KSCAA

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GST – Impact on Accounting Function

Comparision of Composition Scheme

All Weather Investment Portfolio

Foreign Tax Credit Rules

Financial Reporting

SPORTS AND TALENT MEET

On **Sunday, 20th November 2016**

GST AND TDS PROVISIONS UNDER INCOME TAX ACT

On Friday, 16th December 2016 at BAGALKOT

SRI P.R. SINGHVI ENDOWMENT LECTURE

On Friday, 2nd December 2016

♦ ♦ ♦ ♦ ♦

BASAVANAGUDI CPE STUDY CIRCLE

Discussion on FEMA – Recent developments and emerging issues

on Friday, 18th November 2016

Alternate Financing Options - ECB and Trade Credits

on Friday, 25th November 2016

You Know

Details Inside ▸

From the President

Jnanam Sa-Vijnanam

Creating Knowledge Consciousness

Dear Members,

It is with immense pride that we are celebrating 60th Kannada Rajyotsava this month. Karnataka, an unification of province originally called Mysore, was formed on 1st November 1956. Karnataka a land of diverse and rich cultural heritage is famous for its recipes, has a proud legacy of art, monuments, religion, literature and music. Our Kannada language can be estimated as 2,500 years old, ranking as the 3rd oldest language after Sanskrit and Tamil. The Kannada alphabets evolved around 1,900 years ago. Recently in press reports, there have been claims that Kannada is an endangered language, and needs some protection and furtherance in order to help preserve it. I believe Kannada, a language which has survived and thrived for such long time, in fact is not endangered in literal sense. There is a need for us to take pride in using the language of the land in our day to day communication and use our language liberally in all walks of life, which I feel has reduced especially in our metropolitan city of Bangalore. I hereby urge all our readers to take pride in using Kannada as much as possible in our routine life, so that we can pass on to our next generation rich flair of our most revered language as legacy.

What has left many shell shocked is that in a major step to curb black money, our honourable Prime Minister on 8th November announced demonetization of 500 and 1000 currency notes with effective from 9th November. Leading a surgical strike on the parallel economy, the government declared these high value notes as void with immediate effect taking it on a war footing to address the issues of black money, fake currency and corruption. The Prime Minister retorted, "All of us have to work shoulder to shoulder and create a prosperous, inclusive and corruption-free India." His initiative is courageous and laudable. This demonetization has brought various opportunities and challenges for Chartered Accountants. Chartered Accountants truly partners in Nation building play a key role in guiding the clients in terms of understanding the terms, implications, giving legitimate direction and advising precautions to the public by not colluding with the culprits etc. Though this move may create hardships initially for common man, the positive effects and advantages take some time to rub on and will percolate eventually.

Another development which I wish to put forth is about the GST Council which finalised a 4-tier tax structure of 5, 12, 18 and 28 per cent, with lower rates for essential items and the highest one for luxury and de-merits goods by way of an additional cess. We appreciate the thinking and intent of the Finance Minister in terms of announcing of the decision to keep inflation under check, essential items including food, which presently constitute roughly half of the consumer inflation basket, expected to be taxed at zero rate. There would be two standard rates of 12 per cent and 18 per cent, burden of which would fall on the bulk of the goods and services. This includes fast-moving consumer goods basket. The GST is expected to subsume the multitude of taxes and cesses currently in place, including the Swachh Bharat Cess, the Krishi Kalyan Cess and the Education Cess. However the Clean Environment Cess is being proposed, revenues from which will also help fund the compensations. Further the Centre gave a constitutional guarantee to the States as to making good these losses for an initial period of five years.

The Ministry of Corporate Affairs announced an extension in last date for filing of Financial Statements and Annual Returns under the Companies Act, 2013 using eforms AoC-4/AoC-4 (XBRL)/AoC-4 CFS or MGT-7 as the case may be without payment of additional fee wherever applicable up to 29th November 2016 and has requested stakeholders to plan their filings accordingly.

In respect of the earlier announcements of ICAI regarding the updation of PAN details by the members in the Institute's records to avoid blocking of e-filing account by the Income Tax Department, ICAI has observed that many members have still not updated their PAN details in the Institute's record. The members who have not yet provided their PAN details for ICAI records or members in whose records the discrepancy exists in the ICAI and Income Tax Authorities records, may submit the same through the following link: http://appforms.icai.org/panupdate/index.html

Programs for the month

KSCAA is organising Talent Meet on 20th November 2016 at KGS Club, Bengaluru jointly with Bangalore Branch of SIRC of ICAI. This Talent Meet is open to CA's and their family members. It is one of our flagship event and our constant endeavour to make our members engage in extracurricular activities apart from routine professional activities. It is also an invigorating event to all our family members. I request members to participate in large numbers.

Further, along with Bangalore Branch of SIRC, we are organising an Endowment Lecture in the memory of Late Sri. P R Singhvi on 2nd December, 2016. CA. M. R. Venkatesh would be addressing the audience on Intellectual Terrorism. We are thankful to the P R Singhvi Charitable Trust and Bangalore Branch for the opportunity provided to us to conduct this program.

KSCAA is organising jointly with Bagalkot District Chartered Accountants Association, one day Seminar on GST and TDS Provisions under Income Tax Act on 16th December 2016 at Bagalkot for the benefit of mofussil members. The seminar will immensely benefit our mofussil CAs, Tax Practitioners and general public. I appeal to all our nearby mofussil members to make maximum of this event.

The Basavanagudi CPE Study Circle is organising two Study Circle Meeting, Discussion on FEMA – Recent developments and emerging issues on 18th November and Alternate financing options - ECB and Trade Credits on 25th November. Eminent speakers from profession and banking industry are participating in these meetings and I request you to make use of these contemporary knowledge sharing events.

The details of above programs are published elsewhere in the news bulletin.

This month "You Know" Series introduces an interesting and multifaceted personality of our profession CA. Dr. N. Suresh. Whenever we listen to the word trust we visualise CA. N. Suresh, he has become synonymous when it comes to the subject of taxation of trust. We have attempted to capture this talented personality in a summarise form and have presented it to our readers.

Last but not the least, I present before you the beautiful lines of Saul Alinsky which best suits our present scenario:

"Any revolutionary change must be preceded by a passive, affirmative, non-challenging attitude toward change among the mass of our people. They must feel so frustrated, so defeated, so lost, so futureless in the prevailing system that they are willing to let go of the past and chance the future."

Always at your service

CA. Raghavendra Puranik
President

KSCAA

News Bulletin

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Corrigendum

We regret to inform you that hard copy of our News Bulletin circulated to our members for the month of October 2016 depicts incorrect India map. We seek unconditional apologies from the readers and public at large for this unintentional and inadvertent printing error.

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

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You Know series

CA. Dr. N. Suresh

Dr. N. Suresh, a renowned Chartered Accountant has a Doctorate in Taxation. He has authored several books on Taxation, Foreign Contribution Regulation Act, and Trusts & NGO's. These books have been well received by fellow professionals, institutions & Income-tax Department all over India.

His recent book on Income Computation and Disclosure Standards, in a short span of eight months was completely sold out and the third revised edition of this book will be released shortly.

Dr. N Suresh is a prolific writer and good orator. His acumen and skill in sharing of knowledge at various Seminars, Conferences conducted by professional bodies, study circles and various branches of ICAI are well received for due to clarity on subject & thought provoking issues which has earned several laurels from fellow professionals. Besides, he is a visiting faculty for National Academy of Direct Taxes, Nagpur a wing of CBDT – Ministry of Finance.

He has a passion for music. Initially, he started light music and has now advanced to learning Carnatic Classical Music. His musical journey initiative was to seek solace and mental satisfaction. He has been groomed and blessed by the music doyen Padmabhushan, Sangeetha Kalanidhi Dr. R K Srikantan and his son Sri Ramakanth.

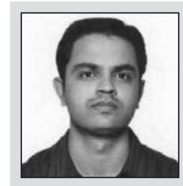
Another feather to his cap is that he is also astrologer in Krishnamurthy Paddhathi System – which is a unique system of 'Stellar Astrology' based on sub-lord system. He has been educated and trained by the sons of late Krishnamurthy who profounded the theory and practice of K P System of Astrology.

He is a President of the Sripadaraja International Research Foundation Trust with a vision to spread the message of Dasa Sahitya in a capsule form on various facets such as education, health, medical and various other aspects. The said institution has been pioneer in conducting various classes and programmes across the country.

Many wonder how he is able to manage his time with professional practice as well music and astrology? His answer is simple. Manage your time effectively is the mantra. He always sings a music, 'Nadabrahma' originating from nabhi through saptaswaras have kaladi scope having illuminating effect on the mind as well to the body which brings prosperity of health.

Dr. N. Suresh has given several classical performances in Bangalore, Mulbagal, Mysore and other places in Karnataka. His CD with Dasa Krithis on Lord Krishna was released.

GST – Impact on Accounting Function



CA. Madhukar N Hiregange and **CA. Mahadev R**

The Government of India is keen on implementing the GST law from 01.04.2017. In previous two articles, we wrote on impact of GST on sales and procurement function in case of manufacturers. Though these are the two main functions having big impact under GST, the accounting function cannot be ignored. It is accounting function which has to take care of compliances such as tax payment, return filing, registration etc. In this article, we have discussed few aspects having impact on accounting function in GST. Professionals could take care of these aspects for guiding assesses.

Passing of accounting entries for present IDT compliance

Accounting of transactions is the main activity in accounting function. In case of indirect taxes such as VAT / Central Excise / Service tax, it may so happen that assessee may be paying all taxes promptly and utilizing the credits according to law. However, the necessary accounting entries with respect to availment of credit, utilization of credit and payment of taxes might have been missed out. In such cases, it is important to ascertain the existing system of passing of entries and suggest for passing necessary entries. This could be very critical with respect to identification of eligible credits for disclosure in the return and carry forward in GST regime.

Ascertain level of compliance under present IDT law

a. Compliance under present law to be reviewed to ensure that there is smooth transition to GST. Following points to be considered for this purpose:
b. Check if all IDT payments are paid.
c. Check if all eligible credits have been claiming within stipulated time.
d. Check if all returns are filed within the due date with appropriate disclosure of credits and liabilities.
e. Check if all export benefits are claimed within due date.
f. Check if goods with job workers are reconciled with appropriate treatment for credits
g. Check if all liabilities are recognized including RCM / JC payments

Reconciliation of VAT / Cenvat credits and liabilities

Reconciliation of records would be very critical during transition phase. The financial statements reconciliation with statutory returns (ER-1, VAT returns, ST-3 return) should be started to ensure that the credits and liabilities are matching. This exercise could help the entity to identify the short / excess / non availment of credits and short /excess / non-payment of indirect taxes if any. The time limit for availment of excise duty credit on inputs and service tax credit on input services is one year from the date of invoice. All eligible credits have to be identified and disclosed in the statutory returns.

Issue and collection of all statutory forms

The assessment under present IDT law could be faster during the transitional phase as department would try to clear all pending audits and issues. The finance team should ensure that following compliances are taken care:

a. Collection of all pending Forms from customers such as Form C , Form H, Form, Form F and Form I
b. Issue of all pending Forms to vendors such as Form C , Form H, Form, Form F and Form I
c. Compliance with respect to present reverse charge service tax payments and TDS requirements.
d. Ascertain status of pending litigations with consultants and tax departments.
e. Team should be ready for quick assessments by VAT / ST / Excise authorities.

Suggest on new ledgers to be created

The existing tax related ledgers may no longer be relevant in GST regime as we would be stepping into different tax regime. New ledgers for CGST, SGST, IGST on purchases and sales have to be created in addition to ledgers for interest and penalty payments. Few ledgers have to be created for compliance under reverse charge compliance, keeping track of advance payments etc. Accounts team should be aware of these requirements and should get the ledgers created in the accounting software. All irrelevant ledgers created which no longer in use even in present IDT law should be identified and removed.

Planning for cash flow impact

Introduction of GST certainly would have impact on cash flow (increase or decrease). The flow could be more or less depending on the impact on sales and procurements. Some of the factors which would influence cash flows are increase in rate of GST on services, levy of GST on stock transfer to branches, savings on account of seamless credit, lower taxes on purchases, no levy of entry tax, non requirement of input VAT credit reversal on stock transfers etc. The finance / accounts function should analyze the impact and prepare to address the impact.

Training on compliance under GST law

GST law could involve lot of effort at least in the initial phase due to number of different returns introduced. A regular assessee has to file 3 returns (Inwards / Outwards / Consolidated) every month. Annual return is also mandatory for all assessee. Service providers having centralized registration covering offices in other States may have to obtain separate registration in other States. This would also warrant filing of separate returns. Presently, such service providers may be filing only two half yearly returns in Form ST-3 every year.

The proposed GST returns are automated requiring matching of information of sales and purchases with information submitted by vendors and customers. The team involved in compliance should take appropriate training to ensure that the returns are filed in appropriate manner. The concept of TCS / TDS is also proposed to be introduced in GST which could pose challenge to accounts team. Non awareness could result in additional cost to entity in form of interest and penalties.

Revision of SOP

The standard operating procedures (SOP) would have been prepared based on existing IDT laws. As GST is all together a new concept, the SOP needs to be revised considering the impact of GST on operations and process of the entity. Lot of importance has to be given for compliance procedures. Professionals need to play vital role in development of SOPs.

Changes in formats and reports such as tax registers, tax invoices etc.

GST would bring paradigm shift in IDT laws. The accounts team should be aware of changes and in addition, the changes required in all relevant registers, invoices and forms should be undertaken. The manual registers and reports to the extent possible should be done away with as most of the information in GST would be automated.

Registration requirements

Assessee registered under any of the present indirect tax laws would get automatic GST registration for all registered locations which would be state specific. Before introduction of GST, there is a need to ascertain the requirement of multiple business locations and registration for the same. In case of service providers with multiple locations having centralized registration, there is a need for obtaining registration for each of the states having presence.

Agreement modifications with vendors / customers

With introduction of proposed GST, all major indirect taxes would discontinue and therefore, all major agreements entered with vendors and customers would have to be looked into for carrying out necessary changes for compliance with GST. The important points to be noted in this regard are as follows:

a. All existing agreements where reference have been made for service tax, VAT/CST or excise duty needs to be replaced by GST.

b. Purchase orders issued to vendors would require modifications on introduction of GST. During transition time also, care should be taken to ensure that the vendors are passing on all tax benefits with break up on the invoices.

c. All new agreements proposed to be entered into may have a specific clause that tax clause would be revisited / amended in case GST is introduced during validity of agreements.

Conclusion

There is a need for better preparation for GST implementation by all functions of an organisation. It may be ideal for the organisation to seek assistance from professionals in this process. Professionals should also make efforts to make their clients aware of importance of preparing for GST at the early stage.

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Comparision of Composition Scheme under Model GST Law with Karnataka VAT Law

CA. Sanjay Dhariwal and CA. Annapurna Kabra

The existing composition dealers under the KVAT law have a query as whether they can continue for the scheme even after the introduction of the GST law. The Model GST law states that small taxpayers with an aggregate turnover in a financial year up to [Rs. 50 lakhs] shall be eligible for composition levy. It is applicable to both goods and services. A taxable person cannot opt for payment of taxes under composition scheme say for supply of goods and opt for regular scheme of payment of taxes for supply of services. It would be applicable for all transactions under the same PAN. Under the scheme, a taxpayer shall pay tax as a percentage of his turnover during the year without the benefit of Input Tax Credit. The floor rate of tax for CGST and SGST shall not be less than [1%]. A tax payer opting for composition levy shall not collect any tax from his customers. The tax payers making inter-State supplies or paying tax on reverse charge basis shall not be eligible for composition scheme. Such tax payer should issue the bill of sale and has to file GSTR-4 quarterly.

Under the Karnataka VAT law the scheme is applicable to dealers whose total turnover for the period does not exceed the amount of twenty-five lakhs, works contractor, a hotelier, restaurateur, caterer or a dealer running a sweetmeat stall or an ice cream parlor, or a dealer engaged in the mechanized crushing unit producing granite or any other metals. Composition dealers other than works contract dealers cannot purchase goods from outside the state or import goods from outside the territory of India. And such a dealer cannot avail any input tax credit and such a dealer is permitted to issue bill of sale. The rate of composition is 1% for the dealers whose turnover is below twenty five lakh and for other composition dealer the rate of tax is 4% except mechanized crushing unit. Such dealers are liable to pay unregistered purchase tax in addition to the composition taxes. Such dealer should file VAT 120 Monthly and quarterly as the case may be.

Under the Model GST law, where any registered taxable person ceases to pay tax under composition and switches over to Regular scheme will be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date from which he becomes liable to pay tax under regular scheme. Under the Karnataka VAT law the dealer 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.

Under the Model GST law, where any registered taxable person who has availed of input tax credit switches over to composition scheme he shall pay an amount, by way of debit in the electronic credit or cash ledger, equivalent to the credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date of such switch over. Under the Karnataka VAT law 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.

In case of the Composition dealer under the existing law and are planning to switch to Regular Scheme under the GST law then in such instances the transitional credit shall be allowed on inputs which must be used or intended to be used for making taxable supplies under the GST Laws. In case the dealer has opted for Regular scheme under the existing law and are planning to switch to composition scheme under the GST law then in such instance the credit cannot be carried forward and such dealer shall pay an amount by way of debit in the electronic credit ledger or electronic cash ledger. The Model GST law does not provide the explanation for the carry forward of unadjusted labour and like charges or unadjusted sub-contractor deductions from the existing law to GST law.

Therefore the comparison of opting for the scheme either from regular to composition or from composition to Regular scheme under the existing law and GST law should be determined based on various benchmarks.

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Foreign Tax Credit Rules – A Welcome Effort (Part 1 of 2)

CA. Prakash Hegde and **CA. Raghavendra N**

Double Taxation Avoidance Agreements ('DTAA's) try to resolve the conflict of double taxation by stipulating the right of each of the parties (countries) to the DTAA to tax a particular source of income of a tax payer in most of the circumstances. Still, unintended double taxation can arise due to principles of residence based and source based taxation in different jurisdictions. In such circumstances, the need for obtaining foreign tax credit ('FTC') i.e. availing credit for taxes paid on the same income in foreign countries against taxes payable in the country of residence, arises. Usually, DTAAs themselves contain provisions for obtaining FTC by a resident tax payer.

In circumstances where a tax payer is subjected to taxation both in India and another country with which India does not have a DTAA, section 91 of the Income Tax Act, 1961 ('Act') comes to the relief of the tax payer as it allows such tax payer to claim FTC in India subject to certain conditions.

As the Act or the Income Tax Rules, 1962 ('Rules') did not contain detailed provisions relating to claim of FTC, many disputes arose between the tax payers and the income tax authorities with regard to the computation methods, amounts etc. The Tax Administrative Reforms Commission headed by Dr. Parthasarthy Shome had discussed the issues faced by resident taxpayers in availing FTC and recommended an action to ease the process. Keeping this in mind, to minimize disputes and to streamline the process, the Finance Minister, in his budget speech in 2015 had mentioned that the Central Board of Direct Taxes would be empowered to prescribe rules for grant of FTC. Accordingly, a new Rule 128 to the Rules, providing the rules / conditions for grant of FTC has been inserted with effect from 01 April 2017. These rules are the result of another effort by the government to simplify and reduce tax litigations.

Let us see the important provisions contained in this newly inserted Rule 128.

Year of availability: Sub-rule 1 provides that a resident assessee will be eligible to claim FTC where any tax has been paid by him in a country or specified territory outside India. Such FTC shall be allowed only in the year in which the income corresponding to such tax has been offered to tax or assessed to tax in India. The sub-rule also states that where income on which foreign tax has been paid or deducted, is offered to tax in more than one year, FTC shall be allowed across those years in the same proportion in which the income is offered to tax or assessed to tax in India.

Meaning of eligible foreign tax: Sub-rule 2 provides that where a DTAA has been entered in to between India and the foreign country, eligible foreign tax shall be the taxes covered under the respective DTAA. However, where no DTAA has been entered in to between India and the foreign country, eligible foreign tax shall mean the tax payable under the law in force in that country in the nature of income tax referred to in clause (iv) of the Explanation to section 91 of the Act.

Amount against which FTC is available: Sub-rule 3 provides that an assessee would be allowed to claim FTC against the amount of tax, surcharge and cess payable by such assessee in India under the Act. It further clarifies that claim of FTC will not be allowed in respect of interest, fee or penalty.

Sub-rule 6 provides that the credit of foreign tax shall be allowed against Minimum Alternate Tax ('MAT') / Alternate Minimum Tax ('AMT') in the same manner as is allowable against tax payable under the normal provisions of the Act. However, sub-rule 7 provides that where the amount of FTC available against the tax payable under the provisions of section 115JB or 115JC exceeds the amount of tax credit available against the normal provisions, then while computing the amount of credit under section 115JAA or section 115JD in respect of the taxes paid under section 115JB or section 115JC, such excess shall be ignored.

FTC for disputed tax: Sub-rule 4 provides that credit shall not be available in respect of any amount of foreign tax or part thereof which is disputed in any manner by the assessee. Credit for such disputed tax shall be allowed in the year in which such income is offered to tax or assessed to tax in India if the assessee within six months from the end of the month in which the dispute is finally settled, furnishes the evidences of the settlement of dispute, discharge of such disputed foreign tax and an undertaking that no refund in respect of such amount has directly or indirectly been claimed or shall be claimed.

Mode of computation: Sub-rule 5 provides that FTC shall be the aggregate of the amounts of credit computed separately for each source of income arising from each country. Further, the credit allowable shall be the lower of the tax payable under the Act on such income and the foreign tax paid on such income. Proviso to clause (i) of sub-rule 5 clarifies that where foreign tax paid exceeds tax payable in accordance with DTAA, such excess shall be ignored.

(Contd. on page 11)

Financial Reporting – Practitioners Update

CA. Vinayak Pai V

A. Introduction

Corporate entities that had to deal with a relatively simple accounting regime comprising of **28 accounting standards** until the last fiscal (Now 27) now have to grapple with **40 Indian Accounting Standards** (Earlier 39). To put this in perspective, *IFRS* is approximately a tenth of the size of *USGAAP* and *AS* is approximately a tenth of the size of *IFRS*. AS, in terms of size, appears closer to the small boy of IFRS viz. the *IFRS for SMEs*. The size and complexity of the accounting literature assumes a different dimension as we move forward. Limited as well as radical changes are expected in the core IFRS space in the coming months and IND-AS would not be immune to such changes. More changes to AS are also expected that would be applicable from the next fiscal for non IND-AS preparers.

B. Financial Reporting Updates

a) Valuation of Inventories under ICDS (Revised)

Revised Income Computation and Disclosure Standards (ICDS) are **applicable from Assessment Year 2017-18** and the salient incremental aspects of ICDS II- *Inventories* are provided herein below.

i) Standard Cost Method

- Standard cost method may be used for convenience if the results approximate the actual cost.
- Standard costs take into account normal levels of consumption of materials and supplies, labor, efficiency and capacity utilization.
- Where standard costing has been used as a measurement technique, **details of such inventories** need to be **disclosed** along with a **confirmation** of the fact that such **standard cost approximates actual cost**.

ii) Retail Method

- The retail method can be used in the retail trade for measuring inventories of large number of rapidly changing items that have similar margins and for which it is impracticable to use other costing methods.
- The cost of the inventory is determined by reducing from the sales value of the inventory, the appropriate percentage gross margin (taking into consideration inventory, which has been marked down to below its original selling price). An **average percentage** for **each** retail **department** is to be used.

b) Audit of Consolidated Financial Statements – Revised Guidance Note

- Our institute has issued a revised **Guidance Note on Audit of Consolidated Financial Statements (Revised 2016)** superseding the version issued in 2003.
- The Guidance Note provides guidance on specific issues and audit procedures to be applied in an audit of consolidated financial statements prepared per AS 21-*Consolidated Financial Statements* or IND-AS 110 – *Consolidated Financial Statements* read with Section 129 (4) of the Companies Act.
- The auditor is required to compute the **materiality for the group as a whole** to assess the appropriateness of the consolidation adjustments that include both **permanent consolidation adjustments** and **current period consolidation adjustments**.
- **The component auditor's observations**, if any, on the component's financial statements, irrespective of whether the auditors of the component are also the auditors of the CFS or not, are **required to be included in the parent auditor's report** on the CFS, **regardless of materiality**.
- IND-AS 110 prescribes certain criteria where consolidated financial statements are not required. In such cases, the auditor should satisfy himself that the exclusion made by the management is in conformity with the accounting framework.
- **Auditor needs to consider the specific consolidation aspects of IND-AS** with respect to calculation of goodwill, non-controlling interests, accounting for foreign components, deferred taxes, etc.

c) Withdrawal of Guidance Note/ Application Guides

Our Institute has withdrawn the following Guidance Note/ Application Guides on account of these pronouncements outliving its utility viz.

- GN (A) 9 – *Guidance Note on Availability of Revaluation Reserve for Issue of Bonus Shares*, and
- *Application Guide on the Provisions of Schedule II* to the Companies Act, 2013

d) Going Concern – Changes to SA 570

The revised Standard on Auditing (SA) 570 – *Going Concern* is effective for **audits** of financial statements for periods beginning on or after **April 1, 2017.** Salient aspects of the same are extracted herein below.

- The auditor's **responsibilities** are to obtain sufficient appropriate audit evidence regarding, **and conclude on, the appropriateness** of management's use of the going concern basis of accounting in the preparation of the financial statements, **and to conclude, based on the audit evidence obtained, whether a material uncertainty exists** about the entity's ability to continue as a going concern.
- **Implications on Auditors Report**

a) *Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists*

If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an **unmodified opinion** and the auditor's report shall include a **separate section** under the heading "Material Uncertainty Related to Going Concern" and should state that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

b) *Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements*

If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall express a **qualified opinion** or **adverse opinion**, as appropriate and in the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a **material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern** and that the financial statements do not adequately disclose this matter.

e) Planning for unlisted companies IND-AS transition in 2017-18

Unlisted entities with net worth in the range of Rs. 250 – 500 crore (as of March 31, 2014) converge with the Indian variant of International Financial Reporting Standards (IFRS) from 2017-18. An **opening balance sheet** as of **April 1, 2016** needs to be prepared applying the IND-AS framework.

In the preparation of the opening balance sheet certain choices are available. With respect to the line item "Property, plant and equipment", exception to full retrospective application of IND-AS is available whereby a reporting entity could use a deemed cost in lieu. An entity could avail the below mentioned options.

a) Continue with the carrying value of all of its PPE as recognized in the financial statements as at the date of transition as **per AS**, subject to certain adjustments,

b) Elect to measure an item of PPE at the date of transition at its **fair value.**

c) Elect to use a previous GAAP **(AS) revaluation** of an item of PPE at or before the date of transition as deemed cost at the date of revaluation if the same was broadly comparable to fair value or depreciated cost in accordance with IND-AS.

d) Use of fair value where the entity may have established a deemed cost in accordance with AS for some or all of its assets by measuring them at fair value at a particular date at a specific event like an Initial Public Offering (IPO).

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All Weather Investment Portfolio

CA. Vijay Sagar Shenoy

An investment discussion invariably starts with equity investments vis-à-vis other investments. This write up excludes direct business investment which is amenable for navigation through control and active involvement and is the most successful form of investment a person may hold when there is a sustainable moat around. It is a well-known fact that a lot of brilliant people are terrible investors. The predominant reason is their inability to make decisions in the wake of limited information. By the time the information is disseminated, everyone else knows and the edge is lost. We infact attend to the financial statements day in and day out. One question we can truly ask ourselves is whether we are successful investors and deal with the outcome of such assessment. Insight, rationality, perspective and ability to act in uncertain times differentiate the successful investors from the lot. How can one become a successful investor transcending pain pursuant to the daily grind of fluctuations?

Such soul searching drives one to ponder what makes him an inefficient investor and how do one overcome and achieve success consistently. Pursuit of success in investment world requires us to do rational analysis on whether we are relying a tad too much on the media, investment advisors, financial statements reading prima facie, hot tips, blind belief on fund managers who are forced to invest compulsorily a ratio as mandated by regulatory bodies irrespective of the market zone. The investor is inundated with data and information deluge and is indeed influenced by induced thinking and herd mentality and in the process is swayed away from rationality. Many a times one receives impromptu advise from many investment advisors that one should invest into equity and equity mutual funds vis-à-vis debt in the inverse proportion of one's age. i.e. a 25 year old needs to have equity exposure of 75%. Can we rely on this statement, does this strategy hold good in all times, invariably our seasoned fraternity may be able to vouch for the truth. This uneven outcome probably has deterred many people in our profession to have any kind of equity exposure directly or through mutual fund route. While youngsters who have started investing say in this decade are oblivious of the roller coaster ride of the investment world and would always say it is different this time unless they get a taste of the cyclical fluctuations, a syndrome of two cycles in twelve years.

Pain of past experience and pleasures of success at most have ill effects of influencing an investor to rather oscillate between zones of complacency and tension and induce fear or greed periodically and therefore, forcing to act irrationally. Now, this write up is to guide one to overcome reacting to such emotional swings and impulsive mindset. We can unlearn the past investment patterns, relearn from observing the experts activity and autopilot the investment process based on our risk appetite, level of understanding, experience, agility. We can observe the experts world over who are consistently successful and who understand the markets and infer from what influences their thinking and how they are successful in all seasons.

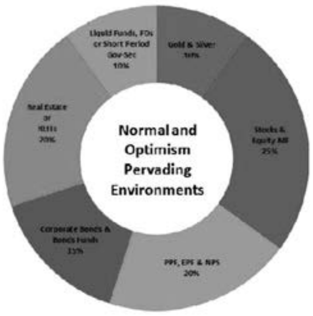
Experts from past like Ben Graham, today's top hedge fund managers Ray Dalio and others do confess that the shares are thrice more risky than bonds and fixed income instruments. Imagine what happens when you have 50:50 allocation in equity and bonds. So with 50% allocation each it seems relatively balanced at first glance. But with the amount of risk in equity investment, the price movement of which the investor does not possess any control, it would be unfair to say it is a balanced portfolio. Most such portfolios have a strong bias to do well in good times and bad in bad times. And thus defacto strategy would base on the hope that the invested stocks or funds go up.

This conventional approach to so called balanced and diversified investments isn't true to the billing under all circumstances.

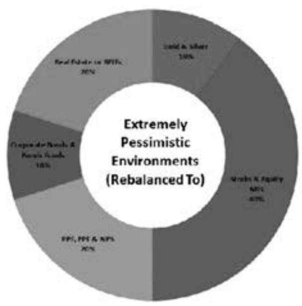
First, the investor needs to assess the possible seasons and determine what works best in the season which is captured in the table below:

	Growth	Inflation
Rising	Stocks Corporate Bonds Commodities/ Gold	Commodities/ Gold Inflation linked bonds
Falling	Fixed income instruments	Government Bonds Stocks

By now, we realise that the allocation is the key to investment success and nirvana. But what is the ratio. Now, this depends on the risk appetite, level of understanding, whether as investor one can influence company's performance like managing the business, venture capital, private equity investment. Other than those who are insiders who can influence business, from a normal person perspective, one could follow stalwarts like Ray Dalio who says that economy is a machine which reacts evenly as it has to in different circumstances and it's a cycle. To start with one can have below allocations in Indian scenario, however a discerning investor may increase equity exposure based on his risk appetite and understanding of the underlying investments.



Normal Environment



Extremely Pessimistic Environment

It is imperative for an investor to rebalance periodically based on the investor's assessment of season. It is called as Reversion to the Mean. There are only three tools to increase investor returns. The first is asset allocation, the second is market timing and third is security selection. Diversifying across securities, asset classes, markets and time helps one achieve the goals of maximising success and mitigates risk. Unless one is comfortable to spend time consistently and monitor the investment nest, diversifying makes for better portfolio as no individual knows where the markets go, though experts may profess that they know the direction of markets. As there is an increasing difficulty in understanding the predominant trend, it is ideal to have good allocation of various asset class having a quarter to two fifths of an exposure in equity built over a period of time and ride on the high growth path.

Certain influencing thoughts of today's investment experts worldwide:

Warren Buffett, the sage of Omaha: Investing success Rule 1: Never lose money under any circumstance; Rule2: Refer Rule 1.

John Templeton: Bull market starts at the time of pessimism, rise during the time of scepticism, mature on the time of optimism and they end on the time of euphoria. History always proves that those down and scary times are the times of great opportunities to invest and hold on forever.

David Swensen: Unconventional wisdom is the only way you can succeed.

Mark Faber: You have to be very careful about buying things at a high price because they drop and you are discouraged. You have to keep cool and have money when your neighbours and everybody else is depressed and invest. You should resist investing when everyone is competing for assets as they are expensive.

Old saying: When a man with money meets a man with experience, the man with experience ends up with the money and the man with the money ends with the experience.

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Foreign Tax Credit Rules – A Welcome Effort (Part 1 of 2)

(Contd. from page 7)

Accordingly, a separate calculation is to be made for each and every stream of income arising from each and every foreign country. The aggregate of such different FTC amounts shall be the total amount of FTC allowable from the tax payable in India.

Documents required to claim FTC: Under sub-rule 8, for claiming FTC, an assessee has to furnish the following documents:

i. a statement in Form No. 67

ii. certificate or statement specifying the nature of income and the amount of tax deducted therefrom or paid by the assessee, -

   a. from the tax authority of foreign country; or

   b. from the person, responsible for deduction of such tax; or

   c. a statement signed by the assessee if it is accompanied by:

      i. an acknowledgment of online payment or bank counter foil or challan for payment of tax where the payment has been made by the assessee;

      ii. proof of deduction where the tax has been deducted.

Such documents shall be furnished on or before the due date return of income under section 139(1) of the Act.

Form No. 67 shall also be furnished in a case where the carry forward of loss of the current year results in refund of foreign tax for which credit has been claimed in any earlier previous year or years.

(to be continued…)

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KARNATAKA STATE CHARTERED ACCOUNTANTS ASSOCIATION (R)

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*Plus applicable Service Tax

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by **CA. Sandeep Jhunjhunwala**

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on ***Friday, 18th November 2016***
at ***5:00 PM to 8:00 PM***

Fees: Rs. 200/- Member, Rs. 250/- Non-Member

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Alternate Financing Options
- ECB and Trade Credits

by **Mr. Maneesh, Ms. Vijayashree & Mr. Anand**

CPE 2 Hrs.

on ***Friday, 25th November 2016***
at ***5:30 PM to 7:30 PM***

No Fees

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Venue :
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CA. Dr. N. Suresh

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On

Intellectual Terrorism

By

CA. M.R. Venkatesh

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at

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