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NEWS LETTER

THE ANANTAPUR BRANCH OF SIRC OF ICAI **CONTENTS**

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Editorial

The issue of widening of tax base is the catch word of Income Tax Department through the successive governments for a very long time. This year the government has launched an ambitious drive to bring in its fold around 10 million new tax payers. The government has directed the officials of the department to achieve the target with all the confidence and sincere efforts. The CBDT, the apex policy making body has activated the Income tax department to achieve the goals. The very purpose of the concept of widening of tax base is to augment the revenues of the government and probably this can be achieved through successful electronic filing of income tax returns and forms, submission of TDS/TCS returns by tax deductors, making it statutory for all the agencies to submit the annual information returns for special transactions, effectively monitoring the centralized information branch scheme (CIB) and to make it compulsory of quoting PAN for certain specified transactions.

Besides monitoring all the above issues, the government gives importance for Non-filers Monitoring system (NMS) and because of this scheme the government could get Rs.4,733,crores as self-assessment tax from 30.68 lakh returns filed through the existing “Compliance module” upto 31.03.2015.

Further, the very contentious issues about unaccounted money lying in India and lying overseas should be definitely addressed in true spirits which is the cause of a kind of parallel economy in our country. There is a proposal to tax exempted income i.e., agricultural income in the process of widening the tax base atleast those cases beyond a large threshold limit. Probabaly, Central Government is planning to advise state governments to collect tax on agricultural income which may be adjusted towards part of GST compensation, if the GST comes into force from 01.04.2016.

Whatever said and done, the first party to this concept of widening of tax base is the central government and the other party is the various stakeholders like assesses and auditors both have to walk together to achieve the desired goal of enhancing revenues by increasing the tax payers and making non-filers to file the returns.

CA Dr. D.Harischandra Rama
Chairman
Newsletter Committee
Anantapur Branch of SIRC of ICAI

Chairman Speaks....

Dear Members,

We have entered August, 2015 and the coming month September 2015 are hectic months for all Chartered Accountants busy with tax audits. We have not received any extension of time till date and members are advised to complete their assignment with in the schedule dates.`

This time August 2015 happens to be with more seminars including SIRC and other conferences and members are advised to take advantage of events to update their knowledge. I have watched the International Seminar at Indore from 7th August to 9th August 2015, few hours live webcast which is very useful to the members relating to opportunities and responsibilities in the profession. The members are advised to view the said seminar from ICAI TV.

On 2nd August 2015 the SICASA seminar was conducted at SSBN Degree College Auditorium and was attended by about 200 students. The speaker CA CHAITHNYA from Tirupati who dealt with Auditing Standards and Capital Gains taxation with particular reference to real estate was immensely useful to the participants. The other Speaker CA Satya Kumar from Chennai who dealt with Changes in Companies Act 2013 and his strategies/tips to the students for doing good performance for successful completion of CA examinations are useful to students.

Our Branch received an approval from Internal Audit Standards Board, ICAI to conduct Certification Course on Concurrent Audit banks and the programme to be conducted on **October 17&18, 30 and November 1, 7&8, 2015 at Anantapur**. 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 RBI and importantly, to ensure timely detection of lapses/irregularities. The Members are requested to send their cheques favouring Anantapur Branch of SIRC. The Members are requested to take advantage for early completion of the Course. Details published in the e-journal.

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There is CBTD Letter dated 01-06-2015 where the Deductor has not remitted the TDS amount deducted and the assessee Income tax Return filed resulted in demand under Section 143(1)a, in those cases the letter gives support to the assessee and the Income tax Department cannot proceed with coercive action for recovery.

We have to file Form No. 15CA on line, obtaining report from Chartered Accountant in Form No.15CB for the payments to Non residents other than Companies or Foreign Companies under Section 195 of Income tax Act from 1st June 2015, whether chargeable to tax in India or not. Non compliance will result in Rs One Lac penalty and disallowance of such expenditure. We have to advise our clients wherever it is required.

The Joint Commissioner of Income-tax, Anantapur Sri Seetharam called for a meeting of tax bar members on 29-07-2015 and advised the members to educate the tax payers to file their returns from the non filers and who stopped filing returns and they also will conduct tax awareness meetings of various organisations and requested the members to coordinate for the meetings, which is a programme of Prime Minister to increase the tax base.

On 11th August 2015 there was again meeting on the eve of the Principal Commissioner of Income Tax, Vijayawada, Honourable Ajay Kumar who is in charge of Kurnool also and he addressed the tax bar members, CA's, President and Secretaries of various trades of the town to educate the public to come forward in filing voluntarily Income tax Returns for the development of the Nation, as the number of returns filed during the Financial Year 2014-15 in the District is very less and requested cooperation from all the sections

The ITT Lab at Anantapur Branch working from June 2014 and students undergone the ITT course about 345 students. And one more batch also commenced from 10-08-2015 with 20 students

The Branch conducted Orientation Programme of 4 batches and students about 290 completed the said course. 5th Batch will be commenced from 13-08-2015 with about 40 students.

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The Branch conducted GMCS- 1 Programme of three batches and students about 76 students completed the said course.

The Branch to conduct more CPE Programmes for the benefit of members and we are planning in that direction and the members are requested to advised/support the Branch by their participation in good number.

I am concluding by the citation of our President CA MANOJ FADNIS:

“ A successful journey always comprise countless smaller steps which may consist of successes and failures. Failures make us wiser in our journey which strengthening the relevance of success. When we respect our failures by learning from them, we become stronger. According to Elbert Hubbard, there is no failure except in no longer trying. I always believe in moving on whether it is success or failure. Therefore, it is not just about what happens with us but, in fact, what we do when that happens with us. Ultimately we will have to create a space for ourselves beyond our defeats and wins”

Best Wishes

CA.B.Srinivasa kumar
Chairman of the branch,
Anantapur branch of SIRC of ICAI

CASES OF INTEREST UNDER INCOME TAX ACT, 1961

- **Exemption under section 10(23C)(iiia)-Educational institution-Corpus donation, whether part of annual receipts**

The assessee-society filed return of income declaring nil income after claiming whole of its surplus of Rs. 20,98,900/- as exempt u/s.10(23C)(iiia). The AO issued notice u/s. 148 for reopening the assessment on the grounds that annual receipts (capital and revenue) for the year under consideration exceeded Rs.1 crore and as such, it was not eligible for exemption u/s.10(23C)(iiia). During the assessment proceedings, AO noted that assessee had submitted that the receipts of the society were only Rs.60,24,857/- and an amount of Rs.39,14,102/- was received as donation towards corpus fund. The donation towards corpus funds shall not be added towards receipts of the society. AO further noted that corpus fund was to construct building of the society and, therefore, it should be treated as capital receipt of society. AO, therefore, held that receipts of the society exceeded Rs. 1 crore and, therefore, exemption u/s. 10(23C)(iiia) was not allowable. The AO thus made the assessment and brought to tax the surplus income of Rs. 20,98,900/- in the hands of the assessee. CIT(A) deleted addition.

Held: When corpus donations received by assessee were separated, annual receipts of educational society were only Rs. 69,24,857/-. Since annual receipts of educational institution of assessee society were below Rs.1 crore, exemption u/s. 10(23C)(iiia) was allowable.

Followed: *Jat Education Society v. DCIT* (ITA Nos.3769 & 3770/Del/2008, dt.11-3-2011).

Asstt. CIT v. Shiksha Samiti 2015 TaxPub(DT 1212(Del 'G-Trib) : (2015) 38ITR (Trib) 616 (Del 'G'-Trib)

- **Business deduction under section 36(1)(iii)-Interest on borrowed capital-interest-free advances to sister concerns**

During the assessment proceedings, it was noticed that assessee had given certain advance to sister concern without charging any interest. However, it debited profit and loss account with Rs.4,79,203/- on account of interest paid to partners' capital account. AO referred to the provision of section 36(1)(iii) and calculated the proportionate disallowance at Rs.9,58,256/-. However, he noted that since claim for interest was only Rs. 4,79,230/-, the disallowance was restricted to this amount. CIT(A) confirmed the disallowance made by AO.

Held: Assessee had diverted interest bearing funds to sister concerns, therefore, principles laid down by the Punjab and Haryana High Court in the case of CIT v. Abhishek Industries Ltd. (2006) 286 ITR 1 (P&H) would get attracted and proportionate interest had to be disallowed. Therefore, the order of CIT(A) was confirmed.

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

Hi tech Land Developers And Builders v. Addl. CIT 2015 TaxPub(DT) 1068 (Chd 'B'-Trib) : (2015) 38 ITR (Trib)355 (Chd 'B'-Trib)

- **Head of income - Business income or income from house property – Rental income**

Assessee was a private limited company engaged in business of buying properties on ownership or lease or rental bases and to give on long lease, sub-lease and/or rental basis. Source of income assessee company was rental income which was part and parcel of activities of company. Since 2000, assessee company had been duly reflecting such rental income as "Income from business or profession". Assessee had also duly reflected these assets as business assets and also claimed depreciation in each and every year. During the year under consideration, AO treated the income offered by assessee as business gain, and not as income from house property. CIT(A) held that income was derived from operation of business.

Held: Merely because income is attached to property, it cannot be sole factor for assessing such income as income from house property. For determining income primary objective of assessee has to be seen. Assessee had developed shopping malls/business centres on properties owned by it and let out same by providing host of services/facilities/amenities in said malls/business centres, therefore, it could be said that basic intention of assessee was commercial exploitation of properties. As per memorandum of Association of the Company, It is the main object of the Company to purchase and/or acquire property and to give on lease and for on license basis along with complex commercial activities and that is how the company as declared its income from such property as their business income. As per Supreme Court verdict, if the services rendered by the assessee are the results of its activities carried on continuously in an organized manner, with a set purpose and with a view to earn profits, those activities would constitute business activities and the income arising therefrom would be assessable as business income u/s. 28 of the 1961 Act. A perusal of agreement entered by assessee would show that activities involved in providing various services facilities/amenities meet all requirements laid down by Supreme Court to qualify as business income. Order of CIT(A) is upheld treating income as business income.

Followed: Karnani Properties Ltd. V. CIT (1971) 82 ITR 547 (SC).

Asstt. CIT v. Steller Developer (P.) Ltd. 2015 TaxPub(DT) 1576 (Mum 'H'-Trib): (2015) 68 SOT 34 (Mum 'H'-Trib)

- **Head of income-Business income or capital gains - Trading in shares and securities**

The AO treated the income from trading in shares as business income, instead of capital gains as claimed by the assessee. The Departmental Representative vehemently contended that the CIT(A) ignored the nature of transactions made by the assessee during the financial year under consideration. Counsel of the assessee submitted that facts would amply demonstrate that the shares held by the assessee were in the nature of investment and not stock-in-trade, therefore, income arising on transfer of shares/sale of shares was rightly offered for taxation by the assessee under the head "Capital gains". Similar classification of shares as 'investment' and income from purchase and sale of shares was capital and 2006-07 u/s. 143(1) and CIT(A) reversed order of the AO.

Held: Following the principle of consistency, the income from purchase and sale of shares was capital gains and not business income as held by the revenue in proceeding three years.

ITO v. Ashok Kumar 2015 TaxPub(DT) 1780 (Del 'A'-Trib): (2015) 39 ITR (Trib) 76 (Del 'A'-Trib)

**By CA D.Aravind Rama,
Chartered Accountant**

Era of Accounting Standards

Introduction: I am being pragmatic in citing that Accounting Standards are the pre requisite for carrying on the business efficiently in the globalized economy. Accounting Standards are defined as the principles that standardize and regulate accounting definitions, assumptions, and methods. Adoption of accounting standards assures that there is consistency from year to year in the methods used to prepare a company's financial statements. Although variations may exist, we can make reasonably confident conclusions when comparing one company to another, or comparing one company's financial statements to the financial statements for the industry as a whole. Accounting Standards are very helpful for the external stakeholder's viz. Bankers, Creditors, Investors of the company since they assure the stakeholders that the financial statements are prepared following a set of rules which helps them in making investment decisions. Last but not the least, adoption of country specific accounting standards is mandatory when the domestic company enters a foreign market or a domestic company wants to get its shares listed in foreign stock exchanges.

All of us, being in the field of accounting are aware of the importance of Accounting Standards and Accounting Standards Board of India. But when we are confronted with the terms FASB, IASC, IASB, IFRS, IFRIC we blink. In this backdrop let us see how Accounting Standards evolved over a period of time in different parts of the world and let's decode the above mentioned terminologies.

US GAAP:

In the United States, Generally Accepted Accounting Principles are accounting rules used to prepare, present and report financial statements for a wide variety of entities, including publicly traded and privately held companies, non-profit organizations, and government authorities. The term is usually confined to the United States, where it is commonly abbreviated as US GAAP or simply GAAP. With the passing of the Securities Act of 1934, the Securities and Exchange Commission (SEC) was created and given the power to establish standards for financial reporting of US companies. Later they felt that this work would be accomplished effectively by the private sector where professionals would be able to provide input and guidance, and thus the power to establish financial reporting standards was moved to the American Institute of Certified Public Accountants (AICPA).

AICPA formed two different committees which took part in the process of setting the standards viz. Committee on Accounting Procedure from 1936 to 1959 and the Accounting Principles Board from 1959 to 1973. The two committees of the AICPA worked to provide standards that would be beneficial to users and preparers of financial statements. In 1973 Financial Accounting Standards Board (FASB) was formed to utilize a broader spectrum of participation in order to develop unbiased standards. The mission of the FASB "is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including issuers, auditors, and users of financial information. The work of the FASB is an integral part of the United States economy as it demands that financial information put forth by companies is "credible, transparent, and comparable".

STANDARD SETTING PROCESS OF FASB:

1. The Board identifies financial reporting issues based on requests/recommendations from stakeholders or through other means.
2. The FASB Chairman decides whether to add a project to the technical agenda, after consultation with FASB Members and others as appropriate, and subject to oversight by the Foundation's Board of Trustees.
3. The Board deliberates at one or more public meetings the various reporting issues identified and analyzed by the staff.
4. The Board issues an Exposure Draft to solicit broad stakeholder input. (In some projects, the Board may issue a Discussion Paper to obtain input in the early stages of a project
5. The Board holds a public roundtable meeting on the Exposure Draft, if necessary.
6. The staff analyzes comment letters, public roundtable discussion, and any other information obtained through due process activities. The Board redeliberates the proposed provisions, carefully considering the stakeholder input received, at one or more public meetings.

7. The Board issues an Accounting Standards Update describing amendments to the Accounting Standards Codification.

IAS and IFRS:

International Accounting Standards Committee (IASC) was formed in 1973 in London, the same year when FASB was developed in the United States. As international trade had grown during the 1960s, it had been quickly decided that the world needed centralized guidance for accounting standards. From its very inception, the IASC focused on collaboration among the major players in the global marketplace, and thus input from the United States has always been crucial to the success of the IASC. Without a strong perceived need for international accounting standards, IASC did not receive much support or credit for its work, as many countries continued to use their own accounting standards. Until the mid-1980s, the IASC worked mainly to harmonize accounting standards and was "often criticized that it was seeking the lowest common denominator with respect to standards". Many argued that quality of the standards was not given enough attention. In 1987, following its own internal direction and under pressure from the International Organization of Securities Commission to create a set of high quality international standards, the IASC made the decision to move toward more conceptually-based standards that could be more widely-used. As time continued from the mid-1980s to the early 2000s, the world economy became much more global and many companies began to realize the benefits that could result from utilizing a single set of international accounting standards. Many European companies had begun using a modified version of US GAAP for the preparation of their financial statements in order to participate in the global economy, as the historical view has been that US GAAP is the premier set of accounting standards. The use of US GAAP around the world prompted the IASC to further promote the use of International Accounting Standards (IASs) as opposed to using US GAAP. Soon after the IASC increased its promotion efforts for IASs, standard setting authority for these international standards was relinquished to the International Accounting Standards Board (IASB) in 2001. The 41 IASs established by the IASC and 33 SICs remain in effect until reviewed by the IASB. The stated objective of the IASB is "to develop a single set of high quality, understandable and enforceable accounting standards to help participants in the world's capital markets and other users make economic decisions". The main goal of creating IFRSs is to provide enhanced comparability among companies' financial statements around the world. By utilizing a single set of standards, financial information will be more understandable to more people in different countries.

IFRSs are principals-based, generally requiring increased use of judgment among practitioners when compared to US GAAP which has many detailed rules. The way in which the IASB develops its standards is similar to the way in which standards are produced in the United States. Extensive research is performed on certain topics and input is accepted from all possible stakeholders of the proposed standard. Proposals are released, followed by a period of time for public comment. An exposure draft will be released, followed by another comment period, which will ultimately result in the publishing of a new or revised standard, along with a statement of feedback. Once published, the standard is subject to a jurisdictional adoption process and a post-implementation review period by the IASB of two year. This public involvement in setting standards is similar to that of the FASB. Because the IASB is responsible for writing standards that are to be used internationally, it is critical that the Board not only receives input from people around the world, but is able to retain an international focus among its members. The IASB is made up of 14 members, representing nine countries, including the United States. Till date 41 IASs, 33 SICs, 13 IFRSs and 20 IFRICs are issued.

SIC: The board of the International Accounting Standards Committee (IASC) formed the Standing Interpretations Committee (SIC) in 1997. It was founded with the objective of developing interpretations of International Accounting Standards (IASs) to be applied where the standards are silent or unclear.

IFRIC: IFRIC is the interpretative body of the IASB, the entity that develops, maintains and issues IFRS. IFRIC is designed to help the IASB improve financial reporting through timely identification, discussion and resolution of financial reporting issues within the framework of IFRS. Following a process detailed in the “Due Process Handbook for the IFRIC”, the committee develops authoritative interpretations of existing IFRS. IFRIC refers its interpretations to the IASB for discussion and approval, and once they are approved by the IASB, the IFRIC interpretations (IFRICs) become part of IFRS. To be in compliance with IFRS, an entity must comply with all aspects of IFRS, including IFRICs.

ACCOUNTING STANDARDS IN INDIA:

The Institute of Chartered Accountants of India (ICAI) being a member body of the IASC, constituted the Accounting Standards Board (ASB) on 21st April, 1977, with a view to harmonise the diverse accounting policies and practices in use in India. Due to adoption of liberalisation and globalisation as the corner stones of Indian economic policies in early '90s, and the growing concern about the need of effective corporate governance, the Accounting Standards have increasingly assumed importance. While formulating accounting standards, the ASB takes into consideration the applicable laws, customs, usages and business environment prevailing in the country. The ASB also gives due consideration to International Financial Reporting Standards (IFRSs)/ International Accounting Standards (IASs) issued by IASB and tries to integrate them, to the extent possible, in the light of conditions and practices prevailing in India.

Accounting Standards Setting Process:

The accounting standard setting, by its very nature, involves reaching an optimal balance of the requirements of financial information for various interest-groups having a stake in financial reporting. With a view to reach consensus, to the extent possible, as to the requirements of the relevant interest-groups and thereby bringing about general acceptance of the Accounting Standards among such groups, considerable research, consultations and discussions with the representatives of the relevant interest-groups at different stages of standard formulation becomes necessary. The standard-setting procedure of the ASB, as briefly outlined below, is designed in such a way so as to ensure such consultation and discussions:

- a. Identification of the broad areas by the ASB for formulating the Accounting Standards.
- b. Constitution of the study groups by the ASB for preparing the preliminary drafts of the proposed Accounting Standards.
- c. Consideration of the preliminary draft prepared by the study group by the ASB and revision, if any, of the draft on the basis of deliberations at the ASB.

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- d. Circulation of the draft, so revised, among the Council members of the ICAI and 12 specified outside bodies such as Standing Conference of Public Enterprises (SCOPE), Indian Bank's Association, Confederation of Indian Industry (CII), Securities and Exchange Board of India (SEBI), Comptroller and Auditor General of India (C& AG), and Department of Company Affairs, for comments.
- e. Meeting with the representatives of specified outside bodies to ascertain their views on the draft of the proposed Accounting Standard.
- f. Finalisation of the Exposure Draft of the proposed Accounting Standard on the basis of comments received and discussion with the representatives of specified outside bodies.
- g. Issuance of the Exposure Draft inviting public comments.
- h. Consideration of the comments received on the Exposure Draft and finalisation of the draft Accounting Standard by the ASB for submission to the Council of the ICAI for its consideration and approval for issuance.
- i. Consideration of the draft Accounting Standard by the Council of the Institute, and if found necessary, modification of the draft in consultation with the ASB.
- j. The Accounting Standard, so finalised, is issued under the authority of the Council.

CONVERGENCE OF ACCOUNTING STANDARDS:

In the Norwalk Agreement of 2002, FASB and IASB showed their acceptance for the convergence of Accounting Standards. In 2006 they entered into Memorandum of Understanding to converge the accounting standards and term them as IFRS. The idea behind developing IFRS is to smoothen the financial reporting practices and to enhance the comparability of financial statements. IFRS are used in many parts of the world, including the European Union, Hong Kong, Australia, Malaysia, Pakistan, GCC countries, Russia, South Africa, Singapore and Turkey.

Indian Accounting Standards, (abbreviated as Ind AS) are a set of accounting standards notified by the Ministry of Corporate Affairs which are converged with International Financial Reporting Standards (IFRS). These accounting standards are formulated by Accounting Standards Board of Institute of Chartered Accountants of India. Now India will have two sets of accounting standards viz. existing accounting standards under Companies (Accounting Standard) Rules, 2006 and IFRS converged Indian Accounting Standards (Ind AS). The Ind AS are named and numbered in the same way as the corresponding IFRS. NACAS recommend these standards to the Ministry of Corporate Affairs. The Ministry of Corporate Affairs has to spell out the accounting standards applicable for companies in India. As on date the Ministry of Corporate Affairs has notified 35 Indian Accounting Standards (Ind AS) and the date of implementation of Ind AS for specified companies from 1st April 2015.

Conclusion: From the above discussion one can observe the long trail in the development of Accounting Standards, which form the backbone of the financial reporting practices. Though each country follows their own set of standards, every standard aims at portraying true and fair view of the financial statements. But in the era of cross border trade it is always better to have a single set of standards. IFRS is a conscious move in this regard and let's hope every country converge with IFRS as early as possible.

By CA. Rashmi Ainapur
Chartered Accountant

Issues of interest for the members

- Our Anantapur Branch of SIRC is hosting certificate course on concurrent audit of banks on the following dates-17th,18th & 30th of Oct,2015; 1st, 7th & 8th of November,2015. The fee for course is Rs.12,500/- per participant. Please note that obtaining certificate in this course is almost mandatory to get any bank audit assignment in future, especially concurrent audits of bank. Hence, it is advised that all those members who have not obtained this certificate are advised to register themselves immediately as this course is being conducted in our native town/district. For any clarification please contact course coordinator **CA.Dr.D.Harischandra Rama**.
- All the members of our branch are requested to register for 47th regional conference (Olrattum-Glow to grow) at Mahabalipuram(Madras)
Registration Fees-Rs.3,500/-
CPE Credit-10 hours
Please contact CA B.A.Pradeep Kumar for further details.

QUOTATIONS FOR THE MONTH

1. Only those who have the patience to do simple things "**perfectly**" will acquire the skill to do difficult things "**easily**".
2. Negative attitude is like a punctured tire, you cannot reach anywhere until you change it. So always think positive and be positive.
3. Life is not about finding the right person, but creating the right relationship, it is not how we care in the beginning, but how much we care till ending.
4. Whenever you are in conflict with someone, there is one factor that can make the difference between damaging your relationship and deepening it. That factor is attitude.
5. Many people will walk in and out of your life, but only true friends will leave footprints in your heart. Let us have such friends.