



NEWS LETTER

THE ANANTAPUR BRANCH OF SIRC OF ICAI

CONTENTS

1.	Editorial
2.	Chairman speaks....
3.	International Financial Reporting Standards
4.	Concept of Mutuality under Income Tax Act,1961
5.	Appeal to members for CA Benevolent Fund
6.	Quotations for the month

EDITORIAL

For any economy, a sound and healthy banking system is essential and the strength of such banking industry is essentially supported by an effective audit and this is the month i.e., April for all the Chartered accountants to be busy and engaged in statutory audit of bank branches for the year 2014-15. The importance of quality audit need not necessarily be over emphasized but it is to remind that all our professional friends will discharge their bank audit assignment without any compromise on quality of the audit and we should deliver the required services to the fullest satisfaction of the management of the banks.

Though the central government and the Companies Act mandatorily makes the companies to have fixed number of women Directors on their boards as on 31-03-2015. Unfortunately, most of the companies are still in search of right candidates for such Director posts. The management of the companies should seriously consider this provision that they can include women directors into the board and also get the benefit of the expert knowledge and also the management can avoid facing penal provisions by The Companies Act, 2013.

In the process of different modes of conducting audits of banks, in recent years most banks are preferring, because of statutory compulsions to have concurrent audit. Our Institute has come out with certificate course on concurrent audit of banks. Some of the members of our branch have attended the course in Bellary branch and 5 members have successfully completed this course. The committee congratulates all those successful members and wish them best of luck. As this qualification may be made mandatory by all the banks for conducting concurrent audit, it is very important and pertinent to all other members of Anantapur branch to undergo this course and get themselves qualified for better professional prospects in future.

As the dates for examinations for May, 2015 batch for IPCC and Final are already communicated, it is advised that all those students who are appearing for this exams will prepare well, approach positively, write exams with all confidence and come out with flying colours. All the best.

**CA.Dr.D.HARISCHANDRA RAMA,
Chairman,
News letter committee,
Anantapur branch of SIRC of ICAI.**

Chairman speaks....

My dear Professional colleagues,

At the outset, let me thank all the members for reposing confidence in me and electing me as the Chairman of the Anantapur branch of SIRC of ICAI for the year 2015-16. Earlier as the Chairman of the branch from the date of inauguration of our branch on 27th April of 2014 nominated by the institute, I could render service to the members in general and students in particular with the complete co-operation and support of the committee members for which I express my deep sense of gratitude. I am very glad to convey the message to all the members that, with the sincere efforts of the committee, we could organize and conduct ITT programmes, Orientation programmes and GMCS-I for the benefit of students, besides conducting mock tests for the prospective students who are appearing for the exams. The other important benefit and advantage to the students community is getting examination centre in National Sai Baba college, Anantapur which has facilitated the students of Anantapur district and also the neighboring districts to opt Anantapur centre for exams and exams were conducted for IPCC and Final in November, 2014 and CPT exams in December, 2014 without any problem. The branch is making all out efforts for arranging the required study material, test papers and suggested answers for those students who are in need of the same. Excellent facilities for study at branch premises for those students who are interested to prepare for their exams are available in the branch.

I solicit the valuable opinion of all the members for better service to the students at large in the months to come.

As far as the service to the members is concerned, I am glad to inform that we have arranged number of CPE seminars for the benefit of the members by which they could enhance their knowledge and share their experience.

I congratulate the newly elected President of ICAI, Sri CA.Manoj Fadnis and Vice-president Sri CA.Devaraja reddy.M for the year 2015-16 and assure them of our best support and co-operation in their new assignments.

With Best Wishes,

**Yours friend in Profession
CA.B.Srinivasa Kumar
Chairman of the Branch,
Anantapur Branch of SIRC of ICAI**

INTERNATIONAL FINANCIAL ACCOUNTING STANDARDS

About IFRS....

We have languages in different parts of the globe to communicate our feelings. It is so with accounts and finance. It is a tradition which is a continuous process for carrying on business or trade by the people for two reasons. Primarily, business is to earn profits and the other important objective is to exchange goods and services among the people. As far as earning profit is concerned, unless the transactions are recorded it is not possible to quantify the amount of profit. This reason led to record the transactions initially through single entry system and subsequently by adopting double entry system of accounting. All these years and till now the business community is well-versed with double entry system of accounting by which the amount of profit through profit and loss account for a particular financial year and the position of assets and liabilities as on a particular date by way of a balance sheet are communicated. As we all know that world's total economy has condensed into a global village economy where all the countries in the world are dealing among themselves by exchange of goods and services i.e., by imports and exports. Though every country has its own way of accounting, when it comes to the international transactions some constraints were observed and difficulties were encountered in presentation of accounts through the double entry system of accounting though it is a global language of business and this is the reason where the International Accounting Standards Board (IASB) has come out with International Financial Accounting Standards (IFRS). Though our country has strong financial accounting standards evolved by ICAI, now it is imperative to fall in line either to "**Converge with or Adopt to**" IFRS by the Indian entities. However at present India has not completely adopted the IFRS but has come out with convergence with them. Indian Accounting Standards (for brevity, IndAS) are the converged IFRS for Indian entities.

Accounting Principles and applicability of IFRS-

The IASB has authority to set IFRS and to approve interpretations of those standards.

IFRSs are intended to be applied by profit-oriented entities. These entities' financial statements give information about performance, position and cash flow that is useful to a range of users in making financial decisions. These users include shareholders, creditors, employees and the general public. A complete set of financial statements include a:

- Statement of Financial Position.
- Statement of Comprehensive income.
- Cash flow statement.
- Statement of changes in equity.

- Description of accounting policies.
- Notes to the financial statements.

The Indian Accounting Standards (Ind AS) shall be applicable to the companies as follows:

(i) On voluntary basis for financial statements for accounting periods beginning on or after April 1, 2015, with the comparatives for the periods ending 31st March, 2015 or thereafter;

(ii) On mandatory basis for the accounting periods beginning on or after April 1, 2016, with comparatives for the periods ending 31st March, 2016, or thereafter, for the companies specified below:

- (a) Companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth of Rs. 500 Crore or more. (b) Companies other than those covered in (ii) (a) above, having net worth of Rs. 500 Crore or more.

(c) Holding, subsidiary, joint venture or associate companies of companies covered under (ii) (a) and (ii) (b) above.

(iii) On mandatory basis for the accounting periods beginning on or after April 1, 2017, with comparatives for the periods ending 31st March, 2017, or thereafter, for the companies specified below:

(a) Companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees 500 Crore.

(b) Companies other than those covered in paragraph (ii) and paragraph (iii)(a) above that is unlisted companies having net worth of rupees 250 crore or more but less than rupees 500 Crore.

(c) Holding, subsidiary, joint venture or associate companies of companies covered under paragraph (iii) (a) and (iii) (b) above.

Though the stage was set for the first set of entities that meet the criteria to move over to IFRS from 01-04-2011, now after 5 years the IFRS are coming into effect from the beginning of the financial year 2016-17. Unlike DTC which was discussed at length and may not see light in future let us hope that IndAS will be implemented by required entities for better presentation, reporting and understanding of financial results.

CONCEPT OF MUTUALITY

Tax liability under Income Tax Act, 1961:-

“No man can trade with him self; he cannot make, in what is its true sense or meaning, taxable profit by dealing with him self”. The meaning of mutuality is **“getting benefit by the members”**. In other words, any activity solely and exclusively by the members for themselves is the concept of mutuality. The very crux of this mutuality concept is that, a group of members joined together carrying on a particular activity is not exclusively for profit but only a benefit to the whole number of members of that group or association. The principle of mutuality has its genesis from the above statements which is advantageously utilized by mutual concerns like mutually aided cooperative credit societies, members clubs, chit funds and mutual benefit funds etc. In other words, these clubs/associations are formed by persons for a benefit or advancement of certain mutual activities. As the objectives of these are not of **“General Public Utility”**, their incomes are not subject to exemption u/s 11 of Income Tax Act, 1961. To be very specific the benefits of such associations are only for a **“Section of Public”** and not **“General Public”**. This is the reason why such associations are coming under the umbrella of principle of mutuality. Under this explanation, any surplus income after meeting all the expenses by any society/association is not regarded as revenue and not taxable under the Income Tax Act, 1961 based on the principle of mutuality.

Mutuality principle offers a tax shelter, as long as its character of a mutual association is retained, with its income not tainted by commerciality. A formal organization indicating mutuality as between members with bye-laws spelling out mutuality may, however, be necessary as p[roof of claim to mutuality either as a society or a company registered under Section 25 of the Companies Act, 1956, or even as managed by a public trust, with such activities primarily intended to be confined to its members.

S.Raja Ratnam
(Retired member of ITAT)

What should be the entity to get the benefit of Doctrine of mutuality -

Irrespective of the mode of legal entity i.e., an Association of a co-operative society, a partnership firm or a company the principle of mutuality can offer a Tax shelter from liability ***if and only if*** when such entity could act as an agent of its members and the object being mutual benefit for all the members of such entity.

If an Association:-

In the case of additional CIT Vs Surat silk cloth manufacturer's Association (1980)121 ITR1(SC) and CIT Vs Andhra Chamber of commerce (1965) 55 ITR 722 (SC), for the benefit of, it is well settled that the concept of mutuality is existing and the benefit of exemption of tax is available.

In case of Co-operative Society:-

In case of a co-operative society the very motto of such society is **by the members, for the members and of the members**. The principle of mutuality is very well suited for a Co-operative society and the right to recognition for exemption under the doctrine of mutuality was recognized in case of CIT Vs Apsara Co-operative housing society Ltd(1993)204 ITR 662(cal) and Director of Income Tax (Exemptions) Vs Indo Oriental Bank of Commerce welfare society (2003) 13U Taxman 575(del).

In case of Partnership:

If and only if the Partnership firms activities are fully confined to its partners only the benefit of Tax exemption under the doctrine of mutuality can be availed.

Re: CIT Vs Natraj finance corporation (1998)169 ITR 732(AP).

In case of a Company:

In case, the company acts as an agent of its members, benefit of mutuality concept can be availed.

In case of CIT Vs Royal western India Turf Club India Ltd(1953)24 ITR 551(SC) it was established that incorporation does not bar mutuality.

To get the benefit of Tax exemption under this doctrine of mutuality following 3 important points bare to be strictly observed.

1. Whether the objective is to earn profits, in other words, is there any commerciality involved.
2. The beneficiaries and the contributors should be same, in other words the benefits should exclusively for the members of the entity alone and not to the outsiders. Lord macmillan in the case of municipal mutual Insurance Ltd Vs Hills (1932)16TC 930 at page 448(HL) has observed as under:

The Cardinal requirement is that all the contributors to the common fund must be entitled to participate in the surplus and that all the participators in the surplus must be contributors to the common fund; In other words, there must be complete identity between the contributors and the participators.

3. Whether the Income is other than income from mutuality concept. Here it is to be very clear to make a distinction between the income from the operations of and by the members and income from other sources. In other words in case of a cooperative society, the income by way of interest on deposits with the bank made by the society appears to be not income directly by the members but from 3rd parties. However, in many cases even the interest income on deposits is exempt because the funds in the bank are deposited for safe custody. In the case of Hill properties Ltd ITA No.6223, 6249/Mum/09, it was established that the principle of mutuality cannot be destroyed simply because the funds were not formed with members but with 3rd parties who are not members of the society. This was again accepted in the case of Canara bank Golden Jubilee staff welfare fund by Karnataka High court.

To sum up, any entity can avail Tax benefit under the shelter of doctrine of mutuality, **if and only if** the objective is not for profit, and the purpose is only mutual benefit.

By CA.D.Aravind Rama

The Anantapur Branch of SIRC of ICAI-April 2015

Appeal to members for CA Benevolent Fund

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 cases of accident/ 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 upto 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-2013096,
Dist. Gautam Budh Nagar (U.P.)
Email: cabf@icai.in

**THE ANANTAPUR BRANCH OF
SIRC OF ICAI-APRIL 2015**

QUOTATIONS FOR THE MONTH

1. Life and Time are the World's best teachers, life teaches us the use of time and time teaches us the value of life.

2. Mathematics may not teach us how to add happiness or how to minus sadness but it does teach us one important thing that every problem has a solution.

3. Never try to defeat *ANYONE* just try to win *EVERYONE*. Don't laugh at *ANYONE*, but laugh with *EVERYONE*

4. What is "talent"?

Rahul Gandhi is yet to start his career at 43 years and Sachin retired and awarded "Bharathratna" at 40 years i.e., called "talent".

What is "success"?

In 1988, Tendulkhar failed in English in 10th standard. Now in 2014 10th standard English first lesson is about Tendulkhar i.e., "success".