti-Dumping Duties, Labour laws *etc.*

A large number of Chartered Accountants (CAs) in practice are involved in project financing, consultancy to their clients and liaising with the different financial institutions. Chartered Accountants are playing a leading role in the society and are considered as finance advisors, who assist their clients in every field relating to finance, tax, accounts and banking. Chartered Accountants, who desire to deal in such line of activity, should know all the financial institutions that provide finances.

SMEs themselves do not have knowledge of assessing the risk relating to potential loss of profit on account of machinery breakdowns, fire, natural calamities, transit losses, workmen compensation, accidental losses and other such similar areas. CAs has wide knowledge of such risk of the probable losses and work as advisors to the SMEs for returning insurance risk at comparative prices. CAs can play a vital role in designing the insurance products and advice for premium, rebates which fulfill the need of associate industry/enterprise.

The CAs in India can render their professional expertise in the quantification of claims, both personal injury and business interruption claims. They may also render their services in determining the consideration of liability involving accountants' negligence and for other professional negligence cases. They may also provide their knowledge in rendering assistance of fidelity insurance disputes and insurance accounting disputes.

In today's volatile business environment, organisations face a wide array of complex business risks. These risks come in the form of many issues such as regulatory compliance, litigation, competitive market pressures, changing technology, investors' demands *etc.* Managers and investors are concerned about whether entities have identified the full scope of these risks and evaluate whether adequate precautions are taken to mitigate these

SMEs themselves do not have the knowledge of assessing the risk relating to potential loss of profit on account of machinery breakdowns, fire, natural calamities, transit losses, workmen compensation, accidental losses and other such similar areas

risks. In the absence of in-house expertise, CAs can ensure that identification of business risk of the entities is comprehensive and can also evaluate whether the entities have an appropriate system in place to effectively manage the risk.

Performance measurement incorporating non-financial criteria such as competitive performance, resource performance, process performance and environmental performance represents a new but complementary support by CAs. Likewise, demands for risk-based measures of value and other new approaches in assurance, present a further expanding area of business support service.

CAs can belong term strategic partners. They can provide sound business advice to minimise business risk. The right advice from an impartial professional can be the difference between success and failure. Chartered Accountants in public practice have the skills, knowledge and experience to improve the business practices. A Chartered Accountant can be the business partner for the long haul, continuously adding values to the business.

Role of CAs as an Arbitrator

Among the Small and Medium Chartered Accountant Practitioners, a number of CAs have a wide range of experience about social customs, Hindu laws, business practices and commercial laws and all other relevant laws and regulation, human behaviour which are essential for working as an arbitrator. A number of Chartered Accountants are members of the Indian Council of Arbitration (ICA). An SME can draw the services of arbitration from CAs. For the SME, arbitration is a quick alternative dispute resolution medium at a reasonable cost and time.

CAs can also take up various roles under the Arbitration and Conciliation Act, 1996. Those are, Drafting of Arbitration Agreement, Representing either of the party (plaintiff and defendant) to the dispute in the arbitral proceedings, Assisting Arbitrator in drafting arbitral award, Assisting both parties to Court of Law, Assisting in preparing submissions to arbitrator, Member of Arbitral Tribunal, Assisting Trade and Industry associations in setting up Alternate Dispute Redressal (ADR) mechanism, Acting as arbitrator in Micro and Small Enterprises Facilitation Council u/s 18 of Micro, Small and Medium Enterprises Development Act, 2006. In some legislation, redressal of dispute or particular kind of disputes are mandatorily to be resolved through Arbitration *e.g.*, as per Clause 14 of the First Schedule to the Limited Liability Partnership

A Chartered Accountant can be the business partner for the long haul, continuously adding values to the business

Act, 2008, all disputes between the partners arising out of the limited liability partnership agreement which cannot be resolved in terms of such agreement shall be referred for arbitration as per the provisions of Arbitration and Conciliation Act, 1996, assisting Indian Judiciary u/s 89 of Code of Civil Procedure 1908, where there is possibility of settling of dispute through arbitration *etc.*

CAs & Information Technology

CAs are now fully equipped with a certain level of expertise in information technology to establish IT System and to solve their problems. A few areas in which CAs can fruitfully serve the SMEs are: System Development Life Cycle, Information Security, Performance Measurement and Monitoring, Emerging Standards and e-Governance. Other areas include Preparation of policies, Review of IT Organisation Structure, Risk analysis, Framing of long-term and short-term plans, Internal control assessment, Continuous and concurrent auditing, External assurance, Contractual agreements, Selection of software tools, Outsourcing, Incident identification and intrusion detection system, Disaster recovery planning, Document retention plans, Audit of quality check, Audit of application controls, Audit of emerging technologies, Physical, logical and environment controls, IT Budgeting & Web trust assurance *etc.*

Global Warming & the Role of CAs

Carbon credits are key component of national and international emissions trading schemes that have been implemented to mitigate global warming. They provide a way to reduce green-house effect emissions on the industrial scale by capping total amount emissions and letting the market assign a monetary value to any shortfall through trading. SMEs have very little knowledge of Certified Emission Reductions (CERs). Credits are issued by Clean Development Mechanism (CDM) Executive Board for emission reduction achieved by their projects. Ministry of Environment and Forests is the nodal agency for climate change issues in India. CAs can render following services under Carbon Credit Mechanism: Conceptualising the

The objective of the mission “Make in India” is to provide a conducive environment for investment in India & aimed at reviving the job-creating manufacturing sector — the key to taking the economy on a sustainable high growth path

Clean Development Mechanism (CDM) Project, Quantification of green house gases (GHG) Carbon Footprint, Selection of Cleaner technologies for New projects, Project risk analysis, Registration of project-both national and international level, Obtaining Host country approval, Preparation of Project Concept Note, Preparation of Project Design Document, Selection of Methodologies and Baseline, Legal and regulatory advice during negotiations with host country Designated National Authority (DNA), Advice on the appointment of independent validators, Assistance to achieve registration of the project by the CDM Executive Board, Assistance in getting verification done by Designated Operational Entity (DOE), Ensure Compliances, Assisting various Ministries associated with National Action Plan on Climate Change (NAPCC), Carbon Finance, Energy Audit under the Energy Conservation Act, 2001, Advice on investment in carbon credit *etc.*

Services for environmental laws are rapidly expanding, driven by various government regulations and a movement by business and industry to reduce environmental liabilities associated with their operations. Some of the opportunities are: Give opinion on—viability of various projects, technologies to prevent pollution and clean up polluted resources, Obtain consents under the various environmental regulations and also ensure that the conditions of the consent order are complied with on a regular basis, Research, identify and analyse different sources of pollution to determine their effects on the environment and find alternative ways to handle projects in an environmentally sensitive manner, Obtaining Consents under the Water Pollution Act, 1974 and Air Pollution Act, 1981. Under the provisions of these Acts, entrepreneur running or establishing any industry or process and discharging effluent/emitting pollutants into any water resources or on land/air and polluting thereby the environmental water/air is required to obtain consent, submitting application form for obtaining No Objection Certificate (NOC) from the Pollution Control Boards, Environmental Clearance and Environmental Impact Assessment (EIA).

Make in India & Role of CAs

The ‘Make in India’ campaign launched by the Government of India eventually take up policy reforms involving changes in laws to ensure ease of doing business in the country. To set up a business at present, an entrepreneur needs to follow 12 procedures, which on an average takes 27 days, 35 procedures and 168 days to get construction permits and 1,420 days to enforce contracts in India. The objective of the make in India is to provide conducive environment for investment in India & aimed at reviving the job-creating manufacturing sector — key to taking the economy on a sustainable high growth path. The latest World Bank report on the ‘ease of doing businesses placed India at the 134th rank out of 189 economies on various parameters relating to business and regulatory environment. India’s manufacturing sector accounts only for 16% of the GDP, and is posting a negative growth now, in comparing to other countries *i.e.* 36% in China, 34% in South Korea and 22% in Germany. The objective of the mission “Make in India” is to provide conducive environment for investment in India & aimed at reviving the job-creating manufacturing sector — key to taking the economy on a sustainable high growth path.

Conclusion

Earlier, the need of a CA’s services arose only once the business reached a certain reasonable level of operation, while today the scope of a CA’s services commences, from the inception of the business idea itself. Chartered Accountants contribute to the growth of the nation in numerous areas like accountancy, direct taxes, indirect taxes, company law matters, strategic decision making, international business and taxation, project finance and many more Regulatory matters. Currently CA is the part of the decision making process instead of merely providing inputs for decision making. With these CAs & SMEs are rightly fit with the Government of India’s vision for Make in India & contributing a lot in achieving the same. ■

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Social Audit Dilated in the Context of Sustainability



In a democratic country like India, each and every Plan, Policy and Programme has to be framed considering the public at large. The public is empowered with the RTI (Right to Information) & have to be made aware regarding utilisation of funds contributed by them towards the attainment of the targeted goals. Since more than 50% of the government budget goes towards welfare schemes, it is important to track how, and how much money is diverted away from the recipients. To keep pace or to boost the development even more, Social Audit is an unbeatable tool. To keep a check on the committee or organisation concerned with the projects, social audit is the only means. It would lead to credibility, confidence and trust with respect to projects, policies and programs. Corruption won't threaten the economic growth. Leakage of funds from public programmes and misuse of shareholders' & stakeholders' resources can be ceased. A pollution free hygienic environment would persist in every town, village & even lanes. India would become 'Clean India' in real terms.

Introduction

With the glance of the heading "Sustainability & Social Audit", the first thing that came to mind, was the recent magnanimous projects undertaken by our Prime Minister Mr. Narendra Modi viz. 'Clean Bharat Abhiyan' & 'Swachh Ganga Mission'. Committees are formed, funds are allocated, but the success of the

projects depends on the utilisation of resources in a fair manner and participation of nation as a whole. Each and every Citizen will have to participate for a quicker and complete success. Unless and until this happens, 'Sustainability' of the Missions can be said to be doubtful.

Same is the case in each and every project undertaken by the Government, NGO's or any organisation in general. Sources and funds allotted, utilised and should be utilised differs vastly, which makes *Social Audit* an essential. Besides, utilisation of resources should be in a proper way, leading to better social, economic and environmental results. In a democratic country like India, each and every Plan,



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Social Audit

Development stands on the 'three pillars of sustainability', Economy, Society & Environment. These three pillars have to be balanced for the long run of any Government, NGO or Organisation. Success depends on smart & proper utilisation of resources for the benefit of society without disturbing environment

Policy and Programme has to be framed considering the public at large. The public is empowered with the RTI (Right to Information) and have to be made aware regarding utilisation of funds contributed by them towards the attainment of targeted goals. Section 4(1) (b) of the RTI Act lists the information that public authorities need to make public *suo moto*.

Public enterprises too share the same boat. They too are answerable to the stakeholders. Increased consumer awareness due to Media power & Social sites added with globalisation binds the companies to ensure that *'the goods they sell are made in safe working conditions, at fair rates of pay & respecting the basic human rights of those involved in production.'*

Thus, Social Audit is the need of the hour especially in our country, where the decisions are for the people, of the people and by the people. The pioneer of the concept of Social Audit, Charles Medawar had stated that *'In a democracy, the decision makers should account for the use of their power & that their powers should be used as far as possible with the consent & understanding of all concerned.'*

What is Social Audit

Social Audit is a tool with the help of which an organisation can plan, manage and measure non-financial activities. All the consequences, whether internal or external of all the activities, social, commercial or ethical undertaken by the organisation, can be monitored by performing social audit.

Anu Pekkonen and Manjunath Sadashiva, CIVICUS explains social audit in precise words, *"Just as a financial audit verifies how money is being spent, a social audit verifies how program & services are being carried out, with the goal of making them better and more reflective of social, environmental, and community objectives. A social audit involves a systematic evaluation of public records and user feedback. It is intended to help users understand and assess the strength & weakness, success and failures*

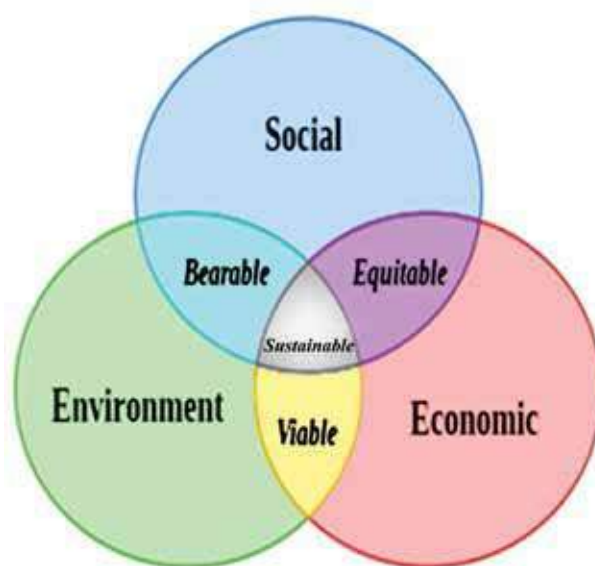
of a programme or service, with an aim to make improvements. Social auditing is a way of increasing community participation, strengthening links with government and/or service providers, promoting transparency and public accountability, and instilling a sense of responsibility among all those involved".

Sustainability in general

With the passing days, the term sustainability has become the essentiality of the existing scenario, as environment awareness is considered as an important factor. Within the organisational realm, sustainability is related to corporate social responsibility. If we go for a dictionary meaning of sustainability it is *'to support', 'to maintain', 'to keep going'*. To say precisely, sustainability is *'the ability to continue a defined behaviour indefinitely.'*

The Brundtland commission of United Nations has defined sustainable development as, *'Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own need.'*

Development stands on the 'three pillars of sustainability', Economy, Society and Environment. These three pillars have to be balanced for the long run of any Government, NGO or Organisation. Success depends on smart and proper utilisation of resources for the benefit of the society without disturbing the environment. The relationship between these three pillars can be elaborated with this diagram:



All the three elements interlocked together results in sustainability. Any organisation, in order to experience sustainability, must consider the interest of society & non-disturbance in environment along with the economic benefit to be derived. The best sustainable strategy is to build the quality product causing no unnecessary harm to the society & use the business to inspire and implement solutions to the environmental crisis. Let's elaborate each component of sustainability individually, which is essential to be considered by the social auditor to give a dilated report.

Social Sustainability

Social Sustainability refers to the working condition for the people connected in advancing of the organisation. It deals with nonmaterial issues that affect the individual/family, politics/government and society. According to Daniel Raphel, *'human motivation is based on three values-quality of life, growth & equality'* Thus, for an organisation to be socially sustainable:

- Every individual should be given equal value, regardless of their external reference.
- Working conditions should facilitate cooperation & trust.
- The plans and policies should lead to the growth of the country.
- Community, religious & cultural interactions also leads to social sustainability

Economic Sustainability

According to the business dictionary, Economic Sustainability refers to using various strategies for employing existing resources optimally so that a responsible and beneficial balance can be achieved over a longer term. Economic sustainability in an organisation is a must for the existence of the organisation. The organisation should maintain the motive with which it has been established, in addition to the fulfillment of the other objectives. Economic Sustainability for an organisation means:

- Capitalisation of resources in high quality design, new technologies and electronics may lead to economic sustainability of the country.
- Economics values things in monetary terms. So, it is essential for the organisation to form the economic precautionary principles.
- Every plan and policy framed by the organisation should be after calculating the risk and uncertainties to the stakeholders concerned.

Environmental Sustainability

Herman Daly, the pioneer of ecological sustainability, defines environmental sustainability as, *'the rates of renewable resource harvest, pollution creation, and non-renewable resource depletion that can be continued indefinitely.'* In simple words, environmental sustainability involves making decisions and taking actions that are in the interests of protecting the natural world, with particular emphasis on preserving the capability of the environment to support human life. The concept includes all natural resources from a tropical rainforest to a home garden in addition to oceans, fresh water systems, land & atmosphere.

- It is about making responsible decisions that will reduce the negative impact of actions performed by the organisation on the environment.
- It is concerned with reducing the amount of waste produced or energy used by the organisation simultaneously with development.
- Polluting the environment, damaging rainforest or woodland, polluting oceans, rivers and lakes, damaging prime agricultural and cultivated land through the use of unsustainable farming practices, all these result in unsustainability in environment due to various organisational activities.

Linking Social Audit with Sustainability

Social auditing is the process of assessing and reporting a business's performance on fulfilling the economic, legal, ethical, and philanthropic social responsibilities expected of it by its stakeholders. Considering all the three pillars of sustainability, a social audit of an organisation has to be undertaken on a wide scale, after looking into all the three components of sustainability on an equal basis.

The four broad objectives set out by the UK government for measuring sustainable development can be considered as perfect parameters while conducting social audit:

1. The maintenance of high and stable levels of economic growth and employment.
2. Social progress which meets the needs of every one.

In simple words, environmental sustainability involves making decisions and taking actions that are in the interests of protecting the natural world, with particular emphasis on preserving the capability of the environment to support human life

Social Audit

3. Effective protection of the environment.
4. Prudent use of natural resources.

The above four objectives can be used as guidelines to check future sustainability while comporting social audit of an organisation. After going through all the four objectives thoroughly, the factors leading to sustainability as a whole, regardless of the types of products or services with which the organisation is involved, can be summed up as:

1. The activities undertaken by the organisation should not lead to pollution,
2. No project undertaken by the organisation should have a negative impact on the health, wealth & life of the people concerned,
3. Should use the resources that can be reutilised or depleted in a proper way without affecting the environment,
4. Prioritise environment, Social exclusion, human rights *etc.* in the long run, instead of short term profit,
5. Use recycled stationery other recycled consumables wherever possible,
6. Using eco-friendly cleaning materials and building supplies,
7. Wherever possible, buying supplies that use minimum amount of packaging,
8. Encouraging people a to car share when travelling to work, attending meetings, and so on,
9. Actively promoting inclusiveness in every aspect of your business.

Social Audit in India

The success of the projects undertaken by the country at large, should also be measured in terms of sustainability which can be figured by conducting social audit. It was said by our former Prime Minister Mr. Rajiv Gandhi that only 16 paise out of a Rupee sanctioned by the government reached the poor. An article read as: *'It is not uncommon for dead people to get paid in India. But it's not the family members of the deceased who benefits, it's the middlemen or public servants who cheat the state subsidiary system or swindle wages by fabricating names on the payroll.'* It affects most welfare schemes. Since more

Social auditing is the process of assessing and reporting a business's performance on fulfilling the economic, legal, ethical, and philanthropic social responsibilities expected of it by its stakeholders

Funds meant for development do not reach their destination & are siphoned off in between. As such Social Audit can plug the leaks in public expenditure & play as a grievance redressing mechanism. For this, Good Governance in the country is a must

than 50% of the government budget goes towards welfare schemes, it is important to track how, and how much money is diverted away from recipients. Funds meant for development do not reach their destination & are siphoned off in between. As such, Social Audit can plug the leaks in public expenditure & play as a grievance redressing mechanism. For this, Good Governance in the country is a must. The Government should ensure participation and efficiency, but most importantly, it should ensure accountability. Accountability certified on hard copy by a social auditor would play a crucial role in developing India.

To keep the pace or to boost the development even more, Social Audit is an unbeatable tool. To keep a check on the committee or organisation concerned with the projects, social audit is the only means. It would lead to credibility, confidence and trust with respect to projects, policies and programs. Corruption won't threaten the economic growth. Leakage of funds from public programs and misuse of shareholders' and stakeholders' resources can be ceased. A pollution free hygienic environment would persist in every town, village & even lanes. India would become '*Clean India*' in real terms.

Conclusion

The increase in GDP in the last quarter clearly indicates the growth which India is experiencing in the recent years. Within 5 to 6 months of the new government, India has experienced the boost in technological innovation (Successful landing on Mars), economic advancement (Growing GDP & fall in petrol & diesel prices), and environment awareness (Clean Bharat Abhiyan & Swachh Ganga Mission) and so on, clearly indicating '*Future is India.*' But for this to continue, social audit has to be conducted so that a positive impact can be demonstrated and sustainable development can be experienced on both organisational and country level and the gap between what people need and what they get can be matched and essential steps can be taken to bridge the gap. ■

Sustainability and Social Audit, Its Reporting and the Role of Professionals



Sustainability auditing and reporting are used to evaluate the sustainability performance of a company, organisation, or other entity using various performance indicators. In India at present, social audits are optional for companies. With the emerging concept of corporate social responsibility, these reports provide valuable information to the stakeholders regarding the company's corporate social responsibility in various fields. Sustainability audit/reporting and Chartered Accountants are inseparable and one cannot expect to practice the good practices of these reporting without the involvement of a finance professional. Chartered accountant by virtue of his knowledge and expertise in the field of accountancy, costing, audit and updated knowledge of various laws applicable for companies, can be a big partner for successful implementation of the environment and social audit in India.

Meaning of Sustainability and Social audit

Sustainability and Social audit is a term used to describe the process of examining, measuring and reporting of an organisation's social and ethical performance. Sustainability auditing and reporting are used to evaluate the sustainability performance of a company, organisation, or other entity using

various performance indicators. A sustainability and social audit is a formal review of a company's endeavours in social responsibility. It is a means of assessing the social impact and ethical behaviour of an organisation in relation to its aims and those of its stakeholders. A social audit looks at factors such as a company's record of charitable giving, volunteer activity, energy use, transparency, work environment and worker pay and benefits to evaluate what kind of social and environmental impact a company is having in the locations where it operates. These audits through sustainability and social reports provides the information regarding the companies' policies on human rights, labour



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Social Audit

There are various sustainability reporting guidelines like Global Reporting Initiative (GRI), Triple Bottom Line accounting, etc. which can be adopted by the companies which opt to disclose these reports

practices, enhancement of stakeholder relationships, protection of the environment and business ethics. In India at present, social audits are optional for companies. With the emerging concept of corporate social responsibility, these reports provide valuable information to the stakeholders regarding the company's corporate social responsibility in various fields. They can choose whether to perform these sustainability and social audits and whether to release the results publicly for various stakeholders or only use them internally for management. For better disclosure and governance, the company should release the sustainability reports publicly for the stakeholders. Sustainability and social audit and its report supplements the annual report and are being accepted by a small but growing number of multinationals.

Sustainability and Social Reporting

Sustainability reporting differs from the financial reporting. Financial reporting deals with reporting of financial performance of the company whereas sustainability reporting deals with reporting of sustainability and social performance of the company. Sustainability and social reporting involves reporting and auditing an organisation's policies, procedures and impacts with respect to employees, communities (local and global), suppliers, customers and the environment. It may be measuring and costing physical emissions and social externalities so as to compute sustainability level of profits and reporting on the economic, social and environmental aspects of organisational activity. It should be an approach that creates long term shareholder value by embracing opportunities and managing risks deriving from social, environmental and economic developments. This can involve disclosure regarding commitments to workplace conditions, fairness and honesty in dealing with suppliers, customer service standards, community and charitable involvement and non-exploitive business practices with various stakeholders. Sustainability Report indicates how the progress contributes towards the long-term prospects as a company and to the society as a whole.

These reports together with corporate governance and other similar reports proves out to be quite useful for stakeholders in analysing the company's social initiatives. There are various sustainability reporting guidelines like Global Reporting Initiative (GRI), Triple Bottom Line accounting, etc., which can be adopted by the companies which opt to disclose these reports. The Global Reporting Initiative (GRI) is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development. Its Framework is a reporting system that provides metrics and methods for measuring and reporting sustainability-related impacts and performance

Need and objective of Sustainability and Social audit

"The business of business is business" has outlived its utility and relevance, and societal responsibilities of the corporates have become the buzzword in the international business arena. It is being increasingly recognised that being a responsible corporate citizen is important in ensuring long term success of a company. To face the formidable challenges of the new millennium, the corporate sector has to be empowered with a new vision, dynamic mission and new mandate to follow best practices of governance which includes sustainability and social reporting. The organisation should be committed to embedding principles of sustainability in their growth model by undertaking various initiatives to help enhance energy security and conserve the natural environment. Sustainability and Social audit has gained significance in the era of corporate social responsibility as nowadays corporations are expected not just to deliver value to consumers and shareholders but also to meet environmental and social standards which are desired by various stakeholders. Balancing the social responsibility with the business responsibility is imperative in the 21st century. It is needed so that the enterprise can effectively monitor its sustainable and social performance. It allows an enterprise to report on its achievements based on verified evidence rather than on anecdote and unsubstantiated claims. A natural result of most sustainability initiatives will be a reduction in costs as companies will look for ways to reduce consumption (raw materials, energy etc.), increasing the efficiency and effectiveness of business practices, and exploring new and

innovative product and services which will result in better operational performance. These types of audits help to create, improve and maintain a positive public relations image among various stakeholders.

Advantages of Sustainability and Social Audit

In the 21st century, the Sustainability and Social audit has gained significant importance. Companies are willing to have these type of audits periodically for their various stakeholders. Some of the benefits which are derived from this type of audit include:

- Sustainability report helps to create, improve and maintain a positive public image of the company among its stakeholders.
- It provides an idea that a company is able to meet its environmental and social standards in an efficient and effective manner.
- One aspect of social audit includes how the organisation is, its work environment and workers' pay and benefits. With the help of these audits, companies are able to attract talent globally, as people are inclined towards companies which have better work environment and workers' pay and benefits.
- These types of audits also provides the information to stakeholders that the organisation is fulfilling its corporate social responsibility which is now becomes a mandatory for specified Indian companies as per the Companies Act, 2013.
- This type of audit facilitates organisational learning on how to improve the social performance and increases the accountability of the companies.
- It also indirectly improves financial performance of companies as more suppliers and customers will be willing to trade with the company that have better approach towards the environment and society.
- It improves the relationship with the stakeholders and increases the transparency. Stakeholders are interested in those organisations which have better transparency.
- It allows the company to assess its impact on the environment, the community, and society and if the company assesses that its activities have a negative impact on the environment and society, then it can take the corrective action with the help of these audits.

But the sustainability and social audits possesses risks too:

- These audits may result in serious problems being uncovered that the company would prefer not to disclose. In that case, only positive things will be disclosed by the management.
- The sustainability and social audits and reporting may result in stakeholder criticism and dissatisfaction.

Scenario of sustainability and Social Audit in India

Sustainability and Social audit at the global level is well recognised. Many multinational companies do report their environment and social audit and make them available for stakeholders which includes shareholders, government, society, suppliers, customers, *etc.* Though in India this type of audit is a new concept, but a number of companies are growing which get these audit done and report these sustainability and social report based on such audits. Companies like Reliance Industries, Infosys, Tata Consultancy Limited, Aditya Birla Group, Bharat Heavy Electronics Limited (BHEL), *etc.* provide for this audit and make the reports available to their stakeholders. These companies provide annually, sustainability and social reports based on some popular auditing procedures available at the global level like GRI (Global Reporting Initiative), Corporate sustainability reporting, Triple Bottom Line accounting, *etc.* BHEL in its sustainability reports, states that "Sustainability is an integral part of the company's strategy and is committed to be an environment friendly company in all its areas of activities, products and service, providing safe and healthy working environment." Infosys's sustainability report reads as, "Our sustainability strategy forms the basis of running business responsibly and successfully and we work with our internal and external stakeholders to define our sustainability strategies and goals." With the help of these reports, these companies are able to depict that for them,

Sustainability and Social audit has gained significance in the era of corporate social responsibility as nowadays, corporations are expected not just to deliver value to consumers and shareholders, but also to meet environmental and social standards which are desired by various stakeholders

Social Audit

It is expected that in the next decade, more and more companies will follow the sustainability and social audit and report them for the benefit of their stakeholders which will ultimately help society at large

growth is not just centred on profits only, they place sustainable development at the core of their business decisions and align their sustainability strategy with the business goals which shows concern for safety, environment and communities that percolates in their decisions to design, build and develop all projects. Indian companies now understand that they should focus not only on profits but also on sustainable and environment development for the benefit of the society. It is expected that in the next decade, more and more companies will follow the sustainability and social audit and report them for the benefit of their stakeholders which will ultimately help the society at large.

Financial Audit vs. Sustainability and Social Audit: Comparison

One should understand the basic differences between the financial audit and sustainability and social audit. The table enumerates some of the basic differences between the two types of audit:

S. No.	Financial Audit	Sustainability and Social Audit
1.	Financial audit focuses on financial records only and do not report the sustainable and social performance of the organisation.	Sustainability and social audit focuses on measuring and improving the social performance of an organisation.
2.	Financial audit is narrow in scope as compared to social audit.	Sustainability and social audit is a wider concept as compared to financial audit.
3	Mostly, shareholders are interested in the financial records and financial audit.	This audit is done keeping in mind the interest of all stakeholders <i>i.e.</i> shareholders, community, environment, government, <i>etc.</i>

S. No.	Financial Audit	Sustainability and Social Audit
4.	These audits are mandatory in nature for companies by virtue of the Companies Act, 2013	These audits are voluntarily in nature and are not mandatory, prescribed under the Companies Act, 2013.

Scope of sustainability and social audit

Social audit includes the way a company treats and contributes to its community, promotes fair working conditions and a better environment for work, and conveys transparent and honest accounting reports. Thus, social and environment audit includes assessment of community development, diversity, environment impact, international relationships, marketplace practices, fiscal responsibilities and accounting and financial responsibilities. Social and sustainability audit is auditing the social performance of the company which is useful for all its stakeholders. Though the scope of sustainability and social audit varies from company to company, generally the sustainability and social audit covers the following issues:

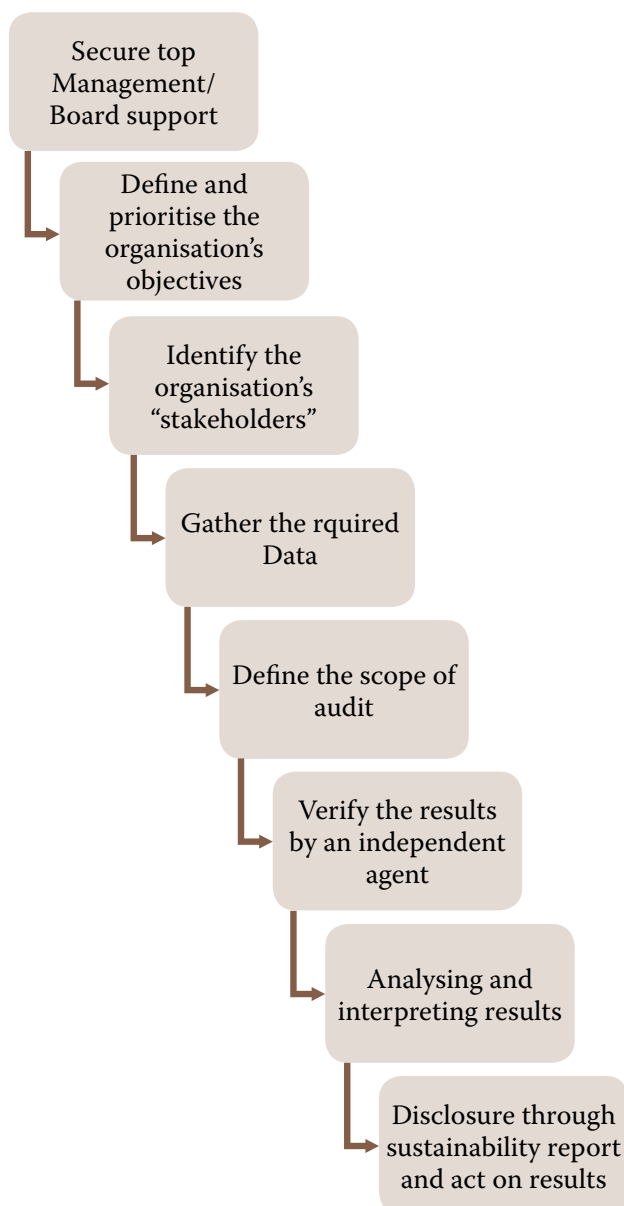
- Whether the organisation provides equal opportunity of work for all and do not discriminate on the basis of caste, colour, gender or religion.
- It also measures the quality of work life which the organisation provides to its workers including safety of workers, better work environment, fair reward system, *etc.*
- Social audit evaluates the steps and measures taken by the entity to protect the environment. Steps taken by the company to protect the environment should be reported in the sustainability report.
- It assesses on how the organisation is serving and satisfying its consumers at a right time, price and right quality.
- It analyses whether all the manufacturing divisions of the company are certified for safety management system and integrated with quality and environment management systems. In short, it analyses whether the company pays sufficient attention to health and safety at its workplace.
- These audit also assess whether the entity is carrying on the business in an ethical way.

Management representation should be taken regarding the same.

- The sustainability and social audit should assess the company's performance in relation to corporate social responsibility. CSR activities undertaken by the organisation should form the part of the sustainability and social reporting.

Sustainability and Social audit: Process

For understanding the sustainability and social audit, it is important to understand the process of the same. Though there is no specified process for social audit, yet the below table enumerates the process of sustainability and social audit in general:



Social and sustainability audit is auditing the social performance of the company which is useful for all its stakeholders

Role of professionals in social audit

Social audit will play an important role in improving the public image of companies both in India and globally. Most of the Accountants may feel - what their profession has got to do with sustainability or social reporting. But accounting profession has been centrally involved in corporate sustainability. Sustainability audit/reporting and Chartered Accountants are inseparable and one cannot expect to keep up the good practices of these reportings without the involvement of a finance professional. Professionals like Chartered Accountants, Company Secretaries, *etc.* can play a big role in conducting these types of audits. A chartered accountant by virtue of his knowledge and expertise in the field of accountancy, costing, audit and updated knowledge of various laws applicable for companies can be a big partner for successful implementation of the environment and social audit in India. Chartered Accountants have to play an important role in the whole process of governance, by helping to balance business practices and objectives of the board whose primary concern is to make profits and at the same time as good law abiding entities, follow the path of sustainable and social developments. As a corporate guardian, it is the Chartered Accountants who will have to ensure that they achieve the best sustainable and social initiatives in the organisation. The role of these professionals will further increase once these audits will become mandatory and applicable to the establishments. The professionals should explore these areas as there is a lot of scope in the sustainability and social audits and its reporting in India. The sustainability and social audit and its reporting is an attractive career opportunity for a

The Chartered Accountants have to play an important role in the whole process of governance by helping to balance business practices and objectives of the board whose primary concern is to make profits and at the same time as good law abiding entities, follow the path of sustainable and social developments

Social Audit

As a corporate guardian, it is the Chartered Accountants who will have to ensure achieving the best sustainable and social initiatives in the organisation. The role of these professionals will further increase once these audits become mandatory applicable to the establishments

finance professional and is one of the fastest growing area of accounting today.

Conclusion

Sustainability practices can provide an organisation significant competitive advantage in the form of reputation, lower costs, better compliance, greater levels of innovation and many others. These audits are quite useful for the stakeholders for analysing the company's performance, but care should be taken that the companies who report these sustainability and social audit have followed the same in true spirit and all the material things have been disclosed by the management in the

sustainability and social reports. If any material things are not disclosed by the management, then the sustainability report will not serve its purpose in a true manner. The reporting organisation should not deliberately limit the audit's scope in order to avoid controversies. For better reporting of these reports, the sustainability and social audit should be made mandatory for the selected list of companies on the parameters of net worth, sales or net profit, *etc.* and should be distributed to all shareholders and published on a company website, which should enable the user to access the performance and prospects of the organisation including its wider relationships, its reputation and its impact on the community and the environment. Professionals like chartered accountants should explore these areas, as there is a lot of scope for them to serve both the profession and the nation. A professional by virtue of his knowledge and expertise in various fields is competent enough to render value added services, in ensuring the compliance of these audits to protect the interests of various stakeholders. ■



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Depreciation Accounting Using Componentisation Approach



The Companies Act, 2013 got the approval from the President of India on 29th August 2013 and became the law. Section 1 of the Act came into force with immediate effect, while Section 1(3) empowered the Central Government to appoint different dates for different provisions of the Act, by notifying provisions in the official gazette. The Ministry of Corporate Affairs of the Government of India accordingly notified 98 different Sections with effect from 12th September 2013. On 26th March 2014, the Ministry notified 183 Sections, sub-Sections and remaining Schedules of the Act. These Sections came into effect from 1st April 2014 being the appointed date in notification. Section 123 of the Act that came into effect from 1st April 2014 states that dividend shall be not be declared or paid without providing depreciation as per the Schedule II of the Act. Notification No. G.S.R. 627(E) dated 29th August 2014 substituted the paragraph 4 of notes to part C of the Schedule II with the new paragraph. With this substitution, the requirement under the new para 4(a) shall be voluntary in respect of the financial year commencing on or after 1st April 2014 and shall be mandatory in respect of the financial year commencing on or after 1st April 2015. Schedule II of the Act has introduced the concept of the componentisation of asset which was not applicable under the erstwhile Schedule XIV of the Companies Act, 1956. The authors in this article discuss the technical and practical aspects of the newly-introduced concept. Read on...



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Background

During the last three decades, the Companies Act, 1956 made certain amendments with respect to the depreciation calculation that had impact on the results of companies. The Companies (Amendment) Act, 1988 introduced the Schedule XIV with retrospective effect from 2nd April 1987

and prohibited the companies from using the rates of depreciation under the Income-tax Act, 1961. Further, the Companies (Amendment) Act, 2000 permitted companies to consider the SLM method of depreciation for determination of net profit for computing managerial remuneration by amending the Section 350 of the Act. Schedule II of the Companies Act, 2013 that deals with depreciation calculation departs significantly from the erstwhile Schedule XIV of the 1956 Act and the changes introduced are:

- a) Schedule XIV of the Companies Act, 1956 mentioned SLM and WDV rates for calculating depreciation. Moreover, note 5 to Schedule XIV required companies to disclose the method of depreciation calculated by the companies. Schedule II of the Companies Act, 2013 provides useful life of the asset without specifically mentioning the method of computing depreciation. Moreover, note 3 to the Schedule II requires companies to disclose depreciation methods used. It also means that the Companies Act, 2013 recognises any other method for calculating the depreciation provided the useful life of asset does not exceeds the useful life of asset as mentioned in the Schedule II.

As Schedule II does not specifically mention the WDV rate, companies using WDV method can derive the WDV rate by using the following formula:

$\{1 - [\text{Scrap value} / \text{Original cost}]^{1/n}\}$, here n is the useful life of the asset. For instance, if the cost of asset is ₹100,000 with an estimated scrap value of ₹5,000 and having a useful life of 6 years then the WDV rate for that asset would be 39.30%.

- b) Method for calculating extra shift depreciation has undergone a change. The Companies Act, 1956 had provided separate rates for double and triple shifts of the asset, however the Companies Act, 2013 has provided for additional depreciation of 50% in case of double shift and 100% in case of triple shift.
- c) Schedule XIV of the Companies Act, 1956 required provision of depreciation at the rate of 100%, whose actual cost does not exceed ₹5,000. However, Schedule II of the Companies Act, 2013 is silent on this aspect.
- d) Schedule II of the Companies Act, 2013 has introduced the concept of componentisation

of asset for the first time in calculating the depreciation. One may feel that this concept is new to the Indian companies. However, it is not so, as its traces can be found in the accounting standard AS-10 on *Accounting for Fixed Assets*. For instance, Para 8.3 of AS-10 states: *In certain circumstances, the accounting for an item of fixed asset may be improved if the total expenditure there on is allocated to its component parts, provided they are in practice separable, and estimates are made of the useful lives of these components. For example, rather than treat an aircraft and its engines as one unit, it may be better to treat the engines as a separate unit if it is likely that their useful life is shorter than that of the aircraft as a whole.* This concept has been discussed in detail, to understand the implications and application of the same.

Componentisation of Assets

There are two schools of thought as far as the depreciation calculation is concerned. The first school suggests that the asset should be depreciated after considering the total cost of asset and its useful life. However, the second one suggests that each part of the asset may have a different useful life and the enterprise should charge depreciation on each part after considering its useful life. Schedule XIV of the Companies Act, 1956 supported the first view while Schedule II of the Companies Act, 2013 supports the latter. Note 4(a)* of Schedule II of the Companies Act, 2013 states: *Useful life specified in Part C of the Schedule is for whole of the asset and where cost of a part of the asset is significant to total cost of the asset and useful life of that part is different from the useful life of the remaining*

— Componentisation of Assets —

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— Componentisation of Assets —

*Refer Notification No. G.S.R. 627(E) dated 29th August, 2014.

Ascertaining the cost of the component may be easier in some cases, while posing difficulty in others. For instance, the cost of a monitor can be ascertained easily, while it is difficult to determine the cost of a car's engine. Moreover, the supplier may not be in a position to provide the correct cost of the component to the buyer

asset, useful life of that significant part shall be determined separately.

Thus, Note 4(a) of Schedule II requires the companies to compute depreciation after considering significant part of the asset (component of asset) and its useful life. The important terms to be noted here are *part of the asset* and *significant*. The term *part of the asset* suggests componentisation of the asset. The Companies Act, 2013 however has not defined the word *significant*. Hence it is left to the judgment of the companies to decide what constitutes significant cost of a part of the asset in relation to the total cost of the asset. However, before deciding what constitutes significant cost, a reference can be taken from other provisions of the Companies Act, 2013. For instance, explanation given to sub-Section 6 of Section 2 of the 2013 Act states: *For the purposes of this clause, 'Significant Influence' means control of at least 20% of total share capital, or of business decisions under an agreement.* Similarly, AS-23 that deals with *Accounting for Investments in Associates in Consolidated Financial Statements* also presumes 20% or more of voting power in determining the significant influence.

In view of the above, companies may consider 20% of the total cost of the asset as benchmark for determining the component. However, companies are free to consider lower than 20% as benchmark for determining the component if the nature of asset requires so.

Most of the assets are composed of various parts or components having different useful life, which may get replaced during the useful life of assets. For instance, a desktop is composed of four major components, *viz.*, CPU, monitor, keyboard and mouse, where each can be accounted for as a separate asset and can be depreciated separately depending upon their respective useful life. This can be illustrated by continuing with the earlier example. If the management feels that the life of CPU and monitor is 4 years and life of key board and mouse is

2 years, then CPU and monitor will be depreciated in 4 years and key board and mouse will be depreciated within 2 years. Of course, there are other factors that should be considered before deciding the componentisation of assets.

The purpose for componentisation of asset is:

- To recognise depreciation cost accurately;
- To derecognise the cost of replaced component; and
- To correctly measure the cost of repairs and maintenance.

Challenges in Accounting for Componentisation of Assets

Accounting according to significant component has certain challenges:

1. **Cost of significant component:** Identifying the cost of significant component is not going to be easy. For instance, if a company purchases a car and identifies chassis, body, engine and other residual parts as significant components, identifying the cost of chassis, engine, body, *etc.*, of the car is not going to be easy. Moreover, in most of the cases the company is not likely to get the cost of significant component separately on the invoice.
2. **Accounting for fixed assets:** Accounting of fixed assets would require parent and child configuration in the system.
3. **Inconsistency in accounting:** It is possible that the same class of asset may be componentised differently at different points of time. This may create inconsistency in accounting.
4. **Disagreement with auditors:** It is possible that auditors may take a different view on the componentisation of asset which may delay the finalisation process.
5. **Componentisation of opening block:** The management has to identify the assets that require componentisation of assets. Once the assets are identified, the management has to identify each component separately and assign the value to the component. The management will be required to ascertain the remaining useful life of the component and compute depreciation accordingly from the financial year 2014-15 onwards.
6. **Consolidation of financial statements:** Accounting Standard (AS) 21 *Consolidated Financial Statements* states that consolidated financial statements should be prepared

Determining the cost of components of asset in the opening block is a challenge, as most of the entities may not be having their break-up. Moreover, much guidance is not available for determining the value of components in the opening block. Hence, the cost of components can be determined on an estimated basis provided the estimates are reasonable

using uniform accounting policies. Hence the management will have to incorporate the changes in accounting for depreciation for not only to Indian companies but also to the subsidiaries incorporated outside India.

7. **Increase in processing time:** The time required to process depreciation through the system will increase significantly if the asset is divided into a number of components. Higher the number of components, higher would be the processing time. Hence, a balance should be maintained between identifying the number of components and legal compliance.

Steps Involved in Componentisation of Assets

- a) **Understanding the working of assets:** It is important to understand the working of assets. There are certain assets that require frequent repairs and maintenance while certain assets don't require it. For instance, the working of a crane would significantly differ from the working of the wind power generation plant.
- b) **Assistance from asset users:** Companies should gather component-related information from the users of asset as they can guide us in identifying the different components of the asset and its useful life. For instance, there are different varieties of crane such as wheel mounted cranes, commercial truck mounted cranes, crawler mounted cranes, overhead track mounted cranes, *etc.* Though the crane is used for lifting heavy objects, each crane is designed with a specific purpose and usage. Hence, it would be a good idea to take assistance from the asset users to gather component-related information.
- c) **Use of history sheets:** It may be a good idea to go through the history sheets of assets, as it captures vital information about repairs and maintenance of the assets. It can provide vital information about the replaced components in the past years.
- d) **Scrutinising repairs and maintenance account for past years:** It may not be a bad idea to scrutinise the repairs and maintenance account for the last few years. This can be used in *lieu* of history sheets of the assets.
- e) **Life of a significant component:** A significant component may have a lesser useful life than the life of the asset. The life of a component should be ascertained with the help of a technical expert.
- f) **Materiality:** A balance should be maintained between hairsplitting exercise and the legal requirement. Unnecessary hairsplitting of fixed assets should be avoided. Setting a materiality level can help in determining the extent and scope of assets to be componentised. Even Para 43 of Ind-AS16 also considers this aspect and states: *Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.* Thus, materiality should be considered before identifying the parts of assets.
- g) **Cost of a component:** Ascertaining the cost of a component may be easier in some cases while posing difficulty in others. For instance, the cost of a monitor can be ascertained easily while it is difficult to determine the cost of a car's engine. Moreover, the supplier may not be in a position to provide the correct cost of the component to the buyer. Hence, the companies can determine the value of a component on an estimated basis. However, the estimates used are based on reasonable basis.
- h) **Components having identical useful life:** It is possible that different components of the same asset may have similar useful life. In such case, such different components may be grouped together. Para 45 of Ind-AS16 also states: *A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.* For instance, Asset "A" is composed of four components C1, C2, C3 and C4, where the

useful life of C1 and C4 is 3 years and that of C2 and C3 is 5 years. Then C1 and C4 will be grouped together, and C2 and C3 will be grouped together and depreciation may be calculated on those grouped components.

- i) Accounting for replacement of component: Once the existing component is replaced with the new component, the replaced component is derecognised and new component is recognised in the carrying value of the asset. Para 13 of Ind-AS16 states:*Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard.*

Application of the above principles is explained with the help of the following illustration: XYZ Ltd. purchases a machine for ₹10 lakh on the first day of the financial year XX01. The management of XYZ Ltd. is of the view that the machinery consists of 3 major components and uses *straight line method* of depreciation. The cost of components and their useful lives are:

Sr. No.	Particulars	Cost (₹)	useful life
1	Component-1.1	500,000	5 years
2	Component-2.1	290,000	2 years
3	Component-3.1	210,000	3 years

The calculation of yearly depreciation will be:

Component-1.1 (500,000/5) = ₹100,000

Component-2.1 (290,000/2) = ₹145,000

Component-3.1 (210,000/3) = ₹70,000

(Amount ₹)

Particulars	FY XX01	FY XX02	FY XX03
Component – 1.1 (500,000/5)	100,000	100,000	100,000
Component – 2.1 (290,000/2)	145,000	145,000	-
Component – 3.1 (210,000/3)	70,000	70,000	70,000
Depreciation charge for each year	315,000	315,000	170,000

The accounting entries in the books of XYZ Ltd. would be as follows:

Date	Particulars	Amount Debit (₹)	Amount Debit (₹)
FY XX01	Machinery (Component-1.1) A/c ...Dr	500,000	
	Machinery (Component-2.1) A/c ...Dr	290,000	
	Machinery (Component-3.1) A/c ...Dr	210,000	
	To Bank		1,000,000
FY XX01	Depreciation A/c ...Dr	315,000	
	To Provision for depreciation (Component-1.1)		100,000
	To Provision for depreciation (Component-2.1)		145,000
	To Provision for depreciation (Component-3.1)		70,000
FY XX01	Profit and loss a/c ...Dr	315,000	
	To Depreciation		315,000
FY XX02	Depreciation A/c ...Dr	315,000	
	To Provision for depreciation (Component-1.1)		100,000
	To Provision for depreciation (Component-2.1)		145,000
	To Provision for depreciation (Component-3.1)		70,000
FY XX02	Profit and loss a/c ...Dr	315,000	
	To Depreciation		315,000
FY XX03	Depreciation A/c ...Dr	170,000	

Date	Particulars	Amount Debit (₹)	Amount Debit (₹)
	To Provision for depreciation (Component-1.1)		100,000
	To Provision for depreciation (Component-3.1)		70,000
FY XX03	Profit and loss a/c ...Dr	170,000	
	To Depreciation		170,000

Let us assume that XYZ Ltd. replaces Component-2.1 by Component-2.2 for ₹310,000 in the third year. In such a scenario, the old part is derecognised and new part is recognised as a part of the asset. The accounting entries in the third year will be:

Date	Particulars	Amount Debit (₹)	Amount Debit (₹)
FY XX03	Provision for depreciation (Component-2.1)	290,000	
	To Machinery (Component-2.1)		290,000
FY XX03	Machinery (Component-2.2) A/c ...Dr	310,000	
	To Bank		310,000
FY XX03	Depreciation A/c ...Dr	325,000	
	To Provision for depreciation (Component-1.1)		100,000
	To Provision for depreciation (Component-2.2)		155,000
	To Provision for depreciation (Component-3.1)		70,000
FY XX03	Profit and loss a/c ...Dr	325,000	
	To Depreciation		325,000

- j) **Determining the value of components in opening block of assets:** Determining the cost

of components of assets in the opening block is a challenge as most of the entities may not be having their break-up. Moreover, not much guidance is available for determining the value of components in the opening block. Hence the cost of components can be determined on an estimated basis provided the estimates are reasonable. This is in line with the Para 20 of AS-5 (Revised) *Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies* which states: *As a result of the uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated. The estimation process involves judgments based on the latest information available. Estimates may be required, for example, of bad debts, inventory obsolescence or the useful lives of depreciable assets. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.*

While adjusting the opening balance of a block of asset, adequate care should be taken to comply with the Note 7 of Schedule II to the Companies Act, 2013 which states:

From the date this Schedule comes into effect, the carrying amount of the asset as on that date—(a) shall be depreciated over the remaining useful life of the asset as per this Schedule;

(b) after retaining the residual value, may be recognised in the opening balance of retained earnings where the remaining useful life of an asset is nil."

For the existing assets, the cost of individual component can be determined in the ratio of replacement cost of the components. For instance, XYZ Co. Ltd. purchased 30 KVA UPS system for ₹400,000/- on 1st April 2012. The company considers 5 years as the useful life of

It is possible that components of some of the assets were replaced in earlier financial years and also have remaining useful life of the asset or component. Schedule II of the 2013 Act does not require us to capitalise such components. Moreover, companies should refrain from capitalising such expenses by following the principle of prudence

the UPS system and follows the *straight line method* of depreciation. On the date of acquisition, the company capitalised that without identifying the components of UPS. The company provided ₹80,000/- each towards depreciation for the financial years 2012-13 and 2013-14 respectively. In April 2014, the company carried out a review to assess whether the UPS system can be broken down into components. After conducting a thorough study, the company concluded that the UPS system can be broken down into the following parts, viz.

Sr. No.	Particulars	Useful life
1	UPS	5
2	Battery bank	3

The Company obtained a quote to ascertain the cost of battery bank and the cost of UPS having similar features as the original UPS system which is:

Sr. No.	Particulars	Amount ₹
1	UPS	265,700
2	Battery bank	198,030
		463,730

Based on the above quote, the company allocated ₹229,185 ($400,000 \times 265,700 / 463,730$) as the cost of UPS and balance ₹170,815 ($400,000 \times 198,030 / 463,730$) as the cost of battery bank. From 1st April 2014, the Company will depreciate ₹229,185 till 31st March 2017 (within 5 years from 1st April 2012) and completely depreciate battery bank before 31st March 2015 (within 3 years from 1st April 2012). Similarly, the Company will also allocate accumulated depreciation in the same proportion as the original asset:

Sr. No.	Particulars	FY 2012-13 (₹)	FY 2013-14 (₹)	Total (₹)
1	UPS	45,837	45,837	91,674
2	Battery bank	34,163	34,163	68,326
		80,000	80,000	160,000

The company will provide depreciate amounting to ₹137,511 (allocated value of UPS ₹229,185 less allocated value of accumulated depreciation ₹91,674) in next three years



while it shall provide depreciation on battery bank amounting to ₹102,489 (allocated value of battery bank ₹170,815 less allocated value of accumulated depreciation ₹68,326) in the financial year 2014-15.

If, however, the useful life of batteries is assumed to be 2 years, ₹102,489 shall be adjusted against the retained earnings as the remaining useful life of the battery bank is nil.

k) Replacement of components in earlier years:

It is possible that the components of some of the assets were replaced in earlier financial years and also have remaining useful life of the asset or component. Schedule II of the 2013 Act does not require us to capitalise such components. Moreover, companies should refrain from capitalising such expenses by following the principle of prudence.

Conclusion

A systematic approach can help in accounting for depreciation using componentisation approach. A critical review of assets having components will help the entities in complying with the requirement. Entities should try to maintain a proper balance between the legal compliance and hair splitting of assets by keeping *materiality* in mind. It will be a good idea to prepare a fixed asset accounting manual for accounting of fixed assets. It will ensure that all components are identified at the date of initial recognition and also help in maintaining the consistency in accounting of fixed asset. ■

Service Tax on Charitable and Religious Trusts



The Mega Exemption Notification No. 25/2012 dated 20th June 2012 exempts from whole of service tax services provided by charitable trusts registered under Section 12AA of the Income-tax Act, 1961 by way of charitable activities. But a broad analysis of this notification and all other service tax provisions reveals that all services provided by such charitable trusts are not exempt. There are many services that are provided by charitable trusts that are still taxable. The author in this article analyses the ambit of services provided by charitable and religious trusts and she goes on to determine the taxability factor of those services vis-à-vis the provisions of Service Tax in this interesting analysis. Read on...

On a plain reading of services tax provisions relating to charitable trust, it may be concluded that services provided by charitable and religious trusts are exempt. After the drastic change related to service tax provisions after 1st July 2012, it is clear that all services provided by charitable and religious trusts are not exempt. In-depth analysis of service tax provisions related to charitable trust proves that many services provided by charitable and religious trusts are liable to the service tax. Mega Exemption Notification no. 25/2012 has made exemption from service tax to charitable and religious trust more specific and even more restrictive. Therefore, it will be interesting to note and analyse the services provided by charitable

and religious trusts and ascertain their taxability as per the service tax provisions.

Entry No. 4 of Mega Exemption Notification No. 25/2012 dated 20th June 2012 specifies that *services by an entity registered under Section 12AA of Income-tax Act, 1961 by way of charitable activities* are exempt from whole of the service tax. Thus as per this notification, restrictive exemption is given to the charitable trusts. If charitable trusts satisfy the following two conditions, services provided by them are exempt:

- I. Charitable trusts must be registered under Section 12AA of the Income-tax Act, and
- II. Activities carried out by charitable trusts should be charitable.

Meaning of Charitable Activities

According to the notification, *Charitable activities means activities relating to:*

- (1) *Public health by way of-*
 - (a) *care or counseling of*
 - (i) *terminally ill persons or persons with severe physical or mental disability,*



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¹ Substituted for "Income- tax" by the Direct Tax Laws (Amendment) Act, 1987, w. e. f. 1-4- 1988.

- (ii) persons afflicted with HIV or AIDS, or
- (iii) persons addicted to a dependence-forming substance such as narcotics drugs or alcohol; or
- (b) Public awareness of preventive health, family planning or prevention of HIV infection;
- (2) Advancement of religion or spirituality;
- (3) Advancement of educational programs or skill development relating to –
 - (a) abandoned, orphaned or homeless children;
 - (b) Physically or mentally abused and traumatised persons;
 - (c) prisoners; or
 - (d) persons over the age of 65 years residing in a rural area;
- (4) Preservation of environment including watershed, forests and wildlife; or,
- (5) Advancement of any other object of general public utility up to a value of –
 - (a) eighteen lakh and seventy five thousand rupees for the year 2012-13 subject to the condition that total value of such activities had not exceeded twenty five lakh rupees during 2011-12;
 - (b) twenty five lakh rupees in any other financial year subject to the condition that total value of such activities had not exceeded twenty five lakh rupees during the preceding financial year.

Prior to 1st March 2013, in addition to the above listed activities, charitable trusts enjoyed exemptions for charitable activities related to *advancement of any other object of general public utility* also. But vide Notification No. 3/2013 dated 1st March 2013, this exemption was withdrawn and maximum exemption for the amount paid in respect of advancement of any other object of general public utility was set to ₹10 lakh as available to other small service providers. As per the Notification No. 25/2012, *general public* means the body of people at large sufficiently defined by some common quality of public or impersonal nature. This definition has made the exemption to charitable trusts available for charitable activities more specific. While the income from only those activities listed above is exempt from the service tax, that from the rest is taxable. So, a broad analysis of the above definition shows that there are many services provided by charitable and religious trust which are not considered as *charitable activities* and hence, such services come under the service tax net. Some of such services are:

— ■■■ —

As per the Notification No. 25/2012, general public means the body of people at large sufficiently defined by some common quality of public or impersonal nature. This definition has made the exemption to charitable trusts available for charitable activities more specific

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Renting of immovable property and conduct of religious ceremony by charitable or religious trusts:

Entry no. 5 of Notification No. 25/2012 exempts the services by a person by way of (a) renting of precincts of a religious place meant for general public, or (b) conduct of any religious ceremony. Meaning of religious place as per above notification is *religious place means a place which is primarily meant for conduct of prayers or worship pertaining to a religion, meditation, or spirituality. Dictionary meaning of precincts is An area within the walls or perceived boundaries of a particular building or place, an enclosed or clearly defined area of ground around a cathedral, church, temple, college, etc.* So if immovable properties owned by charitable trusts like marriage hall, convention hall, rest house for pilgrims, shops situated within the premises of a religious place are rented out, income from letting out of such property is wholly exempt from service tax. But if such properties are not situated in the precincts of a religious place meaning thereby not within walls or boundary walls of the religious place, income from such letting out will lose this exemption and income from it will be liable to service tax. Some experts are of the view that temporary accommodation to pilgrims at rest houses governed by charitable trust should not be liable to service tax, as this is not renting of commercial place, but it is a temporary facility of letting out of rest houses near religious place owned by charitable and religious trust and which are made available only to pilgrims who have visited the religious place. There is no commercial intention of earning income behind such letting out, but the only intention here is to facilitate pilgrims for their visit to the religious place. But this is always a matter of litigation. If charitable trusts rent out their offices or shops to the Government or the Governmental authority, rental income thus produced is also chargeable to service tax.

Income from religious ceremony organised by a charitable trust is exempt as per the above notification. So the income from *Navratri* functions,

other religious functions, and religious poojas conducted on special occasions like religious festivals by persons so authorised for this purpose by the charitable or religious trust are exempt from service tax. But a broad analysis of this exemption shows that all income from such a religious ceremony is not exempt. The nature of income is an essential factor in these circumstances. If income loses its religious nature, it is definitely chargeable to service tax. For example, if with regard to *Navratri* or other religious functions, charitable trusts rent out their space to agencies for advertisement hoardings, income from such advertisement is chargeable to the service tax, as this will be considered as income from the advertisement services. Here some experts are of view that this will be considered under negative list under exemption for *selling of space or time slots for advertisement other than advertisements broadcast by radio or television services*. But it is a matter of litigation also. Then, if donation for religious ceremony is received with specific instructions to advertise the name of a donor, such donation income will amount to the service tax. But if donation for religious ceremony is received without such instructions, it will not be chargeable to service tax.

Services provided by way of construction of religious place: Entry No. 13(c) of Notification No. 25/2012 exempts this service by specifying that *services provided by way of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation or alteration of a building owned by an entity registered under Section 12AA of the Income-tax Act, 1961 and meant predominantly for religious use by general public*. Thus, if charitable trusts give works contract for construction of temple, hospital, school, etc., service tax on such works contract is exempt. But essential condition for claiming this exemption is that it must be used for general public or for religious purpose. If it is used for commercial purpose, it is not exempt

If trusts are running schools, colleges or any other educational institutions specifically for abandoned, orphans, homeless children, physically or mentally abused persons, prisoners or persons over age of 65 years or above residing in a rural area, activities will be considered *charitable* and income from such services will be wholly exempt from the service tax

from service tax. So if charitable trust constructs offices to give them on rent, service tax is applicable on such works contract.

Service tax on management of educational institutions by charitable trusts: If trusts are running schools, colleges or any other educational institutions specifically for abandoned, orphans, homeless children, physically or mentally abused persons, prisoners or persons over age of 65 years or above residing in a rural area, activities will be considered as *charitable* and income from such services will be wholly exempt from the service tax. Meaning of the word *rural area* defined in said notification is *rural area means the area comprised in a village as defined in land revenue records excluding the area under any municipal committee, municipal corporation, town area committee, cantonment board or notified area committee or any area that may be notified as an urban area by the Central Government or a State Government*. Also as per the entry no. 34(b) of above notification, if charitable trusts registered under Section 12AA of Income-tax Act providing educational services receive any service from provider of services located in non-taxable territory, such services received are not chargeable to service tax under the reverse charge mechanism.

If the trust is running school for the purpose which is not covered above, income from such activity will not be exempt under entry no. 4 of Mega Exemption Notification, but will be exempt under Clause (12) of the negative list. If trust having boarding school, taxability of such service will be determined as per principles laid down under Section 66F of the Act. Moreover, if such school or other educational institution gives property owned by such institution on rent to others, no exemption will be available for such services.

Moreover, if educational institutions managed by charitable trusts provide service by way of renting of any immovable property, that will be chargeable to the service tax. Now, the exemption provided to educational institutions in respect of renting of immovable property by them is withdrawn *vide* Notification No. 3/2013 dated 1st March 2013 applicable from 1st April 2013 due to removal of the phrase *provided by educational institution* from entry no. 9 of Mega Exemption Notification.

After the amendment made by the Finance Act, 2014 *vide* Notification No. 6/2014-ST dated 11th July 2014, exemption for services provided by way

of renting of immovable property to *educational institution* is withdrawn. So after 11th July 2014, renting of immovable property to and by educational institutions managed by charitable trusts-both are chargeable to service tax.

Also the concept of *auxiliary educational services* is withdrawn vide Notification No. 6/2014-ST and now only following services received by eligible educational institution are exempt:

- (1) Transportation of students, faculty and staff of the eligible educational institution.
- (2) Catering service including any mid-day meals scheme sponsored by the Government.
- (3) Security or cleaning or house-keeping services in such educational institution.
- (4) Services relating to admission to such institution or conduct of examination.

So after the amendment made vide the Finance Act, 2014, all services received by educational institutions managed by charitable trusts except those services mentioned above are taxable.

Service tax on arranging yoga and meditation camp by charitable trusts: Charitable trusts organise yoga camps or other fitness camps and they generally are not free for participants, as trusts charge some amount from the participants in the name of accommodation or participation. If trusts are arranging residential or non-residential yoga camps by receiving donation or other charges from the participants, these will not be considered charitable activities. As donation is received for participation, it will be considered commercial activity and it will definitely be covered under the service tax net. Similarly, if charitable trusts organise fitness camps in reiki, aerobics, etc., and receive donation from participants, such income that comes under health and fitness services will also be taxable. Recently, the service tax department had served a notice of demand for a big amount to a well-known charitable trust for not depositing service tax on service of arranging yoga camp organised across the country.

Service tax on running of public libraries by charitable trusts: No service tax will be applicable if charitable trusts are running public libraries and lend books, other publications or knowledge-enhancing content/material from their libraries. This activity is specifically excluded by way of entry No. 35 of Notification No. 25/2012, which means services of

No service tax will be applicable if charitable trusts are running public libraries and lend books, other publications or knowledge-enhancing content/material from their libraries. This activity is specifically excluded by way of entry No. 35 of Notification No. 25/2012, which means services of private libraries are not exempt

private libraries are not exempt. But the question is whether libraries run by charitable trusts that lend books only to members of libraries and charge subscription or membership fees will be called *public library*. It is essential to find out the meaning of *public library*. The meaning of *public library* has not been defined anywhere in the Act. But as per the old definition of *public library* issued by UNESCO, maintenance of public library should be out of public funds and it must provide free services to all. If this definition is accepted, most of the libraries managed by charitable trusts serving the public will be considered *private*, since some nominal amount is charged from members and readers in the name of subscription or other services. But as per the modern definition of *Public Library* approved by UNESCO and IFLA, *public libraries are those libraries which serve the population of a community or region free of charge or for nominal fees*. Thus, if donors of public library remain open to all and if it caters to educational, informational and recreational needs of its users and finance for such libraries can be provided from donation, subscription, from special fund created for this purpose or from combination of all such sources, it will be called public library and no service tax will be applicable on such services.

Service tax on hospital managed by charitable trusts: Mega Exemption Notification No. 25/2012 exempts healthcare services at clinical establishment, an authorised medical professional or paramedics. All treatment or diagnosis or care for illness, injury, deformity, abnormality or pregnancy by a clinical establishment is covered. Such services provided by doctors and paramedics either provided as an employee or in their individual capacity is exempt. Transportation of patients to and from a clinical establishment is also exempt. The *clinical establishment* means any hospital, nursing home, clinic, sanatorium or private diagnostic centre like x-ray clinic, pathological laboratory or any diagnostic

or investigation centre. So, if charitable trusts run a hospital and appoint specialist doctors, nurses and provide medical services to patients at a concessional rate, such services are not liable to service tax. If hospitals hire visiting doctors/specialists and these deduct some money from consultation/visit fees payable to doctors and the agreement between hospital and consultant doctors is such that some money is charged for providing services to doctors, there may be service tax on such amount deducted from fees paid to doctors. But if the agreement is such where amount of fee payable to doctors is fixed and no money is deducted from fees, no service tax will be applicable.

Service tax on services provided to charitable trusts:

Services provided to charitable trusts are not out of ambit of service tax. In fact, charitable trusts are liable to service tax under reverse charge mechanism also. Only under partial reverse charge mechanism (Proportional/Joint), charitable trust is not required to pay service tax. Three services are covered under

partial reverse charge *i.e.*, renting of motor vehicle to carry passengers, Manpower supply and security services and Works contract service. For these three services, reverse charge is applicable only when service receiver is business entity registered as body corporate and service provider is individual, Hindu undivided family (HUF), firm (including LLP) and association of persons (AOP). Meaning of *business entity* given under the Act is, *business entity means any person ordinarily carrying out any activity relating to industry, commerce or any other business or profession*. So, charitable trusts cannot be considered as *business entity* for these three services. Also as per the Act, *Body Corporate* includes company, corporation and LLP, but does not include trusts. So, reverse charge is not applicable to charitable trust for these three specified services in both cases, where charitable trust is service provider or service receiver. For other services, reverse charge is applicable to charitable trust subject to conditions specified for taxability of respective services. ■



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Controversies/Contingencies in Income Tax E-Filing: Assessee's Perspectives



It is now the advent of e-era since income tax returns could be filed online using the assessee-friendly processes and formats. The author deals with the controversies and contingencies with regard to the e-filing of the returns from the perspectives of the assesseees with the help of specific examples and cases. He goes on to conclude that the assesseees have been thrown under joint jurisdictions of their AOs and CPC/ CPCs in future when new ones are established and they would keep hanging like a pendulum between these. The author anticipates the emergence of a requirement for immediate steps that would be required and desirable on the part of the CBDT in order to effectively put an end to the disputes. Read on...

Emergence of e-era under the Income-tax Act, 1961

[Probably on a direct changeover basis rather than parallel conversion]

Assessment year 2006-07: corporate tax return mandatory, TDS statements



CA. Sanjeev Kadel

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Assessment year 2007-08 onwards: optional for other assesseees

Assessment year 2013-14 onwards: bulk of compliances have been mandated online

E-filing under the Income-tax Act, 1961 was supposed to be assessee-friendly which is substantiated by below-noted occurrences [Section 139 to Section 143(1)]:

- Ancestral date of HUF does not match with I T database
- Changes in PAN data are not updated in I T database

Taxation

- c. Communication by CPC on e-mails which are no longer in use
- d. Regular change in principal contact in case of HUF/ AOP/ Firm/ BOI/ companies
- e. Capital gain is being included twice in total income
- f. Depreciation claim though made correctly in return of income is not properly allowed in processing under Section 143(1)
- g. Speculation loss though filled in properly in return of income is not being allowed in processing under Section 143(1)
- h. Online rectifications once filed by assessee are subsequently transferred to jurisdictional assessing officers
- i. Intimation under Section 245 is being sent by CPC with a direction to contact jurisdictional assessing officer for rectification which is not adhered to
- j. Age-old bogus demands are uploaded on the database from the office of jurisdictional AO of which the assessee was never aware of. Such demands have expired their age of rectification.
- k. CPC is intimating assessee that the rectification proceedings for a particular assessment year would be taken up by the jurisdictional AO, but the fact is that no such online rectification petition has been filed by the assessee.

Two major noticeable controversies are:

Case-1-Assessee- Partnership Firm

Section 44AD which relates to presumptive taxation [Relevant Text Only]

44AD. (1) Notwithstanding anything to the contrary contained in Sections 28 to 43C,..... profits and gains of such business chargeable to tax under the head "Profits and gains of business or profession".....

Provided that where the eligible assessee is a firm, the salary and interest paid to its partners shall be deducted from the income computed under sub-Section (1) subject to the conditions and limits specified in clause (b) of Section 40.....

Discrimination

Assessee	ITR Form
Individuals/HUF opting Sec 44AD	4S Sugam/ 4 for other cases

Assessee	ITR Form
Firms	No separate form except ITR-5

Discrimination is explained:

Additional benefit that the Firm would avail under Section 44AD is deduction from presumptive income for interest and remuneration paid to the partners under Section 40(b)

An example would further clarify the matter:

P & L A/c (31/03/2014)

Particulars	Amount
Sales	81,37,625
Expenses	(-)70,46,269
Depreciation u/s 32(1)	(-)2,24,610
Interest on Capital @5%	(-)1,94,896
Remuneration to Partners as per Deed	(-)5,04,000
Income Tax	(-)1,08,560
Net Profit allocated to Partners	59,290

From the above table, we draw up the statement of taxable as per normal provisions which is as under

Particulars	Amount
Net Profit	59,290
Add: Income Tax	1,08,560
Add: Remuneration	5,04,000
Book Profits	6,71,850

Permissible remuneration under section 40(b)(v) which is as under

Particulars	Amount
On First ₹ 3,00,000/- @90%	2,70,000
On Balance ₹ 3,71,850/- @60%	2,23,110
Maximum Remuneration	4,93,110

Taxable Income

Particulars	Amount
Book Profits	6,71,850
Less: Permissible Remuneration	4,93,110
Taxable Income	1,78,740

Firm's tax liability based on Normal Provisions comes to ₹55,230/- (determined at @30.90%).

Firm if opting to Section 44AD is:

Particulars	Amount
Sales	81,37,625
Presumptive Income [@8% of Turnover]	6,51,010

Now we compute the book profits:

Particulars	Amount
Presumptive Income [@8% of Turnover]	6,51,010
Less: Interest on Capital	1,94,896
Book Profits	4,56,114

Permissible remuneration is:

Particulars	Amount
On First ₹3,00,000/- @90%	2,70,000
On Balance ₹1,56,114/- @60%	93,668
Maximum Permissible Remuneration	3,63,668

Taxable income under Section 44AD would be:

Particulars	Amount
Book Profits	4,56,114
Less: Permissible Remuneration	3,63,668
Taxable Income	92,446

Firm's tax liability based on Section 44AD of Income-tax Act, 1961 comes to ₹28,566/- (determined @30.90%).

In view of the above circumstances, the Firm would indefinitely choose to opt for Section 44AD due

to the following benefits of tax planning within all ambits of law:

- 1st tax liability in hands of firm is lower, i.e., a tax saving of ₹26,664/- [55,230-28,566].
- 2nd tax liability on partners would also be lower since remuneration would be taxed in their hands to the extent to deduction allowed to the Firm.

Now, let us try to incorporate these details in notified ITR-5 and one would see the difficulty which may arise either in filing up or in processing of return. Since the Firm would opt for Section 44AD, no profit & loss account shall be disclosed in the ITR-5; rather it would fill up the Row No. 53 of ITR 5 under no account case which would appear as:

No Account Case	53	In case where regular books of accounts of business or profession are not maintained, furnish the following information for previous year 2013-14 in respect of business or profession		
	a	Gross Receipts	53a	8137625
	b	Gross Profit	53b	2335026
	c	Expenses	53c	2275736
	d	Net Profit	53d	59290

Once the above details are filled up, Schedule-BP is automatically updated with the profit figure in Serial No-1 which is shown below (only relevant portion drawn up due to restriction of space):

SCHEDULE BP		Computation of income from Business or Profession		
INCOME FROM BUSINESS OR PROFESSION From Business other than Speculation Business	From Business other than Speculation Business			
	1	Profit before tax as per profit and loss account (item 45 or item 53d of Part-A-P & L)	1	59290
	4	Profit or loss included in 1, which is referred to in section 44AD/ 44AE/ 44AF/ 44B.....	4	59290
	6	Balance Income (1-2a-2b-3-4-5d)	6	0
	13	Profit or loss after depreciation (10+11-12iii)	13	0
	24	Total (14 +15 +16+ 17 +18+19+ 20 +21+22+23)	24	0
	31	Total (25+26+27+28+29c+30)	31	0

Taxation

Here, we may note that in 53a to 53d of profit & loss account, there is no mention of income tax separately and moreover, it hardly matters since presumptive rate is applied in the instant case. Since the Section 44AD is applied, the entire profit is to be shown as deduction under Serial No-4 above in order to avoid any wrong processing as if we mention here the amount of ₹92,446/- being the final taxable income here, then it would lead to an arbitrary loss being computed at ₹33,156/- [59290-92445] which would then be required to be adjusted somewhere at Row No-22 or Row No-7.

SCHEDULE BP (Contd)	Computation of income from Business or Profession			
INCOME FROM BUSINESS OR PROFESSION				
	32	Income (13+24-31)	32	0
	33	Profits & Gains deemed to be under		
	i	Section AD	33i	92445
	Xii	Total (33i to 33xi)	33xii	92445
	34	Profit or loss before deduction under section 10A/10AA/10B/10BA	34	92445
	37	Net profit or loss from business other than speculation business	37	92445
		Income chargeable under the head Profits & Gains	D	92445

Now, let us take note of the peculiar problem, which we may face and elaborate:

- In Schedule BP under Serial No-16 we note that there is a mention of amounts debited to the profit & loss account to the extent disallowable under Section 40. This row becomes redundant since the Firm is opting for presumptive taxation.
- Now, we refer to Row No-33 which refers to profits & gains deemed to be under Section 44AD which we have computed and entered at ₹92,445/-. This aspect was verified with reference to the ITR-5 in Excel format since it did not contain any formula for auto determination of presumptive income.

- When a reference for the same Row No.– 33 was made to ITR-5 of software vendors, it was noted that the presumptive rate has been embedded in their software and they enquire about the turnover amount. Once the turnover amount is entered, the deemed income is computed applying 8%.
- In the absence of any reference in ITR-5 of deduction of partners' remuneration and Interest, it raises a doubt as to how the same would be linked with reference to presumptive rate and deduction allowable.
- In my view, the different software vendors develop the I T return preparation software-based on schema issued by the Income Tax Department for different ITRs. All returns are uploaded in xml format and it is important to understand the meaning/purpose of schema for an xml.

(Purpose of xml Schema is to define the legal building blocks of an xml document. An xml Schema defines elements and attributes that can appear in a document. It specifies which elements are child elements, their order and numbers and whether an element is empty or can include text. It also defines data types for elements and attributes, and default and fixed values for elements and attributes.)

- A layman's understanding would be: whatever schema is being prepared is being made in an order to define the relationship between various financial details as referred to in the return in order to derive a link for its completeness and accuracy. Thus it can be concluded at this stage that while processing the return of income on ITD software; there would be a link in the system or software in order to calculate the presumptive income based on rate applied on turnover. If this appears to be correct, when the above return would be processed, the income would be assessed at ₹651,010/- instead of correct taxable income of ₹92,445/- and may lead to incorrect processing for no fault on the part of the assessee firm concerned.
- Considering the above possibilities, one may say that the Income Tax Department should suitably modify ITR-5 in order to mention separately deduction from presumptive income for Interest on partners' capital and partners' remuneration which is specifically provided under the Section 44AD.



Case-2-Assessee-Company[Assessment Years-2011-2012 & 2012-2013]

Before moving ahead about inconsistencies in the ITR-6, it is worthwhile to note a recent judicial decision in the case of *Richa Global Exports Pvt. Ltd., vs. ACIT CPC Bangalore ITA No-2303/Delhi/2012, ITAT Delhi, Assessment Year-2010-2011*. Summary of this case is:

- a. MAT credit of ₹63,51,128/- was claimed by the assessee (including surcharge of ₹5,60,559/- and cess of ₹1,84,984/-; total surcharge and cess ₹7,45,543/-)
- b. CPC Bangalore allowed MAT credit to the extent of ₹56,05,585/- (short credit of ₹7,45,543/-)
- c. CIT(A) rejected the appeal preferred by the assessee company.
- d. Being aggrieved the assessee company preferred an appeal before the ITAT, Delhi.
- e. One interesting line to be noted from the order of the Tribunal refers to the submissions made by the D/R: *This intimation is not manual and is an automatic from CPC wherein the calculations are done automatically through software*. She further argued that Sections 115JAA and 115JB talk of only income tax and nowhere surcharge and education tax is included for the purpose

of these sections. Therefore, she argued that *Ld CIT(A) has rightly rejected the appeal of the assessee*.

- f. Learned members of the Tribunal also referred to the provisions of Section 115JB and commented on Form No-29B: *Similarly, Form 29B which is filed along with return of income where MAT is applicable at point 14 it states that the amount of income tax payable by the company would be 15% of col. 12 i.e. book profits, it does not state surcharge or education cess. Therefore, it emerges that MAT payable u/s 115JB is only income tax and does not include surcharge or education cess. Therefore, if only income tax is paid under the provisions of section 115JB it is natural that tax credit u/s 115JAA will only be of income tax and not of surcharge and education cess*. This point is further clarified by the intimation under Section 143(1) sent to assessee wherein tax payable under Section 115JB has been calculated as only income tax and no surcharge or education cess has been included in the amount of income tax.
- g. Ultimately, the ITAT decided the issue that tax credit under Section 115JAA would not include surcharge and cess.

Now, it would be worthwhile to analyse the contents on ITR-6 in order to judge the applicability of the above prepositions laid down in the case as referred to above. In order to understand the contents of ITR-6 it would be wise enough to take up a practical situation for the purpose which is:

A Limited (extracts from income tax computation are mentioned below)

Same figures are considered for the ease of understanding for both the assessment years:

Particulars	Assessment Year-2011-2012	Assessment Year-2012-2013
Net Profit before Tax	1,10,00,000	1,10,00,000
Additions & Deductions as per section 28 to 44	40,00,000	40,00,000
Taxable Income as per Normal Provisions	1,50,00,000	1,50,00,000
Tax @30% excluding surcharge & cess	45,00,000	45,00,000
Book Profits under section 115JB	1,10,00,000	1,00,00,000
Tax @18% excluding surcharge & cess	19,80,000	18,50,000
Whether required to pay tax as per Normal Provisions	Yes	Yes
MAT Credit brought forward from earlier years (Say for A Y-2010-11)	50,00,000	50,00,000
Balance MAT Credit to be carried forward [50,00,000-25,20,000]	24,80,000	24,80,000

Note: In the above extracts, surcharge and education cess have not been considered following the judgment of ITAT, Delhi as referred to above.

Taxation

Now, when we enter the above details in the Excel ITR-6 issued by the CBDT for respective assessment years, we note the following (only relevant portion shown for ease of reference):

Assessment Year-2011-2012 [ITR-6]				
Part-B TTI	Computation of tax liability on Total Income			
COMPUTATION OF TAX LIABILITY	1	Tax payable on deemed total income under section 115JB (7 of Schedule MAT)		1980000
	2	Tax payable on total income		
	a	Tax at Normal Rates	2a	4500000
	b	Tax at Special Rates (11 of Schedule-SI)	2b	0
	c	Tax payable on total income (2a+2b)		2c 4500000
	3	Gross Tax Payable (Higher of 2c and 1)		3 4500000
	4	Credit u/s 115JAA of tax paid in earlier years (if 2c is more than 1)(7 of Schedule MATC)		4 2520000
	5	Rebate		5 0
	6	Balance Tax Payable (4-5)		6 4500000
	7	Surcharge on 6 (**see note below)		7 337500
	8	Education Cess, including secondary and higher education cess on (+7)		8 145125
	9	Gross Tax Liability (6+7+8-4)		9 2462625

Assessment Year-2012-2013 [ITR-6]							
Part-B	Computation of Tax Liability on Total Income						
TTI							
COMPUTATION OF TAX LIABILITY	1	1a	Tax payable on deemed total income under section 115JB (7 of Schedule MAT)			1a	1850000
		1b	Surcharge on (a) above			1b	92500
		1c	Education Cess on (1a+1b) above			1c	58275
		1d	Total tax payable u/s 115JB (1a+1b+1c) MAT)			1d	2000775
	2	Tax payable on total income					
		a	Tax at Normal Rates		2a	4500000	
		B	Tax at Special Rates (11 of Schedule-SI)		2b	0	
		c	Tax payable on total income (2a+2b)			2c	4500000
	3	Surcharge on 2c				3	225000
	4	Education Cess, including secondary and higher education cess on (2c+3)				4	141750
	5	Gross Tax Liability (2c+3+4)				5	4866750
	6	Gross Tax payable (higher of 5 & 1d)				6	4866750
	7	Credit u/s 115JAA of tax paid in earlier years(if 5 is more than 1d)(5 of Schedule MATC)				7	2865975
	8	Tax payable after credit u/s 115JAA (6-7)				8	2000775

Notes to be considered in above Schedule are:

Assessment Year-2011-2012	Assessment Year-2012-2013
- Tax Amount in Serial No-1a above is directly taken from Schedule-MAT which does not include surcharge and cess - In SI No-6 Balance Tax payable is referred to as (4-5) but when data is entered it automatically comes to ₹45,00,000 whereas the correct amount should be ₹19,80,000/-. - Surcharge in SI No-6 is referred which is calculated on Tax before credit under section 115JAA. - Database is entirely different in ITR-6 for Assessment Year-2011-2012 when the same is compared with ITR-6 for Assessment Year-2012-2013	- Tax Amount in Serial No-1a above is directly taken from Schedule-MAT which does not include surcharge and cess - Surcharge & Cess on Book profits is entered manually in Serial No-1b & 1c. - Serial No-1d has embedded summation formula for SI. No-1a to 1c. - Tax at Normal Rate in SI No-2a is to be entered manually. - Tax at special rate in SI No-2b is having a reference of Schedule-SI. - Serial No-2d has embedded summation formula for SI. No-2a & 2b. - Serial No-7 has a reference of Schedule MATC - It is worthwhile to note that Maximum Tax Credit allowance is being considered from difference of MAT & Normal Tax for current Assessment Year after adding Surcharge & Education Cess

Now, let us consider the MAT and MAT credit schedule appended in the ITR-6:

ITR-6[ASSESSMENT YEAR-2011-2012]				
Schedule MAT	Computation of Minimum Alternate Tax payable u/s 115JB			
6	Book Profit u/s 115JB (3+4i-5g)		6	11000000
7	Tax payable u/s 115JB[18% of 6]		7	1980000
Schedule MATC	Computation of MAT Credit under section 115JAA			
MAT CREDIT	1	Tax under section 115JB in assessment year 2010-11		5500000
	2	Tax under other provisions of the Act in assessment year 2010-11		500000
	3	Amount of MAT liability in respect of assessment year 2010-11 available for credit in subsequent assessment years [enter (1 – 2) if 1 is greater than 2, otherwise enter 0] plus brought forward MAT credit for assessment year 2007-08 2008-09 and 2009-10		5000000

ITR-6[ASSESSMENT YEAR-2011-2012]				
Schedule MAT	Computation of Minimum Alternate Tax payable u/s 115JB			
6	Book Profit u/s 115JB (3+4i-5g)		6	10000000
7	Tax payable u/s 115JB[18% of 6]		7	1850000
Schedule MATC	Computation of MAT Credit under section 115JAA			
MAT CREDIT	1	Tax under section 115JB in assessment year 2012-13 (1d of Part-BTTI)		2000775
	2	Tax under other provisions of the Act in assessment year 2012-13 (5 of Part-BTTI)		4866750
	3	Amount of tax against which credit is available [enter (2 – 1) if 2 is greater than 1, otherwise enter 0]		2865975
	4	Utilisation of MAT Credit available [Sum of MAT Credit utilised during the current year is subject to maximum amount mentioned in 3 above and cannot exceed the sum of MAT Credit Brought Forward]		

Schedule MATC	Computation of MAT Credit under section 115JAA		
MAT CREDIT	4	Tax under section 115JB in assessment year 2011-12	1980000
	5	Tax under other provisions of the Act in assessment year 2011-12	4500000
	6	Amount of tax against which credit in respect of 3 is available [enter (5 - 4) if 5 is greater than 4]	2520000
	7	Amount of tax credit under section 115JAA [enter lower of 3 and 6]	2520000
	8	Balance MAT liability in respect of assessment year 2006-07 2007-08 2008-09 2009-10 and 2010-11 available for credit in subsequent assessment years [enter (3 - 7) if 3 is more than 6, otherwise enter 0]	2480000
	9	Amount of MAT liability in respect of assessment year 2011-12 available for credit in subsequent assessment years [enter (4 - 5) if 4 is greater than 5, otherwise enter 0]	0

Schedule MATC		Computation of MAT Credit under section 115JAA				
MAT CREDIT	Sl No	Asst Year (A)	MAT Credit b/f (B)	MAT Credit utilised during the current year (C)	MAT Credit for the current year (D) [enter 1-2, if 1 is greater than 2 otherwise enter 0]	Balance MAT Credit c/f (E) [E=B+C-D]
	i	2006-07	0	0	0	0
	Ii	2007-08	0	0	0	0
	iii	2008-09	0	0	0	0
	iv	2009-10	0	0	0	0
	v	2010-11	0	0	0	0
	vi	2011-12	5000000	2865975	0	2134025
	vii	2012-13	0	0	0	0
	Viii	Total	5000000	2865975	0	2134025
	5	Amount of Tax Credit under section 115JAA [Enter 4c(viii)]				5
6	Amount of MAT liability available for credit in subsequent years [enter 4E(viii)]				6	2134025

Notes to be considered in the above Schedule are:

Assessment Year-2011-2012	Assessment Year-2012-2013
- In Schedule MAT Tax payable on Book Profits is determined @18% which is exclusive of surcharge & cess. - In Schedule MATC a. Sl. No-1 to 5 does not contain any reference to any other schedule which means they are to be entered manually b. Sl No-6, 7, 8 & 9 contains mathematical embedded formulas - It must be noted that here there is no surcharge & cess included either for current year tax amounts or for earlier years MAT Credit Amounts	- In Schedule MAT Tax payable on Book Profits is determined @18.50% which is exclusive of surcharge & cess. - In Schedule MATC c. Sl. No-1 contains a reference of Sl No- 1d of Part-B of Tax Liability on Total Income which is inclusive of surcharge & cess. d. Sl. No-2 contains a reference of Sl No-5 of Part-B of Tax Liability on Total Income which is inclusive of surcharge & cess. e. Sl. No-3 if difference in above two amounts which includes surcharge & cess. - MAT Credit brought forward from earlier years too did not include surcharge & cess. - Conceptually one may say that the above data structuring / placement is against the decision of ITAT as referred to earlier. If line by line interpretation of judgment is made we may feel that the ITR-6 is against the decision. If we do not agree with this decision we may conclude that earlier years brought forward MAT credit should also include surcharge & cess.

The above problems also give rise to discrepancies that are inherent in the software-generated ITRs and designed, based on the schemas issued by the Income Tax Department.

The controversy does not end here as it travels from filing to processing under Section 143(1) and

ultimately to assessment under Section 143(3), which are explained summarily:

Tax computation sheet issued (figures shown here are from a recent case completed under Section 143(3) by Income Tax Department along with demand notice follows the below-noted pattern while computing tax

Particulars	Assessment Year-2011-12	Assessment Year-2012-13
Assessed Income	367,745,420	397,326,720
Deemed Income u/s 115JB	447,178,800	483,215,204
Gross Tax (See Note-1 Below)	80,492,184	98,761,771
Surcharge (See Note-2 Below)	8,274,272	5,959,901
Education Cess (see Note-2 Below)	3,557,937	3,754,738
Tax Credit u/s 115JAA	29,831,442	20,436,205
Net Tax	62,492,951	88,040,165
Interest u/s 234B	0	4,833,720
Interest u/s 234C	85,908	77,970
Gross Demand	92,410,301	113,388,100
Total Taxes Paid	80,385,389	88,335,885
Total Tax & Interest Payable	12,024,912	25,052,220

Note 1: Here gross tax is computed as difference between tax on normal income and tax on book profits i.e. after tax credit under Section 115JAA.

Note 2: Surcharge and cess are computed on the gross tax on total income before allowing credit under Section 115JAA.

The above calculation sheet further raises the following queries which remain unanswered till some clarification on the same is issued by CBDT:

Prescribed Form No ITR-6 and Department's In-house software used for processing/calculation of tax liability is completely diverse on the following counts:

- In ITR-6 for assessment year 2012-13 tax credit under Section 115JAA is being computed after the inclusion of surcharge and cess.
- In the computation sheet, surcharge and cess are being calculated before allowance of credit under Section 115JAA and this in turn leads to a discrepancy in the form prescribed and computation software.

The above leads to further questions whether:

- Till assessment year 2011-12, was the ITR-6 as notified correct in calculations?
- Was the MAT credit brought forward from earlier years to include the surcharge and cess?
- Is the ITR-6 as notified from assessment year 2012-13 completely in consonance with the provisions of Income-tax Act, 1961?
- Is the current software used by Income Tax Department for processing/calculation of tax after assessment in deviation from the prescribed ITR-6?

Without questioning the decision delivered in Richa Global exports (Supra), a layman would insist on the below-noted issues which are in continuation to the ITR-6 for assessment years 2011-12 and 2012-13 read with respect to this decision:

- If tax and surcharge are not to be included while determining MAT credit, determination



of MAT credit entitlement as disclosed in the ITR-6 is completely wrong, since it instructs to include surcharge and cess while determining entitlement of MAT credit.

- If it is claimed by the Income Tax Department that the ITR-6 as notified is erroneous, how can one say that the Form No-29B is sacrosanct.
- Is it fair for the tax authorities to rely and state that everything is automatically calculated through software and that it is sacrosanct and since no human intervention is involved whatever is being calculated is true and correct?
- Are we moving towards complete e-governance and compliance when there is paramount distinction amongst
 - a. Forms prescribed and provisions of the law
 - b. Has the complete changeover from the manual IT returns to complete e-returns opened up a new avenue of never ending disputes amongst taxpayers and authorities?
 - c. This problem of MAT credit entitlement and allowance would result in higher unprecedented tax burdens upon the companies and in the near future to all assesseees falling under the AMT.

Conclusion

It can be said that the assesseees have been thrown under joint jurisdictions of their AOs and CPC/ CPCs in future when new ones are established and they would keep hanging like a pendulum between these. Immediate steps are required from the CBDT in order to conclude these disputes. ■

Disclaimer: Readers must refer to the available online ITR in order to check any discrepancy, although adequate care has been taken in preparing this write-up on the issue of discrepancies in the ITR.

Clause 49 (Revised) – Future of Corporate Governance



The Securities and Exchange Board of India, in its April 2014 circular, had issued certain amendments to the Clause 49 of Listing Agreement, which were further amended through its September 2014 circular. These amendments follow the overhaul in the corporate governance norms under the Companies Act, 2013 and the related rules that were notified on 27th March 2014, were effective from 1st April 2014. These amendments aim to largely align the SEBI requirements with the provisions of the Companies Act and adopt best practices on corporate governance. This Revised Clause on corporate governance shall be applicable to all listed companies with effect from 1st October 2014, except for the appointment of a woman director and constitution of a risk management committee. The Clause attempts to set up an effective corporate governance framework within a company, while providing timely and accurate disclosures to its shareholders and stakeholders. This will hopefully help companies in winning back the stakeholders' confidence. The author duo discusses some of the key changes introduced in the Revised Clause and possible implementation challenges in this article. Read on...



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The Securities and Exchange Board of India ("SEBI"), vide its circular dated 17th April 2014 issued certain amendments to Clause 49 (hereinafter referred to as "Revised Clause") of the Listing Agreement. These guidelines were further amended by the circular dated 15th September 2014. These amendments follow the overhaul in the corporate governance

norms under the Companies Act, 2013 and the related rules which were notified on 27th March 2014 and were effective from 1st April 2014 (together "Companies Act"). These amendments aim to largely align the SEBI requirements with the provisions of the Companies Act and adopt the best practices on corporate governance.

The Revised Clause on corporate governance shall be applicable to all listed companies with effect from 1st October 2014, except for the clause dealing with the appointment of a woman director, which is applicable with effect from 1st April 2015; and for the clause dealing with constitution of a Risk Management Committee which shall apply only to the top 100 listed companies by market capitalisation as at the end of the immediate previous financial year. Through the issue of these guidelines, SEBI has focused on enhancing governance and has accordingly introduced several changes in the roles and responsibilities of the board, board committees and independent directors.

The Revised Clause is attempting to achieve this objective by setting up an effective corporate governance framework within the company and providing for timely and accurate disclosures to all the shareholders and other stakeholders of the Company. Some of the key changes introduced in the Revised Clause along with possible implementation challenges are:

I. Board of Directors

a) Composition of Board of Directors:

- Revised Clause has added the requirement of at least one *woman director* to be included on the board in order to align the same with the requirements of Companies Act. However, the implementation of the said clause has been deferred till 1st April 2015.
- Further, it has modified the reference to the chairmanship in case of non-executive director. As per the Revised Clause, if the chairman of the Board is not a '*regular non-executive director*,' at least half of the Board should comprise independent directors.

It is a welcome step to ensure diversity on the Board. However, companies may face a challenge in respect of identifying women directors. Since SEBI has not

It is a welcome step to ensure diversity on the Board. However, companies may face a challenge in respect of identifying women directors. Since SEBI has not specified that the woman director needs to be independent, companies may resort to appointing women directors from within the promoters' family as directors

specified that the woman director needs to be independent, companies may resort to appointing women directors from within the promoters' family as directors. This may not necessarily have a desired effect on the governance standards.

b) Independent Director:

The Revised Clause confers greater power and responsibility on the independent directors on matters relating to corporate governance.

Changes in the Definition of Independent Directors

The definition of the independent director has been changed substantially from the existing definition in the earlier Clause 49 in order to align the same with the Companies Act.

- The definition has excluded nominee director from the definition of the independent director. In the earlier Clause 49, there was no specific exclusion of the nominee director. *The same has been aligned with the Companies Act.*
- Promoters of the company, its holding, subsidiary or associate company have been specifically excluded from the definition of independent directors in respect of which the earlier Clause 49 was silent.
- As per the Revised Clause, the director should not have any material pecuniary relationship with the company, and other prescribed related parties during the two immediately preceding financial years or during the current financial year. There was no such restriction in the previous Clause 49.

Corporate Governance

As per the Companies Act, the director should not have or had no pecuniary relationship with the company, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year

The Companies Act restricts independent director from having any transaction with the company whereas the Revised Clause restricts an independent director from undertaking *material* transactions with the company. The word *material* has not been defined in the Revised Clause. This difference between the Companies Act and Revised Clause may lead to interpretations and differences in applications by various companies.

Limit on Number of Directorships

In order to enhance the level of involvement of directors, Revised Clause has limited the number of directorships that an independent director can hold in a company to seven listed companies. Further, in case of a whole-time-director (WTD), the same has been limited to three listed companies. While the objective with which limits have been laid down is appropriate, the minimum sitting fees should have been set at higher limits in order to ensure a right balance between remuneration and responsibilities of independent directors.

Maximum Tenure of Independent Directors

Through the amendments issued on 15th September 2014, SEBI has notified that the maximum tenure of independent directors shall be in accordance with the

Per Revised Clause, a *related party* is a person or entity that is related to the company. Per the said definition, parties shall be considered to be related if such entity is a related party under Section 2(76) of the Companies Act; or such entity is a related party under the applicable accounting standards

Companies Act and clarifications/circulars issued by the Ministry of Corporate Affairs.

Thus, the term *independent director* is to be considered prospectively. The alignment with the Companies Act has provided a lot of relief to the companies, in complying with the provisions of this clause. This would also give corporations and people desirous of taking on directorships adequate time to enhance skill sets to perform their duties effectively.

Performance Evaluation of the Independent Directors

Under the existing Clause 49, there was a non-mandatory requirement that the performance of the non-executive directors can be done by the peer group consisting of the entire Board which could in-turn be a mechanism for deciding on the extension/re-appointment of directors.

However, under the Revised Clause, there is a mandatory requirement that performance of the independent directors shall be evaluated by the peer group basis, the evaluation criteria determined by the Nomination Committee. Further, the revised clause requires companies to disclose the said evaluation criteria in their Annual Report. Companies would need to develop qualitative and quantitative benchmarks in order to ensure effective implementation of this requirement.

Separate Meeting of Independent Directors

The revised clause has laid down a condition requiring companies to hold at least one meeting in a year amongst independent directors alone, with a condition that non-independent director and any member of management shall not be present in such meeting. Further, as per the Revised Clause, the independent directors in the meeting shall review the performance of non-independent directors and board, chairperson of the company and assess the quality, quantity and timeliness of the information between the Board and the management. The same has been aligned

Revised Clause makes it mandatory for companies to establish a vigil mechanism to enable directors and employees to report unethical behaviour and actual or suspected frauds or violation of the company's code of conduct or ethics policy

to the Companies Act and is a positive step in enhancing the governance standards.

Familiarisation Programme for Independent Directors

The Revised Clause mandates programmes for independent directors to familiarise themselves with the company, their roles, rights and responsibilities, etc. This was a non-mandatory requirement in the existing Clause 49.

Further, as per the amendments to the Revised Clause every listed company is required to disclose the details of familiarisation programmes on the company's website and a weblink thereto shall also be given in its annual report. This will help in enhancing the skill sets required in Board rooms and help in more informed decision making.

SEBI has taken positive steps to enhance the level of corporate governance through these measures. However, it would be incumbent on companies to ensure that efforts in enhancing governance standards are taken in the right spirit and the exercise does not become a tick in the box approach.

II. Related Party Transactions

The Revised Clause adds a detailed new section on related party transactions, which describes what related party transactions are, and defines the term *related party*. As per the Revised Clause, a *related party* is a person or entity that is related to the company. As per the said definition, parties shall be considered to be related if such entity is a related party under Section 2(76) of the Companies Act; or such entity is a related party under the applicable accounting standards.

There is a school of thought that both the Companies Act and Revised Clause should have only referred to accounting standard

for definition of related party. The Ministry of Corporate Affairs is responsible for setting up standards and therefore, multiplicity of definitions could have been avoided.

As per the Revised Clause, a transaction with a related party shall be considered material if the transaction to be entered into individually or taken together with previous transactions during a financial year exceeds 10% of the annual consolidated turnover of the company as per the last audited financial statements of the company.

As per the Revised Clause, all related party transactions shall require prior approval of the Audit Committee. However, the Audit Committee shall grant omnibus approval for Related Party Transactions proposed to be entered into by the company subject to fulfillment of certain conditions. Further, all material related party transactions shall require approval of the shareholders through special resolution and the related parties shall abstain from voting on such resolutions.

With materiality thresholds being set out, lesser number of transactions would require shareholder approval which is a welcome step, as otherwise, even immaterial transactions would have required the nod of the shareholders. The Companies Act however, requires pre-approval of only those related party transactions which are not in the ordinary course of business or are not at arm's length. SEBI and MCA should align the requirements so as to minimise the administrative burden on Companies.

The Revised Clause requires all related parties to abstain from voting on transactions entered into with a related party, irrespective of the fact whether the other related parties were involved in that transaction or not. This may pose challenges for companies. The Companies Act takes a more pragmatic approach and requires only the related party interested in the particular transaction to abstain whereas other related parties may vote on the same. The Clause grants relief in respect of transactions entered into between two government companies or between a holding company and its wholly owned subsidiary, whose accounts are consolidated with the holding company and placed before the shareholders at the general meeting for approval.

III. Expanded Role of Audit Committee

The Revised Clause has enhanced the role/responsibilities of the audit committee. It is responsible for monitoring auditor's independence and performance, effectiveness of audit process; approval or any subsequent modification of transactions of the company with related parties; scrutiny of inter-corporate loans and investments; valuation of undertakings or assets of the company, wherever it is necessary; and evaluation of internal financial controls and risk management systems.

The Audit committee is an integral element of the corporate governance framework. The above steps would enhance the effectiveness of the audit committee and enhance the oversight role.

In terms of the constitution of the audit committees, the Revised Clause requires two thirds of the members of the audit committees to be independent directors whereas under the Companies Act, the majority needs to be independent director. Therefore, requirements of the Revised Clause are stringent and in our view, would be a catalyst to drive the initiative forward.

IV. Nomination and Remuneration Committee

The Revised Clause has changed the earlier non-mandatory requirement relating to a remuneration committee (including the constitution of committee) to a mandatory requirement. Accordingly, under the Revised Clause, SEBI has prescribed a set of requirements relating to nomination and remuneration committee.

As per the SEBI, the said committee shall be constituted by the board of directors and shall comprise at least three directors, all of whom shall be non-executive directors and at least half shall be independent. The chairman of the committee shall be an independent director. The said committee shall formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the board a policy, relating to the remuneration of directors, KMPs and other employees; formulate a criteria for evaluation of independent directors and the board; devise a policy on board diversity; and identify

persons who are qualified to become directors and recommend to the board appointment and removal of persons.

V. Subsidiary Companies

The Revised Clause has prescribed the following changes in the requirements relating to subsidiary companies:

- The Revised Clause, has imposed two new requirements in relation to subsidiary companies, viz., no company shall dispose of shares in its material subsidiary which would reduce its shareholding to less than 50%, cease the exercise of control over the subsidiary, and selling, disposing, and leasing of assets amounting to more than 20% of the assets of material subsidiary without passing a special resolution in its general meeting. The exception to this rule being where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal,
- The Revised Clause mandates that at least one independent director who is on the board of the holding company to be a director on the board of the material non-listed Indian subsidiaries also. The audit committee of the listed holding company shall also review the financial statements of the unlisted subsidiary company (especially the investments made by the unlisted subsidiary).

These are welcome steps to enhance the investor protection.

VI. Risk Management:

The Revised Clause requires the board to frame, implement and monitor the risk management plan for the top 100 listed companies by market capitalisation as at the end of the immediate previous financial year. The Companies Act requires all companies to develop and implement the risk management policy for all companies.

VII. Compulsory whistle blower mechanism

The Revised Clause makes it mandatory for companies to establish a vigil mechanism to enable directors and employees to report unethical behaviour and actual or suspected

Corporate Governance

frauds or violation of the company's code of conduct or ethics policy. The mechanism should also provide adequate safeguards to prevent victimisation of the whistle blower. In the light of the growing corporate scams and scandals, the development of a legislative framework for adequate whistle blower mechanism is in the right direction.

provisions became applicable to the company)

- b. Companies whose equity share capital is listed exclusively on the SME and SME-ITP Platforms.

It seems that this has been considered in view of the cost of compliance which could be substantial for all companies.

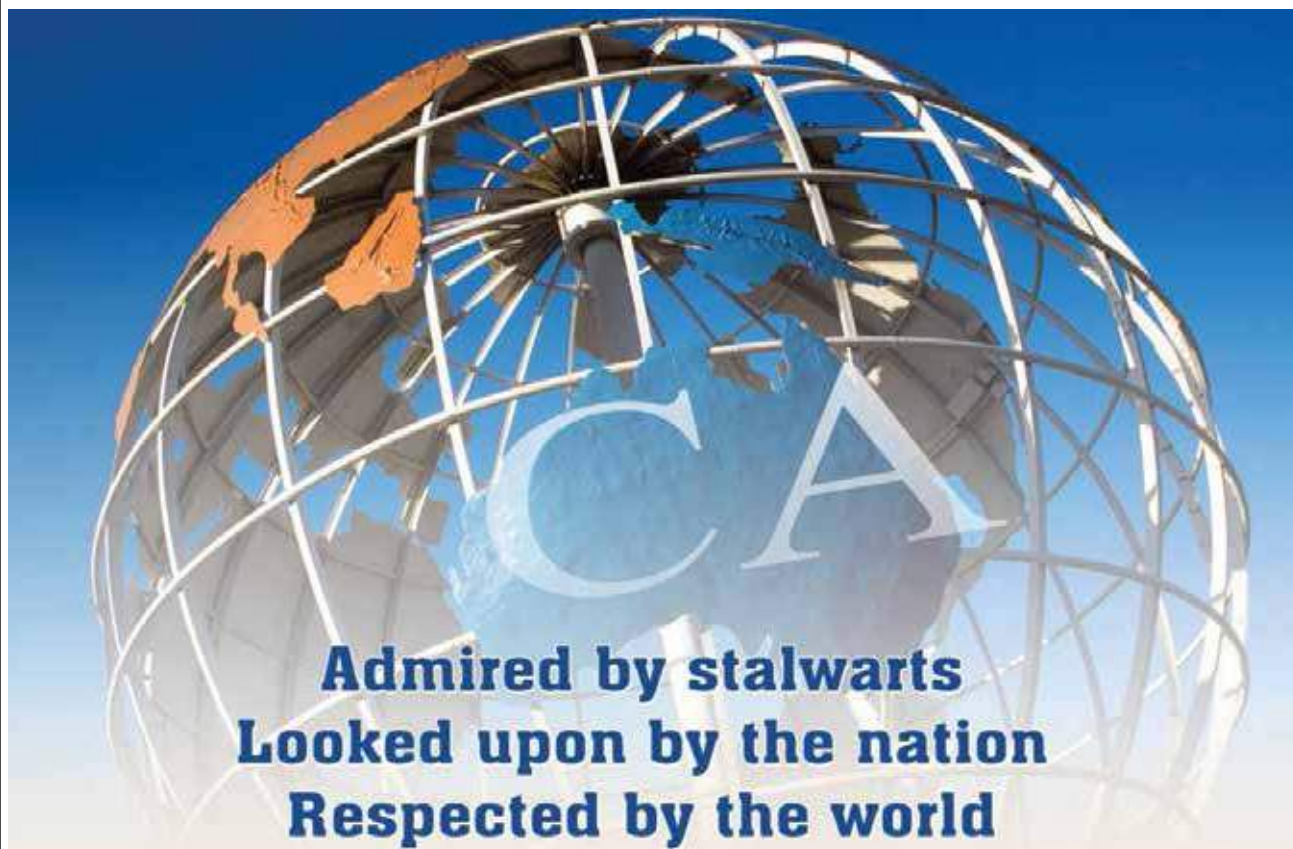
VIII. Applicability

Vide its circular in September 2014, the SEBI has clarified that the Revised Clause is not mandatory, for the time being, in respect of the following class of companies:

- a. Companies having paid up equity share capital not exceeding ₹10 crore and net worth not exceeding ₹25 crore, as on the last day of the previous financial year (provided where the provisions of Clause 49 becomes applicable to a company at a later date, such company shall comply with the requirements of Clause 49 within six months from the date on which the

Summary

New requirements broadly serve the objectives of alignment with the Companies Act *though differences continue in certain areas*, and making the governance framework more effective. It is expected that the Revised Clause will lead to enhanced levels of corporate governance and will improve the confidence of stakeholders. Organisations need to implement swift changes to align with the requirements of the Revised Clause. It is now incumbent on the corporations to ensure that all these measures are implemented effectively and more importantly in the right spirit. ■



Value-Based Pricing Strategies for Enterprise Software



Enterprise technology has entered all the facets of business today. Interestingly, technology sector makes up only a tiny portion of the global GDP. But while IT accounts for 1.5% of the overall global expenditure, the impact that IT has on business performance is enormous. Developers of enterprise software provide immense scope for establishing their pricing strategies based on value the way customers do. Software industry giants traditionally develop their pricing strategies by stressing unduly over the cost-related criteria, at the expense of focusing on the value of software to its customers. These cost-based pricing strategies generate short-term value for vendors, while the value-based pricing strategies generate long-term value for both customers and vendors. The transition to value-based pricing also supports technology shifts that directly impact the design and delivery of enterprise software. The author in his article discusses the merits of value-based pricing strategies in the context of enterprise software. Read on...

Introduction

Leaders in the software industry have traditionally developed their pricing strategies by over-emphasising cost-related criteria, at the expense of focusing on the value of the software to the customer. Cost-based pricing strategies generate short-term value to the vendor. Conversely, value-based pricing strategies are focused on creating long-term value for the customer as also for the software vendor. Today, enterprise technology has become deeply

infused within every facet of business. However, it is interesting to note that the technology sector makes up only a tiny portion of global GDP, i.e., a little less than \$1 trillion out of the \$56-trillion global economy. But, while information technology accounts for just 1.5% of the overall global spending, the impact that IT can have on business performance and value is enormous. Developers of enterprise software provide immense scope for establishing their pricing strategies based on value the way customers do.

The transition to value-based pricing is also because of a considerable level of technology shifts that are directly impacting the design and delivery of enterprise software. These include the service-oriented architecture, component software, dynamic configuration and the provision of enterprise software over the web on a common application platform.



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Information Technology

In some software market segments like the server operating system and software development tools, these transitions are faster than the others. Customer Relationship Management (CRM) and sales force automation are seeing the shift lately. The back office legacy systems are estimated to transition over the next few years.

Some Traditional Cost-Based Pricing Techniques and Their Drawbacks

1. **User-based pricing:** The charge is based on the number of users that utilise a collection of software features over a given period of time. It attempts to assign costs to a particular number of users or workstations.
2. **Usage-based pricing:** Customers pay only for what they actually use on a transaction basis. This model is also known as *pay-as-you-go pricing* or network-based pricing model. This model charges for outsourced services by transaction, time in use, peak period or some other subscription metric. The application is delivered over the web. In most cases, users pay a minimal set up charge and for service and support.
3. **Tier-wise pricing:** Tiered-wise pricing attempts to package software benefits according to requirements of the users and their willingness to pay. This approach to pricing is an attempt to link software product costs to perceived customer value. For example, Adobe introduced tiered prices for its Acrobat products based on how customers use them, customers who create PDF documents, add comments and sign them and will pay more than customers who only create PDF documents.
4. **Flat pricing:** Users pay a fixed price for unlimited use of the software product. This approach enables customers to more easily predict what they will pay for the use of the software. The fixed price is usually restricted to a particular user or workstation. Many consumer software offerings are priced in this manner and some level of online support is typically built-in for a predetermined period of time. The primary drawback to this method is the lack of flexibility in customising a price for each customer based on the value the customer requires.

Revaluating Pricing Objectives

The objectives of the pricing process are a direct result of a company's overall strategy. A company

may pursue a growth strategy of rapidly increasing market penetration and market share. This will require at least in the short run, the adoption of a different pricing strategy than the pursuit of a strategy aimed at increasing profits over time. Pricing objectives are bound to vary by type of software and over time, even within a company and business unit. Although the objective of the pricing process is to determine a pricing strategy which will be a basis for profitable decisions in the medium and long term, pricing strategies are always context-specific and thus bound to change.

Software Pricing in Current Uncertain Environment

Let us briefly observe the fluidic nature of the software industry, the shift of bargain power to customers and the uncertainties surrounding the pricing of enterprise software products and services. Oracle President Mark Hurd, a few months back, commented on the current scenario of traditional enterprise software products: *Think about it: many enterprise apps are 20 years old, and the underlying systems that run them are of about the same vintage. That means they were deployed before the Internet became widely used, before browsers, before smart phones, before social media, before the Web, before widespread BI and analytics, and before tablets. Yet those dinosaurs form the core backbone of many of today's businesses, and they require enormous funding to keep them fed and watered — and that's why there's nothing left over for innovation.*

- In the current environment, the COO has to deal with shareholders perception of IT spending and budget constraints. Software pricing is under pressure from tight IT budgets and customers perception that software is overpriced. Increasing customer focus on business process values are generating resilience to pay upfront license fees for software that supports low value processes or unused components of an integrated business suite.
- In recent times, some software product giants like IBM and Oracle have seen declines in license revenue and thus increased dependence on maintenance or support revenue. These companies are more profitable by not charging upfront heavy license fees but generating a large share from maintenance and support. This phenomenon has given rise to more flexible

pricing techniques like:

- a) term license fees (fixed-term royalty payment basis)
- b) software as a service (subscribe to usage of software over the internet)
- c) commercial open source software (no upfront or download charges, but charge customer for maintenance or upgrade).
- Large software vendors are refining their pricing strategy based on the industry layer to which a product or a service belongs. At the basic infrastructure level, commercial open sourcing is preferred by the customers, whereas for web-based applications layer, long-term licensing is preferred. Also, service-oriented architecture where the algorithm of software programming is being declared rather than hard-coded, paves the way for future customisation and unbundling of software in an E-Business Suite (EBS).

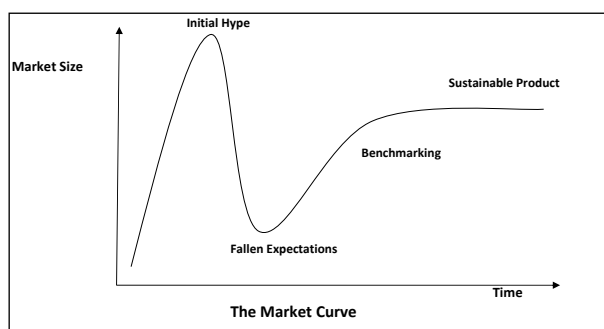
Market Curve: PLC of New Software

In addition to the general factors like competition, customer preferences and available complimentary products, some specific factors that impact the product life cycle of a new software product are discussed below:

- **Economic factors:** Economic growth dictates the amount of finances that the industry at large is earning and development indicates the volume of money that is being invested into channels of long-term IT infrastructure. Among all economic factors, development is the most important one, as a business has to cater to the demands of an economically-dynamic environment.
- **Technological factors:** The frequency and speed at which old technologies get outdated and new technologies grab the market share is astounding and unpredictable. Some classic examples in the mobile telephony space are Blackberry, Nokia and Motorola, which failed to anticipate the scale of change in customer preferences and evade their natural death. These eventually got acquired by the software companies looking to expand their product range in the telecommunication vertical.
- **Contribution to business value:** Every software that is launched in the market looks to either replace an existing player or create its own space by demonstrating a value. The value that it eventually delivers to the whole business process is critical for the existence of that product or service. Finacle is a core banking software package

developed by Infosys Ltd., designed to address retail banking, wealth management, CRM, and treasury requirements of Banks. Finacle is used in 168 banks across 81 countries, since its initial soft release in 1999 and still going strong in the banking vertical, despite fierce competition from other giant players like I-Flex.

- **Enterprise development costs:** Total development cost to the enterprise is a function of the cost that the enterprise incurs in developing and maintaining the software code itself, comparing the total cost of internal development to sourcing it. A product development activity in the lean market eases the pricing pressure on the new product.



Market curve graphically depicts how the value of enterprise software changes and undergoes customisation since its initial launch. In the coming days, as mobility, analytics, social media and big data get interconnected, the technology will get more complex at the infrastructure level, while the consumption will get simpler at the end user of enterprise software. This volatility will pose more challenge to the COO of software companies, in launching a sustainable product or service while meeting the fast change technology and customer business needs.

Difficulties in Measuring Customer Value

In microeconomic terms, customer value is viewed primarily in two ways:

- A. Customer value is the difference between perceived benefits and sacrifices. In microeconomic terms, customer value is seen here as the difference between the consumer's willingness to pay and the actual price paid, which is equal to the *consumer surplus*, the excess value retained by the consumer.
- B. A second line of thought defines customer value in a broader way. It defines customer value as

the maximum amount a customer would pay to obtain a given software, *i.e.*, the price that would leave the customer indifferent between the purchase and foregoing the purchase. Customer value in this sense is equal to the microeconomic concept of a customer's *reservation price* and the usage value of goods.

However, measuring customer value for pricing has multiple difficulties. Some foundational concepts of enterprise software value and difficulties of their practical application are discussed here:

1. **Perceived value:** A software product that has a better graphical display may be more pleasing to the eye, but has no value in the traditional economic sense, *e.g.*, a buyer may feel safer buying software from a well known player like IBM if there is a higher perception of reliability, trust and commitment to the market, but it is hard to quantify objectively in product value terms. One technique that is often used to measure the perceived value is conjoint analysis or trade-off analysis. This technique enables managers to compute the consumers' utility functions for individual variables and to understand how they are combined, traded off and individually valued at different levels of price.
2. **Economic Value to Customer (EVC):** EVC is the maximum amount a customer would be willing to pay for the software, assuming he is fully informed about the functionality and competitive offerings. It is analogous to the reservation price. EVC measures the life-cycle economic costs and benefits to the user of one product when compared with a reference product. Software are evaluated on purchase price, installation costs, maintenance costs, operating costs, disposal costs and benefits that can be measured over the life cycle.
3. **Price Sensitivity Measurement (PSM):** PSM models are useful for estimating market demand and for calculating the proportion of buyers that would buy the software within a specific price range. PSM determines the limits of buyer resistance over a range of prices that relate to the software value perceptions. PSM is very useful for pricing alternate software configurations in the early stages of development and throughout the development cycle.

Steps in Determining Launch Price

The first tranche of change has started to indicate the

long-term trend that aligns the development cost of software and the business value that the software create. In the days to come, software pricing will become increasingly based on the software vendors' ability to provide differentiating value for the customer.

We will now discuss a few simple steps which will help the decision-makers to gain customer insight on how the software affects her/his business.

1. **Identifying the cost of competitive product and process that consumer views as best alternative:** Any software, process and activity that the customer could alternatively use can serve as reference product. Several software and activities will be able to perform at least part of the functions examined; the economic value of a given software will have to be calculated against at least the principal two and three best alternatives.
2. **Segmenting the market:** The most adept vendors at implementing value-based pricing decisions know that there is no other way of gaining insight into sources of customer value than through observation and intense field research into the customer habits and requirements. Microsoft, for example, is known for handing out beta-versions of its latest enterprise software products to particularly knowledgeable companies and customer segments. This form of free customer feedback is used to determine which features add most value and to gain a deep understanding on how different customer segments use and value the product.
3. **Exploring product differentiation and unique selling proposition:** Software products and services can create value for customers in a variety of different ways: reliability, performance, ease of use, longevity, life-cycle costs, user and environmental safety, superior aesthetics, prestige and so on. The notion of these

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A company may pursue a growth strategy of rapidly increasing market penetration and market share. This will require at least in the short run, the adoption of a different pricing strategy than the pursuit of a strategy aimed at increasing profits over time. Pricing objectives are bound to vary by type of software and over time, even within a company and business unit

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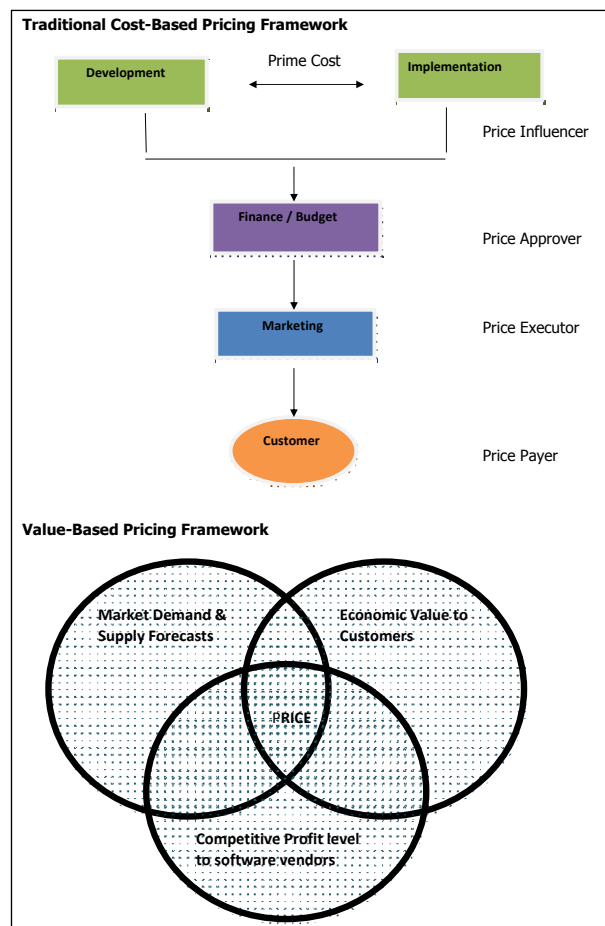
differentiating factors is extremely closely related to the concept of competitive advantage. It is important to bear in mind that the customer, not the software development company, is the judge deciding on whether the differentiating factors are actually relevant to better satisfy his needs and future capabilities.

4. **Determining value to customer:** Once the tangible sources of differentiation have been identified, monetary values are assigned to these factors for each identified segment of the market. Expert sales personnel know how to quantify reduced failure rates, start-up costs and life cycle costs in monetary terms, to demonstrate the value of a certain product to actual and potential customers. By presenting options such as (a) a lower price and lesser technical support and (b) a higher price coupled with support and guarantees, software vendors are able to quantify the value of specific product and service attributes for a group of customers.
5. A simplistic approach to value-based price is to sum the reference value and the differentiation value to determine the total economic value. As the price of reference software and the value of differentiating attributes are likely to vary across customer categories, the result of this process is not likely to be one monetary value for any given software, but rather a *value pool* reflecting the fact that different categories of customers will assign different values to the software.
6. The last step is to use the value pool to estimate future sales at specific price points. Once the value pool and economic value profile of a market segment has been determined, sales estimates for different price points can be obtained. For each price point, sales can be expected to comprise a significant share of all market segments which value the software higher than the specific price.

Comparative Framework of Cost-Based vs. Value-Based Pricing

The first flow chart shows the traditional cost-based pricing mechanism. Whereas the subsequent Venn diagram shows the value based pricing technique considering all the three factors, namely, economy, customer and software-selling firm, having an equal influence on the pricing decisions. Firms that invest in a strategic pricing centre can make better decisions throughout the development process, by understanding how customers value product

alternatives and arrive at prices that they are willing to pay.



Business Implications in Shifting to Value-Based Pricing

A strategic shift to value-based pricing would bring noticeable change to some key aspects of business operation. Most significantly,

- A. **Revenue waterfall:** As the software industry moves to price its products and services in more innovative ways, the business houses witness a *stochastic* shift in revenue recognition; upfront revenue from licensing make way to ratable revenue over a period of time. Any software which the customer accesses not by licensing but

Every software that is launched in the market looks to either replace an existing player or create its own space by demonstrating a value. The value that it eventually delivers to the whole business process is critical for the existence of that product or service

through either a vendor or any other third party is known as a service and not as a product. The revenue for service has to be recognised over the period of delivery and cannot be recognised as upfront revenue from licensing.

In these circumstances, the software seller might choose to recognise the upfront license fees as revenue and treat the maintenance revenue separately to be recognised over the period of support. The software seller also has the option to upfront license the software, with a promise for free upgrade for the next 1-2 years on the same platform. In this case, the entire revenue has to be equally prorated over 1-2 years term from the date of sale. Some bookings fall to revenue whereas some of the bookings fall to deferred, the industry expectancy is to provide more price options to the customers and still retain the total revenue over the life of the product or service.

B. Cash flow from operations: Value-based pricing models are certain to bring some significant changes to cash generated from the operating activities. As upfront license payments make way for the deferred and more flexible payment methods, the software developing company has to plan multiple of its activities to suit the available cash flows. A large part of the upfront license fees received in the first year of sale was going to fund the R&D activities and sales team upgrades. The cash flows and expenses are now more carefully matched to time the R&D speed and extent and also that the marketing expenses that trigger cash flows.

While some large corporations already have enough reserves to fund their product and service development and upgradation activities, the smaller software vendors resort to discounting their receivables or from venture capital funding or new stock offerings.

C. R&D: Over a longer period of time, R&D activities will shift to the continuous improvement model

Economic value to customer is the maximum amount a customer would be willing to pay for the software, assuming he is fully informed about the functionality and competitive offerings. It is analogous to the reservation price. EVC measures the life-cycle economic costs and benefits to the user of one product when compared with a reference product

As the price of reference software and the value of differentiating attributes are likely to vary across customer categories, the result of this process is not likely to be one monetary value for any given software but rather a value pool, reflecting the fact that different categories of customers will assign different values to the software

that focuses on smaller and timely releases rather than major infrequent upgrades, followed by a number of bug patches that often expect the customer to move to a different platform. It is slowly but steadily transpiring that *Software as a Service* (SaaS) will reduce the total cost of ownership to the user over the total period of customer relationship.

D. Sales: Pricing methodology will also impact the way the sales team gets compensated. The niche applications players might not see any radical change in their cost of sales, but the traditional software vendors will experience a reduction in number of key accounts. While getting a new customer signing large bookings would become difficult, it would also be convenient to rope in a large customer base as entry barriers fall. This will impact the way channel sales managers or senior sales leaders enjoy upfront commissions under the traditional software pricing mechanism.

Value-Based Pricing for Cloud – Few Illustrations

Cloud as an architecture and delivery model focuses on the shared infrastructure, shared applications and subscription payments. Making transition away from an on-premise enterprise software and moving to a *cloud model* means the entire process is much more relationship focused. The main characteristics are:

1. Cloud applications are typically hosted off-site and by a third-party provider.
2. Cloud applications are accessed *via* the internet.
3. Cloud requires mostly basic IT skills to implement. Since users access the hosted applications online, the specifications of service are simplified and there is no lengthy time to implement – unlike many on-premise systems.
4. Inherent to the Cloud delivery model are self-service requesting, near real-time deployment, dynamic and fine-grained scaling.

Value-based pricing models are certain to bring some significant changes to cash generated from the operating activities. As upfront license payments make way for the deferred and more flexible payment methods, the software developing company has to plan a multiple of its activities to suit the available cash flows

Now let us consider some unique techniques for pricing of cloud services:

- **Freemium model:** With freemium model, the core functionality is provided free and establishes a pay-for upgrade path that includes increased functionality. This model is recommended when the value of offering is derived from some sort of collaborative capabilities. With a freemium model, if it is hard to demonstrate the value in moving to the paid version, there is a risk of getting stuck with a large user base and no revenues. The important message here is to be very careful on how to segment the functionality between free and paid software. LinkedIn, a social networking site for business professionals, is a good example of a successful freemium model, generating revenue in three ways—premium subscriptions, corporate solutions and advertising.
- **Limited-feature model:** With this model, the software companies provide a relatively low-cost version of software service, to encourage rapid adoption but limit features to encourage upgrade sales. The price should be set relative to other available solutions, e.g., the first vendor to offer a SaaS solution in a market that has traditionally been served by on-premise solutions can use the established market value as the entry point for that functionality to set its own pricing. The vendor could also set the price at a discount from the market value and emphasise the benefits of SaaS to the customer (time value and lower upfront costs for deployment, etc.). The two US based dominant players in the Cloud space Salesforce.com and Workday.com have consistently done a good job with the feature-limited model in their entry level offering with revenue growth derived from organisations that increases their user bases as well as move up to higher-priced and more featurerich editions.
- **Pay-as-you-grow model:** *Pay-as-you-grow* model is a usage or transaction-based model

in which customers only pay for what they use, with no recurring or base fees. This model is dynamic and allows the most flexible pricing for customers. With this model, customers take on very little upfront risk. Pricing is on per-unit basis and is generally higher than fixed or tiered plans.

IBM Senior Vice-President Erich Clementi says: *We fully recognise that SMB (small and medium businesses) customers have different sets of needs and IT requirements than our large enterprise customers. And just to be clear, these are not watered-down, leftover, or recycled enterprise level products. Instead, the offerings feature a portfolio of easy to deploy, rapid-value solutions that are appropriately sized and priced for SMBs.*

However, customers are also increasingly facing a modern business hurdle of hosting their critical applications on the cloud; staggering costs when data-centre breakdowns trigger lost revenue, customer disenchantment, dropped employee productivity and injured brand image.

Conclusion

Large software corporations are rethinking their pricing strategy and portfolio of products or services and carefully choosing the applicability of value-based pricing, stacking up their portfolio with offerings which have more value. The emerging trend is that the basic software will become virtually free-of-cost or be supplied by some vendors trying to hold their market share with provision of basic but essential hard coded software. By moving far beyond the traditional approach, engineered systems help CEOs tackle the IT-infrastructure sprawl whose insatiable appetite leaves precious little funding for customer-facing initiatives. The author strongly believes that the software industry is fast pacing towards a model of actual value delivery to customers. Pricing is no more the value that the large corporations place on the enterprise software, but the actual benefit that the customer receives based on the criticality of the business process.

Pricing approaches based on customers' perceptions of value are strategic and long-term in nature, since they are focused on capturing unique value from each market segment through the pricing mechanism. Enterprise software selling companies need to invest to create pricing capital, to ensure the long-term benefits of value-based pricing. ■

Greening of Small & Medium Enterprises



Small and medium enterprises (SMEs) are powerful engines of economic growth of a nation. Empirical evidences suggest that these contribute as much as 70% of the industrial pollution. Individual units may emit small amounts, but cumulatively they add to a substantial figure. Unfortunately, many are not aware of the problem they are causing or even if aware do not have finance to install equipment to arrest pollution. It is imperative to educate entrepreneurs about the impact of environmental issues in their own interest, to avoid inviting penalties or even stronger measures. They should be made to realise that sustainability will lead to profitability through reduced energy consumption. Production of eco-friendly products will enhance profitability, build their image and contribute to long term success. Several success stories of SMEs from all over the world are cited to illustrate the above points. The author argues that the accounting professionals as trusted business advisors of the SMEs, have a key role to play to usher in a green world. Read on...



CA. Arunagiri Vishwanathan

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1. Role of Small Enterprises in the Economy

Small and medium enterprises (SMEs) have been the engines of economic growth in all countries. According to the UNIDO (United Nations Industrial Development Organisations), *SMEs*

represent more than 90% of global business and account on an average, for about 50% of GDP of all countries and 60% of their employment. However, it goes on to state that these contribute significantly to industrial pollution, i.e., about 70% of all industrial pollution.

2. Environmental Behaviour of SMEs

Though the SMEs individually may not have a significant effect on the environment and resource use, they collectively exert a substantial impact. To understand why much improvement has not occurred on the sustainability front, we need to appreciate the dynamics of small business.

An SME is managed in part or in whole by its owner(s). Management is informal, without bureaucratic procedures and structures. In many cases, the environment impact of their operations is not known to them. Where the owner is aware, financial constraints may preclude him from installing protective equipment. Compared with the bigger listed companies that are increasingly under pressure by various stakeholders to report on their sustainability practices, the owner-manager does not have to answer to shareholders and a board and thereby has more freedom and power to implement sustainability practices or, to ignore them.

3. Impact of Environmental Concerns on SMEs

a) Existential Threats

It is unfortunate that many SMEs have ignored concern for the planet at their own peril, as could be seen from the following cases:

- i) In the case of the village of Bichhri in Rajasthan, five small chemical industries operated without effluent treatment plants. Toxic effluents from the industry entered the ground water and the wells of fourteen villages became contaminated as a result. The Supreme Court directed the closure of the factories attached to the property of the polluter and directed the Ministry of Environment and Forests of India to recover the cost of eco-restoration from the industries held liable.⁽²⁾
- ii) Tanneries operating from Agra were discolouring Taj Mahal and hence the Supreme Court asked them to be shifted away from the Taj Trapezium (an area of

Increased environmental and social awareness on the part of customers has resulted in their shunning of products manufactured by firms polluting the environment or adopting undesirable labour practices, such as employment of child labour

10400 sq kms in the shape of a trapezium to regulate activities in relation to air pollution)---*M. C. Mehta vs. Union of India* AIR 1997 SC 734³

- iii) Several cases where industries were asked to be shut or moved to ecologically safe places are given under *Green Decisions: Summary of some Important Judgments*⁴.

These examples suggest that in spite of stringent environmental regulations and enforcement authorities in place, hazardous industries have continued to grow haphazardly, leading to many environmental problems in India. They highlight the fact that the enforcement agencies in India need to perform their compliance and enforcement duties more diligently, obviating many problems.

b) Pressure from Customers:

Increased environmental and social awareness on the part of customers has resulted in their shunning of products manufactured by firms polluting the environment or adopting undesirable labour practices, such as employment of child labour. A few instances are cited below:

- i) Many European firms cancelled orders for carpets from India when they came to know that child labour is extensively employed in carpet making.
- ii) The Harkin's Bill introduced in the US Senate seeks to ban the import of products made in foreign countries which are documented users of child labour on a country specific basis. The textile and hand knotted carpet industries of South Asia are among the first targets of such law.
- iii) US blacklists Indian exports again for using child labour
- iv) "AHMEDABAD: India has been blacklisted for the third consecutive year by the US government for engaging child labour

Framers of the GRI Guidelines envisaged that the guidelines should cover all organisations irrespective of any size, sector, or location. The GRI further envisages that reporting is not only to cover the performance of an organisation in isolation, but also encompass all upstream and downstream entities. Reportedly, though over 3,000 sustainability reports have been issued up to 2011, reporting of the performance of supply chain entities have not gathered momentum

in its garment export industry, raising doubts over future sourcing deals with global brands. The country was named in the Executive Order List despite several attempts by the exporters to convince the US authorities otherwise.”

“Henceforth, whenever we engage in business with global brands, we will have to prove we are not guilty,” says Rajendra Hinduja, MD of Bangalore-headquartered Gokaldas Exports, whose clients include Nike, Reebok, Old Navy, Abercrombie & Fitch, Adidas, Diesel, Levi’s⁵.

4. Business Imperative for SMEs to Conform to Sound Environmental and Human Practices

SMEs must appreciate that sustainability is neither morality nor altruism but a very mundane business proposition resulting in waste minimisation, energy efficiency, water conservation and pollution prevention, enabling cost savings and thereby profit improvement. The benefits accruing through environmental initiatives will be the most powerful point to drive home the importance of sustainability

to all SMEs. In fact, it is urged that sustainability will have to be integrated as part of an SME’s business strategy adopting a long-term vision closely tied to the strategic benefits and move away from the philanthropy, rather forced-giving, mindset.

ACCA (Association of Chartered Certified Accountants) SME & Entrepreneurship Policy Advisor Tatjana de Kerros says: *It is no longer a question of whether SMEs should invest in sustainability, but how to ensure it is embedded within their strategy to spur competitiveness. Sustainability can be a cost-advantage to SMEs if it focuses on the organisational capabilities and emulates the core competencies of the firm. SMEs are inherently more flexible and adaptive than their larger counterparts, and their size enables to operationalise sustainability with no radical or costly transformation. This can include new operating models, available technology and a new managerial practice that creates difficult-to-trade assets that increases the productivity and performance of the firm.*

CIMA, AICPA and CICA publication *SMEs Set Their Sights on Sustainability* gives case studies from UK, USA and Canada on how SMEs voluntarily embraced sustainability as a business opportunity, for their own success apart from benefiting people at large and enriching the planet.

International Finance Corporation, Ethos Institute and SustainAbility in their report *Developing Value—The business case for sustainability in emerging markets* highlighted the business benefits and risks from social and environmental improvements based on 240 cases from Africa, Asia, Latin America and Central & Eastern Europe. Business Case Matrix depicts the links and interrelationship between 7 sustainability and 6 business success factors:

Business Factors	Sustainability Factors						
	Governance & engagement	Governance Stakeholder	Environmental Process Improvement	Environmental Products & Services	Local economic growth	Community development	Human Resource management
Revenue growth & market access							
Cost savings & productivity							
Access to capital							
Risk management & license to operate							
Human capital							
Brand value & reputation							

In India too, we have several examples of SMEs growing from scratch to enviable heights by adopting sustainability practices. Business Today's *YES Bank SME Awards, 2012* cites inspiring stories of such successful SMEs.

Ankur Scientific Energy Technologies [awarded Star SME Overall (Small)] manufactures biomass gasifiers, mostly used for power generation, by burning biomass into gas that then is fed to engines to generate power. *Ankur Scientific* has now become a recognised name in gasifiers in India as well as in Europe and rest of Asia. *Yennai Hydrocarbon* [awarded Best SME-Social and Environmental Responsibility (Small)] uses solar power to run a large part of its Barmer campus in Rajasthan. It has planted more than 200 trees. It empowers people living in and around Barmer by training them in skills required in oil and gas sector. It has set up an oilfield training centre where it provides hands-on training to engineers aspiring for a career in oil and gas sector at a nominal cost. *Molecular Connections* [awarded Best SME for Innovation (Small)] provides innovative technology combining biology, mathematics and IT which enables scientists to wade through a lot of research systematically and properly, structure the information gleaned as well, in order to discover drug targets, which is a term for any substance in the body-usually a protein-whose behaviour can be modified by an external drug leading to a cure. *Omega Electronics* [awarded Best SME Social and Environmental Responsibility-(Medium)] is



The Ministry of Corporate Affairs of the Government of India had issued the voluntary guidelines on corporate governance, which include, inter alia, guidelines for the MSME sector keeping in view their special problems

manufacturing elevators that run on *solar and wind power*. It has already installed about 100 such energy-efficient elevators by April 2013.

5. Global Reporting Initiative (GRI) Guidelines and SMEs

Framers of the GRI Guidelines envisaged that the guidelines should cover all organisations irrespective of *any size, sector, or location*. The GRI further envisages that reporting is not only to cover the performance of an organisation in isolation, but also encompass all upstream and downstream entities. Reportedly, though over 3,000 sustainability reports have been issued up to 2011, reporting of the performance of supply chain entities have not gathered momentum. Example of ABB cited below should be a good model.

Supplier Sustainability Development Program of ABB

ABB took steps in 2012 to develop suppliers (who are mostly SMEs) into strategic business partners who share their commitment to sustainability under the Global Supplier Sustainability Development Program (SSDP). Under this programme, the ABB conducted 121 audits and trained more than 1,050 suppliers and 1,255 ABB employees in 2012 focusing on Brazil, China, India and Mexico. A customised internal training program was also launched during the year enabling the ABB employees to achieve certification as sustainability auditors.

The program is structured around a combination of training for both suppliers and the ABB employees, onsite auditing and monitoring of performance improvement plans. ABB Supplier Code of Conduct underpins the SSDP, defining minimum standards regarding fair and legal labour conditions, occupational health and safety, environmental responsibility and business ethics.

Such audits resulted in improved audit performance by suppliers who participated in the training programs. However, audits continue to reveal a number of situations where the ABB's standards were not met. The issues discovered during audit included excessive overtime, inadequate remuneration, poor waste storage and disposal practices, and a lack of appropriate protective equipment for workers. No cases of child labour were detected in 2012.

ABB supply chain or quality managers are assigned to follow up the corrective action plans.

Should a supplier fail to comply with the corrective action commitments, ABB commences a process to de-source that supplier. During 2012, four suppliers were blocked due to unsatisfactory progress with corrective actions. Purchases from these suppliers were suspended pending satisfactory progress by a defined date. Should these suppliers not meet these requirements, the next step will be their removal as the ABB-approved suppliers.

ABB believes that a strong supplier performance ensuring resilient, cost-effective and sustainable supply chains is a key factor in business success and critical to growth plans. It states that the SSDP is helping to embed sustainability principles along the supply chain contributing to its own success. All large companies should initiate such *Sustainability* programmes to speed up the process of greening the world economy.

6. Government's Support for Sustainability Measures

Credit Linked Capital Subsidy Scheme of MSME offers 12% capital subsidy for technological upgradation by small enterprises, which includes *anti-pollution measures and energy conservation machinery*.

Environmental Training

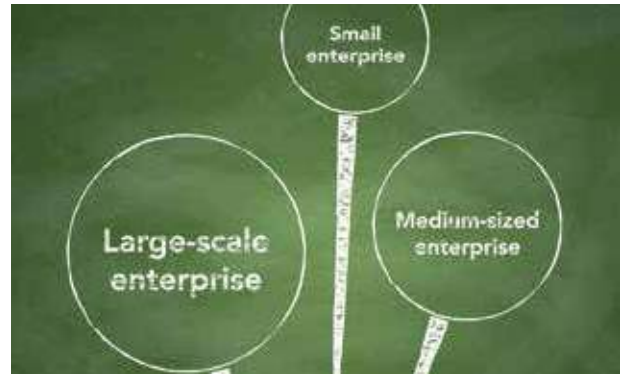
The Government is also organising several training programmes on various aspects of pollution such as air, water, chemical, groundwater, noise, medical waste, solid waste, *etc.*, to sensitise people to environmental issues through the *Environmental Training Unit (ETU)* of the Central Pollution Control Board.

Voluntary Guidelines issued by MCA

The Ministry of Corporate Affairs of the Government of India had issued the voluntary guidelines on corporate governance, which include, *inter alia*, guidelines for the MSME sector keeping in view their special problems.

- Facilitating MSMEs to recognise the business case for adopting responsible business practices
- Preference by public agencies and large players in value chains to MSME suppliers that follow such practices
- Handholding MSMEs during the adoption of the guidelines

Public agencies as well as large enterprises may catalyse the process further by supporting collective



initiatives of the MSMEs in clusters. Capacity of the MSME associations could be built for awareness creation and to carry out collective initiatives.

7. Role of Accounting Professionals in Fostering Sustainability

Crucial role that CAs & CMAs can play in guiding SMEs to adopt sustainability practices have been elaborately spelt out in the reports of our sister bodies of UK, USA and Canada mentioned earlier. ACCA Global Forum for SMEs' recommendations contained in its publication *Embedding sustainability in SMEs* identifies a few areas of opportunities and activities for the management accounting professionals and their corresponding institutes. Accountancy institutions in India, *e.g.*, ICAI, may consider these recommendations for adoption.

What Professional Bodies Can Do

ICAI and other professional bodies can promote the adoption of sustainable practices by providing members, either directly or through partnerships with:

- sources for information about sustainability and relevant regulation
- education on specific sustainability issues for business such as the implications of resource depletion and energy scarcity
- information about the SME aspects of the ISO 14001 and *Global Reporting Initiative* standards and industry-specific regulations
- training in specific environmental-accountancy techniques including environmental auditing, carbon costing, *etc.*
- develop or endorse a bespoke toolkit for accountants on environmental sustainability.

Accounting professionals should be the torchbearers for ushering in greener SMEs in a green world. ■

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Arrangement of Accounting Software

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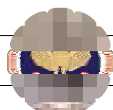
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For requesting CD for the aforesaid software:

Contact Person – Pushpa K. S., Mobile: 09538898906

For any other queries or feedback, please contact Secretary, CCBCAF & SMP, ICAI at 0120-3045994 or E-mail at: ccbcaf.software@icai.in

Chairman,
Committee for Capacity Building of CA Firms and
Small & Medium Practitioners, ICAI



Quick Heal Security for Android Mobile

Arrangement of the 'Quick Heal Total Security for Android enabled Mobile phones' software at special price for the Members & Students of ICAI by the Committee for Capacity Building of CA Firms and Small & Medium Practitioners(CCBCAF&SMP), ICAI

Quick Heal Total Security for Android enabled Mobile phones' software has been arranged for the registered members, students of ICAI from M/S Quick Heal Technologies Pvt. Ltd., Pune at discounted price. The 'Quick Heal Total Security for Android enabled Mobile phones' software is an antivirus software with features like Virus Protection, Call Blocking, SMS Blocking, SMS Spam Protection, Data Protection Anti-Theft, Mobile Tracker (using GPS), Remote Mobile Locking, Device Control through Web Portal (RDM),

Scanning and Unlocking Commands, Improved Device Tracing, Multi-SIM support, Web Security, Network Monitor, Performance Monitor, Backup and Restore, Secure Delete, *etc.* The Price of the aforesaid software is ₹250/- plus applicable taxes for 2 years.

The Members are requested to visit <http://www.quickheal.co.in/home-users/quick-heal-total-security-for-android> for purchasing the software. The member is required to fill the blank titled 'Duration' by entering the option '2 years' from the



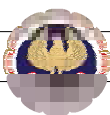
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drop down menu and click on 'Buy Now'. Thereafter a window will pop out and the member is required to click 'buy now' to confirm the placing of the order. The page will then lead to another page where the member is required to put in the quantity of softwares needed and the coupon code which will be provided by the Committee Secretariat by email and click on 'Apply'. The price of the software will appear at the right hand side. The member should click on 'Buy online' by providing the required information.

Members are requested to get in touch with CCBCAF&SMP Secretariat for the arrangement of the Coupon Code for the same at E-mail: ccbcaf.software@icai.in

For any other queries or feedback, please contact Secretary, CCBCAF & SMP, ICAI at 0120-3045994 or E-mail at: ccbcaf.software@icai.in

Chairman,
Committee for Capacity Building of CA Firms
and Small & Medium Practitioners, ICAI



EOI as Resource Person for Certificate Course on WM&FP

Invitation for empanelment as Resource Persons for the Certificate Course on Wealth Management & Financial Planning to be organised by the Committee for Capacity Building of CA Firms and Small & Medium Practitioners (CCBCAF&SMP) in the Year 2014-15

The Committee for Capacity Building of CA Firms and Small & Medium Practitioners (CCBCAF&SMP) of the Institute of Chartered Accountants of India proposes to organise a Certificate Course on Wealth Management & Financial Planning during the year 2014-15.

The aforesaid certificate course emphasise on developing skill sets which would be required for advising clients to make sound financial decisions while practicing and serving clients in diverse practice areas as compliance, taxation etc.

Learning Objectives of the aforesaid certificate course:

- To enable the candidate to have enhanced career opportunities in Financial Services Investments guidance and wealth management.
- To enable the candidate to have Global league of the best Financial Planning professionals.

The curriculum of the aforesaid Certificate Course is as follows:

1. Introduction to financial planning
2. Risk Analysis & Insurance Planning
3. Retirement planning & employee benefits
4. Investment planning
5. Tax & estate planning
6. Advanced financial planning and HNI Wealth Management
7. Technical Analysis

Experts who have more than five years of experience in the relevant area and who have delivered lectures at various forums of Chartered

Accountants are eligible for the enlistment in the Panel of Experts.

Experts who are interested to be associated with The Institute of Chartered Accountants of India as Resource Persons are requested to send/e-mail their resume to the following address:

Secretary, Committee for Capacity Building of CA Firms and Small & Medium Practitioners (CCBCAF&SMP), The Institute of Chartered Accountants of India (ICAI), ICAI Bhawan, A-29, First Floor, Administrative Block, Sector-62, Noida (U.P.), P.C.-201309. E-mail: sambit.mishra@icai.in, Phone: 0120-3045994.

It would be appreciated if the resume including all details regarding qualification, Membership no. of ICAI (if any), Experience, areas of specialisation, contact address, etc. is sent at the earliest, preferably within 15.01.2015.

CCBCAF&SMP, ICAI reserves the right to invite similar proposal from any other Member/ Members of ICAI though they may not have offered their expression of interest in this regard. No communications will be entertained from the applicant Member/ Members in this regard. Only selected applicant Member/ Members will be individually communicated. CCBCAF&SMP, ICAI reserves the right to reject the Expression of Interest received from the applicant Member/ Members of ICAI without assigning any reason therefore.

Chairman
Committee for Capacity Building of CA Firms and
Small & Medium Practitioners (CCBCAF&SMP),
ICAI



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EOI for Resource Material for Certificate Course on WM&FP

Invitation for Expression of Interest for Authoring Resource Material for Certificate Course on Wealth Management & Financial Planning

The Committee for Capacity Building of CA Firms and Small & Medium Practitioners (CCBCAF&SMP) initiated to launch a certificate course on Wealth Management & Financial Planning. The brief outline of the modules for the aforesaid Course is appended below.

Module 1: Introduction to Financial Planning –

This module is comprehensive and offers a complete overview of the financial planning process. It focuses on a globally accepted six-step financial planning process: general principles of cash-flow planning, budgeting, legal aspects of financial planning and acquaints the students with concepts of risk management, investments, insurance, retirement solutions, tax and estate planning, which are covered in greater detail in the subsequent five modules.

The module will analyse the financial needs and goals to be achieved with specific resources within stipulated time period. It will stress on drawing up an action plan to fulfill the goals, like, the products to buy and the savings to make.

Module 2: Risk Analysis & Insurance Planning

– This module examines the principles of Risk Analysis & Insurance Planning to identify a client's risk exposure and accordingly select appropriate risk management techniques. The module reviews basic insurance products, pertaining to both general and life insurance; analyses various insurance needs, such as medical, disability, life and general insurance and finally determines the type and amount of insurance best suited to the client's situation and needs.

Module 3: Retirement Planning & Employee Benefits

– The module covers all the major retirement-related issues like retirement savings need analysis, qualified retirement plan design, Social Security, Medicare, and more.

Module 4: Investment Planning

– The module emphasizes on identifying effective investment strategies of asset allocation according to an investor's risk appetite and financial goals. It also

gives an insight into the wide variety of investment options in different asset class.

Module 5: Tax & Estate Planning – This module aims to enhance the knowledge in the realm of personal taxation and tax planning, by providing a synopsis of the key tax components. Estate planning sub-module introduces the student to the process of developing an estate plan, including assessment of important techniques of estate planning: wills, gifting schemes, powers of attorney and joint property ownership.

The sub-module on Tax Planning will include Privileged communications, Dangers of tax evasion, Filing tax returns and documentation, Advance tax, audit process, Refund of income tax, Taxation terminologies etc. It will also focus on taxation issues of Sole proprietorship, General partnership, Limited liability companies, Trusts, Foundations/exempt organisations, Professional associations/corporations, Co-operative Societies etc.

Module 6: Advanced Financial Planning and HNI Wealth Management

– This module will focus on establishing client-planner relationships, gathering client data and determining goals and expectations, determining clients' financial status by analysing and evaluating the clients' information, developing and preparing client-specific Financial Plan tailored to meet the goals and objectives of client commensurate with client's value, temperament, and risk tolerance, presenting and reviewing the plan with the client, implementing the Financial Plan, monitoring the Financial Plan *etc.*

Module 7: Technical Analysis

– This module will focus on various technical parameters/analysis as well as indicators and chart patterns and other tools and buying and selling strategies for maximising the performance of managed portfolio.

The CCBCAF&SMP invites Expression of Interest from members of the Institute and other experts who are interested in developing/preparing basic drafts of the resource materials for the proposed certificate course on Wealth Management & Financial Planning



Growing Together, Staying Ahead



IndianOil is the highest ranked Indian company in the latest Fortune 'Global 500' listing, ranked at the 96th position. To achieve the next level of growth, IndianOil is forging ahead on a well laid-out road map through vertical integration—upstream into oil exploration & production and downstream into petrochemicals – and diversification into natural gas marketing and alternative energy. IndianOil has a keen customer focus and a formidable network of customer touch-points dotting the landscape across urban and rural India. The overseas businesses in Sri Lanka, Mauritius, United Arab Emirates (UAE), Sweden, USA and the Netherlands through

subsidiaries have been getting a strong foothold. The Corporation through a JV has become the first company to produce Styrene Butadiene Rubber (SBR) in the country, which is hundred percent import substitution product. Along with the passion to grow, IndianOil is integrating sustainability aspects of business with its vision and core values.

FORTUNE
500
2014 IOC RANK 96

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relevant to the participants of the aforesaid course. The intending authors for preparing the aforesaid resource materials are expected to have appropriate level practical experience in the relevant area along with the knowledge of the aforementioned modules of the aforesaid course.

The aforesaid resource material has to be prepared as self-learning booklets in the form of handbooks with proper mix of theory and practical case studies or any other form for enhancing the knowledgebase of the Practitioners of ICAI.

Apart from getting recognition, among their professional brethren, for their contribution in preparing the background materials, the authors of the accepted resource materials will get:

1. Their names will be acknowledged in the resource material
2. Honorarium and reimbursement of incidental expenses as per the prevailing policy of the Committee/Institute. (Which will depend upon the size, time and efforts to be required to prepare such resource materials).

The intending authors are required to send a formal request letter with the following details, to *Secretary, Committee for Capacity Building of CA Firms and Small & Medium Practitioners (CCBCAF&SMP), The Institute of Chartered Accountants of India, First Floor, Administrative Block, ICAI Bhawan, A-29, Sector-62, Noida (U.P.)-201309*. Sending proposals by email at sambit.mishra@icai.in is preferred:

1. Brief profile of the author
2. Specific experience and expertise in the relevant topic for which they offer themselves

to write the background materials which will enable the CCBCAF&SMP secretariat for allotting the preparation of resource material for them

3. Proposed coverage of the resource material
4. Sources of primary and secondary data based on which the resource material will be written
5. Time frame within which they can submit the resource material.

It may be noted that mere submission of the Expression of Interest may not lead to the allotment of the particular resource material to a particular applicant. The Institute reserves the right to request any other expert (though they might not have offered their expression of interest in this regard) to prepare resource material. No communications will be entertained in this regard. Only selected authors will be individually communicated.

CCBCAF&SMP, ICAI reserves the right to invite similar proposal from any other Member/Members of ICAI though they may not have offered their expression of interest in this regard. No communications will be entertained from the applicant Member/Members in this regard. Only selected applicant Member/Members will be individually communicated. CCBCAF&SMP, ICAI reserves the right to reject the Expression of Interest received from the applicant Member/Members of ICAI without assigning any reason therefore.

Chairman
Committee for Capacity Building of CA Firms
and
Small & Medium Practitioners (CCBCAF &
SMP), ICAI

Preference of Soft Copy over Hard Copy of Journal

Kind Attention: All Members of ICAI

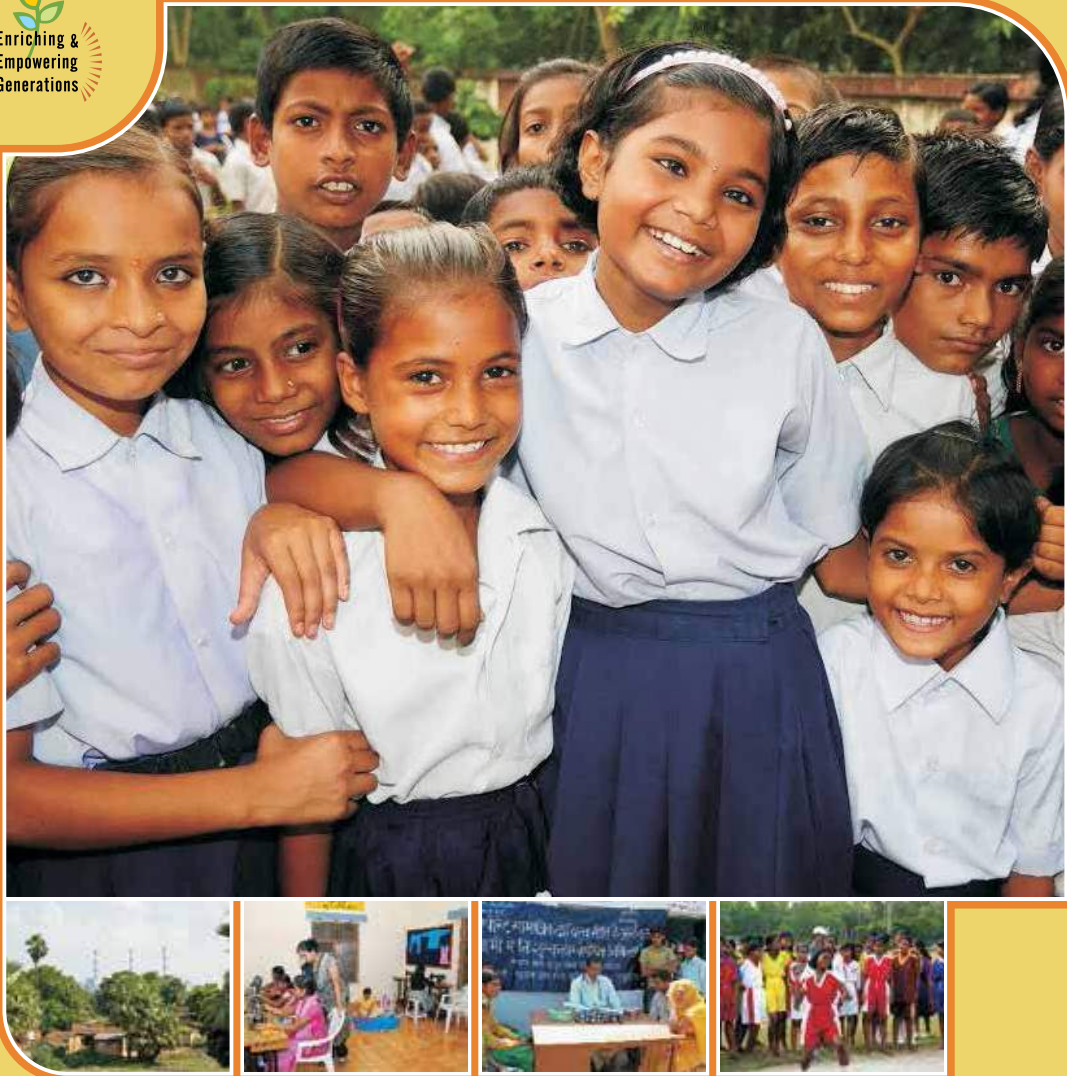
The Office of Editorial Board, of late, has been receiving requests from some members of the Institute asking it to stop sending free (mandatory) hard copy of the Journal and begin sending the soft copy instead. The Editorial Board appreciates their environment-friendly concerns. Reasons could be entirely different for such requests, e.g. if more members are at the same address, etc.

In fact, we would like to get your opinions on this issue before we act on such requests to stop sending

the hard copy of the Journal. We would like to know opinion from other members too, in this regard, i.e. if you would prefer soft copy of the Journal instead of hard copy version.

We therefore request you to let us know about your opinion on this matter and send us an email at eboard@icai.in.

- Editor



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Fostering Sustainable Development



Microsoft Office 365: Software License

Committee for Capacity Building of CA Firms and Small & Medium Practitioners (CCBCAF&SMP), ICAI has arranged Microsoft Office 365 software license to the Members of ICAI from Microsoft Corporation India through airtel business along with mobile, fixed line and internet connectivity solution packages etc. offered by the aforesaid vendor for the practitioners & CA Firms. Members of ICAI to receive wide range of offers to choose from along with Microsoft Office 365.

		(per user per month)	~ %~\$€
MICROSOFT OFFICE 365 SINGLE USER PACK	Genuine Microsoft Office 1 TB Secure Online file backup and storage 50 GB mailbox Business website Anti-SPAM Anti-VIRUS On-boarding 24/7 Help Desk T&C	₹ 321	- • €† • • Ž ...
BUSINESS ESSENTIALS PACK		₹ 1,025	- • €† • • Ž ...
BUSINESS PREMIUM PACK		₹ 1,300	- • € , • • "
BUSINESS ULTIMATE PACK		₹ 3,000	€
BUSINESS UBER PACK		₹ 20,900	

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Chairman,
Committee for Capacity Building of CA Firms and Small & Medium Practitioners, ICAI

*T&C apply. For detailed terms & conditions please log on to <http://www.airtel.in/ICAI/terms-condition.html>.
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Launch of 100 Hours Advanced ITT course

Announcement

As per Regulation 29(c)(iv) of the Chartered Accountants Regulation, 1988, students who have registered for Practical Training on or after August 1st, 2012 were required to complete Advanced IT Training before admission to the Final Examination. However, the Council of the Institute has decided to defer the implementation date of Regulation 29(c)(iv) from August 1st, 2012 to February 1st, 2013. Accordingly, 100 Hours Advanced ITT course will now be applicable to those students who have registered for Practical Training on or after February 1st, 2013 but before appearing in the Final Examination in terms of Regulation 29(c)(iv) of the Chartered Accountants Regulations, 1988. Hence all such students who commenced their Practical Training on or after February 1st, 2013 and are eligible to appear in November, 2015 Examination

are advised to complete the Advanced ITT well in advance before appearing in the Final Examination so as to avoid any hardship at a later date.

The fee for the Advanced ITT has been fixed at ₹5,000 per student which shall be charged by the concerned branch. The duration of the batches will be 4/6 hours per day. As per the Regulations, the time spent by the students for undergoing 100 Hours of Advanced ITT will be treated as a part of the training as period actually served under articles.

The students are advised to enquire the concerned Decentralised Office or the branch of the ICAI for registration to batches of 100 Hours Advanced ITT Course.

Director
Board of Studies

Online Registration Portal for GMCS, ITT and Orientation Programme

Announcement

Online Registration Portal for GMCS, ITT and Orientation Programme at All India Basis

The Board of Studies and ITT Section of IT Directorate have jointly developed an Online Registration Portal for ITT, Orientation Programme and GMCS Courses to be organised on All India Basis. The Portal provides online facility for Students' Registration, Faculty Registration, Batch Launching, Faculty feedback, Batch Allocation, Certificate and Report generation by POUs etc. In order to acquaint students regarding the functionalities of online Portal, the Institute has developed a comprehensive USER MANUAL explaining step-by-step process for the use of Online Portal and to provide guidance to the end-users *i.e.* Students. The same is hosted on the home page of the Cloud Campus at the following link:

www.cloudcampus.icaai.org->http://www.ionlineregistration.org/index.html.

Students are advised to register on the link mentioned above to undergo the Courses on ITT, OP and GMCS. For any concerns/suggestions/inputs related to the operations of the Portal, the same may be sent at-

For GMCS Courses: helpdeskgmcs@icaai.in

For Orientation Programme: helpdeskop@icaai.in

For ITT Courses: helpdeskitt@icaai.in

Director
Board of Studies

Certificate Course on Concurrent Audit of Banks

The concurrent audit system of banks has become very crucial and important for banks. The main objective of the system is to ensure compliance with the audit systems in banks as per the guidelines of the Reserve Bank of India and importantly, to ensure timely detection of lapses/irregularities. In view of the core competence of the chartered accountants in the area of finance and accounting, risk management, understanding of the internal functioning and controls of banks, *etc.*, the banking sector has been relying extensively on them to comply with these requirements of the regulator. The Internal Audit Standards Board of ICAI conducts six days Certificate Course on Concurrent Audit of Banks. The purpose of the **Certificate Course on Concurrent Audit of Banks** is to provide an opportunity to the members to understand the

intricacies of concurrent audit of banks thereby improving the effectiveness of concurrent audit system in banks, and also the quality and coverage of concurrent audit reports.

The course is open for the members of the Institute of Chartered Accountants of India as well as the students who have cleared CA final examinations.

Please refer link for further details of the Course:
http://www.icaai.org/post.html?post_id=8236

Course Fees: For metro cities: ₹15,000 per participant, for non-metro cities: ₹12,500/- per participant (*Cheque may be drawn in favour of "Secretary, ICAI" Payable at Delhi and should be submitted to respective branch*)

The details of the forthcoming batches of the Certificate Course on Concurrent Audit of Banks, organised by the Internal Audit Standards Board at various places in January and February 2015 are as follows:

Location	Scheduled Dates	Registration and Course Details
Ajmer	January 3 & 4, 10 & 11 and 17 & 18, 2015	http://220.227.161.86/34049iasb-ajmer-139.pdf
Vijayawada	January 5 & 6, 7 & 8 and 9 & 10, 2015	http://220.227.161.86/35627iasb-vijayawada-157.pdf
Ghaziabad	January 10 & 11, 17 & 18 and 24 & 25, 2015	http://220.227.161.86/33862iasb-ghaziabad-132.pdf
WIRC	January 10 & 11, 17 & 18 and 24 & 25, 2015	http://220.227.161.86/35788iasb25265mumbai.pdf
Patiala	January 17 & 18, 24 & 25, 31 and February 1, 2015	http://220.227.161.86/33865iasb-patiala-133.pdf
Aligarh	January 24, 25 & 31 and February 1, 7 & 8, 2015	http://220.227.161.86/35289iasb-aligarh-151.pdf
CIRC	January 24, 25 & 31 and February 1, 7 & 8, 2015	http://220.227.161.86/35290iasb-circ-152.pdf
Mangalore	January 24, 25 & 31 and February 1, 7 & 8, 2015	http://220.227.161.86/35607iasb-mangalore-155.pdf
Jorhat	January 31 and February 1, 7 & 8, 14 & 15, 2015	http://220.227.161.86/33864iasb-jorhat-137.pdf
Udupi	February 7 & 8, 14 & 15 and 21 & 22, 2015	http://220.227.161.86/33451iasb-udupi-120.pdf
Dibrugarh	February 7 & 8, 14 & 15 and 21 & 22, 2015	http://220.227.161.86/33868iasb-dibrugarh-136.pdf
Lucknow	February 7 & 8, 14 & 15 and 21 & 22, 2015	http://220.227.161.86/35260iasb-lucknow-150.pdf
Bellary	February 14 & 15, 21 & 22, 28 and March 1, 2015	http://220.227.161.86/33866iasb-bellary-134.pdf
Nanded	February 14 & 15, 21 & 22, 28 and March 1, 2015	http://220.227.161.86/33867iasb-nanded-135.pdf

Chairman
 Internal Audit Standards Board, ICAI
 E-mail: cia@icai.in; iasb.program@icai.in

Empanelment of Chartered Accountant firms/LLPs for the year 2015-16

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA
9, DEEN DAYAL UPADHYAY MARG, NEW DELHI – 110 124

Empanelment of Chartered Accountant firms/LLPs for the year 2015-16

Online Applications are invited from Chartered Accountant firms/LLPs who desire to be empanelled with the office of the Comptroller and Auditor General of India for appointment as auditors of Government Companies/Corporations for the year 2015-16. The online application will be available on our website www.saiindia.gov.in from 1st January 2015 to 15th February 2015; the firms/LLPs can apply/update the data showing the status of their firm as on 1st January 2015. After filling/updating the data, they are required to generate an online

acknowledgement letter. They are also required to submit hard copies of the relevant documents in support of their online application along with a print out of the acknowledgement letter generated online. The application which does not have an online acknowledgement letter would not be entertained as a valid application.

Sd/-
Sr. Administrative Officer / CA-V



ANNOUNCEMENT

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set-up by an Act of Parliament)



CONVOCATION – 2014 (II ROUND)

As you are aware, for promoting a sense of bonhomie among members, and also for bringing them closer to the Institute, the Institute of Chartered Accountants of India organizes Convocations for distribution of Certificates. This is an occasion to mark the entry of new members into the CA fraternity.

ICAI invites members enrolled during the period of **June, 2014 to November, 2014**, to participate in the Convocation wherein Certificate of Membership will be awarded amidst the august gathering of the President, ICAI and other dignitaries.

The schedule of the proposed Convocations is as under:

ICAI CONVOCATION – 2014 (II ROUND)

Mumbai- 3rd January, 2015 (Saturday)

Bangalore – 11th January, 2015 (Sunday)

Indore – 17th January, 2015 (Saturday)

Kolkata – 3rd February, 2015 (Tuesday)

Jaipur – 6th February, 2015 (Friday)

New Delhi – 7th February, 2015 (Saturday)

This schedule has been released for the advance information to the participants. Further details about the Venue and Timing of the Convocation Programme schedule will be intimated separately to the participants by the concerned Regional Office of ICAI.

Members, who are enrolled during February, 2014 to May, 2014, due to any reason, could not attend the last Convocation held in July and August, 2014 may also participate in the proposed Convocation. They are advised to be in touch with concerned Regional Office of ICAI to register their participation.

10th October, 2014

Joint Secretary
MC & MSS Section

CHARTERED ACCOUNTANTS' BENEVOLENT FUND

AN APPEAL TO ICAI MEMBERS FOR CONTRIBUTION TO CABF

Chartered Accountants' Benevolent Fund (CABF) established in 1962 by ICAI, is one of the largest body providing welfare and support to the Chartered Accountants Fraternity. It provides financial assistance for medical treatment, education, maintenance or any other similar purpose to necessitous persons of the CA fraternity. Financial assistance in lump sum is also given to the widows/relatives of the deceased member in case of accidental/unnatural death at age below 55 years. A considerable number of members/family is already getting such assistance from CABF.

To continue this endeavour, CABF invite contribution from our CA members. The contribution can be made in the form of:

- | | |
|----------------------------------|--|
| 1. Life Membership | - Rs.2500/- |
| 2. Ordinary Membership | - Rs. 500/- annually |
| 3. Voluntary Contribution | - An honorable amount up to any extent. |

All subscription and contribution made towards CABF is eligible for deduction under Section 80 (G) of Income Tax Act, 1961.

Please contribute generously towards the Fund through at par cheque/DD favoring "Chartered Accountants Benevolent Fund" and sent it to concerned Regional Office of ICAI or to following address:



Chairman

Chartered Accountants' Benevolent Fund

The Institute of Chartered Accountants of India

"ICAI Bhawan",
A-29, Sector 62, Noida-201309,
Dist. Gautam Budh Nagar (U.P.)
Email: cabf@icai.in

Grant of Fellow membership on the basis of service

Regulation 5 (3) of the Chartered Accountants Regulations, 1988 provides for eligibility to become a fellow member of the Institute on the basis of service in specified industries and organisations.

An associate member is eligible for admission as a Fellow Member if he/she satisfies the eligibility conditions laid down under Regulation 5(3) of the Chartered Accountants Regulations, 1988 as under;

For the purpose of sub-section (3) of section 5, an associate shall be deemed to have acquired the experience normally acquired as a result of continuous practice for a period of five years as a chartered accountant, if he:-

- (i) *being in government service or being employed in an educational institution approved by the Council or being employed in a private or government, industrial, commercial or trading undertaking, is ordinarily holding or has ordinarily held for a continuous period of not less than 5 years, any one or more posts carrying duties relating to accounts, costs accounts, audit, finance, taxation, company law and or secretarial work;*
- (ii) *being employed under a statutory authority, is ordinarily holding or has ordinarily held for a continuous period of not less than five years, any*

one or more posts carrying duties mentioned in clause (i) above;

- (iii) *being employed under a local authority, is ordinarily holding or has ordinarily held for a continuous period of not less than five years, any one or more posts carrying duties mentioned in clause (i) above provided the local authority has within its jurisdiction a population of not less than five lakhs of persons during each of the five years of his service;*
- (iv) *has served for a continuous period of not less than five years as a full-time paid assistant under a chartered accountant:*

Members fulfilling above conditions may apply to the concerned Regional Office with the prescribed Fee and application in "Form 3" along with required documents for grant of Fellow Membership. Respective details and Application Form are available on the Institute's website, vide link given below:

http://www.icaai.org/new_post.html?post_id=1564&c_id=89

V. Sagar
Acting Secretary
Date : 9/12/2014

Invitation for the Articles

The Committee on Management Accounting (CMA) invites research articles, write-ups and other similar materials in the areas of Management accounting and Financial Management for publishing in its journal. The Institute proposes to publish a quarterly Journal "Management Accounting and Business Finance" with an object of spreading the advanced knowledge on Management Accounting and allied areas which are relevant for the members of the profession and others concerned. The Journal is to focus on practical articles for advanced and research oriented knowledge.

The articles submitted for consideration of publication should be of 4,000-6,000 words typed double space on A4 size paper with 1 inch margin all around. In order to facilitate the blind review process, the author should not mention his/her name on the body of the manuscript. Three hard copies of manuscript along with a soft copy (MS Word) may be sent at the following address:

Secretary,
Committee on Management Accounting (CMA),
3rd Floor, Administration Block,
A-29, Sector 62, Noida- 201309 (UP)
Phone No: 0120-3045905
Email id: dr.amitagrawal@icaai.in

Authors may note that in appreciation of their contribution to the MABF journal an honorarium of ₹5,000/- per article would be paid to them.

Detailed Guidelines for writing the articles are available on the website of Committee at http://www.icaai.org/new_post.html?post_id=10667&c_id=240

The Editorial Board hopes that professionals and other experts will come forward to share their expertise and practical experience with our readers by preparing the papers in view of the specific requirements of the accounting profession.

Chairman,
Committee on Management Accounting (CMA),
ICAI, New Delhi

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**on
Central Excise Duty,
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& Customs Duty**

An initiative of Indirect Taxes Committee

Highlights

- Learn central excise duty, central sales tax, service tax and customs duty.
- Knowledge at click of the mouse—anyplace, anywhere & anytime.
- Complete the E-learning modules in parts within a subscription period of three months.
- 3 structured CPE Hrs. granted on completion of each module.
- E-Learning courses are available at <http://elearn.icai.org>

Feedback

Send your feedback/suggestions at itdc@icai.in

Contact Details

Chairman, Indirect Taxes Committee, E-mail id: atulservicetax@gmail.com

Secretariat, Indirect Taxes Committee, E-mail id: itdc@icai.in

Phone: 0120-3045954, 9350799932

Women Members Empowerment Committee

in association with

Dubai Chapter of ICAI

is organizing

“World CA Women Summit - 2 Days International Conference”

from 14th - 17th January, 2015

at

Dubai

We are pleased to inform you that Women Members Empowerment Committee of ICAI is organizing a 10 CPE Hours **World CA Women Summit-2 Days International Conference** at Dubai from 14th to 17th January 2015 which is open for Chartered Accountants across the world.

The programme schedule for the said event will be as under:

Date	Timings	Particulars
15th Jan'15	3.00 P.M. to 8.00 P.M.	Technical / Non Technical Sessions followed by Inaugural Session
16th Jan'15	9.00 A.M. to 7.00 P.M.	Technical / Non Technical Sessions followed by Valedictory Session

The package for the said event is being offered at the following cost & services for the ease and comfort of the members :

Accommodation (on twin/double room sharing basis)	Total Package Cost - Ex BOB/DEL	Total Package Cost - Ex BLR/COK/TRV
In 3* Hotel (Hotel City Max)	₹ 43000/-	₹ 45000/-
In 4* Hotel (Hotel Metropolitan Deira)	₹ 44000/-	₹ 46000/-
In 5* Hotel (Hotel Asiana)	₹ 48000/-	₹ 50000/-

THE ABOVE PACKAGE COST WILL INCLUDE:-

- Return Airfare from India : Ex DEL/BOB/BLR/COK/ TRV along with Visa & OTB Services
- 03N/04D accommodation from 14th Jan – 17th Jan'2015.
- Daily Breakfast, Lunch & Dinner arrangements.
- Desert safari, Half day city tour and visit to Dubai Mall with fountain show & Burj Khalifa observation gallery.
- Dinner Dhow cruise with both way transfers and other sightseeing option.
- One bottle of water per person per day during tour & Complimentary 2 bottles of water per room/ per day.
- All tour & transfer by AC deluxe coach & a tour manager.
- Transportation cost includes, pick up & drop, inter hotel transfers, local sightseeing in destinations, toll, parking, permit, driver batta & fuel charges.
- All taxes.

For further details, visit www.womenportal.icai.org & for payment visit the following link http://www.icai.org/new_post.html?post_id=11185

For Information Contact:

Conference Chairman:

Chairman,
Women Members
Empowerment Committee (WMEC)

Conference Vice Chairman:

Vice Chairman,
Women Members
Empowerment Committee (WMEC)

Conference Coordinators:

Chairman
Dubai Chapter of ICAI
Mobile: +971-506542030
E-mail: chairman@icaidubai.org

Secretary
WMEC
Phone: 0120-3876873,
Mobile: +91-8527197171
E-mail: wmec@icai.in,
info.wmec@icai.in

Since, the delegation size would be limited, registration for the World CA Women Summit would be on the first-come-first-serve basis and ICAI reserves the right to finalize the composition of the delegation.



For more details visit: www.womenportal.icai.org





Commencement of 8th Batch of Certificate Course on Master* in Business Finance (MBF)

In Delhi NCR and Mumbai from January 2015 (Registrations Open)

About the Course

The Committee on Management Accounting (CMA) of ICAI will conduct 8th Batch of Master in Business Finance Certificate Course (MBFCC). Course coverage is extensively wide across various topics of advanced financial management like Capital Market, Investment Banking, Fund Raising & Fund Management, Corporate Valuation, Merger & Acquisitions, Banking, Forex Market, Treasury Management, Risk Management etc. with an aim to provide knowledge and skill required for tomorrow's CFO and high end consultancy in finance.

Highlights

- Comprehensive Finance Curriculum
- Skill augmenting to match India Inc Growth
- Unique mix of faculty
- Focus on Indian Market
- Innovative practical and managerial applications

Eligibility

Only the Members of ICAI and the Students of the Institute who have passed the CA Final Examination are eligible to pursue this Course.

Course Contents

LEVEL I

Paper 1 - Financial Management and Advanced Financial Analysis

Paper 2 - Capital Structuring, Fund Raising and Investment Management

LEVEL II

Paper 3 - Capital and Financial Markets Management

Paper 4 - Forex, Treasury and Risk Management

LEVEL III

Paper 5 - Valuations, Merger & Acquisitions, and Restructure

Paper 6 - Banking, Risk management and Business Strategy

Course Duration

This is approximately One year course.

Classes will be held on 2nd and 4th Saturdays (2 pm to 7:30 pm) and Sundays (9 am to 2 pm).

There will be two (one week each) residential programmes as part of Course.

Professional Credit

100 CPE hours credit in completion of course

Two Full Time Residential Programme of One Week Each

The Residential Programme aims at bringing eminent national and international faculty members to guide the students in undertaking practical and innovative project work. The fees for Two Residential Programmes at Centre of Excellence, Hyderabad is Rs. 20,000 (Rs. Twenty thousand only) which includes cost of stay, food etc. Residential programmes are mandatory to attend.

Faculty

The Faculty members for the course are from IIM's, XLRI, NIBM, MDI, premier Universities, Public & Private Sector Banks/ Financial Institutions, Mutual Funds, ICRA, SIDBI, PE Funds, Senior Chartered Accountants from Industry/ Profession and reputed academicians.

Course Registration

The course registration is on receipt of duly filled in and signed Course Registration form with course fee of Rs. 30,000 (Rs. Thirty Thousands only) vide DD/ Pay Order in favour of "The Secretary, ICAI" payable at Delhi. Course fee can also be paid online through ICAI Payment Portal.

Online Payment:

<http://www.icai.org/ccm.html?progid=107>

Registration Form Submission

The Registration form with course fee has to be sent to :

The Secretary,
Committee on Management Accounting (CMA)
ICAI Bhawan, Administrative Block, 3rd Floor,
A-29, Sector - 62
Noida (U.P.) - 201 309

Course Details :

Prospectus, Registration Form available in website :
www.icai.org/post.html?post_id=4092

Contact :

CMA Office : chandniagarwal@icai.in Ph: 0120-3045905

Secretary, CMA: dr.amitagrawal@icai.in Ph 9350572094

Chairman, Committee on Management Accounting, ICAI

**Committee on Management Accounting
The Institute of Chartered Accountants of India**

* Master indicates level of expertise and not a post graduate degree.

New Publications

Background Material on GST

The Indirect Taxes Committee, with a view to update the members and other stakeholder at large about GST, has published a Background Material on GST. The material covers various topics like concept of GST, its feasibility & impact in India, challenges for Indian economy, GST in other countries etc. It is an all-inclusive material, which would provide an insight to the basic concepts of proposed GST regime.



Price: ₹ 230

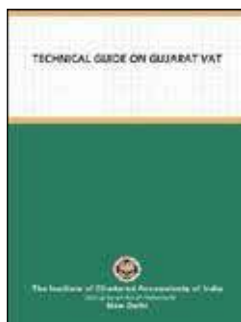
Ordering Information: The Publication can be purchased directly from the sales counter at the ICAI's Regional Offices or at the Head Office and can be online purchased from the website <http://www.icaai.org/publications.html?bookcid=25&bpg=1>. To order by post, requisition may be sent to the Postal Sales Department of the ICAI at postalsales@icai.in

Member may also download the Background Material on GST from Knowledge Portal of ICAI, which is available at http://www.icaiknowledgegateway.org/media/k2/attachments/ICAI-Background_Material_on_GST.pdf

Technical Guide on States VAT

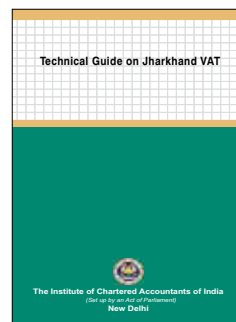
The Indirect taxes committee has published following Technical Guides on VAT:

- (i) Technical Guide on Gujarat VAT
- (ii) Technical Guide on Rajasthan VAT
- (iii) Technical Guide on Jharkhand VAT



Price

- Technical Guide on Gujarat VAT ₹ 150
- Technical Guide on Rajasthan VAT ₹ 160
- Technical Guide on Jharkhand VAT ₹ 150

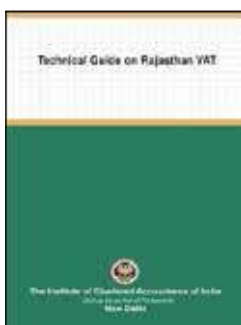


Ordering Information

The Publication can be purchased directly from the sales counter at the ICAI's Regional Offices or at the Head Office and can be online purchased from the website <http://www.icaai.org/publications.html?bookcid=25&bpg=1>. To order by post, requisition may be sent to the Postal Sales Department of the ICAI at postalsales@icai.in

The significant features of the Technical guides are as follow:

- Guide covers all aspects of the respective State VAT provision such as basic principles, procedure for registration, payment, assessment, refund, penalties, input tax credit, import and exports of goods *etc.*
- General Guidance to the Chartered accountants to address the various issues that may arise in the VAT.





Committee for Members in Industry
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

The Committee for Members in Industry of ICAI is organising comprehensive

Two days

ICAI-CMII Corporate Forum

on 31st January, 2015 - 1st February, 2015

at

Hotel Sahara Star, Mumbai

This mega event comprises the following sub- events:

1

Corporate Conclave -

Two days National Convention on contemporary topics to enrich the knowledge and to enhance the skill set of members. This Convention focuses on various important aspects that are of practical relevance to the members of the Institute and will be beneficial in keeping them updated in this dynamic environment.

2

ICAI Awards 2014 on 1st Feb. 2015-

Would honour the exemplary work of the Chartered Accountants in Industry by recognizing those who have demonstrated excellence in their professional life, personal life and are the role models for others in industry. The ICAI Awards 2014 also seek to acknowledge Chartered Accountants who have created value to their company's stakeholders on a sustainable basis.

3

Financial Services Expo -

A platform where Chartered Accountants and Corporate from all over India would mark their presence. This would enable various organizations involved in Banking, Insurance, Mutual Funds, Capital Markets, Real Estate, Information Technology products and services and other technological products to interact with Chartered Accountants, Investors, Finance Fraternity and Corporate Decision Makers.

We are expecting more than 3000-4000 delegates – all of them high profile professionals in various industries across the country who will participate in the Corporate Forum. The organizations can use the ICAI-CMII Corporate Forum 2014 for marketing their products/showcase themselves. By sponsoring the events, sponsors would be contributing to the main objective of searching and recognizing talent in the Industry at a higher level.

We earnestly invite you to participate in ICAI-CMII Corporate Forum 2014 and utilize this excellent opportunity. Details are available at <http://corporateforum.icai.org>. Members interested for participation in Corporate Conclave, ICAI Awards 2014 may kindly contact CMII Secretariat at 011-30110525/555/549/430.

We eagerly looking forward to meet you in the ICAI-CMII Corporate Forum 2014.

With kind regards,

Chairman,
Committee for Members in Industry

Re-registration for MBF Course

The Committee on Management Accounting has decided for re-registration of Master in Business Finance Certificate Course for the members who registered themselves for the course before three years *i.e.*, before September 2011 but did not complete the same. This is for the purpose of bringing the members in the fold of updated curriculum of the course, making them live with various related activities of the Committee and streamlining the regular flow of information to them.

For this, the concerned members are requested to apply through Re-registration form within 31st December 2014. The member who did make only part payment through installments are required to pay the differential amount of registration fees *i.e.*, difference between current registration fees of ₹ 30,000 and fees already paid by the member on this account. The fees is to be paid by DD or cheque in

favour of "The Secretary, ICAI" payable at Delhi.

If a member does not respond to this option within the specified date as indicated above, it will be construed that he/she is not interested to continue the course and his/her registration will be cancelled.

Re-registration form is downloadable from the website: http://www.icai.org/new_post.html?post_id=11068&c_id=240

Re-registration form with fees, if any, may be sent to:

The Secretary,
Committee on Management Accounting,
ICAI Bhawan, 3rd floor, Administration Block,
A-29, Sector 62,
Noida-201309

Classifieds

5206 Panipat based FCA retired from PSU (bank) looking for sub-contract/assignments. Contact mobile: +91 9034591914. E-mail: cajotparkash@gmail.com

5207 35 years established Kolkata-based CA Firm requires FCA on Partnership basis. E-mail: santanudevi@gmail.com Mobile: 8100336305 (Santanu Roy)

5208 Bangalore-based CA firm, having partners with corporate experience invites proposals from firms based in Trichy/Mysore/Salem for merger/acquisition. Contact: srikanthan@sgssassociates.com. Mobile: 9741597791/ 9945222133

5209 Required DISA qualified CA on retainership basis. Contact: audit84@gmail.com

5210 Required fresh/experienced CA's for Partnership in Delhi Based Firm on sharing basis. Contact no.:011-28751933, mobile: 9810175773, e-mail: ca.partnersjba@gmail.com

5211 G Jai & Associates, CA's, Nangal Raya, New Delhi require Articles & Assistants. Persons interested in doing internal, stock and special audits apply. Candidates to be preferably from West Delhi. Send in your resume to gjai@gjai.net

5212 Pune based CA retired as CFO of a listed manufacturing company looking for professional

work on assignment/sharing/sub-contract/partnership basis in Audit, Income Tax, Indirect Taxes, Management Audit, Corporate Laws, Foreign Exchange, Oracle ERP and IT. Contact: 9370306438, ashokdahotre@gmail.com

5213 53 year old, proprietary firm, with limited professional practice now invites offers from Mumbai-based CA firms for partnership/merger/association. Please contact tele: 23082272/mobile: 8879527569

5214 FCA, CISA, seeks partnership for outsourcing taxation/accounting assignments from Australia, and for IT/internal audits tenders in India. Contact: sathi231@gmail.com/8587051678

5215 CA firm having exposure in U.PVAT, CST, Entry Tax seeks professional work on sharing/assignment/sub-contract/retainership partnership basis. Contact: 98101-70666, E-mail: shikharguptaca@gmail.com

5216 FCAs preferably with DISA required for joining/merging with a CA firm of more than 40 years old. Email the details to calinkup@gmail.com

5217 Gurgaon based CA (59 Years) having 35 years industrial experience seeks employment in companies/NGOs or professional assignments/sub-contracting. Mobile: 9910173100

Forthcoming Events¹

Sl. No.	Title of the Seminar/Conference	Date	Place	CPE Hours
1.	Certificate Course on Indirect Taxes	25 th January, 2015 to 12 th April, 2015. Time: 9.30 am to 5.30 pm (<i>Special Batch only on Sundays</i>)	Delhi	70 (50 Structured and 20 Unstructured)
Topics	The Certificate Course covers the following topics: • Service Tax • Overview of Central Excise Law • Overview of Customs Law • CST/VAT Laws • Foreign Trade Policy/GST • Case Law • Practical case Studies			
Fees	₹20,000/-			
Contact Person	CA. Atul Kumar Gupta, Chairman, Indirect Taxes Committee, Mobile: 09810103611, E-mail: atulservicetax@gmail.com For Information contact: Secretariat, Indirect Taxes Committee, Phone: 0120-3045954, Mobile: 9350799932, E-mail: ccidt@icai.in For Registration visit: http://www.icai.org/post.html?post_id=7382			
2.	Live Webcast- organised by Indirect Taxes Committee Link to visit: http://icaity.com/live/icai160115/	16 th January, 2014 Time: 6.00 pm to 8.00 pm	Online	-
Topics	Procedures Under Excise			
Fees	₹1,500/- per participant			
Contact Person	CA. Atul Kumar Gupta, Chairman, Indirect Taxes Committee, Mobile: 09810103611, E-mail: atulservicetax@gmail.com For Information contact: Secretariat, Indirect Taxes Committee, Phone: 0120-3045954; E-mail: itdc@icai.in			
3.	100 th Programme by Indirect Taxes Committee during the year 2014-15	12 th January, 2015 Time: 6.00 pm to 9.00 pm	Mumbai	3
Topics	Talk on GST			
Contact Person	CA. Atul Kumar Gupta, Chairman, Indirect Taxes Committee, Mobile: 09810103611, E-mail: atulservicetax@gmail.com For Information contact: Secretariat, Indirect Taxes Committee, Phone: 0120-3045954, Mobile: 9350799932 E-mail: ccidt@icai.in			
4.	National Seminar on Valuation at the backdrop of Companies Act, 2013	10 th January, 2015 Time: 10 am to 5 pm	Hotel Le-Meridien, Janpath, Delhi	6
Topics	1. Business Valuation and Valuation of Immovable Property - Indian peculiarities 2. Intangible and Brand Valuation - Recent Global Trends 3. Mergers and Acquisition and Share based payments/Stock options 4. Legal position and judicial pronouncements under various Acts			
Fees	₹2,500/- for Members of ICAI & ₹3,000/- for Non-Members			
Contact Person	Programme Chairman: CA. S. Santhanakrishnan, Chairman, Corporate Laws & Corporate Governance Committee of ICAI, Mobile: 09841073008, E-Mail: sk@pkfindia.in Programme Director: CA. Nilesh Vikamsey, Vice-Chairman, Corporate Laws & Corporate Governance Committee of ICAI, Mobile: 09323332552, E-Mail: nilesh@kkc.in For Registration and Information, Contact: Secretariat, Corporate Laws & Corporate Governance Committee of ICAI, Phone: 0120-3045971; E-Mail: clcg@icai.in			

¹ For more details about the forthcoming events please refer the detailed announcements hosted on the ICAI website www.icai.org

International Update

IASB makes progress on improving the effectiveness of disclosure in financial reporting

The International Accounting Standards Board (IASB), responsible for International Financial Reporting Standards (IFRS) required for use by more than 100 countries, recently issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports. Improving the effectiveness of disclosure is widely considered to be one of the most important and challenging tasks in financial reporting. Many respondents to the IASB's Agenda Consultation completed in 2012 asked the IASB to review its Standards to explore ways to improve the disclosure requirements. The IASB is responding to this challenge through its Disclosure Initiative - a portfolio of projects that includes targeted actions as well as a broad and ambitious review of disclosure requirements. The amendments to IAS 1 issued recently are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. The amendments mark the completion of the five, narrow-focus improvements to disclosure requirements that the IASB had identified following its 2013 Discussion Forum. The IASB is working closely with national and regional accounting standard-setters, drawing on work they have undertaken in their jurisdictions. As part of the Disclosure Initiative, the IASB recently also published for public comment an Exposure Draft of proposed amendments to IAS 7 Statement of Cash Flows. That proposal responds to requests from investors for improved disclosures about an entity's financing activities and its cash and cash equivalents balances.

(Source: www.ifrs.org)

IFRS Taxonomy 2014 Updated for IFRS 15 Revenue from Contracts with Customers and Common Practice (transport and pharmaceuticals)

The IFRS Foundation recently published Interim Release 2 to the IFRS Taxonomy 2014. This release updates the IFRS Taxonomy for IFRS 15 *Revenue from Contracts with Customers*, which was published by the IASB on 28 May 2014, and Common Practice (transport and pharmaceuticals). The IFRS Taxonomy is the XBRL representation of the IFRSs, including International Accounting Standards (IASs), Interpretations, and the *IFRS for SMEs*, as issued by the IASB. XBRL taxonomies are available for most of the major national financial reporting standards

around the world, and the IFRS Taxonomy is intended for use by entities reporting in IFRS. By providing the IFRS Taxonomy, the IFRS Foundation seeks to address the demand for an electronic standard to transmit IFRS financial information. IFRS Taxonomy Interim Releases support consistent adoption and implementation of IFRS, by providing taxonomy items for electronic reporting using the latest Standards published by the IASB. Accompanying this release is the *IFRS Taxonomy Guide: Guide to Understanding the IFRS Taxonomy Update*. This guide provides an overview of the content of the IFRS Taxonomy and explains the related terminology used. A summary reference sheet of the terms described within this guide is also available.

(Source: www.ifrs.org)

FASB Releases 2015 GAAP Taxonomy in XBRL

The Financial Accounting Standards Board recently released the 2015 GAAP Financial Reporting Taxonomy, although it is pending final acceptance by the Securities and Exchange Commission. The taxonomy is a list of computer-readable tags in Extensible Business Reporting Language, or XBRL, enabling companies to tag the thousands of pieces of financial data included in typical long-form financial statements and related footnote disclosures. The XBRL tags allow computers to automatically search for, assemble, and process data so it can be accessed and analyzed more easily by investors, analysts, journalists, and regulators. The SEC has been requiring public companies in recent years to file their financials using XBRL. So far the technology has proven to be of limited usefulness for most investors, but the SEC has been able to leverage the data to search for patterns of possible fraud or misreporting. The 2015 GAAP Financial Reporting Taxonomy contains updates for accounting standards and other improvements to the 2014 taxonomy currently used by SEC issuers. The FASB staff issued proposed improvements to the taxonomy in the fall, allowing users of the taxonomy to provide feedback on the updates and to provide SEC filers, service providers, software vendors, and other interested parties the opportunity to become familiar with and incorporate new element names for their filings.

(Source: <http://www.accountingtoday.com/>)

SASB Proposes Sustainability Accounting Standards for Service Industries

The Sustainability Accounting Standards Board has released a set of provisional sustainability accounting

standards for 10 industries within the services sector. They include education, casinos and gaming, cruise lines, leisure facilities, professional services, advertising and marketing, hotels and lodging, media production and distribution, restaurants, and cable and satellite. The provisional standards aim to help corporations comply with the existing Regulation S-K to disclose material information in the Form 10-K. SASB has previously released standards for other sectors and industries, including health care, financial, technology and communications, non-renewable resources, and transportation. The working groups that helped SASB develop the services industry standards included 271 registrants. The standards have received support from several large service corporations, including the hotel giants. SASB has found that many of the largest companies fall short when it comes to disclosing corporate sustainability efforts. When analyzing the quality of services disclosure topics in the latest Form 10-Ks and 20-Fs from leading companies in the sector, SASB found that 20 percent of disclosures are boilerplate, 36 percent are industry-specific and 10 percent are metrics, while the remaining 34 percent represent a lack of disclosure. The goal of SASB's standards is to improve the quality of disclosure by providing investors with complete and comparable data sets. SASB said its standards would remain provisional for at least one year after the issuance date. To provide feedback, please visit <https://comment.sasb.org/>

(Source: <http://www.accountingtoday.com/>)

The IAASB Continues Focus on Audit Quality and Strengthening Public Confidence in Financial Reporting in Its New Strategy and Work Plan

The International Auditing and Assurance Standards Board (IAASB) recently released its *Strategy for 2015–2019: Fulfilling Our Public Interest Mandate in an Evolving World and its Work Plan for 2015–2016: Enhancing Audit Quality and Preparing for the Future*. The Strategy and Work Plan illustrate the IAASB's commitment to strengthening public confidence in financial reporting and contributing to the ongoing relevance of the financial statement audit, while staying abreast of emerging developments to ensure its work addresses pertinent public interest matters relevant to its wide range of stakeholders. The board's five-year Strategy is underpinned by three strategic objectives that reflect a continued focus on International Standards on Auditing (ISAs) as the basis for high-quality audits, the importance of the IAASB's standards for other services to address emerging needs

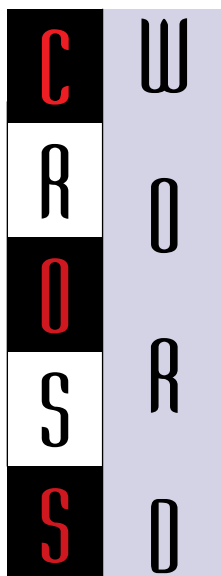
of stakeholders, and the board's intention to strengthen collaboration with others to address public interest matters relevant to its work. These objectives will guide the board's work throughout the five-year period. Influenced by the findings from the IAASB's ISA Implementation Monitoring project and its extensive outreach program, the Work Plan for the next two years prioritizes the most pertinent public interest issues and impacts on audit quality, including group audits, quality control, professional skepticism, and audit considerations relevant to financial institutions. The IAASB also recognizes the role that its other assurance and related services standards play in addressing the needs of investors and other users as financial and integrated reporting evolves.

(Source: <http://www.ifac.org/>)

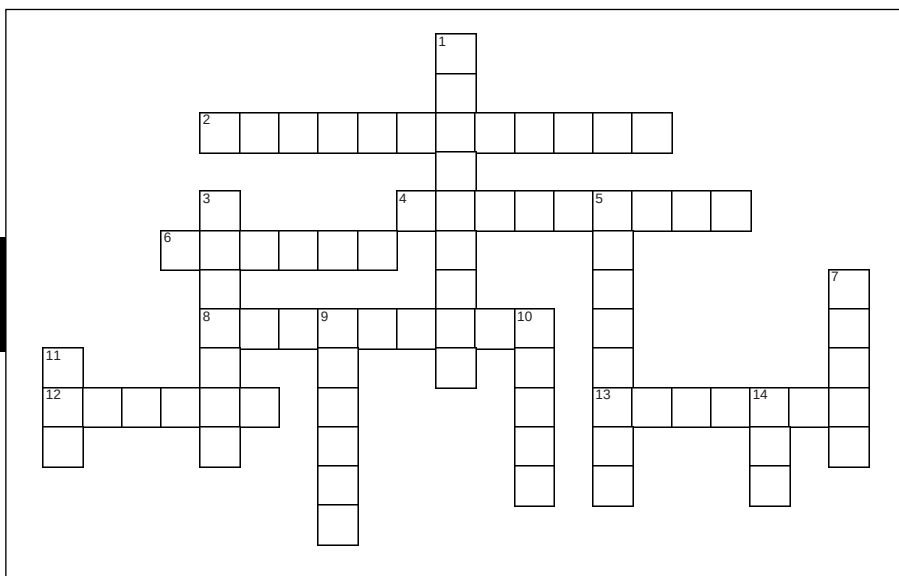
IAESB Finalises Standard on Professional Competence of the Audit Engagement Partner

The International Accounting Education Standards Board (IAESB) recently published International Education Standard (IES) 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised). The revised IES focuses on the professional competence requirement for engagement partners who have responsibility for audits of financial statements. The IES is primarily aimed at IFAC member bodies, but recognises the shared responsibilities of engagement partners, public accounting firms, and regulators as part of the system of quality control for engagement teams performing audits of financial statements. It will also be of interest to employers, regulators, government authorities, educational organizations, and any other stakeholders who support the learning and development of professional accountants. The IAESB recognises that continuing professional development is critical to develop and maintain competence of professional accountants performing the role of engagement partner. Accordingly, the IAESB has specified the learning outcomes to be achieved for the professional competence of an engagement partner, including learning outcomes in the areas of technical competence, professional skills, and professional values, ethics, and attitudes. As the career of an engagement partner progresses, practical experience also becomes increasingly important in maintaining and further developing the necessary depth and breadth of professional competence. With the publication of IES 8, the IAESB has now completed the redrafting and revising of all eight IESs.

(Source: <http://www.ifac.org/>)



103



ACROSS

2. International Monetary Fund is the result of _____ Conference.
4. The terms Orientation, Concept, Philosophy are often used interchangeably in _____ literature.
6. ICAI's 24th Overseas Chapter Opens at _____.
8. Index Number method that has an upward bias.
12. _____ Audit can be defined as a tool which helps an organisation plan, manage and measure its nonfinancial activities.
13. ICAI Accounting Research Foundation signed an MoU with Employees Provident Fund Organisation (EPFO) to undertake a Pilot Study Project to support EPFO in migrating to _____ Based Accounting System.

DOWN

1. 3 days mega international conference on 'Accountancy Profession: Building Global Competitiveness; Accelerating Growth,' to be held this month at _____.
3. CA. Suresh Prabhu recently joined Union Cabinet as _____ Minister.
5. Maximum share in National income of India is contributed by _____ sector.

7. The Doing Business Report" is prepared by _____ Bank every year.
9. In case of a Cooperative Society _____ objective is of least priority.
10. The Abid Hussain Committee is associated with reforms in _____ industries.
11. The new regime that when introduced, would replace a number of indirect taxes currently being levied by the Central and State Governments and is intended to remove cascading of taxes and provide a common national market for goods and services.
14. _____ provided by Employees' Employee Provident Fund organisation to ensure convenient management of their PF accounts.

NOTE: Members can claim one hour – CPE Credit – Unstructured Learning for attempting this crossword by filling the details in the self-declaration form to be submitted to your regional office annually to avail CPE hours credit for Unstructured Learning activities under the activity 'Providing Solutions to Questionnaires/puzzles available on Web/Professional Journals'. There is no need to individually send this crossword in hard copy or email.



The doctor to the patient: 'You are very sick'
 The patient to the doctor: 'Can I get a second opinion?'
 The doctor again: 'Yes, you are very ugly too..'

SOLUTION CROSSWORD 102

