

# SBS *Interns'* Digest

An attempt to share knowledge

By

**Interns of  
SBS and Company LLP**

## **SNAPSHOTS OF LAST MONTH SATURDAY SESSIONS**



***Margin Trading - A. Vaishnavi***



***Preparation of CMA Model - D. Jhansi***



***SA 500 "Audit Evidence" - G. Samatha***



***Review under IDT-RCM (Part 1) - Priya Singh***

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**PROFESSIONAL TAX ACT, 1987****PROFESSIONAL TAX**

Contributed by K. Jawahar &amp; Vetted by S V Ramchandra Rao |

Profession tax is a tax on income earned by way of profession, individual salaries/wages, on business owners and excluding the income from agriculture and blind people, are liable to pay the tax to the state government.

The maximum amount payable per year is Rs. 2,500/- and in line with tax player's salary, there are predetermined slabs for the Andhra Pradesh government and the slab rates is differ from state to state and the Andhra Pradesh Slabs rates as below.

Sl. No.	Description	Tax Per month (PM) or Per Annum (PA) in(Rs)
1.	Salary and wage earners whose monthly salaries or wages in Rs: (i) Up to 15,000 (ii) From 15,001 to 20,000 (iii) Above 20,000	Nil 150 PM 200 PM
2.	Legal practitioners, Solicitors, Notaries, Tax Consultants, Chartered Accountants, Technical and Professional Consultants, Engineers, RCC Consultants, Architects, Management Consultants, Estate Agents, Chief Agents, Principal Agents, Special Agents, Insurance Agents, Surveyors or Loss assessors registered or licensed under the Insurance Act, 1938 (Central Act IV of 1938), Pigmy Agents, UTI agents, Authorized assistants and Sub brokers recognized by SEBI, Commission Agents, Dalals, Brokers, Auctioneers, Medica Practitioners, Journalists, Medical Consultants (Other than Practitioners of Ayurvedic, Homeopathic and Unani systems of Medicines), Dentists, Radiologists, Pathologists and persons engaged in other similar professions or callings of a Paramedical nature, whose standing in the profession is: (i) Up to 5 years (ii) More than 5 years	Nil 2500 PA
3.	Members of Stock-Exchanges recognized under Security Contracts (Regulation) Act, 1956	2500 PA
4.	Contractors scoring annual turnover as under: (a) Below Rs.10 lakhs (b) From Rs.10 lakh to Rs.50 lakhs (c) Above Rs 50 lakhs	Nil 1250 PA 2500 PA
5.	Directors drawing remuneration from the company (other than those nominated by the Government) of Companies Registered under the Companies Act,1956	2500 PA

Sl. No.	Description	Tax Per month (PM) or Per Annum (PA) in(Rs)
6.	(i) Race horse owners, Trainers and Book Makers licensed by the Turf clubs of Hyderabad Race Club or any other Race club. (ii) Jockeys licensed by the Turf clubs.	2500 PA 1250 PA
7.	Persons employed in the motion picture industry namely:- (i) Film Producers, Film Distributors, Film Directors, Cinematograph Film Processors, Directors of Photography, Music Directors, Choreographers, Lyricists, Actors and Actresses, Story writers, Play-back singers, Recordists, Editors, Owners or Lessees of outdoor film units. (ii) Assistant Music Directors, Assistant director of Photography, Cameraman, Still photographers, Junior Artists, Production Managers, Assistant Directors, Assistant Cameraman, Assistant Recordists, Assistant Editors, Musicians and Dancers.	2500 PA 1250 PA
8.	APVAT registered Dealers or Dealers liable to be Registered under APVAT Act 2005 including FP shop dealers, Shopkeepers (Employers) of establishment as defined under AP Shops and Establishment Act 1988 whose annual business turnover is Rs: (i) Below Rs.10 Lakhs (ii) From Rs.10 lakhs to Rs.50 lakhs (iii) Above Rs. 50 lakhs	Nil 1250 PA 2500 PA
9.	Owners or Lessees of factories as defined under the Factories Act, 1948 with annual turnover as follows: (i) Below Rs.10 Lakhs (ii) From Rs.10 lakhs to Rs.50 lakhs (iii) Above Rs 50 lakhs	Nil 1250 PA 2500 PA
10.	Owners or Lessees of Petrol/Diesel/Gas filling stations and Service stations, Garage and Workshops of automobiles.	2500 PA
11.	Owners or Lessees of Nursing Homes or Hospitals other than those run by the State, Local Bodies or Central Government.	2500 PA
12.	Owners or Lessees of Pathological Testing Labs, X Ray Clinics and Medical Diagnostic Centers.	2500 PA
13.	Owners or Lessees of Beauty Parlours/Saloons and Interior Decorators.	2500 PA
14.	Owners or Lessees of Hotels, Restaurants, Bars or Lodging Houses having annual turnovers as follows (i) Below 10 Lakhs (ii) From 10 lakhs to 50 lakhs (iii) Above Rs 50 lakhs	Nil 1200 PA 2500 PA

Sl. No.	Description	Tax Per month (PM) or Per Annum (PA) in(Rs)
15.	Owners or Lessees or operators of Convention Centers, Cinema theatres, Amusement Parks, Clubs, Resorts, Video parlours, Master Cable TV, Cable TV, DTH, Video games and Computer Games	2500 PA
16.	(i) Holders of permits of less than Three(3) transport vehicles (other than auto-rickshaws) granted under the Motor Vehicles Act, 1988.. (ii) Holders of permits of Three( 3) or more transport vehicles (other than auto-rickshaws) granted under the Motor Vehicles Act, 1988.	Nil 2500 PA
17.	Money lenders, licensed under the law relating to money lenders, Micro Finance Institutions(MFIs) and Individuals or institutions conducting/running Chit Funds.	2500 PA
18.	18 Co-operative Societies registered under the A.P. Co-operative Societies Act, 1964 and engaged in any profession, trade or calling: (i) Village and Mandal level societies. (ii) District Level societies. (iii) State level societies.	Nil 1250 PA 2500 PA
19.	Banking Companies as defined in the Banking Regulations Act, 1949 including its each branch/ATM/extension counter in addition to the area Office/Zonal Office/Head Office. Explanation: For the purpose of this entry "Banking Companies" shall mean and include any bank, which came into existence after the year 1949 through separate Act but whose operations are Governed by the provisions of the Banking Regulation Act, 1949 (Central Act 10 of 1949) irrespective of how the bank(s) came into existence.	2500 PA
20.	All Companies registered under the Companies Act, 1956, not being a dealer under APVAT Act 2005 and engaged in a profession, trade or calling with turnover of Rs. 10.00 lakhs and above.	2500 PA
21.	Each partner of a firm drawing remuneration from the firm engaged in any profession, trade or calling.	1250 PA
22.	Travel Agencies	2500 PA
23.	Advertising Firms/Agencies	2500 PA
24.	Persons using Photocopying machines for job works: (I) Less than 3 Photocopying machines. (ii) Three or more number of Photocopying machines.	Nil 1250 PA
25.	Video Cassette, DVD, CD Libraries.	1250 PA

Sl. No.	Description	Tax Per month (PM) or Per Annum (PA) in(Rs)
26.	Each branch and Head Office of Educational Institutions and Tutorial Colleges or such other Institutes other than those owned by the State, Local Bodies or Central Government.	2500 PA
27.	Institutes such as Motor Driving Institutes, Technical Training Institutes, Computer Institute selling time, Computer training Institute, Typewriting and shorthand training Institutes by whatever name they are called other than those owned by State or Central Government.	2500 PA
28.	Property Developers including Land Developers and Building / Flat Developers.	2500 PA
29.	Owners or Lessees of Marriage Halls/Kalyana Mandapams/Auditorium/Convention Halls.	2500 PA
30.	Transport Companies and Transport contractors including Forwarding and Clearing agents.	2500 PA
31.	Weigh Bridge Operators	1250 PA
32.	Courier Service Operators	2500 PA
33.	Broadcasting and Telecasting Service Providers other than Central Government or State Government agencies.	2500 PA
34.	Mobile phone or fixed line phone service providers, Internet Service Providers, Leased Lines Service providers, VSAT Service Providers and Wireless Service Providers.	2500 PA
35.	Owners of Call centers and BPO/KPO Centers.	2500 PA
36.	ISD, STD and PCO Operators, other than Government or physically challenged persons, with: (i) One Telephone line (ii) More than one Telephone line	Nil 1250 PA
37.	Cyber Cafes.	2500 PA
38.	Owners or Lessees of premises, rented or leased out for commercial or industrial purposes, other than those owned by State, Local Bodies or Central Government Agencies.	2500 PA

Sl. No.	Description	Tax Per month (PM) or Per Annum (PA) in(Rs)
39.	1.Agriculturalist, 2. Persons engaged in performing religious duties, 3. Skilled persons that is to say Gold Smith, Black Smith, Pot Maker, Basket Maker, Washerman, Barber, Cobbler, Tailors, Carpenters, Masons, Plumbers, Book Binder, Toddy Tappers and Electricians 4. Physically Handicapped persons with 40% or more disability of any kind, 5. Dry Cleaners.	2500 PA
40.	Persons, other than those mentioned in any of the preceeding entries, who are engaged in any profession, trade or calling or employment with annual income of more than Rs 1,80,000/- but excluding those who are exempted under Section 31 of the Act and Entry No. 39 above.	2500 PA

**Benefits:**

1. As per Section 16(iii) of income tax Act, Deduction is available for the respective year only if PT is paid.
2. If professional tax is paid by employer on behalf of employee, then first it is included in the salary of the employee as a "Perquisite" and then the same is allowed as deduction on account of "Professional Tax" from gross salary.
3. There is no monetary ceiling under Income tax Act (under the Article 276, State government cannot impose more than Rs.2500 per annum as professional tax).Whatever professional tax is paid during the year is deductible.

**Responsibility:**

1. The owner of a business is responsible to deduct professional tax from the salaries of his employees and pay the amount so collected to the appropriate government department.
2. He has to furnish a return to the tax department in the prescribed form within the specified time.
3. The return should include the proof of tax payment. In case the payment proof is not enclosed, return shall be deemed incomplete and invalid.

**Registration Process:**

It is mandatory to take registration from the concerned department within 30 days of employing for business. If you have more than one place of work, apply separately to each authority as regards the place work coming under the jurisdiction of that authority.

It is very simple online procedure to get registration from the professional tax department and same is as follows:

1. Log in to [https://apct.gov.in/APPT\\_Enterprise/Registration/Email\\_Login.aspx](https://apct.gov.in/APPT_Enterprise/Registration/Email_Login.aspx).
2. Click on New USER SIGN UP HERE!!
3. Provide the Official Mail Id and create Password and Click Submit Button.



4. CT department will send the automated password to your mail id.
5. Using the password to get enter in to the PT enrolment form and fill the prescribed format by entering client name , address, turnover details, EDR,TIN No, Service Tax No, Entry Class(depends on Profession), PTO circle , Local Bank Account Details.
6. It will asks MD/owner/ Managing Partner details like name, DOB, Address, PAN No, Mobile No and Mail Id and it is Mandatory fields in the application in Online.
7. It will ask Additional places of Business, we have to fill the address where it is located.
8. Click Submit button. It Gives a Pop up “Successfully Registered the details” and take a Two copies of Print out and dully signed with Authorized signatory and Post it with relevant documents to PTO with Acknowledgment form.
9. If we have to get registered with PT with in one or two days , Submit the documents with Personnel to the PT Officer or else it takes seven to nine days to get the certificate by POST from the department to the registered Office.
10. If the company is already registered with Commercial tax department then there is no need to provide the documents while getting the PT certificate.
11. After getting the PT Certificate, using PTIN number and registered Mail id will to get register in the Online for Login Credentials for filing of monthly returns and annual returns.

### **PT Returns & Payments :**

1. We can pay through online in <https://apct.gov.in/apportal/DlrServices/Payments/e-PaymentGeneral.aspx> Or else by Cheque or Demand Draft.
2. We can file the returns in the prescribed format of Form – V manually or in online using the PTIN and registered Mail id.
3. Due date for filing of monthly returns by 15th day from the succeeding Month.

### **Penalties**

1. If an **assessee** fails, without reasonable cause to make payment of any amount of tax within the time specified in the notice of demand, the **assessing authority** may, after giving him a reasonable opportunity of making his representation, impose upon him a penalty which shall not be less than twenty five percent but not exceeding fifty percent of the amount of tax due.
2. Normally, if you fail to file the return in a specified period, penalty up to Rs.100/- for each day of delay.
3. If you get delay in Where an assessee liable to registration or enrolment has willfully failed to apply for such certificate within the time, specified in sub-section (3), the assessing authority may, after giving him a reasonable opportunity of being heard, impose a penalty which shall not be less than rupees ten but which shall not exceed rupees twenty for each day of delay in case of any employer and not exceeding rupees five for each day of delay in case of others.

*“A wise man can learn more from a foolish question than a fool can learn from a wise answer.”*

– Bruce Lee

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**COMPANIES ACT, 2013****BOARD MEETINGS VERSUS GENERAL MEETINGS**

Contributed by B. Venkata Krishna Rao &amp; Vetted by CA Murali Krishna G

The Companies Act, 2013 ("Act" or "Companies Act") does not define the word 'Meeting'. One of the canons of interpretation of statutes, as laid down by courts in India in a number of cases, is that when a word is used but not defined in a statute, it should be interpreted by its ordinary meaning. In general context, meeting is an assembly of people for a particular purpose, especially for formal discussion.

A board meeting is a meeting of the directors of the company whereas general meeting is a meeting of the members (shareholders) of the company. With the applicability of the provisions of the Secretarial Standards, the process of convening, holding, conducting and related issues of meetings under the Act, have become very relevant. Below is an attempt to compare Board Meetings and General Meetings indifferent contexts.

Sl. No.	Nature	Board meeting	General meeting
		<b>Pre-Meeting</b>	
1.	Total number of Meetings in a year	<p>For OPC, Small Company and dormant company; at least one Board Meeting in each half of a calendar year must be held and the gap between the two meetings must not less than 90 days.</p> <p>In any other case; minimum of 4 Board meetings in a year and the gap between two consecutive meetings shall not be more than 120 days.</p> <p>However, every company shall hold its first Board meeting within 30 days from the date of Incorporation.</p>	<p><b>AGM:</b> Company shall hold one AGM within 6 months from the date of closing of the financial year but, the gap between two consecutive AGM shall not be more than 15 months. However, first AGM of the company may be held within 9 months from the date of closing of financial year.</p> <p>As per Companies Act, 1956, there was one more restriction that in every calender year there shall be one AGM. However this condition is not specified in Companies Act, 2013</p> <p><b>EGM:</b> There is no restriction on number of EGMs of the company</p>

Sl. No.	Nature	Board meeting	General meeting
		<b>Pre-Meeting</b>	
2.	Place and Time of Meeting	At any Place and Time (including outside India) except on a National Holiday.	<p>AGM: Annual General Meeting shall be held at the registered office of the company or at some other place within the city, town or village in which registered office is situated. Time shall be between 9.00 AM and 6.00 PM on any day which is not a National Holiday.</p> <p><b>EGM:</b> Extra-Ordinary General Meeting may be held in a place anywhere in India, but it shall be held between 9.00 AM and 6.00 PM</p>
3.	Video Conference or other audio visual means	<p>Meeting through video conference or other audio visual means is permitted except for following type of business:</p> <ul style="list-style-type: none"> <li>i) approval of Annual Financial Statements</li> <li>ii) approval of Board's report</li> <li>iii) approval of the prospectus</li> <li>iv) Audit committee meetings for consideration of financial statements</li> <li>v) Approval of matters relating to amalgamation, merger, demerger and take over.</li> </ul> <p>Certain requirements as prescribed under the Act are to be complied for conducting the proceedings, recording of the proceedings, preservation and retrieval of the same.</p>	<p>Meeting cannot be conducted by Video Conference or other audio visual means.</p> <p>However, resolutions can be passed either e-voting or Postal Ballot.</p>
4.	Notice Period	Not less than 7 days' notice in writing	21 clear days required for both AGM & EGM.

Sl. No.	Nature	Board meeting	General meeting
		<b>Pre-Meeting</b>	
5.	Shorter Notice	<p>Meeting may called upon shorter notice to transact urgent business, if one independent director is present in the meeting.</p> <p>In absence of Independent director, decisions taken in meeting shall be circulated to all directors and transact the business only on ratification by at least one independent director.</p> <p>In case of Private Company the requirement of Independent Director is not applicable</p>	<p><b>AGM:</b> There is no specific provision in the act for shorter notice for AGM. It is presumed that the provision as applicable to EGM shall be applicable to AGM also.</p> <p><b>EGM:</b> Meeting shall be called on shorter notice if consent is given in writing or by electronic mode by not less than 95% of the members entitled to vote in the meeting.</p>
		<b>During Meeting</b>	
6.	Persons attending	Only directors of the company. Any other person may be allowed by invitation by directors if required (example, auditor may be called upon for Board Meeting if the discussion is regarding audit)	<p><b>AGM:</b> Share-holders, Directors, Auditor of the company and Chairman of the Audit Committee, if the provisions for constitution of Audit Committee are applicable to the company</p> <p><b>EGM:</b> Share-holders &amp; Directors of the company.</p>
7.	Proxy	Not allowed	Proxy may be allowed after following the required procedure
8.	Chair Person	Chairperson of Directors as governed by Articles or any person elected among the directors present in meeting	Chairperson of Directors as governed by Articles or any person elected among the members present in meeting
9.	Who can vote?	All the directors present can vote, except interested directors as per section 184 of the Act	Only Shareholders or their legally permitted proxies can vote.

Sl. No.	Nature	Board meeting	General meeting
		During Meeting	
10	Quorum	Maximum of one-third of its total strength or two directors (any decimal should be rounded off to the nearest higher integer)	<p><b>Public Company:</b> the requirement is :</p> <ul style="list-style-type: none"> <li>i) 5 members personally present if total number of members on the date of meeting is not more than 1000.</li> <li>ii) 15 members personally present if total number of members on the date of meeting is more than 1000 and up to 5000.</li> <li>iii) 30 members personally present if total number of members present on the date of meeting exceeds 5000.</li> </ul> <p><b>Private Company:</b> 2 members personally present</p>
11.	Nature of Business	<p>The meeting of the Board takes care of the day to day affairs of the operations and management of business of the company and recommends the resolutions to the members requiring their approval for their consideration and approval.</p> <p>The Act prescribes certain resolutions listed in Section 179(3) to be transacted at the meeting of the Board</p>	<p><b>AGM:</b> Both ordinary business and special business are transacted.</p> <ul style="list-style-type: none"> <li>i) Ordinary business means consideration of financial statements &amp; consolidated financial statements, reports of directors and auditor, declaration of dividend, appointment of directors who are retiring by rotation, approval or ratification of appointment of auditors and fixing their remuneration.</li> <li>ii) Any other business item is treated as Special business.</li> </ul> <p><b>EGM:</b> Only Special business is transacted.</p>
		Post - Meeting	
12.	Duty of person for preparation of minutes	<p>Company Secretary of the company shall prepare the minutes of the meeting.</p> <p>If Company Secretary is not available then by any person who is authorised by Board of Directors or Chairman</p>	<p>Company Secretary of the company shall prepare the minutes of the meeting.</p> <p>If Company Secretary is not available then by any person who is authorised by Board of Directors or Chairman</p>



Sl. No.	Nature	Board meeting	General meeting
		<b>Post - Meeting</b>	
13.	Circulation of Draft Minutes	Draft minutes of the meeting shall be circulated to all the directors within 15 days from the date of conclusion of meeting.	NA
14.	Comments on Draft Minutes	Directors will have the time period of seven days to comment (if any) on the draft minutes. If directors comment after 7 days, then it is at the discretion of chairman to consider or not.	NA
15.	Final Minutes	Final minutes shall be made available within 30 days at the registered office from the date of conclusion of meeting.	Final minutes shall be made available within 30 days at the registered office from the date of conclusion of meeting.
16.	Signing of Minutes	Either by the Chairman of the Meeting or Chairman of the Subsequent meeting  Each page has to be initialled and last page need to be signed and dated	Chairman of the Meeting  Each page has to be initialled and last page need to be signed and dated
17.	Maintenance of Minutes	Minutes shall be maintained either in physical form or electronic form (with Timestamp)  Minutes can be maintained in Loose leaf form, provided suitable resolution is passed by the Board  The minutes maintained in loose leaf form are to be serially numbered and bounded at specified intervals	Minutes shall be maintained either in physical form or electronic form (with Timestamp)  Minutes can be maintained in Loose leaf form, provided suitable resolution is passed by the Board  The minutes maintained in loose leaf form are to be serially numbered and bounded at specified intervals
18.	Who can Inspect the Minutes	Following persons can inspect the minutes placed at Registered office during Business Hours: 1. Directors of the company 2. Company Secretary in Practice appointed by the company 3. Secretarial Auditor 4. Statutory Auditor 5. Cost Auditor 6. Internal Auditor Members are not entitled to inspect the minutes of the meeting of the Directors.	Following persons can inspect the minutes placed at Registered office in Business Hours: 1. Members & Directors of the company 2. Company Secretary in Practice appointed by the company 3. Secretarial Auditor 4. Statutory Auditor 5. Cost Auditor 6. Internal Auditor

Sl. No.	Nature	Board meeting	General meeting
		Post - Meeting	
19.	Nature of Records	Permanent	Permanent

These are few major differences between a Board Meeting and a General Meeting in relation to company as per Companies Act, 2013 and Secretarial Standards, SS-1 (Board meetings) & SS-2 issued by ICSI.

*“The secret of change is to focus all of your energy, not on fighting with the old, but of building the new.”*

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**GENERAL****ALTITUDE – ATTITUDE – APTITUDE**

Contributed by Disha Maheswari & Vetted by CA Harsha Vardhan K

It is rightly said by Mr. Zig Ziglar – ***“Your attitude, not your aptitude, will determine your altitude”***. Most of us would have laughed a little after hearing the name of this topic but the meaning and the actual implications of these three words are so vast and so much of a stranger to most of us.

The quote above does not only qualify for those who want an exemplarily outstanding career with ample amount of fame and money, but to every living being on this universe. Infact, we follow this (either in the right manner or in the wrong manner) in our everyday life without acknowledging the same.

From the time we get up in the morning till the time we sleep, our attitude is constantly being exposed to people around us and most of us give the least attention and importance to it.

Let's see an example of how the same happens:

**Situation A:**

Mr. A, a businessman, gets up in the morning and moves to do his next task, i.e., getting ready for office, without uttering a single word to his wife and kid whom he crosses while on his way to the restroom.

**Situation B:**

Mr. A, a businessman, gets up in the morning and moves to do his next task, i.e., getting ready for office and wishes his wife and kid while encountering them on his way to the restroom.

**Situation C:**

Mr. A, a businessman, gets up in the morning and goes to his wife and kid (before or after freshening up) and wishes them a cheerful morning, plays and listens to his kid's stories, pay's attention to his wife, etc.

In all the above three situations, the person is the same, the situation is the same and the period too is the same. However, the family in the third case has more chances to survive longer with more happiness and prosperity than the families in the first two cases. Why is this so? What was so different? How does it matter if Mr. A wishes his family members or not?

The reason here is not wishing the members of the family early in the morning but the positive energy and the positive vibes that is being spread in the morning from the time one wakes up. The power of positive energy is so immense that it can make a person or at the same time the absence of it can destroy a person. If a single **'Good morning'** can have this effect, think about the thousands of words spoken during a day. How impactful each day can be made if we exhibit the same energy to all around us, by cheerfully meeting everyone and gracefully welcoming every occasion and face of life.

This is what we refer to as the **attitude of a person**. If our attitude is always positive, we are sure to achieve any feat in life. Knowledge, i.e., **aptitude** is also required to an equal extent but somewhere in the race between 'Attitude' and 'Aptitude', attitude surpasses aptitude and plays a major role in the life of every human being. A perfect combination of the two will definitely help any organization as well as any individual achieve any height, i.e., **altitude**.

***"Your success in life (altitude) is determined more by your desire to succeed (attitude) than by your natural talents (aptitude)."***

Abraham Lincoln once said ***"Most people are about as happy as they choose to be"***

Does this sound true? There is a certain book on depression entitled –'Happiness Is a Choice', which is pretty much what Lincoln said. Happiness is always a choice. The major reason for people to be unhappy is because they do not know how to stay content. The reason /excuse that people cite for their discontentment is that as they wish to achieve greater heights in life, they cannot be content and they cannot gain happiness until they fulfill their dreams. It is seen that upon achieving what they desire, they are still not content because they consciously keep pondering - "What next?".

A desire to achieve greater heights in life is absolutely the right thing people ought to do but in their road to success, people often forget the most important part – 'To thank the Almighty for their achievements attained till date, to be happy that they still have the energy to pursue their zeal and to remain content' because the ***journey is always as important as the end result***.

Being content and tirelessly pursuing our goals are not mutually exclusive events. But most people assume that they are. Minister and author, John Maxwell says, ***"The greatest day in your life and mine is when we take total responsibility for our attitudes. That's the day we truly grow up."***

We tend to forget that happiness doesn't come as a result of getting something we don't have, but rather by recognizing and appreciating what we do have. 'Happiness' is a very subjective term and the elements responsible for happiness varies from person to person and that in a way reflects a person's attitude. The same can be reflected using a story:

*There once was a woman who woke up one morning, looked in the mirror, and noticed she had only three strands of hair on her head.*

*'Well', she said, 'I think I'll braid my hair today?'*

*So she did and she had a wonderful day.*

*The next day she woke up, looked in the mirror and saw that she had only two strands of hair on her head.*

*'H-M-M,' she said, 'I think I'll part my hair down the middle today?'*

*So she did and she had a grand day.*

*The next day she woke up, looked in the mirror and noticed that she had only one strand of hair on her head.*

*'Well,' she said, 'today I'm going to wear my hair in a ponytail.'*

*So she did and she had a fun day.*

*The next day she woke up, looked in the mirror and noticed that there wasn't even a single strand of hair on her head.*

*'YEA!' she exclaimed, 'I don't have to fix my hair today!'*

### **Attitude is everything.**

Chuck Swindoll put it this way ***“The longer I live, the more I realize the impact of attitude on life. Attitude, to me, is more important than facts. It is more important than the past, than education, than money, than circumstances, than failures, than successes, than what other people think or say or do. It is more important than appearance, gifted ability, or skill. It will make or break a company, a church, a home.”***

***“The remarkable thing is we have a choice every day regarding the attitude we will embrace from that day. We cannot change our past, we cannot change the fact that people will act in a certain way. We cannot change the inevitable. The only thing that we can do is play on the one string that we have and this string is, attitude. I am convinced that life is ten percent what happens to me and ninety percent how I react to it. And so it is with you...we are in-charge of our attitudes.”***

William James said, ***“The most important discovery of our time is the discovery that man can alter his life by altering his attitudes.”***

Aptitude, that is knowledge, is a continuous process. Studies reveal that the body language of a person constitutes more than 50 percent of the impression to another person. In spite of having such a huge proportion people hardly pay attention to it.

As students, learning is always at priority. Often we tend to emphasize more on such areas which we feel will enhance our knowledge base. But this is the stage where we ought to focus on the ways in which we can improve our attitude.

When thinking about ways to improve our attitude a major question might arise in our minds about where can we learn about improving our attitude. The answer is simple yet difficult to start implementing - there are no schools or institutes which impart knowledge on this and the only source for learning the same is through regular observance. Regular observance of the way people behave, be it people with whom we live, we work, we commute, we find on our way, etc., will make us to realize whose attitude is right and whose is not, along with the reasons for the same. Going forward, we would also be extra cautious regarding our attitude when we find ourselves in the same situations which we had observed earlier.



In life there are no shortcuts especially for success. As the saying goes, ***“Drop by drop makes an ocean”*** so is it for success which is formed from various variants – hard work, belief, trust, planning, knowledge and the most important one attitude.

With a bad attitude the first four elements mentioned above are of no use because they too will fail. In short, attitude is like the foundation of a building termed as ‘success’ and in case of a wrong foundation, success is bound to change to failure. It is pertinent to mention here that success too has different meanings for different people. For some, it is just having a simple, happy and content life. For other, it’s about chasing one’s dreams, etc.

A positive attitude is not about displaying a phony smile, a happy face and a perky disposition. It is simply a way of responding to life in a manner that allows us to accept the duality, the contradictions and the contrasts of our experiences. A positive attitude enables one to make a difference in the world around him / her because when one is able to see things in a positive light, it will help to influence and shape other people’s attitude as well.

Let me explain the importance of attitude using another example:

*‘A daughter complained to her father that her life was miserable and she didn’t know how she was going to continue with so many problems. She was tired of fighting and struggling all the time. It seemed like just as one problem solved, another problem cropped up.*

*Her father, a chef, took her to the kitchen. He filled three pots with water and placed each on a high fire. Once the three pots began to boil, he placed potatoes, eggs and ground coffee beans, one in each pot.*

*He then let them boil without saying a word to his daughter. The daughter moaned and impatiently waited, wondering what he was doing.*

*After twenty minutes he turned off the burners. He took the potatoes and eggs out of the respective pots and placed them in two different bowls. He then ladled the coffee out and placed it in a cup. Turning to her he asked “What do you see?”.*

*“Potatoes, eggs and coffee” she hastily replied.*

*“Look closer” he said “and touch the potatoes.” She did and noted that they were soft. He then asked her to take an egg and break it. After pulling off the shell, she observed the hard-boiled egg. Finally, he asked her to sip the coffee. Its rich aroma brought a smile to her face.*

*“Father, what does this mean?” she asked.*

*He then explained that the potatoes, the eggs and the coffee beans all faced the same adversity, the boiling water. However, each one reacted differently. The potato, which is strong, hard and unrelenting, but in boiling water, it became soft and weak.*

*The egg was fragile, with the thin outer shell protecting its liquid interior until it was put in the boiling water. The inside of the egg became hard due to the boiling water.*

*However, the ground coffee beans were unique. After they were exposed to the boiling water, they changed the water and created something new.*

*“Which are you?”, he asked his daughter.*

*“When adversity knocks on your door, how do you respond? Are you a potato, an egg or a coffee bean?”*

In the similar manner our attitude also matters a lot and the true test of one's attitude is taken when one is faced in a situation of adversity. Those who stay calm throughout the hard times, are the ones who achieve success. Panic and fear can only complicate things further.

There are various successful people in the world but when we deeply analyze the reason of their success it always points out towards their attitude.

Therefore, to reach the altitude we desire, the right kind of attitude with apt amount of aptitude is a must.

*“Luck Is What Happens When Preparation Meets Opportunity”*

**- Seneca**

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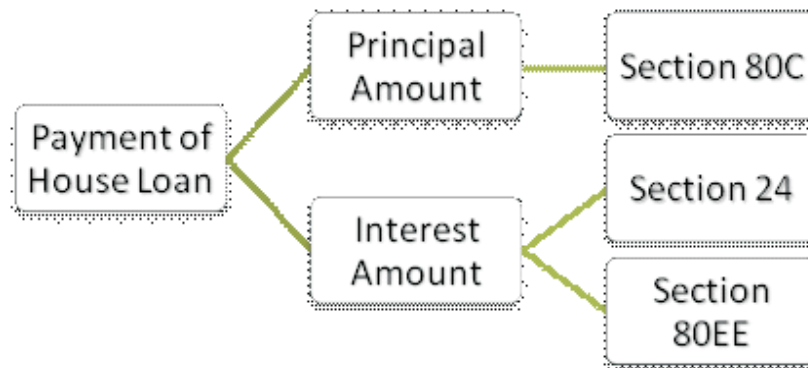
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## INCOME TAX ACT, 1961

## TAX BENEFIT ON HOME LOAN – SECTION 24, 80C, 80EE

Contributed by P. Ashok Reddy &amp; Vetted by CA Ramprasad |

Buying your house on a loan comes with multiple tax benefits.



## Section 80C - Principal Amount

## ❖ Eligibility:

The repayment of principal amount of Home Loan by an **individual/HUF** is allowed as deduction under section 80C of the Income Tax Act.

## ❖ Quantum of deduction:

The maximum deduction under section 80C is Rs. **1,50,000** ( Increased from Rs. 1 Lakh to Rs. 1.5 Lakh). This tax deduction is the total of the deduction allowed under section 80C includes amount was invested in PPF, Tax saving Fixed Deposits, National Savings Certificates, Equity Oriented Mutual Funds etc.

## ❖ When can avail this deduction:

Tax Benefit on Home loan under this section for repayment of the principal part of loan is allowed **only after the construction is complete** and the completion certificate has been awarded. No deduction shall be allowed to those years during which the property was under construction.

- ❖ The amount paid as **Stamp Duty & Registration fee** also taken as deduction under this section even if the assessee was not taken the loan.

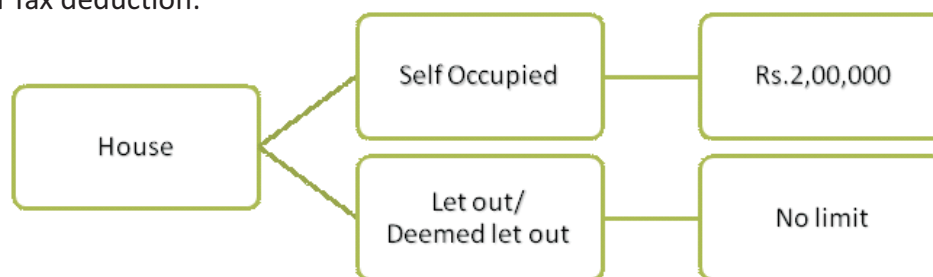
## ❖ Can Benefits Availed under Section 80C Be Reversed?

Yes, it can happen if you sell the property within 5 years from the end of financial year in which the possession of such property is obtained. In such a case, the aggregate amount of deductions availed for such housing loan in the previous years shall be added to the income of the assessee in the year of sale and taxed accordingly (as per income tax slab).

## Section 24 – Interest on Home Loan

- ❖ As per Section 24 of Income Tax Act, the Income from the House property reduced by the amount of interest paid on the loan where the loan has been taken for the purpose of Purchase/ Construction/ Repairs/ Reconstruction of a residential house property.
- ❖ Interest on Housing loan is allowable as deduction on **accrual basis** not on paid basis.
- ❖ You must take loan certificate from the borrower and also house completion certificate from the vendor.
- ❖ You can start claiming this interest when the construction of your house property is complete for example construction of the property started in the month of June'15 but construction is completed in the month of Dec'17, in this case claiming of interest is started from FY 2016-17.

### ❖ Maximum Tax deduction:



- The maximum tax deduction allowed under Section 24 of a self-occupied property is subjected to a maximum of Rs. 2 Lakhs (Increased in the budget 2014 from Rs. 1.5 Lakhs to Rs. 2 Lakhs).
- In case the property for which the Home Loan has been taken is not self-occupied, no maximum limit has been prescribed in this case and the tax payer can take tax deduction of the whole interest amount under Section 24.
- In case a property has not been self-occupied by the owner by reason of the fact owing to his employment, business or profession, then the amount of tax deduction allowed under Section 24 shall be Rs. 2 Lakhs only.
- Example: Ashok takes a home loan of Rs. 40,00,000 and the annual interest repayment @10% goes up to Rs. 4,00,000. Ashok can claim an interest deduction of Rs. 2,00,000 if the house is self-occupied and the entire amount of Rs. 4,00,000 if the property is let out or vacant.

### ❖ Treatment of Pre-Construction Interest:

- Interest paid by assessee during the period of construction of house property.
- Pre-Construction is allowed when you have taken a loan for purchase or construction of a house property (not allowed in case of loan for repairs or reconstruction).
- The Interest that has been paid before the completion of construction should be aggregated and the whole aggregated amount shall be allowed as tax deduction in 5 equal instalments for 5 successive Financial Years starting from the year in which the construction has been completed.

### ❖ Interest deduction may be **limited to Rs 30,000** if any one of these conditions is met –

- Loan is borrowed before 1st April 1999 for purchase, construction, repairs or reconstruction of house property
- Loan is borrowed on or after 1st April 1999 for repairs, renovation or reconstruction of house property.
- If the property is not completed within the 3 years from the end of the financial year in which the loan was taken (This limit 3 years has been increased to 5 years from the FY 2016-17 onwards).

- ❖ **Example:** Loan taken by Mr. Ashok in Nov'14 for Rs. 10,00,000@10% p.a for the construction of house. The construction is completed in Dec'16. How will he claim the Interest deduction?

**Sol:** Pre construction period Nov'15 to Mar'16

Interest paid during Pre-construction =  $10,00,000 \times 10\% \times 5/12 = 41,667$

Since the construction is completed in Dec'16 therefore we will claim the deduction from FY 2016-17.

So, **Available Deduction = Interest paid in which construction is completed + 1/5 of Pre construction interest.**

Available Deduction =  $10,00,000 \times 10\% + 41,667/5 = 1,00,000 + 8,333 = 1,08,333$ .

- ❖ If you have taken the loan to repay the first loan then interest amount on the second loan will be allowed as deduction under this section.

### Section 80EE – Interest on Home loan

- ❖ Who can avail this deduction?  
The deduction under this section is available only to Individuals - if you are an HUF, AOP, Company or any other kind of tax payer you cannot claim the benefit under this section.
- ❖ This deduction is addition to the deduction available under section 24 & Section 80C
- ❖ Conditions to claim this deduction
  - This is the first house purchased
  - Value of the house is not more than Rs. 40 Lakhs
  - Loan taken for this house is not more than Rs. 25 Lakhs
  - As on the date loan is sanctioned no other house is owned by the tax payer
  - Loan for this purpose taken by individual should be from the Financial Institution or Housing Finance Company.
  - For this purpose, loan should be sanctioned between 01.04.13 to 31.03.14.
- ❖ Quantum of deduction  
Total deduction under this section shall not be more than Rs. 1,00,000 in two AY 2014-15 & 15-16. If the entire amount of Rs. 1 lakh can't be claimed in AY 14-15 the balance amount can be claimed in AY 15-16.:

Interest paid in AY 14-15	Interest paid in AY 15-16	Deduction allowed in AY 14-15	Deduction allowed in AY 15-16	Total deduction under section 80EE
1,50,000	0	1,00,000	0	1,00,000
90,000	30,000	90,000	10,000	1,00,000
30,000	1,00,000	30,000	70,000	1,00,000
10,000	90,000	10,000	90,000	1,00,000

- ❖ **Budget 2016:** Under the section 80EE, there will be a tax benefit to the first time house owners who own the house of Rs. 50 lakh or less, and has acquired the loan amount of less than or equal to Rs. 35 lakh. The maximum limit is **Rs. 1.5 lakh** that can be claimed under this section. For this, the loan should be sanctioned between April 1, 2016 and March 31, 2017

*"Talk to yourself at least once in a day... Otherwise you may miss a meeting with an excellent person in this world..."*

**- Swami Vivekananda**

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## PROJECT FINANCE

### RATIO ANALYSIS

Contributed by D. Jhansi & Vetted by CA Rajesh D |

#### Ratio Analysis

Over the years, investors and analysts have developed numerous analytical tools, concepts and techniques to compare the relative strengths and weaknesses of companies. These tools, concepts and techniques form the basis of fundamental analysis.

Ratio analysis is a tool in quantitative analysis of the operating & financial performance of a business organization such as efficiency, solvency, profitability, etc. of a particular period from the financial statements like Balance Sheet, Profit & Loss A/c, Cash Flow Statements, etc.

The trend of these ratios is studied to check whether the organization is improving or deteriorating.

#### What is the need of Ratio Analysis?

In finance, they have a very significant role to play because these ratios provide an in-depth understanding of the business which cannot be understood by just looking at the standalone financial statements.

*For example, a ratio of net profit to sales indicates the percentage of net profit margin. When this ratio is compared with the industry standards, we can come to a conclusion whether the company has performed good or bad. In the other instance, if we compare it with previous year's margins, we can assess whether the company is improving, stable or downgrading compared to its past performance. This is how financial analysis augments the worth of preparing financial statements.*

#### Benefits of Ratio Analysis:

1. Analysing the financial statements
2. Judging efficiency of the business organization
3. Comparing performance of the organization from one period to the other or with the other company.
4. Financial Planning
5. Establishing benchmark

#### Types of Ratios:

1. **Liquidity Ratios** - Liquidity ratios are calculated to find out the liquidity position of an organization. Liquidity means an ability to pay as and when some obligations are due. Liquidity is the lifeblood of any business organization because the lack of liquidity can bring bankruptcy situation for the organization.

For calculating liquidity ratios, current assets and current liabilities are used. The important liquidity ratios are the current ratio, acid-test ratio or quick ratio, cash ratio.

2. **Profitability/Performance Ratios** - Profitability ratios are the evaluation method for an organization. Profit is the main motive of every organization and these ratios judge how well an organization has achieved its goal of profits. Profit margin ratios include gross profit margin and net profit margin and it judges the profitability at different stages.

The rate of return ratios include return on equity, return on assets, earning power, return on capital employed.

3. **Turnover/ Activity/ Efficiency Ratios**—These ratios are also known as **Asset Management Ratios**. Efficiency ratios judge the efficiency in the management of assets. Assets are employed to generate sales for a firm and these ratios determine how well the asset is utilized to efficiently generate or convert an asset into sales.

Important activity / efficiency / turnover ratios are inventory turnover, average collection period, receivables turnover, fixed assets turnover and total asset turnover.

4. **Financial Leverage Ratios** - It would be difficult to find a company with no debt in its capital structure. Use of debt in its capital structure is commonly known as leverage. Leverage ratios or capital structure ratios revolve around the debt of an organization. The two types of ratios are as follows:

**a. Capital Structure Ratios –**

- i. Capital structure ratios assess the risk of bankruptcy for the organization.
- ii. Capital structure ratios are debt-equity ratio and debt-asset ratio.

**b. Coverage Ratios –**

- i. Apart from judging the bankruptcy risk, also judges the servicing capacity of payment by comparing the future debt obligations with resources used for honouring them.
- ii. Coverage ratios are interest coverage ratios, fixed charge coverage ratios and debt service coverage ratios.

5. **Growth Ratios** – It measures the growth of a firm. Factors such as investment in fixed asset, profit margins, retention ratio etc. are responsible for the growth of a firm. Growth ratios are of two types such as internal growth rate and sustainable growth rate (when external financing is used to support growth). It is said that higher growth can be achieved when external financing used.
6. **Valuation Ratios** - Valuation ratios are the mainly utilized for analysing the worth of a stock in share market or to value a company as a whole. It includes price to earnings ratio, dividend yield, market value to book value etc.
7. **DuPont Analysis** - DuPont is a US based company established in 1802. It has pioneered a method of financial analysis widely used by the business organization. It has not produced any ratio but has come up with inter-relationship between some ratios to understand cause and effect of a ratio to others.

For example, DuPont defines Return on Assets as the product of Net Profit Margin and Total Asset Turnover Ratio.

DuPont analysis tells us that ROE is affected by three things:

- a) Operating efficiency, which is measured by profit margin
- b) Asset use efficiency, which is measured by total asset turnover
- c) Financial leverage, which is measured by the equity multiplier

$ROE = \text{Profit Margin (Profit/Sales)} * \text{Total Asset Turnover (Sales/Assets)} * \text{Equity Multiplier (Assets/Equity)}$

### **Altman Z Score:**

- Edward Altman's has developed this formula.
- It helps in predicting the bankruptcy of the company. It helps in finding the probability of the firm's bankruptcy for the next two years period. The formula is used to measure the company defaults and the financial health of the company.
- Formula:  $Z = 1.2T_1 + 1.4T_2 + 3.3T_4 + 0.6T_4 + 0.999T_5$

Where,

- $T_1 = \frac{\text{Working Capital}}{\text{Total Assets}}$

*It measures the liquid assets in relation to the size of the company.*

- $T_2 = \frac{\text{Retained Earnings}}{\text{Total Assets}}$

*It measures the profitability of the assets that reflects the company's age and earnings power.*

- $T_3 = \frac{\text{Earnings before Interest \& Tax (EBIT)}}{\text{Total Assets}}$

*It measures the Operating Efficiency apart from the tax & leveraging factors; it recognises the operating earnings as being important for being the long viability.*

- $T_4 = \frac{\text{Market value of Equity}}{\text{Book Value of Total Liabilities}}$

*It measures the market price fluctuation of the equity.*

- $T_5 = \frac{\text{Sales}}{\text{Total Assets}}$

*It is a Standard measure for the total sales turnover.*

- **Interpretation of the Z score**

- $Z > 2.99$       *Safe Zone*
- $1.81 < Z < 2.99$       *Grey Zone*
- $Z < 1.81$       *Distress Zone*

**Conditions for use of the Altman Z Scores:**

- *This formula is not used for the new companies, as there are always low earnings and the Z score renders a low score.*
- *The Altman's Score does not directly flow with the Cash flows.*
- *Though a company has high Z score but the company is unable to pay the bills then the company will be declared as the bankruptcy.*

**Following are the factors where the banker/ lender looks into:**

1. Financial stability
2. Solvency
3. Liquidity
4. Profitability
5. Quality of the management
6. Safety and security of the loans and advances

**Use of the financial parameters:**

1. The dates and duration of the financial statements being compared should be the same in order to avoid erroneous in the decision making.
2. The accounts prepared should be calculated on the similar basis. For Eg:- Valuation of stock, method used for the calculation of depreciation .
3. In order to judge the overall performance of the firm we need to identify the trends of the firm and that particular industry of three years.

There are different standard financial ratios used in different aspects which are mentioned as below:

<u>Particulars</u>	<u>Use of ratio</u>
<b><u>Liquidity Ratios</u></b>	
Current Ratio= $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<ul style="list-style-type: none"> <li>This ratio is used to know the company's liquidity and working capital position, used in order to ascertain the whether company's short term assets are sufficient to pay off the short term liabilities.</li> <li>Higher the ratio, the better the performance of business organization.</li> </ul>
Quick ratio= $\frac{\text{Current Assets-Inventory}}{\text{Current Liabilities}}$	<ul style="list-style-type: none"> <li>It is also known as acid-test ratio. This ratio is more conservative in nature and knowing the most liquid current assets to cover the current liabilities.</li> <li>Higher the ratio, more the liquid position.</li> </ul>
Cash ratio= $\frac{\text{Cash \& Cash Equivalents+Invested Funds}}{\text{Current Liabilities}}$	<ul style="list-style-type: none"> <li>It is an indicator of a company's liquidity to further cover the current liabilities.</li> <li>Higher the ratio, more the liquid position</li> </ul>
<b><u>Profitability / Performance Ratios</u></b>	
Gross Profit Margin= $\frac{\text{Gross Profit}}{\text{Net sales (Revenue)}}$	<ul style="list-style-type: none"> <li>It is used to know how efficiently the company used raw materials, labour and manufacturing – related to fixed assets to generate profits.</li> </ul> <p><b>Gross Profit = Sales - Raw Materials - Labour - Manufacturing Overhead</b></p>
Operating Profit Margin= $\frac{\text{Operating profit}}{\text{Net sales (Revenue)}}$	<ul style="list-style-type: none"> <li>This helps in measuring the company's pricing strategies. The higher the ratio is</li> </ul> <p><b>Operating Profit = Gross Profit - Administration &amp; Selling Expenses</b></p>
Net Profit Margin= $\frac{\text{Net profit}}{\text{Net sales (Revenue)}}$	<ul style="list-style-type: none"> <li>It is a measure for a company for comparing the financials with the other similar companies. When other profitability ratios are low and net profit margin is high, it means that the company is investing more in outside.</li> <li>The lower the ratio it means the indirect expenses increased, absence of non-operating income, low turnover, etc.</li> <li><b>Net Profit = Gross Profit + Indirect Income - Indirect Expenses</b></li> </ul>



$\frac{\text{Net Profit}}{\text{Net Worth}} = \frac{\text{Net Profit before Tax}}{\text{Net Worth}}$	<ul style="list-style-type: none"> <li>• This ratio helps to measure how best the capital is invested &amp; profit is generated to the company. The effective usage of funds made to generate a profit.</li> <li>• The greater the ratio, the effective the funds used.</li> </ul>
$\frac{\text{Retained Profit}}{\text{Net Profit}} = \frac{\text{Net Income-Dividend}}{\text{Net Profit}}$	<ul style="list-style-type: none"> <li>• It measures about the proportion of the earning retained (reserves and surplus) by the company to meet the contingent liabilities.</li> </ul>
$\text{Return on investment} = \frac{\text{EBDIT}}{\text{Total Assets}}$	<ul style="list-style-type: none"> <li>• It measure the efficiency of the investment as compared with the similar industries or as compared with the group of investments made by the investor in different companies.</li> <li>• The investments like the investment by the investor in equity, preference shares, debentures, fixed deposits, etc.</li> <li>• This is to evaluate the profitability of total assets employed.</li> </ul>
$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Net Worth}}$	<ul style="list-style-type: none"> <li>• The return on equity ratio or ROE is a profitability ratio that measures the ability of a firm to generate profits from its shareholders investments in the company.</li> <li>• Most of the time, ROE is computed for common shareholders. In this case, preferred dividends are not included in the calculation because these profits are not available to common stockholders. Preferred dividends are then taken out of net income for the calculation.</li> <li>• Also, average common stockholder's equity is usually used, so an average of beginning and ending equity is calculated.</li> </ul>
$\text{Return on Assets} = \frac{\text{Net Income}}{\frac{\text{Opening Assets} + \text{Closing Assets}}{2}}$	<ul style="list-style-type: none"> <li>• It is to measure the ability of the company in using the assets to generate profits.</li> </ul>
$\text{Return on Net Worth} = \frac{\text{EAT}}{\text{Shareholder's funds} + \text{Retained Earnings}}$	<ul style="list-style-type: none"> <li>• It measures the factors like assets management, profit margin &amp; leverage.</li> <li>• This ratio measures the capacity of the company in generating the profits from the shareholder's funds and comparison with the firms of the same industry.</li> <li>• An excessive high net worth may lead the company is funding its operations with the disproportionate amount of debt &amp; trade payables. In this case the investor would check for the debt levels to see how excessive returns are being generated.</li> <li>• It is also called as Return on Shareholder's Investment.</li> </ul>

$$\text{Return on Capital Employed} = \frac{\text{Net Operating Profit}}{\text{Capital Employed}}$$

- It measures the efficiency of generating the profits from the capital employed in the company.
- Capital employed = Share Capital + Reserves & Surplus + Debt – Fictitious Assets – Non-trading Investments.

### Turnover Ratios

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory Cost}}$$

- It measures the liquidity of the inventory i.e. how many times the inventory is sold with respect to the turnover of the company.
- The higher the ratio, lower the holding period of the inventory i.e. the lesser amount of cash is blocked in inventory and vice versa.

$$\text{Accounts Receivable Turnover Ratio} = \frac{\text{Net sales}}{\text{Average Debtors}}$$

- The receivables turnover ratio indicates the efficiency with which a firm manages the issue of credit to customers and collects on that credit.

$$\text{Total Debt Turnover Ratio} = \frac{\text{Net sales}}{\text{Total Debtors}}$$

- This ratio indicates the extent of total debt turned over in achieving sales of the firm. A high ratio shows the greater efficiency.
- A low ratio shows less amount of efficiency of using the available resources or the investment of amount is made on the low/zero productive goods.

$$\text{Cash Turnover Ratio} = \frac{\text{Net sales}}{\text{Cash}}$$

- It measures how effectively the company is utilizing cash.

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Net sales}}{\text{Fixed Assets}}$$

- It measures the effective capacity & the utilization of the fixed assets of the company.

$$\text{Working Capital Turnover Ratio} = \frac{\text{Net sales}}{\text{Average Working Capital}}$$

- This ratio helps in knowing the effective utilization of the working capital by the company. This is used to analyse with the similar companies in the industry about the effective use of the working capital.

$$\text{Accounts Payable Turnover Ratio} = \frac{\text{Net sales}}{\text{Average Creditors}}$$

- When the ratio increases, it indicates that the company is paying the suppliers in a faster rate

### Financial Leverage Ratios

$\text{Solvency Ratio} = \frac{\text{After tax net profit} + \text{Depreciation}}{\text{Short term debt} + \text{long term debt}}$	<ul style="list-style-type: none"> <li>It is used to measure an enterprise's ability to meet its debt and other financial commitments. The solvency ratio indicates whether a company's cash flow is sufficient to meet its short-term and long-term liabilities.</li> <li>The lower a company's solvency ratio, the greater the probability that it will default on its debt obligations</li> </ul>
$\text{Debt-Equity Ratio} = \frac{\text{Debt}}{\text{Equity}}$	<ul style="list-style-type: none"> <li>It measures the company's financial leverage and proportion of debt and equity portion invested in the assets of the company.</li> <li>Higher the ratio, indicates lower stake and overtrading and lower the ratio, indicates the company has conservative management, unable to get credit, high capital gearing.</li> <li>But other industries that are highly capital intensive, such as services, utilities and the industrial goods sector also tend to have higher debt-to-equity ratios.</li> <li><b>The ideal ratio of Debt Equity ratio is 3</b></li> </ul>
$\text{Debt-Service Coverage Ratio} = \frac{\text{EBIT}}{\text{Principal} + \text{Interest}}$	<ul style="list-style-type: none"> <li>It measures the ability of the company's repayment capacity of the long term obligations.</li> <li><b>The ideal ratio of DSCR is &gt;1.</b></li> </ul>
$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$	<ul style="list-style-type: none"> <li>It measures the ability of repayment of short term liabilities and the maintenance of the working capital to meet day to day commitments of a firm.</li> <li>A company with higher ratio may not be able to</li> <li><b>The ideal ratio of current ratio is 2.</b></li> </ul>
$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest}}$	<ul style="list-style-type: none"> <li>The ratio measures the ability of payment of interest and timely manner of repayment of borrower to the lender.</li> <li>Higher the ratio, it indicates the company is at low risk and its operations are producing enough cash to pay bills &amp; vice versa.</li> </ul>

### DuPont Analysis

$\text{DuPont Return on Assets} = \frac{\text{Net Income}}{\text{Sales}} * \frac{\text{Sales}}{\text{Assets}} * \frac{\text{Assets}}{\text{Equity}}$	<ul style="list-style-type: none"> <li>With this method, assets are measured at their gross book value rather than at net book value in order to produce a higher return on equity (ROE). It is also known as "<b>DuPont identity</b>".</li> </ul>
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*Faith is taking the first step even when you don't see the whole staircase*

– Martin Luther king, Jr

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**INCOME TAX ACT, 1961****TAX TREATMENT ON SALE OF RURAL AGRICULTURE LAND**

Contributed by Mohammad Mohaseen & Vetted by CA Sreehari Reddy |

Agricultural land is a land on which agricultural activities are carried out. Agricultural activity has been held to be an activity where human effort has resulted in growing crops.

Once it is held that the land is agricultural then one of the major legal issues arising in the treatment of capital gain is, whether the land is situated within the area specified in item (a) and (b) of sub-clause (iii) of clause (14) of Section 2.

**Capital gain on transfer of Agricultural land:**

Any profit arising from sale of a capital asset would be chargeable to income tax under the head 'capital gains' and shall be deemed to be the income of the year in which the transfer took place. Therefore, capital gains would arise only on sale of capital asset.

As per Section 2(14) of the Income Tax Act 1961, the definition of the 'capital asset' excludes 'agricultural land' which is situated outside the specified area and such agricultural land would not be considered as "capital asset" for the purpose of computation of capital gains.

**Agricultural land outside specified area:**

Agricultural land was earlier defined to mean land not situated in-

- Any area within the jurisdiction of a municipality or cantonment board having population of not less than ten thousand or
- Any area within such distance not exceeding eight kilometers from the local limits of any municipality or cantonment board as notified.

**Budget 2013:**

The Finance Bill, 2013 has proposed to amend the definition of agricultural land in sec 2(14) (iii) of IT act, which says that, a land will be considered as an "agricultural land" if it is not situated:

- a) In any area which is comprised within the jurisdiction of a municipality (whether known as a municipality, municipal corporation, notified area committee, town area committee, town committee, or by any other name) or a cantonment board and which has a population of not less than ten thousand; or
- b) In any area within the distance, measured aerially,—
  - i. Not being more than two kilometers, from the local limits of any municipality or cantonment board referred to in item (a) and which has a population of more than ten thousand but not exceeding one lakh; or
  - ii. Not being more than six kilometers, from the local limits of any municipality or cantonment board referred to in item (a) and which has a population of more than one lakh but not exceeding ten lakh; or
  - iii. Not being more than eight kilometers, from the local limits of any municipality or cantonment board referred to in item (a) and which has a population of more than ten lakh.

Distance	Population
Within 2 kilometers	10,000-1,00,000
2 kilometers – 6 kilometers	1,00,000-10,00,000
6 kilometers – 8 kilometers	More than 10,00,000

The term 'population' means population according to the last preceding census of which the relevant figures have been published before the first day of the financial year.

The term aerielly generally means the shortest distance by air. The distance should be from the Municipal Corporation measurement. Such distance is to be measured on straight line aerielly as crow flies. Human-By road, Crow's flight-straight line distance (aerial measurement).

It would also be worthwhile to see what is the nearest urban area because the land may be located in the vicinity of several areas mentioned in the notification. If the land falls within anyone of the areas then it becomes a "Capital Asset" within the meaning of the Act.

*"If you don't like something, change it. If you can't change it, change your attitude."*

**- Maya Angelou**

*This article is contributed by Mohammad Mohaseen, Intern of SBS and Company LLP. The author can be reached at [interns@sbsandco.com](mailto:interns@sbsandco.com)*

## AUDIT

### INTERNAL CONTROL

Contributed by K. Bhavani & Vetted by CA Sandeep Das

#### INTRODUCTION

An Internal Control is a practice, policy or procedure that is established within an organization to create value or minimize risk. Internal Controls are the methods put in place by a company to ensure the integrity of financial and accounting information, meet operational and profitability targets and achieve management policies throughout the organization. Internal controls are classified based on the size and nature of the business. Internal Control means different things for different people.

It helps an entity to achieve its performance and profitability targets and prevent loss of resources and ensure reliable financial reporting. It can help an organization in avoiding damage to its reputation and other consequences if properly executed. In sum, it pushes an entity to reach where it wants to go and avoid pitfalls

Internal Control is defined as set of policies designed, implemented and effected by an organization to provide reasonable assurance regarding achievement of organization objective in the following categories:

1. Effectiveness and Efficiency of operations
2. Reliability of financial reporting
3. Compliance with Rules and Regulations

**Effectiveness and Efficiency of operations**-refers to Organization's basic objectives such as safeguarding and optimum utilization of resources, performance and profitability goals

**Reliability of financial reporting**-refers to preparation and presentation of financial statements.

**Compliance with Rules and Regulations**-refers to the all the applicable laws, rules and regulations to be complied with by the organization

#### NATURE AND SCOPE OF INTERNAL CONTROL

**Detective Controls**-designed to detect the errors and regularities occur within the organization

**Preventive Controls**-designed to prevent the errors and regularities from occurring in the organization

**Corrective Controls**-designed to correct the errors and regularities that have been detected

The main important preventive internal control is segregation of duties. Tasks are delegated among several employees to ensure that no single employee is designated to authorize, record, and be in custody of a financial transaction and the resulting asset. Authorization of invoices and verification of expenses, limiting physical access to equipment, inventory, cash and other assets are some other internal controls

Detective internal controls includes the use of performance reviews, including the use of budgets, forecasts



It is important to note that there is no specific scope for designing internal control for an organization as it depends upon case to case. It is up to the organization to design which is suitable and adaptable to it. It is neither limited to pre-framed set of controls/ policies/procedures.

### **OBJECTIVES OF INTERNAL CONTROL**

The evaluation of Internal Control System in an organization shall be carried out by verifying the ability of individual process controls to achieve some of the pre-determined objectives

1. **Authorization-** To ensure all the transactions are approved by the appropriate authority before the transaction is recorded in the books of accounts
2. **Completeness-** To ensure non omission of all the transactions in the accounting records affected by the organization
3. **Accuracy-** To ensure all the recorded transactions are consistent and accurate and captured information in timely manner
4. **Validity –** To ensure all the recorded transactions are valid and represents the events actually occurred within and pertaining to the organization
5. **Physical Safeguards and Security–**To ensure that access to physical assets and information system are controlled properly and restricted only to the Authorized
6. **Error Handling-** To ensure that the errors are able to identify and rectify at every stage of process and reported to the appropriate level of authority
7. **Segregation of duties-**To ensure the allocation of the work in such a manner that no individual has the control to executive more than one duty relating to a particular transaction

### **Elements of Internal Control:**

Internal Control constitutes five elements. These components derived from the Organization management and they shall be aligned with the management process. Although these components to applicable to all the entities, there impact shall differ from one entity to another entity.

#### **1. Control Environment**

It sets the tone of the Organization. It can be considered as the foundation for all other elements, as it includes the ethical values and competence of the people within the entity, management operating style, way the management controls and manages the entity environment, way the management assigns authority and responsibilities to the team

#### **2. Risk Assessment**

Every entity faces the risk either externally or internally. To sustain in the competitive environment, one of the precondition is to assess the risks associated and affecting the entity on regular basis. Organization should aware of how to manage the risks and must always be able to grab the opportunities.

### 3. Control Activities

Control activities will occur within the organization at all levels and in all functions. They are a set of procedures and policies to ensure that the organization objectives are achieved. They include wide range of activities such as approvals, authorizations, reconciliations, segregation of duties, etc.

### 4. Monitoring

It involves a process of having a continuous examination on how the management is performing and to what extent. The scope and frequency of monitoring shall vary from organization to organization.

### 5. Information and Communication

It is an important resource to an organization. It involves identifying and capturing the pertinent information to an organization and communicating in a format and time frame enabling the employees to carry out their responsibilities. It deals with the data and information pertaining to both internal and external sources.

*All power is within you; you can do anything and everything*

– Swami Vivekananda

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**INCOME TAX ACT, 1961****IMPLICATIONS OF INCOME TAX ON AGRICULTURAL INCOME IN INDIA**

Contributed by A. Sai krishna & Vetted by CA Ramprasad |

Section 10 (1) of Income Tax Act, 1961, specifically exempts agriculture income for the purpose of calculation of total income. The reason behind this is the parliament has no power to levy tax on agricultural income.

**What is Agricultural income:-**

Section 2(1A) defines agricultural income as:

- a) any rent or revenue derived from land which is situated in India and is used for agricultural purposes;
- b) any income derived from such land by –
  - i. agriculture; or
  - ii. the performance by a cultivator or receiver of rent-in-kind of any process ordinarily employed by a cultivator or receiver of rent-in-kind to render the produce raised or received by him fit to be taken to market; or
  - iii. the sale by a cultivator or receiver of rent-in-kind of the produce raised or received by him, in respect of which no process has been performed other than a process of the nature described in paragraph (ii) of this sub-clause ;
- c) any income derived from any building owned and occupied by the receiver of the rent or revenue of any such land, or occupied by the cultivator or the receiver of rent-in-kind, of any land with respect to which, or the produce of which, any process mentioned in paragraphs (ii) and (iii) of sub-clause (b) is carried on.

**Land situated outside India:**

If agricultural land is situated outside India, entire income would be taxable in the hands of the assessee.

**Indirect way of taxing Agriculture Income by aggregating the agricultural Income with non-agricultural income:**

The aggregation provisions are applicable only if the following two conditions are satisfied:

1. The net agricultural income should exceed ₹5,000 p.a; and
2. Non-agricultural income should exceed the maximum amount not chargeable to tax i.e Basic Exemption Limit.

**Non applicability of aggregation provisions:**

The aggregation provisions do not apply for company, firm assessed as such (FAS), co-operative society and local authority.

**Aggregation provisions:**

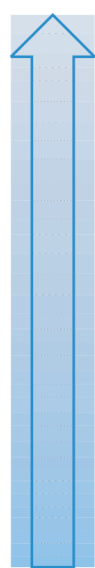
The objective of aggregating the net agricultural income with non-agricultural income is to tax the non-agricultural income at higher rates.

**Computation of tax by applying aggregation provisions:**

S.no	Particulars	Amount(₹)
a	Net agricultural income	Xxx
b	Non-agricultural income	Xxx
c	Tax on "a + b"	Xxx
d	Tax on "a + basic exemption limit"	Xxx
e	Tax payable "(c - d) +cess"	Xxx

**Exercise:**

Agriculture Income is ₹5,00,000 and non-agriculture income is ₹5,00,000 and the maximum amount that is not chargeable to tax is ₹2,50,000.

**Calculation of tax on non agricultural income**

7,50,000 to 10,00,000 - 20% slab (Remaining Non-agricultural income is included here) - Taxable at 20%.

5,00,000 to 7,50,000 - 20% slab (Agricultural income is included here) - Not taxable.

2,50,000 to 5,00,000 - 10% slab (Agricultural income is included here) - Not taxable.

Upto 2,50,000 - (Non-agricultural income is included here) - Not taxable.

■ Non Agricultural Income

■ Agricultural Income

**Income from Nursery:**

Explanation 3 to Section 2 (1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income, whether or not the basic operations were carried or not.

**Income from farm building:**

Income from any farm building which satisfies the following conditions would be treated as agricultural income and would be exempted from tax:

- a) The building should be on or in the immediate vicinity of the agricultural land;
- b) It should be owned and occupied by the receiver of the rent or revenue of the land or occupied by the cultivator; and
- c) The receiver of the rent or revenue or the cultivator or the receiver of rent in kind should, by reason of his connection with such land require it as dwelling house or other out building.

In addition to the above three conditions any one of the following two conditions should also be satisfied:

- a) The land should either be assessed to land revenue in India or be subject to a local rate assessed and collected by the officers of the Government as such or; and
- b) Where the land is not so assessed to land revenue in India or is not subject to local rate:
  - i. It should not be situated in any area as comprised within the jurisdiction of a municipality or a cantonment board and which has a population not less than 10,000.
  - ii. It should not be situated in any area within such distance, measured aerially, in relation to the range of population according to the last preceding census as shown hereunder –

	Shortest distance from the local limits of a municipality	Population as per latest census available on the first day of previous year
A	2 Kilometres	>10,000 <=1,00,000
B	6 Kilometres	>1,00,000<=10,00,000
C	8 Kilometres	>10,00,000

**Apportionment of income in certain cases:**

Sometimes, income comprises of both agricultural income as well as non-agricultural income. Such a situation arises in cases where agricultural incomes like tea, cotton, tobacco, sugarcane etc. which are subjected to a manufacturing process before sale. The profit on such sale consists of both agricultural income and business income. The portion of profit which represents agricultural income is exempted from tax.

**Rule 7- General Rule (Applicable to all except Tea, Coffee, and Rubber):**

- (a) Non-agricultural income = Sale proceeds of industrial product(-) Market value of agricultural produce used as Raw material (-) industrial expenses.
- (b) Agricultural income = Market value of agricultural produce used as Raw material (-) cost of cultivation.

Market value means:

- Average selling price in the relevant previous year or
- If the agricultural produce is not ordinarily sold in the market, the total of the following is treated as market value
  - a. The expenses of cultivation
  - b. The land revenue or rent of the land on which the produce is grown
  - c. The reasonable amount profit in opinion of Assessing Officer is considered proper.

#### **Rule 7A- Income from growing and manufacturing of rubber:**

Agricultural income= 65% of composite income

Non-agricultural income = 35% of composite income

Composite income= Sale proceeds of Rubber (-) cost of cultivation (-) industrial expense

#### **Rule 7B –Income form growing and manufacturing of Coffee:**

**Case-1:** If Coffee is Grown and cured by seller

Agricultural income=75% of composite income

Non Agricultural income =25%of composite income

**Case-2:** If Coffee is grown, cured, roasted and grinded by the seller

Agricultural income=60% of composite income

Non-Agricultural income=40% of composite income

Composite income= Sale proceeds of Coffee - cost of cultivation – industrial expense

#### **Rule 8- Growing and manufacturing of Tea in India**

As per Rule 8,

Agricultural income=60% of composite income

Non Agricultural income =40% of composite income

Composite income= Sale proceeds of Tea - cost of cultivation – industrial expense

*“Faith is the bird that feels the light when the dawn is still dark.”*

**– Rabindranath Tagore**

*This article is contributed by A. Sai krishna, Intern of SBS and Company LLP. The author can be reached at [interns@sbsandco.com](mailto:interns@sbsandco.com)*



**AUDIT****SA 505 - EXTERNAL CONFIRMATION**

Contributed by A. Madhuri &amp; Vetted by CA Sandeep Das

**Introduction:-**

An auditor should obtain sufficient appropriate audit evidence in order to give opinion on the true and fair view of financials. Sufficiency and appropriateness of audit evidence shall depend on the assessed level of inherent and control risk of the entity. To assess the level of control risk, we exercise compliance procedures and based on the findings of the compliance procedures and other considerations like materiality, we decide the nature and extent of substantive procedures to be performed.

SA-200 "Basic principles governing an audit" (Erstwhile AAS-1) states that, "The auditor should obtain sufficient appropriate audit evidence through the performance of compliance and substantive procedures to enable him to draw reasonable conclusions therefrom on which to base his opinion on the financial information."

External Confirmation is a substantive procedure used to obtain audit evidence. SA-505 deals with "External Confirmations". The purpose of this Standard on Auditing (SA) – 505 is to establish standards on the auditor's use of external confirmations as a means of obtaining audit evidence.

SA 505 is effective for audit of financial statements for **period beginning on or after April 1, 2010.**

**Objective:-**

This article aims at illustrating few significant aspects explaining the need, procedures for obtain and types of external evidences.

**Meaning:-**

In general, external confirmation is confirmation obtained from external sources i.e., third parties. As per SA 505 External Confirmation means:

- ✓ Audit Evidence obtained
- ✓ as a direct written response
- ✓ to the auditor from a third party
- ✓ in paper/electronic/other form.

**Need for External Confirmation:-**

External Confirmation is required to give a true and fair view on the financials of a company and the auditor is required to ascertain whether such financials are free from material misstatements or not. To ascertain that, the auditor is required to obtain sufficient and appropriate audit evidence. He shall obtain such evidence by performing Substantive and Compliance procedures, wherein one of the method of collecting audit evidence is External Confirmation.

**Areas required to be Confirmed: -**

External confirmation procedures frequently are relevant when addressing assertions associated with certain account balances i.e., Debtors and Creditors Balances and their elements. However, external confirmations need not be restricted to account balances only. Therefore, any transaction which involves third party can be confirmed depending on its materiality.

For example, the auditor may request confirmation of the terms of agreements or transactions an entity has with third parties. External confirmation procedures also are used to obtain audit evidence about the absence of certain conditions, for example, the absence of a "side agreement" that may influence revenue recognition

**Steps involved in obtaining Confirmation: -**

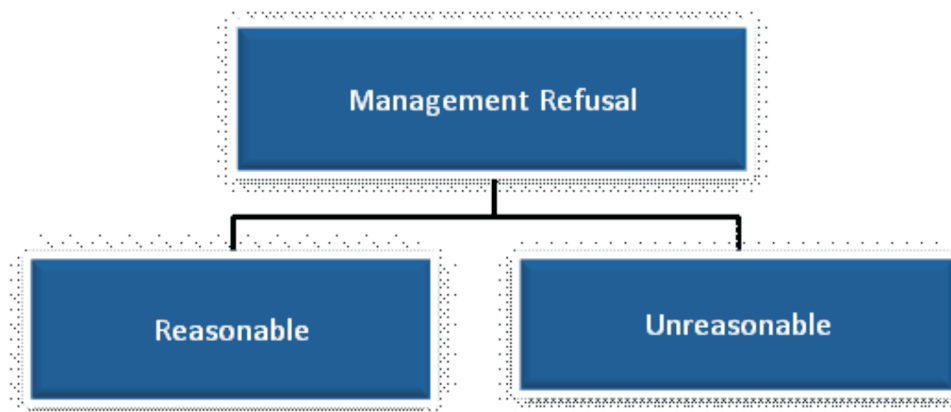
The following are the steps involved in obtaining external confirmation:

- ✓ Determining the information to be confirmed
- ✓ Selecting the appropriate third party
- ✓ Designing the confirmation requests (Properly addressed also)
- ✓ Sending the request including follow-up requests if required

Auditor shall maintain control over external confirmation requests. Maintaining control means maintaining direct communications between the intended recipients and the auditor to minimize the possibility that the results of the confirmation process will be biased because of the interception and alteration of confirmation requests or responses.

**Appropriate course of action to be taken by Auditor in the following cases:-**

- If management refuses to allow auditor to send confirmation request:  
In such case, auditor shall inquire the reasons for refusal



If management refusal is reasonable then auditor shall

- ✓ Assess whether the reasons are valid
- ✓ Evaluate whether there is possibility of risk of material misstatements and
- Perform alternative procedures.
- *Example for alternative procedure: In the examination of accounts receivable, alternative procedures may include examination of subsequent cash receipts (including matching such receipts with the actual items being paid), shipping documents, or other client documentation to provide evidence for the existence assertion.*

- If the management refusal is not reasonable and auditor is unable to perform alternative procedures, then he shall communicate with those charged with governance and give effect on his report.
- Reliance on response obtained from third parties to confirmation request: -
  - Auditor shall rely, if there is no doubt about reliability of response.
  - However, if he has doubts about reliability of response, he shall obtain further evidences to resolve the doubts.
  - If response is unreliable, it may indicate fraud risk factor. He shall consider its effect on Nature, time and Extent of other audit procedures.

### How to obtain External Confirmation?

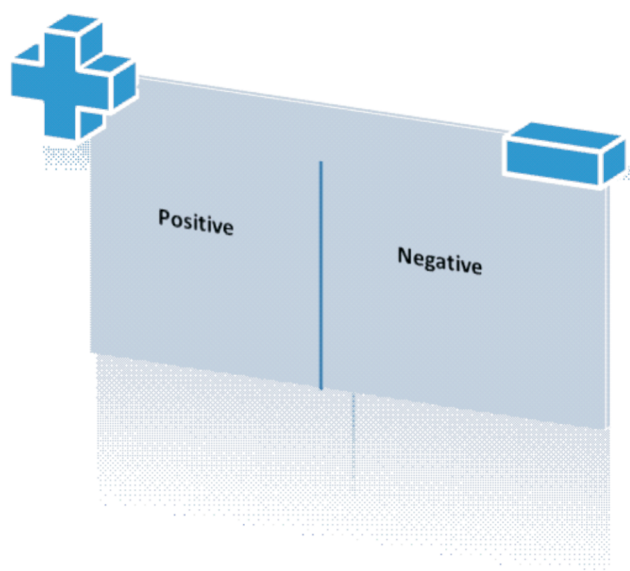
External Confirmation shall be obtained by sending request to third party to confirm the particular matter or amount. There is no standard format for framing request. The confirmation request may be designed to ask if any modifications have been made to the agreement and, if so, what the relevant details are.

The auditor may give a list of accounts selected for confirmation to the management for preparing requests for confirmations, which should be properly addressed and stamped. Alternatively, the auditor may request the management to furnish duly authorised confirmation letters and fill in the names, addresses and other relevant details relating to the accounts selected by him.

The auditor should, however, ensure that it is the auditor who sends out the confirmation requests, that the requests are properly addressed, and that it is requested that all replies and the undelivered confirmations are **delivered directly to the auditor**. The auditor considers whether replies have come from the purported senders.

### Types of Confirmation request: -

Depending on the materiality of the transaction / area for which the confirmation is sought, there are two types of confirmation request



❖ **Positive Confirmation request: -**

- ✓ Meaning:
  - o It asks the third party (Confirming Party)
  - o To reply to the auditor
  - o In all cases
  - o Either by indicating agreement/ disagreement with the given information
  - o Or by asking third party to provide information
- ✓ A response to positive confirmation request is ordinarily expected to be reliable
- ✓ If reply to a request is not received in reasonable time, he may send an additional confirmation requested

***Illustration: -***

Dated:

(Name of the Vendor)

Our auditor's M/s\_\_\_\_\_ are auditing our Financial Statements and wish to obtain confirmation of accounts payable to you as of March 31,20XX. Please confirm whether this agrees with your records on that date by signing and returning this form directly to our auditors. An addressed envelope is enclosed for this purpose. If you find any difference, please report details directly to our auditors in the space provided below.

Yours Faithfully,  
(Name of the Client)

Address of Auditors

The above amount is correct\_\_\_\_\_. The above amount is incorrect for the following reasons:  
\_\_\_\_\_

Yours Faithfully,  
(Third Party)

Other Positive forms, "blank forms", do not state the amount, but request the recipient to fill the balance.

❖ **Negative Confirmation request: -**

- ✓ Meaning:
  - o It asks the third party
  - o To respond directly to the auditor
  - o Only if there is disagreement
  - o with the given information provided in request
- ✓ It is considered to be less persuasive than the positive confirmation request.

**Illustration: -**

Dated:

(Name of the Vendor)

Our auditor's M/s\_\_\_\_\_ are auditing our Financial Statements and wish to obtain confirmation of accounts payable to you as of March 31,20XX. If it does **NOT** agree with your records, please report the exceptions directly to our auditors. An addressed envelope is enclosed for this purpose

Yours Faithfully,  
(Name of the Client)

Address of Auditors

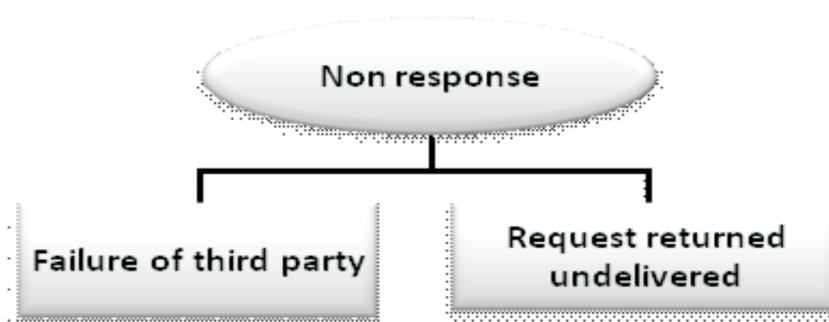
**The above amount is incorrect for the following reasons:** \_\_\_\_\_

Yours Faithfully,  
(Third Party)

**When Negative Confirmation are preferred over Positive?**

Auditor should use them only if all of following are present:

- Risk of misstatements is low
- Internal Control is effective
- Item contains small amount
- Low exception rate is expected
- No reason to believe that recipient may disregard the request.

**Non-Response to Positive Confirmation Request: -**

- When using a confirmation request other than a negative confirmation request, the auditor, generally, follows up with a second and sometimes third request to those parties from whom replies have not been received.
- Alternatively, auditor shall contact the recipient of the request to elicit a response.
- Where the auditor is unable to obtain a response, then he shall perform alternate procedures.
- The alternative audit procedures should be such as to provide the evidence about the financial statement assertions that the confirmation request was intended to provide.
- However, if he determines that response is necessary & thus alternate procedures do not provide sufficient appropriate evidences, he should determine its effect on audit report

**Exception: -**

It means a response indicating disagreement of third party. Auditor shall investigate exceptions to determine whether these are Indicative of misstatement.

**Evaluating the results of Confirmation Procedures: -**

- After performing any alternative procedures, the auditor should evaluate the combined evidence provided by the confirmations and the alternative procedures to determine whether sufficient evidence has been obtained about all the applicable financial statement assertions.
- In performing that evaluation, the auditor should consider
  - o the reliability of the confirmations and alternative procedures;
  - o the nature of any exceptions, including the implications, both quantitative and qualitative, of those exceptions;
  - o the evidence provided by other procedures and
  - o whether additional evidence is needed.
- If the combined evidence provided by the confirmations, alternative procedures, and other procedures is not sufficient, the auditor should request additional confirmations or extend other tests, such as tests of details or analytical procedures.

**Reliability of Audit Evidence: -**

- The reliability of audit evidence is increased when it is obtained from the Independent source outside the entity i.e., external sources
- The reliability of audit evidence that is generated internally is increased when the related Internal controls are strong.
- Audit Evidence obtained directly by the auditor is more reliable than the evidence obtained indirectly.
- Audit evidence in documentary form, electronic form is more reliable than evidence obtained orally.
- Audit evidence provided in original documents is more reliable than evidence obtained in photocopies.

**Conclusion: -**

It can be concluded that auditor shall obtain sufficient and appropriate audit evidence by performing substantive and compliance procedures, wherein external confirmations are the part of substantive procedures and then conclude whether financial statements are free from material misstatements (or) not, and give his opinion accordingly.

*"Great minds discuss ideas, average minds discuss events, small minds discuss people."*

**– Eleanor Roosevelt**

*This article is contributed by A. Madhuri, Intern of SBS and Company LLP. The author can be reached at [interns@sbsandco.com](mailto:interns@sbsandco.com)*



**SEBI****MARGIN TRADING**

Contributed by A. Vaishnavi &amp; Vetted by CA Murali Krishna G |

**INTRODUCTION:**

An investor having appetite to leverage his investment capacity, may indulge in borrowing funds to invest in Securities and can plan to earn profits out of the investment activity. Normally an investor has to provide security to the lender for funds being borrowed. The borrowings made with an intent to invest in Securities is normally called as Margin Trading.

To overcome the difficulties of maintaining the leverage at the time of investing in various securities In order to provide such facility SEBI has come up with a concept named MARGIN TRADING. framed a Scheme called Securities Lending Scheme, 1997. Also it has framed legal framework for Margin Funding by various intermediaries of the Securities Market. All the above concepts are cumulatively called as "Margin Trading"

Though we have many opportunities to invest in various securities there is a lack of deposits funds available with the investors in order to maintain balance between these Margin trading has been introduced. encash the movements of Securities Market.

**For what Margin Trading is??**

- Margin trading allows you investors to buy more stock than you he would be able to buy normally;
- Buying on margin is mainly used for short-term investments;
- To trade on margin, you Investor need to open a Margin Account with the Stock Broker/ NBFC who is providing the funds;
- Broker should obtain your Investor's signature to open a margin account;
- An initial investment is required for a margin account which varies for each broker;
- Marginable securities in the account are collateral.

**Can all stocks qualify to be bought on Margin??**

- The Securities and Exchange Board of India (SEBI)/ Stock Exchanges regulates which stocks should be marginable & which are not;
- Brokers will not allow customers clients to purchase penny stocks, specified securities or initial public offerings (IPOs) on margin because of the day-to-day risks involved with these types of stocks.

**Requirements for Margin Account:**

- ❖ **Initial Margin:** The Portion of the purchase price that you investor deposit is known as the Initial Margin. The SEBI sets a minimum initial margin of 50% of Purchase value of Securities.
- ❖ **Maintenance Margin:** The minimum account balance you investor must maintain before you're the broker forces you borrower to deposit more funds or sell stock to pay down your loan is known as the Maintenance Margin. Maintenance margin of atleast 25% of market price of the securities should be maintained as per SEBI/SEs.

- ❖ **Margin Call:** A margin call forces the investor to either Liquidate his/her position in the stock or add more cash/ collateral securities to the account.

### What if you investor/borrower do not meet a Margin Call???

- If for any reason you investor does not meet a margin call, the brokerage has the right to sell your borrower's securities to increase your account equity until you are above the maintenance margin; liquidate the positions/ margins that need to be paid to the Stock Exchange(s)
- Even scarier is the fact that your broker may not be required to consult you investor before selling!
- !• You Investor can't even control which stock is sold to cover the margin call.

### Advantages of Margin Trading:

- Increased buying power with less money.
- More profit with less investment.
- A trader can borrow 50% of his purchasing price.
- Greatly suitable to day traders, who need wish to complete more number of trades with higher volume of stocks.
- Suitable for experienced traders, having knowledge of stock market trend patterns.
- Allows use of Financial Leverage.

### Disadvantages of Margin trading:

- If stock goes nowhere, you investor still have to pay interest on the margin Loan;
- Add more burdens on traders' shoulders in losing trades;
- Cannot trade in all stocks – like penny stocks, IPOs etc.,
- Your Investor's account balance and buying power changes with changes in stock prices;
- The chance of Margin Call is always prevailing;
- You Investors are always obligated to keep a minimum account balance – the Maintenance Margin;
- With falling stock prices, the traders have much less control.

### Strategies to mitigate risk:

- Have ample reserves of cash or marginable securities in your investor's account;
- If you're investor is a beginner, consider using margin to buy stock in large companies that have a relatively stable price and pay a good dividend;
- Constantly monitor your stocks;
- Have a payback plan for your margin debt.

**Margin trading Vs. Future Markets:**

- Most investors buy the futures, but there are few stocks where margin trading makes more sense. If a stock is not in the futures Derivatives (Futures) list, the client investor can go for margin funding.
- Since futures are generally not available beyond one or two months, if the client investor has a longer view, then margin trading is better. Also, some brokers offer lower interest rates on margin trading than the prevalent rates of future market.
- Generally, when you invest or deposit a margin on a stock purchase, you invest or buy partial equity of the stock position and owe the balance as debt. In the futures market, a margin acts as a security deposit that protects the exchange from default by or from the brokerage house.

**Conclusion:**

Margin trading can be compared to a gamble. It's either you invest or make lots of money, or lose all of it. But, usually the odds are not in your investor's favour.

*In a day, when you don't come across any problem – you can be sure that you are travelling in a wrong path*

**– Swami Vivekananda**

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*This article is contributed by A. Vaishnavi, Intern of SBS and Company LLP. The author can be reached at [interns@sbsandco.com](mailto:interns@sbsandco.com)*

## COMPANIES ACT UPDATES

### UPDATES FOR THE MONTH OF JUNE, 2016 PERTAINING TO COMPANIES ACT, 2016

Contributed by K. Bhavani & Vetted by CS Phanindra DVK |

#### ❖ The Limited Liability Partnership (Second Amendment) Rules, 2009, Dt: 10th June, 2016

Vide the above amendment rules, some change were made to the LLP forms viz., Form No.2 (Incorporation Document), Form No.3 (Form or filing LLP Agreement), Form No.4 (Appointment, Cessation, Change in Designation of Designated Partners / Partners) and Form No.11 (Annual Return). For complete amendment rules visit; Click here for the complete amendment Rules.

[http://www.mca.gov.in/Ministry/pdf/LLP\\_Second\\_Amendment\\_Rules\\_2016.pdf](http://www.mca.gov.in/Ministry/pdf/LLP_Second_Amendment_Rules_2016.pdf)

#### ❖ The Companies (Acceptance of Deposits) Amendment Rules, 2016, Dt: 29th June, 2016

Vide the above amendment rules, welcome changes were made to the Deposit Rules, adding new items to be excluded from the definition of "Deposit" and amendments and amendments to other to other provisions/procedure for acceptance of deposits, as contained in contained in the Original Rules. For complete amendment rules visit: [http://mca.gov.in/Ministry/pdf/Rules\\_30062016.pdf](http://mca.gov.in/Ministry/pdf/Rules_30062016.pdf)

## NOTIFICATIONS

#### ❖ Constitution of National Company Law Tribunal and National and National Company Law Appellate Tribunal by the Central Government:

Vide Notification Dt: 1st June 2016, in exercise of the powers conferred by section 408 and 410 of the Companies Act, 2013 (18 of 2013), the Central Government hereby constituted the National Company Law Tribunal and the National Company Law Appellate Tribunal to exercise and discharge the powers and functions as are, or may be, conferred on it by or under the said Act and also for hearing appeals against the orders of the National Company Law Tribunal with effect from the 1st day of June, 2016. For complete notification visit: [http://www.mca.gov.in/Ministry/pdf/Notification\\_02062016\\_II.pdf](http://www.mca.gov.in/Ministry/pdf/Notification_02062016_II.pdf)

#### ❖ Transfer of all matters, proceedings, cases pending before the Company Law Board to the National Company Law Tribunal:

Vide Notification Dt: 1st June 2016, Central Government notified that appoints National Company Law Tribunal (NCLT) and transfer all the matters or proceedings or cases pending before the Company Law Board as on 01st June, 2016, shall stand transferred to the National Company Law Tribunal and the Tribunal it shall dispose off of such matters or proceedings or cases in accordance with the provisions of Companies Act 2016 or Companies Act 1956. For complete notification visit: [http://www.mca.gov.in/Ministry/pdf/Notification\\_02062016\\_III.pdf](http://www.mca.gov.in/Ministry/pdf/Notification_02062016_III.pdf)

#### ❖ Constitution of Benches of the National Company Law Tribunal to exercise the jurisdiction:

Vide Notification Dt: 1st June 2016, Central Government notified the constitution constitutes of Benches of National Company Law Tribunal to exercise the jurisdiction over the area mentioned, as detailed in the below in the following table below table. For complete notification visit: [http://www.mca.gov.in/Ministry/pdf/Notification\\_02062016\\_I.pdf](http://www.mca.gov.in/Ministry/pdf/Notification_02062016_I.pdf)

Sr.No	Title of the Bench	Location	Territorial Jurisdiction of the Bench
1	(a) National Company Law Tribunal, Principal Bench (b) National Company Law Tribunal, New Delhi Bench	New Delhi	1) State of Haryana (2) State of Rajasthan (3) Union territory of Delhi
2	National Company Law Tribunal, Ahmedabad Bench	Ahmedabad	(1) State of Gujarat (2) State of Madhya Pradesh (3) Union territory of Dadra and Nagar Haveli (4) Union territory of Daman and Diu
3	National Company Law Tribunal, Allahabad Bench	Allahabad	1) State of Uttar Pradesh (2) State of Uttarakhand
4	National Company Law Tribunal, Bengaluru Bench	Bengaluru	(1) State of Karnataka
5	National Company Law Tribunal, Chandigarh Bench	Chandigarh	(1) State of Himachal Pradesh (2) State of Jammu and Kashmir (3) State of Punjab (4) Union territory of Chandigarh
6	National Company Law Tribunal, Chennai Bench	Chennai	(1) State of Kerala (2) State of Tamil Nadu (3) Union territory of Lakshadweep (4) Union territory of Puducherry
7	National Company Law Tribunal, Guwahati Bench	Guwahati	(1) State of Arunachal Pradesh (2) State of Assam (3) State of Manipur (4) State of Mizoram (5) State of Meghalaya (6) State of Nagaland (7) State of Sikkim
8	National Company Law Tribunal, Hyderabad Bench	Hyderabad	(1) State of Andhra Pradesh (2) State of Telangana
9	National Company Law Tribunal, Kolkata Bench	Kolkata	(1) State of Bihar (2) State of Jharkhand (3) State of Odisha (4) State of West Bengal (5) Union territory of Andaman and Nicobar Islands.
10	National Company Law Tribunal, Mumbai Bench	Mumbai	(1) State of Chhattisgarh (2) State of Goa (3) State of Maharashtra.

❖ **Commencement of Various Sections of the Companies Act, 2013, relating to National Company Law Tribunal:.**

Subsequent to the notification as to constitution of the National Company Law Tribunal and Appellate Tribunal, Vvide Notification Dt: 1st June 2016, In exercise of the powers conferred by sub-section (3) of section 1 of the Companies Act, 2013 (18 of 2013), the following list of sections relating to National Company Law Tribunal and Appellate Tribunal, were notified to comes into force with effect from as on the date of 1st June 2016.

- (1) Sub-section (7) of section 7 [except clause (c) and (d)]
- (2) Second proviso to sub-section (1) of section 14
- (3) Sub-section (2) of section 14
- (4) Sub-section (3) of section 55
- (5) Proviso to Clause (b) of sub-section (1) of section 61
- (6) Sub-sections (4) to (6) of section 62
- (7) Sub-sections (9) to (11) of section 71
- (8) Sub-section (4) of section 119
- (9) Second proviso to sub-section (4) and sub-section (5) of section 140
- (10) Sub-section (4) of section 169
- (11) Sub-section (2) of Section 216
- (12) Sub-sections (5) of section 224
- (13) Sections 241, 242 [except clause (b) of sub-section (1), clause (c) & (g) of sub-section (2)], 243, 244, and 245
- (14) Reference of word 'Tribunal' in sub-section (2) of section 399
- (15) Sections 415 to 433 (both inclusive)
- (16) Sub-section (1)(a) and (b) of section 434
- (17) Sub-section (2) of section 434
- (18) Section 75, 97, 98, 99, 130, 131, 213, 218, 221, 222, 441, 466

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**FEMA UPDATES****RULES, CIRCULARS AND NOTIFICATIONS ISSUED FOR THE MONTH OF JUNE, 2016**

Contributed by P. Visweswara Rao &amp; Vetted by CA Murali Krishna G |

**I. Exim Bank's Gol supported Line of Credit of USD 24.00 million to the Government of the Republic of Cote d'Ivoire**

RBI vide A.P. (DIR Series) Circular No. 75 dated June 09, 2016 has invited the attention of AD Category-I regarding Export-Import Bank of India (Exim Bank) has entered into an Agreement dated September 22, 2015 with the Government of the Republic of Cote d'Ivoire for making available to the latter, a Government of India supported Line of Credit (LOC) of USD 24.00 million for financing Electricity Interconnection Project between Cote d'Ivoire and Mali. The goods, machinery, equipment, and services including consultancy services from India for exports under this Agreement are those which are eligible for export under the Foreign Trade Policy of the Government of India and whose purchase may be agreed to be financed by the Exim Bank under this Agreement. Out of the total credit by Exim Bank under this Agreement, the goods and services including consultancy services of the value of at least 75% of the contract price shall be supplied by the seller from India and the remaining 25% goods and services may be procured by the seller for the purpose of the eligible contract from outside India. The credit agreement under the LOC is effective from May 26, 2016. Under LOC, the last date for disbursement will be 60 months after the scheduled completion date of the project.

For more details, visit [https://www.rbi.org.in/scripts/FS\\_Notification.aspx?Id=10443&fn=5&Mode=0](https://www.rbi.org.in/scripts/FS_Notification.aspx?Id=10443&fn=5&Mode=0)

**II. Exim Bank's Gol supported Line of Credit of USD 2 billion to the Government of the People's Republic of Bangladesh**

RBI vide A.P. (DIR Series) Circular No. 76 dated June 16, 2016 has invited the attention of AD Category-I regarding Export-Import Bank of India (Exim Bank) has entered into an Agreement dated March 09, 2016 with the Government of the People's Republic of Bangladesh, for making available to the latter, a Government of India supported Line of Credit (LOC) of USD 2 billion (USD Two billion) for financing various social and infrastructure development projects such as Power, Railways, Road Transportation, Information and Communication Technology, Shipping, Health and Technical Education Sectors in Bangladesh. The goods, machinery, equipment and services including consultancy services from India for exports under this agreement are those which are eligible for export under the Foreign Trade Policy of the Government of India and whose purchase may be agreed to be financed by the Exim Bank under this agreement. Out of the total credit by Exim Bank under this agreement, the goods and services including consultancy services of the value of at least 75% of the contract price shall be supplied by the seller from India and the remaining 25% goods and services (other than consultancy services) may be procured by the seller for the purpose of the eligible contract from outside India. Further in case of projects involving civil construction, the eligible goods up to the contract price supplied by the seller from India may be further reduced from 75% to 65% and further reduction can be considered on a case to case basis, provided the sourcing is not from a third country. The credit agreement under the LOC is effective from May 27, 2016 and the date of execution of agreement is March 09, 2016. Under the LOC, the terminal utilization period is 48 months from scheduled completion date of contract in case of project export and 72 months from execution of the Credit Agreement in case of other supply contracts.

For more details, visit: [https://www.rbi.org.in/scripts/FS\\_Notification.aspx?Id=10447&fn=5&Mode=0](https://www.rbi.org.in/scripts/FS_Notification.aspx?Id=10447&fn=5&Mode=0)

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**SATURDAY SESSIONS**

S.No.	Event	Date	Speaker	Venue
1	Section 44AD of Income Tax Act, 1961	16/07/2016	Md. Sameer Hussain	SBS - Hyd
2	Issues in Filing Individual Income Tax Returns	16/07/2016	M. Mohit and P. Raviteja	SBS - Hyd
3	Income Declaration Scheme, 2016	23/07/2016	Disha Maheswari	SBS - Hyd
4	Analysis of H.C. decision in case of Mega Cabs Pvt. Ltd.	23/07/2016	P. Uday Kumar	SBS - Hyd
5	Reporting of ODI in ODI Forms	30/07/2016	P. Visweswara Rao	SBS - Hyd
6	An overview of Management Representation	30/07/2016	G. Samatha	SBS - Hyd



**SA 505 "External Confirmation" - A. Madhuri**



**Review under IDT-RCM (Part 2) - Priya Singh**



**An overview on Income from Other sources  
- A. Sai Krishna**



**CARO 2016 -National Covention for CA students Jaipur  
- Disha Maheswari**

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**Nellore:** 16-6-259, 1st Floor, Near Santi Sweets Opp: SBI ATM, Vijayamahala 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

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