

KSCAA

Karnataka State Chartered Accountants Association ®

NEWS BULLETIN

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English Monthly

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You know series

Emerald Dove



Photography - CA. Giridhara T

Inside ...

AS & ICDS

Service Tax Audits

Composition Dealer- Works Contractor

Financial Reporting

Equalisation Levy

BASAVANAGUDI CPE STUDY CIRCLE

CPE workshop on

**Discussion on Practicle Aspects
of Section 195, Form 15CA & CB**

on Friday, 22.07.2016

5.00 PM to 8.00 PM



Details inside



**Creating Knowledge
Consciousness**

Theme - 2016-17



Creating Knowledge Consciousness

I shall now declare unto you in full this knowledge, both phenomenal and numinous.
This being known, nothing further shall remain for you to know

- Bhagavad-Gita

Theme is derived from above lines of Holy Book, where in jñānam Sa-Vijnanam refers to complete knowledge includes knowledge of the phenomenal world and the spirit behind it. Theoretical knowledge is jñānam. But sa-vijñānam, when we actually perceive, when we actually understand what is the position of this knowledge in practical application or realisation, that is called vijñānam. Hence this is all about knowing theoretical knowledge along with its practical understanding. When the cause of all causes becomes known, then everything knowable becomes known, and nothing remains unknown.

Jñāna does not refer to ordinary research work. Jñāna entails receiving knowledge from the scriptures through the spiritual master by disciplic succession. In the modern age there is a tendency to do research by mental speculation and concoction. But the man who speculates forgets that he himself is subject to the four defects of nature: he is sure to commit mistakes. Unless one has perfect knowledge from disciplic succession, he simply puts forth some theories of his own creation which may not be true. Hence Jñāna means knowledge received through disciplic succession from the scriptures, and vijñāna means practical application of such knowledge.

With this theme, we want to initiate complete Knowledge discourses which is inspired by mentors, delivered by Gurus and ignites the professionals to apply in their professional work.

Executive Committee 2016-17



Outgoing President's Message



Time does not stand still for any of us, and my term as president of the Association draws to a close. It is, however, with great personal pleasure that I report the election of CA. Raghavendra Puranik as the incoming president of the Association. He is energetic and well-organized, a wonderful colleague. I am confident that he will make a first-rate president; congrats to new executive committee of the Association.

The transition, furthermore, promises to be a smooth one. I will be available for advice and consultation and - more importantly - the present Executive Committee is enthusiastic and strong. I thank all EC members for their support and co-operation during my tenure as their President.

Obviously, there is much work that remains to be done as I look ahead; for me, in particular, endowment lectures, programs and fund-raising are strong priorities. But we have also achieved a great success since the creation of the our E Executive Committee in July 2015 - and I look forward to an even stronger future. As always, we welcome your input at any and every level. If there is anything you wish to contribute to our cause (whether ideas, time or money), please do not hesitate to get in touch.

Wishing you all the best,



CA. Dileep Kumar TM
Outgoing President

Office Bearers 2016-17



From the President

I am honoured and pleased to assume the duties of President of this Association. I thank Past Presidents for the hard work they have done, especially over the past few years. This gives the foundation to move forward while improving services to our members and our fraternity at large. I hope to make good use of the wisdom and experience they represent.

The 43rd Annual General Meeting (AGM) of the Association held on 9th July, 2016 has put lot of hopes and expectations on the new elected team. Leaders of the profession has given us the lamps and baton to move forward in a focussed direction. The new executive committee comprising of young and new faces are awaiting an opportunity to stretch their boundaries, to learn, share and grow. I am sure we will try to give objective oriented results meeting most of your expectations.

In my view, the most important step we can take is, the revitalization of the Committees, the appointment of task-oriented committees, and the wider involvement of the membership in the activities of the Association. My list of areas to undertake includes, Membership, Newsletter, Distinguished Lecturers, Conference Management, Endowment Lectures, Outreach to other Societies and Outreach to Industry.

I always believe, there are opportunities for improving the management of our affairs. We need to establish long range and short-range goals for the Association with objective measures of success. We need to have our Vice President and Committee Chairs to take supportive ownership of these goals and act to achieve them. I also encourage all Members to get involved at any level - attending events, volunteering to help with specific activities or joining one of our many committees. We plan to continue the success of the Association in the coming days.

Theme for the term

The theme of the term is Jnanam Sa-Vijnanam. Theoretical knowledge is jñānam. But sa-vijñānam, when we actually perceive, when we actually understand what is the position of this knowledge in practical application or realisation, that is called vijñānam. With this theme, we want to initiate complete Knowledge discourses which is inspired by the mentors, delivered by the Gurus and ignites the professionals to apply in their professional work.

Activities for the month

To update on the activities carried out, KSCAA has submitted a joint representation on 11th July along with Bombay Chartered Accountants Society, Chartered Accountants' Association, Ahmedabad and Chamber of Tax Consultants to Hon'ble Revenue Secretary in respect to controversy regarding effective tax rate under IDS 2016. We sought clarification on raging controversy surrounding the effective rate of tax payable under the Income Declaration Scheme, 2016. This has arisen on account of different interpretations of the reply given to FAQ No. 5 in Circular No. 25/2016 dated 30th June, 2016.

Another memorandum has been submitted to Shri H.S. Mahadeva Prasad, Hon'ble Minister for Co-operation and Sugar on 13th July seeking early disposal of cases relating to CAs engaged in the Co-operative audits. During the discussion, we invited the attention of Hon.



Minister to the difficulties faced by mofussil Chartered Accountants practicing mainly in the field of Co-operative audits, because of these pending cases. We further assured our active participation in resolving the matters with collective support from the ministry and department for effective functioning of Co-operative Societies in the larger interest of its members within the framework of the amended law. Copy of the both representations are available in our web portal.

We are also organising a seminar on Section 195 of Income Tax on 22nd July Vasavi Vidya Niketan Trust for the benefit of members. This seminar emphasizes on latest amendments and issues relating to Form 15CA and CB. Details of the same is published elsewhere in the news bulletin.

Updates of the month

The Central Board of Direct Taxes has vide Press Release dated 6.07.2016 clarified that the Income Computation & Disclosure Standards shall be applicable from 1.4.2016. The Direct Taxes Committee of ICAI made detailed representation to Central Board of Direct Taxes to Chairman, CBDT and Hon'ble Finance Minister for deferment of implementation of ICDS and made detailed presentation on difficulties that would be faced by stakeholders on implementation of ICDS. The representations made by ICAI were considered positively by the Expert Committee on ICDS. The decision has come as a big relief to entities, who are battling with the need to reconcile their books to the new Companies Law, the new IFRS-based accounting standards, which are coming into force from 1 April 2016, and the Goods and Services Tax (GST) if it gets Parliament nod in the Budget session.

On June 14, 2016 the Finance Ministry has released the Model GST Law. It outlines the structure of the GST regime. Further, the draft of Integrated GST Bill, 2016 is also released along with such Model GST laws. It also provides the framework for levy and collection of CGST and SGST. CGST is the tax levied under the Central Goods and Services Tax Bill, 2016. IGST is the tax levied under the Integrated Goods and Services Tax Bill, 2016. Introduction of GST will open up wide opportunities to the professionals. I request the members to abreast with the developments to serve better in these areas.

We have very talented professionals who have engaged in extracurricular activities, apart from routine professional work. To unearth their talent, our news bulletin introduces "You Know Series" where in publicising these talents are undertaken. One of such talent is CA. Giridhara T, who has vivid photography skills. You know series uses to publish his talent work and give brief background of snap.

There are many more plans in the plate, but all cannot be put in single place, hence rest of the plans will be share with you in the coming months. I look forward to the challenges of the coming year and I need each and every member's contribution and support.

Together we can continue to make the KSCAA a great resource for all our Members.

Coming together is a beginning;
keeping together is progress;
working together is success.

Always at your service

Raghavendra Puranik
President

KSCAA

News Bulletin

July 2016

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KSCAA welcomes articles & views from members for publication in the news bulletin / website.

email: kscabl@gmail.com

Website: www.kscaa.com

You know series Know a Bird- Emerald Dove

The bird is commonly known as Emerald dove or green winged pigeon. Binomial name is *Chalcophaps indica*. This is wide spread resident breeding bird in Indian subcontinent, and also spread across china and Southeast Asia to eastern Australia. These birds are very common in nature. However they are rarely seen, as they are very shy in nature. Conservation status of this bird is "least concern"

This is medium sized bird approximate about 25 cms, and their back and wings are bright emerald green. The head and under parts are dark vinous pink. Its beak is bright red. The male bird has white patch on the edge of its shoulders and a grey crowns. It calls as "hoo-hoo-hoon".

They occur in single or small groups. They are terrestrial, feeds on fallen fruits and seeds. Their breeding season is winter and early summer. The male bird performs bobbing dance during their courtship. They build nest and lays two eggs. The eggs hatch in about 2 weeks and young fledges within 15 days. The most fascinating feature of this doves, is their ability to produce crop milk. During breeding season, special glands in crops of both male and female birds enlarge and chicks drink the milk by poking their bills into the parent's throat.

Its beautiful appearance and the call are the threats for this bird where they are sold as cage bird.

CA. Giridhara T, Bangalore

BASAVANAGUDI CPE STUDY CIRCLE

has arranged a
CPE workshop

Discussion on Practicle Aspects of Section 195, Form 15CA & CB

on **Friday, 22.07.2016** at 5.00 PM to 8.00 PM

at **Vasavi Vidyanikethan Trust (VVN),**

No: 3, Vani Vilas Road, VV Puram, Basavanagudi- Bangalore-560 004

Speaker :

CA. Sudheendra B R

Reg. Fee: **Rs.200/-** payable by cash/cheque drawn on
BASAVANAGUDI CPE STUDY CIRCLE.

Registration is restricted to first 60 members.

For Registration : send confirmation mail

basavanagudicpe@gmail.com / kscabl@gmail.com

Contact Persons:

CA Maddanaswamy - 93412 14962 , CA Raghavendra T N- 98801 87870

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CONTINGENCIES AND EVENTS OCCURRING AFTER BALANCE SHEET DATE AS 29 AND ICDS

CA S Krishnaswamy

The Central Government, in consultation with National Advisory Committee on Accounting Standards, the following rules to amend the Companies (Accounting Standards) Rules, 2006.

The Finance Ministry has deferred by one year the implementation of the income computation and disclosure standards (ICDS), commonly referred to as tax standards. The ICDS-which had earlier come into effect from April 1, 2015-will now be applicable from April 1, 2016, an official release said on Wednesday. This would be the first year of ICDS implementation.

Comparison:

Scope:

AS 29:

Para 1: This Standard should be applied in accounting for provisions and contingent liabilities and in dealing with contingent assets, except:

- (a) those resulting from financial instruments that are carried at fair value;
- (b) those resulting from executory contracts, except where the contract is onerous;

Explanation :

- (i) An 'onerous contract' is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Thus, for a contract to qualify as an onerous contract, the unavoidable costs of meeting the obligation under the contract should exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.
- (ii) If an enterprise has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision as per this Statement.

The application of the above explanation is illustrated in

Illustration 10 of Illustration C attached to the Standard.

- (c) those arising in insurance enterprises from contracts with policyholders; and
 - (d) those covered by another Accounting Standard.
2. This Standard applies to financial instruments (including guarantees) that are not carried at fair value.
 3. Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent. This Standard does not apply to executory contracts unless they are onerous.
 4. This Standard applies to provisions, contingent liabilities and contingent assets of insurance enterprises other than those arising from contracts with policy-holders.
 5. Where another Accounting Standard deals with a specific type of provision, contingent liability or contingent asset, an enterprise applies that Standard instead of this Standard. For example, certain types of provisions are also addressed in Accounting Standards on:
 - (a) construction contracts (see AS 7, Construction Contracts);
 - (b) taxes on income (see AS 22, Accounting for Taxes on Income);
 - (c) leases (see AS 19, Leases) . However, as AS 19 contains no specific requirements to deal with operating leases that have become onerous, this Statement applies to such cases; and
 - (d) retirement benefits (see AS 15, Accounting for Retirement Benefits in the Financial Statements of Employers).
 6. Some amounts treated as provisions may relate to the recognition of revenue, for example where an enterprise gives guarantees in exchange for a fee. This Standard does not address the recognition of revenue. AS 9, Revenue Recognition, identifies the circumstances in which revenue is recognised and provides practical guidance on the application of the recognition criteria. This Standard does not change the requirements of AS 9.

7. This Standard defines provisions as liabilities which can be measured only by using a substantial degree of estimation. The term 'provision' is also used in the context of items such as depreciation, impairment of assets and doubtful debts: these are adjustments to the carrying amounts of assets and are not addressed in this Standard.
8. Other Accounting Standards specify whether expenditures are treated as assets or as expenses. These issues are not addressed in this Standard. Accordingly, this Standard neither prohibits nor requires capitalisation of the costs recognised when a provision is made.
9. This Standard applies to provisions for restructuring (including discontinuing operations). Where a restructuring meets the definition of a discontinuing operation, additional disclosures are required by AS 24, Discontinuing Operations.

ICDS:

1. This Income Computation and Disclosure Standard deals with provisions, contingent liabilities and contingent assets, except those:
 - a) resulting from financial instruments;
 - b) resulting from executory contracts;
 - c) arising in insurance business from contracts with policyholders; and
 - d) covered by another Income Computation and Disclosure Standard.
2. This Income Computation and Disclosure Standard does not deal with the recognition of revenue which is dealt with by Income Computation and Disclosure Standard - Revenue Recognition.
3. The term 'provision' is also used in the context of items such as depreciation, impairment of assets and doubtful debts which are adjustments to the carrying amounts of assets and are not addressed in this Income Computation and Disclosure Standard.

Definition:

AS 29:

10. The following terms are used in this Standard with the meanings specified:
 - 10.1 A provision is a liability which can be measured only by using a substantial degree of estimation.
 - 10.2 A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

10.3 An obligating event is an event that creates an obligation that results in an enterprise having no realistic alternative to settling that obligation.

10.4 A contingent liability is:

- (a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the enterprise; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
 - or
 - (ii) a reliable estimate of the amount of the obligation cannot be made.

10.5 A contingent asset is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the enterprise.

10.6 Present obligation - an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not.

10.7 Possible obligation - an obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable.

10.8 A restructuring is a programme that is planned and controlled by management, and materially changes either:

- (a) the scope of a business undertaken by an enterprise; or
- (b) the manner in which that business is conducted.

ICDS:

4(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

- a) A "provision" is a liability which can be measured only by using a substantial degree of estimation.
- b) A "liability" is a present obligation of the person arising from past events, the settlement of which is expected to result in an outflow from the person of resources embodying economic benefits.
- c) An "obligating event" is an event that creates an obligation that results in a person having no realistic alternative to settling that obligation.

- d) A “contingent liability” is:
- (i) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the person; or
 - (ii) a present obligation that arises from past events but is not recognised because:
 - (A) it is not reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (B) a reliable estimate of the amount of the obligation cannot be made.
- e) A “contingent asset” is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the person.
- f) “Executory contracts” are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.
- g) A “present obligation” is a present obligation if, based on the evidence available, its existence at the end of the previous year is considered reasonably certain.

4(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

Recognition:

Provisions:

AS 29:

14. A provision should be recognised when:
- (a) an enterprise has a present obligation as a result of a past event;
 - (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
 - (c) a reliable estimate can be made of the amount of the obligation.
- If these conditions are not met, no provision should be recognised.

ICDS:

5. A provision shall be recognised when:
- (a) a person has a present obligation as a result of a past event;

- (b) it is reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

Contingent Liabilities:

AS 29:

- 26. An enterprise should not recognise a contingent liability.
- 27. A contingent liability is disclosed, as required by paragraph 68, unless the possibility of an outflow of resources embodying economic benefits is remote.
- 28. Where an enterprise is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. The enterprise recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable, except in the extremely rare circumstances where no reliable estimate can be made (see paragraph 14).

ICDS:

- 9. A person shall not recognise a contingent liability.

Contingent Asset:

AS 29:

- 30. An enterprise should not recognise a contingent asset.
- 31. Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the enterprise. An example is a claim that an enterprise is pursuing through legal processes, where the outcome is uncertain.
- 32. **Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realized. However, when the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.**
- 33. A contingent asset is not disclosed in the financial statements. It is usually disclosed in the report of the approving authority (Board of Directors in the case of a company, and, the corresponding approving authority in the case of any other enterprise), where an inflow of economic benefits is probable.
- 34. Contingent assets are assessed continually and if it has become virtually certain that an inflow of economic

benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

ICDS:

10. A person shall not recognize a contingent asset.

11. Contingent assets are assessed continually and when it becomes reasonably certain that inflow of economic benefit will arise, the asset and related income are recognised in the previous year in which the change occurs.

Measurement:

AS 29:

Best Estimate:

35. The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The amount of a provision should not be discounted to its present value.

36. The estimates of outcome and financial effect are determined by the judgment of the management of the enterprise, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the balance sheet date.

37. The provision is measured before tax; the tax consequences of the provision, and changes in it, are dealt with under AS 22, Accounting for Taxes on Income.

Risks and Uncertainties

38. The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision.

39. Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgments under conditions of uncertainty, so that income or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.

40. Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph 67(b).

Future Events:

41. Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

42. Expected future events may be particularly important in measuring provisions. For example, an enterprise may believe that the cost of cleaning up a site at the end of its life will be reduced by future changes in technology.

The amount recognised reflects a reasonable expectation of technically qualified, objective observers, taking account of all available evidence as to the technology that will be available at the time of the clean-up. Thus, it is appropriate to include, for example, expected cost reductions associated with increased experience in applying existing technology or the expected cost of applying existing technology to a larger or more complex clean-up operation than has previously been carried out. However, an enterprise does not anticipate the development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.

43. The effect of possible new legislation is taken into consideration in measuring an existing obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice usually makes it impossible to specify a single event that will provide sufficient, objective evidence in every case.

Evidence is required both of what legislation will demand and of whether it is virtually certain to be enacted and implemented in due course. In many cases sufficient objective evidence will not exist until the new legislation is enacted.

Expected Disposal of Assets:

44. Gains from the expected disposal of assets should not be taken into account in measuring a provision.

45. Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, an enterprise recognizes gains on expected disposals of assets at the time specified by the Accounting Standard dealing with the assets concerned.

Reimbursements:

46. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party,

the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

47. In the statement of profit and loss, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.
48. Sometimes, an enterprise is able to look to another party to pay part or all of the expenditure required to settle a provision (for example, through insurance contracts, indemnity clauses or suppliers' warranties). The other party may either reimburse amounts paid by the enterprise or pay the amounts directly.
49. In most cases, the enterprise will remain liable for the whole of the amount in question so that the enterprise would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognised for the full amount of the liability, and a separate asset for the expected reimbursement is recognised when it is virtually certain that reimbursement will be received if the enterprise settles the liability.
50. In some cases, the enterprise will not be liable for the costs in question if the third party fails to pay. In such a case, the enterprise has no liability for those costs and they are not included in the provision.
51. As noted in paragraph 28, an obligation for which an enterprise is jointly and severally liable is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

ICDS:

Best Estimate:

12. The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the previous year. The amount of a provision shall not be discounted to its present value.
13. The amount recognised as asset and related income shall be the best estimate of the value of economic benefit arising at the end of the previous year. The amount and related income shall not be discounted to its present value.

Reimbursements:

14. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when it is

reasonably certain that reimbursement will be received if the person settles the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision.

15. Where a person is not liable for payment of costs in case the third party fails to pay, no provision shall be made for those costs.
16. An obligation, for which a person is jointly and severally liable, is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

Disclosure:

AS 29:

66. For each class of provision, an enterprise should disclose:
 - (a) the carrying amount at the beginning and end of the period;
 - (b) additional provisions made in the period, including increases to existing provisions;
 - (c) amounts used (i.e. incurred and charged against the provision) during the period; and
- (d) unused amounts reversed during the period

Provided that a Small and Medium-sized Company, as defined in the Notification, may not comply with paragraph 66 above.

67. An enterprise should disclose the following for each class of provision:
 - (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
 - (b) an indication of the uncertainties about those outflows. Where necessary to provide adequate information, an enterprise should disclose the major assumptions made concerning future events, as addressed in paragraph 41; and
 - (c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Provided that a Small and Medium-sized Company, as defined in the Notification, may not comply with paragraph 67 above.

68. Unless the possibility of any outflow in settlement is remote, an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable:

- (a) an estimate of its financial effect, measured under paragraphs 35-45;
 - (b) an indication of the uncertainties relating to any outflow; and
 - (c) the possibility of any reimbursement.
69. In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfill the requirements of paragraphs 67 (a) and (b) and 68 (a) and (b). Thus, it may be appropriate to treat as a single class of provision amounts relating to warranties of different products, but it would not be appropriate to treat as a single class amounts relating to normal warranties and amounts that are subject to legal proceedings.
70. Where a provision and a contingent liability arise from the same set of circumstances, an enterprise makes the disclosures required by paragraphs 66-68 in a way that shows the link between the provision and the contingent liability.
71. Where any of the information required by paragraph 68 is not disclosed because it is not practicable to do so, that fact should be stated.
72. In extremely rare cases, disclosure of some or all of the information required by paragraphs 66-70 can be expected to prejudice seriously the position of the enterprise in a dispute with other parties on the subject matter of the provision or contingent liability. In such cases, an enterprise need not disclose the information, but should disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

ICDS:

- 21(1) Following disclosure shall be made in respect of each class of provision:
- (a) a brief description of the nature of the obligation;
 - (b) the carrying amount at the beginning and end of the previous year;
 - (c) additional provisions made during the previous year, including increases to existing provisions;
 - (d) amounts used (i.e. incurred and charged against the provision) during the previous year;
 - (e) unused amounts reversed during the previous year; and
 - (f) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

21(2) Following disclosure shall be made in respect of each class of asset and related income recognised as provided in para 11:

- (a) a brief description of the nature of the asset and related income;
- (b) the carrying amount of asset at the beginning and end of the previous year;
- (c) additional amount of asset and related income recognised during the year, including increases to assets and related income already recognised; and
- (d) amount of asset and related income reversed during the previous year.

From published accounts:

Century Enka Limited, Annual Report 2015-16

Note 1(n): Provisions and Contingent Liabilities:

Provisions:

Provisions are recognised when there is present obligation as a result of a past event and it is probable that an outflow of benefits will be required to settle the obligation and there is a reliable estimate of the amount of obligation.

Contingent Liabilities:

Contingent liabilities are disclosed when there is a possible obligation arising from past events, the existence of which will be confirmed only on the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the Company or a present obligation that arises from past events where it is either not probable that and outflow of resources will be required to settle or reliable estimate of the amount cannot be made.

*Author can be reached on
e-mail: skcoca2011@yahoo.in*

KSCAA WELCOMES NEW MEMBERS - JULY 2016		
Sl. No.	Name	Place
1	Manjunath	Raichur
2	Chanabasappa Dundappa Mudalgi	Bijapur
3	Tarun. M. Guntanur	Bangalore
4	Krishna M.R.	Bangalore
5	Narasimhan E.	Bangalore



SERVICE TAX AUDITS - ARE NOT VALID?

CA Madhukar N Hiregange and CA Mahadev R



Validity of service tax audit by the department has been questioned regularly in recent times by various high courts. Central government also took few initiatives to amend the provisions to overcome the effect of these judgments and legalise it. Recently the New Delhi high court has once again held that service tax audit is invalid in case of *Mega Cabs Private Ltd Vs. UOI [2016-TIOL-1061-HC-Del]*. In this article, we have analysed the impact of earlier decisions, changes made by government and the impact of the latest decision of high court on service tax audits.

The self assessment scheme is in place for more than a decade now where the interaction of revenue with the tax payer is supposed to be only in exception. Section 72A of Finance Act 1994 provides for special audit by chartered accountant or cost accountant but does not provide for general audit by department. Such special audit can be conducted only in following circumstances:

- a) When there is a failure to declare or compute value of taxable service correctly
- b) When the Cenvat credit utilized in excess of limit permissible or by fraud etc.
- c) When the business operations of the assessee are spread across multiple locations and it is not possible to get true and complete.

Even under Section 94 of Finance Act 1994 (which empowers government for framing rules) there was no provision for general audit by the department.

For the purpose of carrying out service tax audit by tax department, Rule 5A (2) was introduced in 2007 in Service tax Rules 1994. According to Rule 5A(2), records are to be made available to audit party deputed by Commissioner or the CAG.

In case of *ACL Education Centre (P) Ltd Vs. UOI (2014-TIOL-120-HC-ALL-ST)*, Allahabad High Court held that Rule 5A(2) only empowers the officers duly authorized by the Commissioner to ask for and collect records from the assessee. The audit can be undertaken only by an authorized Chartered Accountant or Cost Accountant, as provided in Section 72A.

The Calcutta High Court in *SKP Securities Limited Vs. Deputy Director (2013-TIOL-38-HC-KOL-ST)* held that Finance Act 1994 or the CAG Act 1971 does not empower the CAG to

undertake audit of accounts of a non-governmental assessee as these assessee are not in receipt of any aid or grant from the government. According to this decision, CAG cannot undertake audit of private companies.

In case of *Travelite (India) Vs. UOI & Ors (2014-TIOL-1304-HC-DEL-ST)*, the High Court held that Rule 5A(2) of the Service tax Rules 1994 is ultra vires the provisions of Finance Act 1994. The central government was successful in obtaining stay order for the decision.

After effects of High Court decisions

After the decisions of high courts, Central Government found resistance to conduct audits as assessees started opposing. To overcome the problem, in Section 94 (2) of Finance Act 1994, clause (k) was introduced from 6th August 2014 as under:

“Imposition, on persons liable to pay service tax, for the proper levy and collection of the tax, of duty of furnishing information, keeping records and the manner in which such records shall be verified”

Based on this provision, Rule 5A(2) was amended with effect from 5th December 2014 providing that every assessee should provide all necessary details to audit party deputed by the Commissioner or CAG or a cost / chartered accountant nominated under Section 72A of Finance Act 1994 for the scrutiny. Simultaneously, circular 181/7/2014-ST dated 10th December 2014 was issued by the CBEC clarifying necessary changes have been made in Section 94 and Rule 5A(2) providing for audit by departmental officers.

In spite of all these changes, the general audit by revenue was still being questioned due to the concept of self assessment and lack of legal strength.

(Contd. in page 14)



COMPOSITION DEALER- WORKS CONTRACTOR

CA B.G. Srikanth Acharya and CA Annapurna Kabra



Though the intention and objective of the VAT Scheme is to bring in all the manufacturers or traders in to a cycle wherein each of them charges KVAT and subsequent person takes such deduction and effectively pay only on his value addition including margin, it may be difficult for all businesses to get into such a regime due to the inherent methods of operation for certain activities. The reasons may be due to tracing the purchases and tracing the sales etc.

Similarly where the nature of business is such that elaborate records are not possible to be maintained and many activities are sub contracted, the dealer may require a special method of accounting. This could be applicable to construction, hotel industries or any other works contract where there would be labour component as well as material component.

The State has power to levy tax on transfer of property in goods under Article 246 of the Constitution of India (entry 54 List II of Seventh Schedule). On the other hand state has no jurisdiction to levy tax on labour & other like charges. Composition scheme is contrary to the regular system of VAT; where tax shall be levied on total turnover including labour & other like charges at reduced rate.

The composition dealers are liable to tax on the total consideration and not on the taxable turnover (with reference to the Notification No FD 116 CSL 2006(13), Bangalore dated 31.3.2006). The rate of composition tax on Works Contracts is at 4%.

In Karnataka the composition dealer can make imports/interstate purchases/stock inwards but the deduction towards such purchases have to be deducted from the total consideration and will be leviable to tax at the regular rate as applicable within Karnataka.

Circular 13/2013-2014 was issued stating that the composition works contract dealer are allowed to make interstate purchase of those goods which are transferred and used in the course of works contract and therefore capital goods was not allowed to be purchased. Thereafter a circular 20/2013-14 was issued to clarify that the composition dealers can purchase or obtain any goods including capital goods from outside the state of Karnataka and liable to pay local taxes as applicable on those goods which are used and transferred in the execution of works contract.

There will be no eligibility of input tax credit for composition dealer and also they cannot claim the deduction towards labour and like charges either on actual basis or Adhoc basis.

Even the composition dealer is liable to pay unregistered purchase tax for which he is not eligible to avail the input tax credit. Such Composition dealers can take the deductions towards amount paid or payable to the subcontractor provided such sub contractor is registered dealer and have declared such turnover in their monthly returns.

Such dealer can collect composition amount(tax) and can issue the Bill of Sale. Such dealer should also file statement of accounts of audit in Form VAT 240 within nine months from the end of financial year.

Under the Karnataka VAT law the dealer cannot opt for composition scheme and regular scheme for different kinds of projects. Therefore the provisions as applicable for composition dealers will be different in all the states.

There is an amendment in the Act with effect from 01.04.2007 wherein such dealer can opt for composition scheme for one business even if the other business is under regular scheme. The conditions for such option are they have to maintain separate books of Accounts. It is not set out in the law whether such composition can be opted for portion of the turnover and other portion under regular scheme.

Since the wordings in the statute uses no input tax claim on any purchases, it gives a presumption that the mixture of composition and regular payment with credit is not permissible. However the KVAT fixes the maximum rate of five per cent on his total turnover or on the total consideration for the works contracts executed or at a maximum of two lakh rupees for each crushing machine annum.

In case where a builder or developer has opted for payment of tax on his turnover relating to transfer of property in goods involved in execution of works contract under the composition scheme as provided under section 17 of the KST Act, 1957 or Section 15 of the KVAT Act, 2003, the total consideration on which such dealer is liable to tax would not include the amount received from the customers towards their undivided share in land. However, this exclusion is not applicable in the case of joint development projects as clarified by Commissioner circular.

Section 15(5) (e) of the KVAT Act specifies that the dealers executing works contract and opting for composition of tax under sub section(1) shall be liable to pay tax, if any under sub section (2) of section 3, in addition to the tax by way of composition on the total consideration for the execution of works contract. In simple terms, the composition

dealers are liable to pay unregistered purchase tax in addition to the composition tax on their unregistered purchases.

The composition dealers are required to file the monthly/quarterly return as in Form VAT 120. Such dealers can file the revised return within six months from the end of the relevant tax period if there is an omission or incorrect statement. Such dealers can withdraw from the scheme if they submitted consecutive twelve months return and have filed final return in Form VAT 120 by surrendering his certificate of registration in Form VAT 8 and will be liable to pay regular tax from first day succeeding the month in which such dealer has withdrawn the option of composition.

Such dealers can gain the benefit of input tax credit for prior three months of cancellation of composition subject to that such goods are in stock at such date. Also when the dealer is opting from regular scheme to composition scheme and has availed the input tax credit to the extent of stock of goods as held on that date, he shall be liable to repay the tax equivalent to market value of such stock of goods on such date. Therefore the comparison of the scheme either regular or composition under KVAT law should be determined based on various criteria for the works contractors.

Authors can be reached on
query@dnsconsulting.net



BRIEF PRACTICAL ASPECTS OF EQUALISATION LEVY

CA. Vijay Sagar Shenoy

Genesis: The leaked documents created by Panamanian law firm and corporate service provider Mossack Fonseca illustrate how wealthy individuals and public officials collude and were able to have personal financial information private and have shell corporations being used for illegal purposes, tax evasion etc. The sheer quantum revealed by these leaked papers compelled OECD to analyse and formulate Action Plans to enable each country to receive its fair share of tax and avoid Base Erosion and Profit Shifting (BEPS) meaning tax planning strategies to take advantage of lacunae in tax rules to shift profits to low or no tax destinations.

Acting proactively and swiftly in this direction, the Finance Bill 2016 vide Section 165 sub section (1) has introduced an Equalisation Levy @ 6% of the amount of consideration for any specified services received or receivable by a *person being a Non Resident* from (i) a person resident in India and carrying on business or profession or (ii) a Non Resident having a PE in India and specified service is effectively connected with such PE. Subsection (2) gives exception to such levy where (a) the Non Resident providing specified service has a PE in India and specified service is effectively connected with such PE (b) aggregate consideration received or receivable in a previous year does not exceed one lakh rupees (c) where such payment is not for the purposes of carrying out of business or profession.

CBDT has notified Equalisation Levy Rules, 2016 dt. 27th May 2016 which takes effect from 1st June 2016.

Payment Mechanism: The due date for remittance of Equalisation Levy shall be 7th of the following month of the consideration received or receivable for services rendered and Challan No. 285

is released for payment of equalisation levy and gives the payer an option of remitting immediately through net banking facility or on subsequent date online or through Bank Branch on the lines of Form 26QB payments.

Furnishing of Statement: Statement of Specified Services is to be furnished in Form No. 1 on or before 30th June immediately following that financial year, giving particulars relating to the assessee, specified services consideration received or receivable, tax and interest payment details.

Other Forms: Other forms released in this regard are Form No. 2 for Notice of Demand by Assessing Officer, Form No. 3 for Appeal to Commissioner of Income Tax (Appeals) and Form No. 4 for Appeal to the Appellate Tribunal.

Conclusion: The Equalisation Levy addresses effectively the OECD mandate for acting against BEPS. Also, it effectively targets the payer assessee being a resident or a non-resident having PE in India and the payee being Non Resident providing the specified service not having PE in India, such services exceeding one lakh rupees and is solely for the purposes of carrying out business or profession. Thereby, the levy holds such payer responsible and effectively brings about such payment to tax net which was hitherto escaping tax in our jurisdiction.

Practically there are cases where I personally have seen Non Resident social networks, online advertisement media and cloud data support corporates not taxed, now being covered under this equalisation levy.

Author can be reached on
vijaysagarshenoy@gmail.com



FINANCIAL REPORTING – PRACTITIONERS UPDATE

CA Vinayak Pai V

a) Introduction

Financial reporting for publicly accountable companies globally is witnessing dynamism and volatility on an unprecedented scale. Changes to USGAAP and IFRS, the two leading accounting frameworks continue.

In the Indian context, India has entered a phase from April 1, 2016 where there are two parallel sets of accounting standards viz. the “AS” series and the “IND-AS” series adopted at the same time by two categories of companies. Although this leads to comparability challenges in the short-term, the two series are expected to converge in the medium term with “IND-AS”, the Indian version of IFRS, becoming mainstream. The regulators have also amended the “AS” series to an extent and more changes are expected that would become effective from the next fiscal.

A few of the changes to financial reporting that would be effective going forward have been discussed herein below.

b) Changes to accounting for spare parts

Spare parts are a significant element of inventories in certain sectors while they are not material in other sectors. Spare parts in the context of fixed assets, that include rotatable spares, insurance spares, bench spares, etc have hitherto been accounted applying the accounting standard on inventories. On March 30, 2016, the Ministry of Corporate Affairs notified Companies (Accounting Standards) Rules, 2016 whereby a few prevalent accounting standards were amended. In a related subsequent circular 04/2016 issued on April 27, 2016, it was clarified that the amendments would be applicable from fiscal year 2016-17 and not for the year ended March 31, 2016.

In addition to certain other standards, the amendments covered AS 2- *Inventories* and AS 10 – *Accounting for Fixed Assets*, both of which dealt with inter-alia the accounting for spare parts. As per the amended standards that **apply to Non IND-AS preparers** for the current fiscal, spare parts that meet the definition of property, plant and equipment needs to be accounted applying the guidance in AS 10 and not AS 2. AS 10 incidentally has been rechristened as Property, plant and equipment in line with international frameworks. The consequential changes that become relevant are discussed herein below.

a) Year ending March 31, 2016

- No changes to the classification and measurement of spare parts for the financial year ended March 31, 2016. Application of AS 2 continues.

b) Year ending March 31, 2017

- As of April 1, 2016, test whether the spare parts in the inventory line item of the balance sheet as of March 31, 2016 meets the definition of property, plant and equipment. An item of spare part would meet the definition if it is held for intended use in production or supply and is **expected to be used during more than a period of twelve months**. If the definition test is met, then the inventory needs to be reclassified as a non-current asset under Property, plant and equipment at the same carrying amount at which they were carried as inventories. And in case the definition is not met, the same would continue to be accounted for as inventories. It may be noted that the remaining estimate of useful life as of March 31, 2016 should be more than twelve months.
- Analyze whether any material spare parts have been charged off in the statement of profit and loss that were required to be classified as inventories as of March 31, 2016. This needs to be considered invariably in the audit of the financial statements for fiscal 2016 as a matter of routine procedure.
- As of March 31, 2017, for all fresh acquisitions of spare parts during the year, the accounting test needs to be performed for purpose of capitalizing or treating the same as inventories. The important rule is the 12 month use test.
- The **transitional provisions are prospective**.
- The spare parts that are capitalized need to be **attached to the related asset** but depreciated over its own **remaining estimated useful life** for items as of March 31, 2016 (and over the **estimated useful life** for spare parts that would be capitalized during fiscal 2017).

c) Proposed dividends for year ending March 31, 2016

i) The change

The accounting standard on the topic of post balance sheet events has been amended. Dividends would be provided

for only in the period in which they are declared. This is a change in principle as currently dividends are recorded as an appropriation (and a corresponding liability) for the period to which they relate to. Proposed dividends would be a disclosure in the notes and not an adjusting event going forward as per amended AS4 – *Contingencies and Events Occuring after the Balance Sheet Date*.

ii) Applicability

The amended standard is applicable for fiscal years commencing April 1, 2016 and hence the liability for a proposed dividend needs to be provided for in the balance sheet as of March 31, 2016 of a company that proposes dividends for the year ended March 31, 2016.

d) Applicability of ICDS

The applicability of Income Computation and Disclosure Standards (ICDS) that also has relevance from the tax audit report preparation point has been deferred by one year. On July 06, 2016, the Central Board of Direct Taxes deferred the applicability of these tax accounting standards by a year (Previous year 2016-17/Assessment Year 2017-18).

e) IND-AS financial statements for Banks

The Reserve Bank of India has directed banks to submit

IND-AS financial statements on a proforma basis for the ensuing half-year ended September 30, 2016 vide Circular dated June 23, 2016. While this may not have any immediate repercussions on the annual branch bank audits of the next period, the level of IND-AS preparedness expected by the central bank from banks equally applies to practitioners.

f) IND-AS for unlisted Phase 2 companies

Convergence to the Indian variant of International Financial Reporting Standards is fast gaining momentum in India with the first phase of listed companies reporting their first interim IND-AS financial results for the June quarter.

The second set of companies including **unlisted** companies with net worth in the range of Rs.250-500 crores (reckoned as of March 31, 2014) move to IND-AS from 2017-18. The transition date for the same is however **April 1, 2016** and an **IND-AS balance sheet needs to be prepared as of this date**. The audit of March 31, 2016 provides immense opportunity to the audit team to prepare and add value to a clients IND-AS transition.

*Author can be reached on e-mail:
vinayakpaiv@hotmail.com*

SERVICE TAX AUDITS - ARE NOT VALID?

(Contd. from page 10)

Latest decision of High Court after changes in provisions

Recently, the New Delhi high court in case of Mega Cabs Private Ltd has struck down the amended Rule 5A(2) of the Service Tax Rules 1994 on the basis that Section 94(2)(k) does not authorize audit by Service Tax Department or the CAG. The high court differentiated the words 'verify' and 'audit' by holding that audit is a special function which has to be carried out by duly qualified persons like a Cost Accountant or a CA. Circular No. 181/7/2014-ST was also held to be ultra vires. Now again the government would approach the Supreme Court for remedy. Till such time, the service tax assessee at least in that jurisdiction can certainly find shelter under the judgment of high court. Similar questions are likely to be raised in other jurisdictions.

Remedy in GST regime for Government

In the recent model GST law released by the government, it appears that adequate measures have been taken to overcome the problems being faced by the department with regard

to audit of records of assessee. Section 49 of model GST gives adequate powers for department to take up audit at prescribed frequency. Instead of using word such as 'verify', the word 'audit' has been used in Section 49 with definition for the word 'audit' as well in Section 2 (14). For the purpose, audit includes detailed examination of records, returns and other documents maintained or furnished by taxable person.

The audit by professionals beyond a certain limit has also been built in the model law in section 42(4) similar to Tax Audit under Income tax and VAT 240 audit. It is expected that intrusive verification audits by revenue would reduce significantly other than in cases enumerated under Section 72A discussed earlier in this article.

Conclusion

The assessee who get intimation for audits could question the validity once again based on the latest decision of Mega Cabs. However, as a law abiding assessee he can cooperate with department if audit is insisted. Compliant assessee could advantage from audits by department as they would be safeguarded from law of limitation.

*Authors can be reached on e-mail:
madhukar@hiregange.com or mahadev@hiregange.com*

KSCAA AGM held on 9th July 2016





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