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Digest
An attempt to share knowledge

By

**Interns of
SBS and Company LLP**

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AUDIT

AUDIT OF FIXED ASSETS

Contributed by Chaya Deepthi & Vetted by CA Sandeep Das |

What is Fixed Assets?

- ❖ Fixed Assets are defined as the Assets held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.
- ❖ Which are expected to be used for more than 1 accounting period. Some of the Examples are:
 - o Buildings
 - o Furniture
 - o Machinery & Equipment
 - o Computer
 - o Vehicles.

Audit Objective:

- ❖ To ensure Proper records relating to Fixed Assets are being maintained
- ❖ To ensure that only capital Expenses are being capitalized
- ❖ To Validate the correctness, accuracy and completeness of depreciation calculated and compliance of schedule II of Companies Act, 2013.
- ❖ Compliance of relevant Accounting Standards/IND AS applicable.
- ❖ Compliance of disclosure requirements as per schedule III of Companies Act, 2013

Audit Procedure:

- ❖ **Documents/information to be obtained from client:**
 - o Details of internal Policies regarding Fixed Assets and depreciation.
 - o Fixed asset register maintained by the client.
 - o Details of Fixed Assets budgets.
 - o Copies of supporting documents like purchase requisitions, Request for quotations, Quotations, comparative statements, POs, Invoices etc for the samples selected.
 - o Obtain the list of authorized people who can authorize the purchase/disposal of fixed Assets at different stages of purchase/disposal process.
 - o Physical verification register of Fixed Assets maintained by the client.
- ❖ **Process of Verification:**
 - o Examine the internal policies of the client and analyse if they are in line with the statutory requirements.
 - o Verify whether all the opening balances reflected in Financials and FAR are same as the closing balances as per previous year audited Financials.
 - o Verify the FAR for its completeness and accuracy and its compliance with Companies Act 2013.(CARO 2016 requirements)

- o In case if the assets are revalued, ensure that entire class of such assets are revalued
- o Ensure revaluation increase/decrease is adjusted against revaluation reserve/profit & loss a/c.
- o Conduct physical verification of fixed Assets to ensure the following:
 - Physical existence of the Asset.
 - Fixed Assets are properly labelled with the respective Asset number for identification.
 - Ensure that assets are in working condition.
 - Details regarding quantity of fixed Assets are properly captured in FAR.
 - There prevail proper controls to restrict unauthorised access to Fixed assets.
 - Physical verification of fixed Assets is done at regular intervals by the management.

❖ Acquisitions:

- o Ensure compliance with internal policies for acquisitions.
- o Ensure that Actual expenditure incurred is within the estimated budget.
- o Check the entire process of purchase of fixed Assets for the samples selected with the Documentary evidences available for such purchase.
- o Compliance of AS 10(Revised), AS 26, AS 16 and AS 12 while accounting the fixed asset in books of accounts.

❖ Disposals:

- o Compliance of internal policies for disposal of assets.
- o In case if any substantial part of fixed asset is disposed off ensure that it doesn't effect the going concern status of the enterprise.
- o Ensure that any profit/loss arising from such disposal is correctly calculated and recorded in the books.
- o Depreciation on such assets disposed off are adjusted accordingly.
- o Fixed assets which are retired from active use and held for sale Should be recorded at lower of net book value & net realisable value

❖ Depreciation/Amortization:

- o Depreciation is the measure of wearing out, Consumption and other loss in the value of the depreciable asset arising from the use, effluxion of time or obsolescence through technology or market changes.
- o Ensure compliance of AS 10(Revised), AS 26 for calculating depreciation.
- o Depreciation for acquisitions are calculated on pro-rata basis.
- o Ensure the compliance of Schedule II of companies act 2013 while calculating depreciation.
- o In case of any deviation from schedule II requirements, the same has to be disclosed in notes to accounts.

❖ Disclosure requirements:

- o Ensure that Fixed assets are classified under the classifications mentioned in schedule III of companies act 2013.
- o As per Schedule III of companies act 2013 the following details regarding fixed assets are to be disclosed in notes to accounts:
 - Gross value of each class of fixed Assets at the beginning and end of the reporting period.
 - Useful life of the fixed asset
 - Accumulated depreciation of such class till date
 - Depreciation charge during the year
 - Details of acquisitions and disposals during the year if any
 - Depreciation relating to such acquisition/disposal separately.
 - Net block of each class of fixed assets at the beginning and end of the reporting period
 - Depreciation method followed for charging depreciation and details of change in method if any during the year
- o Deviation from schedule II of companies act 2013 has to be disclosed as a part of notes to accounts
- o In case of revaluation, particulars of assets revalued, amount of such revaluation shall be shown for a period of 5years from the date of revaluation by way of a note in financials
- o Change in accounting policy if any
- o In case if any intangible asset is amortised for a period exceeding 10years, the reasons and factors for determining the asset's useful life beyond 10years has to be disclosed in Financial statements.

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

INCOME TAX

SCRUTINY ASSESSMENT

Contributed by Sai Kishore & Vetted by CA Sreehari Reddy K

1. What is Scrutiny?

Once the assessee files his return of income, irrespective of whether it is filed within the due date or in pursuance to a notice requiring the assessee to file his return U/s 142, the department can initiate scrutiny proceedings if it has reason to believe that income is escaping assessment.

2. What is Scrutiny Assessment?

'Scrutiny Assessment' means picking up the returns on a *scientific basis and then making detailed checking of the assessee's return in order to make sure that:

- A. The assessee has not concealed/understated any income
- B. The assessee has not claimed excess loss
- C. The assessee has not underpaid tax
- D. The assessee has not claimed excess refund.

*Scientific basis means the various criteria prescribed by Central Board of Direct Taxes (CBDT) on the basis of which the returns are to be picked up for scrutiny.

Computer Assisted Scrutiny Selection System (CASS) picks up the returns for scrutiny which meets those criteria.

3. Process of Scrutiny assessment

Process starts with issue of Notice and ends with the passing of **Assessment order**.

- A. Service of Notice u/s 143(2) by AO to the assessee asking him to attend the office of AO in person or by an **Authorized Person
- **A CA/CS/CMA can be authorised representative only upto stage of tribunal. In High courts and Supreme court, only an Advocate can be authorised representative.
- B. Asking for various details like books of accounts, supporting documents & explanations by sending the questionnaire u/s 142(1)(ii).
- C. Discussing various points with assessee where the AO has difference of opinion, AO will give a chance to the assessee to justify his point.
- D. Passing of Assessment order u/s 143(3) with Notice of demand, if any – Completing the assessment If the assessment has the effect of:
 - (a) Increasing the income declared or
 - (b) Decreasing the loss claimed or
 - (c) Increasing the tax liability
 - (d) Reducing the refund claimed
 - (e) In any way penalizing or prosecuting the assessee. Then AO will give various supporting provisions and decided cases laws relied on by him in framing the assessment.

Note:

If the assessment has the effect of increasing the tax liability of assessee then the assessment order must be accompanied with a notice of demand u/s 156 if assessment order passed without such notice then the assessment is not complete.

Case Law : Hon'ble Gujarat High Court in case of Purushotamdas T. Patel

AO passed assessment order of Sunset Ltd. for AY 2011-12 on 31.03.2014, *the said order had the effect of increasing assessee's tax liability and the same assessment order was served on 02.04.2014, but AO forget to serve notice of demand u/s 156 as soon as he noticed his mistake he passed demand order on 03.04.2014 and served the same on 04.04.2014.*

*The assessee challenged the validity of assessment and argued that assessment has become TIME BARRED. The court held that if the assessment order passed without such notice of demand then the assessment is not complete and in the above case assessment completed **only on 03.04.2014 and not on 31.03.2012** (i.e date of passing demand order after assessment order), since the assessment could not be completed before the prescribed period of 2 yrs from 31.03.2012(end of relevant AY) Therefore, a **small mistake of AO has invalidated whole assessment proceedings.***

4. Questionnaire issued u/s 142(1)(ii)

- A. Furnish detailed particulars of business operations undertaken during the relevant year like nature of trading/service/manufacturing operations.
- B. Full particulars of principal place of business, head office and branches, factories, godowns
- C. Copies of Audited Balance Sheet, P/L, Cash Flow Statement, Audit report (Stat & Tax Audit) for the AY under scrutiny and its previous AY.
- D. Details of investments made during the FY with supporting certificates and other docs.
- E. Copies of your bank /credit card stats and briefly explaining all dr. and cr. entries more than Rs. 30,000.
- F. Transactions relating to sale/purchase of capital assets with supportive documents and agreements Also detailed calculations of capital gains.
- G. Ledgers of Secured and Unsecured borrowings along with loan agreements and PANs of lenders.
- H. In case of indiv /HUF the AO always ask the assessee about the monthly household expenditure of the family.
- I. Details of deductions claimed under Chapter VI-A(80C to 80U)also submit various docs and evidences for supporting the same.
- J. Details of Incomes on which tax was deducted
- K. Details of incomes claimed exempt
- L. Details of shares/MF purchase and sale transactions entered the year.
- M. Any other information which the AO needs, off course such needs are different in case of different assesses, their size and nature of business.

5) Time Limit for Serving the Notice i.e. Initiating the scrutiny

(a) No notice to be *served after the expiry of the 6 months from the **end of FY** in which return was filed. i.e If return for FY 2015-16 is filed on Sept 30, 2016 then notice to be issued before Sept 30, 2017.

* Service of notice means **dispatching** the notice to assessee. i.e date at which notice was **handed over to **postal department** is treated as **date of service** of notice **irrespective** of any **date put on the notice**.

Once the notice as such is dispatched to the assessee before the limitation period he cannot challenge the validity of assessment **even if he could **not receive** the dispatched notice.

6) Time Limit for Completion of Assessment i.e Assessment Order

Sec 153 read with Sec 153B require that an assessment must be completed with the following time period. Otherwise the assessment proceedings will get invalid and the assessment will become time barred.

S.no	Particulars	Earlier Time limit for completion of assessment	Revised Time Limits w.e.f July 1, 2012
1	Asst u/s 143(2) without making reference to Transfer Pricing Officer(TPO)	21 months from end of the relevant AY	24 months from end of relevant AY
2	Assessment u/s 143(2) in which Transfer pricing issues involved and a reference was made to Transfer Pricing Officer(TPO) in respect of transfer Pricing determination	33 months from the end of AY	36 months from the end of AY

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

FEMA

FEMA UPDATES

I. Delays in reporting of various forms under FDI

Reserve Bank of India has updated its Master Direction on Reporting under FEMA, where the following changes have been made with effect from November 7, 2017

a) The person/ entity responsible for filing the reports provided in Part IV of this Master Direction shall be liable for payment of Late Submission Fee (LSF) for any delays in reporting.

(i) The LSF shall be applicable for the Foreign Investment transactions undertaken on or after November 7, 2017. ☐

(ii) The payment of LSF is an option for regularising reporting delays without undergoing the compounding procedure. ☐

b) Calculation and Payment of LSF:

(i) Where LSF is required to be paid, the reports shall be, wherever necessary, conditionally acknowledged subject to payment of the LSF. The final acknowledgement / communication, wherever applicable, shall be given after the late submission fee is paid by the applicant.

(ii) The amount of LSF will be as per the following Matrix:

Amount involved in reporting (in Rs.)	Late Submission Fee (LSF) as % of amount involved *	Maximum amount of LSF applicable
Up to 10 million	0.05 percent	Rs.1 million or 300% of the amount involved, whichever is lower
More than 10 million	0.15 percent	Rs.10 million or 300% of the amount involved, whichever is lower

* The % of LSF will be doubled every twelve months

(iii) For calculating the LSF amount, the period of contravention shall be considered proportionately $\{(approx. rounded off to next higher month \div 12) \times amount for 1 year\}$.

(iv) For the purpose of calculation, "months" shall include Sundays/ Holidays ☐

(v) For the purpose of calculation, the period shall begin from the day after the 30th day (from the date of receipt of funds/ allotment or transfer of shares) and end on the day preceding the day on which the transaction report is received in the Reserve Bank. The date of reporting to the Authorised Dealer(AD) bank shall be deemed to be the date of reporting to the Reserve Bank provided the prescribed documentation is complete in all respects. ☐

(vi) In case the reporting form (whether in physical or electronic form) is incomplete then the delay will continue till such time the form is received complete in all respects.

(vii) The applicant cannot claim a refund in any manner for the amount already deposited as LSF. It will, therefore, be in the applicant's own interest to ensure compliance with the reporting norms and timelines.

(c) The AD banks are required to ensure that there is no delay at their end in forwarding the completed application to the Reserve Bank. Any such delays will render the AD bank for action as laid down in section 11(3) of the Foreign Exchange Management Act, 1999.

(d) The late submission fee is for reporting delays only. Contravention for non-issue/ late issue of capital instruments or non-transfer/ late transfer of capital instruments and other contraventions of the provisions FEMA 20(R) will be proceeded against as per the procedure laid down in sections 13 and 15 of FEMA, 1999.

(e) The LSF may be paid by way of a demand draft drawn in favour of "Reserve Bank of India" and payable at the Regional Office concerned.

II. Investment by Foreign Portfolio Investors (FPI) in Government Securities Medium Term Framework -Review

(a). The limits for investment by FPIs in Government Securities for the quarter January – March 2018 is increased by INR 64 billion in Central Government Securities (Central G-Secs) and INR 58 billion in State Development Loans (SDLs). The revised limits are as follows:

Revision of limits for the Quarter Jan - Mar 2018

Limits for FPI investment in Government Securities (INR in Billion)							
	Central G-Secs			SDLs			Aggregate
	General	Long Term	Total	General	Long Term	Total	
Existing limits	1,897	603	2,500	300	93	393	2,893
Revised limits	1,913	651	2,564	315	136	451	3,015

(b). The revised limits will be effective from January 01, 2018.

(c). The operational guidelines relating to allocation and monitoring of limits will be issued by the Securities and Exchange Board of India (SEBI).

For more details, refer Notification No. RBI/2017-18/108, A.P. (DIR Series) Circular No. 14 dated 12th December, 2017.

These updates are contributed by Sunil Kumar and vetted by CA Murali Krishna G of SBS and Company LLP, Chartered Accountants. For any queries, please reach at gmk@sbsandco.com

SECRETARIAL

COMPANIES ACT UPDATES FOR THE MONTH OF DECEMBER, 2017

RULES**❖ The Companies (Filing of Documents and Forms in Extensible Business Reporting Language), Second Amendment, Rules, 2017, Dt:04.12.2017:**

Vide the said amendment rules, the Ministry has amended the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015 ["Principal rules"] by providing a new XBRL Taxonomy relating to filing of Cost Audit Report, for the companies to which Cost Audit is applicable.

http://mca.gov.in/Ministry/pdf/Scan_XBRL_05122017.pdf

❖ The Companies (Cost Records and Audit) Amendment Rules, 2017, Dt:07.12.2017:

Vide the said amendment rules, the Ministry has amended the Companies (Cost Records and Audit) Rules, 2014 ["Principal rules"] by inserting the definition "Indian Accounting Standards", deemed to have been inserted with effect from 01.04.2016.

Further the Form CRA-1 & CRA-3, have been substituted with new regulations.

http://mca.gov.in/Ministry/pdf/CompaniesCostrecordsAuditRule_08122017.pdf

❖ The Companies (Cost Records and Audit) Second Amendment Rules, 2017, Dt:20.12.2017:

Vide the said amendment rules, the Ministry has amended the Companies (Cost Records and Audit) Rules, 2014 ["Principal rules"] by inserting the definition "Customs Tariff Act Heading", deemed to have been inserted with effect from 01.07.2017.

Further, amendments have been made to Form CRA-2, Form CRA-3 and Form CRA4, and for the words "CETA Heading", wherever it occurs, the words "CTA Heading" shall be substituted and shall be deemed to have been substituted with effect from the 01.07.2017.

http://mca.gov.in/Ministry/pdf/CostRecordAudit2Rule_21122017.pdf

NOTIFICATIONS

❖ Designation of Special Court, Dt:04.12.2017

Vide the said Notification, pursuant to the provisions of Section 435 (1) of the Companies Act, 2013, the Central Government, with the concurrence of the Justice of the High Court of Karnataka, has designated the LIX Additional City Civil and Sessions Judge, Bengaluru City, as a Special Court for the State of Karnataka, for speedy trial of offences punishable with imprisonment of two years or more.

http://mca.gov.in/Ministry/pdf/NotificationSpecialcourt_0512017.pdf

CIRCULAR

General Circular No.15/2017, Dt: 04.12.2017:Relaxation of additional fees and extension of last date of filing of Form CRA.4 under the Companies Act, 2013:

Vide the above Circular, the Ministry has extended the last date for filing of Form CRA-4, for the financial years starting on or after 1stApril, 2016, without additional fees till 31stDecember, 2017.

http://mca.gov.in/Ministry/pdf/GeneralCircular15_05122017.pdf

General Circular No.16/2017, Dt:29.12.2017: Condonation of Delay Scheme 2018:

Vide the above Circular, the Ministry has introduced a Scheme for condonation of delay in filing of the Financial Statements, Annual Returns and Auditor Appointment forms by the Company, so as to allow the Companies whose directors have become disqualified on account of non-filing of returns. The Scheme shall be applicable to all the Companies, other than the Companies, whose names have been removed by the Removed from the Register of Companies/Struck off, and have to file pending returns for more than 3 years, as on 30.06.2017.

The Scheme shall be effective from 01.01.2018 till 31.03.2018.

The DINs of the Directors who have been disqualified, will be reactivated temporarily, so as to enable the Companies to file the pending returns.

After filing of the pending returns under the scheme,the Company to file CODS form with ROC along with fee of Rs.30,000/-, to avail immunity from the proceedings.

http://mca.gov.in/Ministry/pdf/Generalcircular16_29122017.pdf

ORDERS

No Orders were issued during the month.

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

SATURDAY SESSIONS

S.No.	Event	Date	Speaker	Venue
1	An overview on SEZ	20/01/2018	Sauchit	SBS - Hyd
2	Technical Session on excel regarding filing of GSTR 1	27/01/2018	Sai Krishna	SBS - Hyd
3	Income of other persons included in Assessee Total Income		PV.Harini	SBS - Hyd

SESSIONTIMINGS: 2:30 to 4:30 PM***An overview on SEZ - Sauchit******Income of other persons included in Assessee total income - P. Harini***



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Kurnool: No. 302, 3rd Floor, V V Complex, 40/838, R.S. Road, Near SBI Main Branch, Kurnool, Andhra Pradesh

Nellore: 16-6-259, 1st Floor, Near Santi Sweets Opp: SBI ATM, Vijayamahal Centre, SPSR Nellore, Andhra Pradesh

Tada: 8-3-425/2, Flat No. 202, 2nd Floor, Bigsun Avenue, Near SRICITY, TADA, SPSR Nellore Dist, Andhra Pradesh

Visakhapatnam: # 39-20-40/6, Flat No.7, Sai Yasoda Apartments, Madhavadhara, Visakhapatnam (Urban), Vizag, Andhra Pradesh

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