



JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA



SMPs and MSMEs - Enablers of Economic Growth

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SMP and MSMEs - Enablers of Economic Growth

‘Small is beautiful’ is aptly symbolised by MSMEs and SMPs both being the backbone of economy and our profession. MSMEs (SMEs) play a significant role in most economies and are recognised as engines of growth globally. The sector represents around 90% of businesses globally and is an important contributor for economic development and employment generation. As per an IBEF report, it contributes 6.11% of the country’s manufacturing Gross Domestic Product (GDP) and 24.63% of the GDP through services activity. The sector accounts for about 33.4% of India’s total manufacturing output. It employs more than 120 million people in the country and is the second largest employer in rural India after agriculture. Development of the MSMEs segment is paramount to achieve the vision of *Aatmanirbhar Bharat*, rural economic development, employment generation and for poverty reduction. Similarly, *Small and Medium Practitioners (SMPs)* are the mainstay of the Chartered Accountancy profession empowering the MSMEs across the country. The SMPs are working across the country with MSMEs to improve their competitiveness, capacity to bring them at par in the global markets, by enabling them to adopt best management practices, leverage government schemes and bring in innovations to make India a global production hub. The Chartered Accountants are closely associated with the MSMEs to help them harness their true potential by providing customised solutions. SMPs in tier-II and tier-III cities are supporting the MSMEs in these areas to enable the growth of these businesses and consequently propel the development of region and economy towards greater heights.

MSMEs constitute a major source of development in rural economy and major source of employment in rural and non-urban areas and in the economic growth. Focussing on MSME development emerges as a key instrument in inclusive development of economy. In our context, it is all the more important to nurture them to their full potential for employment generation and development of rural economy. Our Government is taking all necessary initiatives in this direction through various

financing, skill development and marketing assistance schemes. The MSMEs and SMPs needs to work together synergistically for continuous value creation. The pandemic has brought numerous difficulties and hardships for MSMEs. SMPs should work with local government and institutions to develop new schemes and assess new ideas for new revenue streams.

With the advent of technology and push for becoming a self-reliant economy of USD 5 trillion it is important for our SMPs and MSMEs to build their capacities and productivity by adopting the technology to ride the next wave of growth emanating from digitisation. Over the years our SMPs have shown their expertise and true worth, it is time to raise the level by augmenting our knowledge and skills about the emerging technology like analytics, automation, blockchain and cyber security to build new practices and build competitive advantage over other professions by offer niche and differentiating services. To catalyse the growth of SMPs at the ICAI level, efforts are being made to develop strategy for the improvement of SMPs by developing networking guidelines to make them bigger and extend their niche and outreach. Simultaneously the ICAI is striving to empower the SMPs with various technical and other resources, and working towards getting digital audit tools for the SMPs for their technological empowerment. An important aspect for our SMPs is to work with mind-set that **“Together, everyone achieves more”** and take benefit of various ICAI initiatives. Also to work toward developing a niche segments in practice i.e., specialisation as with the progress of technology mundane tasks will become obsolete and growth will come from value accretive activities.

As an institution, all steps are being taken to fuel the growth of MSMEs and our own SMPs through various knowledge and capacity building initiatives promoting life-long learning, leveraging technology advancements, and keeping pace with evolving regulatory environment. The ICAI shall continue to build the ecosystem to steer India’s growth.

Editorial Board ICAI: Partner in Nation Building

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CA. (Dr.) Debashis Mitra
President, ICAI

My Dear Professional Colleagues,

Our nation has shown great resilience and willingness to overcome the ill effects of pandemic and move ahead towards the path of self-reliance. Our economy is not only able to sustain, but is also one of the few growth stories globally because of the will, determination and collective efforts of all the stakeholders. The robustness and inherent strength of Indian economy is further demonstrated by recent developments like highest ever collection of GST in April 2022 and milestone of having 100 Unicorn start-ups.

The Micro, Small & Medium Enterprises (MSME) segment has a significant role to play in growth of rural economy and employment generation at grassroot level. The Indian accountancy profession is predominantly constituted of the Small and Medium practices (SMPs) too with large number of sole practitioners and partnership firms providing accounting, auditing and related consultancy services to the MSMEs. These SMPs

can support MSMEs in various ways, including technology upgradation, skill development, suggesting internal controls, knowledge management, enhanced finance options, human resources management, improved interdepartmental coordination policies and programs. There is great potential for SMPs to provide a reliable support system for these businesses aiding in the maximisation of their potential and assimilated growth for both sides.

The Institute of Chartered Accountants of India (ICAI) has always been at the forefront of building capacity and competency with requisite skills and knowledge of its members and stakeholders to spearhead the country's economic growth. With a well-planned strategy, the ICAI and its members are enabling businesses to maximise productivity with optimum utilisation of available resources.

With the changing times, our practitioners also need to broaden their horizon and perspective, by being more professionally updated and adopting technology. At ICAI, we are making every effort to empower them with various resources.

Let us look at some of the Institute's activities:

Azadi ka Amrit Mahotsav

As part of the country wide *Azadi ka Amrit Mahotsav*, an initiative of the Government of India to commemorate and celebrate 75 years of India's Independence, its glorious history and progressive growth path, the ICAI has been actively participating and organising activities at pan-India level. These activities are in sync with the Government's initiative of remembering and saluting the country's Independence struggle, its freedom fighters and highlighting the emergence of a new and strong India.

ICAI is organising an **ICONIC Day** Programme on **8th June 2022**, which will include a number of activities, to showcase the initiatives undertaken by

From the President

the institute. Seminars shall be organised in hybrid mode highlighting our commitment towards Aatmanirbhar Bharat, Satat Bharat – Sanatan Bharat (Sustainable India), and Women Empowerment.

MCA 21 Version 3

I am happy to inform you that we are working closely with the Ministry of Corporate Affairs (MCA) on the implementation of MCA21 V3 for enabling a smooth transition. In terms of governance standards and keeping up with the need of the times, the V3 version is being significantly improved. It has a large business process change and hence its successful and smooth implementation is important. Further, the ICAI is increasing user awareness through train the trainer programs and direct interactions with regional and branch representatives.

Inputs to IBBI

The Insolvency and Bankruptcy Code, 2016 (IBC) regime has helped the country in overcoming several economic challenges and establishing India as a much sought-after destination for investors. The Insolvency and Bankruptcy Board of India (IBBI) from time to time issues various consultation papers and gather inputs from stakeholders. In this regard, we have recently submitted our suggestions to the IBBI on issues related to reducing delays in the Corporate Insolvency Resolution Process (CIRP) to further improve the process. Further suggestions were also submitted on engagement and appointment of professionals in Corporate Insolvency Resolution Process, Review of Redressal and Enforcement Mechanism and Enhancing effectiveness of Information Utility.

ICAI as Knowledge partner to Investor Education and Protection Fund Authority (IEPFA)

As a socially responsible institution, financial literacy of masses is always a major focus area of ICAI and besides organising large number of Investor Awareness Programmes, we have launched Financial and Tax Literacy Drive – *Vitiya Gyan ICAI ka Abhiyaan* providing relevant information in 12 vernacular languages for the benefit of all.

Further, ICAI is also acting as knowledge partner of IEPFA for its 75 tele-lecturing series on Investor Awareness being telecast on Gyan Darshan.

Recently, ICAI also organised a Workshop on Financial Market at Lucknow. The workshop was inaugurated by Hon'ble Defence Minister Shri Rajnath Singh. He commended the contribution of Chartered Accountants in steering the commercial ecosystem of the country in the right direction, describing them as the backbone of financial management and auditing of the economy.

Expert Panel - Augmenting Quality of Audit

With a view to further enhancing audit quality and to provide necessary support mechanism to our practicing members, and also considering the rapidly evolving business environment, changing regulatory and reporting requirements and increased expectation of stakeholders the ICAI has constituted an Expert Panel through its Auditing and Assurance Standards Board to provide technical support on auditing aspects to the members conducting audit of various entities for the financial year 2021-22. The Expert Panel will address queries till 30th September 2022.

Orientation Programmes at Regional Councils

In pursuance with our continuous pursuit for professional excellence and development, Orientation Programmes were organised by various Regional Councils of ICAI for the newly elected members of the Regional Councils and Managing Committee members of branches to apprise them about various processes and the relevant provisions of the Chartered Accountant's Act, 1949; Regulation framed thereunder and updated Directions of Councils and various other decisions of the Institute for effective functioning of their duties.

The programmes were conducted by WIRC on 10th and 11th March 2022 at Karjat, EIRC on 22nd and 23rd April 2022 at Kolkata, SIRC on 29th and 30th

From the President

April 2022 at Hyderabad, CIRC on 24th and 25th April 2022 at Lucknow and NIRC on 27th and 28th April 2022 at Parwanoo, Himachal Pradesh. In total, more than 1100 representatives of different Branches and Regional Councils of ICAI attended the Orientation Programmes at their respective location. The Programme provided an apt opportunity to all the newly elected representatives of Branches and Regional Councils to sync with the approach and vision of ICAI for achieving the goals set in the Action Plan. I am sure these orientation programmes were a great learning experience and will pave the path to excellence for the Institute.

All Regional Councils Chairmen Meet

I, along with ICAI Vice President CA. Aniket Sunil Talati had an interactive Meeting at ICAI, New Delhi with all Regional Council Chairmen namely CA. Atul Mehrotra, CIRC, CA. China Masthan Talakayala SIRC, CA. Ravi Kumar Patwa, EIRC, CA. Murtuza Kachwala, WIRC (virtual) and CA. Naveen Garg, NIRC, to discuss various developments and initiatives to be taken towards further development of the profession. The meeting set the tone for building a common vision and goals for team ICAI and provided a forum to further augment the Regional Councils. The Regional Councils Chairmen were requested to play a more constructive role in the development of the profession; especially delivering quality services to the Members and Students.

Webinar organised by ICAI in association with CPA Ireland

A webinar on Professional Opportunities for ICAI Members in Ireland was organised in association with CPA Ireland to create awareness amongst ICAI members on the various professional opportunities in Ireland under the MRA signed between ICAI and CPA Ireland. The event was graced by H.E. Mr. Akhilesh Mishra and CA. Aniket Sunil Talati, Vice President, ICAI. From CPA Ireland, Mr. Eamonn Siggins, Chief Executive, Ms. Caroline Moloney, Business Development Executive and Ms. Kellsie Larkin, Business Development Manager, Visa First were present.

Meeting with Hon'ble Finance Minister

On the 23rd of May Vice President, ICAI, CA. Aniket Sunil Talati alongwith Central Council Members CA. Kemisha Soni, CA. Prasanna Kumar D, CA. Rajendra Kumar P. and CA. Umesh Ramnarayan Sharma met the Hon'ble Finance Minister of India Smt. Nirmala Sitharaman. Among the issues discussed were the World Congress of Accountants and matters relating to the profession.

In Conclusion

With profound grief, I would like to inform that our Past President, CA. B. L. Kabra (1977-78) who had also served as Vice-President, IFAC from India during 1977 to 1980, expired on 16th May 2022. Our heartfelt condolences to his family and may the departed soul rest in peace.

Our profession is driven by the pursuit of knowledge and with persistence we have established a legacy of excellence and integrity, which we must always uphold.

With increased automation in the industry and digitisation of every aspect of our lives, there is an increased requirement for diligent vigilance as regulators of the profession thereby strengthening public trust and fulfilling our role as trustees of public interest.

I also urge all of you to work towards building a sustainable environment, contributing and implementing sustainable habits & encouraging awareness for the protection of our natural environment. I would like to conclude with the words of our Former President of India, Dr. A.P. J Abdul Kalam "Learning gives creativity, Creativity leads to thinking, Thinking provides knowledge, Knowledge makes you great."

Best wishes,



CA. (Dr.) Debashis Mitra
President, ICAI
Kolkata, 26th May, 2022

Photographs



ICAI Vice President CA. Aniket Sunil Talati meeting Hon'ble Union Minister for Finance & Corporate Affairs Smt. Nirmala Sitharaman along with ICAI Central Council members CA. Umesh Sharma, CA. Rajendra Kumar P., CA. Kemisha Soni and CA. Prasanna Kumar D. (23rd May, 2022).



Workshop on Financial Market graced by Chief Guest Hon'ble Union Defence Minister Shri Rajnath Singh in the presence of Central Council member CA. Anuj Goyal at Lucknow. Also seen in the picture CA. Atul Mehrotra, Chairman CIRC of ICAI and Office bearers of the Lucknow branch of CIRC of ICAI (14th May, 2022).



Group photograph taken during launch of 3 arrangements by Committee for Members in Practice for benefit of members during the Council Meeting (19th May, 2022).



ICAI President CA.(Dr.) Debashis Mitra attended and delivered a Keynote Address in a National Seminar organised by Gauhati University in association with North East India Commerce & Management Association (NEICMA). Also seen in the picture are Dr. Pratap Jyoti Handique, Vice-Chancellor, Gauhati University and Prof. Amrit Pal Singh, Head, Dept. of Commerce, Gauhati University. (25th May, 2022).

ICAI President CA. (Dr.) Debashis Mitra along with Central Council Members CA. Sushil Kumar Goyal, CA. Chandrasekhar V Chitale, CA. Ranjeet Kumar Agarwal and Chairman, EIRC CA. Ravi Kumar Patwa releasing "Handbook on Statement of Donations Received" of DTC at Kolkata (25th May, 2022).





ICAI President CA.(Dr.) Debashis Mitra with Smt. Chandrima Bhattacharya, Minister of State for Finance (Independent Charge), Government of West Bengal, in the Platinum Jubilee Celebration of Accountants' Library in Kolkata (28th May, 2022).



ICAI Vice President CA. Aniket Sunil Talati along with Central Council members CA. Muppala Sridhar, CA. Prasanna Kumar D., CA. Dayaniwas Sharma, CA. Sripriya K., CA. Cotha S. Srinivas, Chairman SIRC CA. China Masthan Talakayala and many SIRC Members at SIRC Branch Orientation Programme at Hyderabad (29th & 30th April, 2022).



ICAI Vice President CA. Aniket Sunil Talati in a group photo with Central Council members, NIRC Chairman & Regional Council members during the NIRC Branch Orientation Programme held at Solan, Himachal Pradesh (27th & 28th April 2022).



ICAI President CA.(Dr.) Debashis Mitra addressing the Workshop on Standards on Auditing organized by AASB of ICAI and hosted by EIRC of ICAI, Kolkata. Also seen in the picture are Central Council members CA. Ranjeet Kumar Agarwal, CA. Sushil Kumar Goyal, CA. Vishal Doshi and CA. Ravi Kumar Patwa, Chairman, EIRC of ICAI (27th May, 2022).

ICAI President CA. (Dr.) Debashis Mitra at the inauguration of ICAI CPE Study Circle of Indian Oil Corporation Ltd. along with Central Council members CA. Sushil Kumar Goyal, CA. Ranjeet Kumar Agarwal and CA. Ravi Kumar Patwa, Chairman, EIRC of ICAI, Kolkata (27th May, 2022).



Know Your Ethics



Q. What are the Fundamental Principles which a Professional Accountant is required to comply?

- A. As per paragraph R110.2 of Volume-I of Code of Ethics, a professional accountant shall comply with the following fundamental principles set out in Paragraph 110.1 A1 :
- (a) Integrity
 - (b) Objectivity
 - (c) Professional Competence and Due Care
 - (d) Confidentiality
 - (e) Professional Behaviour.

Q. What are the threats involved while complying with the fundamental principles?

- A. Threats involved while complying with the fundamental principles fall into one or more of the following categories:
- (a) Self-interest threats;
 - (b) Self-review threats;
 - (c) Advocacy threats;
 - (d) Familiarity threats;
 - (e) Intimidation threats.

Q. What are the measures available to Professional Accountants in case conflict of interest arises?

- A. As per Paragraph R210.4 of Volume-I of Code of Ethics, a professional accountant shall not allow a conflict of interest to compromise professional or business judgment. A

professional accountant shall take reasonable steps to identify circumstances that might create a conflict of interest. Such steps shall include identifying:

- (a) The nature of the relevant interests and relationships between the parties involved; and
- (b) The activity and its implication for relevant parties.

A professional accountant shall remain alert to changes over time in the nature of the activities, interests and relationships that might create a conflict of interest while performing a professional activity.

Further, it is generally necessary to disclose the nature of the conflict of interest and how any threats created were addressed to the relevant parties, including to the appropriate levels within the employing organization affected by a conflict; and obtain consent from the relevant parties for the professional accountant to undertake the professional activity when safeguards are applied to address the threat.

When addressing a conflict of interest, the professional accountant is encouraged to seek guidance from within the employing organization or from the Institute, legal counsel or another accountant.

Q. Whether a Professional Accountant in Public Practice may pay or receive a referral fees or commission?

- A. As per Paragraph 2.14.1.3(ii) under Clause (3) of Part-I of First schedule to the Chartered Accountants Act, 1949 appearing in Volume-

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Know Your Ethics

II of Code of Ethics, it is not prohibited for a member in practice to charge Referral Fees, being the fees obtained by a member in practice from another member in practice in relation to referring a client to him.

The above should be read with the applicable provisions mentioned in Paragraph 330.5 A1 and A2 of Volume-I of Code of Ethics, which provide that a self-interest threat to compliance with the principles of objectivity and professional competence and due care is created if a professional accountant pays or receives a referral fee relating to a client.

Examples of actions that might be safeguards to address such a self-interest threat include disclosing to clients any referral fees paid to, or received from, another professional accountant for recommending services might address a self-interest threat.

Q. What are the circumstances that create threats when a Professional Accountant has financial Interest?

- A. As per paragraph 240.3 A1 of Volume-I of Code of Ethics, Professional accountants might have financial interests or might know of financial interests of immediate or close family members that, in certain circumstances, might create threats to compliance with the fundamental principles. Financial interests include those arising from compensation or incentive arrangements linked to financial reporting and decision making.

Examples of circumstances that might create a self-interest threat include situations in which the professional accountant or an immediate or close family member:

- Has a motive and opportunity to manipulate price-sensitive information in order to gain financially.
- Holds a direct or indirect financial interest in the employing organization and the value of that financial interest might be directly affected by decisions made by the accountant.

- Is eligible for a profit-related bonus and the value of that bonus might be directly affected by decisions made by the accountant.
- Holds, directly or indirectly, deferred bonus share rights or share options in the employing organization, the value of which might be affected by decisions made by the accountant.
- Participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximize the value of the employing organization's shares. An example of such an arrangement might be through participation in incentive plans which are linked to certain performance conditions being met

Q. What is the meaning of Direct Financial Interest?

- A. Direct Financial Interest means a financial interest:
- a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or
 - b) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.

Q. What is the meaning of Indirect Financial Interest?

- A. Indirect Financial Interest means a financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.

Q. What are the factors relevant in evaluating level of threat created by holding financial interest in an Audit Client?

- A. As per Paragraph 510.3 A3 of Volume-I of Code of Ethics, factors that are relevant in

Know Your Ethics

evaluating the level of a self-interest threat created by holding a financial interest in an audit client include:

- The role of the individual holding the financial interest.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest.

Q. What are the examples of Close Business Relationships arising from a commercial relationship or common financial interest?

- A. As per paragraph 520.3 A2 of Volume-I of Code of Ethics, examples of Close business Relationships arising from a commercial relationship or common financial interest are:
- (a) Having a financial interest in a Joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities for that client.
 - (b) Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.

Q. In making a decision to accept or continue with an assignment, what is the significance of documentation?

- A. When threats to independence that are not clearly insignificant are identified, and the firm decides to accept or continue the assurance engagement, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.

Q. What are the safeguards available to a Professional Accountant in Public Practice in respect of Custody of Client Assets?

- A. As per Section 350 of Volume-I of Code of Ethics, a professional accountant in public practice entrusted with money or other assets belonging to others shall:

- (a) Comply with the laws and regulations relevant to holding and accounting for the assets;
- (b) Keep the assets separately from personal or firm assets;
- (c) Use the assets only for the purpose for which they are intended; and
- (d) Be ready at all times to account for the assets and any income, dividends, or gains generated, to any individuals entitled to that accounting.

Q. What types of activities will be considered as Management Responsibility?

- A. As per requirement under paragraph R600.7 of Volume-I of Code of Ethics, a firm or a network firm shall not assume a management responsibility for an audit client. As per paragraph 600.7 A3 of Volume-I of Code of Ethics, activities that would be considered a management responsibility include:-
- Setting policies and strategic direction.
 - Hiring or dismissing employees.
 - Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
 - Authorizing transactions.
 - Controlling or managing bank accounts or investments.
 - Deciding which recommendations of the firm or network firm or other third parties to implement.
 - Reporting to those charged with governance on behalf of management.
 - Taking responsibility for:
 - ♦ The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - ♦ Designing, implementing, monitoring or maintaining internal control.

Estimation of Final Mine Closure Plan and treatment of the same in the books of account on year-on-year basis

A. Facts of the Case

1. A Company (hereinafter referred to as 'the Company') is a Government of Karnataka undertaking Company, incorporated under the Companies Act, 1956 and is having its registered office at Bangalore. Aim of the Company is primarily to explore the available mineral sources in various regions of the Karnataka State to cater to the needs of local industry and to create employment opportunities to the local community. The Company is one of the largest producers of iron ore, chromite, magnesite, limestone, dolomite, clay and granite in the state of Karnataka. The Company is engaged in scientific and eco-friendly exploration and marketing of various minerals in the state of Karnataka. The details of mine/quarry leases held by the Company are as follows:

Particulars	Mines		Quarries	
	In No's	Lease area In Hectares	In No's	Lease area In Acres
Working	5	919.56	2	42.37
Non-working	32	4856.14	20	481.62
Surrendered	3	119.09	16	161.95
Cancelled	2	648.59	-	-
Total	42	6543.38	38	685.94

2. The querist has stated that as per the provisions of 'Indian Bureau of Mines and Mineral Conservation and Development Rules (MCDR), 2017', the holder of a mining lease shall submit a Final Mine Closure Plan (FMCP) to the competent authority for approval, two years prior to the proposed closure of the mine (Copy of the relevant extract has been supplied separately by the querist for the perusal of the Committee.)

3. The querist has further stated that if the Company wants to submit the plan and make provision in the last two financial years before the closure of the

lease of mines/quarries, the expected expense will be so huge that it will have huge impact on profits and will affect fair presentation as the expenditure that will be booked, pertain to several years.

4. As a prudent accounting practice, it requires that the Company shall estimate and account for the estimated cost of Final Mine Closure Plan (FMCP) and spread the same across the life of the mine/quarry for presentation of financial statements as per the applicable financial reporting framework and to give true and fair view.

5. As the Company is involved in mining activities, it needs to follow the Rules laid down by Indian Bureau of Mines. Accordingly, the management has decided to provide for the liability of FMCP and amortise it over the remaining leasehold period.

6. The querist has reproduced paragraphs 45 to 47 of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets' as follows:

"45 Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.

46 Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting period are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

47 The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted."

7. The brief description of accounting practices followed by the Company along with the facts and figures is listed below:

a. In the year 1: The Company estimates the Final Mine Closure Plan. This is usually done by the concerned technical department, in the year one, based on the current scheduled rate prepared by the Public Works Department, Government of Karnataka. The amount so arrived will be converted into present value using the discounting factor @7.5% and amortised over the lease period of the mine/quarry.

b. In the year 2:

- i. The present value of the Final Mine Closure Plan will be arrived for the year 2,
- ii. The difference between the present value of the year 2 and present value arrived for the year 1 will be treated as 'Interest/Finance Cost'.

c. The detailed worksheet computed for the financial year (F.Y.) 2018-19 is furnished for a better understanding, which is briefly summarized as follows:

Particulars	Amount (INR in lakhs)
Final Mine Closure Plan arrived during the year 2017-18	24,383.46
Present Value of Final Mine Closure Plan for the year 2017-18	8,627.29
Present Value of Final Mine Closure Plan for the year 2018-19	9,274.34
Difference of PV of FMCP of 2018-19 and 2017-18 is treated as interest charge/finance cost	647
Amortization charged to Asset (Present Value of FMCP for year 2017-18 divided by life of the mines calculated for each individual mine)	833.74

d. Scheme of journal entries in the books of account:

i. During the year 2017-18 Rs. (In Lakhs)

a) Creation of Final Mine Closure Plan as an Asset:

Particulars	Debit	Credit
Lease Hold Land A/c dr	8627.29	
To Provision for Mine Closure Plan A/c		8627.29

b) Amortization of Final Mine Closure Plan:

Particulars	Debit	Credit
Depreciation and Amortization Expenses A/c dr	833.74	
To Lease hold Land A/c		833.74

ii. During the year 2018-19 Rs. (In Lakhs)

a) Providing for difference in present values as finance cost:

Particulars	Debit	Credit
Finance Cost A/c dr	647	
To Provision for Final Mine Closure Plan A/c		647
(Being the difference in present value of FMCP for 2018-19 and Present value of FMCP 2017-18 accounted)		

b) Creation of Final Mine Closure Plan as an Asset:

Particulars	Debit	Credit
Lease Hold Land A/c dr	8627.29	
To Provision for Final Mine Closure Plan A/c		8627.29

c) Amortization of Final Mine Closure Plan:

Particulars	Debit	Credit
Depreciation and Amortization Expenses A/c dr	833.74	
To Lease hold land A/c		833.74
(Being depreciation and amortization of 2018-19)		

(A copy each of audited financial statements for the F.Y. 2017-18 and F.Y. 2019-20 has been supplied separately by the querist for the perusal of the Committee.)

8. *Audit observation by the Indian Audit and Accounts department:*

- a) The Indian Audit and Accounts Department (Comptroller & Auditor General (C&AG)), which conducts the supplementary audit of the annual accounts of the Company in accordance with the provisions of the Companies Act, 2013, is not in agreement with the accounting policy followed by the Company, and they are of the view that the Final Mine Closure Plan estimated by the Company is based on the current scheduled rates and as such, the need for discounting does not arise and hence present value of Final Mine Closure Plan should be Rs. 24,383.46 Lakhs and not 8,627.29 Lakhs. (Copy of audit query has been supplied separately by the querist for the perusal of the Committee.)
- b) The Company in its reply to the audit observation, has given assurance to the C&AG that the matter will be referred to the Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) and will take the expert advice to follow the suitable accounting policies consistently.

9. The querist has separately informed that the estimate of Final Mine Closure Plan for the period 2017-18 is the expenditure to be incurred towards closure activities at the end of mine life, which is considered as per the current scheduled rate of the Public Works Department, Government of Karnataka.

B. Query

10. On the basis of the above, the querist has sought the opinion of the Expert Advisory Committee on the following issues:

- (i) Whether the accounting practices followed by the Company is in accordance with the Generally Accepted Accounting Principles or not.
- (ii) Whether the audit observation made by the C & AG is valid or not.
- (iii) Whether there is any best practice to be followed by the Company in respect of Mine Closure obligation.

C. Points considered by the Committee

11. The Committee notes that the basic issue raised by the querist relates to accounting for Mine Closure obligation by the Company under Indian Accounting Standards (Ind ASs), notified under the Companies (Indian Accounting Standards) Rules, 2015, as revised or amended from time to time. The Committee has, therefore, restricted the opinion only to this issue and has not examined any other issue that may arise from the Facts of the Case, such as, appropriateness of the accounting for Final Mine Closure Plan expenditure under Accounting Standards notified under Companies (Accounting Standards) Rules, 2006, compliance with Mines and Mineral Conservation and Development Rules, determination/ estimation/ measurement of mine closure cost, accounting for leasehold land, amortisation of leasehold land, the appropriateness of the discount rate used by the Company, accounting for the mines which are closed/surrendered and provision in respect thereof, etc. The opinion, expressed hereinafter, is purely from accounting perspective and not from the perspective of interpretation of any Act/Rules, such as, Indian Bureau of Mines and Mineral Conservation and Development Rules (MCDR), 2017 etc. The Committee also presumes from the Facts of the Case that mine closure expenditure in the extant case is not of the nature of stripping costs during the production phase of the mine. Furthermore, the Committee has looked at the issue raised only from accounting principles guidance perspective and has not looked at the appropriateness of accounting/journal entries passed by the Company.

12. At the outset, the Committee notes the nature of expenditure incurred under Final Mine Closure Plan from the following definitions under 'Mineral Conservation and Development Rules, 2017':

“(a) “abandonment of mine” means the final closure of a mine, either whole or part thereof, when the mineral deposits within the mine or part thereof have been fully extracted or when the mining operations thereon have become uneconomic;”

“(m) “final mine closure plan” means a plan for the purpose of decommissioning,

reclamation and rehabilitation of a mine or part thereof after cessation of mining and mineral processing operations, that has been prepared in the manner specified in the standard format and guidelines issued by the Indian Bureau of Mines or the Director, Atomic Minerals Directorate for Exploration and Research in respect of minerals specified in Part B of the First Schedule to the Act where the grade of such atomic minerals is equal to or above the threshold value limits declared under Schedule-A of the Atomic Minerals Concession Rules, 2016;

- (n) “final mine closure” means steps taken for reclamation and rehabilitation of a mine or part thereof commencing from cessation of mining or processing operations in a mine or part thereof;”

The Committee notes from the Facts of the Case that the querist has stated that as per the provisions of ‘Indian Bureau of Mines and Mineral Conservation and Development Rules (MCDR), 2017’, the holder of a mining lease shall submit to the competent authority for approval, two years prior to the proposed closure of the mine, a Final Mine Closure Plan (FMCP) which means a plan for the purpose of decommissioning, reclamation and rehabilitation of a mine or part thereof after cessation of mining and mineral processing operations. Thus, there is a legal obligation for the Company in the extant case to incur decommissioning, reclamation and rehabilitation expenditure due to mining operations or extraction activities of the Company.

13. The Committee notes that Ind AS 106, ‘Exploration for and Evaluation of Mineral Resources’, states the following:

- “5 An entity shall not apply this Ind AS to expenditures incurred:
- before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.
 - after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.”

“10¹ Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The *Conceptual Framework for Financial Reporting under Indian Accounting Standards* issued by the Institute of Chartered Accountants of India and Ind AS 38, *Intangible Assets*, provide guidance on the recognition of assets arising from development.”

“11 In accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets* an entity recognises any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources.”

“15 An entity shall classify exploration and evaluation assets as tangible or intangible according to the nature of the assets acquired and apply the classification consistently.

16 Some exploration and evaluation assets are treated as intangible (eg drilling rights), whereas others are tangible (eg vehicles and drilling rigs). To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using a tangible asset to develop an intangible asset does not change a tangible asset into an intangible asset.”

The Committee notes that Ind AS 106 provides that obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources are governed by the requirements of Ind AS 37. Further, as per the Standard, exploration and evaluation assets are treated as property, plant and equipment or intangible assets according to the nature of assets; and the expenditure related to development of resources shall also be governed by the Conceptual Framework and Ind AS 38.

¹ Substituted vide Notification No. G.S.R. 419(E) dated 18th June, 2021.

The Committee now notes that Ind AS 16, 'Property, Plant and Equipment' contains following guidance for initial measurement of an item of property, plant and equipment:

"16 The cost of an item of property, plant and equipment comprises:

- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period."

Similarly, Ind AS 38, 'Intangible Assets' also contains the following guidance for initial measurement of a separately acquired intangible asset:

"27 The cost of a separately acquired intangible asset comprises:

- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- (b) any directly attributable cost of preparing the asset for its intended use."

The Committee notes from the above that both Ind AS 16 and Ind AS 38 require costs that are directly attributable to acquire the asset or to bring the asset to the location and condition necessary for it to be capable of operating in the intended manner to be included in the initial measurement. Further, Ind AS 16 specifically provides that the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item

during a particular period (for purposes other than to produce inventories during that period) shall be included in the cost of an item of property, plant and equipment.

14. The Committee further notes the requirements of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets' as follows:

"14 A provision shall be recognised when:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;**
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and**
- (c) a reliable estimate can be made of the amount of the obligation.**

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

"19 It is only those obligations arising from past events existing independently of an entity's future actions (ie the future conduct of its business) that are recognised as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage, both of which would lead to an outflow of resources embodying economic benefits in settlement regardless of the future actions of the entity. *Similarly, an entity recognises a provision for the decommissioning costs of an oil installation or a nuclear power station to the extent that the entity is obliged to rectify damage already caused.* In contrast, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a certain type of factory). Because the entity can avoid the future expenditure by its future actions, for example by changing its method of operation, it has no present obligation for that future expenditure and no provision is recognised." (Emphasis supplied by the Committee.)

"36 The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

37 The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the end of the reporting period. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.”

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

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

44 Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph 85(b).

Present value

45 Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.

46 Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting period are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

47 The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.”

“60 Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as borrowing cost.”

In this regard, Committee also notes following paragraphs of Guidance Note on Accounting for Oil and Gas Producing Activities (for entities to whom Ind AS is applicable) although the Guidance Note may not be strictly applicable for mineral resources other than oil and gas:

“Accounting for Abandonment Costs

33. Abandonment costs are the costs incurred on discontinuation of all operations and surrendering the property back to the owner. These costs relate to plugging and abandoning of wells; dismantling of wellheads; production; and transport facilities and to restoration of producing areas in accordance with license requirements and the relevant legislation.

34. In accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, an entity recognises any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources. Thus, an entity should capitalise as part of property, plant and equipment or intangible asset, as the case may be, the amount of provision required to be created for subsequent abandonment. *The provision for estimated abandonment costs should be made at current prices considering the environment and social obligations, terms of mining lease agreement, industry practice, etc. Where the effect of the time value of money is material, the amount of the provision should be the present value of the expenditures expected to be required to settle the obligation. The discount rate (or rates) should be a pre-tax rate (or rates) that reflect current market assessments of the time value of money and the risks specific to the liability. The discount rate should not reflect risks for which future cash flow estimates*

have been adjusted. ... However, the change in the estimated provision due to the periodic unwinding of the discount should be recognized in statement of profit and loss as it occurs. Since abandonment costs do not reflect borrowed funds, the unwinding cost would not be a borrowing cost eligible for capitalization.” (Emphasis supplied by the Committee.)

15. As discussed in paragraph 12 above, the Committee notes that the Company is under a legal obligation to incur costs on site restoration and mine closure work as per its governing laws. Under Ind AS 37, a provision is required to be recognised in respect of such costs since there exists an obligation to perform the site restoration and closure of the mine. However, the relevant regulations should be taken into account when determining the existence and extent of the obligation. Thus, the Company in the extant case should recognise a decommissioning or restoration provision in respect of the mine closure obligation and this obligation may arise even before any production takes place. The Committee further notes that the accounting for decommissioning provision will depend on how the related costs have been accounted for. If the related costs are capitalised, the associated decommissioning costs should also be capitalised and included in the initial measurement of the related tangible or intangible asset. However, if the related costs are expensed (such as certain exploration and evaluation costs that do not meet the capitalisation criteria under Ind AS 106), any associated decommissioning or restoration costs should also be expensed.

16. With regard to measurement of the provision, the Standard provides that the provision shall be recognised at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period. Thus, the Committee is of the view that the provision for estimated expenditure should be made at current prices at the reporting date considering the relevant conditions and obligation. Further, since the mine closure costs are towards the closure activities at the end of the mine life, the obligation is a long-term obligation and therefore, if the effect of time value of money is material, the provision should be discounted. Accordingly, the initial cost of the related asset should include the present value of the expenditure expected to be required to settle the obligation. Thus, although the estimates are made

at current prices on the reporting date, since the estimates are for the expenditure to be incurred in the future at the end of mine life, these are discounted if the effect of time value of money is material.

Subsequently, where discounting is used, the carrying amount of a provision is increased in each period to reflect the passage of time. This increase is recognised as borrowing cost. Further, the cost of the related asset, including the initial estimate of mine closure costs, should be depreciated/amortised based on the pattern in which the related asset's future economic benefits are expected to be consumed in accordance with the requirements of the relevant Standards.

D. Opinion

17. On the basis of the above, the Committee is of the following opinion on the issues raised by the querist in paragraph 10 above:

- (i), (ii) & (iii) The Company should follow the accounting for mine closure obligation, as detailed in paragraphs 13 to 16 above. The appropriateness of the accounting practices followed by the Company in accordance with the generally accepted accounting principles and validity of C&AG observations would depend on the above-mentioned accounting.

1.	The Opinion is only that of the Expert Advisory Committee and does not necessarily represent the Opinion of the Council of the Institute.
2.	The Opinion is based on the facts supplied and in the specific circumstances of the querist. The Committee finalised the Opinion on June 15, 2021. The Opinion must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of Opinion by the Committee.
3.	The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in forty volumes. This is available for sale at the Institute's office at New Delhi and its regional council offices at Mumbai, Chennai, Kolkata and Kanpur.
4.	Recent opinions of the Committee are available on the website of the Institute under the head 'Resources'.
5.	Opinions can be obtained from EAC as per its Advisory Service Rules which are available on the website of the ICAI, under the head 'Resources'. For further information, write to eac@icai.in .

MSME-Samadhaan

Lack of awareness amongst the MSMEs about their rights make them suffer on many fronts. Updating oneself by devoting a small amount of time on regular basis and quick decisions will help MSMEs greatly in running a profitable enterprise. With various economic reforms unfolding, with many e-enablers such as GeM and TReDS showing remarkable performance, there is a need for the MSMEs to be more organised and systematic in their day-to-day business. A stitch in time saves nine, fast changing economic scenarios have given everyone a chance rethink about their business strategies, modify them suitably and proceed towards transparency. Read on...



CA. Maheshwar Marathe

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One such area where greater awareness is the need of the hour and a major area of concern for the MSMEs is 'working capital management'.

Extreme delays in customer recovery, disputed receivables, overdue receivables turning into bad debts and write offs literally destroys the working capital cycle of the business. If not controlled on time, this problem impacts the liquidity of the business adversely and starts eroding the profits.

What are the solutions? It's simple, know your rights, be aware about the tools which are available for tackling this problem. There is a solution to every problem, need is to have a resolve and fight with confidence.

The most robust solution is The Micro, Small and Medium Enterprises Development (MSMED) Act, a welfare legislation for the MSMEs and

Samadhaan Portal, e-initiative of Ministry of MSME, www.samadhaan.msme.gov.in

For better understanding, the topic can be discussed in 3 different sections:

- Salient provisions of the MSMED Act.
- Complete dispute resolution ecosystem.
- The SAMADHAAN - Step-by-process of filing the claim online.

The MSMED Act

- **45 Days:** The act provides for **max time limit of 45 days as credit period** to the buyer for all purchases made from **Micro and Small Enterprises (MSEs)**
- **Only MSE:** Yes, this benefit is available to **Micro and Small Enterprises only, Medium not covered.**



Manufacturers & service providers	MICRO	SMALL	MEDIUM
Investments in Plant & Machinery or Equipment	Upto Rs. 1 cr	Upto Rs. 10 cr	Upto Rs. 50 cr
Turnover	Upto Rs. 5 cr	Upto Rs. 50 cr	Upto Rs. 250 cr

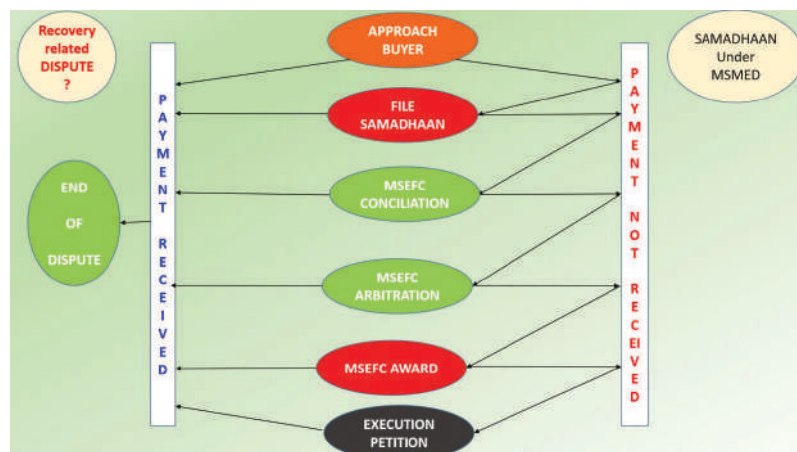
- **No Trader:** The benefit is available only to manufacturing and service entities and *not to trading entities*.
- **Interest:** If the payment is not made within 45 days, the buyer has to pay the MSE supplier **interest at 3 times the bank rate** (i.e., 13.95%, as present bank rate is 4.65%).
- **MSEFC:** If the MSE is neither getting the payment nor the interest despite satisfactory delivery of goods/services, MSE need not go to any court but has to go to the **MSE Facilitation Council (MSEFC)**. MSEFC is formed by each state government and sits **at each District/block head quarter** in every state.
- **Time Limit:** MSEFC decides the matter as a conciliator as per the provisions of Arbitration and Conciliation Act 1996 and has the mandate to resolve the dispute **within 90 days** from the date of reference.
- **Supplier:** (MSE) should be registered under Udyam Registration udyamregistration.gov.in
- **Income Tax Angle:** The interest paid by buyer cannot be claimed as expense from his business income, (Non-deductible expense) under Income-tax Act.

Overall Dispute Resolution Ecosystem

In business, maintaining healthy relation with all stake holders

is top priority, especially the customer supplier relations which are very crucial as well as complex. A trust driven, fair and equitable relation between the supplier and customer are the key to success for both the parties. It's a quid-pro-quo relation, however precaution is necessary. Any supplier highly dependent on one single customer is highly avoidable. At the same time, having a nurturing attitude towards all suppliers even a small one, is a welcome corporate policy.

In cases when the supplier ultimately decides that there seems to be no option other than approaching a legal forum for recovery of its long outstanding dues, he needs to approach dispute resolution ecosystem created by MSMED Act.



Pic 1

Pic-1 explains the process MSE has to follow to claim the disputed dues, which step by step includes;

“

The act provides for max time limit of 45 days as credit period to the buyer for all purchases made from Micro and Small Enterprises (MSEs).

- **Existance of Dispute:** When an MSE concludes that there is something wrong with the buyer and time has come to go legal, it has to first approach the buyer through a simple letter on its own letter head, mentioning the basic provisions of MSMED Act.
- **Samadhaan Portal:** If the buyer pays, all is well and good, else the online petition must be filed on Samadhaan Portal, www.samadhaan.msme.gov.in
- **Instant Notice:** As soon as the petition is filed, the buyer gets an auto generated notice



When an MSE concludes that there is something wrong with the buyer and time has come to go legal, it has to first approach the buyer through a simple letter on its own letter head, mentioning the basic provisions of MSME Act.

from Ministry of MSME requiring him to pay the dues to his MSE supplier within 15 days, else proceedings of the MSEFC are initiated.

- **Hearing:** If the buyer still doesn't pay the dues, he gets the notice for hearing in MSEFC.
- **Mutual:** At first hearing, the council asks the buyer and supplier to sit together and try to resolve the dispute mutually.
- **Conciliation:** If mutual settlement is not possible, then the council can provide a third party conciliator who guides the parties to come to some conclusion.
- **Arbitration:** If conciliation fails then the case is taken up for arbitration by the council and award is passed based on the merits of the case.

- **Award:** It is a speaking order of the MSEFC to pay the dues along with interest within a time bound matter.
- **Appeal:** Buyer may challenge the award of the council but before that he is required to deposit 75% of the disputed amount in the court and part of such deposited amount is passed on to the MSE supplier.
- **Execution:** If the buyer still doesn't pay as per the award, then the supplier has to resort to execution of award with the help of a local court. Through executive petition, the supplier can get the assets of the buyer attached for recovery of dues. He can also get the buyer arrested till the dues are fully paid.

The Samadhaan - Step-by-Step Process of Filing the Claim Online

www.samadhaan.msme.gov.in

in: Completely online, hassle free, cost effective and time saving method of dispute resolution and recovery of dues,



If parties decide to mutually settle the matter, a signed MOU has to be filed so that the case can be disposed of by the MSEFC and updated online.



If conciliation fails then the case is taken up for arbitration by the council and award is passed based on the merits of the case.

specifically designed for the MSEs. The procedure of filing the case is very simple. This platform can be used by any MSE supplier, Pan-India.

Prior to the launch of this online platform in **October 2017**, the entire filing process was offline and had a lot of manual intervention. Hard copy submission, manual scrutiny, decision on claim validity, sending manual notice to respondent, this entire manual process is now abolished and is replaced by the SAMADHAAN Portal.

- **Ease:** The initiative has established itself as the best tool to resolve disputed receivables, in a time bound manner and has created real ease in filing as well as resolution of dispute by **savings a time of close to 6+ months** in the entire resolution process.
- **Filing:** Only PO and invoices required for filing of case. If there is no PO, an affidavit to that effect is also sufficient to file the case.

- **Processing:** Application gets converted to case on scrutiny by the concerned authority and hard copy submission is called for. Case can also be rejected at this stage with sufficient reasons.
- **Response:** Buyer may respond by paying the entire dues or he may choose to fight the same by responding to the notice.
- **Settlement:** If parties decide to mutually settle the matter, a signed MOU has to be filed so that the case can be disposed of by the MSEFC and updated online.
- **Success:** The platform has become very popular showing a good flow of cases (table 1)

actionable points:

- Register yourself as an MSME online - udyamregistration.gov.in
- Print the MSE registration number on each PO, INVOICE, DC.
- Insist for credit period of not more than 45 days from delivery of goods.
- Know that you are entitled to an Interest @ 13.95% on delayed payments
- Approach the MSE Facilitation Council through **MSME-SAMADHAAN** for quick dispute resolution and recovery of dues.

As far as government initiative is concerned, a lot of enabling provisions are evident in the recent past which strengthen

initiatives are as follows;

- Reporting of purchases from MSEs by every entity to which audit is applicable under any statute in India – Sec 22 of MSMED Act.
- Companies with turnover of > 500cr to be on registered on TReDS platform so that they pay their MSE suppliers instantly - MSME Notification No. 5621 dated 2nd Nov 2018.
- Reporting of dues to MSEs by every 'Specified Company', half yearly through Form MSME-1 – MSME Notification No. 5622 dated 2nd Nov 2018 & MCA Notification No. 368 dated Jan 2019.

Table -1

Details	Appl filed	Appl Pending	Cases Pending	Appl Rejected	Mutually Settled	Appl Disposed
No of Cases	108990	30502	29493	23856	10579	14560
	100%	28%	27%	22%	10%	13%
Amt Involved Rs.	28161	6775	10383	5146	1465	4392
	100%	24%	37%	18%	5%	16%

In a nutshell, it is time for MSEs to understand that Liquidity = Profit and hence to strengthen the liquidity position, the following are 5 simple

the cause of the MSMED Act directly, and has helped in creating awareness amongst the MSEs as well as with other stakeholders such as corporate buyer and the auditor. Few such

- Establishment of 3 TReDS platforms for quick and cost-effective bill discounting of MSEs.
- Consequent responsibility of auditors in verification of

- **Tracking:** Real time tracking of case status is possible.



dues to MSEs and reporting of non-compliance.

Still a long way to go

Though the overall awareness about the importance of liquidity and initiatives of the government is growing and empowering the MSEs to a great extent, it can be said that these developments are at its growing stage and requires impetus.

Following further suggestions can be considered in this regard:

- **Fulltime Member with Judicial background:** MSE facilitation council should have at least one fulltime member with judicial background. This will give a boost to the entire process, as being a quasi-judicial forum, it needs a judicial touch and consistency in the final awards. The rest of the composition is seamless.
- **Council to hear cases on daily basis** – Presently, by and large, the hearings at the council are not being held on regular intervals. Hearing happens once in a month and in few places, only few times in a year. Considering the growing number of cases that are getting filed and are helping the MSEs resolve their disputes, it would be ideal situation that the council hears the cases preferably on daily basis, round the year.
- **Execution/Recovery powers to be at council only** – Presently, for execution of award of the council, MSE has to approach the local court. Due to inherent delays in present judicial system, the execution and recovery thereof takes years together, thereby defeating the purpose of SAMADHAAN. If a separate mechanism can be created at MSEFC level that will help speeding up the entire process to a great extent.
- **PAN based search of status of supplier** – The Udyam Registration portal (udyamregistration.gov.in) should enable the search of MSE status of any entity based on the PAN number. This will help in two ways. One, the buyer can check the status of all its suppliers and classify them into eligible MSEs and non MSEs, thereby facilitating MSEs getting their payments on time. Secondly, given the requirements of MCA notification on identification of 'Specified company' and half yearly reporting of MSE dues to MCA, the statutory auditor of the buyer entity can also access the status of all suppliers of auditee, thereby enabling him to form an opinion on the level of compliance of MSMED Act.
- **Necessary amendment to MSMED Act to define "supplier"** – The

'Supplier' definition makes it compulsory for the MSE to have Udyam registration before supplies. Yes, registration is always suggested, however, going by the requirements of the MSMED Act, registration under MSMED Act is discretionary for the Micro and Small Enterprises. Due to this contradiction in definition, many MSEs are losing the benefits of resolving the disputed dues, supplies for which were made before its registration, which doesn't seem to be intention of the MSMED Act, which is WELFARE legislation.

The MSMED Act is here to protect the interest of MSMEs who are the backbone of our economy. Thin margins, stretched credit periods on one hand and lack of awareness about MSMED Act and MSME-SAMADHAAN on the other, it's high time that MSMEs create an organised work culture. At the same time, different regulatory requirements discussed in the earlier paras make it necessary for the auditors of buyers to report whether all MSE suppliers have been properly classified or not, amount paid within 45 days or not and whether interest is paid to them or not. *As partners in nation building, continued participation of CA fraternity, in all welcome reforms, will certainly help the nation achieve all its ambitious goals in days to come.* ■■■



The MSMED Act is here to protect the interest of MSMEs who are the backbone of our economy.

Digital Transformation: SMPs and MSME - What, Why and How?

Over the last couple of years the technology is playing a major role in changing the ways businesses are conducted. All the businesses are riding the technology revolution by adopting to same. MSMEs are an important part of our economy and it's paramount for them to adopt technology and transform themselves to reap benefit of the technology. Our SMPs are transforming themselves by leveraging the technology and with their skills and knowledge are well placed to play the role of change agent for MSMEs. The article highlights the significance digital transformation and how it could be implemented. Read on...



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'Digital Transformation' is a buzz word whose roots can be traced back to the time when digital communication evolved. The 'What', 'Why' and 'How' of Digital Transformation has been evolving with times.

So, **What** is Digital Transformation? Digital Transformation is rearrangement of technology, business models and processes to ensure new values for customers and employees in a constantly changing and developing digital economy. Transformation means that it is a continuous process and not just a one-time activity.

There are many myths around Digital Transformation. One of the common myths is that it is 'technology' led. However, most successful Digital Transformation stories have started with a

clearly defined 'vision' and led by business. It is a switch from a reactive to a proactive mode.

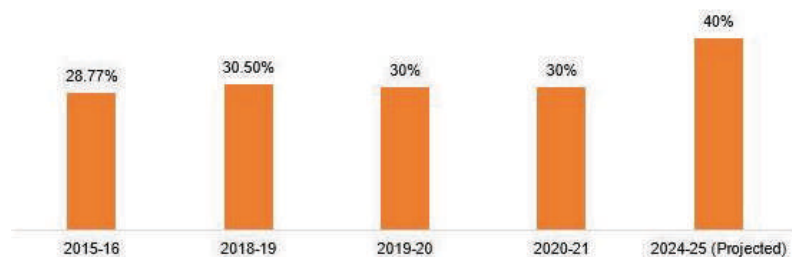
Another very common myth is that it is only for large organisations. While large organisations have more resources at their disposal and can undertake very large-scale transformation, there are more and enough examples where organisations of all sizes have successfully adopted Digital Transformation and reaped long-term benefits of the same.

The 'JAM' (Jan Dhan, Aadhaar, Mobile) trinity has given Indian organisations a robust platform and a push to adopt Digital Transformation and unlock exponential growth. Now is a perfect opportunity for Micro, Small and Medium Enterprises (MSMEs) in India to develop



transformation 'Vision' and use 'Digital' as the core platform of this transformation.

MSMEs across manufacturing, packaging, food processing, chemicals, infrastructure, and IT / ITeS represent a dynamic source of growth for the Indian economy. The MSME sector contributes to the economic and social evolution of the country by promoting entrepreneurship and generating employment opportunities. As per an IBEF report, it contributes 6.11% of the country's manufacturing Gross Domestic Product (GDP) and 24.63% of the GDP through services activity. The sector accounts for about 33.4% of India's total manufacturing output. It employs more than 120 million people in the country and is the second-largest employer in rural India after agriculture.



Contribution of the MSME sector to India's GDP (Source: Press Information Bureau, Government of India)

Why should MSMEs think of Digital Transformation? MSMEs' business is typically driven through niche offerings, limited but captive reach is through loyal customer base and price competitiveness. As the world is becoming increasingly connected digitally, and physical boundaries are diminishing, MSMEs face existential challenges on all the above fronts. The COVID-19 pandemic has forced small business owners to rethink and reshape their business models or analyse the sustainability of their supply chains. Many of them have

realised that they have no choice but to adapt to innovative ways of working if they are to survive the rapid changes happening in the world and a growing number are seeking ways to *transform*.

Traditionally, larger companies were required to take concrete steps and report on their nonfinancial information and cascade those requirements down to the supply chains. Now, with the improving GST framework, increasing use of digital contracting and, push from governments towards formal invoicing by enterprises irrespective of their size, MSMEs need to be ready and equipped to do the same with due diligence.

Manual, inefficient and unscalable processes in microenterprises make a strong case for intervention of technology. An

increasing number of MSMEs are indicating adoption of the latest technological trends. Technology has great power to improve the small business experience for customers and empower them to stand shoulder-to-shoulder with big corporates. All the sectors including MSMEs are on their way for significant transformation due to digital initiatives by new age technologies such as data analytics, machine learning and artificial intelligence. However, the depth of digital readiness and requirement can vary significantly across sectors.

The transformation can be driven through automation and / or digitisation of one or more of following areas:

1. **Core Processes:** Processes are typically the cost centre for any organisation e.g., for a manufacturing company, production is its core process and automation can play a major role to address poor quality, low productivity, high maintenance, inadequate safety, monotonous work, etc. Depending upon budget and technical capabilities of the organisation, automation can be simple sensor solutions, CNC programmed machines, automated cutting and welding machines, and various robotics solutions etc.
2. **Operations and Supply Chain Management:** With changing requirements and expectations, MSMEs will require the ability to keep tabs on the supply chain and fulfil orders immediately. For this, steps need to be taken to shift to digitise sales, cash flows, stock movement, invoices, receivables, and inventory details. Adoption of technology tools in these areas enhance overall workers' productivity and improve operational efficiency.

“The MSME sector contributes to the economic and social evolution of the country by promoting entrepreneurship and generating employment opportunities.**”**

3. Customer Experience:

Unified and connected experience for customers is paramount. Manual customer management need to be supplemented with alternate channels so that the customer can access all the required information, static or dynamic, at the click of a button. 'Deliver to the customer, when and how they want them' is the mantra. For example, *consumers want to interact from any location (like a daughter working from another state selecting the appropriate groceries for her parents from their local shop), doing different things which find value for them (the daughter selecting products based on nutrition needs through the smart watch tracker of her father), customisation of products or service used (ensuring the product fits the requirements of her parents in a dynamic basis from data obtained) and simpler interactions (least time and efficiency for her to navigate from selection to delivery of the product). This means the erstwhile kirana owner (grocer), who used to know the preferences of each customer attending their shop, will now need to digitally design their service delivery to ensure consistent interactions in a less physically transactional world.*

4. Accounts and Finance:

These areas are typically manual, error prone functions which include repetitive tasks. While typical accounting software help accounting professionals, there is still a huge scope of backward and forward integration.

Once the organisation is sure of the need to undertake digital transformation, the most important question that arises is **How?** The journey of transformation involves multiple steps and requires an ecosystem of enablers and partners. This journey always starts with creating a vision and defining measurable goals taking into consideration MSME's existing challenges, risk and customer expectations.

Digital Transformation

Framework: Key constituents of this framework include People, Process, Technology and Data stitched together by a common 'vision'.

1. **Vision:** Clarity of vision enables faster innovation by a clear roadmap for a change. It helps you focus on what's important. When the vision is not clear, it affects the adoption of the same.
2. **People:** It is the single most important aspect of any transformation. A strong leader and a talented team may not always guarantee success but the lack of it almost guarantees failure. Transformation is always driven top down. Begin right at the top, with a change in leadership or style of leadership. Gather resource and skillset /upgrade the existing resource, bridge gap between talent supply and demand.

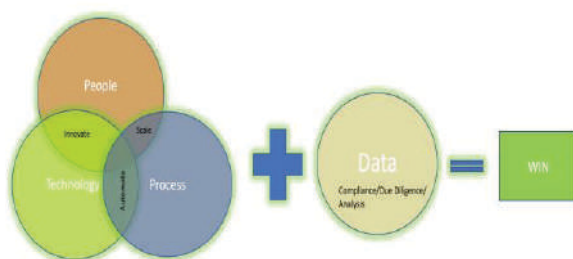


A strong leader and a talented team may not always guarantee success but the lack of it almost guarantees failure. Transformation is always driven top down. Begin right at the top, with a change in leadership or style of leadership.

3. **Process:** Defining processes means replicating defined steps and frequently accomplishing the expected results. Such steps can be monitored, and improvements can be applied and quantified. Shifting from activities to processes is a very important step to introduce a structured way of working.
4. **Technology:** Right technical infrastructure is key to successful digital transformation. There is no dearth of technology in the market, in fact, there are so many choices available that organisations tend to get confused about which technology to choose. With the advent of Platforms, FinTech and SAAS based companies, the cost of acquiring and testing

technology has significantly gone down. It is possible for an MSME to subscribe to end-to-end analytical capabilities or adopt a fully equipped CRM.

Digital Transformation Framework



5. **Data:** A very important addition to this framework is 'data'. With the rapid rise in digitisation, there is abundant data which is available. Many visionaries say that 'data is the new oil'. MSMEs generate data through their normal course of business, acquire data through sales / marketing activities. This data when converted into insights can generate wonderful results.

The framework shows how these components integrate with each other to generate 'Scale', 'Automate', and 'Innovation'. When people interact with process, they accelerate the growth at scale. Process can enable each individual to be as productive as a set of ten people working without a process. An excellent example of such transformation can be witnessed in Quick Service Food companies. Food companies have standardised processes in order to franchise. Here people interact with the process and deliver uniform experience across all franchises. Next, when people interact with technology, 'innovation' happens. Creating new ways of doing things, using technology in day-to-day tasks lead to innovative ways of doing business. At last, interaction of process with technology results in automation. Most organisations including MSMEs have already figured it out and look at process automation as the first part to begin their transformation journey.

'Scale' with 'Data' can prioritise areas of scalability. 'Innovation' interacts with 'Data' to result in measurable and commercialised outputs. 'Automation' with 'Data' leads to efficiency and increased productivity. When an organisation successfully manages the interactions of all of these factors, it grows; it wins.

The Enablers: External environment, government policies, overall infrastructure play the role of a great enabler for any organisation throughout the transformation journey and more so in the beginning of journey.

- **Government:** The Government has been putting in efforts to support MSMEs via various initiatives like Stand-Up India, Start Up India, Mudra loans, Udyog Aadhaar etc. the Government also plays a key role in making affordable technologies accessible through its interventions in the forms of subsidies, campaigns and designing training programs which can address key skill gaps across supply chains.
- **Digital Infrastructure:** India's digitalisation endeavours are keeping pace with physical infrastructure needs, thereby, increasing advancements in digital penetration. Social media platforms such as WhatsApp, Instagram and Facebook, among others have helped to connect the dots in encouraging digital adoption among small business owners. As *per a CRISIL report*, 47% of micro enterprises and 53% of SMEs have adopted digital sales platforms in India.

Examples include Digital payments instruments like UPI (Unified Payment Interface), AA (Account Aggregator) model introduced by the RBI and the new e-commerce innovation – ONDC (Open network for Digital Commerce). These enablers also unlock faster access to credit for many of the microenterprises.

- **'Outside-in Perspective':** Digital transformation goes beyond tools and technology. It changes the way an enterprise works. That is why getting an external professional opinion can be so valuable in this case. It can be difficult to see threats or even opportunities for growth from inside. SMP's can often identify these things faster and help MSMEs navigate through them. Not all organisations can afford a large consultant or a large accounting firm to help them in their transformation journey and hence the role of SMPs become very crucial as they have a thorough knowledge of the client's business as well mutual understanding for the successful relationship. SMPs can act as catalyst in helping their clients overcome resistance in adopting digital technologies, which is further associated with their lack of understanding, capacities and capabilities.

Role of Accountancy Profession

To play their role effectively as an 'enabler', Chartered Accountants need not restrict themselves to accounting and books finalisation only but it is time for them to act as tech-enabler. SMPs can provide



Transformation is not only about intervention of technology and digital tools. It calls for 'Change' in the mindset, in the culture and in the way 'business is carried out as usual'.

in-depth analysis, as an 'outside-in view', needed to enable their clients to make better informed decisions. They should encourage their clients, especially in MSME sector, to move from any manual activity to automated activity.

Reflecting upon success stories of multiple transformation projects (small to large scale), it is recommended that SMPs should sensitise the clients who are looking to start their transformation journey as follows:

Keep it Simple:

1. **Understand 'AS-IS':** In most cases, you will not find 'AS-IS' process documents, this step starts from defining 'AS-IS'.
2. **Design 'TO-BE':** Once you have 'AS-IS' process signed off, design the 'TO-BE' process expected after automation.
3. **Work on the key principles of 'Input à Process à Output':** Input (historical data input for specific activity / process, automated entry from upstream, portal etc); Process (Segregation of input wise process is key to success; Output (what we are planning to achieve out of above – at all the levels of organisation be it working level, mid-management, senior management and leadership).

Curious and creative SMPs can do wonders in this area.

Change Management:

Transformation is not only about intervention of technology and digital tools. It calls for 'Change' in the mindset, in the culture and in the way 'business is carried out as usual'. Through proper hand holding, providing appropriate

training support, alleviating fears of employees that technology is not meant to cut jobs and making sure that the 'vision' is percolated to all the levels, businesses can appropriately manage change. Digital adoption precedes digital integration and requires stakeholder management, cross-functional engagement within an enterprise to ensure effective and rapid development with business-focused philosophies.

Agility: The very fact that transformation is a process and not an event, requires enterprise to work on continuously. Technology is constantly evolving, and enterprises must continue to evolve if they want to keep up with their competition. SMPs as business advisors can help make the changes MSMEs need today and create a roadmap that will help them continue to adapt and reach goals in the future.

Beware of Challenges:

Budget deficiency, high cost of investment, low skilled resources, inability to understand technology, data security, privacy concern, insufficient information regarding digital standards are the typical challenges that enterprise should be made aware of along with the steps to overcome these.

In summary, over the past few years, COVID, customer demands and government policies have pushed rapid adoption of technology in various sectors of the economy, the MSME sector has had a late start and has only recently started harnessing technology and digitisation for growth. Examples are abundant – a handloom maker in Panipat making use of online platforms and selling goods on e-commerce platforms



SMPs as business advisors can help make the changes MSMEs need today and create a roadmap that will help them continue to adapt and reach goals in the future.

like Flipkart, Amazon etc; an agri-product unit in UP making use of an agritech platform not only to sell its products through online mandi but also using the platform to buy farm inputs, see weather and soil information; a brand like Woodland making its network of over 500 stores omni-channel to give customers a seamless shopping experience across the stores; a cloud kitchen working on a hub and spoke model thereby delivering food across the city without incurring extra infrastructure cost; a firm into selling of tiles, home improvement material making use of virtual reality for their customers to visualise how the material would look like in their home settings are all examples of MSMEs transforming themselves digitally either to capture new market, reduce cost, new ways of selling, increasing productivity.

As the economy is witnessing a V-shaped recovery, the opportunities to grow are unprecedented. SMPs need to up their game and need to help their MSME clients integrate technology into various aspects of their operations – ranging from logistics and supply chain management, working capital and credit, payments, accounting and compliance, among others. ■■■

Beyond Balance Sheet – A Wealth Maximiser approach for Chartered Accountants

The Chartered Accountants are well versed with various concepts of finance and taxation. In fact the profession is sought after for its expertise in these areas. The article revolves around and explores the application of these skills and knowledge beyond the traditional field to new and emerging play of Wealth Management. The Chartered Accountancy profession is well poised to delve in this area and develop it as a practicing avenue for the future. Read on...

The profession of Chartered Accountancy is known for their financial acumen and knowledge about taxation and accountancy. It is their ability to apply knowledge to real-time that sets them apart. They are known as taxation and financial experts and its time that profession should think about value creation by applying these skills in the emerging field of wealth creation.

As a student of commerce in high school, my favourite subject was Accountancy (no doubt it is today too!) and nothing other than the CA course was my dream. Because if you love accounting, you ought to be a Chartered



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Accountant! When we look at a Balance Sheet or a Profit and Loss account there are three aspects: one from the perspective of the preparer, second from the perspective of the user and, third from the perspective of an auditor or a regulator. All of them use the same terminologies: Assets, liabilities etc., but in a different manner. In the course of time, I became a portfolio manager and I am still using the same accounting training but in a different way.

Recording Other People's Money V/s Managing Other people's money

While we prepare the balance sheet, we have to record all assets, cash flows, expenses and income of our client. As

auditors, we dig deeper into those numbers just to find out if some errors of omission or some real mismatches that must be reported to the shareholders. For us as Chartered Accountants, they are numbers, and we never try to think beyond because that is what our job is. We cannot believe in any future projections and are trained to always be conservative and ethical in our approach. This is a typical concept of recording another's money.

Times are changing and so are we. A Chartered Accountant now has to look beyond only the balance sheet and start thinking of managing money as well. The client's and Balance Sheets will be same but our solutions will be way forward and more future oriented.



A Client's Life Balance Sheet Approach

To better comprehend the financial position of an individual and to manage the associated risks by that individual—an economic balance sheet (or holistic balance sheet) can be used. A wealth manager will always see an individual's assets that are made up of mainly two components - human capital and financial capital, which has its own risks to manage.

Human capital is the net present value of an investor's future expected income weighted by the probability of surviving to each future age. Financial capital includes the tangible and intangible assets (beyond human capital) owned by an individual or household. For example, property, vehicle, equity and other investments, and money in the bank are all examples of an individual's financial capital.

In 2006, famous authors Wilcox, Horvitz and Di Bartolomeo developed the notion of a life balance sheet, which is a comprehensive accounting of an investor's assets and liabilities, both explicit and implied. Explicit assets consist of financial assets (e.g., stocks and bonds), real estate, and other property that can be readily liquidated. A notable implied asset for many is the present value of one's employment capital, often referred to as **human capital or net employment capital**. Expected pension benefits are another implied asset that, although non-tradable, provide specific value to the investor.

On the right-hand side of the life balance sheet are an investor's liabilities. Explicit liabilities, such as mortgages or loans, are fairly obvious entries. Less obvious are implied liabilities that represent the capitalised value of the

investor's desired spending goals. These goals may include providing for a secure retirement, funding children's education, providing a safety reserve for emergencies, or earmarking seed capital for business ventures. The amount of capital required to fund spending to maintain a given lifestyle, fund these goals, and provide adequate reserves for unexpected commitments is called core capital.

Exhibit 1 presents a hypothetical life balance sheet with assets listed on the left-hand side.

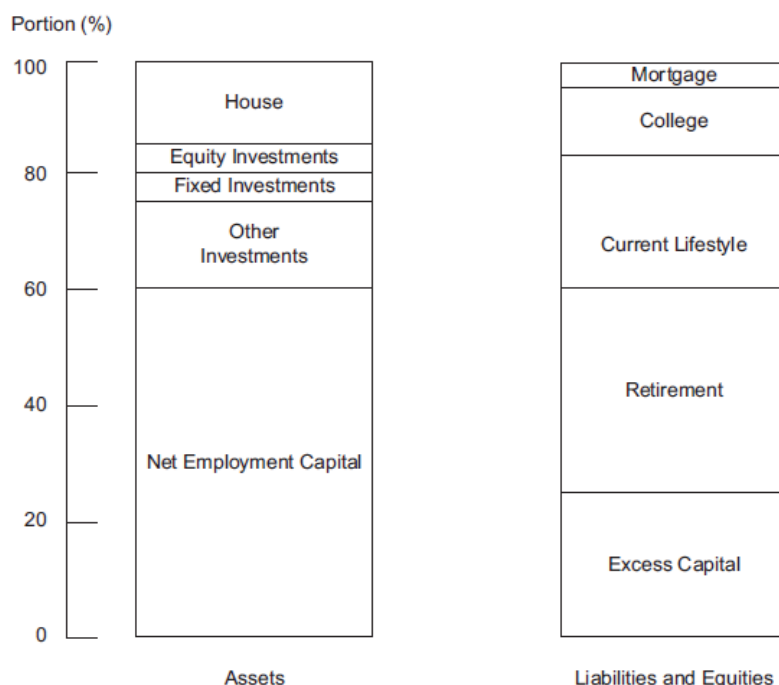
Notice that the capitalised value of the investor's college funding obligations, retirement spending, and safety reserve, is represented by the implied liabilities on the right-hand side of the hypothetical balance sheet.

that can be safely transferred to others without jeopardising the investor's lifestyle. And that's where the accounting approach ends and wealth maximisation approach starts.

The Balance Sheet approach provides a detailed overview of an individual's total wealth portfolio. It basically provides picture of improving traditional balance sheet assets with human capital and pension, and expanding liabilities based on future life goals.

For individuals in the early stage of life, human capital is much larger than other assets on the Balance Sheet and hence cannot be ignored. For those who are eligible for a guaranteed pension or retirement income, the present

Exhibit 1: Hypothetical Life Balance sheet



*Size of the box indicates % portion in total

An investor with more assets than liabilities on the life balance sheet has more capital than is necessary to fund their lifestyle and reserves; and therefore, has excess capital

value of these assets is important and is of great significance to older individuals. Let's take the example of an individual who has just joined a large MNC firm



A wealth manager will always see an individual's assets that are made up of mainly two components – human capital and financial capital, which has its own risks to manage.

after completing MBA from IIM and looking for advice about his taxation and current level of savings. The person should be guided to have goal driven approach rather than consumption driven approach and informed about life balance sheet approach and how his present level of assets and liabilities will keep evolving further with time. This enlightenment will encourage him to talk more about savings and investments than only focus on his current level of taxation and earnings.

A traditional Balance Sheet approach enables us to understand about marketable assets that exist today, however it offers limited insights on how to optimally utilize these assets to maximise the expected lifetime value of the individual (a concept economists call "utility"). An accountant with a wealth maximisation objective can use economic balance sheet approach to support his clients to comprehend how the available resources can be put to use in funding life goals over the remaining lifetime. When we actually showcase the significance of human capital and other assets through the balance sheet approach to create wealth for future, the attitude of the client changes and shifts towards the accountants to consider them as guide for managing wealth.

As Chartered Accountants, we are well versed and equipped to perform the functions of wealth

management to support our client's in managing and building their wealth to meet out their current and future aspirations.

Think Future, and Talk about Investment Policy for Your Client

A Chartered Accountant generally advises client regarding investments with respect to tax planning under chapter VIA 80C to 80U. Besides taxation, he needs to address short term, medium term and long-term goals of the client and should map financial instruments based on the cash flows, risk, return, loan repayments, insurance, retirement, and different financial needs of the clients in sync with tax planning. i.e., Investment Policy Statement (IPS).

Financial Planning and wealth creation starts with IPS. it's a transcript guide prepared between an advisor and the client that defines general rules for investment goals which meets the goals of a client and describes the plans that should be engage to meet these goals, so whenever a client comes to a Chartered Accountant for Financial Planning and wealth creation, they are required to implement the appropriate asset allocation, identify the risk and should give appropriate plan in order to generate or preserve wealth.

As an adviser they should counsel the client by addressing priorities of goal to generate wealth. This counselling and discussions must include (but not limited to) factors like:

- I) **Required rate of return-** Based in time horizon, the required amount for a goal and its present value
- II) **Risk taking ability, based on client's age, time horizon and risk capacity and**

- III) **Behavioural loss tolerance** based on risk preference and risk perception of the investor.

Investor's risk profiling

A wealth manager should describe and identify acceptance for risk while designing investment policy statement. He must acknowledge that portfolios are subject to risk. So, he should talk to the client to identify the potential risk and tolerance of the investor and should map the financial goals with the portfolio subject to risk and returns. He may design a questionnaire to identify the behavioural nature of the client and can consider questions to identify the behaviour, risk tolerance or risk needs of the client. Questions to be considered can be—

- i) In case of investment erosion due to stock market crash what action will the investor take?
- ii) Investor experience about investment products.
- iii) Investor preference to hold risky assets.
- iv) Investor knowledge about stock market etc.

Risk profiling and portfolio allocation- A Traffic Signal Approach

With required information gathered from the client, a wealth manager can assess the client's profile with the analogy of traffic signals and accordingly suggest portfolios as below,

- Green light
- Yellow light
- Red light

Green light profile means data is adequate to take necessary action and Advisor can recommend highly volatile portfolio (equities) for the clients who maintains high risk ability and high loss tolerance

even if risk need is moderate or low. Similarly, he will allocate low volatile portfolio in case risk taking ability and behavioural loss tolerance is low.

Yellow light profile indicates that investors risk taking ability is greater than behavioural loss tolerance. This means education is required and advisor can guide and impart knowledge the investor and after discussion, he is capable of addressing the behavioural attitude of the investor to be consistent with risk taking ability.

Red Light Profile An advisor must identify investor's risk taking ability and in case required rate of return to accomplish the goal exceeds investor risk taking ability due to various reasons, it is a trigger for red light. Red light situation means there is a requirement to reevaluate the goals and re-establish investors' expectations. It is wise to discuss with the clients and recommendations will be possible when required rate of return are adjusted downwards.

Client's requirements

A Wealth Manager must talk with his client about their financial planning, life goals and share insights about wealth creation to make them aware about managing their assets to live a financially independent life. The solution is investing early to create wealth and hence following discussions about wealth creation and requirements are important:



A Chartered Accountant generally advises client regarding investments with respect to tax planning under chapter VIA 80C to 80U.

Regular income

Investments into growing assets will aid in generating alternate sources of income. For example, investments in equities, mutual funds or debt instruments will help in generating income through interest or dividends. These investments could help in building additional source of income that will help one in retiring peacefully and have financial independence.

Retirement planning

The benefits of investments are appreciated during post retirement years. Building a separate retirement corpus will help investors in leading a stress free and healthy retirement. Retirement is the time when one's savings or investments do the work for them.

Goal based investing

All of us have our aspirations and goals about the future. Starting small and early will help in wealth creation. Though behaviourally challenging but having an investment fund for each goal will help in realising them. Therefore, aligning investments to financial goals will help individuals to create wealth and can be a healthy discussion points with the clients.

Always take a Portfolio approach - I can break a pencil but I can't break 50 pencils tied together

A portfolio consists of many uncorrelated assets, like equities, bonds, real estate etc. Your client's will come with different backgrounds and many times seems tilted or behaviourally skewed towards a particular asset class like real estate or equities. We should explain to them the risks of putting all of their money in highly correlated assets and not diversifying enough. Also, the returns should be seen on portfolio basis. One of my friend made good money in equities over long term



The benefits of investments are appreciated during post retirement years. Building a separate retirement corpus will help investors in leading a stress free and healthy retirement.

but all his money invested in crypto market is down by 50%, when I showed him his overall return on the portfolio (equities + Crypto), which was not even FD returns taking together, he understood the concept of portfolio and listened to the further advice.

Conclusion

Wealth creation is simple when done right and advised right. Behaviour control, discipline and commitment to investing is the key to create wealth. The power of compounding can help in multiplying returns if the time horizon is long term. With various investment opportunities available in the market, it is essential to pick the right one that helps in wealth creation. Moreover, wealth creation aligned with life goals or financial goals, will help investors stay motivated.

As a wealth advisor to the client a chartered accountant, can act as a guide to wealth creation. Clients and, investors seeking to create wealth in the long term can invest through a professional and enjoy their well curated investment solutions done by their financial planners based on their financial position as well as their spending pattern. I am sure providing financial education to your clients will not only help their growth but also as a professional accountant it is an opportunity for financial, professional and intellectual growth. ■■■

Practice Management Solution – a necessity for New age

In the post-COVID scenario, technology advancement and digital boom has changed the working pattern of each one of us. It has opened a profusion of opportunities for professionals like Chartered Accountants. We have a wide stream of avenues now which were not even heard before. These opportunities have come with its own set of challenges. To meet those challenges, reforming changes are expected in the way a practice is managed. As Kent Beck has rightly mentioned - “The business changes. The technology changes. The team changes. The problem is not change per se, because change is going to happen; the problem rather is the inability to cope with change when it comes.” Read on...



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Introduction

Building the necessary IT infrastructure and staying updated with the latest technology will be essential for every business to remain competitive. This will not only help us in improving efficiency and effectiveness but also help us overcome geographical barriers in delivering our services. We have seen a tremendous increasing trend in the volume of cross border services. Firms that take initiative to be technology driven and adopt change will set the platform for success in future. It is very well said that every success story is a tale of constant adaption, revision, and change. We are at the spearhead when it comes to adapting new law and regulation. Chartered Accountants have this amazing capability to be well versed with any law and regulation in a matter of few days

but somehow find it arduous to implement modern technology, many times not because of the complexity but because it has never been our predominant concern.

The concept of practice management solution has gained mammoth adoration over the last few years. Earlier this kind of solution used to be implemented by bigger firms for better tracking and effectiveness. Today, having a practice management solution for CA firms has become imperative. It is no longer just the big few selected firms who need to be efficacious. Professional firms of all sizes must implement this solution eventually to deliver value to the clients. Small and Medium Practitioners (SMPs) are core to the economic growth of a developing country like ours. Considering the cutthroat world of competition and the sword of



interminable due dates constantly hovering over CA professionals, having an office management solution becomes even more indispensable. Increased opportunities knock the door for SMPs in areas such as IFRS compliance, forensic accounting, fiscal reporting, taxation, auditing, assurance to name a few. To grab those opportunities, it has become crucial for professional firms to increase their perceived value in the eyes of prospective clients.

With the concept of Make in India and the manufacturing sector gaining favourable reception, the demand for CAs has been on the rise. Increased businesses are being established and they look up to SMPs to help them in compliance, policy, and regulatory matters.

These practicing firms provide MSMEs all range of services right from initial compliance for setting up of business to taking care of their finance, taxation and consulting needs.

To ensure team members are more efficient and productive, a mechanism needs to be in place. This is where having a practice management solution proves to be vitally important.

When we think about "Practice Management", the first thing that comes to mind is about "Task Management and Time Sheet". While Task Management is at the heart of the Practice Management, it is much more than that. It encompasses team members' performance tracking, client experience, billing and receivables

management, communication between team members, providing a single source of truth for all the data along with intelligence built upon it.

Current Trends in Practice Management Client Portal

While client portal is not something newly discovered, CA Firms have started implementing it with more vitality than before. As more people embrace a the online shopping and learning experience, they have started expecting the same experience from their Chartered Accountants. This is where the trend started for providing Clients with a Mobile App to fulfill their insatiable desire for real time access for their ongoing engagements.

The Client Portal typically provides:

1. List of tasks which are currently in progress, completed and stuck
2. Option to download files which are uploaded by their CA
3. List of documents which are - pending to be submitted, submitted, pending to be returned (Inward outward register)
4. Ability to submit documents. This entails uploading the files on client portal
5. Ability to view current outstanding balance and list of invoices

• Leave Management

Gone are the days when leaves were approved just on the basis of inkling and vague sense of work pressure. CA Firms are increasingly relying on the Team Member's calendar to check what tasks are due from him/her. In several organisations, we can see a shift in the leave approval mechanism



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changing from being subjective to objective. Team member can proactively complete their assigned tasks and then have a quality work-life balance.

An objective data-driven leave approval process builds an environment of trust, dedication and level-headedness which benefits both the employee and the firm in the long run.

• Geo Location based attendance

When team members are working from the Client's premises, it is imperative to know their log in and logout time. This can help prevent time theft and can also eliminate buddy punches. As more and more SMPs thrive to deliver excellence in their area, another reason in favour of this feature is to have a peace of mind. Firms that have a well-defined policy for punctuality leave a stronger mark in the eyes of Clients.

• Communication

For almost a decade now, WhatsApp has become a solitary mode of communication between team members in office.



Small and Medium Practitioners (SMPs) are core to the economic growth of a developing country like ours.

While it is great for personal use, it is not suitable for office communication.

It is important to have a fine line between office communication and private communication. Firstly, a dedicated messaging app allows faster access and gives a better overview of everything that is relevant for the internal team communication and thus shoots up the productivity. Secondly, employees do value the separation of personal and professional messages and a dedicated messaging tool ensures that.

We are also seeing the emergence of communication apps that integrate with Practice Management Solution.

- **Password Access Management**

CA firms understand that providing team members access to client's password is a risk which must be accepted. Providing access of all client passwords to all team members unlatches the firm to inflated risk. Ensuring the safety of clients' confidentiality is important, team members should only be given access to passwords for the clients which they are currently working on. This access should be revoked immediately as soon as the task is completed. Practice management solutions helps to automate this password access management.

As firms scour risk reducing methods, implementing a solution for password access management has picked up momentum.

- **Actionable Dashboards**

Dashboards usually give a holistic overview of the entire

organization. Timely and informed actions can make a huge difference in day-to-day operations. The amount of data that a CA firm deals with on a daily basis is gigantic. Being able to reduce such massive amounts of data to fit onto a few small screens is not just the definition of convenience but also an important decision towards enhancing productivity.

As firms scale up, partners increasingly rely on a bird's eye view of the firm's engagements to identify which tasks require their attention.

- **Transparent Fee Increase**

In the current age of intense competition, several clients are onboarded by offering rock bottom pricing. It is pertinent to check if the client is profitable in the long run. The number of hours worked for that client at all staff level is an important indicator in this regard. If the client is non-profitable, the fee would undergo a change. But a question arises on "By how much?" Here timesheets can help to ascertain the quantum of fee increase required to be profitable and still be competitive.

Businesses are seeing big strides in every industry. This can result in sudden surge in growth of our Client. With business growth, the time required to complete engagement may also increase. Practice management solution helps to identify these trends and helps to have timely discussion on fee revision.

- **Anytime anywhere access**

The old adage states - "You can't be in two places at



As firms scale up, partners increasingly rely on a bird's eye view of the firm's engagements to identify which tasks require their attention.

once". Even in today's modern digital age this is still true. Today SMPs need a powerful platform that allows them to access their client data and have a bird's eye view of the headway of employees work anywhere and at any time using a pure web-based architecture. Gone are the days of being tied to a static workstation or a single office location.

SMPs are implementing solutions which allows team members to collaborate anytime and anywhere with just an internet connection without any restriction as to the type of device or technology.

- **Right people on right job**

It is indispensable to allocate right team member on right job. A senior team member working on a task budgeted for an Articled Assistant negatively affects the engagement profitability whereas placing the right person on the right job can be a gratifying experience.

The amount spent on HR has consistently gone up in the last decade in India. This is especially true in the CA profession. More offices are employing tools to track team members efficacy. These tools also factor in team members' current workload and past performance.

Key considerations

• Security

Considering the conservative Indian scenario, we are slowly unwinding the myth surrounding security of an online solution, owing to the COVID era. SMPs need to consider security as a top priority and enabler, regardless of whether their goals are to grow and transform or increase the agility and quality of service delivery to clients. A good cloud solution will be well protected in case of a targeted attack than an inhouse solution as IT companies invest heavily on securing infrastructure and live threat monitoring.

Checking on the following parameters can give a decent level of comfort – which cloud service provider the Practice Management Solution is using, Service Level Agreement, how long has the Practice Management Solution been in the market or the Developer of the Practice Management Solution is into this segment.

• Pricing

Gone are the days when software implementation was considered to be a one-time expense. With the



SMPs need to consider security as a top priority and enabler, regardless of whether their goals are to grow and transform or increase the agility and quality of service delivery to clients.

trend shifting from capital expenditure to operating expenditure, we are no longer looking for a technology that will depreciate over time. The needs of modern-day practice have undergone change. Updates are required on a real time basis and technology is becoming redundant at a faster pace. Hence we need Software as a Service (SAAS) product rather than one-time implementation. It has become paramount to gauge that the road map of this SAAS product matches with what we as an organisation need in long run.

• After sales service

One of the important considerations in finalising a Practice Management Solution must be after-sales service. All these software being a SAAS product, it becomes crucial to evaluate the support provided in use and implementation. It is always possible that issues may develop even with the latest software updates, one needs to evaluate whether the Support will be there from the Practice Management Solution developer to troubleshoot and resolve issues efficiently. A brief background check of the vendor and his approach in providing client satisfaction are imperative. A vendor who understands the way a business functions and shares the thought process will definitely aid be a boost in the long run.

Conclusion

SMPs need to evaluate and decide the most comprehensive and user-friendly solution that serves their office needs. While selecting a solution, SMPs also need to take into consideration their current and future needs. These solutions are not changed very often and in such



SMPs need to evaluate and decide the most comprehensive and user-friendly solution that serves their office needs.

a case, it is important to take into consideration the future needs.

It is an old wives' tale that implementing a practice management solution involves enormous time, resources and budget. A smooth implementation can often easily be done without disturbing the existing schedule & most of the solutions available in the market are affordable. The benefit that SMPs are bound to derive in the long run tremendously exceed the cost incurred. Most of these solutions are implementable at less than 2% of staff's monthly salary expense. The key step is to identify the resources who will be involved in implementation and setting standard operating procedures.

Once implemented in the right sense, it will prove to be a true partner for CA professionals and empower them to sail over the challenges in our everchanging landscape and web of new regulations, laws, and compliances. We are in an age where we need flexible and agile solutions to meet business needs that are relatively easy to implement, configure and update.

To conclude, it is said, it takes years to build a culture but once we have the right culture we are already a step ahead of our competitors. By optimizing day-to-day office activities, it is possible to save a great deal of time and resources which enhances capabilities to the maximum.



Financial Position and Performance of the Indian Companies Pre & Post Adoption of Indian Accounting Standards

Indian Accounting Standards (referred to as 'Ind ASs' in short) which have been converged with International Financial Reporting Standards (referred to as 'IFRSs' in short) have now become a reality. The transition from existing accounting standards notified for companies to Ind ASs is a historic and landmark change. By making National Accounting Standards at par with IFRSs, the companies and accounting professionals in India enjoy the benefits of global accounting standards. In spite of many challenges, implementation of Ind ASs will result into a significant improvement in the corporate financial reporting including global comparability mainly because of the Ind ASs being principle-based standards, besides their being more transparent and containing more disclosures. Read on...



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The aim of present study is to analyse and compare the financial position and performance of IT and FMCG companies in India in the pre and post adoption of Indian Accounting Standards. The data for the study conducted were collected from 10 IT and 20 FMCG companies listed on National Stock Exchange (NSE) in India. The finding indicates that there is a significant improvement in the financial performance (operating profit) of these

companies after adopting Indian Accounting Standards. It is suggested that the successful implementation of Ind ASs will keep on producing more useful information in comparison to Accounting Standards (ASs).

Introduction

A globally accepted set of accounting standards results into relevant and reliable information for the stakeholders for their economic decisions because of their being transparent and





Ind ASs are formulated by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) under the authority of the Council of the ICAI and are issued by the Ministry of Corporate Affairs (MCA) in consultation with the National Financial Reporting Authority (NFRA).

principles-based standards. Multinational businesses, business combinations and other aspects including the need of global comparability of financial reports of corporate organizations are some of the reasons that people all over the world agree that there should be a single set of financial reporting standards for the whole world. However, it is definitely a huge challenge to have one set of financial reporting standards for the whole world and this may remain a challenge in the time to come. The basic objective of formulation and implementation of Ind ASs is to improve the two main qualities i.e., the relevance and reliability and thereby the global comparability of the financial reports of the Indian companies. In this backdrop, the present study aims at exploring impact of Ind ASs adoption on the financial position and financial performance of Indian IT and FMCG sector companies.

Ind ASs

Ind ASs are formulated by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) under the authority of the Council of the ICAI and are issued by the Ministry of Corporate Affairs (MCA) in consultation with the National Financial Reporting Authority (NFRA). The ASB of the ICAI finalizes these Ind ASs after following a detailed procedure including wide consultation with various stakeholders including representatives from all the areas including government departments, academicians, other professional bodies viz. the Institute of Company Secretaries of India (ICSI), representatives from the Associated Chambers of Commerce and Industry of India (ASSOCHAM), the Confederation of Indian Industry (CII), the Federation of Indian Chambers of Commerce and Industry (FICCI), etc. Ind ASs are named exactly in the same way as the IFRSs and they are also numbered broadly in the same way as the IFRSs. As on date, 39 Ind ASs are applicable as notified by MCA. Ind ASs are applied to the companies mandated under the roadmap issued by the MCA for the financial year commencing on or after 01.04.2016 on a mandatory basis.

Much discussion was made throughout the world regarding the adoption of/convergence with the IFRSs. As a result, many issues were found regarding the adoption of/

convergence with the IFRSs and the main issues were found related to the huge differences in the laws of the different countries of the world.

The former chairperson of the International Accounting Standards Board (IASB) provided just one example of difficulty in the achievement of goal of convergence with IFRSs in Europe: "In the UK, what is not prohibited is permitted. In Germany, what is not permitted is prohibited. In the Netherlands, what is permitted is simultaneously prohibited even, and in France, what is prohibited is simultaneously permitted even. It becomes very difficult to meet the needs of the countries like, Japan, the USA and China." (Kieso, Weygandt, & Warfield, 2016). IASB is the main Accounting Standard body on global level which formulates and issues the IFRSs. The basic objective behind formulation and issue of IFRSs is to enhance uniformity and fairness in the financial reporting by establishing principles and minimizing the number of alternative accounting principles for the financial



Some countries have adopted IFRSs whereas other countries, instead of adopting, are trying to converge their accounting standards with IFRSs. India has converged its accounting standards with IFRSs.



The financial condition of an entity can be understood by examining the information contained in its Balance Sheet and its comparative financial condition can be understood by comparing the information contained in its balance sheet with those contained in the balance sheet of another entity.

transactions and other events to the extent possible even though the complete elimination of the said alternative accounting treatments is not possible. Some countries have adopted IFRSs whereas other countries, instead of adopting, are trying to converge their accounting standards with IFRSs. India has converged its accounting standards with IFRSs. There are many reasons that there has arisen a need to have a single set of financial reporting standards on global level. These reasons include the companies of one country doing businesses in other countries of the world (for example, Wal-Mart Stores, Royal Dutch Shell, etc.), the huge spread of e-commerce business, international financial transactions, listing of companies of one country over foreign stock exchanges, among others.

The ICAI constituted the ASB. ASB follows the due process for standard setting activities.

The huge pace of change in the Indian economy attracted foreign investment in the country. Indian companies are required to follow Ind ASs which are based on IASs and IFRSs. Ind ASs have been applied in the different phases to different types of companies. Professional bodies in the country are taking the implementation of Ind ASs very seriously by means of organizing training sessions and seminars to equip the stakeholders with the adequate knowledge to assist in making the smooth implementation of Ind ASs and also to find out what challenges and opportunities IFRSs may pose and provide respectively.

Financial Position

Financial position of an entity is reflected by its Balance Sheet. The financial condition of an entity can be understood by examining the information contained in its Balance Sheet and its comparative financial condition can be understood by comparing the information contained in its balance sheet with those contained in the balance sheet of another entity. The relevant comparison can be made by calculation of relevant financial ratios and trends of various items of entities in the same industry. Financial position of an entity is reflected by its leverage, solvency and the level of its working capital. This financial position indicates the ability of an entity to survive and this applies equally whether entity is large or small.

It is a necessity for a business to maintain a proper amount and composition of various assets. Paragraph 4.3 of the Conceptual Framework for Ind AS defines an asset as “A present economic resource controlled by an entity as a result of past events”. It goes without saying that a business cannot survive without resources. Examples of assets include trade receivables etc. and property, plant and equipment etc. which come under the category of current assets and non-current assets respectively.

So far as the liabilities are concerned, an entity should have neither excessive liabilities nor very less liabilities i.e., it should have adequate amount of liabilities to grow the assets it holds. Excessive liabilities position called over leveraged may result into financial failure whereas very less liabilities may result into under growth of the assets of the company. Paragraph 4.26 of the Conceptual Framework for Ind AS defines a liability as “A present obligation of an entity to transfer an economic resource as a result of past events”. because of past events if the said obligation is a present obligation. Examples of liabilities include current liabilities such as trade payables etc., non-current liabilities such as long-term borrowings etc.

Paragraph 4.63 of the Conceptual Framework for Ind AS defines equity as “the residual interest in the asset of an entity after deducting all its liabilities”. Examples of

equity include equity shares, preference shares not classified as a liability, reserves and surplus such as general reserve, balance in profit and loss statement etc. Equity belongs to the owners of the entity.

Review of Literature

Achalapathi. K.V and Bhanu Sireesha. P (2015) found that there was a statistically significant increase in terms of profitability, liquidity and valuation ratios. They also found that the voluntary adoption of IFRSs led to the optimization of ROA (Return on Assets) and ROE (Return on Equity) of Indian companies. They also found no significant impact of convergence on profitability and liquidity of the companies selected by him.

Sambaru M. and Kavita N.V. (2014) have found that the adoption of Ind ASs in India will be challenging but will be rewarding because of enhanced disclosures. They have found that Ind ASs based financial reporting will be transparent and will be a faithful representation to all the stakeholders. They found that the ultimate impact of Ind ASs will be the enhancement of reliance and trust of the stakeholders in the financial reporting of the companies related to presentation of financial position and performance in a better way by means of Ind ASs.

A study (2016) was made on "Ind AS Impact". The report found that there were a lot of changes in the

financial statements. But it did not forecast any rating or criteria changes because the fundamentals remained the same. The report found that the Ind ASs would improve the quality of financial reporting. Further, the financial statements would be impacted by some of the Ind ASs, especially the revenue recognition and fair valuation. It could also impact many other aspects such as valuation of Assets, Employee Share Based Payments etc.

A study conducted in 2016 made an effort to understand the experience of Indian companies in the process of implementation of Ind ASs. For this purpose, they reviewed the financial results of 60 companies, which are in BSE's top 100 list. These companies were covered in phase 1 of the Ind AS roadmap issued by MCA. They found the impact of Ind AS on companies as a mixed trend. They found that the companies needed some more time for the purpose of detailed reporting based on Ind ASs.

Further financial results of around 125 companies were studied under a study in the FY 2017 for a period of the first three months. It was found that the companies belonging to the manufacturing and information technology sectors required to make the highest number of adjustments as compared to other sector companies. The other sector companies that followed belong to mining/metals, energy and telecommunications sectors. As per the report, the sample

companies are required to make around 10 adjustments, on an average to the reported profit for the quarter ended June 30, 2015.

Shyam, Ashutosh (2016) opined that the Ind ASs transition will have a significant impact on the computation of many figures, especially the computation of operating profit, net profit, net worth and revenue of the companies. However, they found that the maximum impact of Ind ASs will be there on the sectors like metal, real estate, telecoms, oil & gas etc. They found that the Ind ASs transition will result into increase in revenue by 4-5% and decrease in EBITDA by 2-3%.

A survey conducted in 2016 found that the top five areas to impact the financial statements after adoption of Ind ASs are leases (including embedded leases), operating segments, taxes, financial instruments (including derivatives) and revenue recognition.

Goyal (2018) found that the impact of Ind ASs would depend on the company concerned and the industry concerned. He found that all the areas including equity, liabilities, assets expenses, and revenues would be impacted. He also found that the fair valuation of assets and financial instruments contained in the Ind ASs aimed at transparency between carrying value and fair value. However, he pointed out that this would require the corporate organizations to do a hectic work.

ICAI (2018) found in its study that Ind ASs implementation provides better transparency and disclosures into the state of affairs of the companies. In addition to this, Ind ASs based financial statements display the economic reality of the transactions and other events rather than merely their legal form. This is fair and more transparent for the stakeholders. As per them, Ind ASs have made possible the comparability of financial statements of Indian companies with those of foreign companies in the same industry and has also brought accessibility of Indian companies to global capital markets.

Accounting standards (ASs) are the generally accepted principles, rules and procedures that are followed while preparing, reporting and maintaining the financial statements of an enterprise. These ASs are implemented all over the world. In India, National Accounting standards have been converged with IFRSs resulting into Ind ASs to bring the status of the Ind ASs at par with the global standards. Now, it is the question whether the Ind ASs are being followed in India, and what the current implementation status of Ind ASs is.

Kirtan P. Raval (2017) in his study discussed all kinds of outcomes, whether positive or negative, of convergence of Indian GAAP with IFRSs. Easy comparability and understandability of financial statements for investors,

attraction of foreign capital, global exposure to accounting professionals is discussed as positive outcomes of convergence. On the other hand, more cost and time of convergence for companies, complexities of newly introduced concepts and convergence effect on medium enterprises are considered as negative outcomes of convergence. He opined that the convergence with IFRSs is beneficial to the country even though there are certain negative outcomes associated with convergence.

Manoj Kumara N V, Sowmya Erappa K and Abhilasha N (2016) in their study explored by collecting response from 30 Chartered Accountants, 20 Accounting Professors, 20 Research Scholars and 30 Accounting Students concluded that the main reason for adopting the IFRSs in India is the better comparability of financial statements. The study also explored that investor are the major beneficiaries of implementation of Ind AS followed by companies and national regulatory bodies. It also highlights and suggests that there is a need for proper training to academicians, chief financial officers, auditors and accountants in order to achieve smooth as well as suggests amending the laws and regulations as soon as possible in order to meet the requirement of IFRSs.

Sushma Vishnani, Saumya Gupta & Hemendra Gupta (2021) analysed the effect of

adopting Ind ASs by Indian companies. They analysed the impact of Ind ASs in respect of some specific aspects such as value relevance, earnings management and earnings persistence of the reported financials. The study also found that there would be quality improvement in the quality of financial reporting as a result of Ind ASs adoption. Besides, it would lead to enhancement in market-based measures.

Objective of the study

The present study aims at achieving the following two objectives:

1. To assess the impact of adoption of Ind ASs on the financial position and financial performance of Indian companies in the FMCG and I.T. sectors.
2. To have a comparative view of the companies in FMCG and I.T. sectors because of adoption of Ind ASs on the financial position and financial performance of such companies.

Methodology

Data Source

Financial data were extracted from audited annual reports which were published for the financial years 2010-2011 to 2019-20 of 10 IT industry and 20 FMCG companies. In respect of companies other than three kinds of companies i.e., banking companies, insurance companies and non-banking financial companies, MCA notified the mandatory implementation of Ind ASs to all listed and unlisted Indian

companies having net worth of Rs. 500 crores or more from the financial year commencing on or after 01.04.2016 and for other listed and unlisted companies having net worth of Rs.250 crores or more from the financial year commencing on or after 01.04.2017. It may be stated that non-banking financial companies have also been mandated by MCA to apply Ind ASs from the financial years commencing on or after 01.04.2018 or 01.04.2019, as the case may be, depending on the listing and net worth criteria. In addition to this, the Ind ASs will also apply to the parents, subsidiaries, associates and joint ventures of such companies mandatorily required to apply Ind ASs. Such companies, to which Ind ASs are applicable as stated above, are also required to prepare "Reconciliation of Equity" and "Reconciliation of total comprehensive income"

for the respective previous year as per the provisions of Ind AS 101 "First Time Adoption of Indian Accounting Standards" to understand the factors contributing to the change from ASs to Ind ASs.

Determination of sample size and sampling

The selection of the companies has been made on simple random basis taking into account the qualifying conditions. Finally, a list of 30 companies were selected comprising of 10 companies from IT sector and 20 companies from FMCG sector.

Statistical Tools

To compare and interpret the financial position and financial performance of the selected companies for the purpose of study, independent sample t-test and paired sample t-test have been applied.

Analysis

Financial Position of the FMCG and IT Sector Companies pre and post adoption of the Ind ASs:

For measuring the financial position of the companies pre and post adoption of the Ind ASs, the present study has compared the financial position of the companies for the period of pre and post adoption of the Ind ASs. It has been hypothesized that, "there is no significant change in the financial position of the companies under FMCG and IT sectors in pre and post adoption of Ind AS."

To test the above hypothesis, t-statistics has been applied and alpha level has been set at 5 percent. Outcomes of the test are revealed in table 1 and 2 respectively.

Table 1: Group Statistics of T-Test on Financial Position

	IndASs	N	Mean	Std. Deviation	Std. Error Mean
FPOS	Pre Ind AS	105	203108.2712	286142.27702	27924.62690
	Post Ind AS	105	201500.6833	282465.18833	27565.77979

(Source: Calculation and compilation done by authors based on secondary data)

Table 2: Independent Samples T-Test on Financial Position

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
FPOS	Equal variances assumed	.008	.930	.041	208	.967	1607.58790	39238.46331	-75748.47861	78963.65442
	Equal variances not assumed			.041	207.965	.967	1607.58790	39238.46331	-75748.55433	78963.73014

(Source: Calculation and compilation done by authors based on secondary data)

Table 1 shows the group statistics of the test. Table 1 revealed that the financial

position of the companies post adoption of Ind AS is slightly decreasing (201500.6833) as

compared to the financial position pre adoption (203108.2712) of the Ind ASs

(post FPOS < Pre FPOS). As shown by table 2, the mean difference is not statistically significant ($t=0.041$, $p=0.967$). Outcomes of the test indicate that there is no significant difference in financial position of the companies listed in NSE Nifty. Results could not reject our null hypothesis.

Financial performance of the Companies pre and

post adoption of the Indian Accounting Standards:

The present study has compared the financial performance (operating profit) of the companies for pre and post adoption of the Ind ASs. The basic purpose was to find if there is any change in the operating profit after implementation of Ind ASs. It has been hypothesized that,

“there is no significant change in the operating profit of the companies under FMCG and IT sectors for pre and post adoption of Ind ASs.”

To test the above hypothesis, t-statistics has been applied and alpha level has been set at 5 percent. Outcomes of the test are revealed in table 3 and 4 respectively.

Table 3: Group Statistics for T-Test on Operating Profit

	Ind_AS	N	Mean	Std. Deviation	Std. Error Mean
OPBT	Pre Ind AS	105	5634.52	8337.65	813.67117
	Post Ind AS	105	9180.16	12616.98	1231.29134

(Source: Calculation and compilation done by authors based on secondary data)

Table 4: Independent Samples t – Test for Operating Profit

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
OPBT	Equal variances assumed	14.983	.000	-2.40	208	.017	-3545.65	1475.85	-6455.19	-636.14
	Equal variances not assumed			-2.40	180.28	.017	-3545.65	1475.85	-6457.81	-633.48

(Source: Calculation and compilation done by authors based on secondary data)

Table 3 shows the group statistics of the test. The table revealed that the operating profit of the companies taken into the study, for their post adoption of Ind AS is higher than that of pre adoption period (post profit 9180.16 > Pre-Profit 5634.52) but the variability in profitability is found higher in the post implementation period (Post

standard deviation 12616.98 > Pre standard deviation 8337.65). As displayed in table 4, the mean difference is statistically significant ($t = -2.40$, $p = 0.017$). Outcomes of the test indicate that there is a significant difference in operating profit of the companies listed on NSE for pre and post adoption of Ind ASs. Results displayed in table 3 and 4 together reject our null hypothesis.

Financial Position and performance of the FMCG Companies pre and post adoption of the Indian Accounting Standards (Ind ASs):

To measure the financial position of the FMCG companies for pre and post adoption of the Ind ASs, the present study has compared their financial position and performance. It has been

hypothesized that, “there is no significant change in the financial position and performance of the FMCG

companies for pre and post adoption of Ind AS.”

To test the above hypothesis, paired sample t-statistics has

been applied and alpha level has been set at 5 percent. Outcomes of the test are revealed in table 5 and table 6 respectively.

Table 5: Paired Samples Statistics of FMCG Profitability and Financial Position

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	FMCG Pre FPOS	160600.31	45	164978.15	24593.49
	FMCG Post FPOS	158970.33	45	158426.70	23616.86
Pair 2	FMCG Pre OPBT	4285.94	45	5068.87	755.62
	FMCG Post OPBT	6279.90	45	7177.56	1069.97

(Source: Calculation and compilation done by authors based on secondary data)

Table 6: Paired Samples Test of FMCG Profitability and Financial Position

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	FMCG Pre FPOS – FMCG Post FPOS	1629.97	8451.52	1259.88	-909.15	4169.09	1.294	44	.203
Pair 2	FMCG Pre OPBT – FMCG Post OPBT	-1993.96	2276.05	339.29	-2677.76	-1310.15	-5.877	44	.000

(Source: Calculation and compilation done by authors based on secondary data)

Table 5 displayed that the financial position of the FMCG companies has declined post adoption of the Ind ASs. Before adoption of the Ind ASs, the financial position of the FMCG companies listed on NSE was 160600.31, which has gone down to 158970.33 for the post adoption period. Though the difference was not found statistically significant in the test, yet the outcomes displayed in table 6 ($t = 1.294$, $p = 0.203$). Hence, results could not reject our null hypothesis.

The performance, taken as operating profit, for these FMCG

companies for post adoption has shown remarkable changes. It has increased from 4285.94 in pre-adoption to 6279.90 in post adoption period. That change was found statistically highly significant, as shown in table 6 ($t = -5.877$ and $p = 0.000$). Results rejected our null hypothesis for comparison of the profitability during pre and post adoption of the Ind ASs by the FMCG companies listed on NSE.

Financial Position and Performance of the IT Companies pre and post adoption of the Ind ASs:

The present study has further compared the financial position

and profitability of IT companies listed on NSE. The data for this purpose on financial position and profitability have been divided into pre and post period of implementation of Ind ASs. It has been hypothesized that, “there is no significant change in the financial position and profitability of the IT companies for pre and post adoption of Ind ASs.”

To test the above hypothesis, paired sample t-statistics has been applied and alpha level has been set at 5 percent. Outcomes of the test are revealed in tables 7 and 8 respectively.

Table 7: Paired Samples Statistics of IT Profitability and Financial Position

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	IT Pre FPOS	234989.24	60	348735.53	45021.56
	IT Post FPOS	233398.44	60	345700.03	44629.68
Pair 2	IT Pre OPBT	6645.94	60	10047.32	1297.10
	IT Post OPBT	11355.36	60	15197.23	1961.95

(Source: Calculation and compilation done by authors based on secondary data)

Table 8: Paired Samples Test of IT Profitability and Financial Position

Table 8: Paired Samples Test of IT Profitability and Financial Position									
		Paired Differences					t	df	Sig. (2-tailed)
		Mean Diff	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	IT Pre FPOS – IT Post FPOS	1590.80	6590.27	850.80	-111.64	3293.25	1.87	59	.066
Pair 2	IT Pre OPBT – IT Post OPBT	-4709.42	5914.09	763.50	-6237.19	-3181.65	-6.17	59	.000

(Source: Calculation and compilation done by authors based on secondary data)

Table 7 displayed that the financial position of the IT companies has slightly declined post adoption of the Ind ASs. Though the difference was not found statistically significant at 5 percent in the test, yet the outcomes displayed in table 8 ($t = 1.87$, $p = 0.066$). Hence, results could not reject our null hypothesis. On the basis of the outcomes displayed in table 7 and 8, this study inferred that the financial position of the IT companies has not improved after adoption of the Ind ASs.

The profitability, at the same time, for these IT companies, for post adoption of Ind ASs has shown remarkable changes. It has increased from 6645.94 in pre-adoption period to 11355.36 in post adoption period. That change was found statistically highly significant, as shown in table 8 ($t = -6.17$ and $p = 0.000$). Results rejected the null hypothesis for comparison of the profitability during pre and post adoption of the Ind ASs by the IT companies listed on NSE.

The study revealed that there is a remarkable improvement in the profitability of the Indian IT companies since the implementation of the Ind ASs.

Summary and Conclusion

The present study conducted on the IT and FMCG companies listed on NSE revealed the significant finding on their financial position and performance. Companies taken together into the study revealed that unanimously there is a significant increment in the operating profit of these companies. For financial position, there is no evidence of any significant positive change, as expected, after the implementation of the Ind ASs.

It is interesting to observe that the profitability of both the sectors, IT and FMCG, individually has shown a significant improvement post adoption of the Ind ASs. The Ind ASs have already been converged with IFRSs. The converged Ind ASs is landmark change in the

history of accounting standards of the country. By making National Accounting Standards at par with IFRSs, the companies and accounting professionals in India enjoy the benefits of global accounting standards. In spite of many challenges, implementation of Ind ASs will result into a significant improvement in the corporate financial reporting including global comparability mainly because of the Ind ASs being principle-based standards, besides their being more transparent and containing more disclosures. For the effective implementation of Ind ASs, there is a need of a systematic and step-by-step plan, the integration of resources and appropriate training to all the stakeholders, especially those involved in preparation and presentation of the financial statements involving the application of Ind ASs and those involved in auditing such financial statements. Entities have already implemented the Ind ASs as well as the changes into the systems. Ind ASs have

already been implemented in a phased manner. Thus, the financial statements prepared on the basis of Ind ASs will continue to provide useful information to the users of financial statements, especially the primary users of the financial statements.

Implications and Limitations of the Study

The increase in the financial performance (in terms of operating profit) of the Manufacturing sector and I.T. sector companies may be because of the reason that either some elements of financial statements related to income which were not recognized as income under the ASs are now being recognized as income under the Ind ASs or some elements of financial statements related to expenses which were recognized as expenses under ASs are not being recognized as expenses under the Ind ASs or both might have happened. Further, the deterioration in the financial position of the Manufacturing sector and I.T. sector companies may be because of the fair valuation of assets and liabilities (especially with reference to Ind AS 113 "Fair Value Measurement") implying that the fair value of assets might have gone down or the fair value of liabilities might have gone up or both might have happened in contradiction of the permission of the valuation of assets and liabilities on historical cost basis under ASs. However, the authors are of the view that

application of Ind ASs may yield a lot of benefits to the companies belonging to both these sectors in terms of global comparability of financial statements, listing on international stock exchanges, borrowing from foreign countries at a lower rate of interest etc.

However, it is important to note that the conclusions and implications of the present study are based on the financial statements of 20 companies belonging to FMCG sector and 10 companies belonging to I.T. sector over a period of 10 years from 2010-11 to 2019-20. Hence, the future researchers may undertake a further study taking a larger number of companies including those from other sectors also and over a longer number of years to explore more.

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For the effective implementation of Ind ASs, there is a need of a systematic and step-by-step plan, the integration of resources and appropriate training to all the stakeholders.



Companies taken together into the study revealed that unanimously there is a significant increment in the operating profit of these companies.



Corporate Guarantee – No Guarantee of Classification as an International Transaction?

There is some ambiguity when it comes to determination of transactions of provision of corporate guarantee (“the transaction”) as an international transaction under the provisions of the Income-tax Act, 1961 (“the Act”) and subsequent benchmarking of the same for transfer pricing purposes. In this article, conditions where the transaction may or may not be considered as an International Transaction as per the Act and methods of benchmarking in case the same has been held to be an international transaction are discussed. Apart from the provisions of the Act, the views of the ‘Organization for Economic Co-operation and Development’ (OECD) are also discussed. Read on...



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Definition of Corporate Guarantee

A ‘Corporate Guarantee’ (CG, henceforth) is a legal agreement between a borrower, lender and guarantor, whereby the guarantor takes responsibility for the debt repayment of the borrower provided the borrower defaults on the repayment of loan. As per Rule 10TA of the Income tax Rules, 1962 (“the Rules”), CG means explicit corporate guarantee extended by a company to its Non-resident (NR) wholly owned subsidiary (WOS).

However, as per Rule 10TA, CG does not include implicit CG, performance guarantee or any other guarantee of similar nature. However, the said meaning of CG is limited to application of ‘Safe Harbor’ Rules as prescribed in Sec 92CB of the Act.

The various types of CGs are as follows:

- a. **Explicit CG:** It means that the guarantee is legally binding, and the lender can enforce repayment from the guarantor.





In cases where the sum guaranteed is up to INR 100 crore, the commission or fee should not be less than 1% p.a. of the amount guaranteed.

Guarantee fees are charged by the guarantor from the borrower in this case.

- b. **Implicit CG:** It means that benefit is received by the borrower because of factors like reputation, creditworthiness, etc. of the guarantor and the guarantor as such is not playing a direct role in providing guarantee to the lender. This is not legally binding. Guarantee fees are not charged by the guarantor from the borrower.
- c. **Performance Guarantee:** It means the agreement between a client and a contractor to assure the client to perform the contractor's obligations as per agreement.

Classification of CG as an International Transaction

Over the years, the classification of CG as an International transaction has been a very contentious issue, both pre and post Finance Act (FA, henceforth), 2012 amendment to Sec 92B.

Amendment made to 'Meaning of international transaction' u/s 92B of the Act vide FA, 2012

FA, 2012 inserted an explanation to Sec 92B wherein it was stated that certain transactions would be included in the expression "international transaction" with retrospective effect from April 1, 2002.

The same was a clarificatory amendment and clarificatory amendments have retrospective application. However, the Hon'ble Mumbai Tribunal in the case of Siro Clinpharm Private Limited¹ held that the said amendment could not apply retrospectively. Therefore, in cases pertaining to the period prior to the amendment made by the FA, 2012, in majority of the cases, it was held that the amendment was only clarificatory in nature and could have only a prospective application.

Contentions of taxpayers after Finance Act, 2012 amendment

Vide Finance Act, 2012 amendment, the transaction of provision of guarantee was specifically included in the Act [see Expln (i)(c) to Sec 92B]. Therefore, the contention of the taxpayers that the same was not an international transaction as per position prior to FA, 2012 amendment would not hold good now. However, in cases of implicit CG and performance guarantees, the guarantor is only playing a passive role and

accordingly, may not charge any guarantee fees from the guarantor for the same. Further, amount guaranteed on behalf of the borrower is generally shown as 'Contingent Liability' in the financial statements of the guarantor. As such transactions (of implicit and performance guarantees) generally do not have any bearing on the profits, incomes, losses or assets of such enterprises (guarantors), it can be contended that the same is not an international transaction. The same has been held in *Bharti Airtel Ltd. vs ACIT*². However, in cases where this stand of the assessee has been accepted,³ the same were pertaining to Assessment years (A.Y.s) prior to the amendment made by FA, 2012 to the definition of international transaction. Therefore, this proposition may not hold good for A.Y.s after FA, 2012 amendment. In *Micro Ink Limited*⁴, it was held that issuance of corporate guarantees was in the nature of 'shareholder activities'/'quasi capital' and thus, could not be included within the ambit of 'provision of services' under definition of international transaction u/s 92B. Although this case pertains to A.Y. prior to the FA, 2012 amendment, this argument may still hold good even though it is based on the premises that the said transaction does not have any bearing on the profits, income, losses or assets of such enterprises.

¹ [TS-144-ITAT-2016(Mum)-TP]

² [2014] 43 taxmann.com 150 (Delhi – Trib.)

³ *Micro Ink Limited* [TS-568-ITAT-2015(Ahd)-TP] and *Adani Enterprises Limited* [TS-193-ITAT-2019(Ahd)-TP]

⁴ [TS-568-ITAT-2015(Ahd)-TP]

Benchmarking of Corporate Guarantee in cases where the same is held as an International Transaction

Apart from the controversy of classification of CG as an international transaction, the other controversy that merits equal consideration, if not more, is the benchmarking of fees charged by guarantor to borrower for guarantying the loan amount.

A. In absence of any reliable external sources to benchmark the fees charged, the Revenue has often considered naked external quotes – i.e., quotes charged by banks on their websites for guarantying loans as the arm's length range at which such guarantee fees should be charged by guarantor to lender. In Everest Kento Cylinders Ltd.⁵, the Hon'ble Bombay High Court laid down the difference between bank guarantees obtained from commercial banks and CG issued by guarantor (assessee) to lender [Associated Enterprise (AE)] as follows –

a. In cases where bank guarantee was obtained from Commercial banks and higher commission charged, the same could have been justified as such contracts were easily encashable in the event of default.

- b. Comparison is not between the transactions but between guarantees issued by the commercial banks as against a Corporate Guarantee issued by holding company for the benefit of its AE, a subsidiary company.
- c. Considerations applicable for issue of corporate guarantee are distinct and separate from that of bank guarantee.

Thus, in this case, the Hon'ble Bombay High Court rejected the External 'Comparable Uncontrolled Price' (CUP) method used for benchmarking the CG transaction.

B. In Asian Paints Ltd,⁶ the Hon' Mumbai ITAT while deleting TP adjustment held that when internal CUP was available, it was to be first analysed and examined. ITAT further stated that the rate obtained by merely relying on market data without carrying out any comparability analysis of actual transactions, could not be applied in a blanket manner.

Thus, the ITAT upheld Internal CUP method used for benchmarking of international transactions.

C. Safe Harbour Rules (SHR) for CG fees: As per SHR, "corporate guarantee"



The CUP method could be used where there are external or internal comparables; independent guarantors providing guarantees in respect of comparable loans to other borrowers or where the same borrower has other comparable loans which are independently guaranteed.

means **explicit** corporate guarantee extended by a company to its owned subsidiary being a non-resident in respect of any short-term or long-term borrowing. Further, as per the Explanation to the definition, explicit CG does not include letter of comfort, implicit CG, performance guarantee or any other guarantee of similar nature. The limit as per SHR for CGs extended is capped at INR 100 crores of the amount guaranteed and in cases where the same exceeds INR 100 crores, the credit rating of the AE, as done by an agency registered with the Securities Exchange Board of India (SEBI), is of the adequate to highest safety.

In cases where the sum guaranteed is up to INR 100 crore, the commission or fee should not be less

⁵ [TS-200-HC-2015(BOM)-TP]

⁶ [TS-297-ITAT-2013(Mum)-TP]



Generally, performance guarantees are entered into by entities with third parties, i.e., end customers. The same not being AEs, the same would not be an international transaction and hence question of benchmarking would not arise.

than 1% p.a. of the amount guaranteed.

In cases where the sum guaranteed is more than INR 100 crores, the commission or fee should not be less than 1.75% p.a. of the amount guaranteed.

OECD Approach on determination of Arm's Length Price of Guarantees

A. The Organization for Economic Co-operation and Development (OECD) has released a Report for pricing of financial transactions, including guarantees, in its 'Transfer Pricing Guidance on Financial Transactions: Inclusive Framework on BEPS Actions 4, 8-10, hereinafter referred to as "the Report".

Some of the salient features of the Report are as follows:

a. The Report specifically makes a distinction between explicit and implicit guarantees.

b. 'Explicit Guarantee' includes benefits to the borrower like increased amount of debt being received, reduction in the amount of interest rates on the loan, etc. It further mentions that a 'letter of comfort' or any other lesser form of credit support involves no explicit assumption of risk and hence the same would not be considered as an explicit guarantee.

B. Methods for determining the arm's length price of guarantees

The Report prescribes various methods for determining the arm's length in case of financial guarantees. They are as follows:

a. **CUP method:** The CUP method could be used where there are external or internal comparables; independent guarantors providing guarantees in respect of comparable loans to other borrowers or where the same borrower has other comparable loans which are independently guaranteed. When available, uncontrolled guarantees are the most reliable comparable to determine arm's length guarantee fees. However, the Report too acknowledges the fact that publicly available information about a sufficiently similar credit enhancing

guarantee is difficult to be found between unrelated parties.

b. **Yield Approach:** As per this approach, the spread between the interest rate that would have been payable by the borrower without guarantee and with guarantee is calculated. Further, bifurcation needs to be made between explicit guarantee and any component of implicit guarantee which may be available to the borrower because of the group membership. The benefit of implicit support available to the borrower is the difference between borrowing terms attainable on credit rating of the MNE group vis-à-vis its own standalone credit rating.

c. **Cost approach:** This method aims to quantify the additional risk borne by the guarantor by estimating the value of the expected loss that the guarantor incurs by providing the guarantee. Alternatively, the expected cost could be determined by reference to the capital required to support the risks assumed by the guarantor. There are several possible methods for estimating expected loss and capital requirement, for e.g., treating the guarantee as a put

option, credit default pricing swaps, etc.

d. Valuation of expected credit loss approach:

It estimates the value of a guarantee on the basis of calculating the probability of default and making adjustments to account for the expected recovery rate in the event of default.

e. Capital support method:

This method is suitable where guarantor's and borrower's risk profiles could be addressed by introducing more capital to the borrower's balance sheet. Credit rating of borrower with and without guarantee needs to be determined and additional notional capital required to bring borrower up to the credit rating of guarantor. The guarantee can then be priced based on an expected return on the additional amount of capital required to bring the borrower at par with the credit rating of guarantor.

Conclusion

A. Explicit Guarantee: After amendment made to the definition of International Transaction u/s 92B of the Act vide FA, 2012, it is very difficult to argue that the provision of guarantee by Indian entity to its non-resident AE is not an international transaction.

However, it may be argued that it is a 'quasi capital' activity and hence not an international transaction. However, the same can be litigative.

When it comes to benchmarking, internal CUP method can be used if applicable to the assessee's case. Further, assessee may take recourse to SHR and benchmark the said international transaction accordingly.

The Report of OECD too can be used for benchmarking explicit guarantee transactions. Out of the five benchmarking approaches mentioned, the one most suitable to the facts and circumstances of the borrower may be used to benchmark the transaction.

B. Implicit Guarantee: In cases of implicit guarantee, the argument that the said transaction does not have any bearing on the profits, income, losses and assets of the enterprise may still hold good and it can be argued that the said transaction is not an international transaction. Once it is held that it is not an international transaction, the question of benchmarking does not arise. However, this is one of the approaches and the same may not be accepted by the Revenue. Hence, it can be litigative.

C. Performance Guarantee

(i) Generally, performance guarantees are entered into by entities with



In case 'performance guarantee' has been provided on behalf of the AE, it needs to be analysed if the same has any bearing on the profits, income, losses or assets of the assessee.

third parties, i.e., end customers. The same not being AEs, the same would not be an international transaction and hence question of benchmarking would not arise.

(ii) In case 'performance guarantee' has been provided on behalf of the AE, it needs to be analysed if the same has any bearing on the profits, income, losses or assets of the assessee. In case answer is in the affirmative, the same needs to be benchmarked. However, if it does not have any bearing on the profits, income, losses or assets of the assessee, the same would not be an international transaction and accordingly, no benchmarking would be required. However, facts of each case needs to be analysed separately before arriving at a conclusion.



Behavioural Biases in Investing- A Conceptual Study of Six Common Biases

The study of behavioural biases emanates from the criticism of traditional economic theories which assume the investor to be a rational human. Biases can make humans less rational, thus lead to deviations in investing behaviour and ideal portfolio values.

Six common biases, namely: loss aversion, anchoring, availability, mental accounting, gamblers' fallacy, and herd behaviour are conceptually discussed here, which can help investors and advisors understand the rationale behind certain decisions and how these biases can affect the portfolio value. It encourages financial advisors to study biases in their clients from the initial stage of the advisory rather than when the portfolio value is reducing, and urgent action needs to be taken. It also suggests that different biases can lead to varied investing behaviour which can reduce portfolio returns and create a behavioural gap. Read on...



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Introduction

Behavioural Finance helps study the role of human emotions in making choices and decisions relating to financial investments. It incorporates diverse disciplines ranging from clinical psychology and psychiatry, to economics, accounting, organisational behaviour and management. Traditional finance theories assume that all investors behave rationally, i.e., they target an optimal mean-variance portfolio that balances their risk and return preferences. This concept assumes perfect rationality, information, and self-interest. None of these three assumptions

exist in totality and hence human decisions may appear to be sub-optimal. The behaviours that lead to these sub-optimal decisions are known as biases.

At times, it is observed that there is a difference between what the investor can potentially earn and what he actually earns. This quantified difference, often due to the behaviour of the client himself, is known as the Behaviour Gap (Richards 2012). The behaviour gap is also understood as the difference between the ideal portfolio return and the actual return. Behavioural finance aims to understand this gap and reduce it to the extent possible.





Traditional finance theories assume that all investors behave rationally, i.e., they target an optimal mean-variance portfolio that balances their risk and return preferences.

Behavioural biases are classified into two types: cognitive and emotional. Cognitive Biases arise from incorrect reasoning due to basic statistical, information processing errors. These biases stem from the process of information perception and judgment by the brain. Emotional Biases are related to feelings and attitudes arising from impulse and intuition and are rooted in experiences that give pleasure and avoid emotional pain. Both these types of biases in clients require differentiated responses from the advisor.

Pompian and Longo (2005) viewed that biases can be moderated or adapted to depending on two criteria. Cognitive biases can be modified using information and education whereas emotional biases require adaptation on the part of the advisor. Similarly, biases of high-income clients could be adapted to, whereas biases of a low-income client should be moderated, due to the latter's impact on the portfolio. It is quite possible that a client could demonstrate both types of biases. In such cases, it would be necessary to identify each to be able to deal with them effectively.

Literature Review

The early studies leading to behavioural biases started with the Prospect Theory, which explored how people manage risk and uncertainty (Kahneman and Tversky 1979). This complemented the study of heuristics as experienced by investors (Tversky and Kahneman 1974), mental accounting as a concept (Thaler 1999) and the overall effect of biases on decision making by investors (Pompian 2011, Shleifer 2000).

Behavioural biases can result in investors making inefficient decisions about investing (Gill and Bajwa 2018), frequency of trading and investment timing. This can also result in investors indulging in trend-chasing. (Bailey et al. 2011). Tests and studies conducted on large samples of investors in different contexts revealed that there was a predominant existence of biased behaviour in investment decision making that led to reduced earnings and underperformance (Hoppe and Kusterer 2011, Massa and Simonov 2005). Behavioural biases affect not only the financial markets and instruments therein but also the macro-economy, by considering income risk sharing as a variable (Korniotis and Kumar 2011). The anchoring bias was found to be largely responsible for individual investor underperformance. Loss aversion bias was positively correlated to excessive trading activities by the investors. Combining these two biases could lead to an increase in trading activity and underperformance (Feldman 2011).

There are multiple biases an investor could be subject to and the influence of these biases in any combination could lead to the investor making irrational decisions. This would lead to sub-optimal long-term returns (Jain et al. 2015). The investors' level of financial awareness, occupation, gender, age, and prior investment experience are strongly related to behavioural biases and their role in decision making. There is an inverse relationship between the level of financial literacy, and the disposition effect and herding bias (Baker et al. 2019). In the case of long-term stock return expectations by students, there was significant evidence of anchoring effect. This was also visible when professionals were studied for the same bias. In both cases, the expected values were significantly impacted by the initial value (Kaustia, et al. 2008).

A typological study of biases and investors by Bailey et al. (2011), classified investors as gamblers, smart, overconfident, narrow framers, and mature. Similarly, Pompian (2011) found that most investors can be categorised as passive preservers, friendly followers, independent individualists and active accumulators. The BB&K model developed by Bailard, Biehl and Kaiser (1986) categorized investors classes as adventurer, celebrity, individualist, guardian, and straight arrow.

While most studies have studied the characteristics of biases and the effect on investors, there is scope to understand whether it is possible for different biases to have opposing effects on the portfolios of investors and yet

be detrimental to the long run gains. For example, some biases could have the effect of reduced trading activities and some could increase the frequency of trades. Both these impacts could have a negative result on the value of the portfolio. This study tries to understand the characteristics related to 6 common biases as identified above from the 20 biases outlined by Pompian (2011) and observe the impact on portfolio value.

Common Types of Biases in Investing

This section introduces six biases identified from literature, from the list of 20 common biases outlined by Pompian (2011). These biases are described in brief with examples and diagnostic tests. Finally, it brings out the portfolio effect of each bias and how it can be addressed.

Loss Aversion

The goal of many investors is to protect their principal amount in the event of a depressed financial environment. Due to the fear of loss, they tend to lock in profit early, even if the market is rising and there are potential future profits. In a bear markets, they tend to hold on for a longer period to their investments in the hope that the market will rise. This feeling is common among conservative, passive investors who give more credence to their fear of a loss in the short run over their awareness of long-term gains from an asset class. Tversky and Kahneman (1979) found that the satisfaction gained from a profit of \$2.25 is equal to the disappointment from a loss of \$1. For example, an investor might

hear from his financial advisor about potential losses from investing in equities and then decide to invest in fixed deposits as an alternative. Here, the potential profits from investing in equity are not enough to offset the investor's fear of losses.

An advisor could help identify if the client suffers from this bias by asking him to hypothetically invest a sum of Rs.1,00,000 in two choices. In the first one, he would get back the entire principle even if the portfolio makes a loss. In the second option, there is 50% chance that the portfolio may depreciate to Rs. 75,000 with a 50% chance that it might go up to Rs. 1,25,000, with the client bearing the profit or loss. If the client chooses the first option (the no-loss situation), then there is a high chance of the existence of this bias. This type of bias could also lead to the client to trade unnecessarily to compensate for a previous loss, leading to higher transaction costs and reduced portfolio value.

This bias could be addressed by helping the client to focus on the pre-decided long-term financial goal. He should present the risks of going with the bias, even at the cost of making the client uncomfortable. The advisor may use the 2.25/1 study to highlight that emotional trauma from losses is natural and that these experiences could be viewed as speed breakers instead of roadblocks.

Anchoring Bias

This bias is visible when investors, who are not comfortable with unknown quantities, create an opinion



Cognitive Biases arise from incorrect reasoning due to basic statistical, information processing errors.

based on immediate information about an investment and view all new information through this lens only. Imagine an investor who has anchored his views of a certain price of a stock based on information of a speculative price rise in the future. Now, even if the stock is losing value in the present, he might not choose to sell the stock since he is anchored to the imagined price.

To identify this bias, the advisor could create a hypothetical situation where the client has bought a share for Rs.1000 based on some information from analysts that the stock price will rise in the coming time, and that it should be held till it reaches Rs.1500. After reaching Rs. 1200 in the first three months, the price has suddenly gone down to Rs. 800 in the next two months and the market is likely to stay at those levels. If the client says he would continue to stay invested despite the turbulent market, in the hope of the stock reaching his desired price, he could possibly be suffering from anchoring bias.

This bias might lead the client to invest in, or hold on to, potentially risky investments. The client could base his decisions on some anchors, which could be historical prices and return levels, though they could have little



The goal of many investors is to protect their principal amount in the event of a depressed financial environment. Due to the fear of loss, they tend to lock in profit early, even if the market is rising and there are potential future profits.

relation with the current market price and returns.

The advisor could sidestep this bias by keeping the client updated about current trends and estimates for the specific stock. By constantly changing estimated prices based on current trends helps the client to keep his views updated to the developments and be realistic about the trends. As this is a cognitive bias, data and information can be used quite effectively to modify it.

Availability Bias

This bias is seen when people take financial decisions based on their familiarity with the options, rather than an objective perspective. This bias is strongly linked to heuristics, or the use of mental shortcuts to take decisions. There are four variations to this bias:

- i) **Retrievability:** The client might decide based on the information available through advertisements, discussions with friends, etc.

- ii) **Categorisation:** If someone perceives a particular sector to be good, due to their familiarity with the working of that industry, they might ignore other sectors which may be more rewarding, but they are not so aware of it.
- iii) **Narrow Frame of Reference:** An investor might have a narrow frame of experience and could use that limited range of experience to make decisions.
- iv) **Resonance:** Resonance of stocks with the investor's own behaviour or personality could also affect the investing decision.

For example, someone working in the banking industry may be very interested in investing in banking stocks, based on his comfort level with the industry, even though this sector may not have better prospects as compared to another sector. The advisor can identify this bias in a client by asking him to narrate his past investing experience. If he has made the decision solely based on the product's advertising or any other frequent

exposure instead of own research, then the client could be subject to availability bias.

Advisors can use the power of simplified storytelling and metaphors to help the client understand that 'nothing is as good or bad as it seems'. Being a cognitive bias, the use of information and structured data can help to counter it to some extent. The client can be made aware of the factors affecting mental recall, such as hidden advertising or surrogate advertising. It would help the client to collect information from different sources, thus reducing the probability of becoming victim to paid information from a single source.

Mental Accounting

Investors may classify incomes based on their source or intended use. For example, income from salary might be spent cautiously but a bonus or windfall might be used to invest in high-risk assets, even though the client's portfolio might not demand this move. Similarly, investment decisions relating to retirement planning might be overly cautious, leading to an inadequate growth of the investment. In other words,

mental accounting and classification of the source of income or destination of investment might lead to the client forgetting that there is a relation between expected returns and various asset classes.





Mental accounting and classification of the source of income or destination of investment might lead to the client forgetting that there is a relation between expected returns and various asset classes.

The advisor could check for himself if the client looks at the bigger financial picture or categorises money by different parameters and takes investment decisions accordingly. For example, he could ask the client what he did with an earlier bonus or windfall income to conclude about the existence of this bias. If existing, this bias could lead to a highly imbalanced portfolio which may not be ideal to achieve the client's goals. The advisor could use the client's need for mental accounting to create a portion of the money for safe investments and another portion for risky investments, which could also help achieve the financial goals of the client.

Gambler's Fallacy

This bias is visible when an investor sees a non-existent pattern in random, past events which he believes can be used to predict future occurrences. This is also called the Monte Carlo fallacy. For example, when a job applicant has been rejected in five interviews, he might believe that the sixth time would be his lucky one and that he has a high chance of succeeding. He might fail to

realise that each interview is non-related to the other ones and the probability of each interview being successful is the same.

As a test, the advisor could ask the client that a coin tossed five times gives tails as the outcome, would the chances of a heads outcome increase on the sixth attempt. If the client says yes, even though the coin is unbiased, there could be the possibility of gambler's fallacy bias. Such a client might see patterns in previous results and could take future investment decisions in a non-optimal manner. It could also lead to frequent churning of the portfolio and thereby reduced returns.

This is a cognitive bias and could be addressed by explaining the concept of randomness and how some seemingly correct predictions in the past could be the result of this randomness. The need to treat every transaction as unique and worthy of independent thought could be highlighted.

Herd Behaviour

Herd behaviour bias manifests itself when investors blindly follow decisions taken by a prominent or larger group. This behaviour may not necessarily be rational but is still copied or mimicked by investors suffering from this bias. This could be due to the need for feeling accepted or conforming behaviour. There is also the feeling that the decision of the majority may not be wrong, even if it contradictory to their own thought process. For example, some parents guide

their children towards certain career choices because many other parents are doing so, even if the child may not be inclined towards that activity.

To check for the existence of this bias, the advisor could ask the client to imagine that a particular stock is showing abnormally high returns and all his friends and analysts have invested in it. Meanwhile, even though the client's portfolio is giving good returns to fulfil his long-term return goal, would he still withdraw from his existing portfolio to invest in the popular stock? If the client would be agreeable, then he could be subject to herd behaviour bias. This bias could lead to increased churning of the portfolio and consequently, higher transaction costs.

In such a situation, the advisor could explain the benefits of value-based investing and long-term perspective in achieving financial goals.

Conclusion

Behavioural characteristics,



Herd behaviour bias manifests itself when investors blindly follow decisions taken by a prominent or larger group. This behaviour may not necessarily be rational but is still copied or mimicked by investors suffering from this bias.

which are frequently ignored by financial advisors and wealth managers, can have a major bearing on investment decisions. Behavioural biases can contribute to reduced returns from an investment or portfolio. Technical charts, fundamental analysis, etc. are discussed in detail at the cost of this behavioural part of investing which has the potential to be equally crucial and vital to the health of the portfolio. As seen above, different biases can have differing effects on the portfolios. For example, one bias can lead to the investor trading more frequently, whereas another can lead to reduced trading or investing. Hence, it is suggested that advisors study the biases and observe the impact on investor decision making. Just because an investor is happy to trade in a stock at the right time does not necessarily mean that he is free of biases. It could well be that an underlying bias could be leading him to invest, which could have a negative effect in another situation when he would be required to hold on to a position. Hence, advisors need to study and identify

investor biases at the beginning of the relationship and keep monitoring the situation at every stage to help build, increase, and protect the client's wealth.

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Advisors need to study and identify investor biases at the beginning of the relationship and keep monitoring the situation at every stage to help build, increase, and protect the client's wealth.



Impact of COVID 19 on Global Capital Markets

The study attempts to explore the correlation between stock market returns and growth in number of cases and deaths in COVID-19 in five major economies across the globe (i.e., USA, China, Japan, Germany and India) based on the data collected from WHO COVID-19 dashboard and Yahoo Finance for the study period from 01 February 2020 to 30 April 2020. It is observed that among all the five countries that the stock return of SENSEX (India) is significantly influenced by the growth in COVID cases. However, in other countries, growths in COVID cases or death do not have significant association with stock returns. Read on...



Dr. Mitrendu Narayan Roy Prof. (Dr.) Siddhartha Sankar Saha

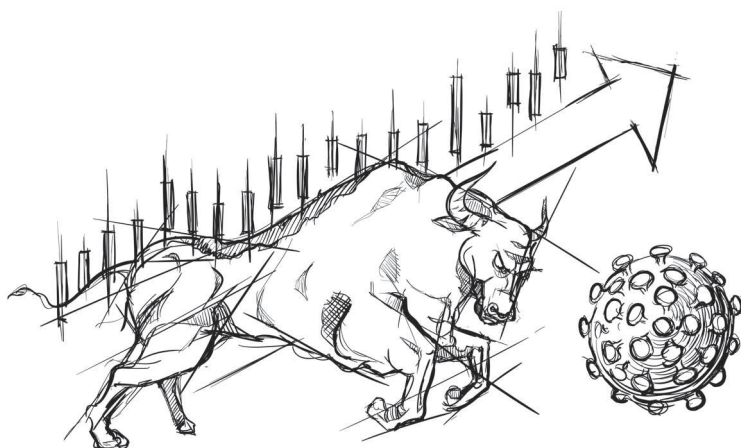
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In majority of the countries, growth in number of cases negatively influenced the stock returns. It is significant to note that a few policy measures have been undertaken by the Indian Government to ensure economic turnaround amid this scenario. However, those measures are required to be implemented appropriately to gain more productive outcome.

Background of the Research

A few notable epidemics/pandemics to date that have shaken the world are 'The Black Death' plague (1347 – 1351); bleeding fever (Mexico - 1545 – 1548); cholera (1899 – 1923);

Acute Immune Deficiency Syndrome (AIDS) (Cameroon – 1908); Spanish flu (1908); Severe Acute Respiratory Syndrome (SARS) (Asia and Canada – 2002-03), etc. A new addition to the list is the COVID-19 coronavirus pandemic (2019-nCov). It first appeared in December 2019 in Wuhan city of Hubei province, China (Estrada et al., 2020). The first death from the virus was reported on 11 January 2020 (Pharmaceutical Technology, 2020). On 12 March 2020, the World Health Organisation (WHO) declared it a pandemic. By then the number of deaths from COVID-19 had crossed 20000. There was a serious increase in the number of cases



in Italy, the United Kingdom (UK), Germany and a few other European countries due to initial laxity from the Government and citizens. Later, the United States (US) had drawn the world's attention in terms of the number of cases and deaths as well. On the other hand, the outbreak started much later in India (end-March 2020). However, the number of confirmed cases rose to a considerable extent within no time due to a high population density. As a measure of a solution, the Governments of different countries had immediately cancelled all international flights, postponed all forms of international meets, prohibited any form of social congregations and set a complete quarantine in motion. Some countries even had declared a state of emergency to manage the situation (**Ayittey et al., 2020**).

Research Problem

Though containment achieved its desired effect of capping number of cases, the pandemic and subsequent lockdown completely stalled global trade and productions (**John Hopkins University, 2020**). Transportation and tourism business took a major hit which also caused decline in exchange rate. Manufacturing sectors had to stop production due to absence of labour. The only sector that thrived was public health and pharmaceuticals due to an absolute desire of a vaccine at the earliest. All these unfortunate yet unavoidable circumstances

ultimately started to reflect in the stock market performances. Truly speaking, stock market returns is considered to be a barometer of economic growth and is influenced by other macro-economic variables (**Saha, 2021**). However, due to COVID-19, stock returns across the world started projecting a declining trend since February 2020. Naturally, the question arises whether stock returns of major global economies have responded negatively to COVID-19.

Review of Literature

With a view to addressing the problem identified above, a few research studies are reviewed here. **Ahmar and Val (2020)** predicted the movement of returns of IBEX (Spain) in the back of COVID-19 using the Sutte ARIMA method. **Al-Awadhi, et al. (2020)** investigated the impact of COVID-19 on Chinese stock market returns using panel data regressions. The results indicated a significant relationship between COVID-19 and stock market returns. **Baker et al. (2020a)** analysed the impact of natural disasters, terrorist attacks and political stocks on stock market performance using panel data regression. The results suggested a robust short-term impact on stock market growth. **Baker et al. (2020b)** explained the unprecedented stock market reaction to the COVID-19 pandemic by considering stock market volatilities since 1985. The evidence suggested that Government restrictions

amid this pandemic were possibly the main reason behind such reaction. **Baker et al. (2020c)** assessed the macroeconomic impacts of the COVID-19 pandemic based on three uncertainty measures (stock market volatility, newspaper- based uncertainty and subjective uncertainty in business expectation surveys). The results implied that half of the total contraction in the US-GDP was made due to the COVID-19 pandemic. **Deitrich et al. (2020)** documented the consumers' perception of the US stock markets' reaction to the COVID-19 pandemic. The results suggested that the rise in consumers' uncertainty accounted for 2/3rd of the total GDP drop. **Liu et al. (2020)** evaluated the impact of COVID-19 on the stock market returns of select affected countries, like Japan, Korea, the US, Germany, Singapore, and the UK using the event study method and panel fixed effect regressions. The results indicated high abnormal returns in the Asian market due to



Due to COVID-19, stock returns across the world started projecting a declining trend since February 2020. Naturally, the question arises whether stock returns of major global economies have responded negatively to COVID-19.

pessimistic investor sentiments. **Liu and Hu (2020)** used the neoclassical economic growth model in explaining how COVID-19 promoted China's savings rate leading to long term growth in their GDP. **Sansa (2020)** investigated the impact of COVID-19 on the stock markets of China (Shanghai Stock Exchange) and the USA (Dow Jones) based on the data from 1 – 25 March 2020 using the simple regression technique. The study revealed a positive significant relationship between COVID-19 confirmed cases and stock market growth. **Zeren and Hizarci (2020)** revealed the possible reaction of confirmed cases and deaths from COVID-19 on major stock market returns using Maki's cointegration test. Confirmed cases of infection and deaths in China, Korea and Spain had a cointegrating relationship with their stock market returns.

Research Gap

None of the studies reviewed, so far, had taken an attempt to explore the correlation between confirmed cases of infection and deaths from COVID-19 with stock market returns in the top five economies in the globe. Keeping this gap in view, the current study attempts to address the following objectives.

Objectives

The objectives of the current study are as follows:

- (i) To enquire into the growth of confirmed cases and deaths from COVID-19 and stock market returns

in five major economies in the Globe during the study period (*Refer to Section 5.1*);

- (ii) To measure the underlying characteristic of the data representing the growth of confirmed cases and deaths from COVID-19 and stock market returns (*Refer to Section 5.2*);
- (iii) To explore the impact of the growth of confirmed cases and deaths from COVID-19 on stock market returns (*Refer to Section 5.3*).

Data and Methodology

Sample Selection

With a view to analysing the correlation between stock market returns and COVID-19, stock markets representing the top five developed and developing economies across the globe based on their nominal gross domestic product (GDP) by the International Monetary Fund (IMF) (**IMF, 2019**) have been sampled out. They are USA, China, Japan, Germany and India. Now, the largest stock exchange in each country has been selected based on its market capitalisation (**World Federation of Exchanges (WEF), 2019**). Accordingly, New York Stock Exchange (NYSE) in the US; Shanghai Stock Exchange (SSE) in China; Tokyo Stock Exchange (TSE) in Japan; Frankfurt Stock Exchange (FSE) in Germany; and Bombay Stock Exchange (BSE) in India are selected. One representative stock index having worldwide recognition and prominence has then been

selected for the study. Thus, Standard & Poor's (S&P) 500 (NYSE, USA); SSE Composite Index (SSE, China); Nikkei 225 (Nikkei) (TSE, Japan); DAX 30 (DAX) (FSE, Germany); and Sensitivity Index (SENSEX) (BSE, India) are the stock indices, which are selected for the calculation of stock returns.

Period of Study

To capture this entire recession in the stock market that was caused due to the first wave of COVID-19, the study considers it appropriate to consider the period of study from 1 February 2020 to 30 April 2020.

Collection of Data and Data Mining

The data on indices values of five select stock indices during the study period have been collected from Yahoo Finance, while data on daily cases of infection and death from COVID-19 in five select countries during the study period are collected from the World Health Organisation (WHO) COVID dashboard. Since all the select stock markets do not perform on the same dates due to weekends or public holidays in different countries, the index with the least number of days of operation has been considered as a base and data on additional days of operation of other stock indices have been removed until the all the stock indices conform to exactly same operational dates. Finally, the study is made with 50 observations uniform for all the markets. It is significant to note that

while the data related to the number of cases and deaths due to COVID-19 are available in each day from 1 February 2020 to 30 April 2020, data related to stock indices of all five countries in each day from 1 February 2020 to 30 April 2020 are not available because of non-operation of the markets. Hence, with a view to bring uniformity to the data related to the variables, like number of cases, number of deaths and value of stock indices of all the five countries, appropriate data mining technique has been applied and the study has been conducted with comparable data of number of cases, number of deaths and stock market indices on uniform dates in all the five countries.

Analytical Tools

The returns of stock indices values and growth in the number of daily cases and deaths from COVID-19 on final selected dates have been calculated. The country-specific data is, then, graphically represented using a line chart plotting the values on the vertical axis and time on the horizontal axis.

The descriptive statistics comprise varied statistical measures in understanding the nature of the data. It includes, mean $[\frac{1}{n} \sum_{t=1}^n Y_t]$; median; the maximum and minimum values; standard deviation (S.D) $[\sqrt{\frac{1}{n-1} \sum_{t=1}^n (Y_t - \bar{Y})^2}]$; sum of squared deviation (SS) $[\sum_{t=1}^n (Y_t - \bar{Y})^2]$, etc. Skewness is the degree of distortion from a symmetrical normal distribution. While

a normal distribution has skewness ranging between -0.5 to 0.5, skewness, which is greater than 0.5 represents a positively skewed distribution and vice versa. If skewness is greater than 1, the distribution is highly positively skewed and vice versa. Kurtosis, on the other hand, is a measure of outliers present in the distribution. A distribution with kurtosis, which is equal to 3; less than 3; greater than 3, are Mesokurtic (normal); Platykurtic (low on outliers) and Leptokurtic (high on outliers) respectively. Finally, Jarque-Bera (JB) test is conducted to test the normality of the distribution based on the following hypothesis:

- **Null hypothesis (H_0): JB statistic = 0**
- **Alternate hypothesis (H_1): JB statistic $\neq 0$**

The JB statistic is $[(n-k+1)/6] \times [S^2 + \frac{1}{4} (C-3)^2]$, where n =number of observations; k = number of regressors (1 in case of single data); S = sample skewness; C = sample kurtosis. At 'n' degree of freedom and 5% level of significance, if the probability of obtaining the calculated value of JB statistic in the Chi-square distribution table is less than 0.05, H_0 is rejected and vice versa.

The correlation among the stock returns, growth of COVID cases and growth of COVID deaths is measured with the help of Pearson's Correlation Coefficient (r). The significance of ' r ' is measured by applying t-test based on the following hypothesis:

- **$H_0: r=0$; against $H_1: r \neq 0$**

At $(n-2)$ degrees of freedom (df) and 5% level of significance, if the probability corresponding to a correlation coefficient (p-value) is less than 0.05, the correlation is significant and vice versa, where n =number of observations.

Results and Analysis

Growth of Confirmed Cases and Death from COVID-19 and Stock Market Returns

It has been observed (Chart 1) that growth of cases and deaths due to COVID-19 in all the five countries were more volatile than their stock market returns. Stock markets in almost all the countries projected negative returns in early-February. However, it became volatile when the spread began to rise in mid-February. By the end of February, the volatility was tamed to some extent. The curve representing growth of deaths moved coherently to the curve representing growth of cases in all the five countries. In the USA, growth in the number of daily cases surged in the beginning of March followed by sudden growth of deaths.

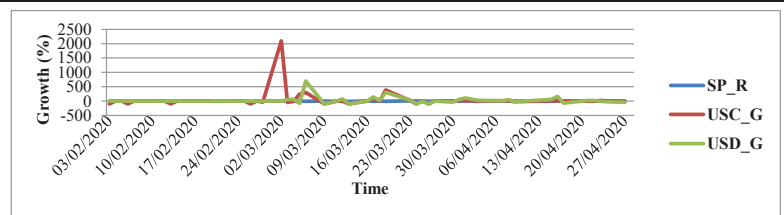


Growth of cases and deaths due to COVID-19 in all the five countries were more volatile than their stock market returns. Stock markets in almost all the countries projected negative returns in early-February.

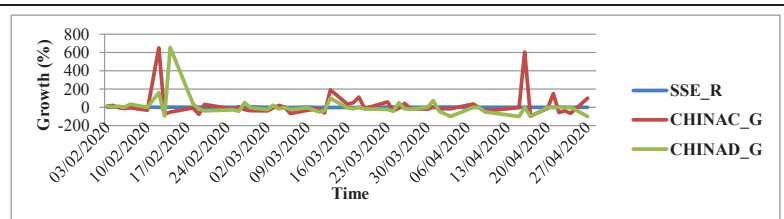
Capital Market

Chart 1: Movement of Stock Returns with Growth of New Cases and New Deaths

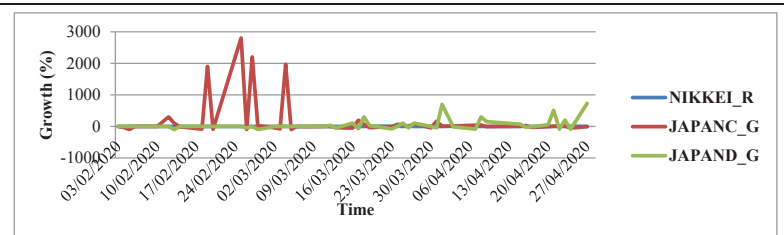
Panel A: Stock Return of S&P 500 (SP_R), Growth of New Cases in the US (USCC_G) and Growth of New Deaths in the US (USCD_G)



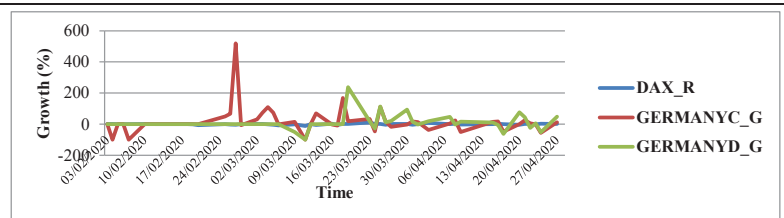
Panel B: Stock Return of SSE Composite Index (SSE_R), Growth of New Cases in China (CHINACC_G) and Growth of New Deaths in China (CHINAD_G)



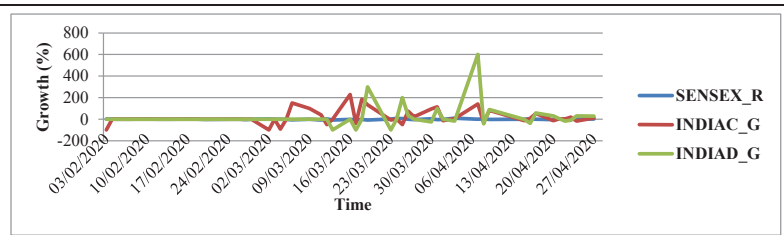
Panel C: Stock Return of NIKKEI (NIKKEI_R), Growth of New Cases in Japan (JAPANCC_G) and Growth of New Deaths in Japan (JAPANCD_G)



Panel D: Stock Return of DAX (DAX_R), Growth of New Cases in Germany (GERMANYCC_G) and Growth of New Deaths in Germany (GERMANYCD_G)



Panel E: Stock Return of BSE SENSEX (SENSEX_R), Growth of New Cases in India (INDIACC_G) and Growth of New Deaths in India (INDIACD_G)



(Source: Compiled based on Secondary Data using MS Excel)

In China, the growth of daily cases and deaths suddenly jumped in mid-February 2020. However, after that, for quite some time, it projected negative growth. The growth of cases and deaths in China rose again in mid-March 2020 and once again in end-April 2020. Growth in number of cases in Japan was higher from mid-February to mid-March 2020. Death rate in Japan followed the rate of cases. In early-March 2020, growth of new cases and deaths were negative in Germany. It mainly surged at the end-February followed by an increase in death rate. However, towards the end of April 2020, it is again showing a negative growth. In India, growth of cases were almost nil till the beginning of March, 2020. It started to increase from middle of the month. In the beginning of April 2020, growth of new deaths has reached an exorbitant level.

Underlying Characteristics of the Data

Underlying characteristics of the data representing growth of confirmed cases and deaths from COVID-19 and stock market returns are represented through descriptive statistics. It is observed that barring SSE Composite Index, all other indices reported negative returns during the period (Table 1). Among them, the SENSEX projected the lowest return. In terms of median return too, the SSE was at the top position followed by the DAX, while the SENSEX was at the bottom of the chart. In terms of maximum and minimum values, SD and sum of squared deviation, the S&P 500 and the DAX were the two most volatile indices during the period.

Table 1: Descriptive Statistics of Stock Market Indices

Parameters	S&P 500	SSE Composite	Nikkei	DAX	SENSEX
Mean	-0.161688	0.055849	-0.259846	-0.310276	-0.372426
Median	0.065206	0.180931	-0.592039	0.101501	-0.382140
Maximum	9.382774	3.146437	8.038101	10.97590	8.974906
Minimum	-11.98406	-3.711597	-6.080833	-12.23861	-8.177789
Std. Dev.	4.273521	1.439420	2.863170	3.691717	3.469425
Skewness	-0.285601	-0.361952	0.695388	-0.206920	-0.053876
Kurtosis	3.742767	3.351235	4.114851	5.681452	3.679801
Jarque-Bera	1.829115	1.348753	6.619059	15.33635	0.986959
Sig.	0.400694	0.509474	0.036533	0.000467	0.610498
Sum	-8.084422	2.792457	-12.99229	-15.51382	-18.62131
Sum Sq. Dev.	894.8860	101.5246	401.6895	667.8101	589.8085

(Source: Compilation based on Secondary Data using EViews 9.0)

However, the SSE was comparatively less volatile during the period. From the results of skewness, it is observed that distributions of all the stock returns barring that of Nikkei were negatively skewed (skewness<0.5). Results of kurtosis (kurtosis>3) denote the presence of outliers in all the distributions. Results of the JB test proved that apart from the Nikkei and the DAX, returns of other stock indices followed a normal distribution.

Table 2: Descriptive Statistics of Growth of Individual Cases of COVID-19

Parameters	USA	China	Japan	Germany	India
Mean	45.92422	22.01844	181.8661	18.27986	18.89092
Median	0.000000	-11.15196	0.000000	0.000000	0.000000
Maximum	2100.000	649.3571	2800.000	520.0000	228.5714
Minimum	-100.0000	-95.45455	-100.0000	-100.0000	-100.0000
Std. Dev.	309.6745	136.0987	618.7303	87.64985	66.32218
Skewness	6.039869	3.626223	3.182397	3.833781	1.113106
Kurtosis	40.36334	16.47938	11.72502	22.84267	4.514488
Jarque-Bera	3212.374	488.1079	242.9928	942.7563	15.10352
Probability	0.000000	0.000000	0.000000	0.000000	0.000525
Sum	2296.211	1100.922	9093.305	913.9931	944.5462
Sum Sq. Dev.	4699016.	907620.2	18758535	376442.3	215532.9

(Source: Compilation based on Secondary Data using EViews 9.0)

It is evident (Table 2) that the average growth of daily cases during the period was highest for Japan and least for Germany. However, the median growth of new cases in all the countries was zero except China. In terms of volatility in the growth of new cases, Japan topped the list while India was at the bottom of the chart. The distributions representing growths of new cases in five countries were highly positively skewed (skewness>1) and leptokurtic. The skewness and kurtosis were highest for USA and least for India. Results of the JB test showed that none of the distribution follows normality.

Table 3: Descriptive Statistics of Growth of Individual Cases of Deaths

Parameters	USA	China	Japan	Germany	India
Mean	24.67507	3.827105	49.80059	9.037145	20.45881
Median	0.000000	-3.786816	0.000000	0.000000	0.000000
Maximum	700.0000	653.8462	733.3333	237.5000	600.0000
Minimum	-100.0000	-100.0000	-100.0000	-100.0000	-100.0000
Std. Dev.	118.9114	105.3595	175.4768	47.11002	103.8822
Skewness	3.973858	4.825637	2.667706	2.349935	3.990197
Kurtosis	22.48121	30.39871	9.933605	13.18018	21.58198
Jarque-Bera	922.2576	1757.992	159.4614	261.9267	852.0347
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	1233.753	191.3553	2490.030	451.8572	1022.941
Sum Sq. Dev.	692856.1	543930.2	1508814.	108748.4	528783.9

(Source: Compilation based on Secondary Data using EViews 9.0)

Corresponding to the results of the growth of new cases, the average growth of new deaths in Japan was the highest, while it was the least for Germany (Table 3). The median growth of new deaths was zero in all the countries barring China. While growth deaths were highly volatile in Japan, it was not all so in Germany. All the distributions were high on the right tail (positively skewed) and with a high number of outliers (leptokurtic). Skewness and kurtosis were highest in China, while it was least in Japan. Results of JB tests suggest that the growth of new deaths in none of the countries followed a normal distribution.

Correlation between Stock Market Returns and Growth of Covid Cases and Deaths

In this section, an attempt has been made to calculate the Pearson's correlation coefficient (r) and its relative significance among the stock returns, growth of new cases and growth of new deaths in the countries under consideration (Table 4).

Table 4: Correlation between Stock Return and Growth in Cases and Deaths

	Pearson's Correlation Coefficient (r)		Significance of r (p-Value)	
	New Cases	New Deaths	New Cases	New Deaths
	USA			
New Deaths	-0.151419	1.000000	0.2939	-----
Stock Return	-0.186437	0.170571	0.1949	0.2363
	CHINA			
	New Deaths	0.141105	1.000000	0.3284
	Stock Return	-0.092245	0.078779	0.5240
	JAPAN			
	New Deaths	-0.082640	1.000000	0.5683
	Stock Return	-0.063942	-0.119488	0.6591
	GERMANY			
	New Deaths	-0.068132	1.000000	0.6383
	Stock Return	0.217533	0.128658	0.1291
	INDIA			
	New Deaths	0.360650	1.000000	0.0101*
	Stock Return	-0.350003	-0.087035	0.0127*

(Source: Compilation of the Secondary Data using EViews 9.0)



In terms of volatility in the growth of new cases, Japan topped the list while India was at the bottom of the chart.

Based on the results obtained, it may be inferred that only in India, the stock return had significant correlation with (P -value <0.05) with growth in COVID cases. However, in other countries, the association between stock return, growth of new cases and deaths were not significant (P -value >0.05). For all the countries under consideration barring Germany, the stock return was negatively correlated with growth of new cases ($r<0$). However, apart from Japan and India, the stock return was positively correlated ($r>0$) with the growth in number of deaths. Out of all the five countries, only in India stock market returns responded significantly to the growth in number of cases due to COVID-19. It is important to note that the Indian stock market was projecting positive growth in the pre-pandemic era. However, the pandemic and its far-reaching impacts on the US and European economies had made the foreign investors pull out funds from the Indian market which perhaps resulted in a sudden drop in Indian stock market returns.

Conclusion

While the outbreak of COVID-19 began at different points of time in different countries, it mainly loomed across the five countries under the current study during mid-February 2020 to early-April 2020. Out of the five countries, the average growth and volatility in terms of number of cases and deaths from COVID-19

was highest in Japan. While the mortality of the disease was comparatively low, it posed a great threat to the economic stability and stock market growth. The recession in stock market began since early-February 2020 in all the countries. Moreover, the market started to correct itself from mid-April 2020. While the outbreak first started in China, its stocks seem to have been least affected by this unprecedented shock as evidenced from the average return. India was the worst sufferer of the shock in terms of average stock market return. However, the market significantly responded to the growth in number of cases in India, while the relationship between COVID-19 and stock market return became negative but was not significant in other countries.

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India was the worst sufferer of the shock in terms of average stock market return. However, the market significantly responded to the growth in number of cases in India.



While the mortality of the disease was comparatively low, it posed a great threat to the economic stability and stock market growth.



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Non-compliances observed in the Ind AS Financial Statements pertaining to Equity and Liabilities in Balance Sheet

Financial Statements are the paramount source in the hands of the stakeholders to understand the financial well-being of an enterprise. The users are highly reliant on the information presented in the financial statements and therefore the preparers ought to ensure that it is correct, complete, relevant and adhere to the applicable regulatory requirements. Financial Reporting Review Board (FRRB) reviews the General Purpose Financial Statements (GPFS) of enterprises with the view to identify the non-compliances with Accounting Standards/ Ind AS and Standards of Auditing, CARO, Companies Act, and other applicable statutory requirements. The non-compliances observed by the Board are compiled and published under the name of “Study on Compliance with

Financial Reporting Requirement’. Till date, three volumes of the aforesaid publication have been released by the Board. Further, one more publication on “Study on Compliance of Financial Reporting Requirements (Ind AS Framework)” has been released for preparers and auditors of the Ind AS financial statements. In addition, the Board publishes such non compliances observed by way of articles in the Chartered Accountant Journal of the Institute. Read on...

This article is in furtherance of the FRRB's endeavour to update the members and other stakeholders in the field of financial reporting. It may be noted that in this article, the observations related to Ind AS framework have been classified based on components of financial statements i.e., Assets, Equity, Liabilities for Balance Sheet and revenue, interest income, employee benefits etc. for Statement of Profit and Loss and likewise. This article deals with the non-compliances, observed by the Board, with regard to equity and liabilities in Balance Sheet which is an important element for Ind AS financial statements.

Observations related to Equity

Classification of Treasury Shares



Contributed by the Financial Reporting Review Board of the ICAI. Comments may be sent to frrb@icai.in and eboard@icai.in

Case

Note to the financial statements of a company read as follows:

“Beneficial Interest in a Trust represent investments in company’s shares, associates and other unlisted companies net off borrowings and liabilities pertaining to investment division of a company transferred to the said trust in terms of the scheme of amalgamation. Considering that the company’s shares are held by an independent trust and are meant for sale in terms of the High Court order, the beneficial interest (including company’s shares) has been treated as financial asset and fair valuation as required in terms of Ind AS 109 has been carried out by an independent firm of chartered accountant and the resultant decrease in value thereof, has been adjusted from other comprehensive income.”

Principle: Ind AS 32, Financial Instruments Presentation

Paragraph 33– Treasury shares

“If an entity reacquires its own equity instruments, those instruments (‘treasury shares’) shall be deducted from equity. No gain or loss shall be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity’s

own equity instruments. Such treasury shares may be acquired and held by the entity or by other members of the consolidated group. Consideration paid or received shall be recognised directly in equity.”

Paragraph AG 36– Treasury shares

“An entity’s own equity instruments are not recognised as a financial asset regardless of the reason for which they are reacquired. Paragraph 33 requires an entity that reacquires its own equity instruments to deduct those equity instruments from equity. However, when an entity holds its own equity on behalf of others, e.g., a financial institution holding its own equity on behalf of a client, there is an agency relationship and as a result, those holdings are not included in the entity’s balance sheet.”

Observation

It was noted that the company has beneficial interest in a Trust which represents investments in the company’s own shares, associates and other unlisted companies net off borrowings and liabilities. This beneficial interest was treated as financial asset, and accordingly, fair valued as per Ind AS 109 by the company. The impact was taken to other comprehensive income.

It was viewed that effectively, **the beneficial interest in Trust which represents investments in company’s own shares, is nothing but ‘treasury shares’, and hence should not have been recognised as financial asset rather be deducted from equity in line with the requirements of paragraph AG 36 of Ind AS 32.**

Accordingly, it was viewed that the requirements of Ind AS 32 have not been complied with.

Disclosure of Statement of Changes in Equity

Case

Financial Statements of the company comprised of Balance Sheet, Statement of Profit and Loss, Statement of Cash Flow and Notes to Accounts but Statement of Changes in Equity was not there.

Further, there was a reference given in the auditor’s report that the statement of changes in equity has been audited by them although it was not forming part of the annual report.

Principle: Companies Act, 2013 and Ind AS 1

Section 2(40) of Companies Act, 2013

“Financial Statement” in relation to a company, includes—

Financial Reporting

- i) a balance sheet as at the end of the financial year;
- ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
- iii) cash flow statement for the financial year;
- iv) a statement of changes in equity, if applicable; and
- v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):

Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement;

Paragraph 10 of Ind AS 1; Presentation of Financial Statements

“10. A complete set of financial statements comprises:

- (a) a balance sheet as at the end of the period;
- (b) a statement of profit and loss for the period;
- (c) Statement of changes in equity for the period;
- (d) a statement of cash flows for the period;
- (e) notes, comprising significant accounting policies and

other explanatory information;
(ea) comparative information in respect of the preceding period as specified in paragraphs 38 and 38A; and

- (f) a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D.”

Observation

It was noted that the company, which is preparing financial statements as per Ind AS, inter alia, is required to prepare and present the Statement of Changes in Equity.

However, in the given case, **the Statement of Changes in Equity was not prepared which is a mandatory requirement.** Further, there was a reference given in the auditor's report that the statement of changes in equity has been audited by them although it was not forming part of the annual report.

Accordingly, it was viewed that the Company has not published the complete

set of financial statements which is a non-compliance of Ind AS 1 as well as Companies Act, 2013.

Disclosure of nature and purpose of each reserve under Other Equity

Case

In the notes to the financial statements of a company on Other equity, various reserves were disclosed like Revaluation Reserve and General Reserve.

Principle: Ind AS 1, Presentation of Financial Statements

Paragraph 79

“An entity shall disclose the following, either in the balance sheet or the statement of changes in equity, or in the notes:

...

- (b) a description of the nature and purpose of each reserve within equity.”

Note 6(D)(II)(i)(d)

It may be noted that Note 6(D)(II)(i)(d) of ‘General Instructions for preparation of Balance Sheet’ of Division II Schedule III to the Companies Act, 2013 requires that;

“6D. Equity

II. Other Equity:

- (i) ‘Other Reserves’ shall be classified in the notes as-

...

- (d) Other (specify the nature and purpose of each reserve

and the amount in respect thereof);”

Observation

It was noted from the note to the financial statements on Other Equity that there are various reserves with the company, however, the nature and purpose of these reserves were not disclosed by the company.

As per the above stated requirements of Ind AS 1 and Note 6(D)(II)(i)(d) of ‘General Instructions for preparation of Balance Sheet’ of Division II Schedule III to the Companies Act, 2013, the nature and purpose of each reserve is required to be disclosed which was not given by the company.

Accordingly, it was viewed that the requirements of Ind AS 1 and the Companies Act, 2013 have not been complied with.

Non - Current Borrowings

Case

In the note to the financial statements of a company on Non-Current Borrowings, Loans from related parties were classified as non-current. These loans from related parties were interest free and repayment terms were not stipulated.

Principle: Ind AS 1, Presentation of Financial Statements

Paragraph 60

An entity shall present current and non-current assets, current and non-current liabilities, as separate classifications in its balance

sheet in accordance with paragraphs 66-76 ...

Paragraph 69

An entity shall classify a liability as current when:

...

d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Observation

It was noted from the notes to the financial statements on Non-Current Borrowings that loans from related parties were classified as non-current. It was viewed that since loans from related parties are interest free and **repayment terms have not been stipulated, such loans are callable on demand. Therefore, the classification of such loans as non-current was not in line with the above stated requirements of Ind AS 1.**

Accordingly, it was viewed that the requirement of Ind AS 1 has not been complied with.

Financial Liabilities

Case

Abstract of an accounting policy on Financial Assets and Liabilities read as follows:

“Financial assets and liabilities

...

(v) Financial assets and liabilities at Fair Value Through Profit or Loss (FVTPL)

Financial instruments which do not meet the criteria of amortised cost or fair value through other comprehensive income are classified as fair value through profit or loss.”

Principle: Ind AS 109, Financial Instruments

Paragraphs 4.2.1

“An entity shall classify all financial liabilities as subsequently measured at amortised cost...”

Paragraphs 4.2.2

“An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when permitted by paragraph 4.3.5, or when doing so results in more relevant information...”

Observation

It was viewed that the stated accounting policy gives an erroneous impression that the financial instruments (including financial liabilities) can be classified as either valued at Amortised Cost or Fair Value through Other Comprehensive Income (FVOCI). However, the FVOCI classification category is not available for Financial Liabilities under Ind AS 109.

Accordingly, it was viewed that the requirements of Ind AS 109 has not been complied with in the stated policy.

Financial Reporting

Financial Liabilities

Case

In the note to the financial statements on Borrowings, various defaults in the repayment of loans were given.

Further, under paragraph (viii) of Annexure to the Auditor's Report, the auditor had reported that there has been delay in timely repayment of dues. Further, he had reported the status of payment made for these defaults, before the approval date of the financial statement.

Principle: Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013 and Ind AS 107, Financial Instruments: Disclosures

Paragraph 8.2.3.16

"Ind AS Schedule III requires separate disclosure for default, as on the balance sheet date, in repayment of borrowings and interest but does not require any disclosure of breaches. However, para 18 of Ind AS 107 would require an entity to disclose only those breaches made during the reporting period, which permitted the lender to demand accelerated repayment and, were not remedied on or before the end of the reporting period."

Paragraph 8.2.10

"The amounts shall be classified as:

- (a) Current maturities of long-term debt;

(b) ...

...

Current maturities of long-term debt

Ind AS Schedule III requires presenting 'current maturities of long-term debt' under 'Other Financial Liabilities' grouped under 'Current Liabilities'. Long term debt is specified in Ind AS Schedule III as a borrowing having a period of more than twelve months at the time of origination. However, current maturities of long-term debt are of the nature of a 'Borrowings' but since Ind AS Schedule III specifically provides a separate line item for presenting current maturities of long-term debt under Other Financial Liabilities, it is recommended that companies follow the presentation requirements of Ind AS Schedule III."

Paragraph 18 of Ind AS 107 – Defaults and breaches

"For loans payable recognised at the end of the reporting period, an entity shall disclose:

...

- (c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were approved for issue."

Observation

It was observed from the note to the financial statements on Borrowings that there were various defaults in the repayment of loans. Further, under paragraph (viii) of

Annexure to the Auditor's Report, the auditor had reported that there has been delay in timely repayment of dues to banks for External Commercial Borrowings (ECB) and to financial institutions for debentures. In respect of working capital facilities from Banks there has been over drawings in the accounts during the year as well as at year end. Under 'Remark' column, the auditor had reported the status of payment made for these defaults, before the approval date of the financial statement.

It was viewed that the **details of defaults remedied before the date of approval of the financial statement was not disclosed, which is not in line with the above stated requirements of paragraph 18 (c) of Ind AS 107 and paragraph 8.2.3.16 of Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013.**

It was further noted from the note on Borrowings that **certain amount of ECB was due in the next 12 months, however, no disclosure was given for current maturities of long-term debts under current liabilities which is not in line with the above stated requirement of paragraph 8.2.10 of Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013.**

Accordingly, it was viewed that the requirements of Ind AS 107 and Schedule III to the Companies Act, 2013 have not been complied with.



Resilience in Digital Payments Landscape in India in The Backdrop of COVID-19 Pandemic

The digital payment market has witnessed a sharp decline due to COVID-19 pandemic and subsequently it has regained momentum with the gradual relaxation in lockdown. Several payment categories like Cards, Wallets, ATM, UPI and others have experienced differently and distinctly as a result of pandemic. RBI has undertaken several agenda to strengthen the digital banking experience, boost confidence, ensure data privacy and healthy competition among the consumers. The paper seeks to analyse the digital payment statistics and trends in the backdrop of COVID-19, its impact on payment categories with possible reasons, and discuss the digital payment from feature phone with Data Protection Bill, 2021 and Interoperability and RBI's agenda to strengthen digital banking including FinTech-related activities. Read on...



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Introduction and Objective of the Study

Digital India Program, Jan Dhan Yojna, Demonetization and other government initiatives have propelled the growth trajectory for digital payments and also paved way for some innovative payment modes like United Payments Interface, Bharat Interface for Money and so on. The digital payments market is expected to experience CAGR of around 21.74 per cent during the FY 2020 -FY 2024 period¹. But the market has witnessed a sharp decline of around 30 per cent due to COVID-19 pandemic involving lockdown and decline in economic activities. After relaxing lockdown, such journey towards “Less-cash”

¹E-payment Solutions Market in India 2020 (Part-I), Netscribes, January 2020.

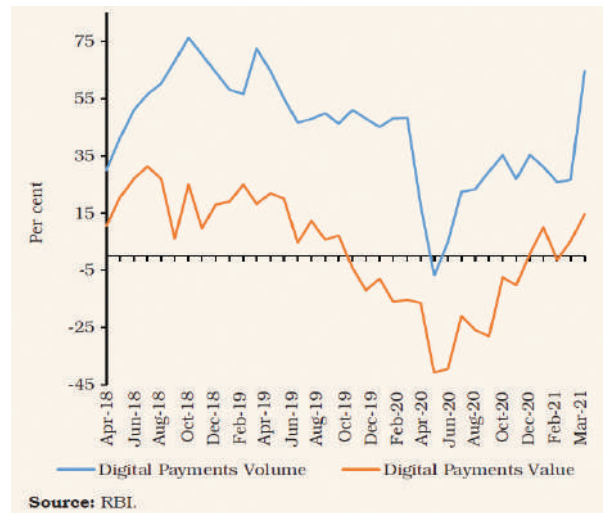
has observed rapid growth. The department of Payment and Settlement Systems (DPSS), Reserve Bank of India (RBI) has undertaken various initiatives to ensure safety, efficiency, innovation, competition, customer protection and financial inclusion in payment landscape focusing more on digital penetration through greater infrastructure and innovation in payment options. RBI also campaigns for spreading awareness on digital payments and ensure redressal of customer grievance in a timebound manner. To bring the excluded section of the society and gain the trust of public on digital payment, RBI has facilitated digital



Digital Accounting

payment from feature phone without internet connectivity, introduced Data Protection Bill, 2021 to ensure privacy of sensitive data and also made Interoperability of multiple apps to reduce complexity and boost digital payments. In this backdrop, the paper has attempted to analyse firstly, the trends of digital payment statistics for FY 2018-19 to FY 2020-21, secondly, to discuss the digital payment from feature phone without internet connectivity in the backdrop of Data Protection Bill, 2021 and Interoperability, thirdly, to analyse the impact of COVID-19 on payment categories with possible reasons and lastly, to describe RBI's agenda to strengthen digital banking including FinTech-related activities.

Fig 1: Digital Payments Y-o-Y Growth



Trends of Digital Payment Statistics in India

Table 1: Digital Payment Statistics

(Volume in Lakh; Value in ₹ Crore)

	FY 2018-19		FY 2019-20		FY 2020-21	
	Volume	Value	Volume	Value	Volume	Value
A. Settlement Systems						
CCIL Operated Systems	36	116551038	36	134150192	28	161943141
B. Payment Systems						
1. Large Value Credit Transfers - RTGS	1366	135688187	1507	131156475	1592	105599849
Retail Segment						
2. Credit Transfers	118481	26090471	206506	28562857	317852	33522150
2.1 AePS (Fund Transfers)	11	501	10	469	11	623
2.2 APBS	14949	86226	16766	99179	14373	112747
2.3 ECS Cr	54	13235	18	5145	-	-
2.4 IMPS	17529	1590257	25792	2337541	32783	2941500
2.5 NACH Cr	8834	729673	11290	1043212	16450	1232714
2.6 NEFT	23189	22793608	27445	22945580	30928	25130910
2.7 UPI	53915	876971	125186	2131730	223307	4103658
3. Debit Transfers and Direct Debits	4913	524556	7525	719708	10441	872399
3.1 BHIM Aadhaar Pay	68	815	91	1303	161	2580
3.2 ECS Dr	9	1260	1	39	-	-

	FY 2018-19		FY 2019-20		FY 2020-21	
	Volume	Value	Volume	Value	Volume	Value
3.3 NACH Dr	4830	522461	7340	718166	9630	868906
3.4 NETC (linked to bank account)	6	20	93	200	650	913
4. Card Payments	61769	1196888	72384	1434813	57787	1291799
4.1 Credit Cards	17626	603413	21773	730894	17641	630414
4.2 Debit Cards	44143	593475	50611	703920	40146	661385
5. Prepaid Payment Instruments	46072	213323	53318	215558	49392	197695
6. Paper-based Instruments	11238	8246065	10414	7824822	6704	5627189
Total - Retail Payments (2+3+4+5+6)	242473	36271303	350147	38757759	442229	41512514
Total Payments (1+2+3+4+5+6)	243839	171959490	351654	169914234	443821	147112363
Total Digital Payments (1+2+3+4+5)	232601	163713425	341240	162089413	437118	141485173

Source: RBI (2021)

The effect of nationwide lockdown due to COVID-19 was initially prominent through



The department of Payment and Settlement Systems (DPSS), Reserve Bank of India (RBI) has undertaken various initiatives to ensure safety, efficiency, innovation, competition, customer protection and financial inclusion in payment landscape focusing more on digital penetration through greater infrastructure and innovation in payment options.

decline in payments, but both the value and volume of payments subsequently improved with gradual relaxations in lockdown. During FY 2020-21, although the total payment experienced a robust growth (26.2%) in terms volume, but contractionary trend (-13.4% as against -1.2% in FY 2019-20) has been found in terms of value, due to declining trends in the value of Real Time Gross Settlement (RTGS), the large payment system and in transactions of paper-based instruments. So far as digital or electronic payments modes are concerned, the declining trends of RTGS value (-19.5%, although 5.7% increase in volume) can largely be attributed to dampened economic activity caused by large reduction

in corporate transactions on account of slowdown in economic activities due to COVID-19 pandemic, while the digital transactions in the non-cash retail payments (in volume) constitute 98.5% during 2020-21 as against 97% in FY 2019-20. Transactions by National Electronic Funds Transfer (NEFT) system increased by 12.7% while transactions through Debit Card, Credit Card and Prepaid Payment Instruments (PPIs) have declined by 19%, 20.6% and 7.4% respectively. By the end of 2020-21, RTGS and NEFT facility was available in 175947 branches of 227 banks and 175283 branches of 225 banks respectively. In addition, ATM facility has also increased marginally from 2.34 lakh (in FY 2019-20) to 2.38 lakh at the end of FY 2020-21.

Digital Accounting

Digital Payment options from a Feature Phone will act as a catalyst and Data Protection Bill 2021

In order to bring the section of the society who are excluded from experiencing digital payment facility under the main umbrella, RBI along with the National Payment Corporation of India (NPCI) introduced two landmark initiatives like (a) UPI 123Pay and (b) DigiSaathi on 9th March, 2022. UPI 123Pay allows feature phones without internet connectivity to use UPI to facilitate payments, while DigiSaathi is a 24-7 helpline addressing the customers' query on digital payments in two languages: Hindi and English. Such initiatives will ensure the trust of customers and reliability of digital payments leading a step ahead towards cashless economy and financial inclusion. In this backdrop,



To bring the excluded section of the society and gain the trust of public on digital payment, RBI has facilitated digital payment from feature phone without internet connectivity, introduced Data Protection Bill, 2021 to ensure privacy of sensitive data and also made Interoperability of multiple apps to reduce complexity and boost digital payments.

Data Protection Bill 2021 will ensure the reliability of digital payment options, promote the growth and innovation of the digital economy and also protect the privacy of the personal data of citizens. The bill provides a timeline of approximately 24 months for implementation of the provision(s) of the Act in the concerned policies, infrastructures and processes (Clause 1), and also broadens the scope of "data" by incorporating non-personal data under the same umbrella (Clause 2). It also prevents cross-border sharing of data without prior approval from the government (Clause 34) and exempts the government agencies from the provisions of the law (Clause 35). Despite having several drawbacks, the bill will strengthen India in the domain of data protection and privacy and due compliance with the provisions by the companies.

Role of Interoperability of multiple apps in reducing complexity and boosting digital payments

Payment through UPI is expected to be convenient that will facilitate interoperability and lead to better adoption. Interoperability facilitates fund transfer between the wallets of the companies, individual bank accounts, etc. RBI has made it mandatory on payment acceptance side along with QR codes in all payment modes w.e.f. 31st March, 2022. This facilitates fund transfer from one digital mobile wallet to another.



Payment through UPI is expected to be convenient that will facilitate interoperability and lead to better adoption. Interoperability facilitates fund transfer between the wallets of the companies, individual bank accounts, etc.

RBI also advised such digital wallets companies (officially known as Prepaid payment instruments) to implement a formal and publicly disclosed customer cell for redressal of their grievances in a time-bound manner.

Impact of Covid-19 on Payment Categories

The nation-wide lockdown caused by the COVID-19 pandemic has raised significant uncertainty in payment decision making of consumers with respect to the quantum and timing of spending. In addition, several sectors like E-commerce, Online Education, Online payment of Utility bills have experienced in a positive way, while Travel & Tourism, Hospitality, Hotels & Restaurants, Jewellery have faced negative impact as result of pandemic. In this backdrop, various payment modes have responded differently. Such responses are summarised in the following table along with probable reasons behind.

Table 2: Impact of Covid-19 on Payment Categories

Payment Category	Payment Mode	Relative Impact	Possible Reasons
Issuance	Cards	Favourable	Surge in cards usage due to increased online transactions, health and safety concern.
	Wallets	Favourable	Surge in the transaction volume (mainly P2P transfers and P2M payments) and users due to online payment, safety mode of payment and significant shift in consumer behaviour and habits owing to lockdown and restrictions.
	Bank Accounts	Favourable	Cash gets substituted with Digital transfers and more fund transfers.
Acquiring	ATM	Moderate	ATM Transactions decrease due to fear of virus transmission through exchange of currency notes.
	Point of Sale (PoS)	Adverse	Increase in stores dealing essential items, but major decline at other stores due to restricted access.
	Payment gateways	Favourable	Surge in online transactions and tie up with small stores selling essentials lead to increased usage of Payment gateways.
Payment Infrastructure	UPI	Favourable	Massive increase in UPI transactions (driven by P2P and P2M payment transactions) including QR based payments due to less usage of cash and fear of virus transmission.
	IMPS	Favourable	Increased transactions through IMPS due to shift to digital.
	BBPS	Favourable	Relatively high volume of transactions with more adoption rate without any physical connection.
	NETC	Adverse	Restrictions in travelling lead to decline in tourism and travel sector, adversely impact toll usage and subsequently NETC.

Source: Compiled by the Author (2022)

RBI's Agenda and Fintech Activities to Strengthen Digital Banking

RBI has undertaken the following agendas under 'Payment and Settlement Systems in India: Vision 2019-2021' in FY 2020-21 and FY 2021-22 to boost digital payment eco-system by promoting financial innovation leveraging on technology to achieve operational excellence through better security, reliability, cost efficiency, resilience, and integrity.

Table 3: RBI's Agenda

Agenda for FY 2020-21	Agenda for FY 2021-22
A. Encouraging Healthy Competition	
Conducting Offline Payment Systems using mobile phone, cards or wallets to encourage digital payments and technological innovations	Developing a Settlement Risk Management Framework to ensure more participation of non-bank organisations, Membership to Centralised Payment Systems is reviewed
B. Improving Customer Convenience	
Implementing Online Dispute Resolution (ODR) system, for technologically resolving customer grievances and disputes	Implementing Offline Payment Solutions in the country based on pilot project experience

Digital Accounting

Self-Regulatory Organisation (SRO) to set and enforce rules and standards on the conduct of member entities in the industry, to protect the customer and promoting ethical and professional standards	National Settlement Services for Card Schemes to explore the possibility of facilitating settlement of card transactions processed by various card payment networks
Operationalising Pan-India Cheque Truncation System (CTS) and participation of all bank branches in image-based CTS to leverage the availability of CTS and provide uniform customer experience irrespective of bank branch location	Augmentation and Modernisation of Infrastructure Security Layer by implementing secure remote access capability to access RBI's applications from outside of office premises through multifactor and endpoint authentication
C. Ensuring Affordable Cost	
Legal Entity Identifier (LEI) to facilitate unique identification of the parties involved in financial transactions worldwide, improving quality, accuracy and better risk management	Review of Corridors and Charges for Inbound Cross-Border Remittances to examine the role of the payment services providers (PSPs) to ensure friction free remittances at lower cost
D. Increasing Confidence	
In order to understand the present position of digitisation of payments in the country, Digital Payments Index (DPI) has been created and published	Geo-tagging of Payment System Touch Points to capture the location and business details of commercial bank branches, ATMs and business correspondents
Positive Pay System for Cheque Truncation System (CTS) to reduce instances of cheque related frauds by ensuring customer safety in cheque payments	Third Party Risk Management and System-wide Security for examining the need to have distinct regulation dedicated for outsourcing arrangements service rendered by non-bank organisations
Source: Compiled by the Author (2022)	

RBI's Fintech-related Activities

- a. **Reserve Bank Innovation Hub (RBIH):** This is set up for promoting innovation across financial sector with advanced technology and creating an eco-system facilitating idea generation, development and innovation through collaboration.
- b. **Regulatory Sandbox (RS) Cohorts:** This is to foster retail payments, cross-

border payments, MSME lending and to strengthen the fraud governance minimising the time-lag between the occurrence and detection of frauds.

- c. **RegTech Solutions for Effective and Focused Regulations:** RBI is in cooperation agreement (CoA) with International Finance Corporation (IFC) to get knowledge or advisory related support on RegTech or SupTech from

IFC. Also, RBI joined the Global Financial Innovation Network (GFIN), a network of over 50 organisations committed to support financial innovation to enhance the FinTech related activities in the countries.

- d. **Inter - Regulatory Technical Group on FinTech (IRTG on FinTech):** This has been constituted for coordination among financial sector regulators (like SEBI, IRDAI,



IFSCA and PFRDA) and information sharing among members on innovation initiatives. During first meeting in March, 2021, members agreed on the above issues and suggested models on Inter-Operable RS mechanism for hybrid products/services to facilitate framing of standard operating procedure (SOP).

Conclusive Opinion and Scope for Further Research

COVID-19 pandemic has compelled businesses and individuals to reconsider their payment framework to include digital payment in



RBI is in cooperation agreement (CoA) with International Finance Corporation (IFC) to get knowledge or advisory related support on RegTech or SupTech from IFC.

lieu of physical cash transaction. Although, initially the pandemic affected the growth of digital payments, it, subsequently, displayed resilience and bounced back. For example, AePS mechanism has found unprecedented growth post lockdown. Amidst difficulties caused by COVID-19, RBI

continues its efforts to ensure adequate data privacy, safety and smooth functioning while enhancing the digital payment experience. While the banking regulator has also undertaken several agenda and initiatives to enhance IT infrastructure contributing to efficiency, strengthening payment ecosystem and its data privacy, and enhancing awareness across the country, there are some sort of negative concerns for the payment gateways due to frequent changes in compliance procedure and stringent guidelines and implementing fees on transactions. These may directly hamper the profitability of payment gateways and customer base through shifting to card payments and direct banking. In this backdrop, the banks and other agencies involved in payment activities should invest in data analytics and artificial intelligence for bringing efficiency in policy



Amidst difficulties caused by COVID-19, RBI continues its efforts to ensure adequate data privacy, safety and smooth functioning while enhancing the digital payment experience.

formulation, data privacy, improving profitability and customer base, and largely on detection and prevention of frauds. The study could have been further improved by analysing the payment statistics for FY 2021-22 and concerned policies of RBI to further strengthen the digital banking system in India, but not due to non-availability of necessary data.

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Practical Aspects – Inventory and Receivables Audit for Borrowers availing Working Capital Finance

In recent times, businesses are increasingly becoming dependent on the banking system to cater to their short to medium term funds requirements. Such dependency has led to a significant increase in working capital finance facilities provided by the banks towards medium to large businesses. The primary securities which the banks require for such financing are the Inventories and Receivables of the borrower. Therefore, these two factors have become very important areas requiring careful attention of Auditors during audit of borrowers availing such financial assistance. This Article will elaborate the practical aspects to be considered during audit of borrowers availing working capital finance. Read on...



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Meaning - Working Capital Finance

Working capital finance is the financial assistance provided by the banks to businesses to meet their Short/medium term funds requirements for daily / routine operating activities. It boosts the availability of working capital to a business. It includes Fund based and Non-Fund based credit facilities:

Fund based credit facilities are those which involve actual outflow of funds from the bank to borrower. These facilities include:

- Cash credit against Hypothecation of Inventories and Receivables

- Secured / Unsecured Overdraft
- Export Packing Credit

Non-Fund based facilities are those wherein there is no actual outflow of funds from the bank to borrower. Bank undertakes to pay in the event of non-payment or non-performance by the borrower. These facilities include:

- Bank Guarantee
- Letter of Credit

In this article, we will discuss the important aspects to be considered keeping in view relevant RBI guidelines ICAI pronouncements while





Non-Fund based facilities are those wherein there is no actual outflow of funds from the bank to borrower. Bank undertakes to pay in the event of non-payment or non-performance by the borrower.

conducting audit of borrowers availing fund based working capital finance secured by the hypothecation of current assets, viz. inventories and receivables.

To begin with, we will first understand the background regarding norms of working capital finance in India.

Way back in July 1974, the RBI constituted a study group under the chairmanship of Shri Prakash L Tandon, the then chairman of Punjab National Bank and other dignitaries from leading banks and a wide cross section of industries. The study group was formed to study the entire gamut of bank's finance for working capital and suggest ways for optimum utilization of bank credit.

Based on the terms of reference given by the RBI, the committee studied the existing system of working capital finance provided by banks and identified the following as its major weaknesses.

1. The banks do not have any credit appraisal or planning. It is the borrower who decides how much he would borrow.
2. The security-based approach to lending has led to diversion of funds to purchase of fixed assets (using short term finance for long term purpose).
3. Bank credit is treated as the first source of finance rather than being taken as a supplementary to other sources.
4. The working capital finance should be made available only for a short period, as it has otherwise, led to accumulation of inventories with the industry.

Recommendations

The report was submitted on 9th August 1975, and it is a landmark in the history of financing working capital by commercial banks in India.

The Tandon Committee made comprehensive recommendations regarding the bank lending practices, which can be broadly classified into four groups – as under:

1. Inventory and Receivable Norms

The borrowers are allowed to keep reasonable current assets; inventory and debtors. The normal current assets based on economic ordering levels and certain level of safety should be financed by banks. Finance to the borrower in the form of working capital should not be made available for profit making or to keep excess inventory. Similarly, the bank should finance the trade receivables, which are in line with the practices of the borrower's industry.

The committee suggested norms for holding maximum level of inventory and receivables for 15 industries, the norms were suggested in relation to: (i) Raw Materials; (ii) Stock-in-process; (iii) Finished Goods; and (iv) Receivables based on time element, i.e., in terms of months.

These norms are as under:

Sr. No.	Industry	Requirement in terms of month			
		Raw Materials	Work in process	Finished Goods	Receivables
1	Cotton & Synthetic textiles	2 to 3	0.33 to 0.75	2.5	2.5
2	Man-made fibres	1.5	0.5	1.75	1.75
3	Jute Textiles	2.5	0.25	1 to 1.50	1.5
4	Rubber Products	2	0.25	1.75	1.75

Sr. No.	Industry	Requirement in terms of month			
		Raw Materials	Work in process	Finished Goods	Receivables
5	Fertilizers	0.75 to 3	-	1 to 1.50	1.25
6	Pharmaceuticals	2.75	0.5	2	1.25
7	Dyes & Dyestuffs	2.25	1	0.75	2.25
8	Basic Industrial chemicals	2.75	0.25	1	1.75
9	Vegetable Hydrogenated Oils	1	-	0.75	0.75
10	Paper				
	(a) Bamboo & Wood	2 to 6	-	-	-
	(b) Chemicals	2.25	-	-	-
11	Cement	0.75 to 2.25	0.25	1	1
12	Engineering – Automobiles & Ancillaries	2.25	0.75	2.50	2.50
13	Engineering & Consumable durable	2	0.75	2.50	2.50
14	Engineering Ancillaries & Component supplies	2	0.75	2.50	2.50
15	Engineering machinery manufacturers & other component suppliers	2.75	1.25	3.5	3.50

Calculation of holding level of inventory & Receivables (in months)

RM

= (Average stock of Raw Material / Raw Material consumed) * 12

WIP

= (Average stock of WIP / Cost of production) * 12

FG

= (Average stock of finished goods / Cost of Sales) * 12

Where,

Cost of sales = cost of production + opening stock of finished goods – closing stock of finished goods

Receivables

= (Average receivables /

Gross Sales) * 12

2. Maximum Permissible Bank Finance - MPBF

Tandon Committee introduced the concept of MPBF in the working capital finance. The Committee suggested that bank should attempt to supplement the borrowers' resources in financing the current assets. In this context, the committee has suggested three alternative methods for working out the MPBF.

Each successive method

reduces the involvement of short-term bank credit to finance the current assets.



The demand cash credit component should be charged slightly higher interest rate than the loan component. This would provide the borrower an incentive for better planning.

Particulars	First Method	Second Method	Third Method
MPBF	75% (Current assets – Current liabilities other than bank borrowings)	(75% of Current assets) – (Current liabilities other than bank borrowings)	[75% of (Current assets – Core current assets)] – Current liabilities other than bank borrowings
Borrower's own funds	25% of (Current assets - Current liabilities other than bank)	25% of total current assets	100% core current assets and 25% of balance of current assets
Minimum Current Ratio	1:1	1.33:1	1.5:1

The second method of lending is more acceptable to banks since it provides more cushion to them as far as quantum of margin is concerned compared to first method.

3. Style of Credit

The committee also suggested that total MPBF should be bifurcated



Any Non-compliance(s) / irregularities in procedure(s) of the bank with reference to RBI recommended guidelines for working capital financing should be viewed seriously and suitably addressed in the Audit Report.

into two components 1) Loan component – which represents the minimum level of borrowing throughout the year and 2) Demand cash credit component - which would take care of the fluctuating needs and is required to be reviewed periodically. The demand cash credit component should be charged slightly higher interest rate than the loan component. This would provide the borrower an incentive for better planning.

4. Information and Reporting System

In order to ensure that the borrowers do not use the working capital facility in an unplanned manner and they keep only required level inventories and receivables, the committee suggested

a new information system. Under this system the borrowers are required to submit the following documents to the bankers periodically.

- 1) Audited financial statements of every year
- 2) Projected financial statement and funds flow statement for the next year.
- 3) Quarterly budgeting cum reporting statements.
- 4) Monthly stock statement

Auditor's approach

Considering above fundamentals of Working Capital Finance recommended by the RBI, auditor should incorporate in his audit methodology, a critical examination and evaluation of above factors.

A critical examination of compliance with basic norms of Working capital financing by banks should assume utmost priority. Auditor should study the "Approved Credit Policy" of the bank vis-à-vis the recommendations of the "Tandon Committee" formed by the RBI. This will give a broad insight to the auditor on working capital finance mechanism put in place by the bank. By critically analysing the



Inventory and Receivables are two very important areas requiring attention because they are the essence of every business activity and they provide the true indication of strength and vitality of a business.

“Approved Credit Policy” auditor will also be able to ascertain, how far the bank has strengthened its credit mechanism in order to comply with the RBI directions.

Any Non-compliance(s) / irregularities in procedure(s) of the bank with reference to RBI recommended guidelines for working capital financing should be viewed seriously and suitably addressed in the Audit Report.

Now, in next segments of this Article, we will discuss about various aspects to be covered during audit of “inventories” and “receivables” of the borrowers availing such finance.

A) Meaning of Inventories

AS 2 on “Valuation of Inventories” & Ind AS 2 on “Inventories” – issued by ICAI

Inventories are assets:

- i) Held for sale in the ordinary course of business OR
- ii) In the process of production for such sale OR
- iii) In the form of materials or supplies to be consumed in the production process or in the rendering of services

Inventories comprise of:

- Raw Material & Packing Material
- Work in Process
- Finished Goods including by-products
- Stores, Spare Parts & Components

B) Meaning of Receivables

A Receivable/Debtor represents the amount due to an entity for goods sold or services rendered or in respect of other similar contractual obligations. Debtors are represented only by documentary evidence in the form of invoices and they don't have physical existence.

Inventory and Receivables are two very important areas requiring attention because they are the essence of every business activity and they provide the true indication of

strength and vitality of a business.

Stages in Inventory & Receivables Audit and Relevant ICAI Pronouncements

Inventory & Receivables Audit should be conducted keeping in view:

- *Technical Guide on Stock and Receivables Audit*
- Generally accepted audit procedures as per applicable Standards on Auditing (SAs) issued by ICAI

For this purpose, the audit has been divided in 5 stages. The SAs that are applicable during each stage of audit which the auditor needs to consider in performing the audit are listed hereunder:



WIP should be valued at cost plus a proportionate amount of wages and other charges, on the basis of percentage of completion. Auditor should verify that the percentage of completion has been worked out properly and hence valuation is in order.

1) Pre-Commencement

SA 210	Agreeing the Terms of Audit Engagement	The Auditor and the Bank should agree on the terms of engagement.
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2) Understanding the entity

SA 315	Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and its Environment	The auditor should obtain sufficient appropriate audit evidence about the assessed risks of material misstatement through designing and implementing appropriate responses to those
SA 330	The Auditor's Responses to Assessed Risks	
SA 250	Consideration of Laws and Regulations in an Audit of Financial Statements	When the auditor believes that, there is a non-compliance, he should document the same and report it.
SA 550	Related Parties	The Auditor should obtain sufficient audit evidence regarding the transactions of related parties that are material to the financial statements.

3) Audit Planning

SA 200	Overall objectives of the Independent Auditor and the Conduct of Audit in accordance with Standards on Auditing	The scope of an audit will be based on the terms of engagement, relevant laws and the pronouncements of the Institute.
SA 300	Planning an Audit of Financial Statements	Auditor should plan his work based on client's business to enable him to conduct an effective audit in an efficient and timely manner.
SA 530	Audit Sampling	The Auditor should design and select an audit sample, perform audit procedures thereon and evaluate sample results so as to provide sufficient appropriate audit evidence.
SA 570	Going Concern	The Auditor should consider the appropriateness of the going concern assumption underlying the preparation of the Financial Statements.
SA 220	Quality control for an audit of Financial Statements	The Auditor should implement quality control policies and procedures designed to ensure that all audits are conducted in accordance with Standards on Auditing.

4) Substantive Procedures

SA 200	Overall objectives of the Independent Auditor and the Conduct of Audit in accordance with Standards on Auditing	Auditor should comply with certain basic principles whenever an audit is carried out.
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SA 230	Audit Documentation	Auditor should have proper working papers that will enable him to substantiate his results.
SA 240	Auditor's Responsibilities relating to fraud in an audit of Financial Statements	The Auditor should approach the auditor with a perspective, which enables him in the process of preventing and in the process, taking corrective measures, for the corrective measures, for the probable frauds and errors that exist.
SA 500	Audit Evidence	The auditor should evaluate whether he has obtained sufficient appropriate evidence before he draws conclusions.
SA 620	Using the work of an Auditor's expert	Auditor should use his professional judgement regarding the use of an individual or organization's work in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence
SA 580	Written Representation	The Auditor should his professional judgement in determining matters on which he wishes to obtain representation from the Management
SA 520	Analytical Procedures	The auditor should apply analytical procedures at the planning and overall review stages of audit
SA 505	External Confirmation	Auditor should determine whether external confirmations are necessary to support certain assertions in the financial statements
SA 501	Audit Evidence – Specific considerations for selected items	The auditor should perform audit procedures designed to obtain appropriate audit evidence during his presence in physical checking

5) Reporting

SA 260	Communication with those charged with Governance	The engagement letter should describe the form in which any communication on audit matters of governance interest will be made.
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Audit Procedures

The following paras describe the Audit Procedures to be followed by the Auditor while conducting Inventory and Receivables Audit of Borrowers.

A) Inventories

- Understanding the nature / flow of business activities – Maintenance

of Inventory and Accounting records – especially Inventory Management system in place.

- Physical verification of Inventories, reconciliation of quantities with underlying records, perform test check and counting.

- Adequacy of storage facilities and conditions, stacking pattern, ease of physical access to inventories.

- Obsolete / non-moving / damaged inventories, ascertain reasons for such inventories.

Inventory Movement Records – In/Out/Consumption – ensure control over movement of



CC Account reflects satisfactory state of Operations and DR-CR summation over a period of time as compared to the limit sanctioned – Further, to ensure that the turnover in the Account should be as a result of genuine business transactions.

inventories – physical as well as system controls for accounting entries and documentation.

- Valuation of Inventories - RM, WIP and FG Should be done in accordance with:

AS 2 on “Valuation of Inventories” & Ind AS 2 on “Inventories” – issued by ICAI

Inventories should be valued at lower of Cost or Net Realisable Value.

Cost- comprises cost of purchase, costs of conversion and other costs incurred in bringing the inventory to their present location and condition.

NRV – Selling Price less estimated costs necessary to make the sale

Raw Material

Raw Material is valued at Invoice Price. It includes:

- Purchase price
- Non-refundable taxes and duties
- Freight and other directly attributable expenditure

Either actual cost or average price can be taken as method of valuation.

Work-in-Progress

WIP should be valued at cost plus a proportionate amount of wages and other charges, on the basis of percentage of completion. Auditor should verify that the percentage of completion has been worked out properly and hence valuation is in order.

Finished Goods

Finished Goods are valued at Cost. It includes:

- Cost of Raw Material, direct labour and other overheads
- Cost of conversion
- Cost of conversion includes systematic allocation of fixed and variable production overheads that are incurred in converting material into finished goods. Production overheads are allocated based on normal production capacity.
- **Ageing of Inventories** - understand the cycle of movement, ascertain

reasons if old inventory items are lying unused since long

Inventory Turnover Ratio:

Cost of Goods Sold / Average Inventory

Resulting figure is times the stock is rotated

Where,

COGS = Opening stock + Net Purchases – Closing stock

Average Inventory = Opening + Closing / 2

The Inventory Turn-Over ratio needs to be weighed based on the nature of business of the entity, keeping in view the standard ratio in the industry to which the entity belongs.

- Ensure adequacy of Insurance coverage by comparing the Sum Insured vis-a-vis peak value of inventory and inclusion of all types of risks and agreed bank clause in text of insurance policy,
- Measures that the Auditor needs to check to ascertain safeguarding of Inventories:

Deployment of Security personnel

CCTV Cameras covering the premises

Fire safety arrangements

Physical Access Controls

- Inventories received for Job work OR Inventories owned by Related Parties should be separately stored from Entity's own inventory with Proper demarcation and segregation.
- Third party confirmations for holding inventories, if inventories are lying with them.

B) Receivables

- Review of Age Wise Debtors' Report vis-à-vis ledger accounts of Debtors – to ascertain correctness of Debtors position in books.
- Scrutinize ledgers of Sundry Debtors and Sales Register – Debt should represent sale and service transactions only.
- Understand and ascertain adequacy of mechanism put in place by the Borrower for assessment of creditworthiness of customers, while allowing credit period to them.
- Review Ageing of Receivables and check

proportion of short term (up to 90 days) Receivables and Long Term (more than 90 days) Receivables with Total Receivables – to satisfy on quality of Receivables and recovery efforts made by the borrower.

If the long term Receivables are significantly higher as compared to short term, the fact needs to be reported along with relevant figures in the Inventory & Receivables Audit Report to invite attention of bankers

- Review Sales Accounting entries and Sales invoices on sample basis
- Receivables from "Related Parties" – adherence to sanction terms and Arm's length transaction. These receivables should be

included in "*Eligible Debtors for Drawing Power*" in accordance with terms and criteria specified in sanction.

- Indicators for doubtful / bad debts, to be looked into by Auditor:
 - o Violating terms of credit repeatedly
 - o Continuously increasing balances
 - o Frequent dishonour of cheques
 - o Debt under litigation or dispute – discuss possible outcomes with legal counsel of the entity
 - o Insolvency of Debtor
- Obtaining balance confirmations for significant and long debts outstanding

C) Drawing Power

Particulars	Amount (₹)	Amount (₹)
Total Stock as on... .. (Including RM, PM, FG)	✓	
Less: Creditors for Goods (After deducting Advance paid to Creditors - if any)	✓	
Paid Stock	✓	
Less: Margin as per terms of Sanction		
Drawing Power on Inventory (A)		✓✓
Total Receivables as on...	✓	

Particulars	Amount (₹)	Amount (₹)
Less: Receivables against Letter of Credit / Bills discounting	✓	
Less: Receivables not eligible for DP as per Sanction terms:		
1) Receivables beyond 90/120 days	✓	
2) Receivables from Related Parties	✓	
Less: Advance Received from Debtors	✓	
Eligible Receivables for Drawing Power	✓	
Less: Margin as per terms of Sanction	✓	
Drawing Power on Receivables (B)		✓✓
Total Drawing Power (C) = (A + B)		✓✓✓
Sanctioned Limit		✓✓✓
Amount available for Utilization (Lower of Sanctioned limit or Drawing Power)		✓✓

D) Operations in CC Account

- Routing of *day-to-day business transactions* through CC Account, Payments for purchases and Receipts from sale of goods / services should be routed through CC Account.



Working capital investment is the lifeblood of a business, without which it cannot stay. It wholly depends on significant components of an entity's current assets viz., Inventories and Receivables.

- CC Account reflects *satisfactory state of Operations and DR-CR summation* over a period of time as compared to the limit sanctioned – Further, to ensure that the turnover in the Account should be as a result of genuine business transactions.
- **Diversion of funds** – Examine bank statement to ascertain whether transactions indicate any instance(s) of:
 - o **Frequent movement** of funds to / from **Related Parties or owner's / their relatives' personal bank accounts** – with a view to

inflating volume of transactions in the account

- o **Using short term funds for long term purposes** – E.g., for purchasing Fixed Assets
- **Overdrawing** in account vis-a-vis limit sanctioned. Ensure proper approval of such overdrawing in accordance “Approved Authority Matrix” of the bank. Report instance(s) of overdrawing allowed beyond delegated powers.
- Ensure compliance with RBI NPA guidelines for **Overdrawing and Out of Order Status** of the account

As per RBI latest Mater circular ref. **no RBI/2022-23/15 DOR STR. REC. 4/21.04.048/2022-23 dated April 1, 2022** on “Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances”

CC/OD Account will be treated as NPA, if it remains “out of order”

A CC/OD account will be treated as “out of order”

1) *If the outstanding balance in the*

Account remains continuously in excess of the sanctioned limit/ drawing power for 90 days

OR

- 2) *In case the outstanding balance in Account is less than the sanctioned limit / drawing power, but there are no credits continuously for 90 days or the outstanding balance in Account is less than the sanctioned limit / drawing power, but credits are not enough to cover the interest debited during previous 90 days period.*

E) Other Important Aspects

- Ensuring compliance with terms of sanction
- Timely and regular submission of Stock, Receivables and other statements – in accordance with Bank's Credit policy and terms of sanction
- Collateral Securities – Ensuring:
 - o Existence
 - o Ownership
 - o Mortgage
 - o Valuation
 - o Insurance

- Creation and Registration of Charge on collateral securities (ROC / CERSAI).
- Perusing Inspection Report on Borrower's Account, ascertaining rectification / action by borrower on deficiencies reported by bank.
- Inventories stored in rented godowns – ensuring compliance to Rent agreement and timely and regular payment of rentals.
- Default in repayment of instalments of loan(s) from other banks/ financial institutions.
- Compliance with applicable Statutory / legal / environmental obligations; timely payment of Statutory dues:

Current Account/s maintained by borrower

- o Compliance of sanction terms with reference to current account/s opened / maintained by the borrower
- o Check volume of operations in the Current Account vis-a-vis that in CC Account
- o Compliance with following RBI Circulars on - "Opening of Current Account by Banks – Need for Discipline"
- a. **Ref No OR. No. BP. BC/7/ 21.04.048/ 2020-21 dated**



Inventories audit is not only limited to compliance and discharge of duty. It also acts as an early warning signal to identify those accounts, which are expected to turn into NPA and to plug the loopholes and by detecting misuse of funds.

06.08.2020

- b. **Ref No. – 14.12.2020 DOR. No. BP. BC.30/ 21.04.048/2020-21 dated 14.12.2020**
- c. **Ref. No. DOR.CRE. REC.63/21.04.048/ 2021-22 - 29.10.2021**

Combined reading of these circulars will require ensuring compliance with following points:

- 1) For borrowers, where the exposure of the banking system is less than ₹5 Crore, there is no restriction on opening of current accounts subject to obtaining an undertaking from such borrowers that they shall inform the bank(s), as and when the credit facilities availed by them from the banking system reaches ₹5 crore or more.
- 2) In respect of borrowers where exposure of the banking system is ₹5 crore or more, such borrower can

maintain current accounts with any one of the banks with which it has CC/OD facility, provided that the bank has at least 10 per cent of the exposure of the banking system to that borrower.

Further, other lending banks may open only collection accounts subject to the condition that funds deposited in such collection accounts will be remitted within two working days of receiving such funds, to the CC/OD account maintained with the above-mentioned bank maintaining current accounts for the borrower.

3) Banks are permitted to open following specific accounts without any restrictions mentioned in circular dated 06.08.2020.

- a. Accounts for real estate projects mandated under Section 4 (2) I (D) of the Real Estate (Regulation and Development) Act, 2016 for the purpose of maintaining 70% of advance payments collected from the home buyers.
- b. Nodal or escrow accounts of payment aggregators/prepaid payment instrument issuers for specific activities as permitted by Department of Payments and Settlement Systems (DPSS), RBI under

Payment and Settlement Systems Act, 2007.

- c. Accounts for settlement of dues related to debit card/ATM card/credit card issuers/acquirers.
- d. Accounts permitted under FEMA, 1999.
- e. Accounts for the purpose of IPO / NFO /FPO/ share buyback /dividend payment / issuance of commercial papers/allotment of debentures/gratuity, etc. which are mandated by respective statutes or regulators and are meant for specific/ limited transactions.
- f. Accounts for payment of taxes, duties etc. opened with banks authorized to collect the same, for borrowers of such banks which are not authorized to collect such taxes etc.
- g. Accounts of ATM Operators and their agents for sourcing of currency.

The above permission is subject to the condition that the banks shall ensure that these accounts are used for permitted/specified transactions only. Further, banks shall flag these accounts in the CBS for easy monitoring.

Important aspects to be included in Inventory & Receivables Audit Report

- Include an Executive Summary – incorporating –
 - o Brief profile of borrower
 - o All major irregularities noticed during audit
 - o Instances of non-compliances with Sanction Terms
 - o Other important aspects requiring banker's attention
- Specific comments on physical verification, storage, condition, safeguards and quality of inventories
- Specific comments on Receivables position, soundness and recoverability
- Comments on overall Financial Position as per Latest Audited Financial Statements
 - o Highlight any adverse remarks / modified opinion / Key Audit matters / Emphasis of Matter reported by the Auditor which is important from banker's perspective
 - o Report on trends of Financial information - Sales, Operating Revenue, Expenditure, Profit / Loss if there are significant fluctuations
- Specific comments on Operations in CC Account
- Comments on adequacy of insurance coverage of Inventory and Collaterals
- Any other significant aspects relating to Inventory Management Control / Operating activities of the borrower.

ICAI “Guidance Note on Reports or Certificates for Special Purposes (Revised 2016)”

In addition to the aspects referred above, the Auditor may also take reference of ICAI “*Guidance Note on Reports or Certificates for Special Purposes (Revised 2016)*” while conducting Inventory & Receivables Audit.

The GN provides insight on various relevant aspects which are important in performing Assurance Engagements ‘other than audits / reviews of historical financial information.’

Such aspects which are relevant for Auditor conducting “Inventory & Receivables Audit” include:

- 1) Conducting an Assurance Engagement in accordance with Guidance Note

- 2) Precondition for Assurance Engagement
- 3) Engagement Acceptance and Continuance
- 4) Agreeing the terms of Engagement
- 5) Limitation on Scope
- 6) Professional Scepticism, Professional Judgement & Assurance Techniques
- 7) Obtaining Evidence
- 8) Preparation of Assurance Engagement Report
- 9) Forming conclusion
- 10) Documentation

In the Guidance Note of ICAI, the above aspects have been discussed and analysed in detail. Auditor should study and apply them as appropriate in the circumstances in discharge of

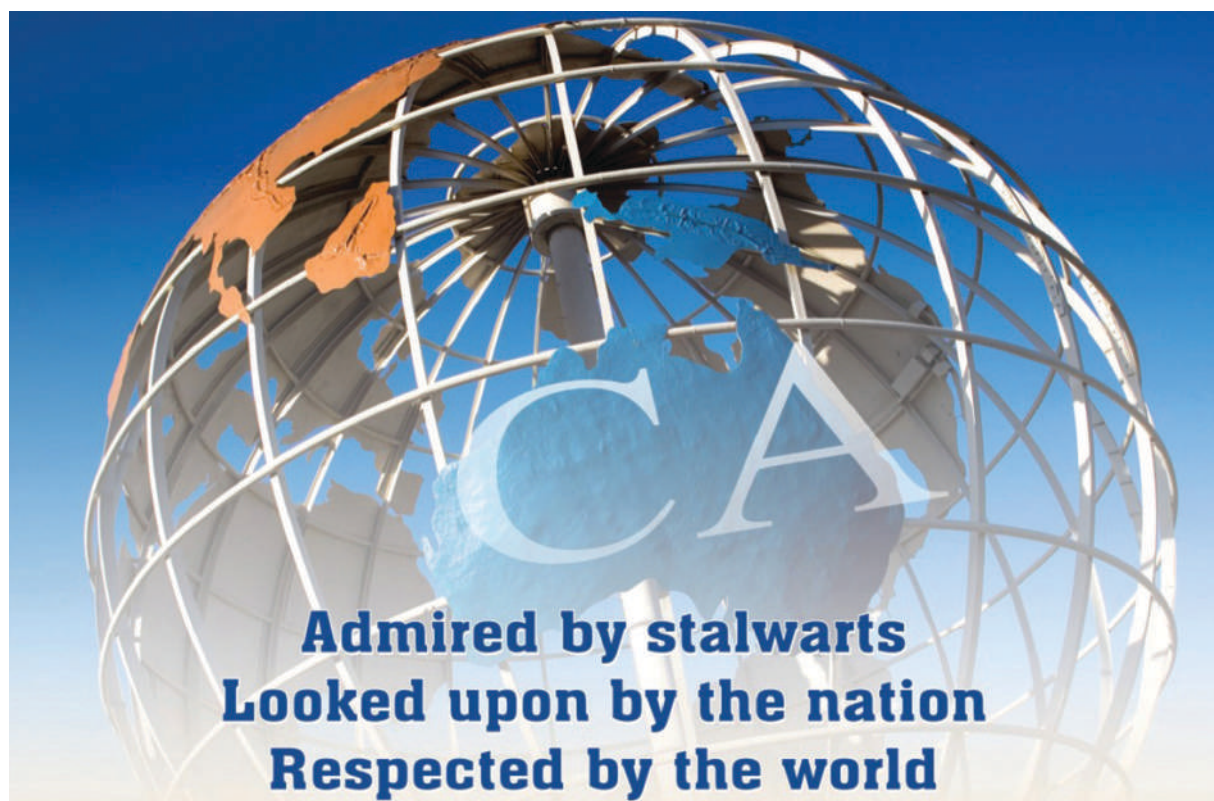
his / her Assurance Engagement services.

Conclusion

Working capital investment is the lifeblood of a business, without which it cannot stay. It wholly depends on significant components of an entity’s current assets viz., Inventories and Receivables.

The responsibility of an auditor lies towards the employing authority viz., banks / financial institutions and the authority regulating the Profession.

Inventories audit is not only limited to compliance and discharge of duty. It also acts as an early warning signal to identify those accounts, which are expected to turn into NPA and to plug the loopholes and by detecting misuse of funds.



ACCOUNTANT'S BROWSER

PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE

Index of some useful articles taken from Periodicals received during April - May 2022 for the reference of Faculty/Students & Members of the Institute.

1. Accountancy

How accounting firms deal with hybrid working by Cheryl Meyer. *Journal of Accountancy*, April 2022, pp.4-8.

Materiality with reference to the financial statements by Abhishek Agrawal. *BCAJ*, April 2022.

Top career choice: how to get more young people to choose accounting as a career by Gianfranco Bonadies. *A Plus*, February 2022, pp.14-19.

2. Economics

Co-operative banking system in India: Opportunities and challenges by Aniket Ranjan. *Chartered Secretary*, April 2022, pp.74-79.

Role if artificial intelligence and analytics in banking by Rajeev Shankar. *Banking Finance*, April 2022, pp.26-30.

Role of risk management professional in emerging economics by Afreen Fatima. *Insurance Times*, April 2022, pp.37-40.

3. Investment

Impact of the Russia-Ukraine war on the world markets by Pradeep Ramakrishnan. *Chartered Secretary*, March 2022, pp.83-88.

Jurisdiction of SEBI in taking action against practising chartered accountants by Robin Shah. *BCAJ*, April 2022.

4. Management

Betting against real earnings management by Manish Bansal and Asgar Ali. *Asian Review of Accounting*, Vol.30, No.2, pp.233-257.

CSR communication and firms' ability to win public procurement contracts by Ouam Kaddouri and Stephane Saussier. *European Journal of Management and Business Economics*, Vol.31, No.3, pp.390-407.

5. Law

Cooperative societies, legal development and the 97th amendment to the constitution of India by Mamata Biswal. *Chartered Secretary*, March 2022, pp.44-47.

6. Taxation and Finance

GST implications for supplies of goods that are not in "India" at the time of supply by Harsh Shah and Ruchita Shah. *The Chamber's Journal*, April 2022, pp.79-86.

Union Budget 2022: Improving access to finance by Ankit Sinha, Dhvani Bansdawala, Teza Jose and Gopi Naik. *Banking Finance*, April 2022, pp.36-37.

Full Texts of the above articles are available with the Central Council library, ICAI, which can be referred on all working days. For further inquiries please contact on 011-30110419 and 011-30110420 or by e-mail at library@icai.in.

Classifieds

5905 56 year old firm with vast experience wants to open Branches in Karnataka, Tamil Nadu, Andhra Pradesh, Madhya Pradesh, Telangana, UP and Gujarat. Interested party may respond. Contact: kr8703536@gmail.com, Ph-9938520897

5906 Proposal invited from CA professional firms for merger / networking with Delhi based CA firm in profession for last more than 40yrs. Having office at Central Delhi. Email: pkpjobs1977@gmail.com

5907 Hyderabad based CA firm with experience of 33 years in practice require partners/paid CAs for Bangalore, Tirupati, Visakhapatnam and at Gacchibowli, Hyderabad. Contact details M. Devaraja Reddy 8008357999 email id: cadevanna@gmail.com

5908 We are a 40 year old Professional Practice; looking for proprietors/firms who are interested to officially merge with us. Please mail: firm.rkdoshi@gmail.com.

National Update

SEBI extends relaxation till December on listed companies sending hard copies of annual reports to shareholders

Capital markets regulator Sebi extended the relaxation to listed companies whereby they will not be required to dispatch physical copies of annual reports to their shareholders till December this year.

The decision has been taken after Sebi received multiple representations from listed companies, seeking dispensation from requirements of sending hard copies of annual reports to the shareholders.

<https://www.financialexpress.com/market/sebi-extends-relaxation-till-dec-on-listed-cos-sending-hard-copies-of-annual-reports-to-shareholders/2523896/>

SEBI notifies rules to strengthen regulatory framework for CIS

To strengthen the regulatory framework for collective investment schemes, markets regulator Sebi has enhanced the net worth criteria and track record requirements for entities managing such schemes.

Also, the regulator has mandated a minimum of 20 investors and a subscription amount of at least Rs 20 crore for each Collective Investment Scheme (CIS), according to a notification on Tuesday.

<https://www.financialexpress.com/market/sebi-notifies-rules-to-strengthen-regulatory-framework-for-cis/2520751/>

SEBI forms advisory committee for ESG-related matters

The Securities and Exchange Board of India has formed an advisory committee for advising on Environmental Social and Governance (ESG) related matters pertaining to the securities markets. The terms of reference of the committee will include enhancements in business responsibility and sustainability report, ESG ratings and ESG investing.

<https://www.livemint.com/market/sebi-forms-advisory-committee-for-esg-related-matters-11651922576030.html>

Steps by RBI, govt to cut duration of elevated inflation: Finance Ministry

Measures taken by the Reserve Bank of India and the government will reduce the duration of elevated inflation in FY23, which is mostly through the

imports channel due to high crude and edible oil prices, the finance ministry said in a report. "Further, since aggregate demand is recovering only gradually, the risk of sustained high inflation is low," the finance ministry said in its monthly economic review for April. Notwithstanding the presence of inflationary headwinds, the capex-driven fiscal path of the government, as laid down in Budget 2022-23, will help the economy post a near 8% growth in real GDP for the current year, the ministry report noted. Global growth watchers, as their slowing growth projections reflect, have also factored in monetary tightening the world over to calm down global inflation, it said.

<https://www.financialexpress.com/economy/steps-by-rbi-govt-to-cut-duration-of-elevated-inflation-finance-ministry/2522806/>

Trade pacts with UAE, Australia will fuel economic growth: FM Sitharaman

Finance Minister Nirmala Sitharaman has said that the country's trade pacts with the UAE and Australia will chart the way for economic growth. Speaking at the stakeholders' outreach programme on India-UAE CEPA and India-Australia ECTA, Sitharaman said awareness events about these pacts are happening across the country.

She urged entrepreneurs to know the features of these agreements and make best use of them. "If you want any support in connection with the agreements, feel free to convey it to us," she added. "The industry should equip itself to cater to the changing tastes and preferences of consumers post Covid. Access the available markets that are part of the agreements," she said. Sitharaman added that entrepreneurs should scale up their businesses to get share from the investments.

https://www.business-standard.com/article/current-affairs/trade-pacts-with-uae-australia-will-fuel-economic-growth-fm-sitharaman-122051001749_1.html

SEBI mulling framework to encourage more ETFs in debt segment: Barua

Capital markets regulator Sebi is planning to come out with a framework to encourage more exchange-traded funds in debt securities to increase retail investors' interest in the market, a senior official said on Thursday. The regulator wants to replicate the story as seen in the equity segment, where the ETFs and index funds have deepened retail investors' participation in the markets, Sebi's Wholtime Member Ananta Barua said. He said Sebi

National Update

is also looking at implementing other measures as announced in the annual budget by Finance Minister Nirmala Sitharaman. He expressed satisfaction with the bond market development, saying the total issuances came at over 16 per cent of the GDP last fiscal from a slow start.

<https://economictimes.indiatimes.com/markets/stocks/news/sebi-mulling-framework-to-encourage-more-etfs-in-debt-segment-barua/articleshow/91514472.cms>

SEBI tweaks peak margin norms to ease difficulties

After stockbrokers complained that it was impossible to comply with the new structure of the peak margin norms, SEBI on Tuesday tweaked it.

Brokers can consider beginning-of-day (BOD) rates to calculate the margin that has to be collected from clients, SEBI said, adding that the rate of margin to be collected will now be fixed based on the BOD rates, instead of the earlier practice of allowing the rate of margin to fluctuate with the price of the underlying security. Margin is nothing but minimum cash to be put up with a broker in the stock market. Earlier, brokers collected 20-40 per cent upfront margin only for the derivative segment. However, last year, SEBI asked them to do the same in the cash segment too.

<https://www.thehindubusinessline.com/markets/sebi-tweaks-peak-margin-norms-to-ease-difficulties/article65401967.ece>

International Update

IFAC Continues to Advocate for Convergence in Global Sustainability Disclosure

As the global voice of the accountancy profession, IFAC has supported a global system for delivering consistent, comparable and assurable sustainability information. Such disclosure must become a core component of the corporate reporting ecosystem that helps stakeholders assess objectives and progress towards addressing the climate crisis and other important environmental, social, and governance matters. European Sustainability Reporting Standards can play an important part in aligning global and jurisdiction-specific goals.

IFAC supports the view that sustainability disclosure requirements should be developed to capture and measure what really matters and to facilitate adoption and implementation in an internationally compatible manner. Alignment between global and jurisdiction-specific requirements, to the extent possible, is key for companies who operate across national borders, who compete for capital globally, and who are working towards a more sustainable future.

<https://www.ifac.org/news-events/2022-05/ifac-continues-advocate-convergence-global-sustainability-disclosure>

New IFAC Audit Fees Survey Reveals Audit, Tax, Other Services Insights

To answer questions about the cost of audit and how it compares to the fees companies pay for other professional services provided by statutory auditors, the International Federation of Accountants (IFAC) today published *Audit Fees Survey 2022: Understanding Audit and Non-Audit Service Fees, 2013-2020*. The new study details information about audit-related, tax-related, and other non-audit professional services in the US, Canadian, and European markets across mega-cap, large-cap, mid-cap, small-cap, and micro-cap exchange-listed companies in nine industries.

<https://www.ifac.org/news-events/2022-04/new-ifac-audit-fees-survey-reveals-audit-tax-other-services-insights>

PCAOB Requests Comment on Impact of Auditing Requirements Related to Estimates and Specialists

The Public Company Accounting Oversight Board (PCAOB) issued a **Request for Comment (PDF)** on the initial impact of new requirements for **auditing accounting estimates** and **using the work of specialists**. The Request for Comment is a key part of the PCAOB's interim analysis of these

International Update

requirements. The PCAOB will evaluate comments received, along with other evidence obtained from the analysis, and consider whether additional guidance or other steps may be appropriate.

Comments Due June 10, 2022

<https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-requests-comment-on-impact-of-auditing-requirements-related-to-estimates-and-specialists>

FRC issues Call for Feedback on Sector Specific Technical Actuarial Standards

The Financial Reporting Council (FRC) is carrying out a post implementation review of the Technical Actuarial Standards (TASs) and has today issued a **call for feedback** on the current sector specific TASs, namely the Technical Actuarial Standards 400 / 300 / 200 (TAS 400 / 300 / 200), Actuarial Statement Of Recommended Practice 1 (ASORP 1), and other potential sector specific areas which might benefit from further technical standards.

The post implementation review of the TASs and other actuarial standards is being carried out to ensure they continue to support the delivery of high-quality technical actuarial work and satisfy the Reliability Objective.

[https://www.frc.org.uk/news/may-2022-\(1\)/frc-issues-call-for-feedback-on-sector-specific-te](https://www.frc.org.uk/news/may-2022-(1)/frc-issues-call-for-feedback-on-sector-specific-te)

UK FCA updates permitted taxonomies for use in financial reporting

The UK's Financial Conduct Authority (FCA) has amended its rules on the XBRL taxonomies permitted for use in mandatory digital financial reporting. With Europe going digital, the UK has introduced the UK Single Electronic Format (UKSEF), which is heavily based on the European Single Electronic Format (ESEF) with a few country-specific modifications. Currently, companies may choose to use either the ESEF or UKSEF taxonomy.

<https://www.xbrl.org/news/uk-fca-updates-permitted-taxonomies-for-use-in-financial-reporting/>

Exposure Draft and comment letters: Climate-related Disclosures

The International Sustainability Standards Board (ISSB) has published the Exposure Draft IFRS S2 *Climate-related Disclosures* (Climate Exposure Draft) which builds upon the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and incorporates industry-based disclosure requirements derived from SASB Standards.

The ISSB welcomes views from stakeholders who can submit responses to the Climate Exposure Draft

The Climate Exposure Draft is open for comment until **29 July 2022**.

<https://www.ifrs.org/projects/work-plan/climate-related-disclosures/exposure-draft-and-comment-letters/>

Exposure Draft and comment letters: General Sustainability-related Disclosures

The International Sustainability Standards Board (ISSB) has published the Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (General Requirements Exposure Draft) which sets out the overall requirements for an entity to disclose sustainability-related financial information about all its significant sustainability-related risks and opportunities, to provide the market with a complete set of sustainability-related financial disclosures.

The ISSB welcomes views from stakeholders who can submit responses to the General Requirements Exposure Draft

The General Requirements Exposure Draft is open for comment until **29 July 2022**.

<https://www.ifrs.org/projects/work-plan/general-sustainability-related-disclosures/exposure-draft-and-comment-letters/>

Legal Decisions



Income Tax

LD/70/145 [ITAT Ahmedabad: 2068/Ahd/2017] Atul H. Patel Vs. The Income tax Officer; 29/04/2022

ITAT deleted addition u/s 68 in case of an NRI-assessee who had received cash gifts from his brother and father who are engaged in agricultural activities; CIT(A) noted that amounts were received as gift and that it was unusual for a wealthy NRI to accept gifts from his agriculturalist father and brother, and he confirmed the addition u/s 68; ITAT observed that the AO before drawing any adverse inference against the assessee, should have cross verified the fact from the donors and that no adverse inference could be drawn against the Assessee in absence of any counter-record with Revenue.

LD/70/146 [ITAT Mumbai: 1305/Mum/2021] [Saifee Burhani Upliftment Trust Vs. The Commissioner of Income tax (Exemptions); 27/04/2022

ITAT directed the CIT to consider assessee's application de novo for registration under Section 12AB and grant the same; ITAT noted that application filed by the Assessee u/s 12A(1)(ac)(i) was not properly considered for grant of registration under Section 12AB; Assessee was granted a provisional registration for 5 years with certain conditions against which Assessee preferred the instant appeal; ITAT noted that where an application was made under Section 12A(1)(ac)(i), the CIT was required to pass an order registering the trust for a period of five years under Section 12AB(1)(a) and section 12AB(1)(a) did not authorise the CIT to impose any conditions for grant of such registration.

LD/70/147 [ITAT Mumbai: 1785/MUM/2021] Kalpesh Synthetics Pvt Ltd Vs. The Dy. Commissioner of Income tax; 27/04/2022

ITAT allowed appeal against disallowance of employees' PF contribution while processing of return by CPC under Section 143(1)(a)(iv) based on information in the audit report that payment by employer was made after the due date under Section 36(1)(va); ITAT noted that the disallowance made while processing the return is based on audit report prepared by a third party; ITAT relied on SC ruling

in East India Commercial to observe that since the law has been construed in a particular manner by the jurisdictional HC, it cannot be open to anyone in the HC's jurisdiction to read the law in any other manner, thus, the views expressed by the tax auditor cannot be reason enough to disregard the binding judgment; ITAT remarked that while preparing the tax audit report, the auditor is expected to report the information as per the provisions of the Act, which he has done, but that information ceases to be relevant.

LD/70/148 [ITAT Mumbai: 841/Mum/2019] Resolve Salvage & Fire India Pvt. Ltd Vs. The Dy. Commissioner of Income tax; 18/04/2022

ITAT held that interest on delayed payment of TDS is compensatory in nature, and thus deductible; Assessee deducted tax on behalf of third party and failed to remit the same within due date and thus, the interest charged on such amount is only compensatory in nature; ITAT relied on the coordinate bench ruling in STUP Consultants to hold that interest paid on delayed payment of TDS under Section 201(1A) is allowable deduction.

LD/70/149 [Delhi High Court: ITA 492/2019] SRC Aviation Private Limited Vs. The Asst. Commissioner of Income Tax; 13/04/2021

Assessee-Company paid bonus of Rs.1 Cr. each to its two shareholders-directors holding 50% of the equity shares each in AY 2011-12 and Rs.1.5 Cr. for AY 2014-15 which was disallowed by the Revenue on the grounds that bonus was paid to avoid payment of dividend distribution tax which was confirmed by the CIT(A) and the ITAT; As per High Court, had the bonus or commission not been paid, it would have added to the profits or dividend of the company; In the instant case there is not even an iota of word that amount paid was commission for services rendered or bonus, and that it was not the case of the assessee that there was any term of employment nor a case that any special services was rendered by the directors; High Court dismissed assessee's appeal, holding that no substantial question of law arose.

LD/70/150 [ITAT Mumbai: 2480/Mum/2019] Bhushan Logistics Pvt. Ltd Vs. The Income Tax Officer; 08/04/2022

ITAT deleted ad-hoc allowance of cash expenditure incurred on diesel, petrol, oil and freight, holding that such expenses are unavoidable and difficult to

Contributed by C.A. Sahil Garud, GST & Indirect Taxes Committee (CA, Mandar Telang), Disciplinary Directorate and ICAI's Editorial Board Secretariat. For details please visit Editorial Page webpage at <https://www.icai.org/post/editorial-board>. Readers are invited to send their comments on the selection of cases and their utility at eboard@icai.in. For full judgement write to eboard@icai.in.

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accurately document in case of assessee engaged in transportation business; Assessee had incurred Rs.1.23 Cr. towards diesel, petrol and oil expenses and Rs.5.31 Cr. towards freight expenses in cash for AY 2014-15; Revenue disallowed ad-hoc 1% of these expenses for want of verification which was upheld by the CIT(A) against which Assessee preferred the instant appeal; W.r.t. issue of disallowance of salary paid to Directors u/s 40(a)(ia), ITAT noted that recipients offered such salary income to tax in their returns and also that Assessee submitted certificate in Form 26A and therefore remanded the matter for fresh consideration.

LD/70/151 [ITAT Visakhapatnam: ITA 26/VIZ/2021] The Income Tax Officer Vs. Vishal Varma Siruvuri; 31/03/2021

Claim of cost of acquisition pertaining to part of the property which was demolished prior to its transfer denied by the ITAT; CIT(A) directed the Revenue to include the cost of acquisition for the demolished floor based on corroborative evidence in the form of electricity bills issued for both floors; As per ITAT, disallowance of cost of acquisition pertained to first floor of a property which was demolished by the Assessee before registration of the property; Asset which was not in existence on the date of transfer cannot be sold and thus the cost of construction of the first floor which in effect was not part of transfer of property shall not be considered for computing capital gains.

LD/70/152 [ITAT Delhi: 7354/Del/2018] Sagar Ratna Restaurants Pvt. Ltd Vs. The Asst. Commissioner of Income tax; 31/03/2022

ITAT ruled in favor of Revenue and disallowed depreciation on non-compete fees; Assessee had treated the payment made towards non-compete fee paid to the transferor as capital expenditure; ITAT referred to Delhi High Court ruling in Sharp Business wherein it was held that non-compete fee though is an intangible asset, however, it is not similar to know how, patent, copy right, or any other business or commercial right of similar nature; Unlike the rights mentioned in Section 32(1)(ii) which an owner can exercise against the world at large and can be traded or transferred, in case of non-compete fee, the advantage is restricted only against the seller.

LD/70/153 [ITAT Mumbai: I.T.A No. 312/Mum/2021] Yatra Online Private Limited Vs. Prin. Commissioner of Income tax; 29/03/2021

ITAT held that advances made in regular course of business which eventually became irrecoverable

shall be treated as business loss allowable under Section 28; As per prevailing business practices in the airline industry, the online ticket booking entities are requested to make an advance deposit to the airlines which is adjusted towards issue of air tickets over a period of time; Assessee made deposits with Kingfisher Airlines, etc which declared bankruptcy and the assessee thereafter did the write-off of such advances by treating it as irrecoverable; Revenue's contention that since Assessee did not offer any income corresponding to the advances in earlier years in terms of section 36(2), the claim of bad debts is not allowable under section 36(1)(vii); was rejected by ITAT.

LD/70/154 [ITAT Mumbai: 6739/MUM/2019] Royal Accord Realtors P. Ltd Vs. The Dy. Commissioner of Income tax; 04/03/2022

ITAT confirms addition of Rs. 48.75 laks resultant of shares issued at a round figure closest to the FMV determined in terms of Section 56(2)(viib); Revenue noted that FMV of the shares was determined at Rs.3560.77 per share as per Rule 11UA, but the shares were issued at Rs.3600 per share and made addition of Rs.48.75 lakh based on differential of Rs.39 per share under Section 56(2)(viib); ITAT held that the provisions of section 56(2)(viib) or Rule 11UA are plain, clear and unambiguous and nowhere provide for rounding off to nearest rupee or multiple of ten or hundred; If the Legislature intended to provide rounding off it would be specifically provided under Section 56(2)(viib).



GST

LD/70/155 [2022-TIOL-409-HC-MUM-ST] Reliance Transport and Travel Pvt Ltd vs UOI and Ors; 24/03/2022

When the Petitioner has paid certain amounts under protest in the course of the investigation and even after furnishing detailed replies and personal hearing, the show cause notices were not adjudicated by the department for a long period, the court directed to refund the said amounts recovered from the petitioner during the course of the investigation with interest at the rate of 12% per annum.

LD/70/156 [2022-TIOL-376-HC-MAD-GST] PUSHAM REALTY and Ors vs State Tax Officer and Ors.; 10/03/2022

The court sets aside the assessment order uploaded on the portal stating that unless the proper conformation that notices and impugned orders which were uploaded in the web portal of the State

Government in tngst.cid.tn.gov.in are auto-populated is received it cannot be said that the order has been properly communicated in terms of section 169 of the CGST Act. The court issued a direction that the department can continue the service of notice through registered post or speed post or courier with acknowledgment until the web-portal problems are resolved.

LD/70/157 [2022-TIOL-715-HC-AHM-GST] M/s Ayana Pharma Ltd vs UOI; 13-01-2022

High Court held that Rule 97A permits the assessee to file the application for refund manually and hence manual refund application is also a valid refund application and cannot be dismissed on the ground that it is not filed through an online portal.

LD/70/158 [2022-TIOL-678-HC-ALL-GST] M/s UP Pipe Fitting Supplier vs Goods and Services Tax and 3 Others; 26/04/2022

High Court directed the GST Council to circulate the Registration Advisory No.07/2022, dated 23.3.2022 amongst officers under the GST Act as well as amongst associations of traders and industries and amongst Tax Bar Associations. The said Advisory has put in place a suitable mechanism in the form of functionality in the name of "Restoration of Cancelled Registration" to facilitate the jurisdictional Range Officers to restore the registration in pursuance of judicial/apellate orders and necessary permission to operate this functionality has been enabled for the jurisdictional Range Officers. Earlier in terms of Advisory dtd, 16.06.2021 this could have been done only through the back-end and the necessary rights were available only with the DG-Systems, Chennai.

Disciplinary Case



Issuance of false certificate along with refund application by correlating goods imported with sale invoices – Plea of inadvertent factual errors, validity of -Held, by certification, a professional undertakes full responsibility of the facts stated therein irrespective of the fact whether any monetary loss caused or not -Respondent is guilty under Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act 1949.

Held:

In the instant case, charge in brief, against the Respondent was that Respondent had issued false certificate along with the refund application to M/s X (hereinafter referred to as the "Firm") correlating goods imported with sale invoices and certified that all goods imported had been completely sold. The Respondent, in defence, submitted that he verified all the required physical documents and arrived at the refund amount correctly. The Respondent

pleaded that after the physical verification of the documents he had given the same to his staff for preparation of correlation statement and it was his staff that had committed an unintentional error by listing wrong invoices instead of the actual invoices pertaining to the corresponding import. Inadvertently, the error went un-noticed by his staff. The Respondent submitted that the said error was purely unintentional and he had no intention to certify erroneous claim of refund from CBEC Department. The goods imported were actually sold vide distinct VAT invoices in subsequent months and VAT on such sales had also been remitted. The Committee observed that a certificate is a statement of accuracy of facts mentioned therein and a factual mistake committed in such certification loses its objectivity. The Committee further noted that irrespective of the fact as to whether any monetary loss had occurred to the Complainant Department or not, it could not be denied that on certification of any fact a professional (Chartered Accountant) undertook full responsibility of the facts stated therein. The Committee found that the Respondent failed to exercise due diligence while performing attesting functions. Accordingly, the Respondent is held guilty of professional misconduct falling within the meaning of Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

File No.: PPR/P-/124/2016-DD/330/ inf /2017/ DC/1255/2019]

Circulars/Notifications

Given below are summarised important Circulars and Notifications issued by the CBDT since the publication of the last issue of the journal, for information and use of members. Readers are requested to use the citation/website or weblink to access the full text of desired circular/notification. Suggestions on this column can be submitted at eboard@icai.in



I. NOTIFICATIONS

1. The National Bank for Financing Infrastructure and Development notified u/s 10(48D) - Notification No. 31/2022, dated 18-04-2022

In exercise of the powers conferred by section 10(48D), the Central Government has notified 'The National Bank for Financing Infrastructure and Development', established under section 3 of the National Bank for Financing Infrastructure and Development Act, 2021 for a period of 10 consecutive AYs beginning from AY 2022-23.

The detailed Notification can be downloaded from the link below:

<https://www.incometaxindia.gov.in/communications/notification/notification-31-2022.pdf>

2. Special Courts notified u/s 280A(1) for the States of UP & Kerala - Notification No. 32,34/2022, dated 19-04-2022

In exercise of the powers conferred by section 280A(1), the Central Government, in consultation with the Chief Justice of the High Court of Allahabad & Kerala, has designated specified courts in the state of UP & Kerala as Special Courts.

The detailed Notification(s) can be downloaded from the link below:

<https://www.incometaxindia.gov.in/communications/notification/notification-32-2022.pdf>

<https://www.incometaxindia.gov.in/communications/notification/notification-34-2022.pdf>

3. 'Sri Sharada Institute of Indian Management Research Foundation Trust, New Delhi' notified u/s 35(1)(iii) - Notification No. 33/2022, dated 19-04-2022

In exercise of the powers conferred by section 35(1)(iii) r.w.r. 5C & 5E, the Central Government has approved 'Sri Sharada Institute of Indian Management Research Foundation Trust, New Delhi, (PAN: AAJTS0088H)' as 'other Institution' under the

category of 'University, College or other institution' for research in social science or statistical research for the period from AY 2023-24 to 2027-28.

The detailed Notification can be downloaded from the link below:

<https://www.incometaxindia.gov.in/communications/notification/notification-33-2022.pdf>

4. 'Gujarat Real Estate Regulatory Authority' & 'SEEPZ Special Economic Zone Authority' notified u/s 10(46) - Notification No. 35,36/2022, dated 20-04-2022

In exercise of the powers conferred by section 10(46), the Central Government has notified 'Gujarat Real Estate Regulatory Authority' & 'SEEPZ Special Economic Zone Authority', in respect of the specified income subject to satisfaction of conditions laid therein for the period from FYs 2022-23 to 2026-27 & FYs 2020-21 to 2024-25 respectively.

The detailed Notification(s) can be downloaded from the link below:

<https://www.incometaxindia.gov.in/communications/notification/notification-35-2022.pdf>

<https://www.incometaxindia.gov.in/communications/notification/notification-36-2022.pdf>

5. Conditions for furnishing compulsory return of income u/s 139 notified vide Rule 12AB - Notification No. 37/2022, dated 21-04-2022

Rule 12AB provides for following conditions for mandatory furnishing of return of income:

- (i) if total sales, turnover or gross receipts, as the case may be, in the business exceeds Rs 60,00,00 during PY; or
- (ii) if total gross receipts in profession exceeds Rs 10,00,000 during PY; or
- (iii) if the aggregate of TDS and TCS during PY, in the case of the person, is Rs 25,000 (50,000 in case of senior citizens) or more; or

Matter on Direct Taxes is contributed by Direct Taxes Committee. Matter on FEMA has been contributed by CA Manoj Shah, Mumbai, CA Hinesh Doshi, Mumbai and CA Sudha Bhushan, Mumbai.

- (iv) the deposit in one or more savings bank account of the person, in aggregate, is Rs 50,00,000 or more during PY.

The detailed Notification can be downloaded from the link below:

<https://www.incometaxindia.gov.in/communications/notification/notification-37-2022.pdf>

6. Special Courts notified u/s 280A(1) for Rajasthan, Delhi, Patna & Tamil Nadu - Notification No. 38,39,40&41/2022, dated 21-04-2022

In exercise of the powers conferred by section 280A(1), the Central Government, in consultation with the Chief Justice of the High Court of Rajasthan, Delhi, Patna & Madras, has designated specified courts in the state of Rajasthan, Delhi, Patna & Tamil Nadu as Special Courts.

The detailed Notification(s) can be downloaded from the link below:

<https://www.incometaxindia.gov.in/communications/notification/notification-38-2022.pdf>

<https://www.incometaxindia.gov.in/communications/notification/notification-39-2022.pdf>

<https://www.incometaxindia.gov.in/communications/notification/notification-40-2022.pdf>

<https://www.incometaxindia.gov.in/communications/notification/notification-41-2022.pdf>

7. New Forms or modes of investment or deposits by a charitable or religious trust or institution permitted vide amendment in Rule 17C - Notification No. 42/2022, dated 22-04-2022

A new form/mode of investment or deposits u/s 11(5) (xii) has been permitted as follows:

(vb) investment made by a person, authorised u/s 4 of the Payment and Settlement Systems Act, 2007, in the equity share capital or bonds or debentures of Open Network for Digital Commerce Ltd, being a company incorporated u/s 7(2) r.w.s. 8(1) of the Companies Act, 2013, for participating in network based open protocol models which enable digital commerce and interoperable digital payments in India.

The detailed Notification(s) can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification_no_42_2022.pdf

8. Special Courts notified u/s 280A(1) for the States of Andhra Pradesh & Madhya Pradesh - Notification No. 43,44/2022, dated 22-04-2022

In exercise of the powers conferred by section 280A(1), the Central Government, in consultation

with the Chief Justice of the High Court of Andhra Pradesh & Madhya Pradesh, has designated specified courts in the state of Andhra Pradesh & Madhya Pradesh as Special Courts.

The detailed Notification(s) can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification_no_43_2022.pdf

https://www.incometaxindia.gov.in/communications/notification/notification_no_44_2022.pdf

9. Central Government notifies countries and specified territories for the purposes of section 47(viiac)/(viiad) - Notification No. 46/2022, dated 27-04-2022

Vide this notification, the Central Government has notified 150 countries and specified territories for the purpose of sub-clause (ii) of clause (a) of Explanation to section 47(viiac)/(viiad) w.e.f. 27.04.2022.

The detailed Notification can be downloaded from the link below:

<https://www.incometaxindia.gov.in/communications/notification/notification-46-2022.pdf>

10. Tamilnadu Construction Workers Welfare Board notified u/s 10(46) - Notification No. 47/2022, dated 28-04-2022

In exercise of the powers conferred by section 10(46), the Central Government has notified 'Tamilnadu Construction Workers Welfare Board', in respect of the specified income subject to satisfaction of conditions laid therein for the period from FYs 2020-21 to 2024-25.

The detailed Notification(s) can be downloaded from the link below:

<https://www.incometaxindia.gov.in/communications/notification/notification-47-2022.pdf>

11. Rules for filing updated Return u/s 139(8A) notified - Notification No. 48/2022, dated 29-04-2022

In exercise of the powers conferred by section 139(8A), CBDT has notified Rule 12AC prescribing rules for filing updated return of income. The Rules prescribe filing of updated return of income by eligible person u/s 139(8A) (relating to AY 2020-21 and onwards) in Form ITR-U and also provides for manner of furnishing such return of income.

The detailed Notification(s) can be downloaded from the link below:

<https://www.incometaxindia.gov.in/communications/notification/notification-48-2022.pdf>

Legal Update

12. Amendment in Rule 44E pertaining to application for obtaining an advance ruling and substitution of application forms - Notification No. 49/2022, dated 05-05-2022

In exercise of the powers conferred by section 245Q, the CBDT has amended Rule 44E and substituted the existing application forms (From No. 34C to Form No. 34EA) to be made by concerned assesseees for obtaining advance Ruling. The earlier requirement of furnishing the various application forms in quadruplicate has been done away with as the application forms are now to be submitted electronically and the requisite rules in this regard have been specified vide this notification.

The detailed Notification can be downloaded from the link below:

https://www.incometaxindia.gov.in/communications/notification/notification_no_49_2022.pdf

13. New rule 2DCA notified prescribing rules for computing minimum investment and exempt income u/s 10(23FE) - Notification No. 50/2022, dated 06-05-2022

In exercise of the powers conferred by section 245Q, the CBDT has inserted Rule 2DCA laying provisions for computing minimum investment and exempt income for the purposes of section 10(23FE). Rule 2DCA, *inter alia*, prescribes the method for computation of eligible threshold of 50%, 75 % or 90% and exempt income. Further, Form No. 10BBB (Intimation by Pension Fund of investment section 10(23FE)) and Form No. 10BBC (Certificate of accountant in respect of compliance to the provisions of section 10(23FE) by the notified Pension Fund) has been substituted and also, a new Form No. 10BBD (Statement of eligible investment received) is also introduced vide this Notification.

The detailed Notification can be downloaded from the link below:

<https://www.incometaxindia.gov.in/communications/notification/notification-no-50-2022.pdf>

14. Various forms like Form Nos. 3CF, 10A, 10AB, 10BD, 10BE amended vide the Income-tax (Fourteenth Amendment) Rules, 2022 - Notification No. 51/2022, dated 09-05-2022

In exercise of the powers conferred by sections 10(23C), 12A, 12AB, 35, 80G; the CBDT has amended various forms to seek more information from concerned assesseees. Forms amended are Form no 3CF (Application for registration or approval), 10A (Application for registration or provisional registration or intimation or approval or provisional

approval), 10AB (Application for registration or approval), 10BD (Statement of particulars to be filed by reporting person under section 80G(5)(viii) and section 35(1A)(i)). Further, Form No. 10BE (Certificate of donation under section 80G(5)(ix) and section 35(1A)(ii)) is substituted.

The detailed Notification can be downloaded from the link below:

<https://www.incometaxindia.gov.in/communications/notification/notification-no-51-2022.pdf>

15. Now Commissioner of Income-Tax (Exemption), Bengaluru not authorised for certain specified functions as per Notification No. 30/2021 dated 01.04.2021 - Notification No. 52/2022, dated 09-05-2022

In exercise of the powers conferred by Rules 2C, 5CA, 11AA, 17A; the CBDT has amended Notification No. 30/2021 dated 01.04.2021 to omit CIT (Exemption), Bengaluru from performing certain specified functions as per the said notification. Now, Director of Income Tax (Centralized Processing Centre), Bengaluru is only authorised for receiving applications for provisional registration or registration or provisional approval or approval or intimation in Form 10A and to perform such other functions as specified under the said notification.

The detailed Notification can be downloaded from the link below:

<https://www.incometaxindia.gov.in/communications/notification/notification-no-52-2022.pdf>

16. Amendment in Rule 114 and insertion of new Rules prescribing transactions making PAN//Aadhaar mandatory and quoting thereof - Notification No. 53/2022, dated 10-05-2022

In exercise of the powers conferred by section 139A(1) (vii); the CBDT has amended rule 114 to prescribe that specified persons entering into transactions as prescribed in Rule 114BA shall make application for Aadhaar 7 days prior to entering such transactions. Rule 11BA prescribes 3 transactions mandating PAN/ Aadhaar i.e. cash deposits and/or withdrawals of Rs 20,00,000 or more, opening of a current or cash credit account. Rule 114BB (Transactions for the purposes of 139A(6A) and prescribed person for the purposes of clause (ab) of Explanation to section 139A) would be applicable after the expiry of 60 days from the date on which this notification is published in official gazette.

The detailed Notification can be downloaded from the link below:

<https://www.incometaxindia.gov.in/communications/notification/notification-no-53-2022.pdf>

II. CIRCULARS

1. CBDT issues Guidelines under section 10(23FE) - Circular No. 09/2022, dated 09-05-2022

First proviso to section 10(23FE) empowers the CBDT to issue guidelines if any difficulty arises regarding interpretation or implementation of the provisions of the said clause, and accordingly, the CBDT has, with the approval of the Central Government, issued guidelines for the purpose of removing such difficulties vide this Circular. The Circular provides clarification on various issues like transfer of investment within 3 years by the specified person or AIF/ domestic Company/ NBFC, Eligible infrastructure entity carrying on other businesses as well, Violation of 50%, 75% or 90% condition as per item (c), (d) or (e) of sub-clause (iii) of clause (23FE) of section 10 and the like.

The detailed Circular can be downloaded from the link below:

<https://incometaxindia.gov.in/communications/circular/circular-9-2022.pdf>

III. PRESS RELEASES/INSTRUCTIONS/OFFICE MEMORANDUM/ORDER

1. Revised Instruction for constitution and functioning of 'Local Committees to deal with Taxpayers' Grievances from High-Pitched Scrutiny Assessment' - F. No. 225/101/2021-ITA-II, dated 23-04-2022

The CBDT, by its Instruction No. 17/2015, dated 09.11.2015 provided for constitution of 'Local Committees to deal with Taxpayers' Grievances from High-Pitched Scrutiny Assessment' in each Pr.CCIT region. The Local Committees were constituted to expeditiously deal with Taxpayers' grievances arising from High-Pitched Scrutiny Assessment. Taking into consideration the changes in organizational set-up subsequent to launch of Faceless Assessment regime, the CBDT, in exercise of its powers u/s 119 and in

supersession of its earlier Instruction No. 17/2015, dated 09.11.2015, has issued instructions regarding constitution and functioning of 'Local Committees to deal with Taxpayers' Grievances from High-Pitched Scrutiny Assessment'.

The complete text of the above Instruction can be downloaded from the link below:

<https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/518/Instruction-225-101-2021.pdf>

2. Guidelines for compulsory selection of returns for Complete Scrutiny during the Financial Year 2022-23 - procedure for compulsory selection in such cases - F. No. 225/81/2022-ITA-II, dated 11-05-2022

The parameters for compulsory selection of returns for Complete Scrutiny during FY 2022-23 and procedure for compulsory selection in such cases are prescribed by the CBDT vide this Instruction. As per the amendments brought by Finance Act 2021, the time limit for service of notice u/s 143(2) has been reduced to 3 months from end of the FY in which the return is filed. Therefore, selection of cases and transfer of cases, wherein assessments have to be completed in faceless manner, to NaFAC shall be completed positively by 31.05.2022. In cases selected for compulsory scrutiny, service of notice u/s 143(2) shall be completed by 30.06.2022

The complete text of the above Instruction can be downloaded from the link below:

https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/520/225-81-2022_Guidelines-for-Compulsory-Selection-of>Returns_F-Y-2022-23.pdf



FEMA Updates

Summary Information on few Compounding Orders issued after 1st March 2020

Sr. No.	Party Name	Nature of Contravention	Date of Order	Compounding Fees (Rs.)
1.	Thomson Press (India) Limited	Contraventions under Regulation 16(1)(iv) of FEMA Notification 120 regarding disinvestment of stake in overseas entity despite having outstanding dues by way of dividend, technical know-how fees, royalty, consultancy, commission or other entitlements and / or export proceeds from JV or WOS.	29-04-2022	2,15,596
2.	Deepak Daftari	Contravention under Rule 9(6)(i) of NDI Rules 2019 regarding consideration paid on deferred basis not done in compliance of said rule.	28-04-2022	52,241
3.	Suntect Production India Pvt. Ltd.	Contravention under para 2(2) of Schedule I of FEMA 20R for issue of capital instruments beyond prescribed period of 60 days from date of receipt of consideration.	31-12-2021	71,886

IMPORTANT ANNOUNCEMENT

Subject: Information System Audit – Assessment Test (ISA – AT), July 2022

Members are hereby informed that the next Information Systems Audit (ISA) Course Assessment Test (Old as well as New Syllabus) which is open to the members of the Institute will be held on **9th July 2022 (Saturday) from 9 AM to 1 PM (IST)** at the following cities provided that sufficient number of candidates offers themselves to appear there from.

Name of the State (No. of Cities)	Name of the Examination City
Andhra Pradesh (4)	Guntur, Ongole, Vijayawada, Visakhapatnam
Assam (1)	Guwahati
Bihar (1)	Patna
Chattisgarh (2)	Durg, Raipur
Chandigarh (1)	Chandigarh
Delhi / New Delhi (1)	Delhi / New Delhi
Gujarat (4)	Ahmedabad, Rajkot, Surat, Vadodara
Haryana (7)	Faridabad, Gurgaon (Gurugram), Hisar, Panipat, Rewari, Rohtak, Sirsa
Jammu & Kashmir (1)	Jammu
Jharkhand (2)	Dhanbad, Ranchi
Karnataka (2)	Bengaluru, Hubli
Kerala (3)	Ernakulam (Kochi), Thiruvananthapuram, Thrissur
Madhya Pradesh (4)	Bhopal, Gwalior, Indore, Jabalpur
Maharashtra (10)	Ahmednagar, Akola, Aurangabad, Kolhapur, Mumbai, Nagpur, Nashik, Pune, Solapur, Thane
Odisha (1)	Bhubaneswar
Punjab (2)	Jalandhar, Ludhiana
Rajasthan (6)	Bhilwara, Bikaner, Jaipur, Jodhpur, Kota, Udaipur
Tamil Nadu (3)	Chennai, Coimbatore, Tirupur
Telangana (1)	Hyderabad
Uttar Pradesh (10)	Agra, Allahabad (Prayagraj), Bareilly, Ghaziabad, Kanpur, Lucknow, Mathura, Meerut, Noida, Varanasi
Uttarakhand (1)	Dehradun
West Bengal (2)	Kolkata, Siliguri

The Council reserves the right to withdraw any centre at any stage without assigning any reason. The above Test is open only to the Members of the Institute who are already registered with the Institute for the ISA course and fulfill the eligibility criterion laid down. The fee payable for the above Assessment Test is ₹ 2000/-.

An application for admission to the Information Systems Audit (ISA) Course - Assessment Test is required to be made on-line at isaat.icaiaexam.icaai.org from **20th May, 2022** to **2nd June, 2022** and remit the examination fee of ₹ 2000/- on-line by using VISA or MASTER or MAESTRO Credit / Debit Card / Rupay Card / Net Banking / Bhim UPI.

(S. K. Garg)
Additional Secretary (Examinations)



Research Committee The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

ICAI DOCTORAL SCHOLARSHIP SCHEME 2022



About the Scholarship

Doctoral scholarship will be awarded to registered Ph.D. scholars from any recognized University/College/ Institution to pursue and complete their Doctoral Research in Auditing, Taxation, Commerce, Management and Accounting. The candidates must have confirmed Ph.D. Registration.



Eligibility Criteria

- ▲ Member of the ICAI.
- ▲ Age should be less than 40 years on the date of application
- ▲ Candidate shall be Full Time Student at the University / College / Institution while pursuing Ph.D. for their attendance and Classes.
- ▲ Candidates shall not avail any other scholarship for the same.



How to apply

- ▲ Applications are invited through ICAI website, ICAI journal, Mass email to members and should be received before 31st July 2022.
- ▲ The application along with research proposal, abstract (3000 and 300 words respectively) along with all the enclosures must be sent to Research Committee at the given address before the last date mentioned in the advertisement duly signed and stamped by the Ph.D. Registered institution.

Last Date for submission
of application:

31st July 2022



Scholarship

The scholarship of **Rs. 50,000** per month for period of 36 months will be given to maximum 5 scholars annually.



Contingency grant

Yearly grant not exceeding **Rs. 50,000/-** per year.



Scholarship Topics

The following topics are suggested:

1. Human Resource Accounting
2. Simplification of Human Resource Laws
3. Government Sector Accounting
4. Integrated Reporting
5. International Taxation Laws
6. Water Audit

The Research Committee will decide the suitability of the topics from time to time.



Procedure for the award of Scholarship

- ▲ Applications are initially scrutinized by the Research Committee Secretariat.
- ▲ Thereafter, Shortlisting Committee will short-list region wise meritorious proposals from the eligible applications.
- ▲ Such candidates may also be invited for a presentation before Shortlisting Committee.
- ▲ The recommendations of the Shortlisting Committee will then be placed before the Research Committee for its final approval



For further details please write to:
Secretary, Research Committee
The Institute of Chartered Accountants of India
ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002
Tel.: 011-30110435; Mob No.: +917836040914 Email: doctoral.research@icai.in, website: www.icai.org

SCAN





Research Committee
The Institute of Chartered
Accountants of India
 (Set up by an Act of Parliament)

ICAI INTERNATIONAL RESEARCH AWARDS 2022

Last date for submission of published Research Paper **31st July 2022**

World's Largest Cross Border Competition in Research Arena

Introduction

The Institute of Chartered Accountants of India (ICAI) is a statutory body established under the Chartered Accountants Act, 1949 for regulating the profession of Chartered Accountants in India. ICAI is the second largest accounting body in the whole world with a strong tradition of service to the public interest and to the Indian economy.

The Research Committee of the Institute of Chartered Accountants of India is one of the oldest technical committees set up in 1955 with a view to undertake research activities to improve the quality of services rendered by the profession

Objective

The objective of ICAI International Research Awards 2022 is to recognise the research community across the globe and their contribution in fostering innovation and value creation in the areas of Accounting, Auditing, Finance, Economics and Taxation to enhance the research activities in the concerned areas and contribute towards development of society and economy.

The International Research Awards aspires to build Global Research Community

Nomination Process and General Guidelines

- An individual can submit published Research papers at ira.icai.org
- Research Paper should be nominated online by nominating agency in the form of Research Institution/Agency, Educational Institution, Corporates and individual. Self-nomination is not allowed.
- Nomination will be accepted only between invite open dates to close date
- Nominating agency has to submit nomination form for each recommendation.
- One Research Paper is to be nominated in one category only.
- Nomination must contain consent of Author and contact details of Author and Nominating Entity
- The awardee may be asked to present their Research Paper for the benefit of larger audience
- Decisions of the Panel of Judges (Jury) in all the matters relating to the Competition will be final
- Selection of awardees in specified categories are made through software, review by subject matter experts and then by eminent Jury.

Coverage of the Awards

- The areas/scope of the awards would be to identify the topics of international and societal importance where accounting profession can leverage its due role. The award will be given in five broad categories:



Eligibility Criteria of the Awards

- An Individual who has undertaken research in the mentioned coverage areas.
- Participant could be from any country as jurisdiction is international.
- The research work should be published.



For further details please write to:
Secretary, Research Committee
The Institute of Chartered Accountants of India
 ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002
 Tel.: 011-30110435, M.No. 9953014175 | 7836040914 | Email: ira@icai.in | website: ira.icai.org

SCAN





The Institute of Chartered Accountants of India (ICAI)
(Setup by an Act of Parliament)

Committee on Career Counselling Organizes

**NO Entry
FEES**

ICAI Commerce QUIZ 2022

TEST YOUR SKILLS

Ready for QUIZ
TAKE ONLINE ICAI QUIZ



**Last Date For
Registration
16th
June 2022**

Date & Timings



19th June 2022



10:00 am to 3:00 pm

For details, please visit: icaiquiz.org

Level of Quiz

- **Level 1: (Class-IX):** Students appeared in class IX & now studying in class X.
- **Level 2: (Class-X):** Students presently appearing in class X Board Exam.
- **Level 3: (Class-XI):** Students appeared in class XI & now studying in class XII.
- **Level 4: (Class-XII):** Students presently appearing in class XII Board Exams.

*In academic session-(2021-22)

Prizes and Recognition

- Level 1 (Cash Awards & Certificates to top 128 students)
- Level 2 (Cash Awards & Certificates to top 128 students)
- Level 3 (Cash Awards & Certificates to top 128 students)
- Level 4 (Cash Awards & Certificates to top 128 students)
- Certificates to other qualifying Students

Format of Quiz

**Multiple Choice Questions
(MCQ)**

No. of Questions

**100 Questions of one Mark each
(No Negative Marking)**

For details, please visit: icaiquiz.org / ccg.icai.org

For further queries please write to: ccc.events@icai.in
ICAI Website: www.icai.org

Career Ascent for experienced Chartered Accountants

(standing of one year and above)

June 2022

An Opportunity
to Recruit the
Best of Finance
Professionals

To cater the need of finance professionals, Committee for Members in Industry & Business (CMI&B) of The Institute of Chartered Accountants of India (ICAI) takes another initiative that will provide an excellent opportunity for organisations to recruit experienced Chartered Accountants.

Career Ascent Interview Schedule (Virtual Mode):

Sr. No.	Centre Name	Date of Interview
1.	Bengaluru	25th June, 2022
2.	Chennai	27th June, 2022
3.	Kolkata	28th June, 2022
4.	Mumbai	29th June, 2022
5.	Delhi	30th June, 2022

Eligibility of Members for Career Ascent

A Chartered Accountant (No COP & Part Time COP) having membership as on 31st May 2021 or prior to that

For further details, kindly visit: <https://cmib.icai.org/>

Chairman & Vice Chairman
Committee for Members in Industry & Business (CMI&B)
The Institute of Chartered Accountants of India

For any queries, you are requested to get in touch with the **CMI&B Secretariat, ICAI Bhawan, Indraprastha Marg, New Delhi - 110002.**

Organisations may write at careerascent@icai.in

Members may write at experiencedcas@icai.in



Organised By:

Committee for Members in Industry & Business (CMI&B)

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

'ICAI Bhawan', Post Box No. 7100, Indraprastha Marg, New Delhi - 110002

Website: www.icai.org

Glimpses of April 2022



FIRST TIME IN 118 YRS

India to host accountants' World Congress

PNS ■ KOLKATA

Institute of Chartered Accountants of India (ICAI) is set to host 21st World Congress of Accountants (WCOA), the kumbh of accountants, for the first time in 118 years of its existence, ICAI president Debashis Mitra said on Saturday.

The event will be held from November 18 to 21 after outbidding France. About 6000 top accountants from 130 countries will participate in



The event will be held from November 18 to 21 after outbidding France.

the programme physically. The event will take place in newly built Jio World Convention Centre in Mumbai, he said. "It is a proud moment for ICAI that it has been able to host the World Congress for the first time in 118 years of its existence. We were successful in outbidding

France in this round," Mitra said.

The WCOA, a forum for thought leadership and global exchange of views, is held every four years since it started in 1904. While 6000 delegates from across the globe will directly attend the WCOA, another 10000 are expected to join in virtually, Mitra, said.

राष्ट्रीय स्वरूप

चार्टर्ड अकाउंटेंट्स का दो दिवसीय प्रशिक्षण सत्र संपन्न

सरकारी संगठनों में भी सीए का योगदान बढ़ता जा रहा: दिनेश शर्मा

स्वरूप ब्यूरो

लखनऊ। भारतीय सनदी लेखाकार संस्थान आईसीएआई जो कि एक विशिष्ट विश्व स्तरीय संस्थान के रूप में अपनी पहचान बना चुका है, यह 3.40 लाख से अधिक सदस्यों और 7 लाख से अधिक छात्रों के साथ दुनिया का दूसरा सबसे बड़ा लेखा निकाय है। मध्य भारत क्षेत्रीय परिषद भारत के 7 राज्यों उत्तर प्रदेश, उत्तराखंड, बिहार, मध्य प्रदेश, झारखंड, छत्तीसगढ़ और राजस्थान को कवर करता है। इन सभी 7 राज्यों में 47 शाखाएं हैं। सीआईआईआरसी द्वारा हर 3 साल में एक बार शाखा अभिविन्यास (ओरियंटेशन) कार्यक्रम का आयोजन किया जाता है। इस कार्यक्रम में 47 शाखाओं के सभी सदस्य अपनी शाखाओं के कुशल प्रबंधन की कार्य संस्कृति को सीखने के लिए इस में भाग लेते हैं। लखनऊ शाखा को इस बार कार्यक्रम की मेजबानी का अवसर 42 वर्षों में पहली बार मिला है। आज 2 दिवसीय प्रशिक्षण कार्यक्रम का शुभारंभ

आईसीएआई के राष्ट्रीय अध्यक्ष सीए डा. देवाशीष मिश्रा, उपाध्यक्ष सीए अंकित तलाटी

संस्थान सभी समसामयिक मुद्दों और चिंताओं का समाधान करेगा। नए पाठ्यक्रम का मसौदा



और लखनऊ शाखा के अध्यक्ष सीए आशीष कुमार पाठक ने किया। इस अवसर पर उत्तर प्रदेश सरकार के पूर्व उप मुख्यमंत्री दिनेश शर्मा भी उपस्थित रहे। राष्ट्रीय अध्यक्ष देवाशीष मिश्रा ने कहा कि सीए इंस्टीट्यूट की सेवाओं के बारे में हमारे पूर्व राष्ट्रपति एपीजे अब्दुल कलाम ने कहा था कि सीए इंस्टीट्यूट राष्ट्र निर्माण में साझीदार होता है जो कि के समय में एकदम सटीक कथन है उन्होंने कहा कि सीए पाठ्यक्रम में प्रस्तावित बदलाव से भारतीय चार्टर्ड अकाउंटेंट्स

तैयार है उसे सैद्धांतिक मंजूरी के लिए सरकार के समक्ष प्रस्तुत किया गया है और कारपोरेट मामलों के मंत्रालय एमसीए के साथ इस पर विस्तार से चर्चा की गई है, उन्होंने नए पाठ्यक्रम को लेकर यह भी कहा कि इसका प्रारूप शिक्षा और प्रशिक्षण की संशोधित योजना, अंतरराष्ट्रीय लेखा निकायों, राष्ट्रीय शिक्षा नीति 2020 और सूचना प्रौद्योगिकी में क्रांति को ध्यान में रखकर बनाया गया है। हमारा नया सीए पाठ्यक्रम विश्व स्तर पर प्रासंगिक होगा।

दैनिक भास्कर

Chandigarh, April 28, 2022

फाइनैशियल ऑडिट के साथ सोशल ऑडिट में भी सीए की भूमिका होगी अहम: आईसीएआई वीपी

सिटी रिपोर्टर | कबीर

फाइनैशियल ऑडिट के साथ सोशल ऑडिट भी जरूरी है और इस काम में भी चार्टर्ड अकाउंटेंट्स की भूमिका अहम होगी। 'सोशल ऑडिट' गवर्नंस को और अधिक प्रभावशील बनाने में कारगर सिद्ध होगा। आईसीएआई-द ईस्टीमेट ऑफ चार्टर्ड अकाउंटेंट्स ऑफ इंडिया के नेशनल वाइस प्रेसिडेंट अनिल तलाटी ने बताया कि आईसीएआई, सिक्योरिटी एक्सचेंज बोर्ड ऑफ इंडिया (सेबी) के साथ एक नई पहल सोशल स्टॉक एक्सचेंज में



भागीदारी कर रहा है और सोशल ऑडिट अकाउंटेंट्स के लिये आचार संहिता को अंतिम रूप देने की प्रक्रिया में है जो सोशल स्टॉक एक्सचेंज (एसएसई) के नियामक ढांचे के तहत काम करेंगे और सोशल ऑडिटिंग करेंगे। तलाटी ने कहा कि यह पहल उन

फाउंडेशन और एनजीओ पर उनकी कार्यप्रणालियों पर हुये खर्चों पर नजर रखेगा जिससे लाभार्थियों का विकास सुनिश्चित हो सके। आईसीएआई ने सोशल ऑडिटर्स के लिये सर्टिफिकेशन कोर्स भी तैयार किया जिसे अनुमति के बाद लागू कर दिया जायेगा।

THE ECHO OF INDIA

THE ECHO OF INDIA-KOLKATA
Monday, April 25, 2022

ICAI to host accountants' kumbh' in 2022

KOLKATA, APRIL 24/-

For the very first time in its 118 years of history, the World Congress of Accountants (WCOA) would be hosted in India by the Institute of Chartered Accountants of India (ICAI). The prestigious event, popular as the 'Olympics of the Accountancy Profession' or the 'accountants' kumbh' in Indian parlance, would take place at the Jio World Centre in Mumbai this year from November 18 to 21. President ICAI, CA. Dr. Debashis Mitra informed at the Orientation Programme held in Kolkata where in more than 100 members attended from all the Branches of EIRC of ICAI of the Eastern Region, sources informed.

"It is a matter of great prestige and honour for India that Mumbai would host the 21st World Congress of Accountants this year.

While six thousand delegates from across the globe would directly attend the Congress, another ten thousand are expected to



helping the Government usher in the GST regime, has now geared up in a big way to meet the challenges as well as the early adoption of emerging digital competencies like artificial intelligence, block chain ecosystem, cryptocurrencies and deep data analytics. "The Digital Accounting and Assurance Board (DAAB) of ICAI has

set up a research group to focus on issues of accounting arising from the high pace of digitalization. This includes research into

cryptos, block chains, artificial intelligence, big data, deep analytics etc., from the point of audit, accounting and technology. The idea is to develop a knowledge base and make chartered accountants tech-compliant and future-ready," he said.

inextlive

Lucknow, April 25, 2022

जल्द लागू होगा सीए का नया कोर्स

P/C: DANK JAGRAN NEXT

नई शिक्षा नीति के अनुरूप तैयार किया जा रहा है नया सिलेबस



lucknow@inext.co.in

LUCKNOW (24 Apr): आईसीएआई ओरिएंटेशन कार्यक्रम का आयोजन रविवार को राजधानी में किया गया, लखनऊ शाखा को इस बार कार्यक्रम की मेजबानी का अवसर 42 वर्षों में पहली बार मिला है। रविवार को दिवसीय प्रशिक्षण कार्यक्रम का शुभारंभ आईसीएआई के राष्ट्रीय अध्यक्ष सीए डॉ. देवशोष मिश्रा, उपाध्यक्ष सीए अंकित तलाटी और लखनऊ शाखा के अध्यक्ष सीए आशीष कुमार पाठक ने दीप प्रज्वलन करके किया। इस अवसर पर उत्तर प्रदेश सरकार के पूर्व उप मुख्यमंत्री दिनेश शर्मा मुख्य अतिथि के तौर पर शामिल हुए।

राष्ट्र निर्माण में सहायक

कार्यक्रम को संबोधित करते हुए राष्ट्रीय अध्यक्ष देवशोष मिश्रा ने कहा कि सीए इस्टीमेट की सेवाओं के बारे में हमारे पूर्व राष्ट्रपति एपीजे अब्दुल कलाम जी ने कहा था कि सीए इस्टीमेट राष्ट्र निर्माण में साक्षीदार होता है जो कि आज के समय में एकदम सटीक कथन है। उन्होंने कहा कि सीए पाठ्यक्रम में प्रस्तावित बदलाव से भारतीय चार्टर्ड अकाउंटेंट्स संस्थान सभी समसामयिक मुद्दों और विताओं को समाधान करेगा। नए पाठ्यक्रम का मसौदा तैयार है उसे सैद्धांतिक मजबूती के लिए सरकार के सम्मक्ष प्रस्तुत किया गया है और कारपोरेट मामलों के मंत्रालय एमसी, के साथ इस पर विस्तार से चर्चा की गई है। कार्यक्रम को संबोधित करते हुए मुख्य अतिथि दिनेश शर्मा ने कहा कि आईसीएआई संगठन परदर्शिता, जवाबदेही और अखंडता के मूल्यों को बनाए रखने के लिए एक समर्पित संगठन है।

FORTHCOMING EVENTS

Committee Name: Internal Audit Standards Board
Programme/Committee Chairman*: IASB Secretariat

Sl. No	Title of the Seminar/Conference	Fees	Date	Place	CPE Hours
1.	Virtual CPE Meeting on "Global Trends in Internal Audit- A Look Ahead"	Nil	June 4, 2022, 6 PM – 9 PM	Virtual	3 CPE hours
2.	Virtual CPE Meeting on "Global Trends in Internal Audit- A Look Ahead"	Nil	on June 11, 2022, 6 PM–9 PM	Virtual	3 CPE Hours
3.	Virtual CPE Meeting on "Global Trends in Internal Audit- A Look Ahead"	Nil	June 18, 2022, 6 PM – 9 PM	Virtual	3 CPE Hours
4.	Virtual CPE Meeting on "Global Trends in Internal Audit- A Look Ahead"	Nil	June 25, 2022, 6 PM – 9 PM	Virtual	3 CPE hours
5.	Certificate Course on Concurrent Audit of Banks	Rs. 5,900/- (including GST)	June- 4, 5 & 11,12 & 18,19, 2022, 10 AM to 5:30 PM	Rajkot (Physical Batch)	30 CPE hours

Contact person

Programme/Course Co-ordinator* SECRETARY, IASB

For Registrations & Further Details : IASB Secretariat : iasb.program@icai.in (0120-3045995)

For more details about the forthcoming events please refer the detailed announcements hosted on the ICAI website www.icai.org

Invitation to Write Articles

Chartered Accountants and other subject experts, with academic passion and flair for writing, are invited to share their expertise through the ICAI Journal – *The Chartered Accountant*. The article may cover any topic relevant to the accounting world covering auditing, finance, laws, strategy, taxation, technology and so on. While submitting articles, please keep following aspects in mind:

- ❖ The length of articles should be about 2500 words.
- ❖ Articles should be original in nature
- ❖ An executive summary of about 100 words should accompany the article.
- ❖ Articles should not have been published or sent for publishing in any other print or electronic media.

Please send articles to Journal Section - The Chartered Accountant, The Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, New Delhi 110 002. Attach photograph, editable soft copy of file, declaration of originality and assignment of copyright in the prescribed format along with the article. E-mails may be sent to eb@icai.in.

Visit https://www.icai.org/post.html?post_id=2557 for detailed guidelines and formats of declaration of originality and assignment of copyright.



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