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SBS Interns' Digest

An attempt to share knowledge

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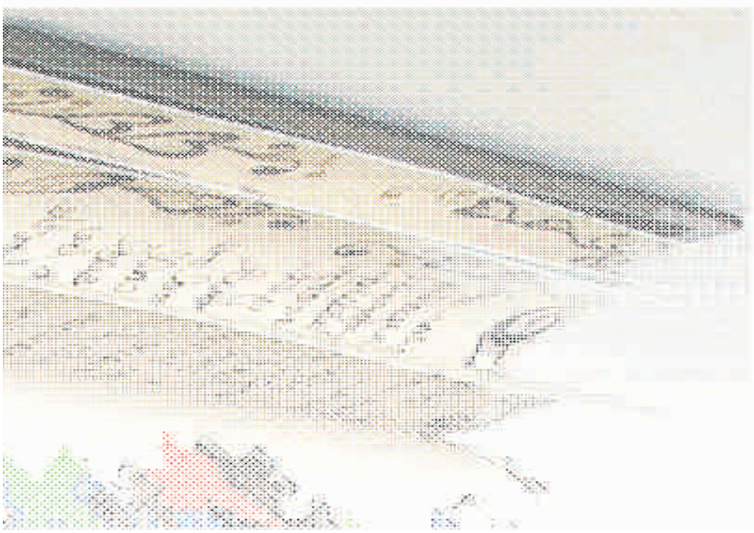

By

Interns of
SBS and Company LLP

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UPDATES

AUDIT

APPLICABILITY AND ACCOUNTING PRINCIPLES OF IND AS

Contributed by Prudhvi G & Vetted by CA Sandeep Das

Presently, the Institute of Chartered Accountants of India (ICAI) has issued 39 Indian Accounting Standards (Ind AS) which have been notified under the Companies (Indian Accounting Standards) Rules, 2015 ("Ind AS Rules"), of the Companies Act, 2013. The Rule specifies the Indian Accounting Standards (Ind AS) applicable to certain class of companies and set out the dates of applicability.

India has chosen a path of International Financial Reporting Standards (IFRS) convergence rather than adoption. Hence, Ind AS is primarily based on the IFRS issued by the International Accounting Standards Board (IASB).

Applicability of Ind AS as per the notification released by the Ministry of Corporate Affairs (MCA) on 16 February 2015, the roadmap for Ind AS implementation is as follows:

Financial Year	Applicable to (Mandatory)
2016-17	• Companies (listed and unlisted) whose net worth is equal to or greater than 500 crore INR • Holding, subsidiaries, joint ventures or associates of these companies
2017-18	• Listed Companies whose net worth is less than INR 500 crore • Unlisted companies whose net worth is equal to or greater than 250 crore INR and all listed companies • Holding, subsidiaries, joint ventures or associates of these companies
2018-19 onwards	When a company's net worth becomes greater than 250 crore INR

Net worth for a company is to be calculated in accordance with its stand – alone financial statement as at 31 March 201X or the first audited financial statements for accounting period which ends after that date.

For the purpose of computing the net worth, reference should be made to the definition under the Companies Act, 2013. In accordance with section 2 (57) of the Companies Act, 2013, net worth is computed as follows:

Net worth means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

Ind AS will apply to both consolidated as well as standalone financial statements of a company. Overseas subsidiary, associate, joint venture and other similar entity (ies) of an Indian company may prepare its stand-alone financial statements in accordance with the requirements of the specific jurisdiction. However, for group reporting purpose (s), it will have to report to its Indian parent under Ind AS to enable its parent to present CFS in accordance with Ind AS.

As per exemption under Rule 5, Insurance companies, banking companies and non-banking finance companies **are not required to apply Ind AS** for preparing their financial statements either voluntarily or mandatorily, as specified in the roadmap (sub-rule (1) of rule 4).

Principles of Ind AS

The entities' general purpose financial statements give information about performance, position and cash flow that is useful to a range of users in making financial decisions. These users include shareholders, creditors, employees and the general public.

A complete set of financial statements under Ind AS includes the following:

- Balance sheet at the end of the period
- Statement of profit and loss for the period
- Statement of changes in equity for the period
- Statement of cash flows for the period; notes, comprising a summary of significant accounting policies and other explanatory information
- Comparative financial information in respect of the preceding period as specified
- Balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements having an impact on the balance sheet as at the beginning of the preceding period.

Standard's relating to Financial reporting and disclosures

First time Adoption of Ind AS: Ind AS -101

An entity moving from Indian GAAP (Generally Accepted Accounting Principles) to Ind AS needsto apply the requirement of Ind AS-101.It applies to an entity's first Ind AS financial statements and the interim reports presented under Ind AS 34, "Interim financial reporting", which are part of that period.

First time Adoption Time Line/Key Dates:

Two terms are key to understand [Ind As 101]; Reporting Date and Transition Date.
The reporting date is the end of the latest period covered by the financial statements or by an interim financial report.
The transition date is the beginning of the earliest period for which an entity presents full comparative information under Ind As in its first Ind As Financial statements.

Example:

The end of entity A's First Ind AS Reporting period is 31 March 2014. Entity A Presented Financial Statements in Accordance with its previous GAAP Annually to 31 March each year up to, and including 31 march 2013.

Application of requirements:

Entity A is required to apply the Ind As effective for financial year /periods ending on 31 march 2014 in:

(a) Preparing and presenting its opening Ind As balance sheet as at 1 April 2013 which is the date of transition of Ind AS; and
(b) Preparing and presenting its balance sheet as at 31 march 2014, statement of profit and loss and statement of cash flows for the year ending 31 March 2014 and disclosures.

If entity A; Decides to present comparative information in those financial statements for one year, the requirements applies as follows:

Entity A is required to apply the Ind As effective for financial year/periods ending on 31 March 2014 in:

(A) Preparing and presenting its opening Ind As balance sheet as at 1 April ,2012 on a memorandum basis for compilation of comparative period of financial statements assuming that deemed date of transition is April-1 2012; and
(B) Preparing and presenting its opening Ind As Balance Sheet as at 1 April 2013 which is the date of transition to Ind AS
(C) Preparing and presenting its balance sheet as at 31 March 2014 (Including Comparatives amounts for 31 March 2013) Statement of profit and loss and statement of cash flows for the year ending 31 March 2014 (Including Comparatives amounts for 31 March 2013) and Disclosures.

If a new Ind As is not yet mandatory but permits early application, entity A is permitted, but not required, to apply that Ind As Financial Statements

Objective:

The objective of this Ind AS is to ensure that an entity's first Ind AS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

(a) Is transparent for users and comparable over all periods presented;
(b) Provides a suitable starting point for accounting in accordance with Ind As; and
(c) Can be generated at a cost that does not exceed the benefits.

The basic requirement is for full retrospective application of all Ind AS, effective at the reporting date. However, there are a number of optional exemptions and mandatory exceptions to the requirement of retrospective application.

The exemptions are optional. Any, all or none of the exemptions may be applied.

The optional exemptions are as follows:

- Share-based payment transactions
- Insurance contracts
- Deemed cost
- Leases
- Cumulative translation differences
- Investment in subsidiaries, joint ventures and associates
- Assets and liabilities of subsidiaries, joint ventures and associates
- Compound financial instruments
- Designation of previously recognized financial instruments
- Fair value measurement of financial assets or financial
- liabilities at initial recognition
- Decommissioning liabilities included in the cost of property, plant and equipment
- Financial assets or intangible assets accounted for in accordance with service concession arrangements
- Borrowing costs
- Extinguishing financial liabilities with equity instruments.
- Severe hyperinflation.
- Joint arrangements.
- Stripping costs in the production phase of a surface mine.
- Designation of contracts to buy or sell a non-financial item.
- Revenue from contracts with customers.
- Non-current assets held for sale and discontinued operations.

Further, there are **mandatory exceptions** in applying the Ind AS requirements as summarized below:

- Derecognition of financial assets and liabilities
- Hedge accounting
- Non-controlling interests
- Classification and measurement of financial assets
- Impairment of financial assets
- Embedded derivatives
- Government loans
- Estimates

✓ Comparative information is prepared and presented on the basis of Ind AS.

✓ The adjustments arising from the first-time application of Ind AS are adjusted against *opening retained earnings* (or, if appropriate, another category of equity) of the first period that is presented on an Ind AS basis.

✓ Disclosures of certain reconciliations from Indian GAAP to Ind AS are required.

This article is contributed by Prudhvi, Intern of SBS and Company LLP. The author can be reached at interns@sbsandco.com

MISCELLANOUS

NSSO 74TH ROUND SURVEY

Contributed by P. Visweshwar Rao & Vetted by CA MuraliKrishna G

Introduction:

The National Sample Survey (NSS), set up by the Government of India in 1950 to collect socio economic data employing scientific sampling methods, started its seventy-fourth round from 1st July 2016. The survey will continue up to 30th June 2017. In this regard we are bringing out a brief about the survey for spreading the awareness.

Objective of the survey:

Services sector in India has the largest share in Gross Domestic Product (GDP) and this sector is growing fast. The necessity for reliable and comprehensive data pertaining to this sector needs no emphasise. This round is exclusively to survey of service sector. This is a first survey of its kind covering large business establishments of services sector.

Coverage of the survey

The coverage of NSS 74th round (July 2016 – June 2017) will be an enterprise focussed survey on services sector.

Power to conduct survey

The survey is to be conducted under the statutory provisions of the Collection of Statistics (COS) Act, 2008 and the rules framed there-under in 2011 except for the State of Jammu &Kashmir where it is to be conducted under the J&K Collection of Statistics Act, 2010 and rules framed there under in 2012.

Due date for submission of "Enquiry Schedule 2.35"

In pursuance of the powers vested under 4(5) of the Collection of Statistics Act, 2008 (No.7 of 2009) & Rules framed there under in 2011, a notice is served to enterprise/establishment on sample basis to furnish information in the enclosed format of "Enquiry Schedule2.35" for the financial year 2015-16 to the person(s) authorized by the Statistics Officer in respect of enterprise/ establishment concerned. The responsibility for compiling the information in the enquiry Schedule 2.35 lies with the concerned enterprise/establishment and information shall be furnished within one month from the date of the receipt of the notice, failing which penalty process may be initiated in accordance with COS Act.

Meaning of service sector for the purpose of this survey

From the coverage of the services sector, activities of the following enterprises/sectors will be excluded:

- Government Enterprises /PSU
- Air Transport
- Financial and insurance
- Private Money Lenders
- Self Help Groups (SHG)

Under the coverage of the services sector, the following types of enterprises will be included:

- Establishments with ten or more workers; proprietary, partnership, limited liability Companies, Non-Government companies
- Co-operative Societies
- Non-profit Institutions
- Trusts

Construction activity as such is outside the purview of the survey coverage. But to meet the Specific requirements of National Accounts Division(NAD), CSO, a limited set of information willbe collected from some big construction enterprises, taken from both MCA database as well as EC & BR list frames.

Structure of the Schedule for Survey on Services Sector:

Schedule 2.35 contains the following blocks:

Block No.	Block Description
Block 0	Descriptive identification of the enterprise
Block 1	Identification of the enterprise
Block 2	Particulars of the enterprise
Block 2.1	Particulars of the enterprise having branches outside the State /outside the country
Block 3	Land and fixed assets owned and hired (long term lease) as on the last date of accounting period
Block 4	Working capital and loans
Block 5	Employment and labour cost during the accounting period
Block 6	Expenses during the accounting period
Block 7	Receipts during the accounting period
Block 8	Taxes and subsidies during the accounting period
Block 9	Gross Value Added during the accounting period
Block 10.1	Expenses during the accounting period in respect of construction sector
Block 10.2	Employment and labour cost during the accounting period in respect of construction sector
Block 10.3	Receipts during the accounting period in respect of construction sector
Block 11	Particulars of use of Information and Communication technology (ICT) by the enterprise
Block 12.1	Particulars of import and export of services by the enterprise during the accounting period
Block 12.2	Export & import of services during the accounting period
Block 12.3	break-up of value of exports of top 5 services by top 5 partner countries during the accounting period
Block 12.4	break-up of value of imports of top 5 services by top 5 partner countries during the accounting period
Block 13	Particulars of field operations
Block 14	Remarks by Field Investigator (FI) / Junior Statistical Officer (JSO)
Block 15	Comments by supervisory officer(s)
Block 16	Details of remarks in the Schedule

Coverage of different Blocks in specific situations for different enterprises

Sl. no.	Block No.	Blocks/items to be filled in
1.	Blocks 0, 1,13,14,15 and 16	for all enterprises
2.	***if entry in item 12, Block 1 is any of 1, 2, 3, 6, 7 and 9, fill up all relevant blocks for which information is available as given below:***	
2.1	Block 2	for all enterprises (for enterprises with first 2-digit codes any of 41, 42 or 43 in item 7 of block 2, fill in items 1 to 7, 12 to 15 of Block 2)
2.2	Blocks 2.1, 3,4, 5, 6, 7, 8 and 11	for all enterprises except those with 2-digit codes any of 41, 42 or 43 in item 7 of block 2(Construction enterprises)
2.3	Block 9 :	for all enterprises with code 4 in item 11 of block 2
2.4	Blocks 10.1,10.2, 10.3	for all enterprises with 2-digit codes any of 41, 42 or 43 in item 7 of block 2(Construction enterprises)
2.5	Block 12.1	for all enterprises except those with 2-digit codes any of 41, 42 or 43 in item 7 of block 2(Construction enterprises)
2.6	Blocks 12.2,12.3 and12.4	for all enterprises if entry in either item 2 or item 4 of Block 12.1 exceeded Rs. 7,00,000.

For more details regarding NSSO 74th round survey and its related compliance procedure, please go through the below links

http://mospi.nic.in/sites/default/files/publication_reports/EnquirySchedule2_35.pdf
http://mospi.nic.in/sites/default/files/publication_reports/Instructions_12sep16.pdf

This article is contributed by P. Visweshwar Rao, Intern of SBS and Company LLP. The author can be reached at interns@sbsandco.com

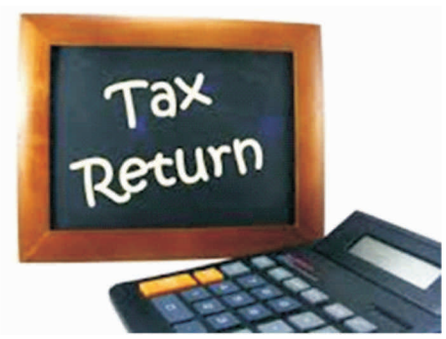
INCOME TAX

RETURN OF INCOME

Contributed by Madhuri A & Vetted by CA Ramprasad T

INTRODUCTION:

Return of Income is a format in which assessee furnishes his information as to his total income and tax payable. The format for filing for returns by different assessee's is notified by CBDT



STATUTORY OBLIGATION TO FILE RETURN OF INCOME

Following persons shall compulsorily file return of income under section 139(1) of Income Tax Act-

Company or Firm/Institutes registered U/s 12AA - Every company whether Public/ Private, Every Partnership Firm (including LLP) irrespective of its total income/Loss;

A Person other than Company or Firm - Every Person other than Company/ Firm/Institution registered U/S 12AA, if total income without giving effect to deductions under chapter VIA and provisions of exemptions U/s 10A, 10B, 10BA,during previous year exceeds the maximum amount not chargeable to income tax;

Explanation

a.Maximum amount not chargeable to Income Tax

Person	Maximum amount not chargeable to tax (ay 2017-18)
Individual (Resident/ Non-Resident)/HUF/AOP/Other artificial juridical person	2,50,000
Resident Senior Citizen (Age is between 60-80years)	3,00,000
Resident Super Senior Citizen (Age >80years)	5,00,000
Cooperative Society	10,000

Also, applicable for AY 2018-19.

b.Due Date

Criteria	Different situations	Due date of submissionof return
Assessee having International transaction	Where the assessee is required to furnish report in FORM NO. 3CEB under Section 92E pertaining to International Transactions	Nov-30
Not having International Transaction	Where assessee is a Company	Sep-30
	Where assessee is a Person other than a Company:	
	In case where accounts of assessee are required to be audited under any Law	Sep-30
	Where assessee is a working partner of any firm whose accounts are required to be audited	Sep-30
	In any other case	Jul-31

ORDINARILY RESIDENT – HOLDING FOREIGN ASSETS

Person who is ordinarily resident in India and who is not required to furnish return U/s 139(1) and who

- Holds asset as beneficial Owner or is beneficiary of any asset, located outside India (including any financial interest in any entity) located outside India (or)
- Has any signing authority in any account located outside India

Shall furnish return for previous year

Note: Where the income from such asset is included in the total income of Beneficial Owner, then provisions of this section shall apply to beneficial owner and not to beneficiary.

Beneficial owner being individual who has directly/ indirectly provided consideration for asset for immediate or future benefit

Beneficiary is the individual who derives benefit from the asset during previous year and consideration paid by beneficial owner.

OPTION GIVEN TO SALARIED EMPLOYEES

It is at the option of the salaried employee, to furnish return of his income during previous year to his employer, in accordance with scheme notified by Central Govt. in this behalf and the employer shall furnish all the returns received by him on or before due date, in such form and manner specified in the scheme and employee shall be deemed to have filed his return in accordance with this section.

SPECIAL EXEMPTION PROVIDED BY THE GOVERNMENT FROM FILING RETURN OF INCOME -SEC 139(1C)

The Central Government is empowered to exempt any class of persons from furnishing return of income subject to specified conditions

So far, it has been notified that if the taxable income of an individual (Resident or non resident) consists of only

- Salary from one employer or/ and
- Savings Bank Interest not exceeding Rs. 10,000/- during previous year and this interest has been reported to the employer for the purpose of deducting tax at source if any

RETURN OF LOSS – SEC 139(3)

The return of loss should be filed in the prescribed form and within the time allowed under sec 139(1). The following losses cannot be carried forward, if the return of loss is not submitted in time-

a. Business Loss (Sec 72, 73, 73A)
b. Capital Loss (Sec 74)
c. Loss from the activity of owning and maintaining race horses. (Sec 74A)

BELATED RETURN - SEC 139(4)

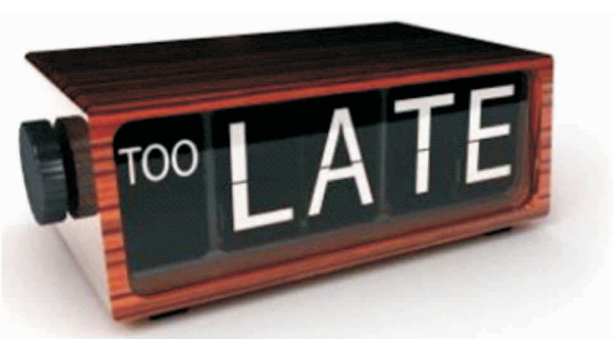
Existing Provisions:

If the return is not furnished within the time allowed U/s 139(1) & U/s 142(1), the person may furnish return of any previous year within the time limit as below

a. Within one Year from the end of relevant assessment year;

(Or)

b. End of assessment (Best Judgement Assessment)



Example 1: An assessee is supposed to file return for the assessment year 2015-16 by 30th September 2015. If it does not file return up to 30th Sept, 2015, then such return, if submitted after the said date, will be belated return. Such Belated return shall be submitted within 1 year from the end of relevant assessment year (i.e., up to 31, March 2017). If however, assessment by department is completed before March 31, 2017, then return shall be submitted before the completion of assessment.

New Provisions (w.e.f 01-04-2017) by Finance Act 2016

If the return is not furnished within time allowed U/s 139(1), the person may furnish belated return within the time limit as below

a. Before the end of relevant Assessment Year;

(Or)

b. End of assessment (Best Judgement assessment)

Whichever is earlier

Consequences of late submission:

If belated return is submitted within the time limits as above, following consequences shall be applicable:

- Penal Interest U/s 234A (Interest rate is 1% Per month for the period starting from due date/extended date of filing return, till actual date of filing of return)
- A penalty of Rs. 5,000/-, may be imposed under section 271F (effective till Assessment Year 2017-18)
- Deduction under sections 10A, 10B, 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID and 80-IE will not be available.

FEE FOR DELAY IN FILING INCOME TAX RETURNS - SEC 234F (w.e.f AY 2018-19)

In order to ensure that return is filed within due date it is proposed to insert new section 234F under Finance Act 2017, w.e.f assessment year 2018-19.

- Penalty of Rs. 5,000 - if return is filed after due date specified U/s 139(1) but on or before 31st December of the assessment year.
- Penalty of Rs. 10,000 - in any other case

However, for small tax payers, where total income doesnot exceed Rs. 5,00,000/-, fee shall not exceed Rs. 1000

Sec 271F, in respect of penalty for failure to furnish return of income shall not apply in respect of assessment year 2018-19 and onwards

REVISED RETURN – SEC 139(5)

Any person shall revise the return, if there is omission or wrong statement in the original return furnished U/s 139(1) or in pursuance of notice U/s 142(1), with in the following time limit as given below

a. Within one Year from the end of relevant assessment year

(Or)

b. End of assessment (Scrutiny Assessment) Whichever is earlier

Assessment for this purpose means assessment made under sec 143(3) and sec 144.

Changes under Finance Bill 2016 (w.e.f 01-04-2017) –

Return shall be revised only if there is omission or wrong statement in

- the Original Return U/s 139(1) (or)
- **the BELATED RETURN U/s 139(4)**

Changes under Finance Bill 2017 (w.e.f 01-04-2018) –

Return shall be revised before the end of relevant assessment year or before completion of assessment, whichever is earlier.

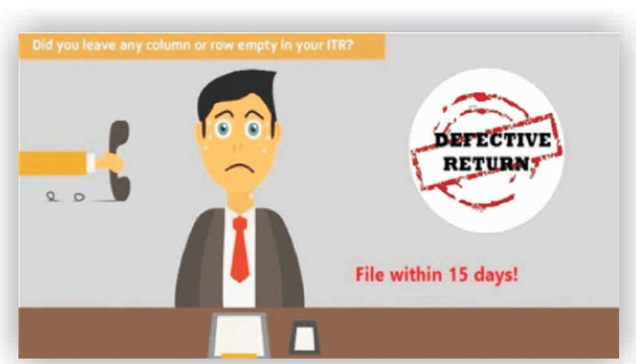
Other Points

- A belated return filed U/s 139(4) cannot be revised till AY 16-17. W.e.f AY 2017-18 belated return can also be revised.
- There is no limit on the no. of times a return can be revised. It can be revised any no. of times. However, it should be submitted within the same time limit as that of revised return.
- Revising of return is allowed only if the mistake is unintentional. Benefit under this section is available only in case of 'omission or misstatements' but not in case of 'concealment or false statements'
- If you have received the refund of income tax, still the return can be revised, as it does not mean assessment is completed.
- Assessment made under sec 143(1) will not be treated as assessment for this section as revised return can be filed even after we received intimation U/s 143(1)
- Revision can be done in same ITR form in which original return was filed or in a different ITR form.
- For revising return assessee shall submit 15-digit acknowledgment no. of the original return

STATEMENT SHOWING CHANGES IN BELATED RETURN AND REVISED RETURN

For Assessment Year	Time Limit for filing Belated Return	Time Limit for filing Revised Return	Whether Belated return can be revised or not?
AY 2014-15	Up to 31-03-2016	Up to 31-03-2016	Can't be revised
AY 2015-16	Up to 31-03-2017	Up to 31-03-2017	Can't be revised
AY 2016-17	Up to 31-03-2018	Up to 31-03-2018	Can't be revised
AY 2017-18	**Up to 31-03-2018**	Up to 31-03-2019	**Can be revised**
AY 2018-19	**Up to 31-03-2019**	**Up to 31-03-2019**	**Can be revised**

DEFECTIVE RETURN – SEC 139(9)



- Assessing officer may give opportunity to the assessee to rectify the defect in the return filed
- Defect shall be rectified within 15 days of such intimation. He may also extend the date the period on application made by assessee.
- If the defects are not rectified within the time allowed, then return will be treated as invalid and it is deemed as assessee has not filed return
- However, in case assessee rectifies the mistake after 15days or extended period allowed, but before completion of assessment, then the income tax officer may condone the delay and treat the income tax return as a valid return.
- Date of intimation means date on which letter from assessing officer is received, indicating the defects in the return.

Return shall be defective when, return is submitted without self-assessment tax or all items in the return is not filled in the manner indicated etch

Defective	Rectification	Revision
Proper information/details not provided/ partially provided in returns	If there is any mistake in the order of income tax authority like mismatch of tax credit details or details related to income, then assessee can intimate about the mistake through online application with supporting documents called as rectification of mistake.	It is required when the income or income tax is not correctly shown in returns. Hence, if there is any change required in returns then assesse can by himself revise the return

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DEBT & EQUITY ADVISORY

DEBIT, EQUITY & ADVISORY-SIP IN COFFEE SIP

Contributed by Uday Kumar P & Vetted by CA Rajesh D

[This article tries to emphasize the importance of economic planning in one's life and makes an attempt to provide insight into certain (common) investment avenues (not a comprehensive list), highlight simplicity and prudent investment scheme(s). This has been put in a dialogue form between two colleagues of a company discussing about future economic planning]

Ramesh (fictitious character 1):Good morning, Suresh! Seems like you are very busy with work, why don't we have a sip of coffee before resuming to our work.

Suresh (fictitious character 2): (while having coffee)I was just working on a new project, success of which would be a breakthrough for me in the company. No doubt, it's success would increase my monthly pay much nearer to 6 digit number.

Ramesh: Hmm, looks like you are more focused on your pay scale rather than your expertise/experience. Just kidding! What are your current and future plans of life with your earnings.

Suresh: Well, the general list as is for everyone – purchasing a home by taking a home loan; marriage, career build up, duties towards family & work, and finally retirement followed by a peaceful life.

Ramesh: Well, to meet all these goals, what exactly is your plan? Also, how can you guarantee yourself a peaceful life after retirement? How much will you save for your future?

Suresh: Oh God! You are very serious about my future plan. Well, I do have future aspirations but why should I take tension; I have my earning source, a reliable one. I shall save certain portion of my salary, actually, whatever is left over after spending, in bank, to meet my future obligations. Coming to my retirement life, why is the pension scheme there for which I pay? I shall soon make a fixed deposit in my bank with my accumulated savings and won't I get the interest too, on the deposit. Adding to it, I have LIC policies of sum of around Rs. 10 lakhs. What more is needed!!

Ramesh: I would like to know if you have answers for the following questions:

- Are your savings regular and sufficient to meet your financial aspirations?
- Is your approach towards your savings (like savings in bank or fixed deposits) sufficient to provide you with good yield/returns?
- Do you know that the value of your money is constantly stolen/reduced by something over a period?
- How far are your returns on investments overcoming the inflation?
- Is the amount accumulated by you sufficient for you to lead an economically independent life after your retirement?

Suresh: I wish I could get your point. By the questions posed, I feel that my plan is lacking fundamental things. Can you explain in brief what could be the back track for my future plan and how to get rid of it.

Ramesh: Its just the simple thing of "investing". You need to invest your savings in an efficient way in good yielding avenues to make your economic planning a workable blueprint.

[1]Let us take this into numbers, for example, to make the issue more visible. Let us assume you earn Rs.50,000/- per month and spend Rs 30,000/-towards your cost of living which includes housing, food, transport, shopping, medical etc.

The balance of Rs 20,000/- is surplus, which is your savings. For sake of simplicity, let us ignore taxes.

Let us assume the following:

- The employer is kind enough to give you a 10% salary hike every year
- The cost of living is likely to go up by 8% year on year
- You are 30 years old and plan to retire at 50. This leaves you with 20 more years to earn
- You don't intend to work after you retire
- Your expenses are fixed and don't foresee any other expense
- The balance cash of Rs.20,000/- per month is retained in the form of hard cash/savings a/c. (ignore the savings account interest as it is nominal)

[1]Adapted and modified from http://zerodha.com/varsity/chapter/the-need-to-invest/#close

Going by these assumptions, here is how the cash balance will look like in 20 years.

Years	Yearly Income	Yearly Expense	Cash Retained
1	6,00,000	3,60,000	2,40,000
2	6,60,000	3,88,800	2,71,200
3	7,26,000	4,19,904	3,06,096
4	7,98,600	4,53,496	3,45,104
5	8,78,460	4,89,776	3,88,684
6	9,66,306	5,28,958	4,37,348
7	10,62,937	5,71,275	4,91,662
8	11,69,230	6,16,977	5,52,254
9	12,86,153	6,66,335	6,19,818
10	14,14,769	7,19,642	6,95,127
11	15,56,245	7,77,213	7,79,032
12	17,11,870	8,39,390	8,72,480
13	18,83,057	9,06,541	9,76,516
14	20,71,363	9,79,065	10,92,298
15	22,78,499	10,57,390	12,21,109
16	25,06,349	11,41,981	13,64,368
17	27,56,984	12,33,339	15,23,644
18	30,32,682	13,32,006	17,00,676
19	33,35,950	14,38,567	18,97,383
20	36,69,545	15,53,652	21,15,893
Total Cash after 20 years			**1,78,90,693**

If you analyze these numbers, you would soon realize this is a scary situation to be in. Few things are quite startling from the above calculations:

1. After 20 years of hard work you have accumulated Rs.1.7Crs.
2. Since your expenses are fixed, your lifestyle has not changed over the years, you probably even suppressed your lifelong aspirations – better home, better car, vacations etc
3. After you retire, assuming the expenses will continue to grow at 8%, Rs.1.7Crs is good enough to sail you through roughly for about 8 years of post-retirement life. 8th year onwards you will be in a very tight spot with literally no savings left to back you up.

What would you do after you run out of all the money in 8 years time? How do you fund your life? Is there a way to ensure that you collect a larger sum at the end of 20 years?

Let's consider another scenario where instead of keeping the cash idle, you choose to invest the cash in an investment option that grows at let's say 12% per annum. For example – in the first year you retained Rs.2,40,000/- which when invested at 12% per annum for 20 years yields Rs.20,67,063/- at the end of 20th year.

Years	Yearly Income	Yearly Expense	Cash Retained	Retained Cash Invested @12%
1	6,00,000	3,60,000	2,40,000	20,67,063
2	6,60,000	3,88,800	2,71,200	20,85,519
3	7,26,000	4,19,904	3,06,096	21,01,668
4	7,98,600	4,53,496	3,45,104	21,15,621
5	8,78,460	4,89,776	3,88,684	21,27,487
6	9,66,306	5,28,958	4,37,348	21,37,368
7	10,62,937	5,71,275	4,91,662	21,45,363
8	11,69,230	6,16,977	5,52,254	21,51,566
9	12,86,153	6,66,335	6,19,818	21,56,069
10	14,14,769	7,19,642	6,95,127	21,58,959
11	15,56,245	7,77,213	7,79,032	21,60,318
12	17,11,870	8,39,390	8,72,480	21,60,228
13	18,83,057	9,06,541	9,76,516	21,58,765
14	20,71,363	9,79,065	10,92,298	21,56,003
15	22,78,499	10,57,390	12,21,109	21,52,012
16	25,06,349	11,41,981	13,64,368	21,46,859
17	27,56,984	12,33,339	15,23,644	21,40,611
18	30,32,682	13,32,006	17,00,676	21,33,328
19	33,35,950	14,38,567	18,97,383	21,25,069
20	36,69,545	**15,53,652**	21,15,893	21,15,893
Total cash after 20 years				**4,26,95,771**

With the decision to invest the surplus cash, your cash balance has increased significantly. The cash balance has grown to Rs4.26 Cr from Rs 1.7Cr. This is a staggering 2.4x times the regular amount. This translates to you being in a much better situation to deal with your post retirement life. Now, going back to the initial question of why invest? These are few compelling reasons for one to invest:

1. Fight Inflation – By investing one can deal better with the inevitable – growing cost of living – **generally referred to as Inflation**
2. Create Wealth – By investing one can aim to have a better corpus **by the end of the defined time period.** In the above example the time period was up to retirement but it can be anything – children's education, marriage, house purchase, retirement holidays etc
3. To meet life's financial aspirations and dreams!!Hope you got the point!

Suresh: Oh God! I got your point. In order to smoothly achieve my financial aspirations, I need to plan and invest in such investments which will fight and make me win against inflation and build wealth for me. Or else, I will land up losing the value of money I save for future.

Where should I invest so as to achieve the same – Hmm, I will buy gold - its price and demand always go up, or I may buy property – real estate has guaranteed price appreciation. What do you say? Can you tell me where to invest and what are the common asset classes in short?

Ramesh: When it comes to investing, one has to choose an asset class that suits the individual's risk and return temperament.

An asset class is a category of investment with particular risk and return characteristics. The following are some of the popular assets class…

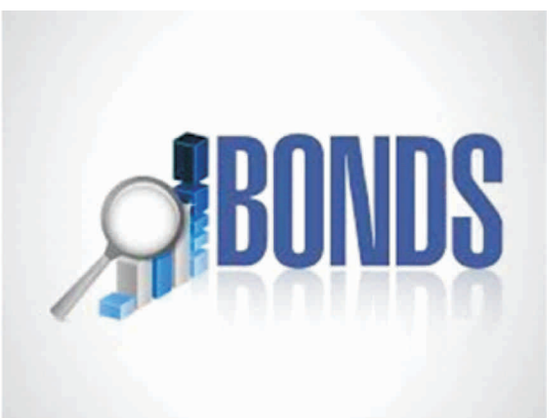
- Fixed income instruments
- Equity
- Real estate
- Commodities (precious metals)

Suresh: Can you explain them in brief, their nature?

Ramesh: Sure! **Fixed Income Instruments** are investable instruments with very limited risk to the principle and the return is paid as an interest. Generally, the return on this type of instruments shall be lower, as the risk element is very low. The interest paid, could be quarterly, semi-annual or annual intervals. At the end of the term of deposit, (also known as maturity period) the capital is returned to the investor.

Typical fixed income investment includes:

- Fixed deposits offered by banks
- Bonds issued by the Government of India
- Bonds issued by Government related agencies such as HUDCO, NHAI etc
- Bonds issued by corporates



As of June 2014, the typical return from a fixed income instrument varies between 8% and 11%.

Investment in Equities involves buying shares of publicly listed companies. The shares are traded both on the Bombay Stock Exchange (BSE), and the National Stock Exchange (NSE).

When an investor invests in equity, unlike a fixed income instrument there is no capital guarantee. However, as a trade-off, the returns from equity investment can be extremely attractive. Indian Equities have generated returns close to 14% – 15% CAGR (Compound Annual Growth Rate) over the past 15 years.

Investing in some of the best and well run Indian companies has yielded over 20% CAGR in the long-term. Identifying such investment opportunities requires skill, hard work and patience.

From the taxation point of view, the returns generated over a long-term period (above 365 days, also called long termcapital gain) are completely exempted from personal income tax. This is an added attraction to investing in equities.

Real Estate investment involves transacting (buying and selling) commercial and non-commercial land. There are two sources of income from real estate investments namely – rental income and capital appreciation of the investment amount.

The transaction procedure can be quite complex involving legal verification of documents. The cash outlay in real estate investment is usually quite large. There is no official metric to measure the returns generated by real estate, hence it would be hard to comment on this

Investments in gold and silver are considered one of the most popular investment avenues. Gold and silver over a long-term period has appreciated in value. There are several ways to invest in gold and silver. One can choose to invest in the form of jewelry or Exchange Traded Funds (ETF).

Going back to our initial example of investing the surplus cash, let us see how much you would have saved by the end of 20 years considering you have the option of investing in any one – fixed income, equity or bullion.

- By investing in fixed income at an average rate of 9% per annum, the corpus would have grown to Rs.3.3Crs;
- Investing in equities at an average rate of 15% per annum, the corpus would have grown to Rs.5.4Crs;
- Investing in bullion at an average rate of 8% per annum, the corpus would have grown to Rs.3.09Crs.

Clearly, equities tend to give you the best returns especially when you have a multi – year investment perspective, as it involves higher risk.

Suresh: Is it true, do really stocks outperform all the asset classes, even gold and real estate. Also, my friend tells me about investing in stocks and speculating with their prices in the market. Is it more profitable to do that? That is, buy stocks and sell them when prices go up?

Ramesh: Well, It is not that simple as you think. You need to have clear understanding of the market, the market trends, the stock performance expectations etc. There are no foolproof techniques for winning over the market. Its hard but not impossible. However, it demands from you most of your time, smartness and money, which you may lose at any time in a fraction of second. Thus, a full-time trader may be able to do that, but not suitable for those doing investing as just one more source of income.

Suresh: Agreed with your point. Also, even in case of investing in equities, as you told, I may have to understand markets, do constant monitoring of my investments, vet the company performance and take prudent timely decisions. But it is very hard to track the market on daily basis. Also, I may not have sufficient amounts to buy stocks of several companies which I consider good. Is there any alternative investment solution to this?

Ramesh: Mutual fund could be the answer to this. A mutual fund is a pool of money from numerous investors who wish to save or make money just like you. Investing in a mutual fund can be a lot easier than buying and selling individual stocks and bonds on your own. Investors can sell their shares when they want.

Each fund's investments are chosen and monitored by qualified professionals who use this money to create a portfolio. That portfolio could consist of stocks, bonds, money market instruments or a combination of those. As an investor, you own shares of the mutual fund, not the individual securities. Mutual funds permit you to invest small amounts of money, however much you would like, but even so, you can benefit from being involved in a large pool of cash invested by other people. All shareholders share in the fund's gains and losses on an equal basis, proportionately to the amount they've invested.

By investing in mutual funds, you could diversify your portfolio across a large number of securities so as to minimize risk. By spreading your money over numerous securities, which is what a mutual fund does, you need not worry about the fluctuation of the individual securities in the fund's portfolio.

Suresh: So, should I invest in the mutual fund in lump sum or can I do it in installments?

Ramesh: You can do it either way – invest in lumpsum or go for SIP! **Systematic Investment Plan(SIP)** is a way by which one can invest small amounts of money periodically. You can invest amounts starting from Rs 100 to 500 monthly, quarterly or half yearly etc. It's just similar to chit fund. Offers you more flexibility. However, each way of investing has its own advantages. You can choose between SIP or lumpsum payment as per your own conditions. Your investment in SIP is also eligible for deduction as ***ELSS (Equity linked savings scheme)***under Section 80C of Income Tax Act 1961, with a lock-in period of 3 years.

Suresh: It definitely seems like a very good investment vehicle. People like me will develop savings for the future mindset and also ways to build wealth from it by efficiently investing them. I will, for sure, start my SIP this month itself.

What, according to you, is the best investment portfolio? Should I invest in one asset or in several assets to spread my risk?

Ramesh: According to me, Investments optimally should have a strong mix of all asset classes. It is smart to diversify your investment among the various asset classes. The technique of allocating money across assets classes is termed as 'Asset Allocation'.

For instance, a young professional may be able take a higher amount of risk given his age and years of investment available to him. Typically, investor should allocate around 70% of his investable amount in Equity, 20% in Precious metals, and the rest in Fixed income investments.

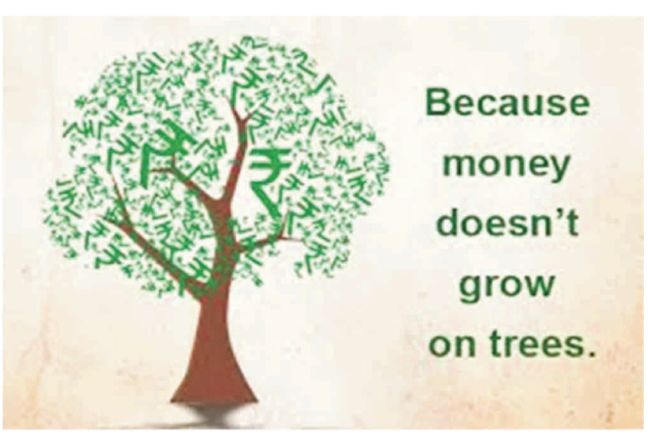
Alongside the same rationale, a retired person could invest 80 percent of his saving in fixed income, 10 percent in equity markets and a 10 percent in precious metals. The ratio in which one allocates investments across asset classes is dependent on the risk appetite of the investor.

Suresh: I shall invest my savings as per my requirements and will definitely use them efficiently for my short term and long term financial aspirations. Thanks a lot for your patience in enlightening me in this matter.

Ramesh: Beware! Investments in equities are subject to market risks. Need to be vigilant with changes that impact your portfolio. Anyway, we had so much of this stuff been discussed, let us now resume to our works!!

Suresh: Yaasure!! Let's go!!!

Why all this required ?**Ans:**



This article is contributed by Uday Kumar P, Intern of SBS and Company LLP. The author can be reached at interns@sbsandco.com

COMPANIES ACT, 2013

RULES, CIRCULARS AND NOTIFICATIONS ISSUED DURING THE MONTH OF MARCH, 2017

RULES

❖ **Companies (Transfer of Pending Proceedings) Amendment Rules, 2017, Dt:28.02.2017:**

Vide the said amendment rules, the Ministry has amended the proviso to Rule 5 in the principal rules, wherein, in the case of transfer of pending proceedings of Winding up on the ground of inability to pay debts, from the High Court to the Hon'ble Company Law Tribunal, the existing time period of "**60 days**", given to the petitioner, for submission of all information, other than information forming part of the records transferred in accordance with Rule 7 from High Court to the concerned Bench of the Hon'ble Company Law Tribunal, required for admission of the petition, under sections 7, 8 or 9 of the Code, including details of the proposed insolvency professional to the Tribunal, has been increased to **"6 months"** from the date of this notification, and in case the Petitioner fails to submit the information to the Tribunal, within the said time frame, then the petition shall abate.
http://mca.gov.in/Ministry/pdf/CoTransferofProcedingsAmdtRules_01032017.pdf

❖ **The Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Amendment Rules, 2017.Dt:28.02.17:**

Vide the said amendment rules, the Ministry has amended the definition of "Company", and included a definition for "Corporation Action", as contained in the Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016*[Hereinafter referred to as the "Principal Rules"]*.Further, in Rule 3, sub rule (2) for clause (g),a new sub-clause was substituted.

Further, in the principal rules, Rule 6 *(dealing with the manner of transfer of shares under Sub-section (6) of Section 124 to the fund)*, has been substituted with a new Rule, which provides that the IEPF Authority shall have a DEMAT Account, and the shares shall be transferred to the said account, in the manner provided in the said amendment rules.

Further, in the principal rules, Rule 7 *(dealing with refund to claimants from fund)*, has been substituted with a new Rule, which provides that the procedure for claiming of the refund from the fund/authority.

Additionally, some minor changes have been made to the e-Forms**IEPF-3, IEPF-5 and IEPF-6.**
http://mca.gov.in/Ministry/pdf/IEPF_Refund_Amendment_Rules_03032017.pdf

❖ **The Companies (Indian Accounting Standards) (Amendment) Rules, 2017.Dt:17.03.2017: Effective from 01.04.2017:**

Vide the said amendment rules, the Ministry has made amendments to some of the items as contained in the Annexure to the Companies (Indian Accounting Standards) Rules, 2015, originally notified on 16.05.2015, to be effective from 01.04.2015, and further amended vide the Amendment Rules Dt: 30.03.2016. Click here for the Amendment Rules.

❖ **The Companies (Audit and Auditors) Amendment Rules, 2017, Dt: 30.03.2017:**

Vide the said amendment rules, the Ministry, has amended the Rule 11*(dealing with Other matters to be included in Auditors report)*, of the Companies (Audit and Auditors) Rules, 2014[the "Principal rules"] as amended from time to time, by including a new clause ("Clause d"), to report the following matter in addition to the existing reporting items:

"(d) Whether the company had provided requisite disclosures in its financial statements as to holding as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016 and if so, whether these are in accordance with the books of accounts maintained by the company."

http://mca.gov.in/Ministry/pdf/ScannedCompaniesAuditandAuditorsRules_31032017.pdf

❖ **The Companies (Meetings of Board and its Powers) Amendment Rules, 2017.Dt:30.03.2017:**

Vide the said amendment rules, the Ministry has amended the Rule 15, *(dealing with Contract or arrangement with a related party)* of the Companies (Meetings of Board and its Powers) Rules, 2014,[the "Principal rules"] amended from time to time, in connection with the limits as to the percentage of Turnover and/or Net worth of the Company, to be transacted, beyond which prior approval of the members is required for the said related party transaction.

In rule 15, in sub-rule (3), in clause (a), item (i), (II), (iii) & (iv) amended as below::-

Sl. No.	Particulars	Existing provision requiring Members approval	Amended provision requiring members approval
	sale, purchase or supply of any goods or materials, directly or through appointment of agent [Sec. 188 (1) (a) and (e)]	**Exceeding 10 % of the turnover** of the company or Rs.100 Crores, which ever is lower.	**Amounting to 10 % or more of the turnover** of the company or Rs.100 Crores,which ever is lower.
	selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent [Sec. 188 (1) (b) and (e)]	**Exceeding 10 %of net worth** of the company or Rs.100 Crores, whichever is lower.	**Amounting to 10 % or more of net worth** of the company or Rs.100 Crores, whichever is lower.
	leasing of property of any kind [Section 188 (1) [c]]	**Exceeding 10 % of the net worth** of the company or 1**0 % of turnover** of the company or Rs.100 Crores, whichever is lower	**Amounting to10 % or more of the net worth** of the company or **10 %or more of turnover** of the company or Rs.100 Crores, whichever is lower.
	Availing or rendering of any services, directly or through appointment of agent. [Section 188(1) (d) and (e)]	**Exceeding 10 % of the turnover** of the company or Rs. 50 Crores, which ever is lower.	**Amounting to 10 % or more of the turnover** of the company or Rs. 50 Crores, which ever is lower.

http://mca.gov.in/Ministry/pdf/CompaniesMeetingsofBoard_31032017.pdf

NOTIFICATIONS

❖ **Designation of Special Court for the state of Telangana and Andhra Pradesh, Dt: 23.03.2017**

Vide the said Notification, the Ministry, has designated the below mentioned Courts as Special Courts for the purpose of providing speedy trial of offences punishable with imprisonment of two years or more under the Companies Act.

Sl. No.	Existing Court	Jurisdiction as Special Court
1	Special Court for trial of Economic Offences-cum-VIII Additional Metropolitan Sessions Judge Court-cum-XXII Additional Chief Judge, City Civil Court, Hyderabad	State of Telangana
2	Court of IV Additional District Judge-cum-II Additional Metropolitan Sessions Judge, Visakhapatnam	State of Andhra Pradesh

http://mca.gov.in/Ministry/pdf/Specialcourt_25032017.pdf

❖ **Substitution of ICSI and ICAI nominee on National Advisory Committee on Accounting Standards, Dt:23.03.2017:**

Vide the said amendment notification, the Ministry, has amended the notification constituting the National Advisory Committee on Accounting Standards, to include/replace the names of the newly elected presidents of the Institute of Company Secretaries of India and the Institute of Chartered Accountants of India, in place of the names of the earlier presidents, being the members of the Committee. **http://mca.gov.in/Ministry/pdf/NACASNotification_25032017.pdf**

❖ **Amendment in Schedule III to the Companies Act, 2013,Dt:30.03.2017.**

Vide the said amendment notification, the Ministry, has made amendment to Schedule III (both under Division I (i.e., AS) & Division II (i.e., Ind AS) to the said Act, by inserting a new clause, to include/disclose the details of Specified Bank Notes (SBN) i.e., old 500 & 1000 notes, held and transacted during the period 08.11.2016 to 30.12.2016, in the following format:

	SBNs	Other denomination notes	Total
Closing cash in hand as on 08.11.2016			
(+) Permitted receipts			
(-) Permitted payments			
(-) Amount deposited in Banks			
Closing cash in hand as on 30.12.2016			

http://mca.gov.in/Ministry/pdf/AmendmentinScheduleIII_Notification31032017.pdf

No Circulars or Orders were issued during the Month of March, 2017.

These updates are contributed by Arun Kumar T and vetted by CS D V K Phanindra of SBS and Company LLP, Chartered Accountants. For any queries, please reach at phanindra@sbsandco.com

SATURDAY SESSIONS

S.No.	Event	Date	Speaker	Venue
1	Insights into Transitional Provisions under GST	15/04/2017	Sai Ram A	SBS - Hyd
2	Credit Rating – Part 2a	22/04/2017	Uday Kumar P	SBS - Hyd
3	Filing of Softex Forms by STPI & Non- STPI Units	29/04/2017	Supriya N	SBS - Hyd

An overview of NSSO 74th Round Survey - Visweswara Rao Panasa

Insights on Credit Rating - Uday Kumar P

By

Team SBS

Hyderabad: 6-3-900/6-9, #103 & 104, Veeru Castle, Durganagar Colony, Panjagutta, Hyderabad, Telangana
Kurnool: No. 302, 3rd Floor, V V Complex, 40/838, R.S. Road, Near SBI Main Branch, Kurnool, Andhra Pradesh
Nellore: 16-6-259, 1st Floor, Near Santi Sweets Opp: SBI ATM, Vijayamahal Centre, SPSR Nellore, Andhra Pradesh
Tada: 8-3-425/2, Flat No. 202, 2nd Floor, Bigsun Avenue, Near SRICITY, TADA, SPSR Nellore Dist, Andhra Pradesh
Visakhapatnam: # 39-20-40/6, Flat No.7, Sai Yasoda Apartments, Madhavadhara,Visakhapatnam (Urban),Vizag, Andhra Pradesh
Bengaluru: B104,RIRCO, Santosh Apartments, Wind Tunnel Road, Murugeshpalya, Old Airport Road, Bengaluru , Karnataka.