

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)

CHENGALPATTU DISTRICT BRANCH (SIRC)
(Formerly Known as Kanchipuram District Branch)



E- Newsletter
April 2024

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ARTICLES INVITED FROM MEMBERS

Note: Articles are invited from members for publishing in newsletter. The articles shall be either on the specific subject or a general article. Members can send their articles with Name, Membership Number, Mobile Number, Residential Address, Office Address & Photo to our E-mail id mentioned below:

E-mail id: chengalpattu@icai.org

Note: The views expressed in the articles published, are their own views and Chengalpattu District Branch does not endorse or take responsibility.



From the Chairman's Desk

My Dear Professional Colleagues

Greetings from Chengalpattu District Branch (SIRC).

A Very Happy Financial Year 2024 – 2025 to all of you.



I welcome you all to this new financial year and pray God that this financial year shall provide health, happiness and prosperity to all our members and their families.

As we step into this new period, we will have several programs and events which will be beneficial in enhancing the knowledge and expanding the networks of our members.

**उद्यमेन हि सिध्यन्ति कार्याणि न मनोरथैः।
न हि सुप्तस्य सिंहस्य प्रवि-शन्ति मुखे मृगाः॥**

Any work will not get accomplished just merely by desiring for its completion. A 'prey' by itself doesn't enter in to the sleeping lion's mouth!!! The desire and capabilities should be added by the efforts and hard work to achieve the goal! Even if the lion has the capabilities to catch it's prey, the prey will not automatically fall in it's mouth.

Your success is the outcome of all your hard work, your learning and your preparation to reach the height and it takes a long time to have the achievement, so Have Patience! Embrace the Challenges that lie ahead, seize every opportunity that comes your way, and continue to strive for excellence.

My friends, we have an important Duty towards the Nation coming up. VOTING IN THE ELECTION. Please do cast your vote without fail and complete your national duty.

Jai Hind

With regards

**CA Narasimma Raghavan R
Chairman
Chengalpattu District Branch (SIRC)**



Gallery for the Month of *March 2024*

Topic : “Bank Audit -LFAR” and “IRAC Norms”

Speaker : CA Srinivasan M and CA Sundarrajan R

Date : 2nd March 2024, Saturday **Venue** : Accord Chrome,Chromepet.





Topic : "Demystifying Input Tax Credit with a Real World Example"

Speaker : CA Vishal V

Date : 7th March 2024, Thursday





E- Newsletter - Chengalpattu District Branch (SIRC)

Topic : "All india managing committee members meet 2024 (AIMCMM 2024)"

Date : 9th - 10th March 2024 @ Hotel ITC Royal Bengal, Kolkata





E- Newsletter - Chengalpattu District Branch (SIRC)

Topic : "Analysis and Implications of Sec 43B as amended by FA 2023"

Speaker : CA. Sankar V

Date : 12th March 2024, Tuesday





E- Newsletter - Chengalpattu District Branch (SIRC)

Topic : "Code of Ethics"

Speaker : CA. Petchi Kannan

Date : 14th March 2024, Thursday





E-Newsletter - Chengalpattu District Branch (SIRC)

programme : "International Women's Day - Excellence @ 360°"

Date : 16th March 2024, Saturday





E- Newsletter - Chengalpattu District Branch (SIRC)

Topic : "Private Companies and Small Companies Compliances under the Companies Act 2013 & MCA21 – Emerging issues and compliance management"

Speakers : CS. Sridharan R, Past President - ICSI & CS. Srikumar B, ICLS, ROC-Chennai

Date : 23rd March 2024, Saturday





E- Newsletter - Chengalpattu District Branch (SIRC)

Topic : "Compliance under PMLA"

Speaker : CA. Jayasankar D

Date : 28th March 2024, Thursday





E-Newsletter - Chengalpattu District Branch (SIRC)

programme : "Planting of Trees at Construction Site"

Date : 30th March 2024, Saturday





E-Newsletter - Chengalpattu District Branch (SIRC)

Topic : "One day Workshop on GST"

Speakers : (1) CA. Rajendra Kumar P, (2) CA. Ashwin Kumar
(3) CA. Aravind Thangam P (4) Adv. CA.Sridharan V

Date : 30th March 2024, Saturday







CA M.SRINIVASAN

PRESENTATION ON LONG FORM AUDIT REPORT RESPONSIBILITIES OF AUDITORS/EXPECTATIONS FROM THE REGULATOR AT CHENGALPET DISTRICT BRANCH OF ICAI ON 2ND MARCH 2024

Introduction

- Long Form Audit Report is a requirement of RBI from the Auditors
- This report is in the form of a questionnaire devised by RBI
- Introduced in the year 1985 and has undergone revision in 1993/2003 and 2020.
- This report is not part of main audit report and also not a substitute for the main audit report.
- Matters reported in LFAR are illustrative and not exhaustive
- If there are adverse comments or qualifications in the Main Audit Report, the same has to be mentioned by auditor in the LFAR

- However every adverse comment in LFAR may not result into Qualification in Main Audit report
- SBAs submit LFAR to SCAs and also to the management through the regional or zonal offices.
- SCAs consolidate all the findings of the branch auditors and present a consolidated LFAR to the top management along with various other aspects mandated to the SCAs.

- Once the branch auditor hands over the LFAR to the branch management and their controlling offices, they are required to complete all the action points and give a action taken report. These are again consolidated at different controlling levels and finally the CFO/CRO have to give an ATR to the Audit Committee of the Board.
- The consolidated LFAR presented by the SCAs and the ATR by the CFO/CRO is placed before the ACB for deliberations.
- A copy of the consolidated LFAR will have to be presented to the RBI within 45 days of publishing of the financials or 30th June whichever is earlier.

Objectives of LFAR

- Focus not only on advances but also on operational areas in the Branch.
- Covers operational Risk extensively.
- A tool for early warning signals.



Structure of LFAR

- Assets
- Liabilities
- Profit and Loss Account
- General

Annexures - Questionnaires as applicable to specialized branches

Dealing in Foreign Exchange Transactions

Dealing in very large advances

Dealing in NPAs such as Asset Recovery Management Branches.

Dealing in clearing house operations, normally referred to as service Branches

Cash

- Whether the System ensure effective Joint Custody of Cash by two or more officials.
- Periodical checking of Cash / ATM Balance as per the laid down procedure.
- Cash maintained in Excess of prescribed limits.
- ATM Cash balance as per books tally with ATM balance based on Scroll generated by the ATMs.
- Adequacy of Insurance Coverage for Cash in Hand & Cash in Transit.

Balances with Reserve Bank of India, State Bank of India and Other Banks:

Whether Balance Confirmation Obtained , Reconciliation of aforesaid balance carried out and reporting of differences if any If any matter deserves special attention of the management, the same may be reported

Money at Call and Short Notice

Has the branch kept Money at short call and notice if yes whether year end balance is confirmed or reconciled?

Accrued Interest till the year end has been properly recorded.

Whether instructions/guidelines, if any, laid down by the controlling authorities of the bank have been complied with.

Investments (for branches outside India)

Branch has acted in its delegated authority.

Physical verification of investments.

Valuation of investments is as per RBI or as per guidelines of the respective country whichever are more stringent?

Details of matured or overdue investments which have not been encashed and / or has not been serviced?



Advances

Above the Threshold

Large Advance = Total FB + NFB O/s in Excess
of 10% of Total O/s

OR

Rs 10 Cr Which ever is LESS

Transaction Audit / Accounts specific details to
be given

Below the Threshold

Process needs to be checked and commented
upon

Detail of list of accounts examined for audit is to be provided with % of Coverage

Credit Appraisal :

General Compliance with procedures and instructions regarding loan applications, preparation of proposals for grant/ renewal of advances, enhancement of limits, etc., including adequate appraisal documentation in respect thereof and Major shortcoming on the same

Details of Quick Mortality Account – Accounts becoming NPA within 12 months from the date of First Sanction. **Interest Rate** are fed properly into the system for the borrowers.

Periodical review of accounts where **Floating rate of Interest charged is linked to Marginal Cost of Funds Based lending Rate (MCLR) / External Benchmark based Lending Rate (EBLR)**.

Cases of **Frequent Renewal / Roll over of Short Term Loans**.

Credit Ratings are properly fed in the system.

Sanctioning / Disbursement

Instances of Credit Facility Sanctioned **beyond** the delegated authority or limit fixed and whether the same has been reported to higher authorities.

Advances disbursed without complying on the terms and conditions of Sanction.

Details of Loan distributed to companies **for Buy Back of Shares / Securities**.

Documentation.

Credit facilities released without execution of all the necessary documents.

Deficiencies in documentation, including non-registration of charges, non-obtaining of guarantees, etc.

Advances against lien of deposits granted without marking a lien on the bank's deposit receipts and the related accounts.

Review/ Monitoring/ Supervision:

Periodic review of advances including periodic Balance confirmation / acknowledgement of Debt, Major shortcoming in Monitoring.

Analysis of accounts **overdue for review / renewal**

- Between 3 to 6 Months
- More than 6 months



Whether stock/book debt statements and other periodic operational data and financial statements, etc., are received regularly from the borrowers and duly scrutinized? Necessary action taken based on scrutiny of the same? Is DP computed Properly ? For accounts reviewed / Renewed during the period, whether latest Financial Statement are obtained?

Whether system exist for Obtaining stock audit report periodically

- If yes whether branch has complied with it.
- Reporting Details of Cases where
- Stock audit was required but not conducted.
- Stock Audit conducted but no action taken on adverse features.

Details about Cases of advances to non- corporate entities with limits beyond that is set by the bank where the branch has not obtained the duly audited accounts of borrowers.

In case of Consortium and multiple banking arrangements, whether Due Diligence reports in the prescribed form and manner are obtained and available on record ? If not list of cases to be reported.

Whether the Security charged to bank has been Physically Verified or inspected ? Details of Security for which substantial deterioration in value were observed as per the latest valuation report in comparison with earlier valuation report Cases of deficiencies observed including valuation of security , inspection thereof & Adverse features observed like Unauthorized / frequent over drawing , inadequate insurance coverage etc ..

Whether the bank has any red flag accounts ? If yes any deviation observed in compliance w.r.t bank policy Comments about significant Adverse features in top standard large advances

In respect of leasing finance activities, verification relating to security creation, asset inspection, insurance, etc.?

Asset Classification, Provisioning of Advances and Resolution of Stressed Assets.

Are Advances classified into Standard / Substandard / Doubtful / Loss asset through systems without any manual interference? Auto marking should be ensured.

Whether above classification is in line with RBI Norms?

Advances are classified into **SMA – O, SMA -1, SMA – 2?**

If auditor disagrees with classification of accounts (Standard / Substandard etc) the details of such advances to be given . Also wherever necessary MOC to be passed

List of accounts with O/s in excess of Rs 10 Cr either upgraded or downgraded from / to NPA / Standard Assets & reason thereof

Whether RBI Guidelines on Income recognition and provisions are followed

Whether branch has reported accounts restructured or rephased during the year to Controlling Authority of the bank?

Whether RBI Guidelines on restructuring on all the cases have been followed

Whether the branch complies with the regulatory stance for resolution of stressed assets, including the compliance with board approved policies in this regard, tracking/reporting of defaults for resolution purposes among others.



Instances where controlling authority of bank has initiated recovery of advances / recalling of advances but no such action taken by branch List Accounts for which IBC is initiated by any creditor (Including bank) to be reported and adequacy of provision to be commented upon. Cases where Process under IBC is mandated but not initiated by branch. Details of claims for Credit Guarantee (ECGC and others) lodged and settled. If rejected , provision has been made. In respect of NPA accounts, whether valuation reports from approved valuer are obtained for immovable properties charged to the bank once in 3 years unless where circumstance warrant a shorter duration. In case of Compromise / Settlement and write off cases, whether the prescribed recovery policy is complied with? Details of cases of Compromise / Settlement and write off / waiver given in excess of Rs 50 lakhs may be reported. Execution of decrees are obtained promptly? Age wise O/s of Decrees obtained and pending execution to be provided. In concluded cases, the recoveries have been properly appropriated against principal & Interest as per bank policy.

Non Fund Based Limits

If any LC are devolved or guarantee are invoked during the year, details of the same to be mentioned. For above , if the parties have not paid the same , the same needs to be reported.

Instances where interchangeability between fund based and non-fund-based facilities was allowed subsequent to devolvement of LC / invocation of BG

Other Assets

Suspense Accounts/Sundry Assets

Details of O/s entries in suspense accounts in excess of 90 days to be reported along with reasons thereof.

If the same is not recoverable, whether any provision for write off is required ?

Any unusual items or Intangible items like losses not provided / pending investigation etc appears in the Suspense / Sundry assets?

Deposits

System in Place for identification of dormant/ inoperative accounts and operations in such accounts.

Any unusual Large movement observed in Deposits after the Balance sheet date and till date the date of audit Automatic renewal has happened in FCNR(B) deposits? If yes, whether the branch has satisfied itself as to the 'non-resident status' of the depositor. Also ensure that it is as per applicable guideline and Soft / Copy have been dispatched Whether the branch complies with the regulations on minimum balance requirement and levy of charges on non maintenance of minimum balance in individual savings accounts?

Other Liabilities - Bills Payable, Sundry Deposits, etc

Old O/s items pending for One year or more to be reported. If any unusual items or material withdrawals or debit in the items is observed. Contingent Liability Major items of Contingent liabilities not acknowledged by the banks (Other than LCs, Guarantees, acceptances etc)



Profit & Loss Account

Any Excess / Short Credit in Interest / Discount / Commission / Processing fees etc is observed? If yes details of the same Has the branch complied with the Income Recognition norms prescribed by R.B.I.?

Any excess or short debit observed in interest on deposits?

Does the bank have a system of estimating and providing interest accrued on overdue/matured/ unpaid/unclaimed term deposits including in respect of deceased depositor. Any divergent trend in major items of Income and expenditure in comparison with previous year for which no satisfactory explanation received from branch.

GOLD/ BULLION / SECURITY ITEMS

Does the system ensure that gold/bullion is in effective joint custody of two or more official

Does the branch maintain adequate records for receipt, issues and balances of gold/bullion and updated regularly Does the periodic verification reveal any excess/shortage of stocks as compared to book records and if any discrepancies observed have been promptly reported to controlling authorities of the bank?

Does the system of the Bank ensure adequate internal control over issue and custody of security items (Term Deposit Receipts, Drafts, Pay Orders, Cheque Books, Traveller's Cheques, Gift Cheques, etc.)?

Books and Records

Are there any Software / systems used at branch which are not integrated with CBS? If yes details thereof If branch was subjected to IS audit, major observations in the report which has direct or indirect bearing on the branch operations Whether branch is generating, and verifying exception reports at the periodicity as prescribed by the bank Whether the system of bank warrants expeditious compliance of daily exception reports and are there any major observations pending at the year end

Whether the bank has laid down procedures for manual intervention to system generated data and proper authentication of the related transactions arising there from along with proper audit trail of manual intervention has been obtained. Comment on Integrity of Data used for MIS at HO / CO level

Inter-Branch Accounts

Does the branch expeditiously comply with/respond to the communications from the designated cell/Head Office as regards unmatched transactions?

As at the year-end are there any un responded/un-complied queries or communications beyond 7 days? If so, give details?

Frauds

Frauds detected/classified but confirmation of reporting to RBI not available on record at branch

Details of any suspected or likely fraud cases are reported by branch to higher office during the year

Potential risk areas which might lead to perpetuation of Fraud

Whether the system of Early Warning Framework is working effectively and whether same form the basis for classifying an account as RFA

Implementation of KYC/AML guidelines

Whether the branch has adequate systems and processes, as required, to ensure adherence to KYC/AML guidelines towards prevention of money laundering and terrorist financing and whether the branch follows the same



Management Information System

Whether the branch has the proper systems and procedures to ensure data integrity relating to all data inputs which are to be used for MIS at corporate office level and for supervisory reporting purposes
If any instances where data integrity was compromised, same has to be reported

Miscellaneous

In framing the Audit Report / LFAR, whether major adverse comments reported in below reports were considered ?

Previous year Branch Audit report and LFAR

- Concurrent / Internal Audit
- Credit Audit Report
- Stock Audit Report
- RBI Inspection report etc

Are there any other matters, which you, as branch auditor, would like to bring to the notice of the management or the Statutory Central Auditors

For Branches dealing in Foreign Exchange Transactions

Adverse features pointed out in the reports of concurrent auditors, internal auditors and/ or the Reserve Bank of India's inspection report which continue to persist in relation to NRE/ NRO/ FCNR-B/ EEFC/ RFC and other similar deposits accounts Non compliance of instruction / guidelines w.r.t foreign exchanges and reporting of irregularities

NOSTRO ACCOUNTS

Periodic confirmation/ reconciliation of the balances in NOSTRO accounts maintained with each overseas bank/ correspondence and whether the same is reconciled at the year end

For Branches dealing in Foreign Exchange Transactions

All entries originated by overseas banks/correspondents, have been duly responded promptly

Any dormant/closed NOSTRO accounts in respect of which balances continue to exist in the books of the branch, at year end?

Have the NOSTRO balances been converted at year end at the rates of exchange as prescribed by controlling authorities?

VOSTRO ACCOUNT

Does the branch follow the prescribed procedures in relation to maintenance of Vostro Accounts?

For branches dealing in Clearing House Operations

- Does the branch have a system of periodic review of the outstanding entries in clearing adjustments accounts.
- Whether review of the clearing adjustments accounts (inwards/ outwards) reveals any old/ large/ unusual outstanding entries, which remain unexplained? Year-wise break-up of outstanding in number and value to be given
- Has the branch strictly followed the guidelines of the controlling authority of the bank with respect to operations related to clearing transactions? Comment on the systems and procedures followed by the branch in this regard.



For branches dealing in recovery of Non-Performing Assets such as Asset Recovery Branches

- In respect of borrowers with outstanding of Rs. 10.00 Crores and above the information should be obtained from the Branch Management. Comments of the Branch Auditor on advances with significant adverse features and which might need the attention of the management / Statutory Central Auditors should be appended to the LFAR
- List of accounts with outstanding in excess of Rs. 10.00 Crores, which have been upgraded from Non-Performing to Standard during the year and the reasons thereof
- Security values are updated periodically

Certificates

- Independent Bank branch auditor's report
- Statement of GL Sheet as on 31.03.2022
- Profit and Loss account for the year ended 31.03.2022
- Asset Classification
- HYR Summary I,II & III
- Segment Reporting
- Computation of Credit Risk Capital(CRSA 07)
- Memorandum of Changes
- Long Form Audit Report
- Movement of NPAs
- Advances to sensitive sector as on 31.03.2022
- Break up for Interest receivable on restructured debt (IRRD)
- Certificate on Compliance of Memorandum of Changes suggested by Auditors in MOC GL & PL and MOC ACF during the course of audit for the year 2020-21
- Details of Foreign Currency exposures of the Branch
- Certificate from the Borrower on their Letter Head Duly Signed by Authorised Signatory – Declaration of Unhedged exposure
- Details of Unhedged Foreign Currency Exposures (UFCE) of Whole Bank
- Report on Implementation of Ghosh Committee Recommendations for the year ended 31.03.2022
- Report on Implementation of Jilani Committee Recommendation for the year ended 31.03.2022
- Certificate in respect of submission of subsidy under Prime Minister Employment Generation Programme (PMEGP)
- Audit Certificate on CGTMSE
- Audit Certificate on CGFMU
- Audit Certificate on CGSSI
- Restructuring of Advances to MSMEs
- Certification on Classification of Priority Sector Advances as on 31.03.2022
- Certificate on Regular Claim for 2% Interest Subvention on Short-term Crop Loans up to Rs. 3 lakh for the Half Year Ended Sep'21
- Certificate on Regular Claim for 2% Interest Subvention on Short-term Crop Loans up to Rs. 3 lakh for the Half Year Ended Mar'21
- Certificate on Regular Claim for 2% Interest Subvention on Post-harvest credit against negotiable warehouse receipts up to Rs. 3 lakh for the half year ended Mar'22



CA R.Sundararajan

Critical issues in Bank Branch Audit IRAC norms

Relevance of COVID-19 - Regulatory Package & Concessions to MSME Sector

MSME

- 1) Circular DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020
- 2) Circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 06, 2020

COVID 19 Circulars

- a) Circular DOR.No.BP.BC.47/21.04.048 /2019-20 dated March 27, 2020. (Rescheduling of TL/WC facilities).
- b) Circular DOR.No.BP.BC.62/21.04.048 /2019-20 dated April 17, 2020. (Extension of timelines for resolution of SA)
- c) Circular DOR.No.BP.BC.63/21.04.048 /2019-20 dated April 17, 2020. (Asset classification & provisioning)
- d) Circular DOR.No.BP.BC.71/21.04.048 /2019-20 dated May 23, 2020. (Rescheduling of TL/WC facilities).

The concessions granted by the above circulars are not applicable for accounts restructured during FY 2022-23 onwards.

Prudential norms on IRAC and Provisioning pertaining to Advances - Clarifications

RBI/2021-2022/125 DOR.STR.REC.68/21.04.048/2021-22 Nov12, 2021

- A. Specification of due date/repayment date • B. Flagging of SMA & NPA
• C. Clarification regarding definition of 'out of order' • D. NPA classification in case of interest payments • E. Upgradation of accounts classified as NPAs • F. Income recognition policy for loans with moratorium on payment of interest



A. Specification of due date/repayment date

The exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/NPA classification dates, etc. shall be clearly specified in the loan agreement.

☞ In cases of loan facilities with moratorium on payment of principal and/or interest, the exact date of commencement of repayment shall also be specified in the loan agreements.

☞ Compliance at the earliest, but not later than December 31, 2021, in respect of fresh loans.

☞ In case of existing loans, however, compliance to these instructions shall necessarily be ensured as and when such loans become due for renewal/review.

Prudential Framework for Resolution of Stressed Assets (PART B1)

Lenders shall identify incipient stress in loan accounts, immediately on default, by classifying stressed assets as special mention accounts (SMA) as following:

| SMA sub-categories | Basis for classification – principal or interest payment or any other amount wholly or partly overdue between | For revolving credit facilities Basis for classification – Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of: |
|--------------------|---|---|
| SMA-0 | Upto 30 days | - |
| SMA-1 | More than 30 days & upto 60 days | More than 30 days & upto 60 days |
| SMA-2 | More than 60 days & upto 90 days | More than 60 days & upto 90 days |

Default

Non-payment of debt when whole or any part or instalment of debt amount has become due and payable and is not repaid by debtor. For revolving facilities like cash credit, default would also mean, without prejudice to the above, the outstanding balance remaining continuously in excess of the sanctioned limit or drawing power, whichever is lower, for more than 30 days.

B. Flagging of SMA & NPA

☞ Borrower accounts shall be flagged as overdue by the lending institutions as part of their day-end processes for the due date, irrespective of the time of running such processes.

☞ The exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/NPA classification dates, etc. shall be clearly specified in the loan agreement.

☞ Classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date (Para 8.4)



C. Clarification regarding definition of 'out of order'

Covering cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power

The balance o/s is within the limit/DP, but there are no credits continuously for 90 days ~~as on the date of the Balance sheet~~ or the credits are inadequate to cover the interest debited during the ~~same period~~ previous 90 days period.

D. NPA classification in case of interest payments

☞ In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter. (Para 2.1.3 of Master circular dated Oct 01, 2021)

CHANGED TO

☞ In case of interest payments in respect of term loans, an account will be classified as NPA if the interest applied at specified rests remains overdue for more than 90 days.

E. Upgradation of accounts classified as NPAs

☞ it is clarified that loan accounts classified as NPAs may be upgraded as 'standard' asset only if **entire arrears of interest and principal** are paid by the borrower

☞ With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc., the instructions as specified for such cases shall continue to be applicable.

F. Income recognition policy for loans with moratorium on payment of interest

☞ Loans where moratorium has been granted for repayment of interest, lending institutions may recognize interest income on accrual basis for accounts which continue to be classified as 'standard'

☞ However loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest corresponding to the interest accrued during such moratorium period need not be reversed.

Prudential Norms a Quick Refresher

NPA NORMS

- Uniform norm of 90 days for all advances including Government guaranteed Accounts
- Agricultural loans – Continues to be based on crop seasons

NPA NORMS- Term Loans

- Instalments of principal remain overdue for a period of more than 90 days in respect of a term loan
- In case of interest payments in respect of term loans, an account will be classified as NPA if the interest applied at specified rests remains overdue for more than 90 days



NPA NORMS- Term Loans

• If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account should no longer be treated as non-performing and may be classified as ‘standard’ accounts. (Para 4.2.5 – RBI Master circular). •Upgradation is allowed only if the account reaches “no overdues” status. This should not be misunderstood with “overdues brought within 90 days”. (ICAI GN – Para 11.139 Page 478)

NPA NORMS- OD/CC

- The account remains ‘out of order’ in respect of an Overdraft/Cash Credit (OD/CC).
- An account should be treated as 'out of order' where the balance o/s in the account remains continuously in excess of the limit/DP during a period of 90 days.
- The balance o/s is within the limit/DP, but there are no credits continuously for 90 days as on the date of the Balance sheet or the credits are inadequate to cover the interest debited during the same period previous 90 days period.

NPA NORMS - Bills

• A bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted

Agricultural Advances- NPA

- A loan granted for short duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons.
- A loan granted for long duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season
- “Long duration” crops would be crops with crop season longer than one year
- Crops, which are not “long duration” crops, would be treated as “short duration” crops
- The crop season for each crop, which means the period up to harvesting of the crops raised, would be as determined by the State Level Bankers’ Committee in each State

Agricultural Advances- Interest application

Examples of Interest application according to crop seasons and for other activities:

| Crop Season | Kharif | Rabi |
|---------------------------|------------------------------------|------------------------------------|
| Disbursement Period | April 01 to September 30 | October 01 to March 31 |
| Interest Application Date | Due date fixed for repayment | Due date fixed for repayment |
| Compounding from date | After due date | After due date |
| Penal Interest | From date the loan becomes overdue | From date the loan becomes overdue |

Refer page 388 of ICAI GN



Agricultural Advances- Interest application

| | Allied Activities | |
|---------------------------|-------------------------------|---------------------------------------|
| | Dairy, Poultry | Goat Rearing, Piggery |
| Repayment | Quarterly | Half Yearly / Yearly |
| Interest Application | Quarterly | Half Yearly / Yearly |
| Interest application date | Quarter end | Half Year end / Year end |
| Compounding Frequency | Quarterly | Half Yearly / Yearly |
| Compounding from date | After Quarter end | After Half Year end / Year end |
| Penal Interest | If overdue, after Quarter end | If overdue after half year /year end. |

Crop Season- RBI clarification recd by Maharashtra SLBC

- Loan may be treated as NPA immediately on completion of two crop seasons / one crop season (as the case may be, depending on the duration of the crops) after the repayment due date
- Two crop seasons after the due date should refer to only those two consecutive crop seasons in which the farmer usually undertakes crop production.

RBI clarification – Crop season

The crop season for each crop, means the period up to harvesting of the crops raised. The asset classification norms assume that there is normal crop yield during the season for which credit is extended. Hence, immediately after consecutive two harvest seasons (as per the cultivation pattern followed by the farmer borrower) from repayment due date, the account is to be identified as NPA.

In case of natural calamities as declared by the SG, the loan should be restructured/ rescheduled

Agri loan NPA - Examples

Agri loan NPA - Examples

| S.No. | Particulars | Short Term Crops | | Long Term Crops | |
|-------|--------------------------|--|--|-------------------------------|---------------------------------|
| | | Kharif | Rabi | Sugarcane | Banana |
| 1 | Sanction date | 1 st April 2020 to 30 th September, 2020 | 1 st October 2020 to 31 st March, 2021 | 1 st October, 2019 | 1 st July, 2019 |
| 2 | Harvesting time | September, 2020 | March, 2021 | December, 2020 | September, 2020 |
| 3 | Repayment due date | 31 st December, 2020 | 30 th June, 2021 | 31 st March, 2021 | 31 st December, 2020 |
| 4 | Interest subvention @ 2% | Available upto the date of repayment subject to maximum repayment due date (subject to 1 year) | Available upto the date of repayment subject to maximum repayment due date (subject to 1 year) | | |
| 5 | Date of irregularity | 31 st December, 2020 | 30 th June, 2021 | 31 st March, 2021 | 31 st December, 2020 |



| Multiple double cropping pattern | | | | | |
|----------------------------------|-----------------------------|---------------------------------|---------------------------------|------------------------------|---------------------------------|
| 6 | First crop season end date | 30 th June, 2021 | 31 st December, 2021 | NA | NA |
| 7 | Second crop season end date | 31 st December, 2021 | 30 th June, 2022 | NA | NA |
| 8 | Date of NPA | 31 st December, 2021 | 30 th June, 2022 | NA | NA |
| Single mono cropping pattern | | | | | |
| 9 | First crop season end date | 31 st December, 2021 | 30 th June, 2021 | 31 st March, 2023 | 31 st December, 2022 |
| 10 | Second crop season end date | 31 st December, 2022 | 30 th June, 2022 | NA | NA |
| 11 | Date of NPA | 31 st December, 2022 | 30 th June, 2022 | 31 st March, 2023 | 31 st December, 2022 |



Agri – NPA Examples for allied activity

| Type | Allied Activity (Instalment) | | | |
|------------------|--|--|---|--|
| | Dairy (equated quarterly instalment with moratorium period, first instalment is due on Sept 30, 2020) | Goat Rearing (equated half yearly / yearly instalment considering moratorium period of six months first instalment is due on June 30, 2021) | Piggery (equated half yearly / yearly instalment considering moratorium period of six months first instalment is due on June 30, 2021) | Poultry (equated quarterly instalment with moratorium period, first instalment is due on Sept 30, 2020) |
| Loan Disbursed | 1-Jun-2022 | 1-Jul-2021 | 1-Jul-2021 | 1-Jun-2022 |
| Due Date | 30-Sep-2022 | 30-Jun-2022 | 30-Jun-2022 | 30-Sep-2022 |
| Overdue Date | 30-Sep-2022 | 30-Jun-2022 | 30-Jun-2022 | 30-Sep-2022 |
| Compounding | 30-Sep-2022 | 30-Jun-2022 | 30-Jun-2022 | 30-Sep-2022 |
| NPA turning date | 30-Dec-2022 | 29-Sep-2022 | 29-Sep-2022 | 30-Dec-2022 |
| Remarks | NPA upon running day-end process on 90 days overdue | NPA upon running day-end process on 90 days overdue | NPA upon running day-end process on 90 days overdue | NPA upon running day-end process on 90 days overdue |

Agricultural Advances

• Where natural calamities impair the repaying capacity of agricultural borrowers, banks may decide on their own as a relief measure conversion of the short-term production loan into a term loan or re-schedulement of the repayment period; and the sanctioning of fresh short-term loan, subject to guidelines contained in Master Direction – Reserve Bank of India (Relief Measures by Banks in Areas affected by Natural Calamities) Directions 2018 – SCBs dated October 17, 2018, as updated from time to time.

Significant factors for classifying an account as NPA in Working capital advances

• Stock statements should not be more than 3 months old Regular and ad hoc limits should not be left lapsed without renewal for a period of more than 180 days Solitary or very few credits in the account before the balance sheet date

Prudential Framework for Resolution of Stressed Assets

• RBI has announced a revised framework for resolution of stressed assets on June 07, 2019. (RBI/2018-19/203 DBR.No.BP.BC 45/21.04.048/2018-19

Framework aims at strengthening the structure by:

- 1) Early identification and reporting of stress
- 2) Implementation of resolution plan for defaulting accounts, supported by independent credit evaluation by credit rating agencies.
- 3) Implementation conditions have been prescribed.
- 4) Enable banks to take timely action for resolution of stressed accounts & provides for adequate disclosures by banks
- 5) Additional provision if RP not implemented within prescribed timelines.
- 6) Envisages higher provisioning, penal action & direction to file under IBC on banks in case of concealing of information.

• The revised framework has discontinued with immediate effect Framework for Revitalising Distressed Assets, CDR, Flexible Structuring of Existing Long Term Project Loans, SDR, Change in Ownership outside SDR, and Scheme for Sustainable Structuring of Stressed Assets. Joint Lenders’ Forum (JLF) as mandatory institutional Mar 2, 2024 mechanism for resolution Cofhesntgreaslpsettdu aBcracnucuhnotfsSaIRIsCoosftIaCnAdIs discontinued



Meaning of Restructured Account

- Reserve Bank of India has defined a restructured account as one where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the bank would not otherwise consider
- Restructuring means **modification** of terms of the advances including **alteration**
 - in repayment **period**, (including extension of moratorium period)
 - repayment **amount**,
 - amount of installments,
 - **rate of interest**

When is implementation complete?

- All related documentation, including execution of necessary agreements between lenders and borrower / creation of security charge / perfection of securities are **completed by all lenders**; and
- The new capital structure and / or changes in the terms and conditions of the existing loans get duly reflected in the books of all the lenders and the borrower.

Restructured Accounts- Key points

- Specified Period means a period of one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package.
- Satisfactory performance during the specified period means adherence to the specified conditions during that period.

Satisfactory performance

Non-Agricultural Cash Credit Accounts

- In the case of non-agricultural cash credit accounts, the account should not be out of order any time during the specified period, for duration of more than 90 days and there should not be any overdues at the end of the specified period.

Non-Agricultural Term Loan Accounts

- In the case of non-agricultural term loan accounts, no payment should remain overdue for a period of more than 90 days and there should not be any overdues at the end of the specified period.

All Agricultural Accounts

- In the case of agricultural accounts, at the end of the specified period the account should be regular

Project Loans

- Project loans is the long-term finance of infrastructure and industrial projects based upon the projected cash flows of the project rather than just the balance sheets of its sponsors.
- the 'Date of Completion' and the 'Date of Commencement of Commercial Operations' (DCCO), of the project should be clearly spelt out at the time of financial closure of the project and the same should be formally documented.
- In several instances, the completion of the projects is delayed due to extraneous reasons beyond the control of the promoters.
- The reasons for delay include legal disputes, delay in obtaining government approvals, etc.
 - In such a situation Banks may restructure / reschedule
 - Project loans for infrastructure sector
 - Project loans for non infrastructure sector



Deferment of DCCO not treated as restructuring and hence asset classified as Standard

| Infrastructure Projects | <u>Non Infrastructure Projects</u> | Conditions |
|---|--|---|
| The revised DCCO falls within a period of two years from the original DCCO stipulated at the time of financial closure | The revised DCCO falls within a period of one year from the original DCCO stipulated at the time of financial closure | The revised repayment period should be equal to or shorter than the original repayment term. In other words if the repayment term is extended it will amount to restructuring |

Standard Asset - Provision required 0.40%

Restructuring of Project loans by way of revision of DCCO for reasons beyond the control of the promoters

| Infrastructure Projects | <u>Non Infrastructure Projects</u> | Conditions |
|--|---|--|
| Up to another one year (total extension of three years from the date of original DCCO). | Up to another one year (total extension of two years). Please note that this benefit is not available to Commercial Real Estate Exposures | 1. The application for restructuring should be received before the expiry of the deferred DCCO & the account must be standard as on the date of application for restructuring 2. In case of moratorium for payment of interest, banks should not book income on accrual basis beyond two years (for infrastructure loans) & one year (for <u>non infrastructure</u> loans) from the date of original DCCO |

Standard Asset - Provision required 5.00%

Restructuring of Infrastructure Projects involving court cases

| Infrastructure Projects | Conditions |
|---|--|
| Up to another two years (total extension of four years from the date of original <u>DCCO</u>), in case the reason for extension of DCCO is arbitration proceedings or a court case. | 1. The application for restructuring should be received before the expiry of the deferred DCCO & the account must be standard as on the date of application for restructuring 2. In case of moratorium for payment of interest, banks should not book income on accrual basis beyond two years (for infrastructure loans) & one year (for <u>non infrastructure</u> loans) from the date of original DCCO |



Word of Caution ...

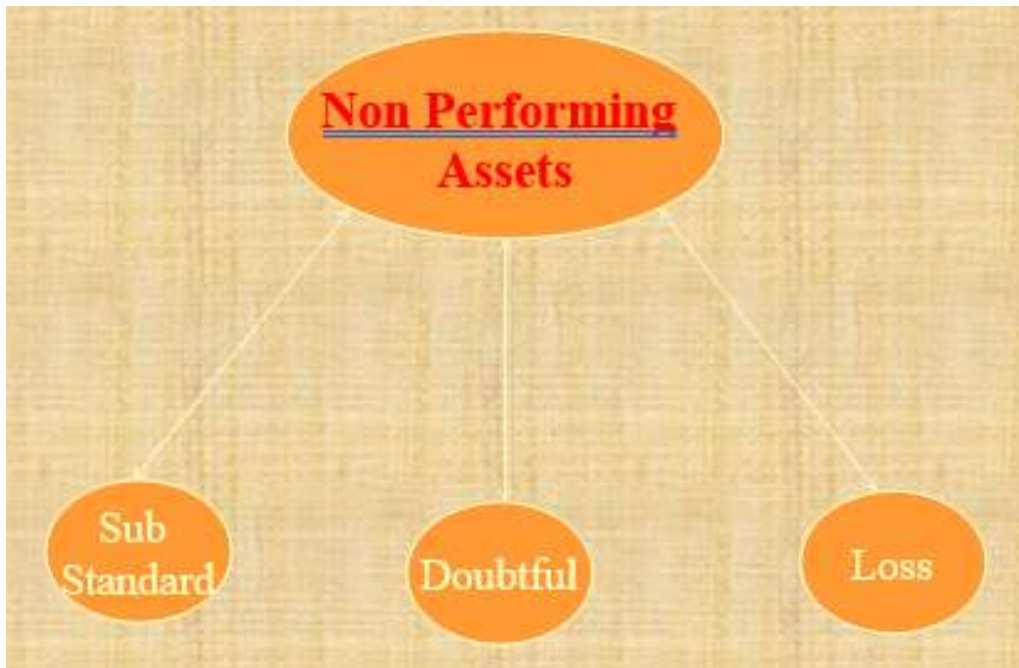
**Not all accounts can be considered for this Project Loan Treatment
Auditors to verify the eligibility criteria clearly with the relevant circulars
In case not classifiable, the special treatment will have to be withdrawn**

Income Recognition

- Income is to be recognised based on recovery
- Not applicable to advances against Life Insurance Policies, NSCs, IVPs, KVPs etc, provided requisite margin is maintained
- Critical area in respect of OD against deposits wherein Deposits with multiple Interest are taken as security
- Critical area in respect of loan against FD wherein interest is drawn periodically by the depositor but interest on loan is accumulated without payment

Reversal of Interest

- In respect of accounts classified as NPA for the first time, interest debited in the current year (2023- 2024) and previous years which has not been realised should be reversed or provided.
- This will apply to Government guaranteed accounts also



Sub Standard Assets & Doubtful assets

- An NPA which is less than 12 months old – SSA
- An NPA which is more than 12 months old - DA
- In case erosion in value of securities is more than 50%, classify as doubtful
- Critical point – Valuation has to be done once in three years for NPAs.



Loss Assets

- An asset considered uncollectible
- An asset where **loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly**
- An asset whose security value has been eroded by more than 90 % of the advance value

Asset Classification

- Asset Classification to be borrower-wise and not facility-wise

Exceptions

- Bills discounted under LC until default
- Mark to market value of derivatives contract
- Additional facility granted to a restructured NPA
- Asset classification of accounts under consortium should be based on the record of recovery of the individual member banks
- In case of multi branch financing – The classification by the branch where main limit is availed has to be considered by all branches
- CRITICAL – Certificate from Main branch is compulsory since the operations may be good in the branch where sublimit is availed.
- A NPA need not go through the various stages of classification in cases of serious credit impairment
- Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and life policies need not be treated as NPAs.
- Advances against gold ornaments, government securities and all other securities are not covered by the above exemption
- A sub-standard accounts which has been subjected to restructuring etc., would be eligible to be upgraded to the standard category only after the specified period.

Asset Classification Govt. Guaranteed Accounts

Accounts to be classified as NPA if guaranteed by Central Govt. when the guarantee is repudiated. State Govts. When the guarantee is invoked and remains in default for more than 90 days.

Provisioning Whose responsibility

- The primary responsibility for making adequate provisions for any diminution in the value of loan assets, investment or other assets is that of the bank managements and **the statutory auditors.**
- The assessment made by the inspecting officer of the RBI is furnished to the bank to assist the bank management and the statutory auditors in taking a decision in regard to making adequate and necessary provisions in terms of prudential guidelines



Provisioning Norms

Standard assets(other than Restructured accounts) – on global loan portfolio

- a) Direct advances to agricultural and SME sectors 0.25%**
- b) Commercial Real Estate (CRE) Exposures 1 %**
- c) Commercial Real Estate – Residential Housing Sector (CRE-RH) 0.75%**

• Standard assets (other than Restructured accounts) – on global loan portfolio

• d) Housing loans extended at teaser rates – 2%

(The provisioning on these assets would revert to 0.40per cent after 1 year from the date on which the rates are reset at higher rates if the accounts remain ‘standard’.)

• e) All other Standard advances – 0.40%

• Accounts Restructured during the current year classified as standard – 5 %

• Sub standard assets - 15 percent on total outstanding should be made without making any allowance for DICGC/ECGC guarantee cover and securities available

Substandard Assets

• In case of Substandard accounts, where security available abinitio at the time of sanction is less than 10% of both funded and non funded limits put together, then the provision to be made is 25 % (20% in case there is an escrow account in case of infrastructure lending, infrastructure loan accounts) of the Outstanding Value

• It is different from erosion of security to be classified as loss asset.

• Doubtful assets – 100 % of the unsecured portion

• 25/40/100% (depending on age) of the secured portion

• Loss Asset – 100%



| SI. No. | NPA Date | Status of Asset | Unsecured Portions | Secured Portion |
|---------|--------------------|--------------------------|---|-----------------|
| I | Before 1.4.2020 | D3 –Current year | 100% of Outstanding irrespective of the availability of security as reduced by ECGC cover | |
| II | 1.4.2020-31.3.2022 | D2 – Current year | 100% as reduced by ECGC Cover | 40% |
| III | 1.4.2022-31.3.2023 | D1 –Current year | 100% as reduced by ECGC Cover | 25% |
| IV | 1.4.2023-31.3.2024 | Substandard current year | 15% of the outstanding irrespective of security or ECGC Cover** | |

Master Circular Ref

- **RBI/2023-24/06 DOR.STR.REC.3/21.04.048/2023-24** dated April 01, 2023- **Master circular for Prudential norms on IRAC and Provisioning relating to Advances**



CA. Vishal V

DEMYSTIFYING INPUT TAX CREDIT WITH A REAL-WORLD EXAMPLE

CASE STUDY 1 – TOUR OPERATOR

M/s. Lotus Travels is a Tour Operator in Mumbai booking tours for its clients. The Tax rate on such services is 5% (CGST+SGST) without claiming ITC. Mr. & Mrs. Bose from Mumbai have approached the company for a tour of Rameshwaram and Sri Lanka. The Tour Operator has quoted a price of Rs. 3,20,000/- plus 5% GST.

Lotus purchases a part of the tour on an as-is basis from a tour operator in Sri Lanka for Rs. 1,20,000/- and purchases another part of the tour from Bangalore Tour Operator, M/s. Mandela Tours for Rs. 1,40,000/- plus GST.



Q1: M/s. Lotus is of the view that they are eligible to claim ITC on Tour Packages purchased by them from M/s. Mandela Tours. Is this correct ?

Q2: M/s. Lotus' auditor has informed them that they are liable to pay Reverse Charge on the Import of Tour Packages. Are they eligible to take credit on RCM if paid?

In the above case, M/s. Lotus Travels also books Flight Tickets for its customers for a service fee which is Taxable at 18%. The company is taking on rent a premises for Rs.30000 + GST among other Business Expenses.

Q3: M/s. Lotus is of the view that ITC on Rent is fully available as credit. Please give your opinion?

Q4: Also discuss whether any ITC Reversal will arise?

Q5: Whether Mr. Bose who is in Trading Business can claim ITC on the invoice of M/s. Lotus Travels?

CGST Rate Notification 11/2017 amended by Notn 01/2018

| | | | | |
|----|---------------------------------|---|-----|---|
| 23 | Heading 9985 (Support services) | (i) Supply of tour operators services. Explanation.- "tour operator" means any person engaged in the business of planning, scheduling, organizing, arranging tours (which may include arrangements for accommodation, sightseeing or other similar services) by any mode of transport, and includes any person engaged in the business of operating tours. | 2.5 | 1. Provided that credit of input tax charged on goods and services used in supplying the service ³⁹ , other than the input tax credit of input service in the same line of business (i.e. tour operator service procured from another tour operator)] has not been taken [Please refer to Explanation no. (iv)] |
|----|---------------------------------|---|-----|---|



Explanation to Notification 11/2017 CSGT Rate

(iv) Wherever a rate has been prescribed in this notification subject to the condition that credit of input tax charged on goods or services used in supplying the service has not been taken, it shall mean that,-

(a) credit of input tax charged on goods or services used exclusively in supplying such service has not been taken; and

(b) credit of input tax charged on goods or services used partly for supplying such service and partly for effecting other supplies eligible for input tax credits, is reversed as if supply of such service is an exempt supply and attracts provisions of sub-section (2) of section 17 of the Central Goods and Services Tax Act, 2017 and the rules made thereunder.

CASE STUDY 2 – NON PAYMENT WITHIN 180 DAYS Distinct Person

Top Plywood (P) Ltd is in the business of manufacturing plywood at West Bengal. The company has sold goods to their chennai branch for Rs.1,00,000/- + GST. The Chennai branch has provided some service to Head Office and billed for Rs.10,000/- + GST. The Balance of Rs.90,000/- was outstanding and since both are one legal entity, transaction from bank accounts were not made.



Q1. Whether both the registered person are eligible to claim the credit?

Q2. Whether Second Proviso to Sec 16(2) is applicable in this case ?

CASE STUDY 3 – NON PAYMENT WITHIN 180 DAYS SEZ

XYZ Private Limited is registered in the Special Economic Zone (SEZ) of Tamil Nadu. It supplies goods to ABC Limited, a company registered as a regular tax payer in Domestic Tariff Area (DTA), on 01.04.2021. XYZ (P) Ltd has given credit period of 365 days. ABC Limited has paid XYZ (P) Ltd on 31.12.2022.

Q1 : The management of ABC Limited is of the view that ITC should be reversed in the month when 180 days are completed for non payment to supplier. Is this correct?

Q2. Would your answer differ if XYZ (P) Ltd was not in SEZ.?

Q3. Whether the interest under Sec 50 is payable from the date of invoice or date of completion of 180 days upto the date of reversal?





CASE STUDY 4 – NON PAYMENT WITHIN 180 DAYS Retention Money

M/s. Tambaram Institute is procuring Interior Services from M/s. Perfect Interiors and as per the terms of agreement, 95% of the amount shall be paid within 15 days of invoice and 5% will be withheld as retention money which shall be released after 1 year.

Q1 : Whether ITC should be reversed for non payment within 180 days?

Q2. Whether Retention Money takes the character of “Failure to Pay” ? Or is it merely an Terms of Contract ?

CASE STUDY 2, 3, 4 – NON PAYMENT WITHIN 180 DAYS

Section 16(2) – Second Proviso

Provided further that where a **recipient fails to pay** to the supplier of goods or services or both, other than the supplies on which tax is payable on reverse charge basis, the amount towards the value of supply along with tax payable thereon within a period of one hundred and eighty days from **the date of issue of invoice** by the supplier, an amount equal to the input tax credit availed by the recipient shall be added to his output tax liability, along with interest thereon, in such manner as may be prescribed.

CASE STUDY 2, 3, 4 – NON PAYMENT WITHIN 180 DAYS

Rule 37

(1) A registered person, who has availed of input tax credit on any inward supply of goods or services or both, other than the supplies on which tax is payable on reverse charge basis, but **fails to pay** to the supplier thereof, the amount towards the value of such supply [whether wholly or partly,] along with the tax payable thereon, within the time limit specified in the second proviso to sub-section(2) of section 16 , **shall pay [or reverse] an amount equal to the input tax credit availed in respect of such supply 5, proportionate to the amount not paid to the supplier,]** along with interest payable thereon under section 50 , while furnishing the return in FORM GSTR-3B for the tax period immediately following the period of one hundred and eighty days from the date of the issue of the invoice:

Provided that the value of supplies made without consideration as specified in Schedule I of the said Act shall be deemed to have been paid for the purposes of the second proviso to sub-section (2) of section 16 :

Provided further that the value of supplies on account of any amount added in accordance with the provisions of clause (b) of sub-section (2) of section 15 shall be deemed to have been paid for the purposes of the second proviso to sub-section (2) of section 16 .

(2) Where the said registered person subsequently makes the payment of the amount towards the value of such supply along with tax payable thereon to the supplier thereof, he shall be entitled to re-avail the input tax credit referred to in sub-rule (1).]

(3) [omitted]

(4)The time limit specified in **sub-section (4) of section 16 shall not apply to a claim for re-availing** of any credit, in accordance with the provisions of the Act or the provisions of this Chapter, that had been reversed earlier.



Anantnath Developers Vs. Commissioner of Central Tax 2018 ACR 83 CESTAT Mumbai wherein it is held that- “He also submitted that the retention of amount out of bill amount was for specific performance of contract. They are placing purchase order on their sub-contractors and take corresponding guarantee from the sub-contractors. The purchase order provides for 5% of retention of bill amount. That service tax amount is paid by them in full to the sub-contractors and only retention amount is retained. Further entire service tax was paid by the contractors to the government. Thus when service tax was paid in full, credit cannot be denied.”

CASE STUDY 5 – ITC in case of INCORRECT POS

M/s. Diamond Traders is a Maharashtra registered Partnership Firm. It purchased an AMC service from a vendor registered in Karnataka for its CCTV cameras for a period of 1 year from 1st January 2023 to 31st December 2023. The Invoice dated 25th January 2023 reflected in the Form GSTR 2B of M/s. Diamond and IGST was paid by the vendor. However, the vendor had inadvertently filed the Place of Supply as Tamil Nadu instead of Maharashtra.

Q1. Whether ITC on AMC is eligible ? If yes, can it be claimed wholly in January 2023 returns or should be spread over the 12 months of the contract or in December 2023?

Q2. Whether M/s. Diamond is eligible for claim of ITC even if the POS is other than Maharashtra?



CCTV AMC SERVICES

CASE STUDY 5 – ITC in case of INCORRECT POS

Section 16 (2): Notwithstanding anything contained in this section, no registered person shall be entitled to the credit of any input tax in respect of any supply of goods or services or both to him unless,-

(a) he is in possession of a tax invoice or debit note issued by a supplier registered under this Act, or such other tax paying documents as may be prescribed ;

(aa) the details of the invoice or debit note referred to in clause (a) has been furnished by the supplier in the statement of outward supplies and such details have been communicated to the recipient of such invoice or debit note in the manner specified under section 37 ;

(b) he has received the goods or services or both.

[**Explanation** .- For the purposes of this clause, it shall be deemed that the registered person has received the goods or, as the case may be, services-

(i) where the goods are delivered by the supplier to a recipient or any other person on the direction of such registered person, whether acting as an agent or otherwise, before or during movement of goods, either by way of transfer of documents of title to goods or otherwise;

(ii) where the services are provided by the supplier to any person on the direction of and on account of such registered person;]

(ba) the details of input tax credit in respect of the said supply communicated to such registered person under section 38 has not been restricted.



Section 38 : Communication of details of inward supplies and input tax credit

- (1) The details of outward supplies furnished by the registered persons under sub-section (1) of section 37 and of such other supplies as may be prescribed, and an auto-generated statement containing the details of input tax credit shall be made available electronically to the recipients of such supplies in such form and manner, within such time, and subject to such conditions and restrictions as may be prescribed.
- (2) The auto-generated statement under sub-section (1) shall consist of—
- (a) details of inward supplies in respect of which credit of input tax may be available to the recipient; and
 - (b) details of supplies in respect of which such credit cannot be availed, whether wholly or partly, by the recipient, on account of the details of the said supplies being furnished under sub-section (1) of section 37 ,—
 - (i) by any registered person within such period of taking registration as may be prescribed; or
 - (ii) by any registered person, who has defaulted in payment of tax and where such default has continued for such period as may be prescribed; or
 - (iii) by any registered person, the output tax payable by whom in accordance with the statement of outward supplies furnished by him under the said sub-section during such period, as may be prescribed, exceeds the output tax paid by him during the said period by such limit as may be prescribed; or
 - (iv) by any registered person who, during such period as may be prescribed, has availed credit of input tax of an amount that exceeds the credit that can be availed by him in accordance with clause (a), by such limit as may be prescribed; or
 - (v) by any registered person, who has defaulted in discharging his tax liability in accordance with the provisions of sub-section (12) of section 49 subject to such conditions and restrictions as may be prescribed; or
 - (vi) by such other class of persons as may be prescribed.]

Circular No. 184/16/2022-GST - Clarification on the entitlement of input tax credit where the place of supply is determined in terms of the proviso to sub-section (8) of section 12 of the Integrated Goods and Services Tax Act, 2017

[circular-184.pdf](#)

One can Draw inference from the above circular wherein the ITC on Air Freight Charges where the POS is different from the State of the Recipient is not restricted.

CASE STUDY 6 – E-INVOICE VS REGULAR INVOICE

M/s. Humpty Ltd is a trader of electrical wires and switches. It purchased goods worth Rs.1 crore + 18% GST from M/s. Ganesh Traders in November 2022. The supplier being liable for E-Invoice, did not generate the same due to technical glitch and therefore the goods were received by M/s. Humpty with a regular invoice instead of e-invoice.

M/s. Ganesh has also failed to declare the HSN code of the products in the regular invoice.

M/s. Dumpty sold electrical cables amounting to Rs. 6,25,000/- + GST in the same month to M/s. Humpty. E-way Bill for the said invoice was missed to be generated by either party.



- Q1: Whether ITC on Regular Invoice from M/s. Ganesh can be claimed?**
- Q2: Whether failure of non-declaration of HSN on invoice would deny ITC to M/s. Humpty?**
- Q3: Whether failure to generate e-way bill for M/s. Dumpty's invoice would render that ITC as ineligible?**



Rule 36. Documentary requirements and conditions for claiming input tax credit.-

an invoice issued by the supplier of goods or services or both in accordance with the provisions of section 31

Section 31(2): Tax Invoice

A registered person supplying taxable services shall, before or after the provision of service but within a prescribed period, issue a tax invoice, showing the description, value, tax charged thereon and such other particulars as may be prescribed:

Rule 48: Manner of Issuing Invoice

(4) The invoice shall be prepared by such class of registered persons as may be notified by the Government, on the recommendations of the Council, by including such particulars contained in FORM GST INV-01 after obtaining an Invoice Reference Number by uploading information contained therein on the Common Goods and Services Tax Electronic Portal in such manner and subject to such conditions and restrictions as may be specified in the notification.

(5) Every invoice issued by a person to whom sub-rule (4) applies in any manner other than the manner specified in the said sub rule **shall not be treated as an invoice.**

Notification 13/2020- Central Tax: [notfctn-13-central-tax-english-2020.pdf](#)

CASE STUDY 7 – ITC on FOOD & MAKEUP?

M/s. Khiladi Events is organizing a wedding party for it's client Mr. Akshay. The Party is proposed to be conducted in a Banquet Hall followed by dinner. The Client has decided to treat his guests by providing services of personal grooming including Make-up and saloon services to improve guest experience.

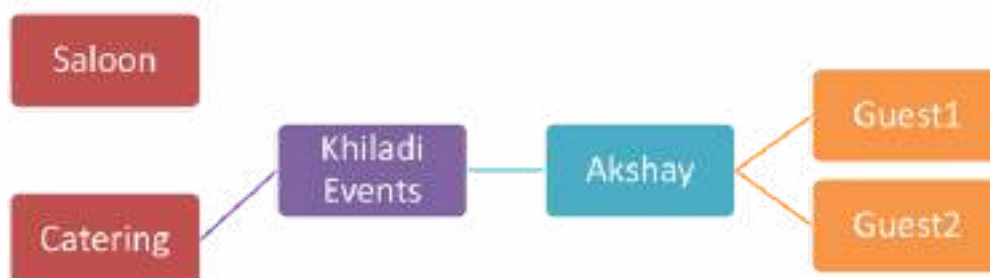
M/s. Khiladi seeks your advise on the following matters:



Q1. Whether M/s. Khiladi Events is eligible to claim ITC on Foods and Beverages used during the event?

Q2. Whether it is eligible to claim ITC on Make-up and grooming services offered to guests?

CASE STUDY 7 – ITC on FOOD & MAKEUP?





CASE STUDY 7 – ITC on FOOD & MAKEUP?

Section 17(5)(b)

(b)³ [the following supply of goods or services or both-

(i) food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, leasing, renting or hiring of motor vehicles, vessels or aircraft referred to in clause (a) or clause (aa) except when used for the purposes specified therein, life insurance and health insurance:

Provided that the input tax credit in respect of such goods or services or both shall be available where an inward supply of such goods or services or both is used by a registered person for making an outward taxable supply of the same category of goods or services or both or as an element of a taxable composite or mixed supply;

Section 16(2)(b)

(b) he has received the goods or services or both.

2 [**Explanation** .- For the purposes of this clause, it shall be deemed that the registered person has received the goods or, as the case may be, services-

(i) where the goods are delivered by the supplier to a recipient or any other person on the direction of such registered person, whether acting as an agent or otherwise, before or during movement of goods, either by way of transfer of documents of title to goods or otherwise;

(ii) where the services are provided by the supplier to any person on the direction of and on account of such registered person;]

CASE STUDY 8 – REVERSAL OF ITC ON SALE OF CAPITAL GOODS

M/s. Aloo Limited is the business of manufacturing of “O” Rings for a car manufacturing company. It heats and vulcanizes natural and synthetic rubber and presses them into rings using Moulds approved by the car manufacturer. The useful life of the mould is generally for 4 years. It purchased a Mold for Rs.5,00,000/- + 18% GST on 1st July 2018 and sold this mold on the 29th June 2023 for a value of Rs.5,000/- as scrap.



Q1. Whether M/s. Aloo is required to collect GST on it's sale of Capital Goods ?

Q2. Capital Goods were sold within 60 months of purchase. Whether any reversal of ITC would be triggered?

Q3. Whether actual useful life of the Mould i.e. 4 years have any impact on the reversal to be made, if any?



CASE STUDY 8 – REVERSAL OF ITC ON SALE OF CAPITAL GOODS

Section 18(6) and its Proviso

In case of supply of capital goods or plant and machinery, on which input tax credit has been taken, the registered person shall pay an amount equal to the input tax credit taken on the said capital goods or plant and machinery reduced by such percentage points as may be prescribed or the tax on the transaction value of such capital goods or plant and machinery determined under section 15, whichever is higher:

Provided that where refractory bricks, moulds and dies, jigs and fixtures are supplied as scrap, the taxable person may pay tax on the transaction value of such goods determined under section 15.

Capital Goods

CASE STUDY 9 – RULE 42 / RULE 43

M/s. Dhoni Limited had claimed ITC of Rs.30,000/- (IGST) in the May 2023 on Audit Fees invoice dated 31.01.2023 (Previous Year). In the year 2022-2023, M/s. Dhoni Limited has made certain exempted and taxable outward supplies during the year. In the year 2023-2024, M/s. Dhoni Limited has made only taxable outward supplies during the year.

Q1: Whether M/s. Dhoni Limited is liable to reverse credit under Rule 42 for the year 22-23?

Q2: If Yes, Whether ITC of Rs.30,000/- which was claimed in FY 23-24 will be included while calculating reversal for FY 22-23?

Q3: What will be the reversal if any for FY 23-24?

CASE STUDY 9 – RULE 42

- (a) the total input tax involved on inputs and input services in a tax period, be denoted as "T" ;
- (b) the amount of input tax, out of " T", attributable to inputs and input services intended to be used exclusively for the purposes other than business, be denoted as 'T1';
- (c) the amount of input tax, out of "T", attributable to inputs and input services intended to be used exclusively for effecting exempt supplies, be denoted as 'T2 ';
- (d) the amount of input tax, out of "T", in respect of inputs and input services on which credit is not available under sub-section (5) of section 17 , be denoted as 'T3 ';
- (e) the amount of input tax credit credited to the electronic credit ledger of registered person, be denoted as 'C1' and calculated As

$$C1 = T - (T1+T2+T3);$$

- (f) the amount of input tax credit attributable to inputs and input services intended to be used exclusively for effecting supplies other than exempted but including zero rated supplies, be denoted as 'T4 ';

(g) 'T 1 ', 'T 2 ', 'T 3 ' and 'T 4 ' shall be determined and declared by the registered person 2 [****] 3 [at summary level in FORM GSTR-3B];

- (h) input tax credit left after attribution of input tax credit under clause 4 [(f)] shall be called common credit, be denoted as 'C 2 ' and calculated as-

$$C 2 = C 1 - T 4 ;$$

- (i) the amount of input tax credit attributable towards exempt supplies, be denoted as 'D 1 ' and calculated as-

$$D 1 = (E / F) \times C 2$$

where ,

'E' is the aggregate value of exempt supplies during the tax period , and

'F' is the total turnover in the State of the registered person during the tax period:



CASE STUDY 10 – SALE OF SHARES

Mr. Jhunjunwala is a registered taxable person providing consultancy on share trading by taking sessions and seminar for his clients. He also trades in shares listed on stock exchanges. His Turnover from Consultancy amounted to Rs. 1,00,00,000/- + GST @18% for the month of June 2023. He also sold shares worth Rs. 50,00,000/- during the said month. ITC as per form GSTR2B amounted to Rs.8,00,000/- due to inwards services procured. He has paid Rs.10,00,000/- (18L less 8L) in cash as GST payable for the said month.

Q1: Whether in your opinion, Mr. Jhunjunwala has filed his returns accurately or not?

Q2: Whether Sale of Shares is in the course of business?

Q3: Whether any reversal is contemplated under the provisions of CGST Act?

Section 17(3)

(3) The value of exempt supply under sub-section (2) shall be such as may be prescribed , and shall include supplies on which the recipient is liable to pay tax on reverse charge basis, transactions in securities, sale of land and, subject to clause (b) of paragraph 5 of Schedule II , sale of building.

1[Explanation.- For the purposes of this sub-section, the expression "value of exempt supply" shall not include the value of activities or transactions specified in Schedule III, 4]except,—

- (i) the value of activities or transactions specified in paragraph 5 of the said Schedule; and
- (ii) the value of such activities or transactions as may be prescribed in respect of clause (a) of paragraph 8 of the said Schedule.]

Explanation to Rule 45 - For the purposes of this Chapter,

(2) for determining the value of an exempt supply as referred to in sub-section (3) of section 17 -

- (a) the value of land and building shall be taken as the same as adopted for the purpose of paying stamp duty.
- (b) the value of security shall be taken as one percent of the sale value of such security.

CASE STUDY 11 – ITC on TWO WHEELER

M/s. Govinda Limited, a registered tax payer, purchased a TVS XL300, a two wheeler running on petrol for transport of goods for Rs.40,000/- + GST. The GST Auditor of the company has advised the company to take ITC on the two wheeler. Whether his claim is correct?

Would answer vary if the company had purchased TATA Ace for transport of the goods.

Whether any expenses incurred on insurance and repairs are eligible for ITC?





CASE STUDY 12 – RENT-A-CAB

M/s. Super Car, a registered tax payer, purchased a car for supply of Renting Service. The GST Auditor of the company has advised the company not to take ITC on the car.

Whether his claim is correct?

Would answer vary if the company had purchased for Passenger transport service.

Whether any expenses incurred on insurance and repairs are eligible for ITC?

CASE STUDY 11, 12 – ITC on TWO WHEELER & CAR

(5) Notwithstanding anything contained in sub-section (1) of section 16 and sub-section (1) of section 18, input tax credit shall not be available in respect of the following, namely:-

² [(a) motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons (including the driver), except when they are used for making the following taxable supplies, namely:-

- (A) further supply of such motor vehicles; or
- (B) transportation of passengers; or
- (C) imparting training on driving such motor vehicles;

(aa) vessels and aircraft except when they are used-

(i) for making the following taxable supplies, namely:-

- (A) further supply of such vessels or aircraft; or
- (B) transportation of passengers; or
- (C) imparting training on navigating such vessels; or
- (D) imparting training on flying such aircraft;

(ii) for transportation of goods;



Ac
12

Section 17(5) of the CGST Act

(ab) services of general insurance, servicing, repair and maintenance in so far as they relate to motor vehicles, vessels or aircraft referred to in clause (a) or clause (aa):

Provided that the input tax credit in respect of such services shall be available-

- (i) where the motor vehicles, vessels or aircraft referred to in clause (a) or clause (aa) are used for the purposes specified therein;
- (ii) where received by a taxable person engaged-
 - (I) in the manufacture of such motor vehicles, vessels or aircraft; or
 - (II) in the supply of general insurance services in respect of such motor vehicles, vessels or aircraft insured by him;]



CASE STUDY 11 – ITC on TWO WHEELER

Section 2 of The Motor Vehicle Act, 1988

(26) “motor car” means any motor vehicle other than a transport vehicle, omnibus, road-roller, tractor, motor cycle or invalid carriage;

(27) “motor cycle” means a two-wheeled motor vehicle, inclusive of any detachable side-car having an extra wheel, attached to the motor vehicle;

(28) “motor vehicle” or “vehicle” means any mechanically propelled vehicle adapted for use upon roads whether the power of propulsion is transmitted thereto from an external or internal source and includes a chassis to which a body has not been attached and a trailer; but **does not include** a vehicle running upon fixed rails or a vehicle of a special type adapted for use only in a factory or in any other enclosed premises or a vehicle **having less than four wheels fitted with engine** capacity of not exceeding1 [twenty-five cubic centimetres];



CASE STUDY 13 – ITC on SALE OF BUSINESS

M/s. Major Ltd is a loss making manufacturing concern who has sold its entire business as going concern to M/s. Minor Ltd on 29th March 2023 for a lump-sum consideration. Major Ltd had a GST Credit of Rs.10 Lakhs in the Electronic Credit Ledger as on the date of transfer.

Q1: Whether the Sale of Entire Business is Supply? If Yes, Whether Taxable or Exempted?

Q2: Whether the said ITC can be transferred to Minor Ltd?

The Proper Officer while scrutinizing the case has proposed a reversal on Major Ltd’s under Rule 42 of CGST Act claiming that such a sale is exempted under the CGST Act. Whether the contention of the Officer is correct?

Notification 12/2017 - CGST (Rate) – Exemption List

| SI. No | Chapter,section, Heding,Group or service code (tariff) | Description of service | Rate (percet) | condition |
|--------|--|--|---------------|-----------|
| (1) | (2) | (3) | (4) | (5) |
| 2 | Chapter 99 | Service by way of trasfer of a going concern,as a whole or an independet part thereof. | Nil | Nil |



Section 18(3)

(3) Where there is a change in the constitution of a registered person on account of sale, merger, demerger, amalgamation, lease or transfer of the business with the specific provisions for transfer of liabilities, the said registered person shall be allowed to transfer the input tax credit which remains unutilised in his electronic credit ledger to such sold, merged, demerged, amalgamated, leased or transferred business in such manner as may be prescribed .

Section 17(2)

(2) Where the goods or services or both are used by the registered person partly for effecting taxable supplies including zero rated supplies under this Act or under the Integrated Goods and Services Tax Act and partly for effecting exempt supplies under the said Acts, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies.

CASE STUDY 14 – QUANTITY DISCOUNT

M/s. Lifestyles who is trader in garments, gives an offer during non-season for Buy 1 Get 1 Free. The cost of each apparel cost Rs.400+GST. Whereas the said goods were sold at 599+GST each. In this offer period, the customer gets 2 apparel at Rs.599 itself. During the department audit, the officer objected towards the claim of ITC on the free item given as part of offer as per clause 17(5)(h).



Q1. Is the department's contention correct ?

Q2. Whether the ITC Reversal has to be done by M/s. Lifestyles?

CASE STUDY 14 – QUANTITY DISCOUNT

Section 17(5)(h) : goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples; Circular No. 92/11/2019-GST dated 07.03.2019: Clarification on various doubts related to treatment of sales promotion schemes under GST.

CASE STUDY 15 – WOODEN FLOORING, GLASS PARTITION IN OFFICE

M/s. DT LLP has purchased Wooden Flooring and Glass Partitions for his new office which is been taken on rent. The said person is registered under GST and wishes to avail input tax credit.



Q1. Whether the ITC available for DT LLP on Wooden Flooring?

Q2. Whether the ITC available for DT LLP on Glass Partition?

Q3. Will your answer differ if both are in 1 single invoice?

Q4. Will your answer differ if a interior contractor procures these items and bill a single invoice to M/s. DT LLP ?



CASE STUDY 16 – SHOPPING MALL Plant & Machinery vs Immovable Property

M/s. EA Ltd is constructing a Shopping Mall and procuring Lift, Escalator, Travellator etc. Whether the assessee is eligible to claim the credit of these items?

Q. Can these items be considered separately from building?

Q. What constitutes an immovable property?



CASE STUDY 15, 16 – WOODEN FLOORING, GLASS PARTITION IN OFFICE, PLANT AND MACHINERY

Section 17(5)(d) : goods or services or both received by a taxable person for construction of an immovable property (other than plant or machinery) **on his own account including when such goods or services or both are used in the course or furtherance of business.**

Explanation — For the purposes of clauses (c) and (d), the expression “construction” includes reconstruction, renovation, additions or alterations or repairs, to the extent of **capitalisation, to the said immovable property;**

Explanation — For the purposes of this Chapter and Chapter VI, the expression “plant and machinery” means apparatus, equipment, and machinery fixed to earth by foundation or structural support that are used for making outward supply of goods or services or both and includes such foundation and structural supports but excludes—

- land, building or any other civil structures;
- telecommunication towers; and
- pipelines laid outside the factory premises.”

The term immovable property is not defined under the GST Act. Section 3(26) of the General Clauses Act, 1897 defines “immovable property” as under: “immovable property” shall include land, benefits to arise out of land, and things attached to the earth, or permanently fastened to anything attached to the earth.”

The term “movable property” is defined in section 3(36) of the General Clauses Act, 1897 as under: “(36) “movable property” shall mean property of every description, except immovable property:

CASE STUDY 15 & 16

M/S SAFARI RETREATS PRIVATE LIMITED [2019 (25) G.S.T.L. 341 (HIGH COURT – ORISSA)]

Held: The Hon’ble Orissa High Court read down section 17 (5) (d) of the CGST Act for the purpose of interpretation in continuation to give benefit to the person who has paid GST and it has to be interpreted in continuity of the transaction since rent income is arising out of the malls which are constructed after paying GST on different items. If input tax credit is denied on building meant and intended to be let out, it would amount to treating the transaction as identical to a building meant and intended to be sold.



Hence, the interpretation adopted by the Revenue is frustrating the objective of the CGST and other respective state GST Acts inasmuch as the Petitioner in that case has to pay huge amount without any basis. Relying on (1999) 2 SCC 361, the very purpose of the credit is to give benefit to the assessee. Therefore, if the Petitioner is required to pay GST on the rental income arising out of the investment on which he had paid GST, it is required to have the input tax credit on the GST.

The said case is challenged before Supreme Court and is awaited decision.

SECTION – 155 BURDEN OF PROOF

Sec. 155 under CGST Act : Where any person claims that he is eligible for input tax credit under this Act, the burden of proving such claim shall lie on such person.

the Hon'ble Supreme Court in the State of Karnataka v. M/s. Ecom Gill Coffee Trading Pvt. Ltd. [Civil Appeal No. 230 of 2023 dated March 13, 2023] has quashed and set aside the order passed by the Hon'ble Karnataka High Court on the grounds that until the purchasing dealer discharges the burden of proof under Section 70 of the Karnataka Value Added Tax Act, 2003 ("the KVAT Act"), and proves the genuineness of the transaction/purchase and sale by producing the relevant materials, such as name and address of the selling dealer, details of the vehicle which has delivered the goods, payment of freight charges, acknowledgement of taking delivery of goods, tax invoices and payment particulars etc, such purchasing dealer shall not be entitled to Input Tax Credit ("ITC"). Restored the order passed by the Revenue Department.

SECTION – 155 BURDEN OF PROOF

Section 70 under Karnataka VAT Act:

Burden of proof.- (1) For the purposes of payment or assessment of tax or any claim to input tax under this Act, the burden of proving that any transaction of a dealer is not liable to tax, or any claim to deduction of input tax is correct, shall lie on such dealer.

In the case law, it is mentioned that "merely producing invoices or payments through cheques are sufficient to claim ITC which, is erroneous". All documents mentioned in previous slide would substantiate the genuineness of the transaction.

The question arises on what would be the analogy to be drawn to prove genuineness of the Services on which ITC is claimed?



Upcoming Programs



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)
CHENGALPATTU DISTRICT BRANCH (SIRC)

***CPE MEETING FOR THE MONTH OF APRIL
WILL FOLLOW***