



# VIJAYAWADA BRANCH OF SIRC OF ICAI NEWS LETTER



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Dear Members,

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With best regards

04-04-2015

(CA. Srinivas Agnihotram)

Vijayawada

Chairman

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**CHANAKYA NITI SHASTRA**

18. Brahmins quit their patrons after receiving alms from them, scholars leave their teachers after receiving education from them, and animals desert a forest that has been burnt down.
19. He who befriends a man whose conduct is vicious, whose vision impure, and who is notoriously crooked, is rapidly ruined.
20. Friendship between equals flourishes, service under a king is respectable, it is good to be business-minded in public dealings, and a handsome lady is safe in her own home.

**Chapter - 3**

1. In this world, whose family is there without blemish? Who is free from sickness and grief? Who is forever happy?
2. A man's descent may be discerned by his conduct, his country by his pronunciation of language, his friendship by his warmth and glow, and his capacity to eat by his body.
3. Give your daughter in marriage to a good family, engage your son in learning, see that your enemy comes to grief, and engage your friends in dharma. (Krsna consciousness).
4. Of a rascal and a serpent, the serpent is the better of the two, for he strikes only at the time he is destined to kill, while the former at every step.
5. Therefore kings gather round themselves men of good families, for they never forsake them either at the beginning, the middle or the end.
6. At the time of the pralaya (universal destruction) the oceans are to exceed their limits and seek to change, but a saintly man never changes.
7. Do not keep company with a fool for as we can see he is a two-legged beast. Like an unseen thorn he pierces the heart with his sharp words.
8. Though men be endowed with beauty and youth and born in noble families, yet without education they are like the palasa flower, which is void of sweet fragrance.
9. The beauty of a cuckoo is in its notes, that of a woman in her unalloyed devotion to her husband, that of an ugly person in his scholarship, and that of an ascetic in his forgiveness.
10. Give up a member to save a family, a family to save a village, a village to save a country, and the country to save yourself.
11. There is no poverty for the industrious. Sin does not attach itself to the person practicing japa (chanting of the holy names of the Lord). Those who are absorbed in maunam (silent contemplation of the Lord) have no quarrel with others. They are fearless who remain always alert.
12. What is too heavy for the strong and what place is too distant for those who put forth effort?
13. What country is foreign to a man of true learning? Who can be inimical to one who speaks pleasingly?
14. As a whole forest becomes fragrant by the existence of a single tree with sweet-smelling blossoms in it, so a family becomes famous by the birth of a virtuous son.
15. As a single withered tree, if set aflame, causes a whole forest to burn, so does a rascal son destroy a whole family.
16. As night looks delightful when the moon shines, so is a family gladdened by even one learned and virtuous son.
17. What is the use of having many sons if they cause grief and vexation? It is better to have only one son from whom the whole family can derive support and peacefulness.
18. Fondle a son until he is five years of age, and use the stick for another ten years, but when he has attained his sixteenth year treat him as a friend.
19. He who runs away from a fearful calamity, a foreign invasion, a terrible famine, and the companionship of wicked men is safe.
20. He who has not acquired one of the following: religious merit (dharma), wealth (artha), satisfaction of desires (kama), or liberation (moksa) is repeatedly born to die

21. Lakshmi, the Goddess of wealth, comes of Her own accord where fools are not respected, grain is well stored up, and the husband and wife do not quarrel.

#### Chapter - 4

1. These five: the life span, the type of work, wealth, learning and the time of one's death are determined while one is in the womb.
2. Offspring, friends and relatives flee from a devotee of the Lord: yet those who follow him bring merit to their families through their devotion.
3. Fish, tortoises, and birds bring up their young by means of sight, attention and touch; so do saintly men afford protection to their associates by the same means.
4. As long as your body is healthy and under control and death is distant, try to save your soul; when death is imminent what can you do?
5. Learning is like a cow of desire. It, like her, yields in all seasons. Like a mother, it feeds you on your journey. Therefore learning is a hidden treasure.
6. A single son endowed with good qualities is far better than a hundred devoid of them. For the moon, though one, dispels the darkness, which the stars, though numerous, cannot.
7. A stillborn son is superior to a foolish son endowed with a long life. The first causes grief for but a moment while the latter like a blazing fire consumes his parents in grief for life.
8. Residing in a small village devoid of proper living facilities, serving a person born of a low family, unwholesome food, a frowning wife, a foolish son, and a widowed daughter burn the body without fire.
9. What good is a cow that neither gives milk nor conceives? Similarly, what is the value of the birth of a son if he becomes neither learned nor a pure devotee of the Lord?
10. When one is consumed by the sorrows of life, three things give him relief: offspring, a wife, and the company of the Lord's devotees.
11. Kings speak for once, men of learning once, and the daughter is given in marriage once. All these things happen once and only once.
12. Religious austerities should be practiced alone, study by two, and singing by three. A journey should be undertaken by four, agriculture by five, and war by many together.
13. She is a true wife who is clean (suci), expert, chaste, pleasing to the husband, and truthful.
14. The house of a childless person is a void, all directions are void to one who has no relatives, the heart of a fool is also void, but to a poverty-stricken man all is void.
15. Scriptural lessons not put into practice are poison; a meal is poison to him who suffers from indigestion; a social gathering is poison to a poverty-stricken person; and a young wife is poison to an aged man.
16. That man who is without religion and mercy should be rejected. A guru without spiritual knowledge should be rejected. The wife with an offensive face should be given up, and so should relatives who are without affection.
17. Constant travel brings old age upon a man; a horse becomes old by being constantly tied up; lack of sexual contact with her husband brings old age upon a woman; and garments become old through being left in the sun.
18. Consider again and again the following: the right time, the right friends, the right place, the right means of income, the right ways of spending, and from whom you derive your power.
19. For the twice born the fire (Agni) is a representative of God. The Supreme Lord resides in the heart of His devotees. Those of average intelligence (alpa-buddhi orkanista-adhikari) see God only in His sri-murti, but those of broad vision see the Supreme Lord everywhere.

**Chapter -5**

1. Agni is the worship-able person for the twice born; the brahmana for the other castes; the husband for the wife; and the guest who comes for food at the midday meal for all.
2. As gold is tested in four ways by rubbing, cutting, heating and beating -- so a man should be tested by these four things: his renunciation, his conduct, his qualities and his actions.
3. A thing may be dreaded as long as it has not overtaken you, but once it has come upon you, try to get rid of it without hesitation.
4. Though persons be born from the same womb and under the same stars, they do not become alike in disposition as the thousand fruits of the badari tree.
5. He whose hands are clean does not like to hold an office; he who desires nothing cares not for bodily decorations; he who is only partially educated cannot speak agreeably; and he who speaks out plainly cannot be a deceiver.
6. The learned are envied by the foolish; rich men by the poor; chaste women by adulteresses; and beautiful ladies by ugly ones
7. Indolent application ruins study; money is lost when entrusted to others; a farmer who sows his seed sparsely is ruined; and an army is lost for want of a commander.
8. Learning is retained through putting into practice; family prestige is maintained through good behavior; a respectable person is recognized by his excellent qualities; and anger is seen in the eyes.
9. Religion is preserved by wealth; knowledge by diligent practice; a king by conciliatory words; and a home by a dutiful housewife.
10. Those who blaspheme Vedic wisdom, who ridicule the life style recommended in the satras, and who deride men of peaceful temperament, come to grief unnecessarily.
11. Charity puts an end to poverty; righteous conduct to misery; discretion to ignorance; and scrutiny to fear.
12. There is no disease (so destructive) as lust; no enemy like infatuation; no fire like wrath; and no happiness like spiritual knowledge.
13. A man is born alone and dies alone; and he experiences the good and bad consequences of his karma alone; and he goes alone to hell or the Supreme abode.
14. Heaven is but a straw to him who knows spiritual life (Krsna consciousness); so is life to a valiant man; a woman to him who has subdued his senses; and the universe to him who is without attachment for the world.
15. Learning is a friend on the journey; a wife in the house; medicine in sickness; and religious merit is the only friend after death.
16. Rain which falls upon the sea is useless; so is food for one who is satiated; in vain is a gift for one who is wealthy; and a burning lamp during the daytime is useless.
17. There is no water like rainwater; no strength like one's own; no light like that of the eyes; and no wealth more dear than food grain.
18. The poor wish for wealth; animals for the faculty of speech; men wish for heaven; and godly persons for liberation.
19. The earth is supported by the power of truth; it is the power of truth that makes the sunshine and the winds blow; indeed all things rest upon truth.
20. The Goddess of wealth is unsteady (chanchala), and so is the life breath. The duration of life is uncertain, and the place of habitation is uncertain; but in all this inconsistent world religious merit alone is immovable.
21. Among men the barber is cunning; among birds the crow; among beasts the jackal; and among women, the malin (flower girl).
22. These five are your fathers; he who gave you birth, girdled you with sacred thread, teaches you, provides you with food, and protects you from fearful situations.
23. These five should be considered as mothers; the king's wife, the preceptor's wife, the friend's wife, your wife's mother, and your own mother.

to be continued .....

**1. Auditors Report****1.1. What are the key changes in the 2013 Act with reference to Auditors report on the Financial Statements**

The key aspects are summarised as under in a simple tabular format. Consequent to these changes, the format of the report as required under SA 700 needs to be modified and the ICAI is working on this

S No	Contents	Old Law
(a)	Information and explanations necessary for the audit have been obtained and effects of non-obtaining / providing of such information on the financial statements.	Sec 227(3)(a) does not require the auditor to specify the effects of not receiving such information relevant for the audit
(b)	Proper maintenance of Books of accounts and Receipt of adequate returns from the Branches not visited by him.	Sec 227(3)(b) – No change
(c)	Whether the Branch auditor's report (not the company auditor) has been sent to the company auditor. The manner of dealing with the branch audit report in the company auditor's report	Sec 227(3)(bb) – No change
(d)	Agreement of the company's balance sheet and the profit and loss statement with the books of accounts and returns	Sec 227(3)(c) – No change
(e)	Compliance of financial statements with accounting standards	Sec 227(3)(d) – No change
(f)	Observations or comments of the auditors which have adverse impact on the functioning of the company. New Law does not specify the use of thick type or italics for such adverse comments	Sec 227(3)(e) – Use of thick type or in italics for the adverse comments.
(g)	Disqualification of director for appointment (Sec 164(2))	Sec 227(3)(f) – No change
(h)	Qualification, reservation or adverse remark on maintenance of accounts	Not in the Old Act
(i)	Adequacy and operating effectiveness of internal financial controls	Not in the Old Act, not applicable for financial statements of 2014-15
(j)	Other matters including 1. Disclosure of impact of pending litigations on the financial position. 2. Creation of provisions on foreseeable material losses on long term contracts. 3. Delay in transferring amounts such as the Investor Education and the protection Fund 4. CARO ( notified recently )	Not in the old Act, Rule 11 of Companies (Audit and Auditors Rules 2014)  CARO modified in the latest Act

**1.2. What is the new reporting requirement on Adequacy and operating effectiveness of internal financial controls**

The Auditors in their audit report are now required to comment on the **Adequacy and operating effectiveness of internal financial controls**. In this context, the following aspects merit consideration. This is deferred to accounting periods beginning on or after April 1, 2015

**A. The Companies Act 2013 has mandated three significant requirements in relation to Internal Financial Controls over Financial Reporting.**

**a. One**, a requirement to state in the Board report under Section 134(5) that the directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.

**b. Two**, Rule 8(5)(viii) of the Companies (Accounts) Rules 2014 requires the Board of Directors report of all Companies to state the details in respect of the adequacy of internal financial controls with references to the financial statements

**c. Three**, a requirement under Section 143(3) to comment in the Independent Auditors report on whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls

**1.3. What is internal financial Controls**

The term "internal financial controls" has been defined as the means the policies and procedures adopted by the company for ensuring the following. And it is the auditors responsibility that every account and component and disclosure in the financial statements that they audit comply with the following elements of internal financial control

- the orderly and efficient conduct of its business,
- including adherence to company's policies,
- the safeguarding of its assets,
- the prevention and detection of frauds and errors,
- the accuracy and completeness of the accounting records, and
- the timely preparation of reliable financial information

for example, if you consider the component of fixed assets, the auditor is expected to ensure that the above controls exist over all the processes involved in fixed assets namely additions, deletions, impairment, depreciation, register maintenance, physical verification etc. This is the Indian SOX. This will require a completely different approach to the statutory audit engagements that we do.

**1.4. Section 143 ( 3 ) (i) (Powers of Auditors and auditing standards ) requires the Auditor to state in their report whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls. Is this required for year ended March 31, 2015**

No, this is not required for the year ended March 31, 2015 as per the below mentioned notification issued on October 14, 2014

In the Companies (Audit and Auditors) Rules, 2014, after rule 10, the following shall be inserted, namely:-

"10A. For the purposes of clause (i) of sub-section (3) of section 143, for the financial years commencing on or after 1st April, 2015, the report of the auditor shall state about existence of adequate internal financial controls system and its operating effectiveness

Provided that auditor of a company may voluntarily include the statement referred to in this rule for the financial year commencing on or after 1st April, 2014 and ending on or before 31st March, 2015."

**1.5. As per the old Act, the Auditors were required to submit details of their appointment to MCA for compliance with Sec 224(1) (B) limits. What is the present status**

The auditor should be appointed in the AGM. The **Company has to intimate the Company and the registrar within 15 days of the meeting**. Previously the auditor was required to intimate the RoC. This information is now required to be filed by the Company in Form ADT - 1

**1.6. Is there any requirement of Auditors Consent under the new Act 2013**

Section 139 ( proviso to Sec 139(1) requires the following to be complied with before the appointment of an auditor. And this carries a penalty for non-compliance, the auditors portion being Rs 25000 to Rs 5 lakhs ( Sec 147 (2) )

Provided further that before such appointment is made, the written consent of the auditor to such appointment, and a certificate from him or it that the appointment, if made, shall be in accordance with the conditions as may be prescribed, shall be obtained from the auditor:

Provided also that the certificate shall also indicate whether the auditor satisfies the criteria provided in section 141

Provided also that the company shall inform the auditor concerned of his or its appointment, and also file a notice of such appointment with the Registrar within fifteen days of the meeting in which the auditor is appointed.

Coming to the aspect of the respect of the written consent and the certificate, the relevant rule for the Certificate is as per Rule 4 of the Companies ( Audit and Auditors Rules ) 2014. **A certificate format** requires the following.

1.1. The auditor or firm is eligible for appointment and is not disqualified for appointment under the Companies Act, 2013 (the Act), the Chartered Accountants Act, 1949 and the rules or regulations made thereunder;

1.2. The proposed appointment is as per the term provided under the Act.

1.3. The proposed appointment is within the limits laid down by the Act under Clause (g) of Sub-section (3) of Section 141 of the Act.

1.4. Confirmation that there are no proceedings against our firm or any partner of the firm with respect to professional matters of conduct or that Or that the following proceedings against our firm or any partner of the firm with respect to professional matters of conduct is true and correct

## 2. Audit Rotation

**2.1. We have been the Statutory Auditors of XYZ Private Limited for 20 years now. Can we sign the financial statements as auditors for YE March 31, 2015. Or should be pave way for another firm on account of Audit rotation. Does rotation apply to private limited companies**

Although Sec 139(2) makes it mandatory for firms to be rotated, there is a three year time frame from the date of notification of this section viz April 1, 2014

Rotation is applicable to the following classes of Companies. It applies to Private Companies, if as below

Type of company	Paid up share capital		Public Borrowing from banks / FI's OR Public deposits
Listed Companies	All		All
Unlisted public companies	Rs 10 Crore or more	OR	Rs 50 Crores or more
<b>Private limited companies</b>	<b>Rs 20 Crore or more</b>	<b>OR</b>	<b>Rs 50 Crores or more</b>

Rotation of Auditors will not apply to the following classes of Companies

- One Person Companies
- Small Companies
- Dormant Companies

**2.2. Should auditors of companies be compulsorily appointed for 5 years. My client does not come under the category relevant for rotation.**

Sec 139 of the Act states that the auditor of a Company shall be appointed for a five year term. The reference to the first AGM can be construed as First AGM of the Company as well as First AGM under the Act. Hence it appears that the AGM can appoint for five years and ratify every year. Hence, if you are proposed as an auditor of a non-rotation type company, then you can be appointed for a 5 year term.

"Subject to the provisions of this Chapter, every company shall, at the first annual general meeting, appoint an individual or a firm as an auditor who shall hold office from the conclusion of that meeting till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every sixth meeting and the manner and procedure of selection of auditors by the members of the company at such meeting shall be such as may be prescribed"

### 3. Engagement Letter

#### 3.1. What is the format of an engagement letter to be issued

SA 700 - The financial statements will have to comply with the principles enunciated in SA 700, Forming An Opinion and Reporting on Financial Statements. However, the format of the auditor's report will have to be suitably changed to meet the reporting requirements of section 143(2) and (3) of the said Act and the relevant Rules. The revised format of the engagement letter as per ICAI now available.

Engagement Letter - Revised Illustrative Format of the Engagement Letter for Audit of Financial Statements under Companies Act, 2013 is

[http://www.icaai.org/new\\_post.html?post\\_id=11197&c\\_id=219](http://www.icaai.org/new_post.html?post_id=11197&c_id=219)

**For the year ended March 31, 2015, reporting on Internal Financial Controls over Financial reporting is not mandatory. Hence the relevant format may be used**

### 4. Deemed Public Companies

**4.1. My client is a private company XYZ Private Limited and is a wholly owned subsidiary of ABC Limited which is a public Company. Is XYZ to be considered and treated as a public or a Private Company. What precautions should I take in this regard**

Section 2 (71 ) of the new Act defines a Public Company as "public company" means a company which-

(a) is not a private company;

(b) has a minimum paid-up share capital of five lakh rupees or such higher paid-up capital, as may be prescribed:

**Provided that a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles**

Several sections of the new Act depend on the type of the company as Private or Public and also on the thresholds of Share Capital, Loans, Deposits, Turnover, Profits etc. Further, certain sections are exempted and proposed to be exempted for private limited companies. While determining the applicability or otherwise of the above provisions, care needs to be taken to examine if this client is to be treated as a public company and not as a private Company. Let me illustrate this with some examples

Case 1 : For instance, Sec 203 of the Act specifies the compulsory appointment of KMP's for listed Companies and public companies with paid up share capital of rupees ten crores or above. For the purpose of this section, the client would be a public company and would have to comply

Case 2 : The June 24 draft notification **proposes** to exempt private companies from the limit of 20 companies. This client cannot be considered as an exempted case as it is deemed to be a public company

Case 3 : Public Companies with certain are required to appoint independent directors under Sec 149 of the Act. This section would again apply to this client if the thresholds are crossed

### 5. Loan from members and Directors Relatives

**5.1. Our client, a Private limited company, has obtained a loan from a directors relative. Should this be repaid. Is this a deposit. How should we handle this for YE March 31, 2015**

The previous Act had excluded loan from a director's relative from the purview of deposit. This is no longer so under the new Act. However the MCA has issued a General Circular 5 / 2015 on March 30, 2015 the MCA has finally clarified that amounts received by Private Companies ( prior to April 1, 2014 )

- from **Members, Directors or their relatives prior received prior to April 1, 2014** need not be treated as deposits
- **provided** that the same is disclosed in the notes to its financial statement for the financial year commencing on or after 1st April, 2014 the figure of such amounts and the accounting head in which such amounts have been shown in the financial statement

However amounts received after that date or renewed after that date of April 1, 2014 will be treated as per the Companies Act 2013 provisions

**The text of the circular is as under : General Circular No. O5/2015**

Stakeholders have sought clarifications as to whether amounts received by private companies from their members, directors or their relatives prior to 1st April, 2014 shall be considered as deposits under the Companies Act, 2013 as such amounts were not treated as 'deposits' under section 58A of the Companies Act, 1956 and rules made thereunder.

2. The matter has been examined in consultation with RBI and it is clarified that such amounts received by private companies prior to 01st April, 2014 shall not be treated as 'deposits' under the Companies Act, 2013 and Companies (Acceptance of Deposits) Rules, 2014 subject to the condition that relevant private company shall disclose, in the notes to its financial statement for the financial year commencing on or after 1st April, 2014 the figure of such amounts and the accounting head in which such amounts have been shown in the financial statement.

3. Any renewal or acceptance of fresh deposits on or after 1st April, 2014 shall, however, be in accordance with the provisions of Companies Act, 2013

and rules made thereunder.

4. This issues with the approval of the competent authority.

Rule -2013	Parameter – deposit exclusion – 2013	1956 Act
2(c)(viii)	Any amount received from a director of a company ( Director at the time of receipt) Provided the director furnishes a declaration in writing that the amount is not being given out of funds acquired by him or accepting loans or deposits from others.	any amount received by a private company from a person who, at the time of the receipt of the amount, was a director, <b>relative of director or member: "Relatives and members dropped"</b>

**5.2. What is our professional liability and responsibility if a loan from a directors relative is not shown under the heading loans but is under a long list of Creditors in the Trial Balance**

- One, obtain a list of all "relatives" of directors prior to the commencement of the audit for the following
- Two, obtain a list of all transactions with these parties
  - (1) Father: Provided that the term "Father" includes step-father.
  - (2) Mother: Provided that the term "Mother" includes the step-mother.
  - (3) Son: Provided that the term "Son" includes the step-son.
  - (4) Son's wife.
  - (5) Daughter.
  - (6) Daughter's husband.
  - (7) Brother: Provided that the term "Brother" includes the step-brother;
  - (8) Sister: Provided that the term "Sister" includes the step-sister.
  - (9) All members of the HUF to which the directors belong
  - (10) Name of husband / wife of the directors

**6. Share Application Money****6.1. My client has share application money of Rs 5 crores which is pending allotment for over 500 days as of March 31, 2015?. What should we do ?**

The rule 2 (c) (vii) provides that any share application money received and not allotted within 60 days and not refunded within 75 days will be treated as a deposit. It is pertinent to note that any adjustment of the amount for any **other** purpose shall not be treated as refund

**6.2. The FEMA Act permits 180 days for allotment of shares against Share Application money received from abroad. But the Companies Act provides for only 60 days. Which Act will prevail**

Although the FEMA provides for a longer time frame FC - GPR contains a requirement that a Company Secretary should certify that all the requirements of the Companies Act, (1956) have been complied with. Hence it is understood that Companies Act 2013 compliance will be required. The FCGPR should be submitted within 30 days of allotment of shares

## 7. Financial Statements

### 7.1. Whether a private Company having paid-up share capital 45 Lakhs and turnover of Rs. 25 Crores as per last audited balance sheet will be treated as small company or not? Do we need to prepare a cash flow statement

Yes a cash flow statement need be prepared as this company will be not be treated as small company. Section 2(85) defines a small company as a company other than a public company,

(i) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than five crore rupees; **and ( or has been changed to "and" vide RoD 13 Feb 2015**

(ii) turnover of which as per its last profit and loss account does not exceed 2 crore rupees or such higher amount as may be prescribed which shall not be more than twenty crore rupees:

Provided that nothing in this clause shall apply to-

- (A) a holding company or a subsidiary company;
- (B) a company registered under section 8; or
- (C) a company or body corporate governed by any special Act .

Note the word "**AND**" which implies that a private company fulfilling both of the conditions i.e turnover less than Rs. 2 crores and paid up capital less than Rs. 50 lacs will **ONLY** be considered as small company.

### 7.2. My client follows an accounting year of Jan - Dec. So they are closing their financial statements as at Dec 31, 2014. Do they need the permission of the NCLT to continue

Sec 2(41) prescribes a uniform Accounting year as April to March. If no alignment is proposed then the company has to make an application to the Tribunal. The only reason can be for the purpose of consolidation with a holding or subsidiary abroad.

However, this section provides for a transitionary time frame of 2 years and hence may not be critical for the year ended March 31, 2014 . **This section was notified wef April 1, 2014**

Until the NCLT is notified, the power to grant approval shall be with the CLB

### 7.3. Who should sign financial statements under the Companies Act, 2013

Ans. As per section 134(1), Financial Statement is required to be signed by:

- the chairperson of the company where he is authorised by the Board or by two directors out of which one shall be managing director;
- the Chief Executive Officer, if he is a director in the company,
- the Chief Financial Officer; and
- the company secretary of the company, wherever they are appointed,

In the case of a One Person Company, the Financial Statement is required to be signed only by one director.

**This means that where there are KMP's, the financial statements shall be signed by KMP's also. In other cases, they shall be signed by the Chairman ( if authorized by the BoD ) or by a minimum of 2 directors**

## 8. Restricted Services

### 8.1. Is it permissible to do VAT audits, Certifications etc for the Company for which we are auditors. Is it restricted under Section 144 of the Act

No, there are no restrictions on rendering attest services such as Tax audits, VAT audits, Transfer Pricing Audits and various certifications that may be required such as Royalty, Transfer pricing etc

### 8.2. As a Statutory Auditor of a Company, can I also provide an opinion on a certain tax matter where I advise a client that a financial provision is not necessary. Is there a conflict of interest

In this case, the client decides to carry out / not carry out a financial entry based on your opinion. Hence the "work" is performed by the auditor. It may, then, not be appropriate for the auditor to express an opinion on the subject matter which is a part of the financial statements. This could be construed as impacting independence especially if the value is material vis a vis the financial statements

### 8.3. Our firm also renders accounting services for a client for the year 2014-15. Can we be the auditor for the year 2014-15.

According to Sec. 144 an auditor appointed under this Act is bound by the Board of directors or the Audit committee to provide only those services as approved by them. Accordingly, a Statutory auditor cannot render directly or indirectly to the company or the holding or the subsidiary company) the following services

- a. Accounting and book keeping services
- b. Internal audit
- c. Design and implementation of any financial system
- d. Actuarial services
- e. Investment advisory services
- f. Investment banking services
- g. Rendering of outsourced financial services
- h. Management services and
- i. Any other kind of services as may be prescribed.

This section was notified on April 1, 2014 and provides for that if the auditor is providing any such service, he shall comply within one year from the date of commencement of this Act. One can take the view that the Act provides for a one year transition for this section, an auditor may not be restricted for the year 2014-15. The transitional provision may have been introduced to enable auditors to complete their existing commitments and engagements in other capacities. Further Clarification may needed on this aspect. However certain services, which directly impair independence ( such as accounting services ) are restricted under the code of ethics and they should not be performed

## 9. Key managerial personnel

### 9.1. Should my client necessarily appoint a KMP

Sec 2(51) of the Act specifies a KMP as a CEO or MD, Company Secretary, Whole Time Director, CFO and such other officer as may be prescribed

### 9.2. Should my client necessarily appoint a KMP

- Every listed company and every other public company having a paid-up share capital of Rs 10 crore rupees or more shall have whole-time key managerial personnel. (Rule 8 of Appointment and remuneration of managerial personnel rules)
- Every whole-time key managerial personnel of a company shall be appointed by means of a Board resolution containing the terms and conditions of the appointment including the remuneration. (Sec 203 (2))
- If the office of any whole-time key managerial personnel is vacated, the resulting vacancy shall be filled-up by the Board at a meeting of the Board within a period of 6 months from the date of such vacancy.(Sec 203(4))
- Company to file a return of appointment of KMP within 60 days of such appointment in form as prescribed with the registrar.(Rule 3)

## 10. Depreciation

### 10.1. What are the key changes in Depreciation in CA 2013

The important changes in the Act are as under

- Change from rate based approach to useful life approach and the Act has specified useful lives for various classes of assets
- Schedule II rates are not the minimum rates and the company can adopt different useful lives based on technical advise
- Assets less than Rs 5000 need not be depreciated completely
- No rates for double and triple shift but extra depreciation of 50% and 100%
- That is, if a part of an asset has **a separate useful life** independent of the parent, then a separate rate has to be applied for that part if that part is **material in relation to the asset**
- Assets which do not have a useful life as at the commencement of the Act are required to be written off completely. Such amounts may be debited to P& L or adjusted to General Reserves

**10.2. Do we have to align depreciation with the new Companies Act 2013 rates for the year ended March 31, 2015**

Of the above, the change in rates has to be effected for the year ended March 31, 2015 whereas the component level depreciation has been deferred as per a notification and is not applicable for the period ended March 31, 2015

**10.3. My client has a financial year ending Dec 31, 2014. Should we revise the depreciation as per the new Act or does the old Act apply**

The revised useful life system applies for accounting periods commencing on or after April 1, 2014 and hence the client may prepare the accounts as per the earlier Act in reference to depreciation as there is a specific mention of the term accounting period

**10.4. Schedule II speaks of technical opinion. Should this be an independent opinion**

The Schedule II does "not" speak of an independent opinion. But from an auditors perspective, one may not be wrong in asking for one especially if the value of the depreciation and change to the same is material

**10.5. What are the provisions relating to assets working on double shift or triple shift basis?**

- o Useful life given in Part C assumes single shift working
- o Double shift - increase depreciation by 50%
- o Triple shift - increase depreciation by 100%
- o Take note of number days for which the company has worked double shift and triple shift and the rates have to be increased proportionately

**10.6. How do we calculate the WDV rates based on the useful life of the asset**

The WDV rates are calculated by applying the formula as specified below		Cell reference
Useful life - n Years	5	C4
Residual value - s Rs.	5	C5
Cost of the asset - c - Rs.	100	C6
Rate %	<b>1-POWER((Residual value/Cost),(1/No of years))</b>	C7

**11. Audit Fees**

**11.1. What is the key change in the provisions relating to audit fees**

Auditors' remuneration under the new Act includes facility extended to the auditor. A practical example would be in respect of guest house owned or leased by the company and provided for the auditors. In this case, the cost of such accommodation has to be estimated and disclosed in the financial statements. This would necessitate all costs incurred on auditors to be recorded in a separate ledger to enable accurate disclosure

Parameter	2013 Act	1956 Act
Fees includes	Fees for the Statutory audit ( described as fee payable to the auditor )  Expenses, if any incurred in connection with the audit  Any Facility extended to the auditor	Fees for the Statutory audit ( described as fee payable to the auditor )  Any sums paid by the Company in respect of Auditors' Expenses  Not part of the 1956 act

**12. Loans and investments by companies**

**13. Sec 186 of the Act specifies as under. Does the term "any person" include an employee ?**

Sec 186(2) : No company shall directly or indirectly -

- (a) give any loan to **any person** or other body corporate;
- (b) give any guarantee or provide security in connection with a loan to any other body corporate or person; and
- (c) acquire by way of subscription, purchase or otherwise, the securities of any other body corporate, exceeding sixty per cent. of its paid-up share capital, free reserves and securities premium account or one hundred per cent. of its free reserves and securities premium account, whichever is more.

Ans : The MCA clarification Gen Circular 4 / 2015 reads as under :

**Subject:** Clarification with regard to section 185 and 186 of the Companies Act, 2013 - loans and advances to employees-reg.

This Ministry has received a number of references seeking clarification on the applicability of provisions of section 186 of the Companies Act, 2013 relating to grant of loans and advances by Companies to their employees.

The issue has been examined and it is hereby clarified that loans and/or advances made by the companies to their employees, other than the managing or whole time directors (which is governed by section 185) are not governed by the requirements of section 186 of the Companies Act, 2013. This clarification will, however, be applicable if such loans/advances to employees are in accordance with the conditions of service applicable to employees and are also in accordance with the remuneration policy, in cases where such policy is required to be formulated.

#### 14. CARO

##### 14.1. What are the Companies for which CARO need not be provided along with the Auditors Report

- a) Small Company
- b) Banking Company
- c) Insurance Company
- d) Section 8 Company ( erstwhile Sec 25 NPO companies )
- e) Private Companies whose
  1. Paid up capital and reserves not more than Rs.50 lakhs. AND
  2. Does not have loan outstanding exceeding Rs.25 lacs from any bank or financial institution AND
  3. Does not have a turnover exceeding Rs.5 crores
  4. At any point of time during the financial year

##### 14.2. ABC Private Limited has a Paid Up Share Capital of Rs 15 lakhs , Reserves and Surplus of Rs 40 lakhs and a turnover of Rs 1.5 Crores. Will CARO be applicable or not ?

Ans : This is a small Company if you evaluate only the Paid up Capital and Turnover. But this also falls under the non-exempted Private Limited Company where Paid Up Share Capital + Reserves and Surplus exceeds Rs 50 lakhs. **Hence CARO seems applicable.**

##### 14.3. Would CARO be applicable to a private company which is a subsidiary of a public company

Ans : If one looked at the provisio of the definition of a public company, it appears that CARO would be applicable to such Companies.

Sec 2 ( 71 ) is reproduced below

"public company" means a company which-

- (a) is not a private company;
- (b) has a minimum paid-up share capital of five lakh rupees or such higher paid-up capital, as may be prescribed:

**Provided that a company which is a subsidiary of a company, not being a private Company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles**

DATE	COMPLIANCE REQUIRED (Dates circled are Due Dates)	FORM NO / CHALLAN NO.
<b>MAY 2015</b>		
6	EXCISE: E-PAYMENT OF EXCISE DUTY FOR APR 2015	GAR - 7
	SERVICE TAX: E-PAYMENT OF SERVICE TAX FOR APR 2015 BY CORPORATES	
7	INCOME TAX: DEPOSIT OF TDS/TCS COLLECTED DURING APR 2015	281
11	EXCISE: MONTHLY RETURNS FOR PRODUCTION AND REMOVAL OF GOODS AND CENVAT CREDIT FOR APR 2015	ER 1
	EXCISE: MONTHLY RETURNS OF EXCISABLE GOODS MANUFACTURED & RECEIPT OF INPUTS & CAPITAL GOODS BY UNITS IN EOU, STP, HTP FOR APR 2015	ER 2
	EXCISE: MONTHLY RETURNS OF INFORMATIONS RELATING TO PRINCIPAL INPUTS FOR APR 2015 BY MANUFACTURER OF SPECIFIED GOODS WHO PAID DUTY >= RS. 1 CRORE DURING FY 2014-15 BY PLA/CENVAT/BOTH	ER 6
12	ESI: HALF YEARLY RETURN OF ESI CONTRIBUTION FOR THE HALF YEAR ENDING 31ST MAR 2015	6 A
15	EPF: PAYMENT OF EPF CONTRIBUTION FOR APR 2015	
	EPF: CONSOLIDATED STATEMENTS OF DUES AND REMITTANCES UNDER EPF AND EDLI FOR APR 2015	12A
	EPF: MONTHLY RETURNS OF EMPLOYEES WHO JOINED/LEFT THE ORGANISATION IN APR 2015	5/10
	INCOME TAX: QUARTERLY RETURNS FOR TDS MADE FOR QUARTER ENDING MAR 2015	24Q/26Q
	INCOME TAX: QUARTERLY RETURNS FOR TCS MADE FOR QUARTER ENDING MAR 2015	27EQ
	INCOME TAX: STATEMENT OF TDS FROM INTEREST, DIVIDEND OR ANY OTHER SUM PAYABLE TO NON-RESIDENTS FOR QUARTER ENDING MAR 2015	27Q
20	CST/TN VAT: MONTHLY RETURNS AND PAYMENT OF CST AND VAT COLLECTED DURING APR 2015 IF THE MODE OF PAYMENT OF VAT AND CST IS BY CASH/CHEQUE/DD	FORM 1 / FORM I
21	ESI: DEPOSIT OF ESI CONTRIBUTIONS AND COLLECTIONS FOR APR 2015	
22	CST/TN VAT: MONTHLY RETURNS AND PAYMENT OF CST AND VAT COLLECTED DURING APR 2015 IF THE MODE OF PAYMENT OF VAT AND CST IS BY ELECTRONIC MODE	FORM 1 / FORM I
30	INCOME TAX: ISSUE OF TDS CERTIFICATE FOR TDS MADE FOR QUARTER ENDING MAR 2015 EXCEPT ON SALARIES	16A
31	INCOME TAX: ISSUE OF TDS CERTIFICATE FOR DEDUCTIONS FROM SALARY FOR THE FY 2014-15	16
	INCOME TAX: RETURN OF TDS FROM CONTRIBUTIONS PAID BY THE TRUSTEES OF AN APPROVED SUPERANNUATION FUND	22
	INCOME TAX: APPLICATION FOR ALLOTMENT OF PERMANENT ACCOUNT NUMBER - PAN, IF THE TOTAL INCOME DURING PRIOR PREVIOUS YEAR EXCEEDS THE MAXIMUM AMOUNT NOT CHARGEABLE TO TAX	49A



## VIJAYAWADA BRANCH OF SIRC OF ICAI

*Invites you for*

**Two Days Andhra Pradesh State Level Conference**



**Date : 27<sup>th</sup> & 28<sup>th</sup>, June 2015**

**Venue : Jyothi Convention, Near Benz Circle, VIJAYAWADA**

### INAUGURAL SESSION

*Chief Guest*

**CA Manoj Fadnis**, President, ICAI, New Delhi

*Guests of Honour*

**CA M. Devaraja Reddy**, Vice President, ICAI, New Delhi

**CA P.R. Aruloli**, Chairman, SIRC, Chennai

1<sup>st</sup> Technical Session 10-30 a.m. to 11-30 a.m.

**LLP as a Business Entity and Taxation Issues**

2<sup>nd</sup> Technical Session 11-30 a.m. to 01-30 p.m.

**NBFC Regulations**

**LUNCH** 01-30 p.m. to 02-00 p.m.

3<sup>rd</sup> Technical Session 02.00 p.m. to 03.00 p.m.

**Income Computation and Disclosure**

**Standards-Panel Discussion**

4<sup>th</sup> Technical Session 03.00 p.m. to 04.00 p.m.

**Assessment & Reassessment Procedures under Income Tax Act, 1961**

**SNACKS BREAK** 04-00 p.m. to 04-15 p.m.

5<sup>th</sup> Technical Session 04.15 p.m. to 05.15 p.m.

**FEMA**

**CULTURAL PROGRAMME** 07-00 p.m. to 09-00 p.m.

**DINNER FOLLOWS**

1<sup>st</sup> Technical Session

**Private Limited Companies** 10-00 a.m. to 11-00 a.m.  
**under the Companies Act 2013-Concessions Removed**

**Auditor's appointment and responsibilities under the Companies Act 2013** 11-00 a.m. to 12-00 a.m.

2<sup>nd</sup> Technical Session 12-00 p.m. to 01-30 p.m.

**Recent Trends in Direct Taxes**

**LUNCH** 01-30 p.m. to 02-00 p.m.

3<sup>rd</sup> Technical Session 02-00 p.m. to 03-00 p.m.  
**TDS requirement under section 195 of the income tax act- (International taxation)**

4<sup>th</sup> Technical Session 03-00 p.m. to 04-00 p.m.  
**Un Disclosed Foreign income and Assets bill**

**SNACKS BREAK** 04-00 p.m. to 04-15 p.m.

5<sup>th</sup> Technical Session 04-15 p.m. to 05-15 p.m.

**Drafting of Development Agreements and Taxes Issues**

Validictory Session 05-15 p.m.

*For Accommodation and other details contact :*

**CA. SRINIVAS AGNIHOTRAM**

Chairman  
94409 43129

**CA. E.PHALGUNA KUMAR**

Secretary, SIRC of ICAI &  
Ex-Officio of Vijayawada Branch

**CA. SREENIVASA RAO G.**

Secretary  
93462 22567

**REGISTRATION FEE : ₹ 1500**

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**VIJAYAWADA BRANCH OF SIRC OF ICAI**, Payable at Vijayawada

**Glimpses of “Seminar on Goods and Services tax” on 18<sup>th</sup> April, 2015**



**Glimpses of “Procedure for Assessment of Search & Survey cases under IT Act” on 25<sup>th</sup> April, 2015**



**Glimpses of “Mock Test” on 21<sup>st</sup> to 24<sup>th</sup> April, 2015**



## Glimpses of “ Final and IPCC Crash Batch for IT and Auditing”



**BOOK - POST PRINTED MATTER**

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