



# The Institute of Chartered Accountants of India

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## **NEWS LETTER**

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**EDITORIAL**

The ritual of Completion of Tax audits of both corporate and non-corporate exercise was satisfactorily completed by almost all the practicing Chartered Accountants by 12 midnight 30.09.2015. Though many people doubted about the extension of date of filing of tax audit reports and filing of returns, the assignment was completed in time. However, though it was not a surprise, the CBDT graciously extended the date to 31.10.2015 and this announcement came on 01.10.2015. It appears that the CBDT could not announce the date of extension merely because the targets of getting self-assessment tax may be missed. Every year it has become a practice for the ministry of finance/CBDT to play a game of extension of dates for filing of return for some reason or other and if it is a genuine reason we, the members of the practice can appreciate. Otherwise, sorry, this is not a good procedure by the tax authorities because public and practicing Chartered Accountants will lose faith in the system. For non-tax audits the usual date of filing was on or before 31.07.2015 which was extended to 31.08.2015 and again on 1<sup>st</sup> of September the date was extended to 07.09.2015 for Gujarat alone and again on 2<sup>nd</sup> this was applicable to rest of the country. Probably, this confusion could not have arisen if the formats of Return of Income were released well in time. There is ample time for the Government to come out with the new forms well in time keeping the changes made in the Finance Act 2014 applicable to AY 2015-16. This shows that there is much delay in the department of Income Tax in releasing the newly framed forms. Even, many High Courts have categorically criticized the Government for not releasing the forms in time and directed the Government not to delay this activity in future so that there may not be any request from the traders and practitioners for extension of date for filing of return. Hope the Government will realize this time and we can expect new forms for AY 2016-17 well in time, probably in the month of April, 2016.

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

***The Anantapur Branch of SIRC of ICAI***

**Chairman Speaks...**

Respected Members,

*WISHING ALL THE MEMBERS HAPPY DUSSEHRA*

All the members might have completed their tax audit assignments in the Month September 2015 itself. The CBTD finally extended the due date of filing of returns and tax audit reports to 31-10-2015. Because of the High Courts' directions, the Income tax Forms will be formulated, published and provide utilities well in time and there will be no extensions in the coming years. This is a happy development and the Members will have sufficient time to complete the tax audit and filing of Returns well within the stipulated time.

HAPPY GANDHI JAYANTHI 2ND October 2015. We have to remember Father of Our Nation, Mahatma Gandhi for his selfless contribution, who sacrificed his everything for the freedom of our nation, with his weapons of Non-violence and peace, he learnt to act without fear or favour. He says: To me God is truth and love; God is ethics and morality; God is fearlessness. One of the basic philosophies of accountancy professions, i.e. to conduct oneself without fear or favour. He reminds that there is higher court than (all) courts of justice and that is the court of conscience. The Nation and World remembers him, as the greatest men of the Century.

The Managing Committee has taken decision to conduct Certificate Course on Concurrent Audit of Banks, commencing from 17<sup>th</sup> October 2015 at Masineni Grand near Sapthagiri Circle, Anantapur. The members are requested to cooperate for the successful completion of the scheduled Course.

The Branch intends to conduct Crash Courses for the benefit of IPCC students commencing from 1<sup>st</sup> Week of February 2015. The members are advised to intimate to students accordingly.

The process of December 2015 elections for the 23<sup>rd</sup> Council of the Institute has been initiated. Election Code of Conduct has already come into force. Kindly cast your valuable votes and ensure fair elections.

A very happy Id-ul-Zuha - Bakrid 24-10-2015 to all Muslim Brothers. Happy and Joyful Dussehra and let the positive forces overcome/control negative forces in each and every person, victory over evil forces.

***I am concluding with the following quotes:***

When bhakti enters food, food becomes prasad,  
When bhakti enters hunger, hunger becomes a fast,  
When bhakti enters water, water becomes charanamrit,  
When bhakti enters travel, travel becomes a pilgrimage,  
When bhakti enters music, music becomes kirtan,  
When bhakti enters a house, house becomes a temple,  
When bhakti enters actions, actions become services,  
When bhakti enters in work, work becomes karma, and  
When bhakti enters a man, man becomes human.

Anger is the false show of strength by a weak person, while politeness and a cool mind reflects dignity and strength of a strong person.

God uses broken things beautifully broken clouds pour rain, broken soil set as fields, broken crop yield seed broken seeds give life to new plant, so when you feel you are broken be rest assured that God is planning to utilize you for something great.

***Best Wishes***

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

## **Intangible Assets – An yardstick to measure company's value**

### **Introduction:**

Measurement or Valuation process aims at estimating the value of asset, liability or a firm, based on risk and return factors. Valuation may be of company as a whole or it may be in regard to tangible assets, intangible assets, liabilities. Common misconception in regard to valuation is that, valuation is performed only when there is capital inflow or outflow in other words during purchase or sale of a company. But in current scenario valuation has become an ongoing process where in it is used as a tool by management in the decision-making process.

As we are aware of product life cycle which speaks about four stages of a product's life

- Introduction
- Growth
- Maturity

In each stage the valuation of company differs which enables the management in strategic decision making process. In contrast investors make most of this situation by investing in between growth and maturity stage to earn more profits.

### **Valuation Concept:**

Valuation objectives differ based on the asset or liability which is valued. Generally following valuations help in decision making process

- Valuation of Tangible Fixed Assets
- Valuation of Intangible Assets (Goodwill, Brand)
- Valuation of Shares
- Valuation of Business
- Valuation of Liabilities

**Definition of Intangibles:**

Intangible Assets are defined as identifiable non monetary assets that cannot be seen, touched or physically measured, which are created through time and/ or effort and that are identifiable as a separate asset.

There are two forms of Intangibles:

- **Legal Intangibles:** Patents, Trademark, Copyrights and Brand

Ex: Pepsi co. has secret formula of the syrup concentrate used in the carbonated beverages which is patented in its name.

- **Competitive Intangibles:** Human Resource

Infosys Ltd. Human capital is their USP; it is because of the efficient human resource they are able to gain competitive edge in the market.

Human resource accounting has gained lots of importance in the recent years. Many companies are showing the value of human capital in their annual financial reports. Lev Schwartz model is used to calculate the value of human resource.

Goodwill is of two forms:

- **Acquired Goodwill:** Kingfisher acquired Deccan Airlines, Captain Gopinath had created goodwill for his airlines by serving at economy rates and this goodwill was acquired by Kingfisher in the event of acquisition.
- **Inherent Goodwill:** MTR in Bangalore has the goodwill which is inherent or created through years with consistent efforts by serving delicious and hygienic food.

**Intangible Asset: As a measure of company's value:**

In this backdrop let's evaluate how intangibles are useful in measuring company's worth. In the current dynamic and globalized world competition has crossed boundaries. Today competition is not limited to within country but has extended to whole world. In these situations a company which has continuous strategic evaluation policies will survive. This has resulted in Mergers and Acquisitions which in turn results in flow of intangibles into the company in the name of goodwill, brand etc. But for the going concerns intangibles are created over a period of time with continuous effort and customer focus. Companies adopt various cost reduction techniques to benefit the customer which in turn leads to developing of brand and goodwill.

Hence every company strives to build up its reputation in the market in order to grow, survive and sustain through following ways

- **Total Quality Management:** TQM is an excellent tool to gain the competitive edge. TQM can be described with its 6 C's,
  - Commitment
  - Culture
  - Customer Focus
  - Co-operation
  - Continuous Improvement
  - Control
- **Just in Time and Vendor Managed Inventory:** JIT and VMI may sound operational but this is the route utilized by Maruti Udyog Ltd to gain the competitive advantage. As discussed earlier adding value to company through intangibles is an ongoing process. Hence Maruti has designed its process in such a way so as to reduce cost, increase customer service and meanwhile earn profits and also maintain market share.

**Few points worth noting of Maruti Udyog Ltd in regard to VMI and JIT are,**

- Maruti keeps only four hours of stock in the factory.
- All spare parts vendors pack the materials in the form where components are put in specified bins, labeled and sent to Maruti. This will be carried out by vendors who are within 200 kms radius.
- E-nagara is a virtual delivery system created by Maruti for its vendors.
- Class 'A' category of inventory at auto companies down from 7-10 days to few hours, maximum one day.
- Substantial reduction in working capital.

(Source: 'Vendor Managed Inventory- A reality auto component vendors are grappling with' Fast track journal, Dec-2003-Feb-2004, p5)

**Brand Name – A value creator for company:**

**Acquisition of Hutch by Vodafone:**

This was a classic example where nearly 30% of the value paid for acquisition was attributable to Brand. Vodafone acquired Hutch by paying the value at \$18.8 billion out of which \$6.8 billion was for **Brand Name**.

Brand name - in many companies has contributed to the shareholders value such as,

- Coca Cola brand accounts for 69% of the shareholders value
- Mc Donald's brand contributes nearly 70% of the shareholders value
- In telecommunication industry Nokia brand contributes about 30% of the shareholders value.

**Conclusion:** From the above discussion it is clear that not only the Tangible Assets add value to business but Intangible Assets are also of equal importance. In many companies there are dedicated teams to build brand name. Vodafone case clearly shows the importance of brand during acquisitions. Maruti Udyog Ltd case shows the building of brand through continuous improvement, cost reduction and customer focus. Hence we can conclude by saying that 'Intangible Assets are the yardstick to measure company's value'.

**By CA Rashmi Ainapur**  
**Chartered Accountant**



## **SOME ISSUES REGARDING INCOME TAX ACT 1961**

### **1.Reassessment-Validity-Reopening on basis of audit objection**

Assessment of assessee was completed u/s. 143(3). Later on, AO initiated reassessment proceedings u/s. 147 by issuing notice u/s. 148. Assessee requested to supply reasons recorded which were supplied. Assessee challenged reopening but AO did not find merit in assessee's submission and completed assessment by making additions. Assessee appealed before CIT (A) and challenged validity of reassessment proceedings stating that action was taken by AO on basis of audit objection. CIT (A) confirmed addition made by AO.

**Held:** in the present case, it is an admitted fact that the audit party raised the objection relating to gift of Rs. 6,00,000/- and asked AO to take action. When original assessment was framed u/s. 143(3) all the material was available on the record and AO applied his mind by making a deep scrutiny while framing assessment u/s. 143(3). Reassessment proceedings were initiated on basis of audit objection which cannot form basis for AO to reopen closed assessment. Tribunal is of the view that notice issued by AO on the basis of the audit party was not valid and accordingly, reassessment framed u/s. 147 read with sec. 143(3) on the basis of the notice issued u/s. 148 was quashed.

**Followed:** Indian & Eastern Newspaper Society v. CIT (1979) 119 ITR 996 (SC), CIT v. Eicher Ltd. (2007) 294 ITR 310 (Del), Cadila Healthcare Ltd. v. Asstt. CIT & Anr. (2013) 355 ITR 393 (Guj).

**Shalu Sachdeva v. Asstt. CIT 2015 TaxPub(DT) 1493 (Jod-Trib) : (2015) 169 TTJ (Jod-Trib) 23**

### **2. Penalty under section 271(1)(c)-Concealment-Set off of long term capital loss against short term capital gain**

Assessee claimed set-off of long-term capital loss suffered by him against short-term capital gain. On examination of details, the AO was of the view that the assessee had deliberately set-off long-term capital loss against short-term capital gain. After disallowing the same, an addition was made. The assessee accepted it and paid tax. Thereafter, AO imposed penalty under section 271(1)(c) on the ground that the assessee had deliberately concealed the income and furnished inaccurate particulars. On appeal, penalty was set aside by CIT(A). The Tribunal upheld the order of the CIT(A).

**Held:** Assessee's claim of set off of long-term capital loss against short-term capital was based on the law which was in force in the previous year. He was not aware of change in law. He relied on his advocate who was not up to date with the law. In those circumstances, the set-off, which was legal and valid for the previous year, was put forth for the relevant year. Once it was brought to his notice that there was change in law and liable to pay the tax, he had paid tax. Therefore, it was not the case of deliberate suppression of income for the purpose of evading tax. Therefore, the Tribunal was justified in confirming order of CIT(A) setting aside the penalty order.

**Distinguished:** *Mak Data (P.) Ltd. v. CIT* (2013) 358 ITR 593 (SC)

**CIT v. Chandrasekaran** 2015 TaxPub(DT) 2858 (Karn-HC)

### **3. Penalty under section 271(1)(c)-Concealment or furnishing of inaccurate particulars of income-Disallowance of depreciation claim**

Assessee let out his premises and claimed income from letting out property as business income and claimed depreciation on same. In the course of assessment proceedings, the AO treated income from letting out property as income from house property and disallowed depreciation. The assessee accepted it and paid tax. The AO imposed penalty under section 271(1)(c) on the ground that the assessee had deliberately concealed the income and furnished inaccurate particulars. On appeal, the CIT(A) deleted penalty and the Tribunal upheld the order of CIT(A).

**Held:** Insofar as depreciation was concerned, assessee had let out his premises, he was the owner of the property, he honestly believed that he was entitled to depreciation. Therefore, he claimed the said income as "Income from business", whereas, the revenue had treated it as "Income from house property". In that context, the claim for depreciation was a *bona fide* error. When pointed out, he had paid the tax. Therefore, there was no deliberate suppression of income nor it was a case of furnishing of inaccurate particulars. It is well-settled that imposition of penalty is not automatic and therefore, CIT(A) had rightly set aside the order imposing the penalty.

**Followed:** *CIT v. Manjunatha Cotton & Ginning Factory* (2013) 359 ITR 565 (Kar) : (2013) 218 Taxman 423 (Kar)

**CIT v. Chanrasekara** 2015 TaxPub(DT) 2858 (Karn-HC)

**4. Penalty under section 271D-Contravention of section 269SS-Share application money whether in the nature of loan or deposit**

Assessee Company received Share application money in cash from its directors. AO held that said amount received by assessee being in cash was violation of provisions of section 269SS and therefore penalty under section 271D was imposed. CIT(A) deleted the penalty.

**Held:** Since the provisions of section 269SS were not applicable in the case of share application money, being not in the nature of loan or deposit, penalty imposed under section 271D was rightly deleted.

**ITO v. Sunder Synthetics P. Ltd. 2015 TaxPub(DT) 3229 (Hyderabad A (SMC) Tribunal) : (2015) 41 ITR (Trib) 618 (Hyderabad A (SMC) Tribunal)**

**By CA D.ARAVIND RAMA**  
**Chartered Accountant**

**Flash..Flash..Flash..**

The scheduled programme of concurrent audit supposed to be commenced from 17<sup>th</sup> Oct is postponed for want of **minimum** number of candidates. New schedule will be intimated in due course. We **regret** for the inconvenience caused to the prospective candidates who have sent the registration amount and candidates who have promised to send the registration fees. The candidates who were paid fees shall be returned.

**QUOTATIONS FOR THE MONTH**

1. Gaps are created not by “**what is said**” but by “**how it is said**”, what is said reaches the mind, how it is said reaches the heart. And there is no way to win the mind without winning the heart.
2. It is true that people will forget what you said, people will forget what you did, but people will never forget how you made them feel.
3. Success is nothing more than a few simple discipline practice daily. Failure is nothing more than a few small errors repeated daily.
4. Opportunities and obstacles are equal for all, but the difference is that a **positive person** gives **results** and a **negative person** gives **reasons**.
5. Doubt and faith are status of mind. Doubt creates the darkest moments in our finest hour, while faith brings finest moments in our darkest hour.