KGS

"Progress always involves risks. You can't steal second base and keep your foot on first."
-Frederick B Wilcox

INTEGRITY FIRST

INDEX

No Deviation in Book Profits u/s 115JB permitted from Profit & Loss Account except Permissible Adjustments

This article aims to describe:

- Basics of Section 115JB
- Facts of the Case ITAT Bangalore
- Decision of ITAT Bangalore
- Conclusion

CA Digant Chadha & Nidhi Matta

M/s B&B Infotech Limited v/s ITO (ITAT Bangalore)

"No deviation in Book Profits u/s 115JB permitted from Profit & Loss account except permissible adjustments."

Introduction to section 115JB

As per section 115JB, where in case of a company, the income tax payable on the total income as computed under the income tax act in respect of any previous year is less than 18.5% of its BOOK PROFIT, then such book profit shall be deemed to be the total income of the assessee and the tax payable on such total income shall be the amount of income tax at the rate of 18.5%. This income tax is, further has to be enhance by surcharge (as applicable) and education cess @ 3%. In the simple words every company has to compute its income tax liability as per two sets of provisions .The set of provisions which results in higher income tax liability become the income tax payable. Followings are the two set of provisions:

Minimum Alternate Tax
Section 115JB

1) Income tax computed as per normal provisions of income tax act.
2) Income tax computed as per provision of section 115JB of income tax act.

Explanation 1 to section 115JB (Computation of Book Profits)

"Book Profit" means the net profit as shown in the profit and loss account for the relevant previous year prepared by a company in accordance with the provisions of Part II of Schedule VI to the Companies Act, 1956 or in accordance with the provisions of the Act governing such company, as increased by-

a) The amount of income tax paid or payable, and the provisions thereof; or
b) The amounts carried to any reserves, by whatever name called; or
c) The amount or amounts set aside to provisions made for meeting liabilities, other than ascertained liabilities; or
d) The amount by way of provision for losses of subsidiary companies; or
e) The amount or amounts of dividends paid or proposed ; or
f) The amount or amounts of expenditure relatable to any income to which section 10 (other than the provisions contained in clause (38) thereof) or section 11 or section 12 apply; or
g) the amount of depreciation; or
h) The amount of deferred tax and the provision therefore; or
i) The amount or amounts set aside as provision for diminution in the value of any asset; or
j) The amount standing in revaluation reserve relating to revalued asset on the retirement or disposal of such asset; or
k) The amount of gain on transfer of units referred to in clause (xvii) of section 47 computed by taking into account the cost of the shares exchanged with units referred to in the said clause or the carrying amount of the shares at the time of exchange where such shares are carried at a value other than the cost through profit or loss account, as the case may be.

If any amount referred to in clauses (a) to (i) is debited to the profit and loss account or if any amount referred to in clause (j) is not credited to the profit and loss account, and as reduced by,—

(i) The amount withdrawn from any reserve or provision (excluding a reserve created before the 1st day of April, 1997 otherwise than by way of a debit to the profit and loss account), if any such amount is credited to the profit and loss account:

Provided that where this section is applicable to an assessee in any previous year, the amount withdrawn from reserves created or provisions made in a previous year relevant to the assessment year commencing on or after the 1st day of April, 1997 shall not be reduced from the book profit unless the book profit of such year has been increased by those reserves or provisions (out of which the said amount was withdrawn) under this Explanation or Explanation below the second proviso to section 115JA, as the case may be; or

(ii) the amount of income to which any of the provisions of section 10 (other than the provisions contained in clause (38) thereof) or section 11 or section 12 apply, if any such amount is credited to the profit and loss account; or

(iia) the amount of depreciation debited to the profit and loss account (excluding the depreciation on account of revaluation of assets); or

(iib) the amount withdrawn from revaluation reserve and credited to the profit and loss account, to the extent it does not exceed the amount of depreciation on account of revaluation of assets referred to in clause (iia); or

Following clauses (iic), (iid), (iie) and (iif) shall be inserted after clause (iib) in Explanation 1 below sub-section (2) of section 115JB by the Finance Act, 2015, w.e.f. 1-4-2016:

(iic) the amount of income, being the share of the assessee in the income of an association of persons or body of individuals, on which no income-tax is payable in accordance with the provisions of section 86, if any, such amount is credited to the profit and loss account; or

(iid) the amount of income accruing or arising to assessee, being a foreign company, from,—

(A) The capital gains arising on transactions in securities; or

(B) The interest, royalty or fees for technical services chargeable to tax at the rate or rates specified in Chapter XII,

if such income is credited to the profit and loss account and the income-tax payable thereon in accordance with the provisions of this Act, other than the provisions of this Chapter, is at a rate less than the rate specified in sub-section (1); or

(iie) the amount representing,—

(A) notional gain on transfer of a capital asset, being share of a special purpose vehicle to a business trust in exchange of units allotted by that trust referred to in clause (xvii) of section 47; or

(B) Notional gain resulting from any change in carrying amount of said units; or

(C) Gain on transfer of units referred to in clause (xvii) of section 47,

if any, credited to the profit and loss account; or

(iif) the amount of loss on transfer of units referred to in clause (xvii) of section 47 computed by taking into account the cost of the shares exchanged with units referred to in the said clause or the carrying amount of the shares at the time of exchange where such shares are carried at a value other than the cost through profit or loss account, as the case may be;

(iii) The amount of loss brought forward or unabsorbed depreciation, whichever is less as per books of account.

Explanation—for the purposes of this clause,—

(a) The loss shall not include depreciation;

(b) The provisions of this clause shall not apply if the amount of loss brought forward or unabsorbed depreciation is nil; or

(iv) the amount of profits of sick industrial company for the assessment year commencing on and from the assessment year relevant to the previous year in which the said company has become a sick industrial company under sub-section (1) of section 17 of the Sick Industrial Companies (Special Provisions) Act, 1985 (1 of 1986) and ending with the assessment year during which the entire net worth of such company becomes equal to or exceeds the accumulated losses.

Explanation.—For the purposes of this clause, "net worth" shall have the meaning assigned to it in clause (ga) of sub-section (1) of section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985 (1 of 1986); or

(v) The amount of deferred tax, if any such amount is credited to the profit and loss account.

Facts of the case

Brief facts of the case are that the assessee filed its return of income on 25/3/2006 declaring 'nil' income. A notice u/s 148of the IT Act, 1961 ['the Act" for short] was issued on 8/11/2006whereby the AO sought to tax under MAT an amount of Rs.43 lakhs being remission of liability of ING Vysya Bank Ltd. The assessee submitted before the AO that this remission of the liability was on account of principal amount of loan and therefore ,the same is not in the nature of income which can be considered as part of the book profits u/s 115JB of the Act. The AO rejected the objections of the assessee and added the said amount ofRs.43 lakhs while computing book profits u/s 115JB of the Act.

Contention raised by the assessee

The Id counsel of the assessee submitted that remission being capital receipt, cannot be considered as income of the assessee even for the purpose of book profits u/s 115JB of the Act. In support of his contention, he has relied upon the decision of the Mumbai Bench of the Tribunal in the case of M/s Shivalik Venture Pvt. Ltd. vs. DCIT in ITA No.2008/Mum/2012 dated 19/8/2015 as well as the decision of the Jaipur Bench of the Tribunal in the case of ACIT vs. Shree Cement Ltd. in ITA Nos.614, 615 & 635/JP/2010 dated 9/9/2011.
The learned AR of the assessee has also relied on the judgment of the Hon'ble Andhra Pradesh High Court in the case of CIT vs. Nagarjuna Fertilizers & Chemicals Ltd. in ITTA No.100 of 2003 dated 23/9/2014 and submitted that when the assessee has the disclosed the fact of capital receipt in the notes to accounts, then said amount shall be excluded from the profit and loss account for the purpose of book profits u/s 115JB.
The learned AR of the assessee has submitted that even if the said amount is shown by the assessee in the P&L A/c when the assessee has disclosed the nature of receipt in the notes to the accounts, then the effect of said disclosure in the notes to the accounts will be that the said amount should not be considered as part of P&L A/c of the assessee as per the provisions of Schedule VI of the Companies Act.

Decision as held by ITAT Bangalore

In the case in hand, the assessee got remission of liability of Rs.43 lakhs under one time settlement by the ING Vysya Bank which has been disclosed by the assessee in the P&L A/c. This disclosure, in the P&L A/c is strictly as per the requirement of Schedule VI of the Companies Act and further in conformity with the mandatory accounting standard AS 5. Therefore, the treatment of the amount in the books of account and particularly in the P&L A/c, is as per the provisions of Schedule VI of the Companies Act as well as accounting standard AS 5. Hence, any disclosure in the notes to accounts would not require any change in the P&L A/c already prepared as per Schedule VI of the Companies Act. The decisions relied upon by the assessee are applicable on the facts and circumstances where if an item of income or expenditure which is required to be disclosed in the P&L A/c prepared as per provisions of Schedule VI of the Companies Act but instead of disclosing the said item in the P&L A/c, it was disclosed in the Notes to the accounts, then such item of income or expenditure will be treated as part of the P&L A/c for the purpose of computing book profits u/s 115JB. Once P&L A/c is admittedly prepared as per Schedule VI of the Companies Act, then neither the AO has any power to tinker with it nor the assessee is permitted to claim exclusion or inclusion of any item of income or expenditure as the case may be, for the purpose of computing book profits u/s 115JB except the permissible adjustment provided under the Explanation to sec.115JB itself. It is not disputed that this amount does not fall in the ambit of any of the clauses of Explanation to 115JB. Therefore, once this amount has been disclosed in the P&L A/c prepared strictly as per provisions of Schedule VI of the Companies Act, the same cannot be excluded for the purpose of computing book profits u/s 115JB. Accordingly, appeal of the assessee dismissed.

Conclusion

Firstly, the fact cannot be disputed upon that the accounts are to be prepared as per the provisions of the Schedule III of the Companies Act. Therefore, neither the Assessing Officer has the power to tinker nor the assessee is permitted to claim exclusion or inclusion of any item of income or expenditure as the case may be, for the purpose of computing book profits u/s 115JB except the permissible adjustment provided under the Explanation to sec.115JB itself.

Secondly, the assessee is not allowed to any other adjustments (addition or deductions), in the Book profits for the calculation of Minimum Alternate Tax other than the permissible adjustments as stated in the Explanation-1 to Section 115JB of the Income Tax Act, 1961

Tax Applicability on Data Storage Services-"Cloud Computing"

This article highlights

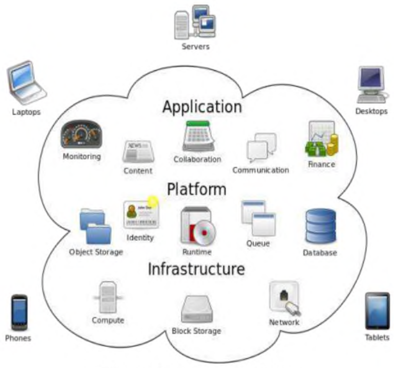
Tax applicability on Data Storage Services-"Cloud Computing" under-

- Present Indirect Tax Laws
- Proposed GST

Ms Garima Sharma & Rishabh Demnali

Taxability on Data Storage Services -“Cloud Computing “Under Present Indirect Tax Laws & Proposed GST-

Information Technology (IT) industry has grown multi folds in last 2 decades in India. It is one of the most revenue generating sector for government, job creating sector for individuals.



Cloud Computing

The taxability of Software/Solutions/Clouds has always been a litigative area because of difficulty in its classification as goods or service due to its inherent nature of intangibility, transfer of use, license, etc.

Under the present tax laws, Software can be liable to taxed under Service Tax, VAT, Excise Duty, Customs Duty, etc. depending on the nature of transaction whether it is sale of ‘goods’ or ‘service’ or ‘both’. The present average tax rate is around 25-35%.

However once this GST comes into place the need for its bifurcation may not be required since every transaction shall be dealt both by State (Only SGST) and Central Government(Only CGST) that too not cascading. (Please see examples for better understanding). Proposed GST rate shall be around 18%-25%.

A transaction cannot be leviable to both Service tax and VAT, however practically both are levied in many cases Supreme Court in case of Imagic Creative (P) Ltd. v/s CCT & Ors, 2008 held that both cannot be levied, however, given the ambiguity and huge expenditure & time on litigation both are charged by the service providers.

What is Cloud Computing?

The Cloud is:

i) On demand
ii) Available anywhere, at anytime (subject to the availability of an internet connection)and
iii) Scalable (i.e. the user can scale the amount of Cloud Computing services or goods required as their business grows and requires more resources for more users).

Cloud Computing Models

There are three major models of delivering ‘clouding computing’ services to businesses and they are as follows:

1. Infrastructure as a Service (IaaS) Model – Under this model, IT infrastructure in the form of data centres, virtual servers, network infrastructure, equipment, etc. are sourced as a service from third party service providers. The customer does not manage or control the underlying cloud infrastructure, but has control over the operating system, storage, and deployed applications, and may be given limited control of select networking components.

2. Platform as a Service (PaaS) Model – Provides a computing platform and programming tools as a service for software developers. The client does not control or manage the underlying cloud infrastructure, including the network, servers, operating systems, or storage, but has control over the deployed applications.

3. Software as a Service (SaaS) Model – Service provider hosts several software applications for consumers to use as and when required thereby eliminating the need to install and run the software application on the consumer’s own infrastructure. It can be provided either to business customers (B2B) or to individual customers (B2C).

Transaction	VAT/ CST	Service Tax	Customs	Excise Duty
Cloud Computing(servers outside India)	No	Yes	No	No
Cloud Computing(servers in India)	Yes	Yes	No	No

Internationally, software/cloud models are treated as a ‘service’.

What is GST?

"Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level under which no distinction is made between goods and services for levying of tax. It will mostly substitute all indirect taxes levied on goods and services by the Central and State governments in India.

There shall be three forms in which GST shall be levied:

- **CGST**, Central GST (Intra state sale of goods and services)
- **SGST**, State GST (Intra state sale of goods and services)
- **IGST**, (Interstate transaction and Import)

Since GST shall be destination based tax and only ultimate consumer has to bear the taxes, there would be allowability of credit against future liability of tax payment for business houses.
Credit of CGST shall be allowed against CGST, SGST against SGST and credit of IGST/CGST/SGST against IGST. In case credit can't be utilized fully, it shall be refunded.

What would be the taxability of software/cloud computing under GST?

Once the GST comes into place, there would not be any requirement to classify the software/support 'a service or goods'. This will help to eliminate all the major classification and litigation issues.

Examples explaining comparison between current tax regime and proposed GST:

Example: (Comprehensive Comparison)		
Comparison between Multiple Indirect tax laws and proposed GST		
Particulars	**Without GST(Rs.)**	**With GST(Rs.)**
1. Access of Servers of a Website for Accounting, social networking, etc. (Data maintained in Servers, Applications outside India)		
Cost of Provider	5,000.00	5,000.00
Add: Profit Margin	2,000.00	2,000.00
Price Before Taxes	7,000.00	7,000.00
Add: Excise Duty @ 12%	–	–
Total Value(a)	**7,000.00**	**7,000.00**
Add: Service Tax @ 14%	–	–
Add: IGST @ 20%	–	–
Invoice Value	**7,000.00**	**7,000.00**
Note: ST/IGST under reverse charge payable by service receiver (Refer note 2 & 6)	**980.00**	**1,400.00**
2. Access of Servers of a Website for Accounting, social networking, etc. (Data maintained in Servers, Applications in India)		
Cost of Provider	5,000.00	5,000.00
Add: Profit Margin	2,000.00	2,000.00
Price Before Taxes	7,000.00	7,000.00
Add: Excise Duty @ 12%	–	–
Total Value(a)	**7,000.00**	**7,000.00**
Add: Service Tax @ 14%	980	–
Add: VAT @ 12.5%	997.5	–
Add: CGST @ 10%	–	700
Add: SGST @ 10%	–	700
Invoice Value	**8,977.50**	**8,400.00**

Summary/Conclusion:

The taxability of Software has always been a litigative issue. The government headed by Mr Narendra Modi is taking concrete steps to impress the IT sector (since it is the 'Future of Indian Business') with its pro-active moves to bring in GST which shall end much litigation surrounding software taxability. The recent move to introduce Digital India to provide digital governance, infrastructure and digitally empowered society also expresses government interest in Information Technology Services. Once the GST comes into picture, there would be no or reduced requirements for classification of software as a Goods or Service.

Bitcoins: An Emerging Currency

This article aims to explain:

- Bitcoins
- How They Working
- Benefits of Bitcoins
- Bitcoins in India

CA Kunal Jain & Hargun Kaur

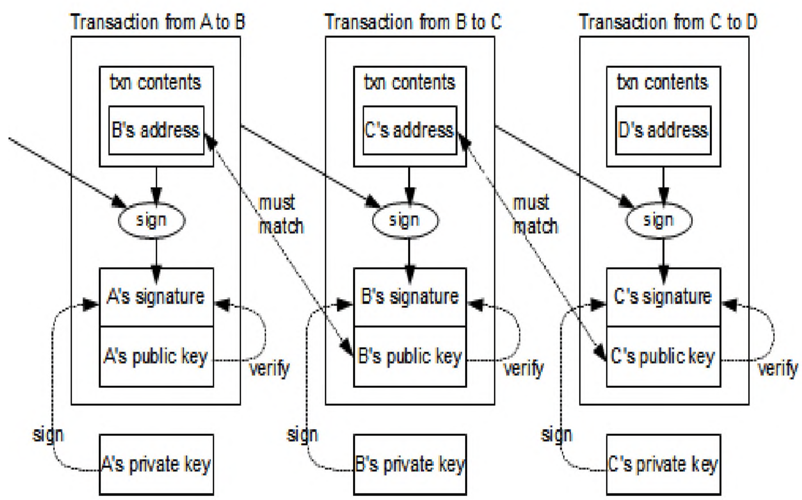
BITCOINS: AN EMERGING CURRENCY

Introduction to bitcoins:

Bitcoin is a digital currency used over the internet for trading or payment of service. It is an invisible (virtual) currency that lets people do business with each other. Bitcoin is the first decentralized peer-to-peer payment network that is powered by its users with no central authority or middlemen.

How bitcoins work:

- From a user perspective, Bitcoins is nothing more than a mobile app or computer program that provides a personal Bitcoins wallet and allows a user to send and receive bitcoins with them.
- Behind the scenes, the Bitcoins network shares a public ledger called the **"block chain".** This ledger contains every transaction ever processed, allowing a user's computer to verify the validity of each transaction.



- The authenticity of each transaction is protected by digital signatures corresponding with the sending addresses, allowing all users to have full control over sending bitcoins from their own Bitcoins addresses. In addition, anyone can process transactions using the computing power of specialized hardware and earn a reward in bitcoins for this service. This is often called **"mining"**.
- An address is like a bank account into which a user can receive, store, and send bitcoins. Instead of being physically secured in a vault, bitcoins are secured with public-key cryptography. Each address consists of a public key, which is published, and a private key, which the owner must keep secret. Anyone can send bitcoins to any public key, but only the person with the private key can spend them.
- While addresses are public, nobody knows which addresses belong to which people; Bitcoins addresses are pseudonymous. After depositing bitcoins into a “wallet”, the wallet alerts (“broadcasts”) every other user of bitcoins that it contains bitcoins. This information is incorporated into the block chain.
- The wallet generates a public key accessible to anyone and a **private key** (unless the wallet is on an exchange, such as Bitstamp) or address that authorizes sending bitcoins to other public addresses.

Benefits of Bitcoins:

- ***Payment freedom***–It is possible to send and receive any amount of money instantly anywhere in the world at any time. No bank holidays. No borders. No imposed limits. Bitcoins allows its users to be in full control of their money.
- ***Very low fees***–Bitcoins payments are currently processed with either no fees or extremely small fees. Users may include fees with transactions to receive priority processing, which results in faster confirmation of transactions by the network. In addition, services exist to assist merchants in processing transactions, converting bitcoins to fiat currency, and depositing funds directly into merchants' bank accounts daily. As these services are based on Bitcoins, they can be offered for much lower fees than with Pay Pal or credit card networks.
- ***Attractive for micro transactions***–Because the fees are so low, bitcoins can be used in transactions that are economically unattractive for most merchants, especially in developing countries.
- ***Fewer risks for merchants***–Bitcoins transactions are secure, irreversible, and do not contain customers' sensitive or personal information. This protects merchants from losses.

Legal position in India

At present, there are no regulations governing virtual currencies like bitcoins in India. RBI, on December 24, 2013, issued a press release on virtual currencies like bitcoins, litecoins, bbqcoins, dogecoins stating that creation, trade and usage of virtual currencies as a medium for payment is not authorized by any central bank or monetary authority. Further, RBI has cautioned virtual currency traders and users to various security related risks such as hacking, E-Newsline April 2014 Disclaimer – This e-newsline is for information purposes and should not be construed as legal advice. While RBI has not legalized bitcoins, it has declared them unauthorized as of now. RBI is currently examining the risks associated with the usage, holding and trading of virtual currencies under the extant legal and regulatory framework of India, including foreign exchange and payment systems laws and regulations.

Gaining grounds of Bitcoins in India:

In the present situation, when there is so much of volatility in the equity and real estate markets, bitcoins have become one of the reliable investment destinations. Moreover, with the Digital India initiative, money is bound to become virtual. Bitcoins can be bought and sold online and remitted abroad with a single click on a Smartphone. And there's no need to pay any fees to a bank or other over-charging financial intermediaries. With market estimates of 30,000 users in India and transactions of about Rs 200 crore a year, the digital currency is being used for purchases and long-term investments.
Though it has depreciated significantly due to cultural traits as Indians don't feel confident about money unless they're holding cash in hand, but this perception will also slowly change just like plastic money is slowly replacing paper money. Investors believe that with India becoming increasingly digital and society moving toward cashless transactions.

Key Managerial Personnel

This article aims to explain

- Key Managerial Personnel
- Mandatory Appointment of KMP
- Manner of Appointment of KMP
- Restrictions Regarding Appointment of KMP
- Punishments

CA Puneet Mehra & Shubhi Dhawan

Key Managerial Personnel

General Meaning:

The term key management personnel include those people having authority and responsibility for planning, directing, and controlling the activities of an entity, either directly or indirectly. Key management personnel are employees who have the authority to directly or indirectly plan and control business operations. The term key management personnel is a relative term dealing with specific operations.

Who is a Key Managerial Personnel?

The definition of the term Key Managerial Personnel is contained in Section 2(51) of the Companies Act, 2013. Key managerial personnel in relation to a company, means—

- The Chief Executive Officer or the Managing Director or the Manager
- The Company Secretary
- The Whole-time Director
- The Chief Financial Officer and
- Such other officer as may be prescribed

Which Companies are Mandatorily Required to Appoint Key Managerial Personnel

As per Section 203 of the Companies Act, 2013 read with the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the following class of Companies, namely

1. Every listed company, and
2. Every other public company having paid up share capital of Rs. 10 Crores or more shall have the following whole-time key managerial personnel,—
    a. Managing Director, or Chief Executive Officer or Manager and in their absence, a Whole-time Director;
    b. Company secretary; and
    c. Chief Financial Officer

Rule 8- Appointment of KMP, of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014

Every listed company and every other public company **having paid up share capital of Rs. 10 crores or more** shall have a whole-time KMP.

Rule 8A-Appointment of Company Secretaries, of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014

A company other than a company which is required to appoint a whole time key managerial personnel as discussed above and **which is having paid up share capital of Rs. 5 Crores or more** shall have a whole time Company Secretary.

Manner of Appointment of KMP (As Per Sub Section 2 of Section 203):

Every whole-time key managerial personnel of a company shall be appointed by means of a resolution of the Board containing the terms and conditions of the appointment including the remuneration. If the office of any whole-time key managerial personnel is vacated, the resulting vacancy shall be filled-up by the Board at a meeting of the Board within a period of 6 months from the date of such vacancy.

Restrictions Regarding Appointment of Key Managerial Personnel (As per Sub Section 3 of Section 203):

1. Same person not to act as Chairman and MD/CEO. It has been provided under the Act that the role or designation of Chairman and Managing Director or Chairman and Chief Executive Officer should not be assigned to the same person. However, in the followingcircumstances, the above restriction will not apply:
    a. the articles of the company contain provision for appointment of same person, or
    b. the company carries only a single business, or
    c. the company is engaged in multiple businesses and has appointed one or more Chief Executive Officers for each such business as may be notified by the Central Government
2. Whole time KMP not to hold office in more than one company. It has been provided under the Act that a whole-time key managerial personnel shall not hold office in more than one company at the same time, except:
    a. In the company's subsidiary company,
    b. As a director in any other company with the permission of the Board
    c. As a MD, if he is the managing director or manager of one and of not more than one other company and such appointment or employment is made or approved by a resolution passed at a meeting of the Board with the consent of all the directors present at the meeting and of which meeting, and of the resolution to be moved thereat, specific notice has been given to all the directors then in India. Further, it has also been provided that a whole-time key managerial personnel holding office in more than one company at the same time on the date of commencement of Act, shall, within a period of six months from such commencement, choose one company, in which he wishes to continue to hold the office of key managerial personnel.

Filling of Vacancy (As per Sub Section 4 of Section 203):

If the office of any whole-time key managerial personnel is vacated, the resulting vacancy shall be filled-up by the Board at a meeting of the Board within a period of six months from the date of such vacancy.

Punishment (As per Sub Section 5 of Section 203):

If a company contravenes the provisions of this section, the company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees and every director and key managerial personnel of the company who is in default shall be punishable with fine which may extend to fifty thousand rupees and where the contravention is a continuing one, with a further fine which may extend to one thousand rupees for every day after the first during which the contravention continues.

Component Accounting

This article aims to explain

- Meaning
- Applicability
- Asset Componentization
- Challenges of Componentization

Mr V.K. Verma & Neeraj Jain

Component Accounting

Meaning

Where cost of a part of the asset is significant to total cost of the asset and useful life of that part is different from the useful life of the remaining asset, useful life of that significant part shall be determined separately. This is known as component accounting.

Applicability and Adoption

As per the amendment notified by the MCA wide notification no. G.S.R. 627(E) on 29 August 2014: Component depreciation is mandatory for all classes of companies. The adoption of this change has been laid out in two phases:

- Voluntary adoption for the financial year commencing on or after 1 April 2014. This should be done for the entire block of assets as at 1 April 2014.
- Mandatory adoption for all the financial statements prepared for financial years commencing on or after 1 April 2015. Component accounting is not restricted to assets acquired after 1 April 2014 or 1 April, 2015 as the case may be.

Globally, the concept of component accounting has been around for a while. In India, although the concept existed as a recommendation vide 'Accounting Standard 10: Accounting for Fixed Assets', it was not widely applied by companies. Indian Accounting has formerly held that the asset as a whole is to be depreciated at a prescribed rate. Schedule II of the Companies Act, 2013 (the act) with effect from 1st April 2015 has made component accounting mandatory when relevant and material. Component Accounting requires that part of the fixed asset which bears a cost significant to the whole asset and a useful life different from that of the asset should be accounted for separately as a 'component'.

Asset Componentization: Procedure

Step 1: Identification

- Identifying significant parts is a matter of judgment and is decided on a case-to-case basis. Identifying separate parts of an asset and determining their useful life is not merely an accounting exercise. It involves technical expertise. Hence, technical experts might need to be involved to determine the significant parts of an asset.

Step 2: Grouping

- The company shall demarcate the asset into parts based materiality and the useful life of the component. The rationale of depreciation under Schedule II is allocating the depreciable amount of the component over its useful life. This requires that the identified components would be sub-divided into groups. Components would be grouped together if they have:
- the same useful life
- use the same method for charging depreciation.

Step 3: Residuary Grouping

- After the second phase, there may still be parts of the principal asset which have not formed part of any component group owing to their insignificant cost compared to the main asset. These parts shall then be clubbed as a remainder group that is individually insignificant and then be depreciated over the useful life of the principal asset.

Hurdle Cross: Addressing the Challenges of Componentization

- **Estimating the life of components:**
  The new Schedule II of the act prescribes a useful life for the whole asset, in the absence of useful life prescriptions for individual components; it is the management's judgment that shall be the modus operandi for the application of this new method of presentation. Situations may arise where companies from the same industry estimate a different useful life for a similar component of assets based on their own judgment. Also in some cases management may seek expert opinion on estimating the life of the asset but may discard the asset before the useful life runs out.

- **Determination of cost of components:**
  For components to be identified, it is imperative that the cost of each component be determined making cost determination one of the primary necessities of component accounting. As component accounting was not mandatory in India until now, it is possible that the separate cost of each significant component of an asset is not available in the books of accounts. In order to determine the cost of such components the following criteria can be used:
  - Cost break up provided by the vendor
  - Cost break up given by an internal/external technical expert
  - Current replacement cost of the component of the related asset and applying the same basis on the historical cost of asset.

- **Restructuring and Training:**
  The fixed asset registers maintained by companies as per the erstwhile method will undergo a complete restructuring, making operating procedure for the accounting of assets an area to be redesigned. Accounting staff will need to be trained in order to adopt this mandate without any hiccups.

- **Materiality :**
  A company needs to identify only material/ significant components separately for depreciation. Materiality is a matter of judgment and needs to be decided on the facts of each case. For example: a component having original cost equal to or less than 5% of the original cost of an asset may not be material. Similarly, a component having original cost equal to 25% or more of the original cost of complete asset may be material. The Company may consider 10% of original cost of the asset as a threshold to determine whether a component is material/significant. In addition, a company also needs to consider impact on retained earnings, current year profit or loss and future profit or loss (say, when part. will be replaced) to decide materiality.

In retrospect

One of the most widely discussed topics in the Indian accounting world is the convergence with International Financial Reporting Standard by transitioning to Ind AS. This transition to Ind AS enables India to adopt globally acclaimed best practices in accounting and financial reporting. The mandatory adoption of component depreciation takes Indian companies a step closer to Ind AS. Component depreciation is one of the many significant changes that have taken place in Indian accounting. It is with the passage of time that these changes will bring about qualitative improvement in the financial disclosures made by the Indian accounting fraternity.

Logistics Cost Management

This article aims to

- Explain Logistics Cost
- Suggest Ways to Minimise Logistics Costs
- Explain Case Study of Walmart & Kmart

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Logistics Cost Management

What is Logistics Cost and why manage it?

Logistics is defined as the management process for the movement of goods across country or across the globe. Companies map out the transportation path of their goods into a supply chain, or a path of transport that they use repeatedly to have goods shipped to them or to customers. When goods travel, they are moved using a combination of travel methods that includes ships, trucks, trains and airplanes. Companies use logistics to manage the timing and location of their goods in transport as a component of their overall supply chain management.

It is extremely important to manage it as some companies manufacture products that rely on the use of raw goods from other countries, while other businesses choose to locate their entire product manufacturing plants overseas. Keeping production costs low by producing or sourcing raw goods in other countries or states allows companies to make more profit, but the logistical costs of transporting and storing products can eat into those profits. Thus Business owners can benefit from understanding logistics, and the detailed costs involved, to maximize their margins and minimize costs.

Many companies plan out the logistics for their supply chain using diagrams resembling flowcharts, or software that can diagram and simulate the supply chain. This helps work through each phase of the goods' journey through the supply chain to calculate the time and related logistical costs for various sections of the shipments' travel.

For example, in the oil and natural gas industry, logistics consists of the systems for gathering and transporting oil, including pipelines and trucks, along with storage and distribution facilities.

Source: Supply Chain Digest, 247 Respondents

How to Reduce Logistics Cost?

As companies continue to manufacture and source materials from overseas, controlling costs remains a top priority for those involved in international trade. One key factor that should be monitored more closely is logistics management, which covers all activities relating to the procurement, transport, transshipment and storage of goods. Depending on the industry sector, supply chain logistics costs account from 5% to 50% of a product's total landed cost.

Some issues effecting logistics costs: Fuel prices remain high and ports continue to experience delays, resulting in higher transportation fees. Increasingly complex international trade laws and security measurements threaten to lengthen delivery times and increase warehousing costs. According to a recent report by TechnologyEvaluation.com, a typical air-freight shipment takes eight to twelve days. Of this, the cargo is en route only 5% of the time. The rest is spent sitting in warehouses waiting for the required documents and compliance checks.

Following are 10 Tips on Reducing Supply Chain Logistics Costs:

1. Understand the true costs of sourcing overseas. Calculate freight, duty, brokerage, and inventory carrying costs to support these lengthened supply chains. Also factor in such items as the costs of engineers flying overseas. Once you understand the true total landed cost and total impact to the business, that domestic buy may look a lot better.

2. Focus on eliminating the variability out of transit times. The more variable the transit times are, the more likely it is that the receiving party is using more premium freight, building buffers of inventory, or ordering more often and more quantity than necessary to compensate for the uncertainty. Understanding these dynamics can lead to the conclusion that paying higher freight costs to insure higher variability actually saves your company in total costs.

3. Strategically source and manufacture products to take advantage of classification duty rates and eligibility for special trade programs such as NAFTA.

4. Consolidate. If you have multiple suppliers in one country, consolidate their goods into one shipment.

Transportation

- Supply Chain Logistics Cost
  - Logistics Operation Cost
  - Logistics Information Cost
  - Logistics Management Cost
- Warehousing Cost
- Packaging Cost
- Loading and Unloading Cost
- Urban Appliances logistics
- GPS Technology

5. Sometimes insurance doesn't pay. Often when a company has a shipment of premium goods they tend to use the Carrier's Insurance. Carriers Insurance is very expensive. If the company is self-insured, which most companies are, they should check their insurance policy to see if it covers shipment of goods. If it does, then they do not need to add the extra cost of Carrier's Insurance.

6. Automate compliance processes. Companies that implement software solutions to automate trade compliance are able to speed the cycle times associated with tasks being performed manually, such as document preparation, and eliminate the associated errors. Automated compliance procedures also bring fewer delays at border crossings, resulting in on-time delivery, adequate inventory levels, increased customer satisfaction, and the avoidance of fines.

7. Control your express shipping costs. Typically when a company runs into a supply chain issue, it will have an entire shipment sent on an express/expedited (highest cost) service level basis. Panicking often results in higher costs. If the company would just do a little bit of calculating it can determine the amount of goods that are needed immediately and have that amount sent using express/expedited service level, while the balance of the shipment can be sent using a standard (lower cost) service level.

8. Planes, trains and automobiles. Which is cheapest? In general, rail is more cost-effective than trucking or air. Water is cheaper than air shipment. No matter the mode of delivery, always try to get three quotes for movements.

9. Always be aware of non-tariff trade barriers. Companies need to be more aware of the increasing level of non-tariff trade barriers that are in force to reduce sweat shop labor and support human rights and animal welfare issues. These restrictions can bring importers increased liability and compliance costs.

WALL MART & KMART

In 2002, five general merchant retailer- Wal-Mart, Kmart, Target, Costco and Sears – accounted for 60 per cent of US sales in that sector. Wal-Mart was the undisputed market and cost leader and the main innovator in North America retailing. It was the first to introduce the 'big box' retail format and flexible cross trained employees who could work in more than one department. Historically Wal-Mart also led way with aggressive investment in IT. Back in the 1960s it was one of the first to use computer to track inventory and was an early adopter of bar-codes technology in the 1980s. In 1983 it was reported that Wal-Mart was spending only 2 cents per sales dollar on getting goods into the stores, while its long-established competitor Kmart was spending 5 cents per dollar on the same activities.

Wal-Mart subsequently became a classic case study for Supply Chain Management programs, due to its use of Electronic Data Interchange (EDI) to improve co-ordination with suppliers. Technological innovation was coupled with a strategy that exploited economies of scale in purchasing and logistics, and gradually expanded operations around central distribution centers. By 1987 it enjoyed 9 per cent market share but was 40 per cent more productive than its competitors. The introduction soon afterwards of wireless scanning guns and the Retail Link Program, which captures sales data giving real time visibility of stock holding and sales pattern were just two more innovation to boost Wal-Mart's market share to 27 per cent by 1995. In sharp contrast to Wal-Mart, Kmart had been losing favors with US shoppers for years because of their ignorance to their logistics management and finally in January, 2002, Kmart became the largest company to ever file for Bankruptcy.

Case of Pizza Giant Papa John's and consumer electronics giant LG Electronics only stresses the importance of Logistics Management.

Conclusion

Because logistics can account for such a large proportion of total costs in the business it is critical that they be carefully managed. However, it is not always the case that the true costs of logistics are fully understood. Traditional approaches to accounting based upon full-cost allocation can be misleading and dangerous. Activity based costing methods provide some significant advantages in identifying the real costs of serving different types of customers or different channels of distribution.

Logistics management impacts not only upon the profit and loss account of the business, but also upon the balance sheet. Logistics is also increasingly being recognized as having a significant impact upon economic value added and hence shareholder value. It is critical that decisions on logistics strategies made based upon a thorough understanding of the impact they will have on the financial performance of the business.

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