



SICASA E - NEWS LETTER



Tuticorin Branch of Southern India Regional Council of The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

October 2010

SICASA Chairman's Writes:



Dear Friends,
Greetings!

We are glad to inform you that the 25th batch of Information Technology Training commenced on 02.09.2010. The Public Awareness Programme on TDS & TCS was held on 03.09.2010 at our Branch premises. It was attended by more than 150 delegates and it was a grand success. The Seminar was inaugurated by the Chief Commissioner of Income Tax Madurai, Shri A. Soorianarayanan I.R.S. He highlighted the

salient features and the pros and cons of the various provisions of TDS & TCS under the Income Tax Act. Shri S.Balasubramanian I.R.S. Additional Commissioner of Income Tax Madurai also gave an insight on TDS & TCS. Our faculty from Chennai CA V.Thiagarajan elucidated the ramifications of the provisions of TDS & TCS and Tax Audit Report u/s 44AB. It was a very thought provoking and brain storming session.

It was a delightful occasion when the Chief Commissioner of Income Tax Madurai, dedicated the Project Report on the Industrial visit to an Export oriented Dry Flower Company – M/s.Fauna International, Tuticorin done by our CA Students. The students' efforts were appreciated by all. On 04.09.2010, our Branch organized a Study Circle Meeting led by Miss.J.Anne Jose, Final Student on the topic 'Plastics – A Potential Threat to our Ecosystem'. It was so informative. On 05.10.2010 our students, Mr.S.Somasundaram, Miss.A.Divya Ponnarasi, Miss M.Rajalakshmi and Miss.S.Sundari participated in the Regional Level Elocution and Quiz Competition conducted by SIRC. CA M.Arumugam and CA.H.Raman, Branch Chairman, attended the same.

On 11.09.2010, our Branch organized a Study Circle Meeting led by Miss.S.Sundari, PCC Student on the topic 'Habits lead to Health'. It was so informative. On 18.09.2010, our Branch organized a Study Circle Meeting led by Mr.A.Antony Joshua, PCC Student on the topic 'Minimum Alternative Tax' (MAT). It was so informative and educative. On 25.09.2010, our Branch organized a Study Circle Meeting led by Mr.S.Somasundaram, Final Student on the topic 'AS – 9 Revenue Recognition'. It was very informative. The second batch of IPCC classes was over on 25.09.2010.

The November 2010 exams are fast approaching and I'm sure our students are making their earnest efforts. The question pattern has changed a little with one compulsory question in each paper and out of the remaining questions one choice will be provided. An internal choice may also be provided as far as possible. 'There is no substitute for hard work'. My best wishes all the students.

"You may be disappointed if you fail, but you are doomed if you don't try".

Yours ever loving,

CA.G.Manoj Rodrigo
SICASA Chairman

Plastics - A Potential Threat to our Ecosystem

Plastics are synthetic substances produced by chemical reactions. Most of the plastics are made from petroleum while some of them are derived from corn and other organic substances. Plastics are used to manufacture plastic bags, packing materials, protective covers, parts for many machines etc. Low cost of production, light weight, strength, easy process of manufacture and availability make it a preferred commodity.

People who go on picnics, visiting historic places, hill stations etc., to enjoy their holidays or just for a change carry with them eatables in containers, plastic bags, mineral water bottles (plastic), plastic plates and plastic cups and generally leave it in the open air after consuming the contents. One can find this in tourist centres scattered all over. Road-side vendors also use plastic cups to serve coffee or tea. The customers throw these cups on foot paths or near drains after consuming the contents. These plastic materials are so light that they are carried away by the speed of the moving vehicle, wind etc., scattered all over, making the surroundings look ugly. There are instances wherein these materials have clogged the underground drains. Animals consume them and die. People are in the habit of throwing things they don't need wherever they like irrespective of the final result.

In earlier days, people used paper bags to carry lighter materials and cloth bags to carry heavier ones. It is true that plastics preserve food, are cheaper and more effective in numerous ways, which is why man preferred using it. But the problem lies in disposing the plastics after use. As we are aware of, it creates an unprecedented pollution problem.

An average Indian uses 1 kg of plastics per year. More than 100 million tonnes of plastics are produced every year worldwide. It is nearly impossible to ban plastics all of a sudden, just like people smoking even after knowing the maxim, 'Smoking is injurious to health'... People should be educated on the proper ways of plastic usage and disposal. Right from the primary school level, awareness has to be created about the problems in disposing plastic.

Few of the commonly stated solutions are:

1. Use of alternatives suitable for making Bags and packing material at competitive rate and convenience without having any negative aspect.
2. Research & Development to make plastics more environment friendly.
3. Educate users to the right disposal methods.
4. Encourage reusable bags from traditional materials by suitable advertisements to make it fashionable.
5. Cost of manufacturing bags with traditional material can be subsidized by printing advertisement on the bags.

A Role Model:

A ban on plastic bags below 20 microns has already been imposed by various states and also in a few towns and districts in India. I was carried away when one of my friends told me, that the Kanniyakumari District Administration has effectively banned non – degradable plastics with effect from 1st April 2010. Instead people have started using bags made of paper, palm leaves and other eco-friendly materials. Self help groups are employed to make such bags. What a creative and futuristic approach!

Most of us will be familiar with the social networking website – Facebook. After the ban was imposed, a shopping mall in Nagercoil was found using plastic bags to deliver the commodities. When asked why they had not stopped using plastic bags, they just ignored. A girl shared this issue in the Facebook Community. Immediately a phone call was made to the

District Administration and the shopping mall was sealed. It was reopened only after the owners paid fine and promised not to use plastic bags again.

There are a lot of chances for accumulation of wastes on college premises, it is the duty of the principals, teachers and students to ensure pollution-free environment. The Kanyakumari District Collector has sought the cooperation of all college principals and teachers for implementation of 'zero waste management' programme in their educational institutions. The programme is expected to be implemented in the district from January 14 2011 following the successful implementation on the ban on non-degradable plastic items which was enforced from April 2010.

Our neighbouring district is a great role model for us. As the Father of our Nation said, "You must be the change you want to see in the world" each one of us should stop using non – degradable plastics in our homes. Though we cannot make others using such plastics to stop all of a sudden, we can bring about a sea change when every one of us takes a single initiative. If we stop using plastics and instruct others on the harmful effects of plastics, we can save our Mother Nature, bring about sustainable development and make the Earth a better place to live in.

*By
Ms.J.Anne Jose - Final Student*

Health is the first of all liberties

Yes. Good health is essential to all of us. Health is not something you need to get, its something you have already if you don't disturb it. If health is lost everything is lost. Our health is our everything whether you are a toddler a child, a teenage or an adult. A good health enable you to perform the daily functions. A normal and good health allow you to study, get knowledge, go to work everyday, to earn and enable you to enjoy life. Apart from physical health mental health is also important.

Poor health is not caused by something you don't have; it's caused by disturbing something that you already have. You can be healthy only if you have good healthy habits. Yes, our habits alone influence our health. We need to be healthy, filled with energy, sound sleep, fit and diseased body. In order to be fit and healthy we need to practice healthy living styles with proper food habits and exercise.

Our food habits plays an important role in our health. To be health

Don't skip your breakfast. Eat your breakfast every morning.

Breakfast eaters are champions of good health. Research shows people who have a morning meal tend to take in more vitamins and minerals, and less fat and cholesterol. Regular breakfast eaters are significantly less likely to be obese and get diabetes compared with people who don't have their breakfast regularly.

A better and high nutritional breakfast enhances alertness, attention and good performance.

Eat plenty of protein. Protein is a building block for a healthy body, mind and immune system.

Use lower fat ingredients in your cooking.

Take fruits and other healthy diets everyday. Five or more servings of fruits and vegetables a day as a part healthy diet. These plant foods can do many things to boost good health, improve memory, promote heart health, enhance the immune system and even reduce the risk of some cancers.

The American heart association recommends serving of fish two times per week. Because fish has omega-3 fatty acids – which reduce the risk of heart disease.

Foods like tofu and soya beans also convert to omega – 3 in the body.

The second and most important habit of health is drinking water and other dairy products. The body needs water to keep properly hydrated and individuals vary widely in how much water they need. Joints need it to stay in motion, and vital organs such as the heart, brain, kidney, and liver need it to work properly.

The calcium in dairy, on the other hand, is known to be important for strong bones and teeth. Studies have also shown it can help prevent high blood pressure, kidney stones, heart disease, and colon cancer.

Lemon is the ideal food for restoring acid-alkali balance. Drinking freshly squeezed lemon juice in water, or adding it to tea, salad dressings (in place of vinegar), baking or cooking, helps maintain the body's internal "climate" at a pH which supports healthy bacteria instead of the viruses and harmful bacteria which thrive in more acidic environments.

Stop drinking coffee. Chocolate and coffee are two of the worst things you can do for your immune system and your health.

Determine how much water you need. You've probably heard the "8 by 8" rule - drink eight 8-ounce glasses of water per day (2 quarts, 1.8 liters) - but the amount of water a person needs varies depending on his or her weight, activity level and climate. To know the amount of water your body needs, divide your weight (in kilograms) by 30. (ex. somebody weighing 70 kg is going to need 2.3 liters per day)..

Carry water with you everywhere put it in a bottle or other container

*“The best six doctors anywhere
And no one can deny it
Are sunshine, water, rest, and air
Exercise and diet.
These six will gladly you attend
If only you are willing
Your mind they'll ease
Your will they'll mend
And charge you not a shilling.”*

- Wayne Fields, *What the River Knows*, 1990

*By
Ms.S.Sundari - PCC Student*

MINIMUM ALTERNATIVE TAX

The levy of a minimum tax on companies making large profits and declaring substantial dividends to the shareholders but not paying income-tax on such profits due to the various exemptions and incentives provided in the Income-tax Act was first introduced through section 80VVA by the Finance Act, 1983 w.e.f. A.Y. 1984-85. The method adopted by this section was to place a ceiling on the aggregate quantum of incentives available under various provisions of the Act. However, the unabsorbed incentives were allowed to be carried forward and set off against taxable income in future years. Section 80VVA was dropped from the statute book by the Finance Act, 1987 w.e.f. A.Y. 1988-89.

The concept of tax on book profits was introduced originally under section 115J by the Finance Act, 1987 with effect from A.Y. 1988-89 and it was withdrawn with effect from A.Y. 1991-92. Subsequently the concept was reintroduced with a few changes, imposing Minimum Alternate Tax (MAT) under section 115JA with effect from A.Y. 1997-98. The Finance Act, 2000 has inserted a new section 115JB with effect from A.Y. 2001-2002. Consequential amendments have been made in section 115JA to restrict its applicability only up to A.Y. 2000-2001.

The provision for allowing credit for MAT under section 115JAA, has now been discontinued except that the unavailed tax credit under that section can be claimed for the balance of unexpired period of 5 years against excess of normal tax liability over section 115JB tax liability.

A Comparative analysis of section 115JB with section 115JA

Section 115JB makes a conceptual departure from the deemed total income to the deemed tax on book profits under the provisions of section 115JA where, if the total income of an assessee being a company, computed in accordance with the provisions of the Income-tax Act, is less than 30% of its book profit, the total income for the purpose of charge of tax for the relevant previous year shall be deemed to be an amount equal to 30% of such book profit. On the other hand, section 115JB provides that where the income-tax payable by a company on its total income as computed under the Act is less than 7.5% of its book profit, the tax payable for the relevant previous year shall be deemed to be 7.5% of such book profits. Once the tax liability is determined on this basis, it will be increased by the surcharge as provided by the Finance Act.

Section 115JA stipulated that the depreciation shall be calculated on the same method and rates while preparing the profit and loss account both for laying before the company at its annual general meeting under the Companies Act as well as for the purpose of section 115JA. Section 115JB requires the annual accounts including profit and loss account to adopt the same accounting policies, accounting standards and the method and rates of depreciation as have been adopted while preparing such accounts including profit and loss account laid before the company at its annual general meeting. These requirements apply even where the company adopts a financial year different from the previous year under the Income-tax Act.

While section 115JA sought to exclude income and expenditure falling within the ambit of Chapter III, section 115JB is specific in excluding the items of income and expenditure in respect to which the provisions of section 10, 10A, 10B, 11 and section 12 apply. There is no reference to section 10C which grants exemption in respect of certain industrial undertakings in North Eastern Zone.

The profits earned by certain industrial undertakings referred to in sub-section (4) and sub-section (5) of section 80-IB and also the profit derived by industrial undertakings from the business of developing, maintaining and operating any infrastructure facility covered by section 80-IA qualified for exclusion in computing the book profits for the purpose of section

115JA. These exclusions have been omitted under section 115JB. Section 115JAA excluded from its scope income exempted under sections 80HHC and 80HHE. The new section 115JB has also excluded the income exempt under sections 80HHC, 80HHE and 80HHF.

There was no stipulation under section 115JA to furnish an audit report certifying that the book profit has been computed in accordance with the provisions of law. However, section 115JB(4) requires audit report certifying that book profit has been computed in accordance with the provisions of section 115JB and such report is required to be filed along with the return of income.

Applicability of section 115JB

The title of the section 115JB reads "Special provision for payment of tax by certain companies". Sub-section (4) of section 115JB begins with the words "every company to which this section applies....." A conjoint reading of these indicates that the requirement of audit under section 115JB shall apply to companies which are liable to pay tax by virtue of section 115JB. However, it may not be possible to conclusively determine the liability of a company under section 115JB from the face of the profit and loss account without making complex adjustments envisaged under that section. In such cases it may be prudent for the company to obtain a report from an accountant for ascertaining its liability under section 115JB and also enclose it along with the return.

The objective behind the requirement of furnishing the audit report is to facilitate the determination of book profit and the tax liability thereon by the Assessing Officer. The provisions of sub-section (4) of section 115JB mandate the furnishing of the audit report along with the return of income filed under sub-section (1) of section 139 or along with the return furnished in response to a notice under clause (i) of sub-section (1) of section 142. However, in cases of return filed under section 139(4) also the report should be furnished along with the return.

Foreign companies

A doubt may arise about the applicability of the provisions of section 115JB to foreign companies with reference to the profits derived from operations in India. The Authority for Advance Rulings had occasion to examine this issue and held that the provisions of section 115JA are applicable to foreign companies. According to this decision, a foreign company shall calculate its Indian profits separately for the purpose of minimum alternate tax. The same analogy shall apply to section 115JB.

Presumptive tax provisions vis-à-vis section 115JB

There are special provisions enacted under the head "profits and gains of business or profession" which provide for determination of income on a particular basis. They are sections 44AD, 44AE, 44AF, 44B, 44BB, 44BBA and 44BBB. The income derived from the sources covered by the respective provisions and computed in accordance with such provisions shall be deemed to be the profits and gains of such business chargeable to tax under the head "profits and gains of business or profession" which is one of the heads of income mentioned in section 14. Therefore, the income computed in accordance with the provisions of sections 44AD, 44AE and 44AF, 44B, 44BB, 44BBA, and 44BBB is nevertheless income computed in accordance with the provisions of the Act under the head "income from business or profession". Tax payable on such presumptive income together with income under other heads shall be compared with the tax payable under section 115JB and then the tax liability shall have to be determined.

Company's responsibility

Ensuring compliance of the provisions of section 115JB is primarily the responsibility of the company. Therefore, the company should prepare statement of its liability under section 115JB duly authenticated, giving details and the basis of all the adjustments made and submit the same to the accountant for verification and certification after such examination as he may deem proper. The company should also make available to the accountant all the books of account, records and other documents as may be deemed necessary by the accountant for carrying out the audit.

Accountant's responsibility

The audit report under section 115JB(4) is required to be given in Form No.29B as per Rule 40B of the Income-tax Act, 1961 which requires certification by the accountant that the book profit and tax payable thereon have been computed in accordance with provisions of section 115JB. He is also required to certify that the book profit and tax payable thereon have been computed as per details given in Annexure A to the report and that the particulars given in Annexure A are true and correct.

The said report does not require the accountant to certify the true and fair view of the financial statements of the company on the given date as is required under section 227 of the Companies Act, 1956. Therefore, he should restrict his examination to such details and matters which in his opinion are sufficient to certify the computation of the book profit and tax payable thereon as per section 115JB of the Income-tax Act, 1961 and also to certify the correctness of other particulars as mentioned in the said report.

The accountant should verify the statement of computation of tax liability submitted by the company from the books of account, records and such other documents of the company as he may deem proper. He may also obtain such other information as he may deem appropriate in the form of Management's Representation as mentioned in SAP 11.

The accountant should note that the SAPs issued by the Institute would be applicable to the audit under section 115JB, to the extent relevant.

As in the case of other professional assignments, the accountant should comply with the "Code of Conduct" issued by the Institute in conducting audit under section 115JB. The accountant is advised to conduct the audit under section 115JB in accordance with this guidance note.

Objective of this Guidance Note

The object of this guidance note is to provide guidance to accountants for discharging their responsibilities under section 115JB of the Act. It intends to:

- (i) Assist in clarifying the respective responsibilities of the company and the accountant;
- (ii) Suggest inquiries the auditor is required to make from the company;
- (iii) Provide guidance on the verification procedure for certification of book profit and tax payable thereon as per section 115JB and other particulars in the report;
- (iv) Suggest the manner to deal with the controversial issues arising in the matter;
- (v) Suggest circumstances/manner in which a disclosure may be made or a qualified/adverse certificate may be issued.

A Short recap for MAT.

1. Every company required to compute tax both under the income tax and under sec 115JB
2. Profit computed under the income tax is called regular profit and the tax under this method is called regular tax
3. Profit computed under sec 115JB is called Book profit and the tax computed is called MAT.
4. Every year a company required to compute the tax under the both methods and required to pay higher of those.

5. The company which has paid the MAT in any year can carry forward to the next subsequent years to set off against the tax liability in which it pays the regular tax.
6. However a company is not required to compute its book profit and pay the MAT in the in year in which it has its regular profit itself “nil” or “loss”. But the MAT paid in the earlier years is eligible to be carry forward.

By
Mr.A.Antony Joshua - PCC Student

Accounting Standard 9 - Revenue Recognition

The Institute of Chartered Accountants of India (ICAI) has prescribed 32 Accounting Standards (AS), so as to ensure that there is uniformity in the accounting practices followed in the Country. These AS are generally applicable to all entities, who prepare their financial statements for various purposes. Among the 32 Accounting Standards, AS – 9 Revenue Recognition gains more importance as generally, litigation arises when there is a postponement of the recognition of revenue. As a matter of fact, maximum tax litigation arises in the area of revenue recognition.

The AS – 9 was issued by the ICAI in the year 1985 and in the initial years it was recommendatory for only level – I enterprises and but was made mandatory for enterprises in India from 01st April, 1993. This Accounting Standard includes paragraphs 10-14 set in bold italic type and paragraphs 1-9 set in plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles.

The Standard defines revenue as:

"Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise

- *from sale of goods,*
- *from rendering of services, and*
- *from the use by others of enterprise resources yielding interest, royalties and dividends.*

Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use or resources by them."

E.g.: In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

Timing of Revenue Recognition:

The AS 9 further states that when uncertainties exist regarding the determination of the amounts, or its associated costs, these uncertainties may influence the timing of revenue recognition in tune with the conservatism concept. When revenue recognition is postponed, the disclosure of the circumstances necessitating the postponement should be made.

E.g.: Where the ability to access the ultimate collection with reasonable certainty is lacking at the time of raising any claim like escalation of prices, export incentives, interest etc., revenue recognition is postponed to the extent uncertainty involved.

Subsequent Uncertainty in Collection:

When uncertainty of collection of revenue arises subsequently after the revenue recognition, it is better to make provision for the uncertainty in collection rather than adjustment in already recognized revenue.

Applicability:

This Accounting Standard does not deal with the following aspects of revenue recognition to which special considerations apply:

Revenue arising from construction contracts;

Revenue arising from hire-purchase, lease agreements;

Revenue arising from government grants and other similar subsidies;

Revenue of insurance companies arising from insurance contracts.

Examples of items not included within the definition of “revenue” for the purpose of this Statement are:

Realized gains resulting from the disposal of, and unrealized gains resulting from the holding of, non-current assets e.g. appreciation in the value of fixed assets;

Unrealized holding gains resulting from the change in value of current assets, and the natural increases in herds and agricultural and forest products;

Realized or unrealized gains resulting from changes in foreign exchange rates and adjustments arising on the translation of foreign currency financial statements;

Realized gains resulting from the discharge of an obligation at less than its carrying amount;

Unrealized gains resulting from the restatement of the carrying amount of an obligation.

Now let us see the Revenue Recognition from the three items as defined in the definition in simple language to have better understanding.

Revenue from Sale of Goods:

It is recognized when all the following conditions are fulfilled:

- ∨ Seller has transferred the ownership of goods to buyer for a price.

OR

All significant risks and rewards of ownership have been transferred to buyer.

- ∨ Seller does not retain any effective control of ownership of the transferred goods.
- ∨ There is no significant uncertainty in collection of the amount of consideration.

Revenue recognition when the delivery of goods is delayed at buyer's request:

Delivery is delayed at buyer's request and buyer takes title and accepts billing. Revenue should be recognized immediately but goods must be in hand of seller, identified and ready for delivery at the time of revenue recognition.

Revenue recognition when the delivery of goods sold subject to conditions:

Installation and Inspection:

Revenue should be recognized when –

- ∨ Goods are installed at the buyer's place to his satisfaction.
- ∨ Goods are inspected and accepted by the buyer.

Sale on approval:

Revenue should be recognized when buyer confirms his desire to buy such goods.

Guaranteed Sales:

Revenue should be recognized as per the substance of the agreement of sale or after the reasonable period has expired.

Warranty Sales:

Sales should be recognized immediately but the provision should be made to cover unexpired warranty.

Consignment Sales:

Revenue should be recognized only when the goods are sold to third party.

Special order and shipments:

Revenue from such sales should be recognized when the goods are identified and ready for delivery.

Subscriptions for publication:

- ∨ Items delivered vary in value from period to period – Revenue should be recognized on the basis of sales value of items delivered.
- ∨ Items delivered do not vary in value from period to period – Revenue should be recognized on straight – line basis over time.

Installment Sales:

Revenue of sale price excluding interest should be recognized on the date of sale. Interest should be recognized proportionately to the unpaid balance.

Revenue Swaps:

- ∨ IAS – 18 contains the provisions for revenue swaps no such corresponding provisions are in AS – 9.
- ∨ Under IAS – 18, when goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue.
- ∨ When goods are sold or services are rendered in exchange of dissimilar goods or services, the exchange is regarded as a transaction which generates revenue.
- ∨ The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred.

Repo Arrangements:

Under IAS – 18, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.

E.g.: An enterprise may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.

AS – 9 too in the case of repo arrangements requires that such transactions should be recorded as financing arrangements; the resulting cash inflow is not revenue and should therefore not be recognized as revenue. Disclosures should be made in the Balance Sheet and notes to accounts explaining the repo arrangements.

Revenue from Rendering of the Services:

Revenue from service is generally recognized as the service is performed. The performance of service is measured by two methods as under:

Completed Service Contract Method:

Revenue is recognized when service is about to be completed and no significant uncertainties exist about the collection of amount of service charges.

Proportionate Completion Method:

Revenue is recognized by reference to the performance of each action. The revenue recognized under this method would be determined on the basis of contract value, associated costs, number of actions or other suitable basis. Further, no significant uncertainty exists about the collection of amount of service charges of performed actions.

Revenue Recognition Norms for Rendering of Service under special conditions:

Installation Fees:

It is recognized when the installation has been completed and accepted by the clients.

Advertising and Insurance Agency Commission:

- ∇ Advertising commission is recognized when the advertisement appears before public.
- ∇ Insurance commission is recognized on the effective commencement / renewal date of the policies.

Financial Service Commission:

Recognition of revenue depends upon:

- ∇ Whether the service has been provided “once and for all” or is on a continuing basis.

- ∨ The incidence of costs relating to the service.
- ∨ When the payment for the service will be received.

Generally, commission charged for arranging or granting loan and other facilities should be recognized when a loan is sanctioned and accepted by borrower. Commitment facility or loan management fees which relate to continuing obligations or services should normally be recognized over the life of the loan.

Admission Fee:

Revenue from artistic performance, banquets and other special events should be recognized when event takes place.

Tuition Fees:

Revenue should be recognized over the period of instruction.

Entrance and Membership Fees:

Recognition depends upon the nature of service being provided against entrance and membership fees, however entrance fees are generally capitalized and membership fees should be recognized on systematic and rational basis having regard to timing and nature of service provided.

Revenue from the use by others of enterprise resources:

Generally use of the enterprise resource by others will yield Interest, Royalty or dividend etc.

Interest:

Revenue from interest should be recognized on time proportionate basis.

Royalties:

Revenue from royalties should be recognized on accrual basis as per terms of agreement.

Dividend:

Dividend should be recognized when the declaring company declares dividend.

Occupational Frauds:

The Author Mayur Joshi in his book “Occupational Frauds and Money Laundering” has narrated as follows: Accounting Standard is an authoritative pronouncement of the code of practice of the regulatory accountancy body to be observed and applied in the preparation and presentation of the financial statements. But the lawbreakers are always a step ahead of the lawmakers. They find out various ways to manipulate the statements. The purpose of

accounting standards is to enhance the utility of information for the users of financial statements. However one thing is worth mentioning here that if the correct information is provided how will the organization benefit? How will it get more finance than what is required? How will the share prices improve in the market? Thousands of such questions will be left unanswered if one decides to abide by the Accounting Standards. The organizations or lawbreakers find loopholes in the Accounting Standards too.

Few Accounting Shenanigans needs attention. It is not the loophole in the accounting standard but the instances of these shenanigans are under the purview of accounting standards. The instances mentioned here are the violations of the AS – 9.

The Accounting Standard is more concerned with the timing of recognition of the revenues. Revenue growth is the key factor looked by every user of the financial statements. The AS has mentioned various situations to recognize the revenues but definitely the list is not all-inclusive. The perpetrators manipulate the revenues using various techniques.

Changing the Quarter Ending Date:

There should be some cut-off date for closing the transactions and preparing the summary. However the quarter end is a subjective term. It differs from company to company. Changing the quarter end date sometimes helps to boost the revenue. It is a typical feature of Steel and heavy assets manufacturing companies.

Channel Stuffing:

It is a technique of pressurizing the dealers to take more deliveries than the required. Naturally there are some carrots but no need to say that these are without any caveats. The revenue is booked when the goods are shipped. Typical features of the companies selling through the franchises, outlets or dealers.

Barter Transactions:

The Seller is required to purchase something in consideration of the goods sold. But usually the impact of the purchase is deferred and the sales are recognized immediately. Typical feature of the Information Technology Related Service Companies, where the companies are required to buy very high cost software's from the outsourcing foreign company, which is recorded as asset and the services are recognized as revenue.

Advance-fee swindles:

Typically selling to such companies or buyers, who are not obligated to pay. Force the buyer to buy a product and provide him the finance to buy the same product.

Normally the finance companies of big houses do this business. Nothing is wrong in financing a genuine buyer but finance to a fake or bankrupt company should be definitely cunning act.

The ICAI keen in eliminating these shenanigans have issued **Accounting Standard Interpretations (ASI)** – 14 Disclosure of Revenue from Sales Transactions, **Guidance Notes** (like Guidance Note on Accrual Basis of Accounting, Guidance Note on Recognition of Revenue by Real Estate Developers), **Announcements** (like treatment of interdivisional transfers not to be recognized as revenue), **ICAI Expert Advisory Committee Opinions** (*not the Official Opinion of ICAI Council*) in the form of Compendium of Opinions. Due to intricacy of space available they are not detailed here but a list of opinions is tabulated below:

List of EAC Opinions in the Compendium of Opinions

Reference	Particulars of Matter discussed & opinion given
Vol. 6 Query 1.20	Revenue recognition of equipments manufactured against customers' orders.
Vol. 7 Query 1.6	Revenue recognition in case of construction contracts.
Vol. 8 Query 1.3	Revenue recognition on sale of sub-distribution rights of a film.
Vol. 11 Query 1.16	Revenue recognition of fees for rendering portfolio management services.
Vol. 11 Query 1.21	Revenue recognition for exports on CIF basis.
Vol. 13 Query 1.36	Revenue recognition in service contracts, applicability of AS 7.
Vol. 15 Query 1.25	Rev. Recogn. of amounts receivable on completion of performance guarantees.
Vol. 15 Query 1.26	Applicability of Accounting Standard (AS) 9 to dredging contracts.
Vol. 16 Query 1.8	Revenue recognition.
Vol. 17 Query 1.10	Revenue recognition from sale of goods before delivery thereof. Revenue recognition in respect of long production cycle items.
Vol. 17 Query 1.11	Rev. Recogn. in case of sale of goods on Documents against Payment basis.
Vol. 18 Query 1.3	Accounting for additional costs expected due to pay scale revision under a cost plus contract and revenue recognition in respect thereof.
Vol. 20 Query 1.43	Timing of recognition of revenue on material supplied under a contract along with works contract. Treatment of agency fee in relation to a contract.
Vol. 21 Query 13	Revenue recognition under FOR destination contracts.
Vol. 21 Query 24	Revenue recognition for turnkey project/service contract.
Vol. 22 Query 16	Revenue recognition.

Vol. 22 Query 17	Recognition of revenue arising from freight and handling income.
Vol. 22 Query 21	Recognition of revenue arising from ground rent.
Vol. 24 Query 1	Revenue from unmanned Public Call Offices (PCOs).
Vol. 24 Query 10	Accounting for revenue and costs related to 'Internet- ticketing'.
Vol. 24 Query 26	Revenue recognition where different rates of depreciation are followed for preparation of financial statements and for tariff fixation.
Vol. 24 Query 28	Recognition of revenue for providing containerized cargo services.
Vol. 24 Query 30	Revenue recognition in respect of mould sold by the company, but retained in its premises for use in further production.
Vol. 25 Query 9	Revenue recognition in respect of advance against depreciation received by a power generating company.
Vol. 25 Query 38	Rev. Recogn. in respect of deferred tax liability recoverable on actual payment.
Vol. 26 Query 12	Recognition of revenue in respect of long production cycle items.

Harmonization & Standardization - Global Accounting:

The definition of "Revenue" is almost same in AS – 9 and in IFRS / IAS – 18; however there is no specific standard for recognizing the revenue under US GAAP. There are several pronouncements in US having varying degree of authority (E.g. APB opinions, FASB Statements, AICPA Audit and Accounting Guides, AICPA Statements of Position, FASB Interpretations, EITF Issues, SEC Staff Accounting Bulletins and so on) on an ad hoc basis. Each pronouncement generally has focused on particular problem and has been very limited in its scope. There are over 75 sources of accounting guidance for revenue recognition in the United States.

Under IFRS / IAS – 18, the revenue recognition from rendering of services is done on the basis of percentage of completion method whereas in AS – 9 revenue can be recognized in both method as explained above.

Under IAS – 18 / US GAAP Revenue from interest is recognized using the effective interest method.

IFRS / IAS – 18 contains the provisions for revenue swaps; however, no such corresponding provisions are in AS – 9.

Exposure Draft

The ICAI has issued exposure draft for Accounting Standard (AS) 9 (Revised 20XX) (Corresponding to IAS 18) too, to be in tune with the global accounting standards.

Exposure Draft of AS 9 (Revised 20XX) vs. the existing AS 9 (Issued 1985):

The major differences have been given in Appendix H of the Exposure draft with a view to facilitate commentators in sending their comments on the Exposure Draft of AS 9 (Revised 20XX) which is reproduced below for your reference

1. Definition of 'revenue' given in the Exposure Draft of AS 9 (Revised 20XX) is broad compared to the definition of 'revenue' given in existing AS 9 because it covers all economic benefits that arise in the ordinary course of activities of an entity which result in increases in equity, other than increases relating to contributions from equity participants. On the other hand, as per the existing AS 9, revenue is gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.
2. Measurement of revenue is briefly covered in the definition of revenue in the existing AS 9, while the Exposure Draft of AS 9 (Revised 20XX) deals separately in detail with measurement of revenue. As per existing AS 9, revenue is recognised at the nominal amount of consideration receivable. The Exposure Draft of AS 9 (Revised 20XX) requires the revenue to be measured at fair value of the consideration received or receivable.
3. The Exposure Draft of AS 9 (Revised 20XX) specifically deals with the exchange of goods and services with goods and services of similar and dissimilar nature. In this regard specific guidance is given regarding barter transactions involving advertising services. This aspect is not dealt with in the existing AS 9.
4. The Exposure Draft of AS 9 (Revised 20XX) provides guidance on application of recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. Existing AS 9 does not specifically deal with the same.
5. For recognition of revenue in case of rendering of services, existing AS 9 permits the use of completed service contract method. The Exposure Draft of AS 9 (Revised 20XX) requires recognition of revenue using percentage of completion method only.
6. Existing AS 9 requires the recognition of revenue from interest on time proportion basis. The Exposure Draft of AS 9 (Revised 20XX) requires interest to be recognised using effective interest rate method.

7. Disclosure requirements given in the Exposure Draft of AS 9 (Revised 20XX) are more detailed as compared to existing AS 9.
8. The Exposure Draft of AS 9 (Revised 20XX) specifically provides guidance regarding revenue recognition in case the entity is under any obligation to provide free or discounted goods or services or award credits to its customers due to any customer loyalty programme. Existing AS 9 does not deal with this aspect.
9. The Exposure Draft deals with accounting of agreements for construction of real estate. Existing AS 9 does not deal with this aspect.
10. The Exposure Draft of AS 9 (Revised 20XX) deals with accounting of transfer of property, plant and equipment by the customers to the entities, which are used by the entity to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. Existing AS 9 does not deal with this aspect.
11. Existing AS 9 specifically deals with disclosure of excise duty as a deduction from revenue from sales transactions. The Exposure Draft of AS 9 (Revised 20XX) does not specifically deal with the same.

Thus ICAI being the apex accounting body of the country has been ahead in tuning the standards to eliminate the discrepancies and harmonize with the global standards. We the accounting practitioners should strictly adhere to the standards to ensure our professional competence and ethics.

By
Mr.S.Somasundaram,
Final Student

*Great achievement is usually born of great sacrifice,
and is never the result of selfishness.*

* * *

‘ICAI Bhawan’, 4/26G/2, Aathiparasakthi Nagar,
Opp.Ettayapuram Road,
Tuticorin-628 002.

Phone: (+91) (461) 2347 720, 2345 220,
Fax: (+91) (461) 2347 720
Email: tuticorin@icai.org, Website: www.icaituticorin.org