



The Institute of Chartered Accountants of India

(Setup by an Act of Parliament)

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NEWS LETTER

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EDITORIAL

“CHANGE” is the only element which is permanent in our day to day life. CHANGE is a factor which is essential for everybody’s and anybody’s improvement/development in one’s own being of life. Generally, if a change is proposed there is a resistance from all quarters initially without getting into the details of such change’s positive/negative effects. Once the change is brought in, gradually people start accepting such change and appreciate the benefits/advantages of such change. The change may be in one’s own personal life, system of education, medium of instructions, mode of change in exchange of goods/services, set of rules, rule in governments, principles in any religion and so on. This is more so in the change in syllabus of our CA course. Since inception, lots of changes have taken place in the syllabus of CA course and the benefits of such change in syllabus is experienced by Chartered accountants after qualifying themselves in the examinations in particular and more so, by the stakeholders once these qualified Chartered Accountants get into practice or into employment.

All these years, our Chartered Accountants are commanding good respect from the society and stakeholders because of their expert knowledge in Accountancy, command in Auditing, well experienced skills in application of Laws and torchbearers in Taxation rules and regulations. During the last 30years, more thrust is given on the latest developments in all the above four subjects and equal importance is given for technology, the subject Computer Science. Now, the institute has almost finalized the new curriculum in all the three stages of CA course i.e., CPT/Foundation; IPCC/Inter and Final examination.

“All our Chartered Accountant members are advised to go through the new syllabus and advise the institute for further positive changes to be made which will be of great help to the prospective CA community.”

**With Best Wishes,
CA D.Aravind Rama
Chairman
News letter Committee
Anantapur branch of SIRC of ICAI**



CHAIRMAN'S MESSAGE

Dear Members,

Season Greetings.

We have conducted the following programs on the Occasion of *CA Day, 2016*.

1. 25.06.2016 Saturday 10 AM: Distribution of Literacy Kits to Poor Students of Saraswati Vidya Mandir, Ashok Nagar, Anantapur.
2. 29.06.2016 Wednesday 10 AM: Awareness Programme on Income Declaration Scheme 2016 In association of Income Tax Department, Anantapur at G.R. (Gongadi Ramappa) Mini Function Hall, 3rd Road, Anantapur.
3. 30.06.2016 Thursday 07 AM: Taking forward Swatch Bharath Abhiyan around our CA Branch premises.
4. 30.06.2016 Thursday 8 AM: Tree Plantation at CA Branch Road, Anantapur.
5. 30.06.2016 Thursday 09 AM : Blood Donation Camp at Red Cross Society, CA Branch Office, Anantapur.
6. 01.07.2016 Friday 08:30 AM: BREAKFAST – CA DAY.
7. 01.07.2016 Friday 09:30 AM (Sharp): Hoisting of the ICAI Flag at CA Branch Premises.
8. 01.07.2016 Friday 10.00 AM: Meeting.
9. 01.07.2016 Friday : Distribution of Provisions kits to AIDS affected Boys and Girls at Dist. Government Hospital, Anantapur.

Dispensation of GMCS-I by Merging its syllabus with Orientation Course for 15 Days

In accordance with the Council decision at its meeting in June, 2015, BOS has dispensed with the General Management and Communication Skills (GMCS) –I Course and merged its syllabus with Orientation Programme. Henceforth, it will be Orientation Course for 15 days (90 hours) with the following modalities:

- Students enrolling to the batches commencing from July 1, 2016 onwards would be required to undergo Orientation Course for 15 days in accordance with the new syllabus and new guidelines.
- The fee for 15 days Orientation Course will be Rs.7000/- (Rupees Seven thousand only)
- Students registered for practical training on or after May 1, 2012 (since the date of commencement of GMCS-1) till December 31, 2014 would be required to undergo GMCS-1 until December 31,2016, if not done earlier. Rest all categories of the students who have already completed Orientation Programme (35 hours) are not required to do GMCS-1 and will be deemed to have fulfilled the aforesaid Requirements.
- The nomenclature of GMCS-II would be changed to GMCS which the students would be mandatorily required to undergo before applying for membership of the Institute.

Accordingly, the Council at its meeting on May 2-4-2016 has decided to implement the afore stated decision for the students w.e.f. July 1, 2016. An announcement regarding this is being hosted on the Institute website under “Board of Studies Announcements” section for the information of all concerned.

**“As we express our gratitude, We must never forget that the
Highest appreciation is not to utter words, but to live by them”.
Says John.F. Kennedy and hence we must strive to live accordingly.**

Best wishes,

**CA.Dr.A.G.VENUGOPAL REDDY
CHAIRMAN**

KNOW YOUR ETHICS

1. Can goodwill of a Chartered Accountant firm be purchased?

- Yes. The council of the Institute considered the issue whether the goodwill of a proprietary firm of a Chartered Accountant can be sold/transferred to another eligible member of the institute, after the death of the proprietor concerned and came to the view that the same is permissible. Accordingly, the council passed the Resolution that the sale/transfer of goodwill in the case of a proprietary firm of Chartered accountants to another eligible member of the institute, shall be permitted.

2. Whether member in practice is permitted to respond to announcement for empanelment for allotment of audit and other professional work and quote fees on enquiries being received?

- It has been clarified by the council under proviso (ii) to clause (6) of the part-I of the first schedule to the Chartered Accountants Act, 1949 that if announcements are made for empanelment by the Government, Corporations, Courts, Cooperative societies, Banks and other similar institutions, the members may respond to such announcements provided the existence of panel is within their knowledge. The council has further classified that the quotations of fees can be sent, if enquiries are received by the members in this regard.

3. Can a member in practice indicate in a book or an article, authored/contributed/published by him, his association with any firm of Chartered Accountants?

- No, as per Para (e) under Clause (6) of part I of First Schedule to the Chartered Accountants Act, 1949 as appearing in the code of Ethics, 2009 a member is not permitted to indicate in a book or an article, authored/contributed/published by him, his association with any firm of Chartered Accountants.

4. Whether it is permissible for a Chartered Accountant firm to calculate a questionnaire among the clients seeking views of the clients for review of the services of the firm?

- No, it is not ethically proper to issue such questionnaire.



CASE LAWS

- ✓ **SECTION 4:** Income – Capital or Revenue receipt-Sales tax received from Government

“Vardhaman Acrylics Ltd. v. ACIT(2015)66(II) ITCL 528 (Chd ‘A’-Trib): 2015 Taxpub(DT) 3682 (Chd ‘A’-Trib)”

During the year under consideration, the assessee has received sales tax subsidy, which was declared as capital receipt in the computation of income filed by the assessee. AO, however held the same to be revenue receipts taxable in the hands of the assessee in view of ratio laid down by the High Court in the CIT v. Abhishek Industries Ltd. (2006) 286 ITR 1 (P& H). On appeal,

Held: Tribunal confirmed the order of CIT (A) in treating sales tax subsidy as revenue receipts in the hands of assessee based on its earlier order in assessee’s own case for earlier assessment year.

Relied: CIT v. Abhishek Industries Ltd. (2006) 286 ITR 1 (P& H).

- ✓ **SECTION 10(1):** Exemption u/s 10(1)- Agricultural income-Income from production and sale of seeds.

“Asstt. CIT v. Prabhat Agri Biotech Ltd. (2015)66(II) ITCL 567 (Hyd ‘B’-Trib) : 2015 Taxpub(DT) 3835 (Hyd ‘B’-Trib) : (2015) 42 ITR (Trib) 319 (Hyd ‘B’-Trib)”

Assessee, being a company engaged in business of seed production, research, marketing of field, vegetable crops and wind power generation, claimed exemption u/s 10(1) in respect of an agricultural income from the production and sale of basic seeds. AO disallowed the amount of exemption on the ground that this was not an agricultural income but income from business operations. The matter was carried to CIT(A), who following the order in earlier years, allowed exemption to assessee –company u/s 10(1).

Held: The seed was product of agricultural activity and income from sale of seeds was agricultural income. Therefore, assessee would be entitled to exemption u/s 10(1) and appeal of revenue was dismissed accordingly.

Followed: CIT v. Prabhat Agri Biotech Ltd. (2015) 5 ITR-OL 116 (AP).

- ✓ **SECTION 11:** Charitable trust- Computation of income- Allowability of claim of depreciation on assets already allowed as application of income.

“International Goudiya Vedanta Trust v. Asstt.DIT (2015) 66 (II) ITCL 525 (Delhi SMC-1 Bench) :2015 Taxpub(DT)3753 (Delhi SMC –I Bench) : (2015) 42 ITR (Trib) 543 (Delhi SMC –I Bench) : (2015) 174 TTJ (Delhi SMC-I Bench)32”

Assessee, a registered society was engaged in providing education, medical assistance, knowledge and relief to poor. It had claimed depreciation on cost of asset. The AO did not allow depreciation on the premise that the purchase of asset had already been claimed as application of income and as such deduction on account of depreciation would amount to double deduction, which was impermissible. On appeal, the CIT(A) upheld the action of AO.

Held: Section 11(6) provides that no depreciation can be allowed in respect of any asset, whose acquisition has been claimed as an application of income. Sub-section (6) of Section 11 is effective from AY 2015-16. Such provision was not applicable to the year under consideration. Hence, following the judgement of jurisdictional High Court in assessee’s own case for the immediately preceding AY, depreciation would be allowed separately in the computation of income.

- ✓ SECTION 14A: Disallowance u/s 14A- Expenditure against exempt income.

“Beach Minerals Company(P) Ltd. v. Asstt.CIT 2015 Taxpub(DT) 3900 (Chenn-Trib)”

AO made disallowance of expenditure by invoking the provisions of section 14A for rs. 3,11,34,630 since the assessee had made investments of Rs.71,55,33,570 for earning exempt income.

Held: There was no merit for the revenue to make addition because the investment made, bears no cost in the form of interest or whatsoever, since the funds by which the investment was made was assessee’s own funds. Further, cos6t could be attributed for the management of such funds. Therefore, the addition was deleted.

- ✓ SECTION 14A: Disallowance u/s 14A- Expenditure against exempt income- Dividend income and Capital gains income.

“Crescent Organics (P) Ltd. v. Asstt. CIT 2015 Taxpub(DT) 3790 (Mum ‘C’-Trib)”

Assessee was during the assessment proceedings found to have earned dividend income at Rs.48,953, as well as holding investment in equity shares, which could yield income not liable to tax, so that disallowance under section 14A was warranted. Further, the assessee having not made any disallowance there under, the AO, applying rule 8D, worked out the same at Rs.19,05,170. On appeal, CIT(A) found that, out of the total investment in shares, an amount of Rs.554.16 lakhs was invested in ‘Kemsol Ltd.’, Dubai, a sister concern, resident outside India, income where from , whether by way of dividend or capital gains, would be subject to tax in India. Accordingly, the AO was directed to exclude the said investment in reckoning the disallowance under section 14A(1) read with rule 8D. on further appeal by assessee.

Held: Tribunal, under the circumstances, considered it fit and proper that the matter was restored back to the file of the AO to enable the assessee to present its case in the matter. Where, for instance, the loans on which the interest liability has been suffered, were dedicated loans, i.e., toward specified business purposes, a stand utilized for the same, interest thereon would stand to be allowed under section 36(1)(iii) in full, so that no disallowance under section 14A would ensure. In the absence of such utilization being shown or established by the assessee, the presumption of all the assets being proportionately funded could not be faulted with for the purpose of disallowance under section 14A(1). Similarly, as regards the indirect administrative expenses, the onus was clearly on the assessee to show that no expenditure was attributable to the investments which were liable to yield income not forming part of the total income. Accordingly, Tribunal restored case to the AO.

**Best wishes,
CA Dr. D.Harischandra Rama
Vice-Chairman**



INCOME DECLARATION SCHEME, TCS BENEFICIAL CIRCULAR AND POSTPONEMENT OF ICDS

CIRCULAR NO. 25 OF 2016- CLARIFICATION:

The Income Declaration Scheme 2016(hereinafter referred to as Scheme) incorporated as Chapter 1X of the Finance Act, 2016 provides an opportunity to persons who have not paid full taxes in the past to come forward and declare the undisclosed income and pay tax, surcharge and penalty totaling in all to 45% of such undisclosed income declaration.

It is clarified that the information contained in the declaration shall not be shared with any other law enforcement agency. The information will also not be shared with in the Income tax Department for any investigation in respect of a valid declaration.

Credit for the tax deducted shall be allowed only in the cases where the related income is declared under the scheme and credit for the tax has not already been claimed in the Return of Income filed for any Assessment Year.

Whether a valid declaration is made after making valuation as per the provisions of the Scheme read with IDS Rules and tax, surcharge and penalty as specified in the Scheme have been paid? Whether the Department will make any enquiry in respect of source of income, payment of tax, surcharge and penalty?

The answer is NO

CIRCULAR NO. 23/2016 Dated 24-06-2016:

This is a beneficial Circular, amendment in Section 206C of the Income tax Act vide Finance Act 2016, which simplified requirements. The Board has further decided to clarify the issue as regards applicability of the provision relating to levy of TCS, where the sale consideration received is partly in cash and partly in cheque in the form of question and answers and clarified as under:

No Tax collection at source will be levied if the cash receipt does not exceed Two Lakh Rupees, even if the sale consideration exceeds Two Lakh Rupees.

Tax is required to be collected at Source on cash component of the Sale consideration and not on the whole of sales consideration.

A welcome circular to conduct ease of doing business.

POSTPONEMENT OF ICDS to the Assessment Year 2017-18:

ICDS in many cases attempts to pull ahead income and post pone expenses vis- a-vis the Accounting standards causing a consequent advancement of tax on the transactions. It is clear that, there is no leakage of real revenue but only a matter of timing difference in taxation. Its implementation as it is will increase complexity rather than promoting ease of doing business. ICAI represented to the Finance Ministry the difficulties and requested postponement.

As per the Press release dated 06-07-2016, the revision of ICDS/issue of clarification as recommended by the Committee is under consideration. The Revision of Tax Audit Report is also being made for ensuring the compliance with the provisions of ICDS and for capturing the disclosure mandated by the ICDS.

In view of the representation by the Institute , vide press release, the Finance Ministry has deferred by one year time Income Computation and Disclosure Standards notified under Section 145(2) of the Income tax Act, 1961 to be applicable from 1st April 2016(Assessment year 2017-18). A welcome step for more discussion and review of the ICDS, which will lessens area of dispute.

Best wishes.

CA B.Sreenivas Kumar
Chartered Accountant



Guidelines for conducting Concurrent Audit for all Commercial Banks :

First Step:

After receipt of concurrent audit appointment the Auditor has to submit:

1. Letter of Acceptance and Undertaking
2. Declaration of Fidelity and Secrecy
3. Necessary Documents i.e., Self attested copies of ICAI Membership Certificate, Firm Registration Certificate, PAN Card, Service Tax Registration Certificate, Proof of Address of the firm, Bank Account Details, etc.,

Second Step:

The Auditor has to appoint Audit Team consisting of a qualified Chartered Accountant, Senior Audit Assistant and Junior Audit Assistant.

Third Step:

KNOW YOUR CUSTOMER (KYC) GUIDELINES :

Auditor / Audit Assistant has to verify / comment on

- Whether KYC is obtained for all new and existing accounts? (for both deposits and borrowal accounts)
- Whether latest photographs of the account holders are obtained in all cases and also duly attested as per the guidelines?
- Whether proof of customer identification and address obtained?
- Whether the accounts are properly introduced?
- Whether branch has obtained PAN number or F60 /61?
- Whether branch is taking precautions while opening multiple accounts of the same individuals?
- Whether deposit accounts which carry the compliance certification by the Desk Officer are opened only with prior authorization of First Line Manager or Second-in-command?
- Whether instances of large transactions have been noticed in newly opened account, which need constant vigil?
- Whether CROP forms are updated every year in December for all accounts ?
- Whether the branch is maintaining Suspicious Transaction Index Book (STIB)?

- Whether branch is submitting STR (Suspicious Transaction Report) as and when such transactions are noticed?
- KYC-CBS data should be audited on a continuous basis and any deviations should be reported.

Fourth Step:

Verification of Loans & Advances:

- Loans / Advances granted (number of borrowers and amount sanctioned as well as number of accounts and amount disbursed) under branch discretion as also by RO / CO during the month are to be reported in the column provided
- The discrepancies / irregularities / non-observance of terms and conditions noticed in the accounts granted during the month are to be reported.

TEMPORARY OVERDRAFT:

- All temporary overdrafts allowed both in Current Account and Savings Bank under branch discretion and overdrafts allowed beyond branch discretion are to be reported separately.
- The discrepancies if any observed are to be reported separately in the column provided.

EXCESS GRANTED & ADHOC GRANTED :

- The excess allowed / adhoc granted under branch power as also beyond branch power and outstanding in Cash Credit, Packing Credit, Bill purchased / discounted, Letter of Credit and Letter of Guarantee [other than NPA, Irregular account and excess due to debit of monthly interest] as on the last day of the month are to be reported.
- The discrepancies if any observed are to be reported separately in the column provided.

IRREGULAR OVERDUE ACCOUNTS:

- All irregular Cash Credit accounts more than Rs.5.00 lakhs and overdue loan accounts (overdue by one installment and above / more than one month interest) are to be reported
Overdue Packing Credit, Bills Purchased / Discounted / Cheque Purchase (Inland & Foreign) and Other Overdue Accounts:
- All overdue packing credit accounts of irregularity of more than Rs.5.00 lakhs, all overdue bills (Inland & Foreign) and any other overdue with irregularity of more than Rs.5.00 lakhs are to be reported.
- The details of Overdue Bills (foreign) not crystallized are to be furnished.
- The discrepancies if any observed are to be reported separately in the column provided.

IRREGULAR / OVERDUE LOAN ACCOUNTS:

- All irregular / overdue accounts including the accounts on the last day of I (April to June), II (July to Sep.), III (Oct. Dec.) and IV (Jan. to March) quarters, are to be reported.
- Comments on percentage of overdue, increase in overdue, steps taken for recovery of overdue are to be reported in the observation column.

NPA ACCOUNTS:

- NPA accounts details are to be reported every quarter ending March, June, September and December, preferably one page for each NPA account.
- The details of all NPA accounts (other than Suit Filed Accounts) with total outstanding of more than Rs.1 lakh are to be furnished in the format prescribed.
- Auditor is also required to comment on enforceability of documents and mortgage, action taken by the branch for recovery (including action under SARFAESI ACT) and the present position.
- Details of prime and collateral securities, value of the securities, and coverage of insurance and inspection of securities by the branch are to be commented.
- A certificate with regard to follow up of all NPA accounts for early recovery and invoking provisions of SARFAESI ACT duly signed by concurrent Auditor and Branch Manager is to be furnished in the format.

INSURANCE:

- Maintenance of insurance register and coverage of insurance with Bank Clause are to be commented.
- Auditor should also furnish details wherever insurance coverage is not available / expired / inadequate and any other deficiencies observed in the column provided.

SUBMISSION OF STOCK / BOOK DEBTS / H.P.RECEIVABLES STATEMENT:

- Deficiencies with regard to submission of stock statement, maintenance of Drawing Power Register, arriving of Drawing Power, Auditor's certificate with regard to Book Debts Statement (Quarterly) etc. are to be commented.

GODOWN INSPECTION:

- Auditor need not conduct inspection of units / godowns. However if they desire to conduct inspection of units / godowns for verification of stock / machinery to ascertain the functioning / performance of the company / firm, they may conduct inspection as a special case. However Auditors have to give their comments on inspection of units / godowns conducted by the branch.
- Any serious irregularities noticed by the branch / Auditor during inspection of units / godowns are to be furnished.
- Maintenance of Godowns Inspection Register and Godowns /Machinery Inspection Reports (PA 36 / 36A) is to be commented.

REVIEW / RENEWAL OF BORROWAL ACCOUNTS:

- Review / Renewal of borrowal accounts are to be reported every quarter ending March, June, September and December.
- Auditor should comment on renewal / review of all loan accounts (Renewal / Review is to be done once in a year, within a period of three months from the date of expiry).
- Abstention of Audited Balance sheet (where the credit limit is above Rs.25 lakhs), credit rating system followed by the branch, Short review if any done in any account are to be commented.
- The details of credit limits expired already and not renewed as on the last of the month are to be furnished in the column provided.

CLOSED ACCOUNTS:

- All documents relating to accounts closed during the quarter should be called for and verified.

COMPLIANCE OF QIS & MONTHLY CONTINUOUS SURVEILLANCE STATEMENT (CSS) :

- Auditor to comment on submission of QIS III, charging of penal interest for non-submission of QIS III form, whether the branch is analyzing critically the QIS data etc.
- Branch to submit Continuous Surveillance Statement (CSS) for all borrowal accounts with fund based limit of Rs.1.00 cr and above. Auditor to give details of borrowal accounts for which the statement is not submitted and comment on any other deficiencies observed.

LETTER OF GUARANTEE (INLAND & FOREIGN):

- Details of letters of guarantee outstanding as on the last day of the month and details of expired letters of guarantee, letters of guarantee invoked are to be furnished.
- The deficiencies if any observed in respect of letters of guarantee issued are to be reported.

LETTERS OF CREDIT (INLAND & FOREIGN):

- Details of letters of credit outstanding as on the last day of the month and details of expired letters of credit, letters of credit devolved are to be furnished.
- The deficiencies if any observed in respect of letters of credit established are to be reported.

CONTINGENT LIABILITES:

- All collection items under IDB, IUB, ODB, OUB, IDBF, IUBF, ODBF, OUBF, DBPR and DBPRF, which are outstanding beyond three months, are to be reported.
- Physical checking of bills, parcels etc. is to be done by the Auditors once in a quarter.

- Auditor should also verify whether the branch is holding inward bills for a long time, sender's instructions are properly carried out etc. Deficiencies if any observed are to be reported in the column provided.

MAJOR BORROWAL ACCOUNTS:

- All accounts with cumulative fund and non fund based limit of Rs.50 lakhs and above are to be covered once in six month and to be reported in the format prescribed.
- Discrepancies, if any observed are only to be reported.
- Auditor should make comments on Credit Rating for all facilities of above Rs.50 lakhs and Risk assessment Model for large Corporates, SMEs, traders and Infrastructure (Road, Power) segments, with both fund based and non-fund based limit of Rs.1 Crore and above.
- Auditor should also make comments as to whether external rating from Credit Agencies like CRISIL or ICRA is obtained for advances of Rs.50 Crores and above.
- Total number of borrowal account with total fund-based limit of Rs.50.00 lakhs and above and total number of accounts covered during the half-year so far are to be furnished.

Best wishes.

**CA. J. Chandramouli Gupta
Chartered Accountant**

CA Day Photographs..



Distribution of Provisions kits to AIDS affected children.



Awareness programme on Income Declaration Scheme



Swacch Bharath Abhiyan



Blood Donation Camp



Hoisting of the ICAI flag at CA Branch Premises

FLASH..FLASH...

- Income computation and Disclosure Standards (ICDS) are to be applicable from 01.04.2016 i.e., PY 2016-17 (AY 2017-18), postponed by one year.
- Our finance ministry has set up a committee which is expected to submit its report by 31st Dec, 2016 with regard to change in India's Financial Year from 1st April TO 31st March to 1st January to 31st December or some other alternative financial year. Let us wait and see.
- The results for CPT and CA Final will be declared on 18.07.2016.

Quotations for the month

- ❖ A mirror never loses its ability to reflect even if it is broken into two pieces or thousand pieces. So, never change your originality at any point of time or in any situation.
- ❖ Leadership is not about the size of your office (or) title on your business card. It is about the depth of your commitment and your passion to get things done.
- ❖ Always be good with good, but never be bad with thee bad, because you can't wash mud with mud.
- ❖ Pain makes you **STRONGER**, tear makes you **BRAVER** and heartbreak makes you **WISER**. So, let us thank the past for a better future.