



# **NEWSLETTER**

**TRICHUR BRANCH OF SIRC OF ICAI**

**March 2019**

## **From the Chairperson**

**W**arm Greetings Dear Members,

The month of March was indeed a learning month as far as the Managing Committee was concerned. We started our journey of learning with the CPE Study Circle conducted on 5th March on the Ordinance on Unregulated Deposits and UDIN. My heartfelt thanks to the faculties of the CPE study circle CA. Mahadevan N.V. and CA. Vipin K.K.

The Managing Committee conducted an informal meeting with our branch faculties on the same day i.e., 5th March, to understand the process of teaching as well as the schedules followed at our branch for various classes conducted for Foundation, Intermediate and Final courses

The branch conducted a Women's Day programme wherein the lady staffs of our branch were honoured for their un tiring services to the branch. At this juncture, the Women's Club of Trichur Branch also got new leaders CA. Milly Davis (Chairperson) and CA. Anjana Thomas (Secretary). I congratulate both and offer my full support for the activities of the Women's Club of our branch.

It was also an honour to be a Key Note Speaker at the Institute of Company Secretaries of India, Trichur Branch on Women's Day on the topic Women Empowerment and Corporate Life, in the



capacity of Chairperson of Trichur Branch of ICAI. I thank them personally for the great opportunity given to me.

We also formed a six member Committee on Exposure Drafts to study and comment on the Exposure Drafts offered for comments from time to time. The Committee members are;

CA. Cheeran Varghese, CA. Mahadevan N.V., CA. Udayaraj Rao, CA. Tony M.P., CA Satheesan P. and CA. Geo Job. I thank the members of the Committee for agreeing to help the branch by sharing their valuable time and knowledge.

The Bank Audit Seminar 2019 was conducted on 14th March with two speakers from WIRC; CA. Niranjan Joshi and CA. Nitant Trilokekar. We were also lucky to have CA. Chithra H, Joint General Manager and CFO, as our Chief guest for inaugurating the Bank Audit Seminar. On 16th March, during the Bank Audit Seminar conducted by SICASA the Managing Committee honoured the rank holders of November 2018 Foundation examination and Intermediate both groups passed students.

### *Trichur Branch of SIRC Newsletter*

On 21st March the branch started a fresh batch of AICITSS-MCS for students who are about to appear for their Final Examinations in the new scheme.

On 23rd March a Seminar on GST was organised with CA. Shankara Narayanan V., from Chennai as the faculty. He dealt at length with the return forms in GSTR 9 and 9C and the scope of Rectification for the year 2017-18.

On 24th March, the continual session on Appeal Drafting course launched by Committee on Capacity Building was handled by CA. Krishnan from Alappuzha and the branch had hosted the classes.

The members support for each programme was tremendous and I expect the same to continue.

Wishing all members a cool and stressless Bank Audit season, Thank you.

## **AGRI COSTING & RISK MANAGEMENT**

### **IDENTIFYING THE COST ELEMENTS IN AGRICULTURE & MANAGING RISK FACTORS**



India is a growing population which is in need of more food and infrastructure. Agriculture is not an organized sector except some companies which are registered. Agricultural business in India has wide terms which cover crops cultivation, poultry, agricultural equipment manufacturing, seeds manufacturing, fertilizer manufacturing and going on. The culture of ancient India is impacted as the lands are divided with multiple people and each one monitors and cultivates their land separately. This has some positive impact that they can take care of their land on their own with resources like water, seeds, and fertilizer feeding.



**CMA. SIDDHARTH ANKARATH**

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Economic survey 2017-18 indicates that government was keen on doubling farmer's income by year 2022. According to the World Bank estimates; half of the Indian population would be urban by the year 2050. It is estimated that percentage of agricultural workers in total work force would drop to 25.7 per cent by 2050 from 58.2 per cent in 2001. Thus, there is a need to enhance the level of farm mechanization in the country. Cost of agricultural production is rising as labour cost is more. Manpower required in agriculture is more as consumption is also more.

The mismatch between global food supplies and human nutritional needs, the impact of agribusiness on rural employment, the consequences of modern agricultural biotechnologies for human and animal welfare, and the effects of intensive production systems on the sustainability of the global environment are reasons why agriculture has become an issue of moral concern. Costs do matter in

the modern agriculture as the rural population is both civilized and educated due to technology has enabled to apply innovative strategies in cultivating land, use of machinery in sowing, reaping and harvesting techniques, including storage and marketing of agricultural goods. The major cost related elements of agricultural sector are as follows:

- A) Material cost-land, seeds, fertilizers, pesticides etc
- B) Labor Cost-working in fields, operating machines, marketing products and others.
- C) Expenses-Land revenue bore wells, machinery and others.

### **Cost Elements in Agriculture**

The cost of agricultural land is increasing day by day as most of the agricultural land is used for non-agricultural process like real estate, industries and other purposes. But fertile lands still fetch a good income to farmers and such land is always in demand. While purchasing the land a farmer thinks that in future the price of the land will increase due to the potential buyers who plan the purchase of land for both agricultural and non-agricultural purposes. The purchaser fails to identify the following:

- a) Loss of land fertility due to continuous production of crops
- b) Efficiency of the land decreases proportionate to the hike in the price

c) Depreciation of land is not calculated that may arise due to continuous production, soil erosion, use of inorganic fertilizers, modern machinery etc.

### **Application of Target Costing**

Target Costing is defined as "a structured approach in determining the cost at which a proposed product with specified functionality and quality must be produced, to generate a desired level of profitability at its anticipated selling price."

Target cost = Target Price-Profit Margin

The variable expenses include use of machinery, employing of labor use of pesticides and fertilizer as cultivation of paddy is affected by natural factors like rain, climate and availability of labors. Fixed cost includes cost of plants, harvesting, land revenue etc. Administrative expenses include saving crop from animals, birds and localities.

### **Wages**

Even though modern technology has enabled agricultural activities full pledged to machines, still the use of human resource is more significant for this sector. The requirement of labors include cultivating the land, weeding the ready crop, packing of goods, removing harmful plants in the usual crops are important among them.

### **Problems of Indian Agriculture**

In India agriculture is not a mere occupation, it is seen as a way of life.

Agriculture and related activities are the main source of livelihood for around 58% of population of India. Hence, it cannot be denied that India is an agriculture based economy. Yet, the farmers associated with agriculture and related activities are subject to various problems and risks. Some of the problems of Indian agriculture are discussed below:

- The size of agricultural holding is small and fragmented, so scientific cultivation with improved implements, seeds, etc. is not possible which results in low productivity.
- Lack of proper irrigation facilities results in dominance of nature in Indian agriculture.
- The use of improved and hybrid variety of seeds are limited to specific crops, as many farmers still cannot afford to purchase these seeds.
- Many farmers still cannot afford good quality chemical fertilizers which are essential to maintain the soil health.
- Farmers use orthodox farming mechanisms which results in low yield due to lack of financial instability.
- Generations of farmers get caught in debt trap due to heavy dependence on village moneylenders for financial provisions.
- The system of marketing of agricultural products is still inadequate, often due to which the middleman makes huge profit and the farmers continue to remain poor.

- Lack of adequate storage facilities often forces the farmers to sell off their produce at lower prices.

### **Traditional Risk Mitigating Tools**

Since agriculture and its related activities are subject to various externalities it is evident that agriculture is a risky profession. 'The risks in agriculture can be grouped as: (i) production risk; (ii) market risk; (iii) financial risk; (iv) legal/ policy risk; (v) resource risk; (vi) health risks; and (vii) assets risks. The intensity and domination of risk varies widely across regions. Various risk mitigating mechanisms are used by the farmers for coping the risks faced by them. 'The ex-ante measures adopted to lower or minimize risks can be grouped as risk-reducing strategies whereas ex-post measures adopted to mitigate risks are classified as risk-coping measures or strategies. The traditional risk mitigating tools are discussed below:

- Self-insurance is a risk-coping strategy used by the agricultural households where they use different assets (like land, jewelry, pump sets, tractors, etc.), currency notes, livestock and stocks of food grains as buffer stocks. They accumulate these stocks in relatively good times and use them to finance their consumption expenditures during harder times.
- Insurance through credit is another risk-coping strategy used by the farmers. The farmers avail credit from institutional sources (like banks, co-

operatives, etc.), moneylenders, friends and relatives. 'The All-India Rural Credit survey published by the Reserve Bank of India(RBI) reveals that in 1951 only 7.2% of all borrowings were from government sources, banks and co-operatives. By 1981 this number had jumped to 61.2% mainly due to Indian government's substantial drive to extend rural credit through official channels. Individual moneylenders however did not vanish, 24.3% of all debt was still owed to them'.

- Crop diversification is one of the most important risk-reducing strategies used by the farmers. Here the risk is spread across multiple crops so if one crop fails the profit arising from the other crop can absorb the shock of failure. 'However, crop diversification leads to spreading of limited resources across crops and the price paid for diversification is income foregone or sacrificed by not growing the most remunerative crop.'
- Intercropping is another risk-reducing measure taken by the farmers. It is a multiple cropping practice involving growing two or more crops in proximity, the main goal being to produce a greater yield on a given piece of land by making use of resources that would otherwise not be utilized by a single crop. It lowers yield risks as it lowers risk of diseases and

pest attacks. It also has greater potential for risk compensation.

- Insurance through labour market is another risk reducing strategy used by the farmers. In order to avoid the uncertainties of slack seasons, farmers with larger labour force and small and marginal farmers move from their own cultivation to labour market.
- Crop Insurance, It can be defined as 'a contract of indemnity by which, for a specified premium, one party promises to compensate another for the financial loss incurred by the destruction of agricultural products from the forces of nature, such as rain, hail, frost, or insect infestation.' 'Apart from safeguarding the farmers against natural disasters crop insurance also protects them from the loss of revenue due to decline in prices of crops. The natural risks and hazards impinge on the decision-making of the farmers. Crop failure affects the borrowers, creditors and also a vast cross-section of the population. Hence, crop insurance can be viewed as an institution of security. Crop insurance can be explained as a risk mitigating mechanism, the success of which would largely depend on both the ex-ante actions of farmers in adopting crop insurance scheme and ex-post actions of agencies concerned (i.e. banks, insurance agencies,

government departments, etc.) in realizing claims.

Often insurance is perceived as a non-viable investment because though premiums are to be paid every year but indemnities are received much less frequently. Therefore it is quite obvious that the general population views insurance - particularly crop insurance- as a privilege of the rich. A major reason for low popularity of crop insurance in developing countries might be limited understanding of its benefits. Crop insurance ensures stabilization of income, efficiency and rural credit. To sum it up it can be said that the relative advantages of crop insurance are, (a) assured income for the farmers, (b) better risk management, (c) encourages farmers in choosing risky crops for production, (d) insulation from financial distress, (e) encourages farmers in adopting better production techniques.

### **Conclusion**

For the growth of any nation along with industrialization growth of agriculture is essential. It cannot be denied that the farmer force is our unsung heroes. In what

way the farmers are not able to face the financial obligations is most important and establishing costing methods for the purpose of solving such problems becomes the need of the hour. In the present scenario the Indian agriculture is facing problems like draught, WTO policies affecting crop prices, influence of cross cultures on rural life style, migration of labors to cities for earning more wages etc and it is important to come over them. Well, cost by nature can serve as an important tool to the agriculture, provided traditional techniques of the Indian agriculture should be implemented in agri-costing.

To double the income of the farmers GOI is taking various steps. The recently set up Committee on Doubling of Farmers Income (DFI) which has its official members from various Ministries/Departments of Government of India and has unofficial members from society with interest in agriculture and concern for farmers. The committee has submitted its report in August 2017 wherein it touched upon various delicate issues which will help in doubling the income of the farmers.

## SALES PROMOTION SCHEMES AND DISCOUNTS UNDER GST



Traders generally offer various discounts like volume discount, cash discount, trade discount etc. Discounts like trade discount, quantity discount etc. are part of the normal trade and commerce. There has been a lot of confusion in treatment of discounts in invoice and questions with respect to which amount should be chargeable to GST.



**CA Jithin P G. FCA,ACS,DISA**

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### Discounts under GST

Sec.15 of the CGST Act, 2017, reproduced below, deals with the provision of discount, as under:

“The value of the supply shall not include any discount which is given –

(a) Before or at the time of the supply if such discount has been duly recorded in the invoice issued in respect of such supply; and

(b) After the supply has been effected, if –

(i) Such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices, and

(ii) Input tax credit as is attributable to the discount on the basis of document issued

by the supplier has been reversed by the recipient of the supply.”

There will be no differentiation in GST between trade and cash discounts. In fact, GST segregates the discounts allowed into two categories:

- Those given before or at the time of supply, and
- Those given after the time of supply.

#### **Discount allowed before or at the time of supply,**

The treatment of discount allowed before or at the time of supply can be deducted from the value of supply provided it has been mentioned in the invoice separately.

#### **Discount allowed after the supply.**

It may or may not be added in the value of the supply, depending upon following:

- The discount has been allowed as per the terms already agreed upon before or at the time of supply, or
- The discount can be linked directly to the invoice of supply,
- The input tax credit (ITC) related to the amount of the discount allowed has been reversed by the recipient of the supply.

### **TREATMENT OF VARIOUS SALES PROMOTION SCHEMES**

There are several promotional schemes which are offered by taxable persons to increase sales volume and to attract new customers for their products. Some of these schemes have been examined by CBIC and clarification on the aspects of taxability, valuation, availability or otherwise of Input Tax Credit in the hands

of the supplier in relation to the said schemes are detailed hereunder

- **Free samples and gifts:**

Free samples are offered to customer without charging any consideration. For a transaction to be treated supply for the purpose of GST, there must be some form of consideration. Only the activities covered under Schedule I of CGST Act will be treated as supply if there is no consideration. Since free samples and gifts are supplied without any consideration, it shall not be treated as supply under GST (except in case of activities mentioned in Schedule I of the said Act)

As per clause (h) of Section 17(5) of CGST Act, input tax credit shall not be available on goods disposed of by way of gift or free samples. Therefore reversal of ITC is needed in the case of Capital Goods, Input Services or Inputs to the extent it is covered by section 17(5) restrictions.

- **By one Get one Offers**

There may be case where “buy one soap and get one soap free” or “Get one tooth brush free along with the purchase of tooth paste”. In this case CBIC clarified that it is not a individual supply of free goods. It is supply of two or more goods at a single price.

The taxability of such case is depend upon whether it is Composite Supply of Mixed Supply and rate is fixed as per Section 8 of CGST Act. There is no need for reversal of ITC.

- **Buy more, save more offers**

Sometimes, the supplier offers staggered discount to his customers

such as Get 10 % discount for purchases above Rs. 5000/-, 20% discount for purchases above Rs. 10,000/- and 30% discount for purchases above Rs. 20,000/-. Such discounts are shown on the invoice itself. It shall be excluded to determine the value of supply provided they satisfy the parameters laid down in sub-section (3) of section 15 of the said Act, including the reversal of ITC by the recipient of the supply as is attributable to the discount on the basis of document (s) issued by the supplier. No reversal of ITC is needed in such cases.

- **Periodic / Year ending discounts**

Some suppliers also offer periodic / year ending discounts to their stockists etc. For example- Get additional discount of 1% if you purchase 10000 pieces in a year, get additional discount of 2% if you purchase 15000 pieces in a year. Such discounts are established in terms of an agreement entered into at or before the time of supply though not shown on the invoice as the actual quantum of such discounts gets determined after the supply has been effected and generally at the year end. In commercial parlance, such

discounts are colloquially referred to as "volume discounts". Such discounts are passed on by the supplier through credit notes.

It shall be excluded to determine the value of supply and further the supplier shall be entitled to avail the ITC for such inputs, input services and capital goods used in relation to the supply of goods or services or both on such discount

- **Secondary Discounts**

These are the discounts which are not known at the time of supply or are offered after the supply is already over. For example Supplier sells good at Rs 100 per piece and after sales it is revalued at Rs.95 piece and a credit note is also issued. It is clarified by CBIC that such credit note can be issued but such secondary discounts shall not be excluded while determining the value of supply as such discounts are not known at the time of supply and the conditions laid down in clause (b) of sub-section (3) of section 15 of the said Act are not satisfied. There is no impact on availability or otherwise of ITC in the hands of supplier in this case.



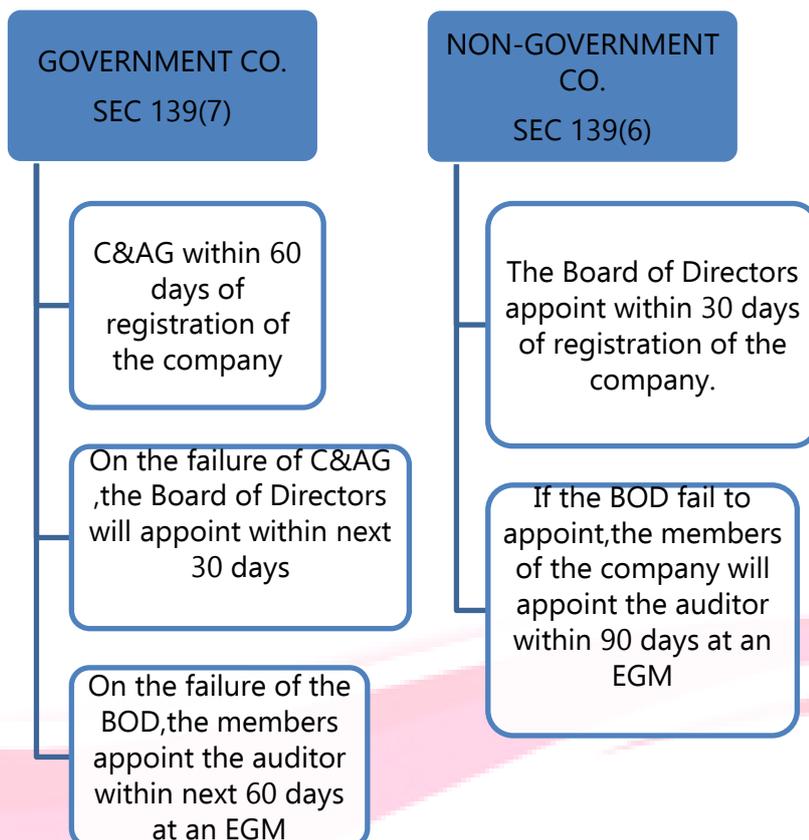
company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, the Comptroller and Auditor-General of

India shall, in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of companies under this Act, within a period of 180 days from the commencement of the financial year, who shall hold office till the conclusion of the AGM.

**Fig.1: Appointment of subsequent auditor**



**Fig.2: Appointment of first auditor**



## **ROTATION OF AUDITORS**

- No listed company or a company belonging to such class or classes of companies as may be prescribed, shall appoint or re-appoint-
  - (a) an individual as auditor for more than one term of 5 consecutive years; and
  - (b) an audit firm as auditor for more than two terms of 5 consecutive years:Provided that-
  - an individual auditor who has completed his term under clause (a), shall not be eligible for re-appointment as auditor in the same company for five years from the completion of his term;
  - an audit firm which has completed its term under clause (b), shall not be eligible for re-appointment as auditor in the same company for five years from the completion of such term.
- Nothing contained in this sub-section shall prejudice the right of the company to remove an auditor before expiry of his term or the right of the auditor to resign from such company.
- Subject to the provisions of this Act, members of a company may resolve to provide that-
  - (a) in the audit firm appointed by it, the auditing partner and his team shall be rotated at such intervals as may be resolved by members; or
  - (b) the audit shall be conducted by more than one auditor.
- ❖ The word "firm" here shall include a limited liability partnership incorporated under the Limited Liability Partnership Act, 2008.

## **CASUAL VACANCY**

Any casual vacancy in the office of an auditor shall-

- in the case of a company other than a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Board of Directors within 30 days, but if such casual vacancy is as a result of the resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within 3 months of the recommendation of the Board and he shall hold the office till the conclusion of the next AGM
  - in the case of a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Comptroller and Auditor-General of India within 30 days:
- Provided that in case the Comptroller and Auditor-General of India does not fill the vacancy within the said period, the Board of Directors shall fill the vacancy within next 30 days.

## *Trichur Branch of SIRC Newsletter*

A retiring auditor may be re-appointed at an annual general meeting, if-

- (a) he is not disqualified for re-appointment;
- (b) he has not given the company a notice in writing of his unwillingness to be re-appointed; and
- (c) a special resolution has not been passed at that meeting appointing some other auditor or providing expressly that he shall not be re-appointed of such committee.

- Where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company.
- Where a company is required to constitute an Audit Committee under section 177, all appointments, including the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of the Audit Committee.



## **Be Summer Ready: 7 Healthy Diet Tips for Summer**

While summer may be of some relief from cold and chilly days, it may also bring along various health problems like dehydration, upset stomach, bacterial infections, heat stroke, et al. It is imperative to make sure you are eating the right foods and exercising the right way to fitness and health. Restore and replenish your skin and physical health as we suggest some amazing healthy diet tips to survive the sweltering summer this year. Here are some healthy tips for summer you must note down!

### **1. Grab seasonal fruits and vegetables**

These days most vegetables and fruits are available all-year round; however, consuming seasonal foods have their own charm and health benefits. Always pick freshly harvested foods to extract best benefits they have to offer. Load up on

mangoes, plums, tomatoes, berries, watermelon, oranges, celery, et al.

### **2. Keep yourself hydrated**

Drinking water is extremely important as it help rehydrate your body and helps it function better. Make sure you gulp down 8-10 glasses of water and ensure a well hydrated body. Do not drink extremely chilled water as it will only wreak havoc on your health.

### **3. Downsize your meal**

It takes longer for the stomach to digest food plus the hot weather does not allow you to load up on too many foods. It is good to have lighter meals rather than having heavy ones, especially at night.

### **4. Eat more cooling foods**

Tips for Healthy Living

Load up on more body cooling foods and more hydrating foods that will help your keep going in this heat. Eat more watermelon, sesame, coconut water, cucumber, mint, fennel seeds, et al.

### **5. Choose fresh juices over cold drinks**

Summers make you thirsty more often, which makes us resort to cold drinks and energy drinks that prove to be hazardous in the long run. Whenever you feel like quenching your thirst, prefer drinking orange juice or melon juice.

### **6. Binge on lighter snacks**

Move over fried snacks that you enjoyed during winters; it is time to load up on

lighter snack options like nuts, trail mixes, seeds, fruits, et al.

### **7. Hygiene is the key to a healthy body**

Make sure whatever you eat or drink on is clean and hygienic. You are prone to get bacterial infections from the utensils in restaurants and even at home. Always ensure they are clean and always wash your hands before eating.

These healthy diet tips will ensure a happy and healthy you! Happy Summers!

## GLIMPSES



**Inauguration of Investor Awareness Programme 2018-19 conducted in association with ICSI, ICAI and TMA**



**Study Circle Meeting on UDIN on 05.03.2019 by CA Mahadevan N V**



**Women's Club Meeting held on 08.03.2019**



**Inauguration of One Day Seminar on Bank Audit by Chief Guest Ca. Chithra H, Joint GM & CFO, The South Indian Bank Ltd, HO on 14.03.2019**



One Day Seminar on GST by CA. Shankara Narayanan V, Chennai

## ബാങ്ക് ഓഡിറ്റ് സെമിനാർ

▶ ട്രിപ്പൂർ ഇൻസ്റ്റിറ്റ്യൂട്ട് ഓഫ് ചാർട്ടേഡ് അക്കൗണ്ടന്റ്സ് ഓഫ് ഇന്ത്യ നടത്തിയ സെമിനാറിൽനിന്ന്

ട്രിപ്പൂർ ഇൻസ്റ്റിറ്റ്യൂട്ട് ഓഫ് ചാർട്ടേഡ് അക്കൗണ്ടന്റ്സ് ഓഫ് ഇന്ത്യ സി.എ. വിദ്യാർത്ഥികൾക്കായി ഏകദിന ബാങ്ക് ഓഡിറ്റ് സെമിനാർ നടത്തി.

സി.എ. പരീക്ഷയിൽ ഉന്നത വിജയം കൈവരിച്ച വിദ്യാർത്ഥികളെ അനുമോദിച്ചു. ജൂബിലി മിഷൻ ഹോസ്റ്റിറ്റൽ സി.ഇ.ഒ. ഡോ. ബെന്നി ജോസഫ് ഉദ്ഘാടനം ചെയ്തു. ചെയർപേഴ്സൺ ശില്പ രാമദാസ് അധ്യക്ഷയായി. സി.എ. ഫൗണ്ടേഷൻ, ഐ.പി.സി.സി. പരീക്ഷകളിൽ എട്ട് വിദ്യാർത്ഥികളാണ് ആദ്യ അമ്പത് രാങ്കിനുള്ളിൽ നേടിയത്. വൈസ് ചെയർമാൻ അനൂപ് ജി., സെക്രട്ടറി ആര്യൻ കെ.കെ., എസ്.ഐ.സി.എ.എസ്.എ. ചെയർമാൻ ജിൻ പോൾ എന്നിവർ പങ്കെടുത്തു.

One day Seminar on Bank Audit to CA Students