CMA Students Newsletter (For Final Students)

Vol.14C: August 31, 2015

CORPORATE GOVERNANCE IN LISTED COMPANIES - NEW CLAUSE 49 OF THE EQUITY LISTING AGREEMENT- PART -III

III. AUDIT COMMITTEE

A. Qualified and Independent Audit Committee

A qualified and independent audit committee shall be set up, giving the terms of reference subject to the following:

1. The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors.

2. All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

Explanation (i): The term "financially literate" means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation (ii): A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

3. The Chairman of the Audit Committee shall be an independent director;

4. The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries;

5. The Audit Committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and a representative of the statutory auditor may be present as invitees for the meetings of the audit committee;

6. The Company Secretary shall act as the secretary to the committee.

B. Meeting of Audit Committee

The Audit Committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.

C. Powers of Audit Committee

The Audit Committee shall have powers, which should include the following:

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other professional advice.
4. To secure attendance of outsiders with relevant expertise, if it considers necessary.

D. Role of Audit Committee

The role of the Audit Committee shall include the following:

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
2. Recommendation for appointment, remuneration and terms of appointment of auditors of the company;
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors;
4. Reviewing, with the management, the annual financial statements and auditor's reportthereon before submission to the board for approval, with particular reference to:

(a) Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (c) of sub-section (3) of section 134 of the Companies Act, 2013.

(b) Changes, if any, in accounting policies and practices and reasons for the same.

(c) Major accounting entries involving estimates based on the exercise of judgment by management.

(d) Significant adjustments made in the financial statements arising out of audit findings.

(e) Compliance with listing and other legal requirements relating to financial statements.

(f) Disclosure of any related party transactions.

(g) Qualifications in the draft audit report.

5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval;
6. Reviewing, with the management, the statement of uses/application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter;
7. Review and monitor the auditor's independence and performance, and effectiveness of audit process;

8. Approval or any subsequent modification of transactions of the company with related parties;
9. Scrutiny of inter-corporate loans and investments;
10. Valuation of undertakings or assets of the company, wherever it is necessary;
11. Evaluation of internal financial controls and risk management systems;
12. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
13. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
14. Discussion with internal auditors of any significant findings and follow up there on;
15. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;
16. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
17. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;
18. To review the functioning of the Whistle Blower mechanism;
19. Approval of appointment of CFO (i.e., the whole-time Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience and background, etc. of the candidate;
20. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Explanation (i): The term "related party transactions" shall have the same meaning as provided in Clause 49(VII) of the Listing Agreement.

E. Review of information by Audit Committee

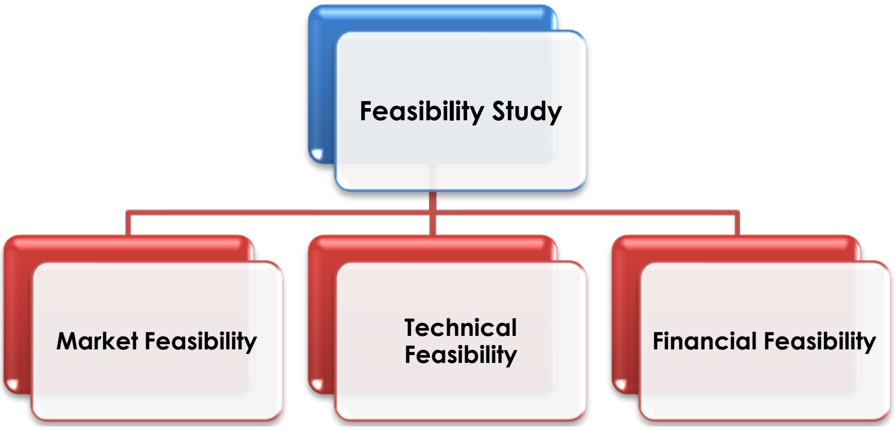
The Audit Committee shall mandatorily review the following information:

1. Management discussion and analysis of financial condition and results of operations;
2. Statement of significant related party transactions (as defined by the Audit Committee), submitted by management;
3. Management letters/letters of internal control weaknesses issued by the statutory auditors;
4. Internal audit reports relating to internal control weaknesses; and
5. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.

FINANCIAL FEASIBILITY STUDY

A well-designed **feasibility study** should provide a historical background of the business or project, a description of the product or service, accounting statements, details of the operations and management, marketing research and policies, financial data, legal requirements and tax obligations.

Project feasibility is a test by which an investment is evaluated. There are three types of feasibilities evaluated for a project.



For projects evaluated by government, economic and social feasibility is also considered.

FINANCIAL FEASIBILITY ANALYSIS

Financial Feasibility Study requires detailed financial analysis based on certain assumptions, workings and calculations such as:

(a) Projections for prices of products cost of various resources for manufacturing goods, capacity utilization. The actual data of comparable projects are included in the estimates.

(b) Period of estimation is determined on the basis of product life cycle, business cycle, period of debt funds, etc. and the Value of the Project at the terminal period of estimation is forecasted.

(c) Financing alternatives are considered and a choice of financing mix made with regard to cost of funds and repayment schedules.

(d) Basic calculations like interest and repayment schedule, working capital schedule, working capital loan, depreciation schedule, etc.

(e) Financial Statements prepared in the project feasibility report, viz. Profit and Loss Account, Balance Sheet and Cash Flow Statements for the proposed project.

(f) Financial Indicators and parameters like interest coverage ratio, debt-service coverage ratio, Net Present Value or Internal Rate of Return.

(g) Specific Requirements of lending Institutions, when a project is set up with Debt, especially with loans from banks and financial institutions.

The financial viability of a project should provide the following information

- Full details of the assets to be financed and how liquid those assets are.
- Rate of conversion to cash-liquidity (i.e. how easily can the various assets be converted to cash?).
- Project's funding potential and repayment terms.
- Sensitivity in the repayments capability to the following factors:
  - Time delays.
  - Mild slowing of sales.
  - Acute reduction/slowing of sales.
  - Small increase in cost.
  - Large increase in cost.

Financial Feasibility Study is two-fold-

(a) **Risk Assessment:** Basic indicators of financial viability use Profit and Cash Flow Estimates subject to risk or uncertainty. Evaluation of risk is necessary through the adoption of various analyses.

(b) Financial Projections: In assessing the financial viability of a project, it is necessary to analyse the forecasts of financial condition and flows, viz. – (i) Projected Income Statement, (ii) Projected Balance Sheet and (iii) Projected Cash Flow Statement.

The financial feasibility analysis of a project is in progress and the following figures have been complied –

Particulars	₹ lakhs
Initial capital Investment	1000
Annual Sales	1200
Operating Cost per annum	800

Project Life is 5 years and the Acceptance Rate is 10%.

You are required –

(1) To measure the sensitivity of the project to changes in each of the factors, viz. Initial Capital Investment , Annual Sales and Operating Costs

(2) To indicate to which factor the project is most sensitive.

1. Computation of NPV

Particulars	₹ lakhs
Annual Sales	1200.00
Less: Operating Costs per annum	(800.00)
Net Cash Surplus per annum	400.00
Annuity Factor for 5 years at 10% p.a.	3.791
Present Value of Cash Inflows [Annuity Factor 3.791 × Annual Cash Inflow ₹400]	1516.40
Less: Initial Investment	(1000.00)
Net Present Value	516.40

2. Sensitivity Analysis

(a) Variance in Project Cost (Initial Investment)

It is required to compute Initial Investment at which NPV is zero.

Measure of Sensitivity

Particulars	**Value**
Present Initial Investment [Base]	1000.00
Target Initial Investment [Value at which NPV is zero]= PV of Inflows	1516.40
Margin of safety [change]	516.40
Sensitivity = $\frac{\text{Change}}{\text{Base}} = \frac{516.40}{1000.00}$	51.64

If the Initial Capital Investment increases by more than 51.64%, the Project may not be viable.

(b) Variance in Annual Sales

It is required to compute Target Annual sales at which NPV is zero.

Let the required annual sales = 'X'

[(X – 800) × 3.791] = Initial Investment 1000.00

On solving, X = 1063.78. So, required annual sales = ₹1063.78 lakhs.

Measure of Sensitivity

Particulars	**Value**
Annual Cash Sales [Present] [Base]	1200.00
Target Cash sales [Value at which NPV is zero]	1063.78
Margin of safety [change]	136.22
Sensitivity = $\frac{\text{Change}}{\text{Base}} = \frac{136.22}{1200.00}$	11.35%

If the annual sales value were to fall by around 11.35%, the project may not be financially feasible.

(c) Variance in Variable Costs

It is required to compute variable costs at which NPV is zero.

Let required variable costs = 'C'

[(1200 – C) × 3.791] = Initial Investment 1000.00

On solving, C = 936.22. Hence, required variable costs = ₹936.22 lakhs

Measure of Sensitivity

Particulars	**Value**
Annual Variable Costs [Present] [Base]	800.00
Target Variable Cost [Value at which NPV is zero]	936.22
Margin of safety [change]	136.22
Sensitivity = $\frac{\text{Change}}{\text{Base}} = \frac{136.22}{800.00}$	17.03%

If the variable costs increase by more than 17.03% of the estimated amount, then the project may not be viable.

EXEMPTIONS FROM TOTAL INCOME

Section	Assessee	Nature of Income
10(1)	All Assessee	Agricultural Income in India
10(2)	Members of HUF	Share Income from HUF. A married daughter/widow receiving Income from Father's HUF is not exempt from tax.
10(2A)	Partner of a Firm	Share in Total Income of the Partnership Firm to the extent allowed u/s 40(b), when Firm is assessed as such.
10(4)	Individuals	(i) Interest from Notified Bonds including Premium on redemption, for Non-Resident (ii) Interest on NRE A/c earned by NR or any individual permitted by RBI.
10(6)(ii)	Individual not being an Indian Citizen	Remuneration of Foreign Diplomats, subject to conditions
10(6)(vi)	Individual not being an Indian Citizen	Remuneration of Employee of Foreign Enterprise for services rendered by him during his stay in India provided - • Employer does not engage in any trade or business in India, • His stay in India is ≤ 90 days in such PY, • Remuneration is not deductible from the Taxable Income of Employer.
10(6)(viii)	Individual not being an Indian Citizen	Salary received by Crew Member of Foreign Ship where his stay in India is ≤ 90 days in such PY.
10(6)(xi)	Individual not being an Indian Citizen	Remuneration received by an Employee of a Foreign State in connection with his training in India, in specified undertakings.
10(6BB)	Foreign Enterprise / Government	Tax paid by an Indian Company on behalf of the Foreign Enterprise / Govt. in respect of payment made for leasing an Aircraft or Aircraft Engine.
10(6C)	Notified Foreign Company approved by the Government	Royalty or Fees for Technical Services rendered in India or abroad for defence and security purposes
10(8)	Individual	Remuneration from Foreign State under co-operative technical assistance program in accordance with agreement with CG
10(8A)	Foreign Citizen or Individual being an Indian citizen with the status of RNOR / NR	Remuneration as Consultants out of funds made available to International Agencies under Technical Assistance Program approved by Government.
10(8B)	Individuals	Remuneration and Other Income of the Employees of Consultants as per 10(8A).
10(9)	Individual being Family Member of the Consultant or his Employee	Income accrues or arises outside India, and is not deemed to accrue or arise in India.
10(10BC)	Individual or his Legal Heir	Compensation received from Central/State Govt./Local Authority on account of disaster other than the amount allowed as deduction under this Act.

10(10D)	All Individuals	Any sum received under Life Insurance Policy, including sum allocated by way of Bonus, subject to certain exception. The premium limit shall be 15% for policy issued on or after 01.04.2013 to the person referred u/s 80U or 80DDB.
10(15)	All Assessees	Income from Notified Bonds/ Deposits & Securities.
10(16)	All Assessee	Scholarship granted to meet Cost of Education.
10(17)	MLAs and MPs	Daily Allowance, Constituency Allowance.
10(17A)	All Assessees	Reward or Award either in cash or in kind instituted and approved by Govt.
10(18)	Armed Personnel	Pension / Family Pension received by winner of Gallantry Award or his family members
10(19)	Widow or Children of member of Armed Forces	Family Pension received by family member of Armed Force died in duty.
10(19A)	Ex-Ruler	Income from any one House Property.
10(20)	Local Authority	Income from House Property, Capital Gain or Other Sources and Other Income prescribed
10(21)	Research Association approved u/s 35	Any Income, Provisions of Sec. 11 shall apply for accumulation of Income.
10(22B)	News Agencies approved by Government	Any Income, provided it should not distribute income to its Members.
10(23A)	Professional Bodies approved by Govt.	All Income except Income from House Property, specified services, and Interest & Dividend.
	Note [For Sec. 10(21)/(22B)/(23A)]: It should apply Income solely for its objectives. If conditions not satisfied, then CG can withdraw the approval after giving Assessee, an opportunity of being heard.	
10(23AA)	Regimental Fund or Non-Public Fund established by Armed Forces	All Income
10(23AAA)	Notified Funds	Any Income. It should apply Income solely for its objectives and invest in the modes specified u/s 11(5).
10(23AAB)	Approved Pension Fund of LIC or any other Insurer	Any Income
10(23B)	Approved Trust or Society's Income relating to production, sale, marketing of Khadi and its products	Any Income attributable to business of production, sale, or marketing, of Khadi or Village Industries products. It should apply its income solely for development of Khadi or Village Industries or both. Should be approved by Khadi and Village Industries Commission (KVIC).
10(23BB)	Khadi or Village Industries Board established under State or Provincial Act	All Income
10(23BBA)	Body / Authority constituted under Indian Law for administration of Public Charitable or Religious Bodies.	All Income

10(23BBB)	European Economic Community	Interest or Dividend or Capital Gain from Notified Scheme
10(23BBC)	SAARC fund for Regional Projects	All Income
10(23BBD)	Secretariat of the Asian Organisation of the Supreme Audit Institutions	Any Income
10(23BBE)	IRDA	All Income
10(23BBG)	Central Electricity Regulatory Commission	All Income
10(23BBH)	Prasar Bharathi (Broadcasting Corpn of India)	Any Income
10(23C)	Notified Fund or Approved Institution or Hospital whose Gross Receipts not exceeding ₹ 100 Lakhs	All Income excluding Anonymous Donations referred to u/s 115BBC. Income shall be included in Total Income if the Aggregate Receipts from General Public Utility u/s 2(15) exceeds the limit. **From A.Y 2015-16 onwards:** • **Substantially Financed by Govt.** - Govt. Grants to the Recipient entity exceeds prescribed percentage of total receipts during RPY. • **No Double Exemption** for Sec. s10(23C)(iv),(v),(vi),(via). • **No Depreciation** if asset purchased claimed as Application of Income. Time Limit to make application for approval: 30th Sep of RAY.
10(23D)	Mutual Funds registered under SEBI or set up by Public Sector Bank or Public Financial Institution or authorized by RBI.	Any Income
10(23DA)	Securitization Trust being a Special Purpose Distinct Entity or a Special Purpose Vehicle	**Exemption:** Any Income of a Securitization Trust from the activity of Securitization (as defined in SEBI Regulations / RBI Guidelines) is exempt.
10(23EA)	Investor Protection Fund of recognized Stock Exchanges	Income by way of contributions from Recognized Stock Exchanges and members thereof, If the amount standing to the credit of the Fund is shared with Stock Exchange, then the amount so shared is taxable in the PY of sharing.
10(23EB)	Credit Guarantee Trust Fund for Small Industries	Any Income
10(23EC)	Investor Protection Fund (w.r.t. commodity Exchanges)	Contribution received from Commodity Exchanges and members. If the amount standing to the credit of the Fund is shared with commodity exchange then the amount so shared shall be chargeable to tax in the PY of sharing.
10(23ED)	Investor Protection Fund (w.r.t. Depository)	Contribution received from Depository is exempt. If the amount standing to the credit of the Fund is shared with Depository, then the amount so shared is taxable in the PY of sharing.
10(23FA)	Investor in Venture Company / Fund	Dividend (excluding 115-0) & LTCG on Equity Share in VCC is exempt. VCF or VCC must be approved by Central Govt.
10(23FB)	Venture Capital Company / Fund	Any Income from Investment in a Venture Capital Undertaking referred in SEBI (Venture Capital Funds) Regulations.

10(23FC)	Business Trust	Interest Received or Receivable by a **Business Trust** from a Special Purpose Vehicle.
10(23FD)	Any Assessee being Unit Holder of Business Trust	**Distributed Income** referred to in Sec. 115UA, received by a Unit Holder from the Business Trust, not being that proportion of the Income which is of the same nature as the Income referred u/s 10(23FC).
10(24)	Registered Trade Union	House Property & Income from Other Sources
10(25)	Approved Retirement Benefit Funds	Interest and Capital Gains from Securities held by Provident Fund. Any Income received on behalf of RPF/ Approved Superannuation Fund/ Approved Gratuity Fund/ Deposit linked Insurance Fund.
10(25A)	ESI Fund under ESI Act	All Income
10(26)	SC / ST Individual in specified areas	Income from the specified areas and Dividend and Interest on Securities
10(26AAA)	Individual being a Sikkimese	Income from any source in Sikkim or by way of Dividend or Interest on Securities. Exemption not applicable for a Sikkimese Women who marries an individual who is not a Sikkimese, on or after 01.04.2008.
10(26AAB)	Agricultural Produce Market Committee or Board for regulating the marketing of agricultural produce	All Income
10(26B)	Government Corporation / Body / Institution financed by Government for the benefit of SC or ST or BC	All Income
10(26BB)	Corporation established by Government for the benefit of Minority Community	All Income
10(26BBB)	Corporation established by Government for the benefit of Ex-Servicemen	All Income
10(27)	Co-Operative Society formed for the benefit of SC and ST	All Income
10(29A)	Coffee Board, Rubber Board, Tea Board, Tobacco Board Spices Board, Coir Board, etc.	All Income
10(30)	Assessee engaged in growing & manufacturing tea in India	Subsidy from Tea Board for replantation/replacement
10(31)	Growing & Manufacturing of Rubber, Coffee or Cardamom or other notified commodity	Subsidy from Relevant Board
10(32)	Individual	Income of Minor clubbed u/s 64(1A) **[Note:** No restriction on the number of children]
10(33)	All Assessees	Income from transfer of unit of Unit Scheme, 1964.
10(34)	All Assessees	Dividend referred u/s 115-O by a Domestic Company.
10(34A)	Assessee, being a Shareholder	Income on account of buyback of Shares (not being listed on a Recognised Stock Exchange) by Company referred in S.115QA.
10(35)	All Assessees	Income from Units of Mutual Funds.

10(35A)	All Assessees	Income by way of Distributed Income referred in Sec. 115TA received from a Securitisation Trust, by any person being an Investor of the said Trust is exempt.
10(36)	All Assessees	LTCG on BSE 500 Equity Shares purchased between 1.3.2003 to 29.02.2004
10(37)	Individual or HUF	Capital Gain from transfer of Urban Agricultural Land compulsorily acquired by Central Government/ RBI. The land is used for Agricultural purposes during the period of 2 years immediately before transfer by HUF or Individual or his parents.
10(38)	All Assessees	LTCG on Equity Shares in a Company/ Units / Equity Oriented Fund/ **Units of a Business Trust**, subject to Securities Transaction Tax.
10(38)	All Assessee	LTCG on Listed Securities / Units of UTI / Equity Oriented Fund subject to Security Transaction Tax
10(39)	Notified Assessees	Income from International Sporting Events held in India, International Broadcasting, Domestic Broadcasting, Sponsorship, Ticketing, Licensed merchandise and Donations.
10(40)	Power Sector Companies	Grant/ Subsidy received from Indian Holding Company if receipt of such income is for settlement of dues in connection with reconstruction or revival of an existing business of power generation and such transfer is notified u/s 80-IA(4)(v)(a).
10(41)	Power Sector Companies	Gain on transfer of a Capital Asset of the undertaking engaged in the business. Transfer should be effected on or before 31.3.2006.Transferee being Indian Company.
10(42)	Body (organization) or Authority	Any specified income arising on an agreement between 2 countries.
10(43)	Individual	Any sum received as Loan under Reverse Mortgage Scheme u/s 47(xvi).
10(44)	All Assessee	Income received for, or on behalf of New Pension System Trust.
10(46)	Body/ Authority/ Board/ Trust/ Commission constituted by or under CG or a SG or a Central, State or Provincial Act	Specified Income (Entity should not be engaged in commercial activity) (e.g National Skill Development Corporation, Competition Commission of India, Various State AIDS Control Societies, State Electricity Regulatory Commissions, etc.)
10(47)	Infrastructure Debt Fund set up as per Guidelines notified by the CG	Any Income
10(48)	Notified Foreign Company	• Income received in India in Indian Currency on account of sale of Crude Oil or any other goods or rendering of services. • Agreement with CG or approved by CG • Foreign Company is not engaged in any other activity in India.

10(49)	National Financial Holdings Company Limited	Any Income of the National Financial Holdings Company Limited, being a Company set up by the Central Government, of any previous year relevant to any Assessment Year commencing on or **before** 1st April 2014.

Exemption u/s Sec. 10AA

Eligible Assessee	Units located in SEZ
Nature of Business	Manufacture / Produce Articles or Things or Computer Software or provide services
Creation of Special Reserve A/c & conditions (New Machine) for Addl. Reserve	Required
Form of Audit Report	Form 56F
Form for Return of Particulars of New Machine	Form 56FF
Allowable Deduction Years 1 to 5 Years 6 to 10 Years 11 to 15	 100% of Export Profits 50% of Export Profits Least of: (a) 50% of Export Profits, or (b) Credit to Special Reserve. **Note:** No Double Deduction allowable U/s 10AA and Sec. 35AD for the same or any other A.Y
Export Profit	$\text{Profits of business of the undertaking} \times \frac{\text{Export Turnover}}{\text{Total Turnover}}$
Export Turnover	Export Consideration brought to India in convertible Foreign Exchange within 6 months from the end of RPY **Less:** Freight, Telecommunication Charges or Insurance attributable to activities outside India and Foreign Exchange expense for Technical Services outside India.

Condition as to Sale Proceeds to be received in Convertible Forex within 6 months from the end of PY is not specified.

Other Points to Remember

Sec. 14A: Applicable to All Assessees. In computation of Total Income the expenditure incurred in relation to Exempt Income will **not** be allowed as deduction.

Expenditure disallowed (Rule 8D): The aggregate of -

1. Expenditure directly relating to Exempt Income.
2. Interest not directly attributable to Exempt Income = A x B/C
   (A = Amount of Interest, B = Aggregate Value of Investment Income from which is exempt, C = Average of Total Assets)
3. 0.5% of the Investment Value, Income from which is exempt.

Important Case Decisions

Sec. 14A - Expenditure in relation to Exempt Income
1. **Disallowance u/s 14A:** In the absence of any material or basis to hold that Interest expenditure directly or indirectly was attributable for earning Dividend Income, Interest expenditure could not be disallowed u/s 14A **[CIT vs K Raheja Corporation P Limited (2011) (Bom.)]**
2. **No disallowance of Cost when Dividend is from Stock-in—Trade:** When Shares are purchased with the intention of carrying out business, and Dividend is received on such Shares remaining unsold, the Cost of Purchase of Shares is not for the purpose of earning Dividend Income (which is exempted) and hence the provisions of Sec. 14A shall not apply, **[CCI Ltd vs CIT (Kar.)]**
3. **Relation between Expenditure & Income:** Condition precedent for disallowance of expenditure in relation to exempt income is **proximate cause** between expenditure and exempt income. Where purchase of securities "cum-dividend' is sold at a loss, the claim to set off of loss is permissible. The loss is not an "expenditure" relating to dividend. **[CIT vs Walfort Share and Stock Brokers Private Ltd 326 ITR 1 (SC)]**
4. **Effect of Chapter VIA Deduction:** No disallowance can be made u/s 14A in respect of Income included in Total Income in respect of which deduction is allowable under Sections 80C to 80U. **[Kribhco (2012) 209 Taxman 252 (Delhi)]**
Sec. 10/ Sec. 10AA Exemptions
5. **Sec. 10(20) Ineligible:** An Authority constituted under a State Legislation for planned development of Industrial Areas and promotion of Industries cannot claim benefit of exemption u/s 10(20). **[Adityapur Industrial Area Development Authority vs Union of India Ors. 283 ITR (SC) 97]**
6. **Bank Interest [Sec. 10AA]:** Interest earned on Fixed Deposits cannot be treated as Income derived from Exports of an SEZ Unit. **[Shams Tabrez Vanti (2005) TIOL 6 (ARA)]**
7. **Apportionment of Agricultural Income:** In the absence of details, apportionment of Expenditure on the basis of Gross Receipts from Agricultural Operations and Non-Agricultural Operations is justified. **[Consolidated Coffee Ltd vs State of Karnataka 176 CTR 98 (SC)]**
8. **Agricultural Land - Sale of Unyielding Rubber Trees:** There was an Agreement for Sale of Land. The Agreement did not specify the amount towards the value of Latex. It was held that the entire consideration is capital in nature, and is not taxable. **[Gandhimadhi Plantation Ltd vs State of Tamil Nadu (SC) 257 ITR 785]**
9. **Educational Institution vs Recognition by UGC:** Where a Society runs School or Educational Institution in systematic manner with regular classes, vacations, attendance requirements, etc. without profit motive, it should be treated as Educational Institution. Mere fact that it was not recognized by UGC or it did not conduct its own Examination or Awards Degrees of its own would not disentitle it from being approved as Educational Institution. **[Delhi Music Society vs DGIT (Del.)]**

PROVISIONS RELATING TO BAGGAGE

"Baggage" includes unaccompanied baggage but does not include motor vehicles. The term has not been defined as such. However, following may be noted: (a) Baggage means all dutiable articles, imported by passenger or a member of a crew in his baggage (b) Unaccompanied baggage, if dispatched previously or subsequently within prescribed period is also covered (c) baggage does not include motor vehicles, alcoholic drinks and goods imported through courier (d) Baggage does not include articles imported under an import licence for his own use or on behalf of others.

Bona fide baggage accompanying passenger is exempt from duty. The following items are passed free of duty:

Items exempted from duty	Applicable for
1. Articles which had been in use for the minimum period specified in Baggage Rules.	(a) Passengers, (b) Crew Members.
2. Articles intended for his use or his family's use. 3. Articles which are bonafide gifts or souvenirs.	Only for Passengers.

Baggage declaration form prescribed that 'bona fide baggage' includes — * wearing apparel * personal and household effects meant for personal use of passenger or family members travelling with him and not for sale or gift * Jewellery including articles made wholly or mainly of gold, in reasonable quantity according to status of passenger 'Tools of draftsman * Instruments of physician or surgeon.

Determination of rate of duty and tariff valuation in respect of baggage [Sec 78 of the Customs Act]: The rate of duty and tariff valuation, if any, applicable to baggage shall be the rate and valuation in force on the date on which a declaration is made in respect of such baggage under section 77.

Rate of Duty: The effective rate of duty w.e.f. 01.03.2005 is 35%. Additional duty u/s 3(5) is not applicable. Therefore, the effective rate is 35% BCD + 2% EC + 1% SHEC = 36.05%.

Baggage Rules, 1998:
The following persons shall be allowed clearance free of duty articles in bonafide baggage to the extent mentioned in Appendix:

Rule	Persons	Appendix
3	An Indian resident or a foreigner residing in India, returning from any country other than Nepal, Bhutan, Myanmar or China Provided that such Indian resident or such foreigner coming by land route	A B
4	Indian resident or a foreigner residing in India, returning from Nepal, Bhutan, Myanmar or China, other than by land route	B
5	Indian passenger who was engaged in his profession abroad shall on his return to India (apart from rule 3 or 4)	C
6	passenger returning to India regarding jewellery	D
7	tourist arriving in India	E
8	person who is transferring his residence to India (in addition to rule 3 or 4)	F

Appendix A:

Particulars	Specified Value (₹)	Articles allowed free of duty
(a) All passengers of and above 10 years of age and returning after stay abroad of more than three days.	45,000	• Used personal effects, excluding jewellery, required for satisfying daily necessities of life. (any limit) • Articles other than those mentioned in Annex. I upto the specified value, if these are carried on the person or in the accompanied baggage of the passenger.
(b) All passengers of and above 10 years of age and returning after stay abroad of three days or less.	17,500	
(c) All passengers up to 10 years of age and returning after stay abroad of more than three days.	17,500	
(d) All passengers upto 10 years of age and returning after stay abroad of three days or less.	3,000	

Appendix B:

Particulars	Specified Value (₹)	Articles allowed free of duty
(i) Passengers of and above 10 years of age and returning after stay abroad of more than three days.	6,000	• Used personal effects, excluding jewellery, required for satisfying daily necessities of life. (any limit) • Articles other than those mentioned in Annex. I upto the specified value, if these are carried on the person or in the accompanied baggage of the passenger.
(ii) Passengers upto 10 years of age and returning after stay abroad of more than three days.	1,500	

Appendix C:

Particulars	Articles allowed free of duty
(a) Indian passenger returning after at least 3 months.	(i) Used household articles upto an aggregate value of ₹ 12,000 (ii) Professional equipment upto a value of ₹ 20,000.
(b) Indian passenger returning after at least 6 months.	(i) Used household articles upto an aggregate value of ₹ 12,000 (ii) Professional equipment upto a value of ₹ 40,000.
(c) Indian passenger returning after a stay of minimum 365 days during the preceding 2 years on termination of his work, and who has not availed this concession in the preceding three years.	Used household articles and personal effects, (which have been in the possession and use abroad of the passenger or his family for at least six months), and which are not mentioned in Annex I, Annexure II or Annexure III upto an aggregate value of ₹ 75,000.

Appendix D:

Particulars	jewellery
Indian passenger who has been residing abroad for over one year.	(i) Jewellery upto an aggregate value of ₹ 50,000 by a gentleman passenger, or (ii) Upto aggregate value of ₹ 1, 00,000 by a lady passenger.

Appendix E:

Particulars	Articles allowed free of duty
(a) Tourists of Indian origin coming to India other than tourists of Indian origin coming by specified land routes;	(i) used personal effects and travel souvenirs, if - (a) these goods are for personal use of the tourist, and (b) these goods, other than those consumed during the stay in India, are re-exported when the tourist leaves India for a foreign destination. (ii) Articles as allowed to be cleared under rule 3 or rule 4.
(b) Tourists of foreign origin, other than those of Pakistani origin coming from Pakistan, coming to India by air.	(i) Used personal effects (ii) articles other than those mentioned in Annexure I upto a value of ₹ 8000 for personal use of the tourist or as gifts and travel souvenirs if these are carried on the person or in the accompanied baggage of the passenger.
(c) Tourists - (i) of Pakistani origin coming from Pakistan other than by land routes; (ii) of Pakistani origin or foreign tourists coming by land routes as specified in Annexure IV; (iii) of Indian origin coming by land routes as specified in Annexure IV.	(i) Used personal effects (ii) articles other than those mentioned in Annexure I upto a value of ₹ 6000 for personal use of the tourist or as gifts and travel souvenirs if these are carried on the person or in the accompanied baggage of the passenger."

Appendix F:

Articles allowed free of duty	Conditions	Relaxation that may be considered
(a) Used personal and household articles, other than those listed at Annex. I or Annex. II, but including the article listed at Annexure III and jewellery upto ₹ 50,000 by a gentleman passenger or ₹ 1,00,000 by a lady passenger	(1) Minimum stay of 2 years abroad, immediately preceding the date of his arrival on Transfer of Residence, (2) total stay in India on short visit during the 2 preceding years should not exceed 6 months, and (3) passenger has not availed this concession in the preceding three years.	a) For condition (1) Shortfall of upto 2 months in stay abroad can be condoned by Assistant Commissioner of Customs or Deputy Commissioner of Customs if the early return is on account of : (i) terminal leave or vacation being availed of by the passenger; or (ii) any other special circumstances. (b) For condition (2) Commissioner of Customs may condone short visits in excess of 6 months in deserving cases. (c) For condition (3) No relaxation
(b) Jewellery taken out earlier by the passenger or by a member of his family from India.	Satisfaction of the Asstt. Commissioner of Customs regarding the jewellery having been taken out earlier from India.	—

Annexure I:

1	Firearms.	4	Alcoholic liquor or wines in excess of two litres.
2	Cartridges of fire arms exceeding 50.	5	Gold or silver, in any form, other than ornaments.
3	Cigarettes exceeding 100 or cigars exceeding 25 or tobacco exceeding 125 gms.	6	Flat Panel (LCD/LED/Plasma) Television.

Annexure II:

1	Colour Television or Monochrome Television.	10	Video camera or the combination of any such video camera with one or more of the following goods, namely:- a) Television Receiver; b) Sound recording or reproducing apparatus; c) Video reproducing apparatus.
2	Digital Video Disc Player.	11	Word Processing Machine.
3	Video Home Theatre System.	12	Fax Machine.
4	Dish Washer.	13	Portable Photocopying Machine.
5	Music System.	14	Vessel.
6	Air-Conditioner.	15	Aircraft.
7	Domestic refrigerators of capacity above 300 litres or its equivalent.	16	Cinematographic films of 35 mm and above.
8	Deep Freezer.	17	Gold or Silver, in any form, other than ornaments.
9	Microwave Oven.		

Annexure III:

1	Video Cassette Recorder or Video Cassette Player or Video Television Receiver or Video Cassette Disk Player.	4	Personal Computer(Desktop Computer)
2	Washing Machine.	5	Laptop Computer(Notebook Computer)
3	Electrical or Liquefied Petroleum Gas Cooking Range	6	Domestic Refrigerators of capacity up to 300 litres or its equivalent.

Unaccompanied Baggage (Rule 9): Baggage' includes un-accompanied baggage brought before or after arrival of passenger within the prescribed period.

Baggage Rules applicable to members of the crew (Rule 10): The provisions of these Rules shall apply in respect of members of the crew engaged in a foreign going vessel for importation of their baggage at the time of final pay off on termination of their engagement.

A crew member of a vessel shall be allowed to bring items like chocolates, cheese, cosmetics and other petty gift items for their personal or family use which shall not exceed the value of ₹ 1,500.

A crew member of an aircraft shall be allowed to bring items gifts like chocolates, cheese, cosmetics and other petty gift items at the time of the returning of the aircraft from foreign journey for their personal or family use which shall not exceed the value of ₹ 1,500.

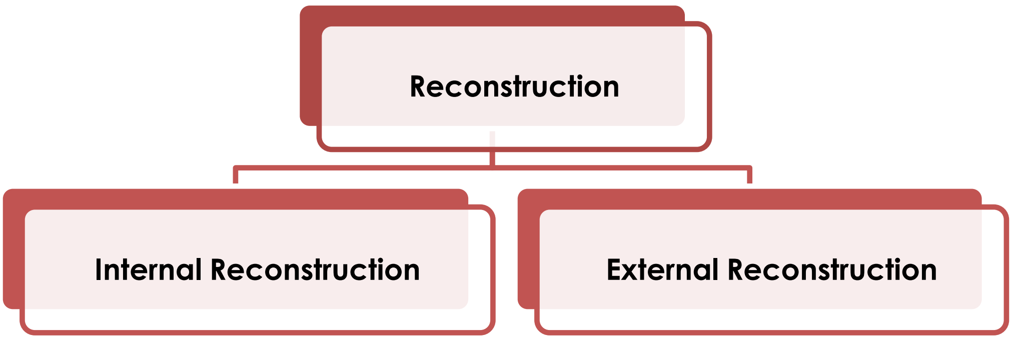
INTERNAL RECONSTRUCTION

Reconstruction: When the company faces financial problems such an arrangement is called Reconstruction.

It involves sacrifices by —

- Shareholders or
- Creditors and Debenture holders or
- All

Types of Reconstruction —



Internal Reconstruction —

Where the affairs of a Company are re-aligned, without liquidating the company and forming a new Company that will be known as Internal Reconstruction.

It is a scheme in which the affairs of a Company are re-organised for –
(a) Accurate reflection of capital
(b) Compounding / compromiseing/ setting with Creditors
(c) Company's betterment/ turnaround etc.

Ways of executing Internal reconstruction —
(a) Alteration of Share Capital ;
(b) Variation of Shareholders' Rights ;
(c) Reduction of Share Capital ;
(d) Compromise/ Arrangement ;
(e) Surrender of Shares.

Internal Reconstruction involves the following —
(a) Revaluation of Assets to a realistic value;
(b) Writing off of Fictitious Assets and Losses;
(c) Re-assessment of Liabilities by seeking waiver / reduction / remission of liability from Creditors and Lenders (including Debentureholders, if any), recording previously unrecorded liability, etc;
(d) Re-statement of Capital by reducing the Paid-up value of shares, and / or varying the rights attached to different classes of shares.

If Scheme involves arrangements with Shareholders only —

- Capital Reduction / Reconstruction / Reorganisation

If Scheme involves arrangements with Shareholders and Creditors/Lenders/Debentureholders —

- Reconstruction / Reorganisation

As a general A/c Head "Reconstruction A/c" may be used.

The above mentioned situations are accounted / recognised as under, by preparing a Reconstruction Account.

Reconstruction /Capital Reduction / Re-organisation Account

Dr. **Cr.**

Debited with -	₹	Credited with -	₹
• Downward Revaluation of Assets • Upward Re-assessment of Liabilities • Recording / paying of previously unrecorded Liabilities • Expenses of Reconstruction • Writing off of Fictitious Assets, Intangible Items, and Accumulated Losses • **Net Surplus**, if any, transferred to **Capital Reserve**		• Upward Revaluation of Assets • Downward Re-assessment of Liabilities • Sacrifices / Rebates by Lenders / Creditors, towards Claims due to them • Sacrifices by Shareholders, by way of Reduction of Capital	

Journal Entries in the course of Internal Reconstruction —

Transaction	Journal Entry
Reduction of Share Capital by reducing Paid-Up Value of Shares, without reducing Face Value (say ₹ 100 Face Value retained, but ₹ 100 already paid up is reduced to ₹ 20 paid up)	Equity Share Capital (₹ 100 each) Dr. 80 To Reconstruction A/c 80
Reduction of Share Capital by reducing both Face Value and Paid-Up Value, (say ₹ 100 reduced to ₹ 20)	Equity Share Capital (₹ 100 each) Dr. 100 To Equity Share Capital (₹ 20 each) 20 To Reconstruction A/c (balance written off) 80
Shareholders giving up their claim to Reserves and Accumulated Profits	Reserves A/c Dr. To Reconstruction A/c
Shares surrendered and cancelled subsequently	Equity Share Capital Dr. To Shares Surrendered A/c Shares Surrendered A/c Dr. To Reconstruction A/c (to the extent cancelled)
Downward Revaluation of Assets	Reconstruction A/c Dr. To Sundry Assets A/c
Upward Revaluation of Assets, i.e. Increase / Appreciation in Asset Values	Sundry Assets A/c Dr. To Reconstruction A/c
Sacrifices made by Debenture holders, Creditors, etc. by agreeing for a lower amount of dues payable to them	External Liabilities A/c Dr. To Reconstruction A/c (to the extent sacrifice made) To Bank A/c (to the extent payment made immediately)
Expenses of Reconstruction and previously unrecorded liability paid	Reconstruction A/c Dr. To Bank A/c
Provisions settled at higher amount than appearing in the Balance Sheet	Provision (Any) (as per B/s) Dr. Reconstruction A/c (difference / additional amt) Dr. To Bank A/c (Total amount paid now)
Writing off of Fictitious Assets, Intangible Items, and Losses	Reconstruction A/c Dr. To Fictitious Asset A/cs To P&L A/c To Miscellaneous Expenditure A/c
Transferring the balance left in Reconstruction A/c to Capital Reserve	Reconstruction A/c Dr. To Capital Reserve A/c
Variation in Shareholders' Rights without affecting Reconstruction A/c (Refer Note below)	Change in Rate of Dividend for Preference Shares: X(old) % Cum. Pref. Share Capital A/c Dr. To Y (new) % Cum. Pref. Share Capital A/c Conversion from Cumulative to Non-Cumulative Pref. Shares: Cum. Pref. Share Capital A/c Dr. To Non-Cum. Pref. Share Capital A/c
Conversion of Fully Paid Shares into Stock, or vice-versa (Refer Note below)	Conversion of Shares into Stock: Equity Share Capital (₹ . .. each) Dr. To Equity Stock A/c Re—conversion of Stock into Stock: Equity Stock A/c Dr. To Equity Share Capital (₹ ....each)
Sub-Division and Consolidation of Shares (Refer Note below) (say ₹ 100 Share divided into 10 Shares of ₹ 5 each)	Equity Share Capital (₹ 100 each) Dr. To Equity Share Capital (₹ 5 each)

- **The amount written off against Fixed Assets under the scheme of reconstruction should be shown for a period of five years, in accordance with Schedule III Disclosure Requirements.**

  Following alterations can be done without affecting Reconstruction A/c –

Variation in Shareholders' Rights —

- When a Company has issued different classes of Shares with different rights or privileges attached to such Shares, any of such rights may be changed in any manner.

Conversion of Fully Paid Shares into Stock, or vice-versa —

- Stock is the aggregate of fully paid-up Shares of a Member, merged into one fund of equal value.
- A Company can convert its Fully Paid Shares into Stock ,by a resolution passed in General Meeting.
- Stock can be divided into fractions of any amount. Any part of the Fund can be transferred. However, Companies may restrict the transfer of stock to multiples of, say, ₹ 100.
- Upon the Company converting its Shares into Stock, the book-keeping entries merely record the transfer from Share Capital A/c. A separate Stock Register is now maintained, in which details of Members' holdings are entered and the Annual Return is modified accordingly.

Sub-Division and Consolidation of Shares

- If authorised by its Articles, a Company may, in a General Meeting, by passing an Ordinary Resolution, decide to sub-divide or consolidate the shares into those of a smaller or higher denomination than that fixed by the Memorandum of Association.

Example:

The Balance Sheet of X Ltd. before reconstruction is:

Liabilities	₹	**Assets**	₹
		Building at cost	
12,000 7% Preference		Less: Depreciation	4,00,000
shares of ₹ 50 each	6,00,000	Plant at cost	
7,500 Equity shares of ₹ 100		Less: Depreciation	2,68,000
each	7,50,000	Trade Marks and Goodwill	
		at Cost	3,18,000
(Note : Preference dividend is		Stock	4,00,000
in arrear for five years)		Debtors	3,28,000
Loan	5,73,000	Preliminary expenses	11,000
Sundry creditors	2,07,000	Profit and Loss A/c	4,40,000
Other liabilities	35,000		
Total	**21,65,000**	**Total**	**21,65,000**

Note: Loan is assumed to be of less than 12 months, hence treated as short term borrowings (ignoring interest)

The Company is now earning profits short of working capital and a scheme of reconstruction has been approved by both classes of shareholders. A summary of the scheme is as follows:

a. The Equity Shareholders have agreed that their ₹ 100 shares should be reduced to ₹5 by cancellation of ₹ 95 per share. They have also agreed to subscribe in each for the six new Equity Shares of ₹ 5 each for two Equity Share held.

b. The Preference Shareholders have agreed to cancel the arrears of dividends and to accept for each ₹50 share, 4 new 5 per cent Preference Shares of ₹10 each, plus 3 new Equity Shares of ₹ 5 each, all credited as fully paid.

c. Lenders to the Company of ₹ 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹10 each and 6,000 new equity share of ₹ 5 each.

d. The Directors have agreed to subscribe in cash for 20,000, new Equity Shares of ₹ 5 each in addition to any shares to be subscribed by them under (a) above.

e. Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the Company.

f. The equity Share capital cancelled is to be applied:
   i. to write off the preliminary expenses;
   ii. to write off the debit balance in the Profit and Loss A/c ; and
   iii. to write off ₹ 35,000 from the value of Plant.

Any balance remaining is to be used to write down the value of Trade Marks and Goodwill.

Show by journal entries how the financial books are affected by the scheme. The nominal capital as reduced is to be increased to the old figures of ₹ 6,50,000 for Preference capital and ₹ 7,50,000 for Equity capital.

Solution:

Particulars			**Debit**	**Credit**
1.	Reduction of Equity capital			
	Equity Share capital A/c (Face Value ₹ 100)	Dr.	7,50,000	
	To Equity Share capital (Face value ₹ 5) A/c			37,500
	To Reconstruction A/c			7,12,500
2.	Right issue : (7,500 × 3 = 22,500 Shares)			
	(a) Bank A/c	Dr.	1,12,500	
	To Equity Share Application A/c			1,12,500
	(b) Equity Share Application A/c	Dr.	1,12,500	
	To Equity Share Capital A/c			1,12,500
3.	Cancellation of arrears of preference dividend			
	NO ENTRY (as it was not provided in the Books of Accounts)			
	Note :			
	(a) On cancellation, it ceases to be a contingent liability and hence no further disclosure			
	(b) Preference shareholders have to forego voting rights presently enjoyed at par with equity share holders			

4.	Conversion of preference shares		
	7% Preference Share Capital A/c	Dr. 6,00,000	
	Reconstruction A/c (balancing figure)	Dr. 60,000	
	To 5% Preference Share Capital (12,000×4×10)		4,80,000
	To Equity Share Capital (12,000 × 3 × 5)		1,80,000
5.	Conversion of Loan		
	Loan A/c	Dr. 1,50,000	
	To 5% Preference Share Capital A/c		1,20,000
	To Equity Share Capital A/c		30,000
6.	Subscription by directors:		
	(a) Bank A/c	Dr. 1,00,000	
	To Equity Share Application A/c		1,00,000
	(b) Equity Share Application A/c	Dr. 1,00,000	
	To Equity Share Capital A/c		1,00,000
7.	Repayment of loan		
	Loan A/c	Dr. 2,00,000	
	To Bank		2,00,000
8.	Utilisation of reconstruction surplus		
	Reconstruction A/c	Dr. 6,52,500	
	To Preliminary Expenses A/c		11,000
	To Profit and Loss A/c		4,40,000
	To Plant A/c		35,000
	To Trademark and Goodwill A/c		1,66,500

Reconstruction Account

Dr. **Cr.**

Particulars	**Amount**	**Particulars**	**Amount**
To Preference shareholders	60,000	By Equity Share capital	7,12,500
To Preliminary expenses	11,000		
To Profit and Loss A/c	4,40,000		
To Plant A/c	35,000		
To Trademark and Goodwill	1,66,500		
	7,12,500		7,12,500

Bank Account

Dr. **Cr.**

Particulars	**Amount**	**Particulars**	**Amount**
To Equity share application A/c	1,12,500	By Loan A/c	2,00,000
To Equity share application A/c	1,00,000	By Balance c/d	12, 500
	2,12,500		2,12,500

Forfeiture of Shares

If a shareholder fails to pay the allotment money or/and call money on his shares as called upon by the directors, his shares may be forfeited by the directors, if they are so authorized by the Articles of Association.

The following are the journal entries for forfeiture of shares:

Particulars		Dr. (₹)	Cr.(₹)
For forfeiture of shares:		XXXX	XXXX
Share Capital A/c	Dr.	XXXX	XXXX
(No. of shares forfeited × Called up value per share)			
Securities Premium A/c	Dr.		
(if issued at premium and premium not received)			
To, Calls - in- Arrear A/c			
(amount not received on forfeited shares)			
To, Share Forfeited A/c			
(amount received on forfeited shares)			
For reissue of forfeited shares		XXXX	XXXX
Bank A/c (No. of shares reissued × reissue price/share)	Dr.	XXXX	XXXX
Share Forfeited A/c (No. of shares × further discount on reissue)	Dr.		
To, Share Capital A/c			
(No. of shares reissued × paid up value per share)			
To, Securities Premium A/c (if reissued at a premium)			
For transferring profit on reissue of forfeited shares		XXXX	XXXX
Shares Forfeited A/c	Dr.		
To, Capital Reserve A/c			

FAQ IN COMPANIES (COST RECORDS AND AUDIT) RULES, 2014

(1) A Company is engaged in both Regulated and Non-Regulated sectors and all its products are not covered under the Rules. How to determine applicability of cost audit for the products covered under the Regulated and Non-Regulated sectors since different threshold limits have been prescribed under Rule 4?

Solution:

The above issue was clarified in FAQ-1 vide FAQ 1.21. The issue is further clarified by means of the following example for ease of understanding.

	Turnover (Rs. Crores) of					Applicability of	
	Table A Products	**Table B Products**	**Table A + B Products**	**Other Products**	**Total Operating Revenue**	**Cost Records**	**Cost Audit**
Case 1	5	10	15	19	34	No	No
Case 2	5	10	15	25	40	Yes	No
Case 3	10	15	25	26	51	Yes	Only Table A Products
Case 4	0	25	25	26	51	Yes	No
Case 5	20	14	34	75	109	Yes	Only Table A Products
Case 6	20	20	40	61	101	Yes	Both Table A & B Products

(2) What is the status of companies after the notification of Companies (Cost Records and Audit) Rules, 2014, who have not filed cost audit report and/or compliance report pertaining to any year prior to financial year commencing on or after April 1, 2014?

Solution:

Companies that were covered under the Companies (Cost Accounting Records) Rules, 2011 or any of the 6 industry specific Cost Accounting Records Rules and were required to file Compliance Report and/or Cost Audit Report for and upto any financial year commencing prior to April 1, 2014 are required to comply with the erstwhile Rules and file the Compliance Report and/or Cost Audit Report in XBRL Mode for the defaulted years. For this purpose, the Costing Taxonomy 2012 will continue to be available and such reports would be required to be filed in Form A-XBRL and Form IXBRL, as the case may be.

(3) Many Companies have filed Form 23C as well as Form CRA-2 for 2014-15 in respect of different products and/or multiple cost auditors, if applicable. Which SRN Number has to be reported in the cost audit report while filing the same in XBRL Mode?

Solution:

a) Companies who have filed multiple Form 23C in respect of multiple cost auditors will be required to provide the SRN Numbers against each Form 23C filed.

b) In case the company after filing individual Form 23C has also filed Form CRA-2, in such case the company will be required to provide the SRN Number of the latest CRA-2 only since the details of multiple cost auditors, if applicable for the company, would be covered under one Form CRA-2.

(4) A company is engaged in manufacturing of multiple products. Some of the products are covered under the Companies (Cost Records and Audit) Rules, 2014 and some are not. Part-A, Para 4 of the Annexure to the Cost Audit Report (Product/Service Details for the company as a whole) requires Net Operational Revenue to be reported for each CETA Heading for both the current year and the previous year. Can the Net Operational Revenue of all the Products that are not covered under the Rules be reported in this Para as a single line item?

Solution:

Part-A, Para 4 of the Annexure to the Cost Audit Report of Companies (Cost Records and Audit) Rules, 2014 require reporting of Net Operational Revenue of every CETA Heading separately comprised in the Total Operational Revenue as per Financial Accounts. Hence, the company would be required to report Net Revenue of every CETA Heading irrespective of whether the same is covered under maintenance of cost accounting records and cost audit or not. In case some of the Products are under the same CETA Heading but having different units of measurement (UOM), then Net Revenue is to be reported for separate UOMs. It may be noted that the number of quantitative details and abridged cost statements will have to be provided for each unique combination of CETA Heading and UOM of the Products which are covered under cost audit.

If the company is engaged in manufacturing of products as well as providing of services and/or trading, such services which are covered under the Companies (Cost Records and Audit) Rules, 2014 will be required to be reported separately according to the definition provided in the Rules classified under different types of services within the same class of service. It may be noted that the number of quantitative details and abridged cost statements will have to be provided for each classification of service covered under cost audit.

Other services that are not covered under the Rules and Revenue from Trading Activity may be reported under suitable heads denoting the service/activity.

The New Taxonomy has introduced a separate line item in this Para to report "Other Operating Incomes" which will form part of the Total Operating Revenue.