

PKP NEWSLETTER

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“All that begins well ends well”

Let us celebrate the birth of the new decade with the third edition of PKP Newsletter. We step into this new beginning, with new people contributing in the making of this edition of the newsletter.

We at PKP do not consider knowledge as something that needs to be kept as a secret, something that needs to be buried “a treasure“ to be hidden safely without no maps leading to that treasure, we believe it is the most valuable treasure which has wonderful property of increasing its value when you share it among others and never depreciates.

On behalf of PKP, we wish you all a very happy and prosperous NEW YEAR!
PONGAL, SANKRANTI and
REPUBLIC DAY.

Regards,
PKP Presentation Team



Blockchain Technology and its Potential Impact on the Audit and Assurance Profession

G G Prabhakaran
Partner

“The measure of intelligence is the ability to change” -Albert Einstein

The phenomenal growth of blockchain technology raises both concerns and excitement for the accounting industry. Will blockchain and accounting enjoy a symbiotic relationship? Or, as some suggest, do accountants need to start looking for a new line of work?

Much like blockchain technology itself, the answer is complex. In this issue, we look at this and other questions every accounting firm should be asking, even if they aren't.

Blockchain Basics

Blockchain is also known as distributed ledger technology (DLT) — which is, perhaps, the simplest definition of what blockchain is.

Blockchain is a foundational change in how financial records are created, kept, and updated. Rather than having one single owner, blockchain records are distributed among all their users. The genius of the blockchain approach is in using a complex system of consensus and verification to ensure that, even with no central owner and

with time lags between all the users, nevertheless a single, agreed-upon version of the truth propagates to all users as part of a permanent record. This creates a kind of ‘universal entry bookkeeping’, where a single entry is shared identically and permanently with every participant.

In conventional accounting, records are stored in a centralized location, be it a collection of spreadsheet files or the database of an accounting software application. The accountant enters each record, and

performs whatever actions are necessary to serve the client's needs. When information about the records is needed by regulators or clients, the accountant must retrieve whatever data is needed and provide it to the requesting party. Generally, only the account and auditors have direct access to the centralized ledger.

In DLT distributed ledger technology, on the other hand, records are entered into and stored in a distributed, or shared, ledger, which is generally made accessible to all concerned parties.

In this case, the accountant, regulators, auditors, and clients would each possess an identical copy of the ledger at all times. Of course, each client would have access only to the portion of the ledger that contains their own records. Public and private keys are used to authenticate users.

Further, each record entered into the blockchain is encrypted, and each entry is automatically date and timestamped. A collection of such records form a block—hence, the name blockchain. A unique hash string representing the content of all records is updated with each new record and the updated hash is stored in in the new data block. The hash forms a unique digital signature that can be used to verify that no records have been changed once they were entered.

Although blockchain technology was created to serve as the backbone for the Bitcoin cryptocurrency network, it has application across a broad spectrum of industries.

The bottom line on why accountants should care about blockchain is because it provides two advantages that are crucial to the accounting profession:

- ✓ **Transparency**
- ✓ **Immutability**

It is of tremendous benefit to the integrity of an accounting firm that their records be easily accessible to authorized persons. Of course, there must be rules governing even how authorized entities can access financial records, and blockchain uses smart contracts to accommodate such rules. More on smart contracts in a moment; for now, just be aware that transparency does not mean lack of security.

Experts believe blockchain accounting is the next step for the bookkeeping industry, and for good reason. As we will see, DLT has major implications for the accounting industry, which should concern every accounting professional.

THE ACCOUNTING PERSPECTIVE: THE POTENTIAL OF BLOCKCHAIN

Blockchain is an accounting technology. It is concerned with the transfer of ownership of assets, and maintaining a ledger of accurate financial information. The accounting profession is broadly concerned with the measurement and communication of financial information, and the analysis of said information. Much of the profession is concerned with ascertaining or measuring rights and obligations over property, or planning how to best allocate financial resources. For accountants, using blockchain provides

clarity over ownership of assets and existence of obligations, and could dramatically improve efficiency.

Blockchain has the potential to enhance the accounting profession by reducing the costs of maintaining and reconciling ledgers, and providing absolute certainty over the ownership and history of assets.

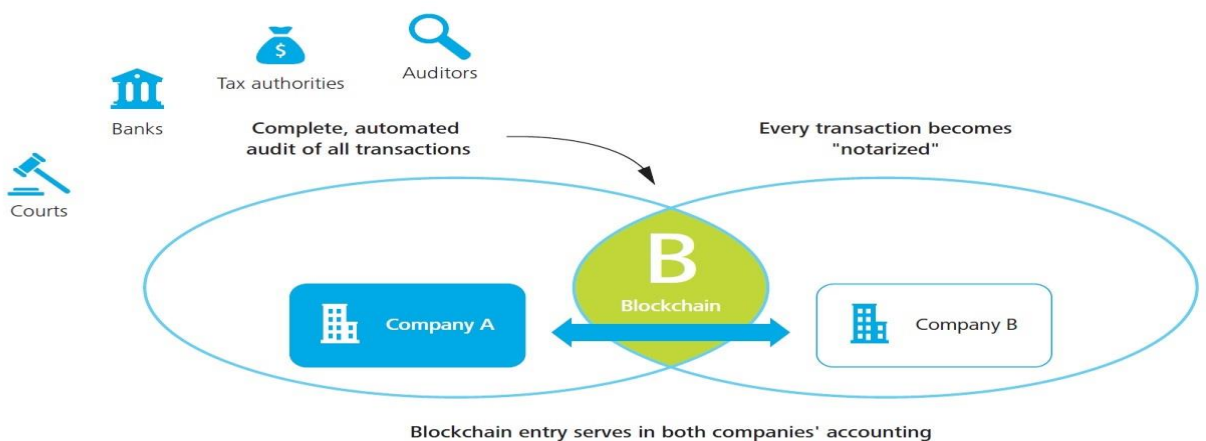
Blockchain could help accountants gain clarity over the available resources and obligations of their organisations, and also free up resources to concentrate on planning and valuation, rather than recordkeeping.

Alongside other automation trends such as machine learning, blockchain will lead to more and more transactional-level accounting being done – but not by accountants. Instead, successful accountants will be those that work on assessing the real economic interpretation of blockchain records, marrying the record to economic reality and valuation. For example, blockchain might make the existence of a debtor certain, but its recoverable value and economic worth are still debateable. And an asset's ownership might be verifiable by blockchain records, but its condition, location and true worth will still need to be assured.

By eliminating reconciliations and providing certainty over transaction history, blockchain could also allow for increases in the scope of accounting, bringing more areas into consideration that are presently deemed too difficult or unreliable to measure, such as the value of the data that a company holds.

Blockchain is a replacement for bookkeeping and reconciliation work. This could threaten the work of accountants in those areas, while adding strength to those focused on providing value elsewhere. For example, in due diligence in mergers and acquisitions, distributed consensus over key figures allows more time to be spent on judgemental areas and advice, and an overall faster process.

Fig. 1 – Blockchain technology enables complete, conclusive verification without a trusted party



Blockchain technology may represent the next step for accounting. Instead of keeping separate records based on transaction receipts, companies can write their transactions directly into a joint register, creating an interlocking system of enduring accounting records. Since all entries are distributed and cryptographically sealed, falsifying or destroying them to conceal activity is practically impossible. It is similar to the transaction being verified by a notary – only in an electronic way.

The companies would benefit in many ways: Standardisation would allow auditors to verify a large portion of the most important data behind the financial statements automatically. The cost and time necessary to conduct an audit would decline considerably. Auditors could spend freed up time on areas they can add more value, e.g. on very complex transactions or on internal control mechanisms.

How Big Four firms are using blockchain

The Big Four accounting firms are leading the way when it comes to blockchain research for accounting practices. Ernst & Young was the first to begin accepting Bitcoin as a payment method, and Price waterhouseCoopers has joined them. Deloitte and KPMG may not allow for Bitcoin payments yet, but that doesn't mean they're ignoring blockchain.

KPMG launched a Digital Ledger Services program in 2016 with the aim of helping financial services companies investigate blockchain application. Last year, the firm partnered with Microsoft to create the "Blockchain Nodes" initiative with the stated goal of identifying "new applications and use cases for blockchain technology." KPMG is a member of the Wall Street Blockchain Alliance as well.

Deloitte first got into the blockchain game all the way back in 2014 with the launch of Rubix, billed as a "one-stop blockchain software platform." Since then, they've continued to diversify their offerings, exploring initial coin offerings (ICOs), which are similar to IPOs but use a cryptocurrency instead of stock. Their partnership with Waves Platform is poised to make ICOs and crypto-trading more accessible than ever before.

It seems every month we hear about new ways that Big Four firms are dipping their toes into these exciting, uncharted waters. For instance, PwC announced the first ever wide-release blockchain auditing service. The service audits company blockchain services, ensuring they're using the technology correctly and effectively.



While this might seem like a laundry list, the truth is that we're at the beginning of the process when it comes to discovering uses for blockchain. Over the next few years, this trend is poised to continue on an upward trajectory.

How can businesses take advantage of the blockchain technology?

Now that we know the benefits of blockchain technology, let us see how it can help businesses. The blockchain technology is mainly used to store the records and transactions. The ledger may contain static or trade-able information.

1. Static registry (Land Registry):

Here the ledger consists of records that are stored as a reference purpose. Take, for instance, the **land title**. There are many cases of ambiguity in title ownership. With blockchain technology, the records once stored cannot be altered. Any changes are time stamped. In case of dispute, the title can be tracked through the path of origin. The other places where it can be used are in patents, research articles, and food safety & origin ledgers.

2. Identity:

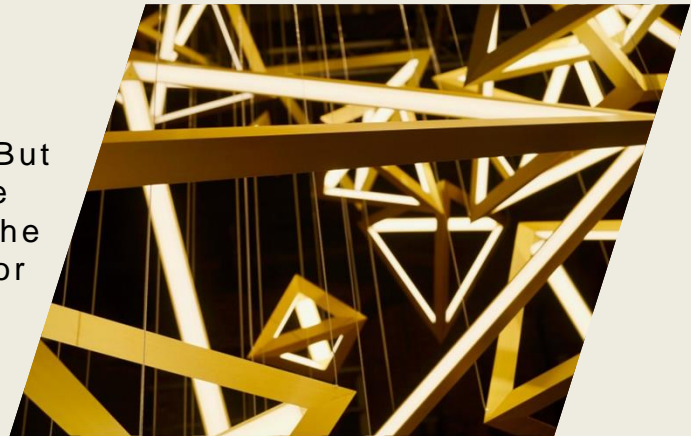
This is similar to the static registry. But this forms a separate case due to the identity-related information stored. The segments where it can be used are for identity frauds, voting, civil registry, police records, and court cases.

3. Smart contracts:

Here, a set of pre-defined conditions has to be met if the transaction has to get validated. Upon meeting the conditions, the actions are automatically triggered. Say, for example, in the insurance-claim payout. The insurance provider can set the conditions to be met for insurance claims. The amount is transferred only if the consumer's claims satisfy the conditions set in the contract. Other areas where it can be implemented are music releases, cash-equity trading and so on.

4. Dynamic registry:

The ledger, in this case, keeps updating as goods/services are exchanged on the digital platform. The best use case is in a drug-supply chain. The supply of drugs right from the manufacturer to the distributor and finally to the drug store can be mapped. The updates provide information on the movement of drugs and this can be used to stop the supply of counterfeit drugs in the market.



5. Payment registry:

This is a dynamic registry that updates as the cash or cryptocurrency payments are made on the network. This is advantageous for international payments in business.

Embrace and Win it:

Blockchain technology is new frontier for the accounting and it is already disrupting a number of industries, and it is here to stay. Though in its infancy, its applications will only continue to increase. The one who start early always have the upper hand.

Despite the hurdles that lie ahead, it is widely believed that DLT could revolutionize the core infrastructure systems of accounting industry around the globe, thereby bringing in greater transparency and efficiency. But will it make accountants irrelevant? No, but it will change the way in which accountants do their work – much like computers have continued to change the ways in which everyone does work. So, embrace this new technology. Get “schooled” in it; promote it to clients and potential employers. You don’t need to understand the intricacies of the technology – that’s for developers. You need to understand how to use it to your employer’s or your clients’ advantage – this keeps you relevant and in demand.



Transfer Pricing Series:



An Introduction to Action Plan on OECD

K Venkatesh
Partner



Introduction:

Globalization is not new, but the pace of integration of national economics and market has increased substantially in recent years. The free movement of capital and labour, the shift of manufacturing bases from high cost to low cost locations, the gradual removal of trade barriers, developments in areas of technology and telecommunication, and the ever increasing importance of managing risks and of developing, protecting and exploiting intellectual property, have had an important impact on the way cross border activities take place. Globalization has boosted trade and increased foreign direct investments in many countries which supports growth, creates jobs, fosters innovation and has uplifted millions from poverties.

As early as the 1920s, the League of Nations

recognized that the interaction with domestic tax systems can lead to double taxation having adverse effects on growth and global prosperity. Countries around the world agree on need to eliminate double taxation and need to achieve this on the basis of agreed international rules that are clear and predictable, giving certainty to both governments and businesses. International tax law is therefore a key pillar in supporting the growth of the global economy.

MNC's now represent a large proportion of global GDP. Also, intra firm trade represents a growing proportion of overall trade. Globalisation has resulted in a shift from country specific operating models to global modes based on matrix management organisations and integrated supply chains

that centralize several functions at a regional or global level. Moreover, the growing importance of the service component of the economy, and of digital products that often can be delivered over the internet, has made it much easier for businesses to locate many potential customers in geographic locations that are distant from their physical location. These developments have been exacerbated by the increasing sophistication of tax planners in identifying and exploiting the legal arbitrage opportunities and boundaries of acceptable tax planning, thus providing MNCs with more confidence in in taking aggressive tax positions which greatly minimize their tax burden. This led to a tense situation in which citizens have become more sensitive to tax fairness issues. It has become a critical issue for all parties.

Government are harmed. Many governments have to cope with less revenue and a higher cost to ensure compliance. Moreover, BEPS undermines the integrity of the tax system, as the public, the media and some taxpayers reported low corporate taxes to be unfair. In developing countries, the lack of tax revenue leads to critical under funding of public investment that could help promote economic growth. Overall resource allocation, affected by tax-motivated behavior, is not optimal.

Individual taxpayers are harmed.

When tax rules permit businesses to reduce their tax burden by shifting their income away from jurisdictions where income producing activities are conducted, other taxpayers in that jurisdiction bear a greater share of burden.

Businesses are harmed.

MNCs may face significant reputational risk if their effective tax rate is viewed as being too low. At the same time, different businesses may assess such risk differently, and failing to take advantage of legal opportunities to reduce an enterprise's tax burden can put it at a competitive

disadvantage. Similarly, corporates that operate only in domestic markets have difficulty competing with MNCs that have the ability to shift their profits across borders to avoid or reduce tax. Fair competition is harmed by the distortions induced by BEPS.



Background:

Taxation is at the core of countries sovereignty, but the interaction of domestic tax rules in some cases leads to gaps and frictions. When designing their domestic tax rules, sovereign states may not sufficiently take into account the effect of other countries rules. The interaction of independent sets of rules enforced on other countries creates frictions, including potential double taxation for corporations operating in several countries. It also creates gaps, in cases where corporate income is not

taxed at all, either by the country of source or the country of residence or is only taxed at normal rates. In the domestic context, coherence is usually achieved through a principal of matching a payment that is deductible by the payer is generally taxable is no similar principal of coherence at the international level, which leaves plenty of room for arbitrage by taxpayers, though sovereign states have co operated to ensure coherence in a narrow field, namely to prevent double taxation.

The international standards have sought to address these frictions in a way that respects tax sovereignty, but gaps remain. Since at least the 1920s, it has been recognized that the interaction of domestic tax systems can lead to overlaps in the exercise of taxing rights that in turn can result in double taxation. Countries have long worked and are strongly committed to eliminate such double taxation in order to minimize trade distortions and impediments to sustainable economic growth, while affirming their sovereign right to establish their own tax rules.

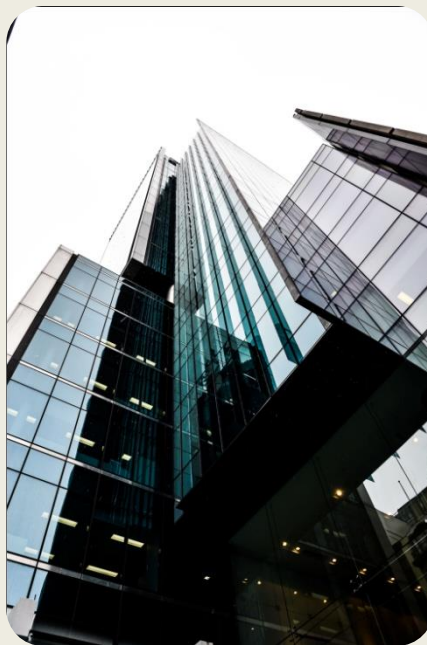
There are gaps and frictions among different countries tax systems that were not taken into account in designing the existing standards and which are not dealt with by bilateral tax treaties. The global economy requires countries to collaborate on tax matters in order to be able to protect their tax sovereignty.

In many circumstances, the existing domestic law and treaty rules governing the taxation of cross border profits produce the correct results and do not give rise to BEPS.

International cooperation has resulted in shared principles and a network of thousands and that therefore generally result in the prevention of double taxation on profits from cross border activities. Clarity and predictability are fundamental in building on this experience. At the same time, instances where the current rules give rise to results that generate concerns from a policy perspective should be tackled.

The spread of the digital economy also poses challenges for international taxation. The digital economy is characterized by an unparalleled reliance on intangible assets, the

massive use of data (notably personal data), the widespread adoption of multi sided business models capturing value from externalities generated by free products, and the difficulty of determining the jurisdiction in which value creation occurs. This raises fundamental questions as to how



enterprises in the digital economy add value and make their profits, and how the digital economy relates to the concepts of source and residence or the characterization of income for tax purposes. At the same time, the fact that new ways of doing business may result in a relocation of core business functions and, consequently, a different distribution of taxing rights which may lead to low taxation is indicator of defects in the existing

system. These weaknesses put the existing consensus-based framework at risk and a bold move by policy makers is necessary to prevent worsening problems.

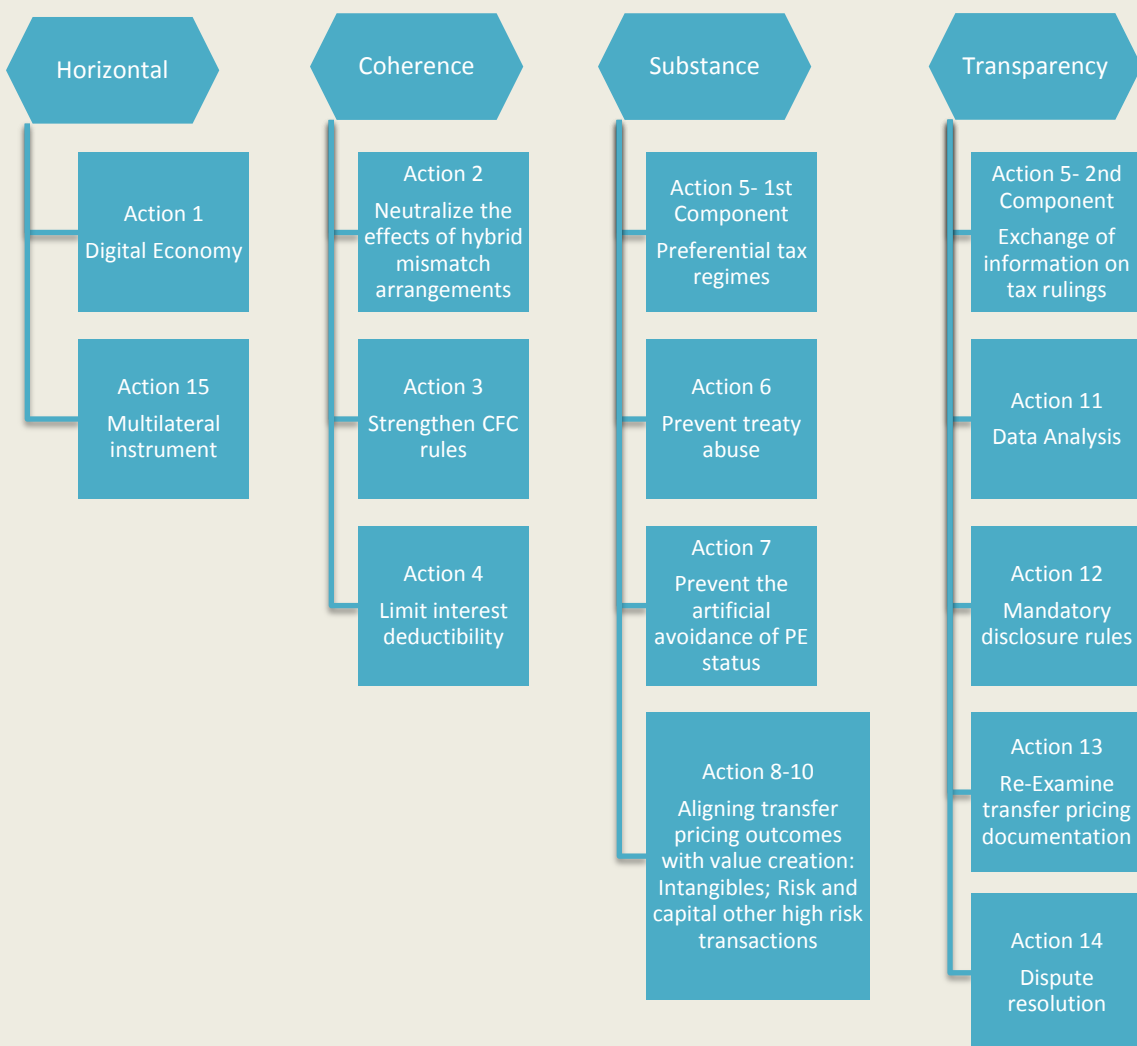
In fact, if the action plan fails to develop effective solutions in a timely manner, some countries may be persuaded to take unilateral action for protecting their tax base, resulting in avoidable uncertainty and unrelieved double taxation. It is therefore critical that governments achieve consensus on actions that would deal with the above weakness. As the G20 leaders pointed out, "Despite the challenge we all face domestically, we have agreed that multilateralism is of even greater importance in the current climate, and remains our best asset to resolve the global economy's difficulties. In changing international tax environment, a number of countries have expressed a concern about how international standards on which bilateral tax treaties are based allocate taxing rights between source and residence states. The G20 finance ministries called on the OECD to develop an action plan to address

BEPS issues in coordinated and comprehensive manner. Specifically, this action plan should provide countries with domestic and international instruments that will better align rights to tax with economic activity. As called for the recent OECD report on BEPS, addressing Base Erosion and Profit Shifting, this action plans were structured around three fundamental pillars

- I. Introducing coherence in the domestic rules that affect cross boarder activities.
- II. Reinforcing of substance requirements in existing international standards; alignment of taxation with location of value creation and economic activity.
- III. Improving transparency and tax certainty.

The BEPS action plan identifies fifteen actions to address BEPS in a comprehensive manner and sets a deadline to implement those actions.

A brief classification of the various action plans based on the fundamental pillars is as under.



The complete explanation about this action plans will be discussed in next news letter by action wise.



**Abinaya
Manager**

Laws Governing the Will and Intestate Succession



In our Previous Edition of Newsletter, we have discussed about who can make a will, Common Terms, Advantages and Dos and Don'ts in the Will. In this edition, we shall look into the Laws Governing the Wills and Intestate Succession.

Generally, the Wills are governed by the Indian Succession Act 1925. However. Many of the sections are not applicable to Hindus, Buddhists, Sikhs, or Jains. Further, most of the provisions do not apply to Muslims.

WHAT LAW GOVERNS THE TESTATOR?

For the immovable properties in the Will, making of Wills will be governed by the law of the place where property is situated. However, this proposition is important only if there are properties outside India.

For the movable

properties in the Will, will be governed by the law of testator's domicile. Domicile is determined on the basis of a person's residence and the intention to remain there indefinitely but not on account of service, unless some circumstances should occur to alter his intention.

WHAT IS DOMICILE?

"A person's domicile is that country in which he either has or is deemed by law to have his permanent home".

There are two elements constituting domicile:

- (1) residence,
- (2) intention to remain there for ever unless some circumstances should occur to alter his intention.

Every person will have domicile of origin which will be the country of his father's domicile at that time, if he is born in lawful

wedlock (Section 7) otherwise, the mother's domicile (Section 8).

This domicile of origin continues till a new domicile is acquired by taking up a fixed abode elsewhere with the intention of permanently residing there and no intention to revert to the place of domicile of origin. Merely taking up service or carrying on profession elsewhere for indefinite period will not amount to giving up domicile of origin (S. 10).

Generally, minor's domicile follows domicile of the father or mother as the case may be, unless he is in service of Government or has set up a distinct business with consent of the parent or is married (S. 17). A woman's domicile follows that of her husband on her marriage until they are separated by order of Court (Sections 15-16)

There is a special mode of acquiring Indian domicile prescribed in S.11. A declaration in writing to acquire such domicile can be lodged by a person in office prescribed by Government for this purpose provided he is in India for one year prior to such declaration.



Intestate Succession

Intestacy has the potential to create legal disputes between family members. In case of such a dispute, the law has also laid out rules for members of different religions, as specified in Indian Succession Act, 1925, Hindu Succession Act, 1956, and by Shariat law, and these are to be followed. Here is how the property will be divided, should it reach the courts:

Male Hindu (covered under Hindu Succession Act; also includes Sikhs, Buddhists and Jains)

1. First, the property will devolve upon relatives specified in Class I;
2. If there is no Class I heir, then upon Class II relatives;
3. In case there's no Class II heir, then upon agnates (those related to another wholly through males, whether by blood or adoption, are agnates) and;
4. If there is no agnate, then upon the cognates (related, by blood or adoption, but not wholly through males).

The property of a male Hindu dying intestate shall firstly go to the heirs, being the relatives specified in class I of the Schedule of Hindu Succession Act. Here is the list of legal heir under the Hindu personal law.

- | | | |
|------------------------------|---------------------------------------|--|
| ▪ Son, | son | pre-deceased son |
| ▪ Daughter, | ▪ Son of a pre-deceased daughter | ▪ Daughter of a pre-deceased son of a pre-deceased son |
| ▪ Widow | ▪ Daughter of a pre-deceased daughter | ▪ Widow of a pre-deceased son of a pre-deceased son. |
| ▪ Mother | ▪ Widow of a pre-deceased son | |
| ▪ Son of a pre-deceased son | ▪ Son of a pre-deceased son of a | |
| ▪ Daughter of a pre-deceased | | |

The inheritance of the property shall take simultaneously and to the exclusion of all other heirs.

The rule for succession is, those in the first entry in class II shall be preferred over those in the second entry, those in the second entry shall be preferred to those in the third entry, and so on in succession and shared equally among the sub-classes.

Female Hindu

Here is a list of legal heir of a female Hindu under the succession law. The property of a female Hindu dying intestate shall devolve

- Firstly, upon the sons and daughters (including the children of any pre-deceased son or daughter) and the husband,
- secondly, upon the heirs of the husband,
- thirdly, upon the mother and father,
- fourthly, upon the heirs of the father; and
- lastly, upon the heirs of the mother.
- Any property inherited by a female Hindu from her father or

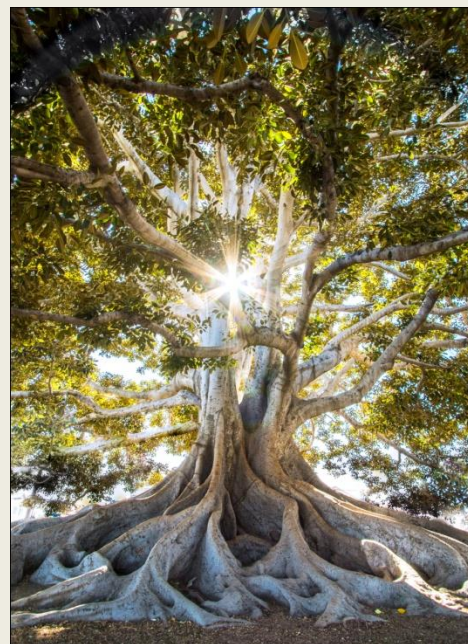
mother devolves, in the absence of any son or daughter of the deceased (including the children of any pre-deceased son or daughter) upon the heirs of the father.

- Any property inherited by a female Hindu from her husband or from her father-in-law devolves, in the absence of any son or daughter of the deceased (including the children of any pre-deceased son or daughter) upon the heirs of the husband.

The legal heirs when there is no surviving heir from the list given in the previous page. In such situations, the legal heirs are listed in Class II of the Hindu Succession Act. If there is no heir of class I, then the property goes to the heirs, being the relatives specified in class II of the Schedule of Indian Succession Act. Heirs under class II are,

Class II

- | | |
|--|--|
| <p>I</p> <ul style="list-style-type: none"> ▪ Father <p>II</p> <ul style="list-style-type: none"> ▪ Son's daughter's Son ▪ Son's daughter's daughter, ▪ Brother, ▪ Sister. <p>III</p> <ul style="list-style-type: none"> ▪ Daughter's son's son, ▪ daughter's son's daughter, ▪ daughter's daughter's son, ▪ daughter's daughter's daughter <p>IV</p> <ul style="list-style-type: none"> ▪ Brother's son, ▪ sister's son, | <ul style="list-style-type: none"> ▪ Brother's daughter, ▪ Sister's daughter. <p>V</p> <ul style="list-style-type: none"> ▪ Father's father ▪ Father's mother. ▪ Father's widow ▪ Brother's widow. <p>VI</p> <ul style="list-style-type: none"> ▪ Father's brother ▪ Father's sister. <p>VII</p> <ul style="list-style-type: none"> ▪ Father's brother ▪ Father's sister. <p>VIII</p> <ul style="list-style-type: none"> ▪ Mother's brother ▪ Mother's sister. |
|--|--|



Hindu Undivided Family (HUF; by survivorship):

The property of an HUF devolves by survivorship. If the karta dies, the property devolves upon the surviving members for four generations. Regardless of the fact that the heirs are Hindu, the property will not

devolve in accordance with Hindu Succession Act. However, a Class I male or female relative may make a claim on a share of the property, in which case the property would devolve upon the claimant as provided under the Hindu Succession Act.

In the next edition of the newsletter we shall discuss intestate laws in respect of other religions.



INDAS 40 :- Investment Property

Raveena Devanesan

Article Assistant



We have been discussing about the basic structure and need for Indian Accounting Standards – the converged IFRS in the previous newsletters. Now it's high time that we start understanding and comprehend the different standards of IndAS. So let's discuss and try to appreciate one of the basic standards; Indas 40 Investment Property.

Introduction

An investment property is a real estate property that has been purchased with the intention of earning a return on the investment (purchase) through rent (income), the future resale of the property or both. In the existing IGAAP there is no separate standard for Investment property but in IndAS there is a separate standard for investment property. In the existing standards Investment property was

accounted and disclosed as per AS 10 Property Plant and Equipment however in IndAS separate disclosure and accounting method is prescribed, the intention is to account and disclose the property with different economic characteristics separately. The economic characteristics of an investment property is different from that of others because the cash inflows generated from an investment property (rental income) is independent of the business of the entity unlike the Owner occupied property such as the machinery or office building.

Definition

Investment property is a property (land or a building or part of a building or both) held by the owner or by the lessee as a right of use asset to earn rentals or for capital

appreciation or both , rather than use in the production or supply of goods or services or for administrative purposes sale in the ordinary course of business . The challenge in applying the standard is the classification of a property as Investment property , inventory or owner occupied property. For example residential quarters given to the employees for rent owner occupied property (though the property generates rent, the intention and interest of the company is to retain the employees and not to make profits by renting the property and hence it is classified as owner occupied). Unlike the IFRS 40 here fair value model is used for accounting of IP, IndAS 40 uses the cost model for accounting of IP. This is a carve out in INDAS.

The reason for this carve out is the reliability on the usage of fair value model in India.

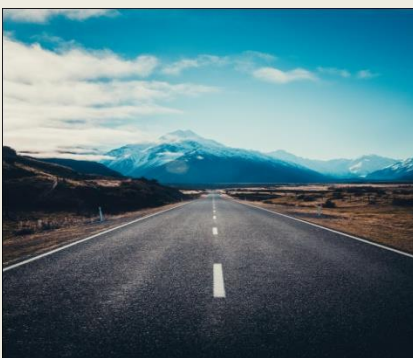
Initial recognition

The IP shall be capitalised at cost plus transaction cost if the following criteria or conditions are satisfied i.e it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and the cost of the investment property can be measured reliably . However the cost do not include start-up costs , operating losses incurred before the investment property achieves the planned level of occupancy Abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property interest cost in case of deferred payment (However when the property is under construction the borrowing cost can be capitalised as per IndAS 23)

Subsequent accounting

The additional expenses incurred shall be capitalised subsequently if they satisfy the above

criteria . The expenses incurred to replace any parts of the property shall be capitalized but the carrying amount of such part replaced shall be derecognised. On Balance Sheet date, depreciation and impairment testing shall be made accordingly.



Disposal of Investment property

The investment property shall be derecognised i.e. eliminated from the books of accounts on disposal or when no benefit is expected from future use or disposal i.e. where the asset is totally Impaired . Any gain or loss is determined as the difference between the net disposal proceeds and the carrying amount is recognized in the income statement.

Disclosure

The criteria based on which it distinguishes an asset as investment property. An entity is also required to disclose the fair value

of the Investment property along with the methods used and assumptions presumed. In exceptional cases where an entity cannot disclose the fair value of the IP reliably, it should disclose the description and explanation why fair value cannot be measured reliably. Extent of involvement of independent, professional and experienced valuers in the determination of fair value. The income earned should be disclosed in profit or losses or Income statement under rental income or direct operating income from rented property direct operating income from non-rented property.

Conclusion

The intention of this standard, to account and disclose investment property separately makes the financial statements more trustworthy and precise to the shareholders as it clearly distinguishes the income generated from business and non-business activity property separately. Let's discuss and explore the logical and interesting principles in the other Indian Accounting Standard in the upcoming months.



Initiation of CIRP process

Nithya Murali

Article Assistant



In connection to the CIRP Process Flow from the previous News Letter , Let us understand who can and how to initiate the Insolvency Resolution Process

In connection to the CIRP Process Flow from the previous News Letter , Let us understand who can and how to initiate the Insolvency Resolution Process

IRP initiated by Financial Creditor

A Financial Creditor by himself or jointly with other financial creditors or any other person on behalf of the financial creditor, as may be notified by the Central Government, seek to initiate Insolvency Resolution Process by filing an application before the NCLT, once a default has occurred. The financial creditor can file an application with AA even if the amount

of default is in respect of debt owed to any other financial creditor. The financial creditor shall make an application in FORM 1 shall be filed along with a fee of twenty-five thousand rupees along a written consent and declaration from the administrator (proposed interim resolution professional) in Form 2 with AA as per Rule 6(3) of Insolvency and Bankruptcy (Insolvency and Liquidation Proceedings of Financial Service Providers and Application to Adjudicating Authority) Rules, 2019. The financial creditor shall, along with the application furnish—

- record of the default recorded with the information utility or such other record or evidence of default as may be specified;
- the name of the resolution professional proposed to act as an

interim resolution professional; and

- any other information as may be specified by the Board.

The Adjudicating Authority shall, within fourteen days of the receipt of the application ascertain the existence of a default from the records of an information utility or on the basis of other evidence furnished by the financial creditor.

IRP initiated by the Operational Creditor

An operational creditor may, on the occurrence of a default, deliver a demand notice in FORM3 (a notice served by an operational creditor to the corporate debtor demanding repayment of the operational debt in respect of which the default has occurred) of unpaid operational debtor copy of an invoice(copy of the invoice attached in Form 4) demanding

payment of the amount involved in the default to the corporate debtor either by hand, registered post or speed post with acknowledgement due or by e-mail to a whole time director or designated partner or key managerial personnel. A copy of the same shall also be filed with information utility. The corporate debtor shall, within a period of ten days of the receipt of the demand notice bring to the notice of the operational creditor

1. existence of a dispute
2. repayment of unpaid operational debt

After the expiry of the period of ten days from the date of delivery of the notice or invoice demanding payment, if the operational creditor does not receive payment from the corporate debtor the operational creditor may file an application before the Adjudicating Authority for initiating a corporate insolvency resolution process in FORM 5, along with the application furnish

- a. copy of the invoice demanding payment or demand notice delivered by the operational creditor to the corporate debtor;
- b. an affidavit to the effect that there is no notice given by the corporate debtor relating

to a dispute of the unpaid operational debt;

- c. a copy of the certificate from the financial institutions maintaining accounts of the operational creditor confirming that there is no payment of an unpaid operational debt by the corporate debtor; and



- d. a copy of any record with information utility confirming that there is no payment of an unpaid operational debt by the corporate debtor, if available
- e. such other information as may be specified.

IRP initiated by Corporate Applicant – Sec 10

In case of default by the corporate debtor, the corporate applicant may file an application for initiation of insolvency proceedings in FORM 6. The applicant must furnish information relating to the books of account and the RP to be appointed. Additionally, a special resolution must be passed by the

shareholders of the corporate debtor or a resolution by at least three-fourth of the total number of partners must be passed approving the filing of the insolvency resolution application.

Persons Not Entitled to make an Application – Section 11

The following persons shall not be entitled to make an application to initiate corporate insolvency resolution process under this Chapter, namely:—

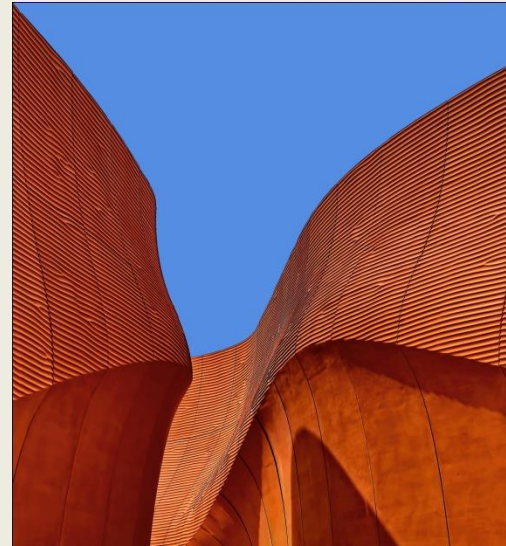
- a. a corporate debtor undergoing a corporate insolvency resolution process; or
- b. a corporate debtor having completed corporate insolvency resolution process twelve months preceding the date of making of the application; or
- c. a corporate debtor or a financial creditor who has violated any of the terms of resolution plan which was approved twelve months before the date of making of an application under this Chapter; or
- d. a corporate debtor in respect of whom a liquidation order has been made.

Let us discuss on what grounds the application to initiate CIRP is admitted and in detail Insolvency Resolution Process



Jagan Swaroop
Article Assistant

SA 701 COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT



Applicability :

This SA is applicable for audits of financial statements for periods beginning on or after **April 1, 2018**. This SA applies to audit of complete set of FS of Listed Entities and Unlisted Entities

- a) When Auditor is required by Law or Regulation, or
- b) When Auditor decides to communicate KAM in his report

Definition of KAM:

Those matters that, in the auditor's professional judgment, were of MOST SIGNIFICANCE in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

Purpose of KAM:

Enhancing the communicative value of auditors report by offering better transparency about audit.

Understanding the entity and areas of significant management judgment.

While determining the key audit matters which are to be reported in the auditors report, the auditor will have to follow narrowing approach as mentioned below:

Matters that are communicated to Those Charged with Governance



Matters that require significant auditor attention



Matters of MOST SIGNIFICANCE for Audit

Determination of Key Audit Matters:

KAM are selected from Matter communicated with TCWG, but not representing all the matters. In making the determination, the Auditor shall take into account the following :

- a) Area of higher assessed risk of material misstatement or significant risks identified in accordance with SA 315
- b) Significant auditor judgements relating to areas in FS that involved significant management judgement including accounting estimates that have been identified as having high estimation uncertainty.
- c) The effect on the audit of significant events or transactions that occurred during the period.`

Factors to be considered in determination of Most Significance:

- Matters that require significant interaction with TCWG.
- Importance of the matters to intended users' understanding of FS.
- Nature of underlying accounting policy relating to the matter or complexity or subjectivity involved in management's selection of appropriate policy
- Nature and severity of difficulties in applying audit procedures, evaluating the results of those procedures and obtaining reliable and relevant evidence to base the auditor opinion.
- Nature and extent of audit efforts needed to address the matter.
- Severity of control deficiencies identified relevant to the matter.

Communicating KAM:

The report shall state that,

- KAM are those matters that, in the auditors professional judgement, were of most significance

in audit of financial statements.

- These matters were addressed in the context of the audit of financial statements as a whole.
- Auditor does not provide a separate opinion on those matters.



Placement:

Generally, Key audit matters section is required to be placed after the Basis for opinion paragraph and before the Management responsibility paragraph. In case, 'Material uncertainty relating to going concern' section is required as per revised SA 570, then KAM section is placed after that section.

Communicating KAM is not substitute of:

- Disclosures in the financial statements
- Expressing a modified opinion as per SA 705
- Reporting as per SA 570 when a material uncertainty exists regarding Going Concern
- A separate opinion on individual matters i.e., Emphasis of matter paragraph and other matter paragraph as per SA 706.

Circumstances where a Matter determined as a KAM is not a part of the communication:

An auditor should describe each of the key audit matter in his/her report unless:

- Any laws or regulations prevent public disclosure of such matter;
- In very rare scenarios, the auditor considers that such matter shouldn't be communicated in his/her report since the adverse outcome of doing that would reasonably outweigh the benefits of public interest with such communication.

Documentation

An auditor should include in audit documentation:

- The basis for his/her determination whether such matter is a KAM or not a KAM
- The basis for the auditor in determining not to communicate in audit report a matter which was considered to be a KAM.

Other consideration:

Distinctness between Emphasis of Matters(EOM), Other Matters(OM) and KAM:

Emphasis of Matter	Other Matters	Key Audit Matters
Highlights the information “in the Financial Statements” which is significant for user understanding.	Highlights the matters which are Relevant to users understanding and not present in the Financial statements.	Highlights the Most Significant Matters out of matters communicated to TCWG of Audit process.

Top 5 matters that are reported in KAM based on the statistics:

The matters that needs to be reported in the KAM differs from industry to industry and entity to entity but on a general considerations, these were the top 5 areas reported in KAM:

- Impairment of Assets
- Goodwill impairment
- Management override of controls
- Taxes
- Revenue recognition

Conclusion:

To conclude KAM is an additional responsibility on the auditors reporting requirements. KAM is purely based on the auditors professional judgement about the matters of “MOST SIGNIFICANCE”. Just because something is a big number or it requires a greater audit efforts doesn’t mean it’s a KAM.

Disclosure of KAM is intended to increase confidence in the audit of financial statements, as users will have more relevant information. The value of the audit, the audit report and the audit quality will be improved through which the public will be served.

Income Tax

1) Extension of Due date for payment of TDS under Section 194M:

The Central Board of Direct Taxes extends the due date for payment of TDS under section 194M during the month of September, 2019 and October, 2019 and the due date for furnishing the challan-cum-statement in Form 26QD for the same, from 31.10.2019 and 30.11.2019 respectively to 31.12.2019. Consequently, the due date of furnishing of the certificate of deduction of tax in Form 16D has also been extended for the tax deducted during the month of September, 2019 and October, 2019 to 15.01.2020.

2) Extension of time limit for payment of Tax and Surcharge under section 184 and 185:

In exercise of the powers conferred by the proviso to sub-section (1) of section 187 of the Finance Act, 2016 (28 of 2016), the Central Government hereby specifies that the persons who have made a declaration under sub-section (1) of section 183, but have not made payment of the tax and surcharge payable under section 184 and penalty payable under section 185 of the said Act, in respect of the undisclosed income, on or before the following due dates notified by the Central Government,

- a) 30th November, 2016 - For an amount not less than twenty-five percent of such tax, surcharge and penalty;
- b) 31st March, 2017 - For an amount not less than fifty per cent. of such tax, surcharge and penalty as reduced by the amount paid under clause (a);

- c) 30th September, 2017 - For the whole amount payable under section 184 and 185 as reduced by the amounts paid under clause (a) and (b);

may make the payment of such amount on or before the 31st January, 2020, along with interest on such amount, at the rate of one percent for every month or part of a month comprised in the period commencing on the

date immediately following the said due date as so notified and ending on the date of such payment.

3) Designation of Special Courts:

The Central Government, in consultation with the Chief Justice of High Court of Himachal Pradesh, Shimla hereby designates the Civil Judge-cum-JMIC (3), Shimla and Civil Judge-cum-JMIC(2), Hamirpur as Special Courts for the purposes of sub-section (1) of section 280A of the Income-tax Act, 1961 and section 84 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 within their respective jurisdiction.

GST

1) Issuing Invoice having QR Code:

The Government, on the recommendations of the Council, hereby notifies that an invoice issued by a registered person, whose aggregate turnover in a financial year exceeds five hundred crore rupees, to an unregistered person (hereinafter referred to as B2C invoice), shall have Quick Response (QR)code: Provided that where such registered person makes a Dynamic Quick Response (QR) code available to the recipient through a digital display, such B2C invoice issued by such registered person containing cross-reference of the payment using a Dynamic Quick Response (QR) code, shall be deemed to be having Quick Response (QR) code.

2) Giving effect to the provisions of rule 46 of the CGST Rules, 2017:

The Government, on the recommendations of the GST Council, hereby appoints the 1st day of April, 2020, as the date from which the provisions of the rule 46 of CGST Rules, 2017 (Tax Invoice), shall come into force.

3) Issuance of e-invoice by the class of registered person:

The Government, on the recommendations of the Council, hereby notifies registered person, whose aggregate turnover in a financial year exceeds one hundred crore rupees, as a class of registered person who shall prepare invoice in terms of sub-rule (4) of rule 48 of the said rules in respect of supply of goods or services or both to a registered person.

Corporate Law

1) Corporate Social Responsibility Contribution:

As per notification dated 19.11.2019 in respect of companies required to make CSR contribution, another organization has also been added to list for which donations can be made i.e, to "Department of Biotechnology (DBT)," .

2) Extension of time limit for Filing of FORM BEN-2 and FORM BEN-1:

The time limit for filing of FORM BEN-2 has been extended to 31.03.2020 with out payment of any additional fees. Consequent to such extension of date of filing of FORM BEN-2, the date of filing of FORM BEN-1 shall be construed accordingly.

3) Relaxation of Additional Fees in respect of FORM CRA-4:

As per notification dated 30.12.2019, due date for filing of FORM CRA-4 (cost audit Report) for the FY 2018-19 without payment of additional fees has been extended to 29.02.2020. It is to be noted that the extension has been given with respect to entire process starting from "preparation of annexures to cost audit report" to "submission of Cost Audit Report by the Cost Auditor to Company" and finally "filling of Cost Audit Report by the Company

with the Central Government".

Current Affairs

1) Don't Want Tata chairmanship ::

Cyrus Mistry doesn't want the chairman's position at Tata Sons or directorship of three group companies. But the ousted group chairman will assert his right to a board seat at the \$ 111 billion conglomerate's holding firm to protect his interest as a minority shareholder. The supreme court is set to hear a petition challenging the NCLAT's order to reinstate Mistry as the Tata group's chairman. TCS and Tata patriarch Ratan Tata have also filed separate appeals in the apex court against the NCLAT order.

2) Alexa, am I eating right ?

Expect Amazon's Alexa to promote healthy eating habits among school kids. The move is a part of the Food safety & Standards Authority of India's initiative to use technologies such as virtual and augmented reality in driving conversations on safe foods and balanced diet. Under the tie up 'eat right' labs would be set up and meals plans delivered to schools. Recently, the government banned sale of junk food in and around school campuses.

3) Bosch is pruning Desi Jobs

The local unit of Bosch - the world's largest auto parts supplier is set to slash a couple of thousand jobs in the next four years. At least 10 % of Bosch's 3,700 white-collar and 6,300 blue collar jobs will be axed as the industry battles poor demand, regulatory changes and the threat of electrification. Slumping sales have already impacted 3.5 lakh workers in the sector between April and August last year. The German company expects a turnaround only in the next 2-3 years.

Compliance Calendar

Compliance Due Date	Particulars of Compliance	Forms/ Returns	Applicable To	Reporting Period	Act
7th Jan	Deposit of Tax Deducted/Collected (TDS/TCS)	Challan 281	Non-Government deductors/Collector	Dec,2019	Income tax act
7th Jan	Reporting of actual transactions of External Commercial Borrowings (ECB) through AD Bank under FEMA	ECB – 2	All Categories of ECB	Dec,2019	Income tax act
10th Jan	Return for TDS under GST	GSTR – 7	Government Authorities	Dec,2019	GST, Act, 2017
10th Jan	Return for Details of Supplies and the amount of tax collector	GSTR – 8	E-Commerce Operator	Dec,2019	GST, Act, 2017
11th Jan	Return for Outward Supplies of Taxable Goods and/or Services	GSTR – 1	Taxpayers with Annual Turnover more than 1.5 crores	Dec,2019	GST, Act, 2017
13th Jan	Return for details of ITC received and distribution	GSTR – 6	Input Service Distributors	Dec,2019	GST, Act, 2017
14th Jan	Issue of TDS Certificate u/s 194IA and IB	Form 16B & 16C	All Deductors related to Immovable Property Sale & Rent	Nov,2019	Income tax act
15th Jan	Quarterly Statement of TCS deposited	Form 27EQ	TCS collectors	Oct to Dec,2019	Income tax act
15th Jan	Deposit of Provident Fund Contributions	Through EPFO Portal	Entities registered with PF Authorities	Dec,2019	Income tax act
15th Jan	Deposit of E.S.I.C Contributions	Through ESIC Portal	Entities registered with ESIC Authorities	Dec,2019	Income tax act
18th Jan	Return for details of Inward and Outward Supplies	GSTR – 4	Dealer opted for Composition Scheme	Oct to Dec,2019	Income tax act

Compliance Due Date	Particulars of Compliance	Forms/ Returns	Applicable To	Reporting Period	Act
20th Jan	Summary Return of Outward and Inward Supplies along with payment of Tax	GSTR – 3B	GST Taxpayers	Dec,2019	GST, Act, 2017
20th Jan	Summary Return of Outward taxable supplies and tax payable	GSTR – 5 & 5A	Non-Resident Foreign Taxable person & OIDAR	Dec,2019	GST, Act, 2017
28th Jan	Return for details of goods and services purchased in India	GSTR – 11	Taxpayer claiming Refund & having UIN	Dec,2019	GST, Act, 2017
30th Jan	Issue of TCS Certificates	Form 27D	TCS collectors	Oct to Dec,2019	Income tax act
30th Jan	Challan – cum – statement u/s. 194IA and 194IB	Form 26QB & 26QC	All deductors related to Immovable Property Sale & Rent	Dec,2019	Income tax act
31st Jan	Quarterly Statement of TDS deposited	26Q, 24Q	All deductors	Oct to Dec,2019	Income tax act
31st Jan	Quarterly Return for Outward Supplies of Taxable Goods and/or Services	GSTR – 1	Taxpayers with Annual Turnover up-to 1.5 crores	Oct to Dec,2019	GST, Act, 2017
31st Jan	Annual Return	GSTR 9	Taxpayers with Annual Turnover up-to 2 crores	July'17 to Mar,2018	GST, Act, 2017
31st Jan	Reconciliation of GST as per GSTR 9	GSTR 9C	Taxpayers with annual turnover exceeds 2 crores	July'17 to Mar,2018	GST, Act, 2017
31st Jan	Monthly Return for Profession Tax more than 50,000/-	Through State-Wise PT Portal	Entities registered with PT Authorities	Dec,2019	Income tax act



Get in touch

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