

THE

BHUBANESWAR BRANCH OF
EASTERN INDIA REGIONAL COUNCIL OF

INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

e-newsletter/03/2013-14

NEWSLETTER

May 2013



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Editorial

EDITORIAL BOARD



Dear Members,

We are in the month of May 2013, the summer vacation has started for all except for professional for whom the vacation are not scheduled but it's a lottery ticket. But I personally feel that in our never ending professional responsibility we should also avail of such vacation at least once in a year so that our family get the time we hardly able to give. It not only energies our self but at the same time also build strong bonding among family members and the time spend with children are just could not be put in word.

Well the month of May also reminds of the Chartered accountant exam and our best wishes for the Students who appeared in the examination and hope all of them come with flying colours when the results are announced.

During the month plenty of activities ranging from seminar on service tax for members, Commencement of GMCS class for student, Orientation program for student, Exam for Post qualification course on valuations were conducted and all were properly responded both by members and students.

As far as the seminar on Applicability of Service tax on Real estate and construction is concern the seminar was well attended by members and many issues were discussed and the seminar was very interactive.

Importantly during the month meeting of all Past Chairmen, senior members together with the Managing committee members was organized wherein many issues were discussed including the setting up of hostel exclusively for CA student which would benefit students across the state. And we look forward to cooperation from every quarter for making it happen.

During the coming months we are planning for organizing seminar on topics ranging from tax audit, e filing of Income tax returns, Company Bill 2012 etc.

It is also pertinent to mention that the Annual event in the form of All India Conference is being planned in the second week of August, 2013 wherein many eminent speakers are being lined up for making the two days conference memorable.

Further the branch is taking steps for upgrading its Web site by including many information/links, which would work as one stop window for the entire requirement including the empanelment news, new opening for new qualified CA, resources link, and many more.

Lastly I would sign off with the hope that the continuous support and wishes from members bestowed on us would be uninterrupted and it would boast us with confidence and senses of responsibility to discharge our function with utmost care and sincerity.

CA. Ramesh Chandra Pradhan
Chairman

Editor-in-Chief

CA. Ramesh Chandra Pradhan

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CA Siddhartha Ranjan

Members :

CA Partha Sarathi Mishra

CA Vijaya Batth

CA Amit Kumar Agarwalla

CONTENTS

<i>Subject</i>	<i>Page</i>
Editorial	2
Special Audit U/s 142(2A) IT Act	3-4
Recognition of Cost/Revenue Of Computer Software	5-8
Mother's Day Special	9
On Lighter Side of Life	
Forth coming events	10
Board of Studies-Students corner	11
Glimpses of events	12-13

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**SPECIAL AUDIT UNDER SECTION 142(2A) of the Income Tax Act.***By : CA Swati Kejriwal*

Section 142(2A) of the Income Tax Act, 1961 provides for the special audit provision. It states that notice for special audit can be issued when the Assessing Officer during the course of proceedings is not able to understand the complexity in accounts then he with the previous approval of Chief Commissioner or Commissioner can issue notice for special audit to be done by a chartered accountant nominated by the approval of Chief Commissioner or Commissioner in his behalf. The Section reads as under:

“If, at any stage of the proceedings before him, the Assessing Officer, having regard to the nature and complexity of the accounts of the assessee and the interests of the revenue, is of the opinion that it is necessary so to do, he may, with the previous approval of the Chief Commissioner or Commissioner, direct the assessee to get the accounts audited by an accountant, as defined in the Explanation below sub-section (2) of section 288, nominated by the Chief Commissioner or Commissioner in this behalf and to furnish a report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars as may be prescribed and such other particulars as the [Assessing] Officer may require :

[Provided that the Assessing Officer shall not direct the assessee to get the accounts so audited unless the assessee has been given a reasonable opportunity of being heard.]”

On reading the above provisions, it may be observed that there are various conditions which are required to be fulfilled before issuing a notice for special audit. These conditions are:-

- 1) The notice for Special audit can be issued only at the stage of proceedings.
- 2) Notice can be issued only after considering the nature and complexity of accounts.
- 3) Notice can be issued only in the interest of the revenue.

- 4) Notice can be issued only after an opinion is formed by the Assessing Officer that it is necessary to conduct special audit.
- 5) That Compulsory Opportunity of being heard should be given to the assessee before issue of Notice for special audit.

Off late, large number of writ petitions are being filed by assesses against initiation of special audit under Section 142(2A) of the Act. In view of the writ petitions filed by the assessee, the High Courts have laid down the following important principles to be followed by the Assessing officer while directing the special audit:

- 1) In the case of *Sahara India (Firm) v. CIT (300 ITR 403)* the Apex Court has held that before holding the accounts as complex or difficult to understand, there has to be a genuine and honest attempt on the part of the Assessing Officer to understand accounts and for that he must seek explanation from the assessee.
- 2) In the decision *Swadeshi Cotton Mills Co Ltd v CIT (1988) 171 ITR 634 (All.)* of Allahabad High Court it has been held that complex is a nebulous word which means that meaning of complex is different for different person. Further, it has been held by the Hon'ble High Court that what is difficult to understand should not be regarded as complex. What is complex to one may be simple to another. It depends upon one's level of understanding or comprehension. Sometimes, what appears to be complex on the face of it, may not be really so if one tries to understand it carefully.
- 3) It has been held by the Allahabad High Court in *U.P.State Handloom Corporation Ltd vs CIT* that a mechanical and perfunctory order directing special audit would be liable to be quashed.
- 4) Calcutta High Court in *West Bengal Co-operative Bank Ltd vs CIT* has expounded a similar view wherein it was held that the Commissioner should not give any approval mechanically, if he finds that there is no examination of books of accounts by the AO before sending the proposal for special audit.



- 5) It has been held in *Bata India Ltd vs CIT* that a mere assumption that the accounts are complex would not satisfy the requirement of appointing a special auditor under section 142(2A).
- 6) The Kerala High Court in *Muthootu Mini Kuries vs Dy CIT* held that a direction to the assessee to get the accounts audited without hearing the assessee would be unjustified.
- 7) The Hon'ble High Court of Calcutta in the decision of *Peerless General Finance & Investment Co. Ltd. & Anr. v. Dy. Commissioner of Income Tax & Ors. (1999) 236 ITR 671 (Cal.)* held that an opinion formed by the AO must be based on objective consideration and not on the basis of subjective consideration and further held that opinion has to be formed only after considering the nature and complexity of the accounts.
- 8) In another decision *H.P. State Forest Corporation v. Joint Commissioner of Income Tax (2001) 252 ITR 833 (HP)* of Hon'ble High Court of Himachal Pradesh it has been held that there must be application of mind in arriving at the opinion for special audit.
- 9) In the case of *Gurunanak Enterprises v. Commissioner of Income Tax & Anr. (2003) 259 ITR 637 (Del)* the Hon'ble High Court of Delhi has been held that before granting approval the Chief CIT or CIT must have before him the material on the basis whereof the AO formed his opinion.
- 10) Further in another decision *Alidhara Texpro Engineering (P) Ltd. v. Dy. Commissioner of Income Tax the Hon'ble High Court of Gujarat* it has been held that since in the Show Cause Notice there is no discussion about the complexity of the accounts and therefore, there was no question of formation of any opinion. Accordingly, in the show cause notice it is mandatory to have discussion on the complexity of accounts on the basis of which opinion for special audit should have been formed.
- 11) In the case of *Delhi Development Authority v. Union of India [2012] 350 ITR 432* the Hon'ble Delhi High Court has held that Section 142(2A) is not meant for delegation of Assessing officer's powers and functions to special auditor; and Assessing officer should indicate his tentative view on why the legal issue as mentioned in directions under Sec. 142(2A) requires examination of accounts by the specialist. Further the Hon'ble Court has also states that Numerousness of entries by itself does not mean that the books of accounts are complex and only a chartered accountant can verify it.

Last but not the least, any order for Special Audit wherein any of the conditions as prescribed under the provisions of Section 142(2A) of the Income Tax Act, shall make the order liable to be quashed

**RECOGNITION OF COST AND REVENUE OF COMPUTER SOFTWARE.****CA. Chitta Ranjan Das.**

In software Industry an entity provides an end-to-end business solution that leverage technology. The company provides solutions that span the entity software life cycle encompassing technical consulting, design, development, software re-engineering, maintenance, systems integration , package evaluation, testing and infrastructure management services. In addition, the company offers software products for various industries and business process management services. We as an Accounts professional should know how the costs are to be recognized and so also revenue in case of development of computer software for sale or internal use. This article deals with accounting of cost of computer software developed or obtained for internal use and gives clear picture regarding revenue recognition of software.

Stages of development of computer software and its Cost Accumulation:**1. Preliminary Project Stage**

- Conceptual formulation of alternatives
- Evaluation of alternative
- Determination of existence of needed technology
- Final Selection of alternatives

2. Application- Development stage

- Design of chosen path including software configuration and software interface
- Coding
- Installation of hardware
- Testing including parallel processing phase

3. Post Implementation / Operation stage

- Training
- Application Maintenance

Internal and external costs incurred during the preliminary stage should be expensed. Internal and external costs incurred to develop internal-use software during the Application development stage should be capitalized. Costs to develop or obtain software that allows for access or conversion of old data by new systems should also be capitalized. In order to costs of specified upgrades and enhancements to internal use computer software to be capitalized, it must be reasonably assured that these expenditures will result in additional functionality.

THE CAPITALIZATION OF COSTS BEGIN WHEN BOTH:

- a. Preliminary project stage is completed,
- b. Management commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended.

ALLOWABLE CAPITAL COSTS INCLUDE ONLY THE FOLLOWING:

- a) External direct costs of materials and services consumed in the developing or obtaining internal use computer software.(Examples of these costs included but are not limited to fees paid to third parties for services provided to develop the software during the application development stage, costs incurred to obtain software from third party and travel expenses incurred by the employees in their duties directly associated with developing software.)



- b) Payroll and Payroll-related costs (For example costs of the employees' benefits) for internal-use computer software project, to the extent of the time spent directly on the project (Examples of employees activities include but are not limited to coding and testing during the application development stage).
- c) Interest costs incurred while developing internal use computer software. Capitalization should cease when all substantial testing is completed. General and Administrative costs and overhead costs should not be a capitalized as costs of internal use software.

- 3. Costs to implement, after development in complete
- 4. Data conversion costs (other than costs to develop or obtain software that allows for access or conversion of old data)
- 5. All other testing – not done by the project team
- 6. Documentation costs
- 7. Staff training including developers
- 8. Travel costs for any institute employees
- 9. Costs incurred after implementation has begun (defined as the point at which the software is in use , in a production environment, by the users for whom the software was designed). For example, maintenance agreements may not be capitalized).

TRACKING AND REPORTING COSTS

Responsibility for reporting and tracking project costs:

The appropriate project administrative person from each participating department will be responsible for recording costs on the correct WBS element. This individual will verify expenses monthly and will be responsible for ensuring that all participating departments are properly recording and classifying costs on a timely basis.

Criteria for identifying capital vs. expenses costs

Costs to capitalize:

- 1. Software acquisition Costs
- 2. Costs directly related to software development including:
Material cost Developer's Salary and benefit costs Outside Consultant costs (Including time and related expenses)
Manager salary and benefit costs for project oversight
- 3. Data conversion software

Costs not to be capitalized:

- 1. Discovery costs – those costs incurred before the project scope is broadly defined and before management approval.
- 2. Costs to develop and offer end user training of new or upgraded software

TRACKING AND REPORTING COSTS:

The tracking of salaries will be based on percentage of time dedicated to the project. (If an individual works 80 hours of the week, and He/she allocates 50% to a capital project, the 50% will be based on the 80 hours worked, not on a regular 40 hour work week).

Equipment costs related to capital projects must also be tracked. If an equipment item (whether minor or major) is purchased and will be used 50% or more on the project for development, the allocable portion of its cost should be charged to the capital element for the project

COST OF REVENUE:

Cost of revenue includes manufacturing and distribution costs for products sold and programs licensed, operating costs related to product support service centres and product distribution centres, costs incurred to support and maintain internet-based products and services, warranty costs, inventory write downs costs associated with the delivery of consulting services, and the amortization of capitalized research and development costs associated with software products that have reached technological feasibility.

SALES AND MARKETING



Sales and marketing expenses include payroll, employee benefits, stock-based compensation and other headcount related expenses associated with sales and marketing personnel, and the costs of advertising, promotions, tradeshows, seminars, and other programs. Advertising costs are expensed as incurred.

PRODUCT WARRANTY

The company has to provide for the estimated costs of hardware and software warranties at the time the related revenue is recognized. For hardware warranty, the company has to estimate the costs based on historical and projected product failure rates, historical and projected products failure rates, historical and projected repairs costs, and knowledge of specific product failures (if any). The specific hardware warranty terms and conditions vary depending upon the product sold and country in which we do business, but generally include parts and labour over a period generally ranging from 90 days to three years. For software warranty, the company has to estimate the costs to provide bug fixes, such as security patches, over the estimated life of the software. The company has to regularly reevaluate estimates to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary.

REVENUE RECOGNITION

In respect of software industry, the company derives revenues primarily from software development and related services, licensing of software products and from business process management services. Arrangements with customers for software development and related services are either on a fixed price, fixed time frame or on a time and material basis.

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. We may enter into certain arrangements where we are obligated to deliver multiple products and/or services (multiple elements). In these arrangements, we may generally allocate the total revenue among the elements based on the sales price of each element when sold separately (vendor-specific objective evidence).

Revenue for retail packaged products, products licensed to original equipment manufacturers (OEMs) and perpetual licenses for current products under company's Open and Select volume licensing programs generally is recognized, as products are shipped. A portion of the revenue related to certain products, which include all Application and PC operating systems, is recorded as unearned due to undelivered elements including, in some cases, free post-delivery telephone support and the right to receive unspecified upgrades/ enhancements of Internet software on a when-and-if-available basis. The amount of revenue allocated to undelivered elements is based for those elements using the residual method. Under the residual method, the total fair value of the undelivered elements, as indicated by vendor-specific objective evidence of fair value for those elements using the residual method. Under the residual method, the total fair value of the undelivered elements, as indicated by vendor-specific objective evidence, is recorded as unearned, and the difference between the total arrangement fee and the amount recorded as unearned for the undelivered elements is recognized as revenue related to delivered elements. Unearned revenue due to undelivered elements is recognized ratably on straight-line basis over the related products' life cycle. Revenue related to windows vista is not subject to a similar deferral because there are no significant undelivered elements.

Revenue from multi-year licensing arrangements are accounted for as subscriptions, with billings recorded as unearned revenue and recognized as revenue ratably over the billing coverage period. Certain multi-year licensing arrangements include rights to receive future versions of software product on a when-and-if available basis under Open select volume licensing programs (Software Assurance). In addition, other multi-year licensing arrangements include a perpetual license for current products combined with rights to receive future versions of software products on a when-and-if-available basis under open, select and enterprise agreement volume licensing programs.



Revenue generally recognized net of taxes collected from customer and subsequently remitted to Governmental authorities. Costs related to insignificant obligations, including bug fixes and technical support, are accrued when the related revenue is recognized. Provisions are recorded for estimated returns, concessions, warranties, and bad debts.

Revenue from time-and-material contracts is recognized, as the related services are performed and revenue from the end of the last billing to the balance sheet date is recognized as unbilled revenues. Revenues from fixed price, fixed time frame contracts are recognized as per the percentage of completion method. The inputs (efforts expended) method may be used to measure progress towards completion as there is a direct relationship between inputs and productivity. Provisions for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates.

Revenues from business process management and other services are recognized on both, the time-and-material and fixed-price, fixed timeframe basis. Revenue on time-and-material

contracts is recognized as the related services are rendered. Revenue from fixed price, fixed time frame contracts is recognized as per the proportional performance method using an output measure of performance.

When the company receives advances for services and products, such amounts are reported as client deposits until all conditions for revenue recognition are met.

WHETHER AS 10 OR 26 WILL BE APPLICABLE ?

There is a big debate whether for computer software cost is treated as a fixed asset under AS 10 or an intangible asset under AS 26.

Where the software is not an integral part of the related hardware, computer software is treated as **an intangible asset**.

For example, computer software for a computer controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as **fixed asset**. The same also applies to operating system of a computer.

**MOTHER'S DAY SPECIAL**

Ankita Kanungo

Registration No. ERO0151352

Articled Assistant

I still remember the first time I had gifted mom something on Mother's Day. It was some 15 years back I wrote her a poem. She loved it so much that she still preserves it. As an eight year old kid I had used sparkles colours everything to make that piece of paper look beautiful but what my mom found beautiful was the words I wrote for her. With time the handmade cards were replaced with archies gifts and cards. But these cards and gifts never impressed her. She would just thank me and then I have to hear the same thing every year "why didn't you write me something like you did as a kid?" She never liked the lines written on an archies card because she knew I did not write those. Today if I try writing a poem for her it might start with something like :

My Phone A/C Dr

To Mom's Bank A/C

(purchase of new cell phone)

I am sure nobody will ever want to read such a poem. And to some extent I do feel shy. She is my mom and she knows I love her. Why do I need to show that off on a piece of paper? For an eight year old kid it is always easier to pen down her feelings and express her love. But as we grow up don't we feel a bit shy? But the strange thing about mothers is no matter what or where they never stop expressing their love for us, whether in the form of a good night kiss or a hug while dropping you at school, a text message when you are in the class just to ensure you have eaten something or in the form of innumerable phone calls when you are late from office.

This is all I want to tell you mom : I am shy to say I love you Mom. Sometimes I don't apologize for being impertinent which doesn't mean I am not sorry. I know there can be no one like you. You get up daily at 5am to ensure I have my breakfast and goodbye kiss. You might not always support my decisions but you never compelled me to do things your way. You let me live my way. You're someone I can always run to, someone I love the most, and who loves me unconditionally. I might not be the perfect daughter but I always love you like one. Thank you mom, you gave me the best gift ever – My life!!

**ON THE LIGHTER SIDE OF LIFE**

On a sunny afternoon three accountants are standing near a tall pole and wondering about the height of the pole. First accountant, a CPA says, I do not think there is any authoritative guidance on how measure the height of a pole, that is not the job of accountants. Second accountant, a professor at a state university says, well, if we take a survey of similar locations and asked people about the height of poles, then we may be able to deduce height of this pole, it will be a good enough estimate. The third accountant is a professor at an Ivy league university. He confidently claims, if we measure the shadow of the pole under different conditions, then I can run a multivariate regression model and can give a very good estimate of the height. As this conversation is going on, an engineer is passing by, he stops and asks about their discussion. Accountants tell him, you probably can not understand this complex problem. The engineer persists and hears about the problem. He smiles, lifts the pole from the base, measures it, and says, "twelve feet and three inches," and walks off. Accountants look at him, laugh contemptuously and say in unison- "hell, we wanted to know the height of the pole and he tells us the length."

EVENTS FOR THE MONTH OF MAY 2013

Day & Date	Programme	Speaker/ Resource Person	Venue	Duration	CPE Hours	Fees Rs.
Monday 10.06.2013	Seminar on Capital Gain	CA CMA & CS Sanjay Mundra, Kolkata	ICAI Bhawan, Plot No- A/122/1, Nayapalli, Bhubaneswar- 751012	4 Hrs	-	-
Friday 21.06.2013	Seminar on Tax Audit & E-filing of Tax Audit Report	CA. G. Sekhar, Chennai	ICAI Bhawan, Plot No- A/122/1, Nayapalli, Bhubaneswar- 751012	3 Hrs	3 Hrs	300

**Revision of Fee for all GMCS Course(s)- 13th May, 2013**

The Council at its 324th Meeting held in April, 2013 decided that with effect from 1st July, 2013 fee for the General Management and Communication Skills (GMCS) Course i.e. existing GMCS Course, GMCS – I and GMCS – II courses shall be Rs. 5,500/- per participants for each course. It is clarified that students who have already registered by paying Rs. 4,000/- and will be undergoing the relevant GMCS classes starting on or after 1st July, 2013 are required to pay the balance amount of Rs. 1,500/- to the organising centres before commencement of the batch of GMCS or GMCS – I Course.

**Director
Board of Studies**

MoU Signing Ceremony between the ICAI and Avinashilingam Institute for Home Science and Higher Education for Women at 11.30 A.M on May 28,2013.- (27-05-2013)

We would like to inform all the stakeholders that the Institute is signing a Memorandum of Understanding (MoU) with Avinashilingam Institute for Home Science and Higher Education for Women, Coimbatore. The MoU would enable Women Chartered Accountants to pursue the Ph.D programme from the above University in Full time and Part time mode.

The Avinashilingam Institute for Home Science and Higher Education for Women established under sec 3 of UGC Act, 1956 offers from undergraduate to research level various programmes in Home Science, Science, Humanities, Business Administration, Education and Engineering as regular programme for the women students. The Ph.D degree programme is designed to provide a candidate an opportunity to obtain the expertise through intensive research. The degree is awarded to a candidate on the basis of original and wide ardent research in any particular discipline or inter-discipline that makes a contribution to the advancement.

Further details shall be intimated in due course.

Director of Studies



Glimpses of Events

SEMINAR ON APPLICABILITY OF SERVICE TAX ON CONSTRUCTION & REAL ESTATE ACTIVITIES



CA. Partha Sarathi Mishra, Vice Chairman introducing the guest (L to R) CA. Puneet Bansal, New Delhi, CA. Ramesh Chandra Pradhan, Chairman and CA. Vijaya Batth, Chairperson, EICASA.

CA. Pravat Panda presenting a bucket to CA. Puneet Bansal, New Delhi in presence of CA. Partha Sarathi Mishra, Vice Chairman



L to R: CA. Puneet Bansal, New Delhi, CA. Ramesh Chandra Pradhan, Chairman, CA. Vijaya Batth, Chairperson, EICASA

CA. Barsa Acharya presenting a mementoes to CA. Puneet Bansal, New Delhi in presence of CA. Vijaya Batth, Chairperson, EICASA



Participants of the Seminar.



GENERAL MANAGEMENT & COMMUNICATION SKILLS-I (GMCS I)



Dr. Mangesh Dash with participants of GMCS I Programme



CA. Goutam Lenka with participants of GMCS I Programme



Meeting of the Past Chairmen with Senior Members of Bhubaneswar Branch