

THE ORACLE

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DON'T
miss it!



Upcoming Events in September 2025

Teachers Day



CHAIRMAN'S MESSAGE



CA. Prashanth Pai K.

Chairman- ICAI Mangaluru Branch

Dear Members,

Dear Esteemed Members,

Warm greetings!

As we step into the month of September, I would like to take a moment to reflect on the incredibly productive and vibrant month of August that we have had together as a branch. Your enthusiastic participation has been the cornerstone of our success.

The month began on a high note with two insightful seminars. On 2nd August 2025, we were privileged to host CA E. Phalguna Kumar from Tirupati, who delved into the intricate 'Income Tax Provisions applicable to Trusts'. This was followed by an engaging session on 'Assorted Issues under the Income Tax Act' by CA Ramnath from Coimbatore. The overwhelming response from our members was truly commendable.

We also extended our collaborative spirit to our neighbouring state by joining hands with the Kannur Branch for a seminar in Kannangad, Kerala on the crucial topic of 'Preparedness for Peer Review'. Our sincere thanks to the resource persons, CA Shrivatsa Bhat and CA Ranjith Kumar T.V., for enlightening our members on this essential reporting requirement for the audit of non-corporate entities.

Beyond technical sessions, we celebrated the spirit of our nation with pride as we hoisted the tricolour at the ICAI Bhavan on the 79th Independence Day. It was my distinct honour to felicitate and extend a warm welcome to 53 new members who qualified in the May 2025 examinations. We wish them a brilliant and fulfilling career ahead.

Furthermore, our branch's commitment to nurturing future talent was evident in the Career Guidance Program organized at Excellent Institution, Moodabidri, on 7th August. Our heartfelt appreciation to CA Akashdeep Pai and CA Vrinda Konnar for expertly guiding the young minds aspiring to join our noble profession.

Indeed, August was a testament to our collective energy and commitment to learning and growth.



Looking ahead at September, we are cognizant that this is a crucial period for all of us, dedicated to the important task of ITR filings. In light of this, we will observe a brief break in major activities until the 15th of September to allow everyone to focus on their professional commitments. Post this date, we will resume our endeavours with renewed vigour to ensure our branch remains as dynamic and engaging as ever.

Let's channel our focus now and reconvene with even greater energy.

Wishing you all a productive and successful filing season.

Warm regards,

CA Prashanth Pai K
Chairman
Mangalore Branch of ICAI



Dear Esteemed Members,
Warm greetings from the Mangaluru Branch of SIRC of ICAI!

August was a momentous month—filled with pride, achievement, and forward momentum for both the nation and our branch.

We joyfully celebrated India's 79th Independence Day on August 15, with the stirring theme of "Naya Bharat" echoing across the nation. From flag-hoisting ceremonies to cultural performances, the day paid tribute to freedom fighters and renewed our dedication to a future built on unity, development, and self-reliance.

We are proud to announce that the Mangaluru Branch of SIRC of ICAI was recognised with the Best Branch Award (Medium Category) at the recently concluded Aakkam Regional Conference—a testament to our commitment to meaningful programmes, impactful learning, and vibrant member engagement.

Looking ahead, September holds significance with the 56th GST Council Meeting scheduled. Key reforms and deliberations are expected that will impact trade, industry, and practice alike. As professionals, staying alert to these changes will help us guide clients effectively and contribute meaningfully to discussions on policy.

On the compliance front too, the month keeps us on our toes. The extended due date of 15th September for filing ITRs along with the due date for payment of the second instalment of Advance Tax, will keep us engaged early in the month. Income Tax deadlines, such as the due date for filing the Tax Audit Report (30th September), and key Companies Act deadlines, like filing of DIR-3 KYC, serve as timely reminders for us to stay organised and proactive. As Chartered Accountants, our role in ensuring accuracy and timeliness in these compliances continues to be of paramount importance.

Cricket enthusiasts meanwhile are looking forward to the Asia Cup T20, where our national team will once again showcase its talent on an international stage. Sports, much like our profession, teach us the value of preparation, strategy, and perseverance.

I extend my heartfelt thanks to all contributors, and urge more of you to bring your experiences, analysis, and perspectives to this platform.

As we step into September, fueled by the spirit of Independence and community achievements, may we continue to uphold the values of integrity, independence, and excellence that define our profession.

Wishing you all a purposeful and progressive September!

Warm regards,

CA. B Krishnananda Pai

Editor – E-Bulletin

Mangaluru Branch of SIRC of ICAI

Articles



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AS 1 vs Ind AS 1: Fundamental Concepts, GAAP, Principles and Assumptions — A Practitioner's Comparative Guide

1. Executive Summary

Accounting Standard (AS) 1 in India focuses on the disclosure of accounting policies, whereas Ind AS 1 (converged with IAS 1) addresses the presentation of financial statements. Together, they form the gateway to comparability and transparency: AS 1 tells users what policies have been adopted and why; Ind AS 1 prescribes the architecture of the financial statements, the minimum line items, fair presentation, and overriding concepts such as going concern and accrual basis. For Indian practitioners, the interplay matters because many small and medium enterprises (SMEs) and entities not covered by the Companies (Indian Accounting Standards) Rules continue with AS, while listed and larger entities apply Ind AS. This article compares the frameworks, distils the fundamental concepts, and grounds the discussion in case-based analysis and numerical scenarios relevant to bankers, auditors, and corporate finance teams.

2. Scope and Positioning: AS 1 vs Ind AS 1

AS 1 (Disclosure of Accounting Policies) applies to general-purpose financial statements and requires disclosure of significant accounting policies adopted in preparing and presenting financial statements. The emphasis is on clarity and consistency so that users can understand the basis of measurement and recognition. Ind AS 1 (Presentation of Financial Statements), corresponding to IAS 1, prescribes overall requirements for the presentation of financial statements, guidelines for their structure, and minimum content requirements. Ind AS 1 requires a complete set of financial statements comprising: (a) a balance sheet (statement of financial position), (b) a statement of profit and loss (including other comprehensive income), (c) a statement of changes in equity, (d) a statement of cash flows, and (e) notes, including accounting policies and other explanatory information. It also requires comparative information and, in specified circumstances, a third balance sheet.

3. Fundamental Assumptions and Qualitative Characteristics

Both standards converge on the fundamental assumptions: going concern, consistency, and accrual. Materiality is a pervasive constraint guiding aggregation and disclosure. Prudence (or caution) is a supportive concept—not biasing estimates but avoiding overstatement of assets and income.

Substance over form, though not explicitly a fundamental assumption in AS 1, is integral to faithful representation under Ind AS. In practice, entities should document how these assumptions are applied, the basis for judgments and estimates, and the trigger points for reassessment (e.g., liquidity stress tests for going concern).

4. Fair Presentation and Compliance Override

Ind AS 1 introduces the fair presentation paradigm: financial statements must present fairly the financial position, financial performance, and cash flows. Compliance with all applicable Ind ASs is presumed to result in fair presentation. In extremely rare cases, management may depart from a requirement if compliance would be so misleading that it conflicts with the objective of financial statements; such departures require robust disclosure. AS 1 does not provide an explicit override but achieves a similar effect through the emphasis on true and fair view under the Companies Act and the auditor's reporting responsibilities.

5. Presentation Architecture: Ind AS 1

Ind AS 1 requires a current/non-current classification for assets and liabilities unless a liquidity-based presentation provides information that is more reliable and relevant. It prescribes minimum line items (e.g., PPE, investment property, intangibles, biological assets where relevant, inventories, trade and other receivables, provisions, financial liabilities separately from non-financial, deferred tax, and equity components). Other comprehensive income (OCI) is segregated between items that will and will not be reclassified to profit or loss. AS 1 does not prescribe such presentation detail; instead, it requires disclosure of significant accounting policies and changes thereto, emphasising consistency.

6. Policy Disclosure vs Policy Design

AS 1 answers the disclosure question—what policies have been adopted and whether they are appropriate and consistently applied. Ind AS 1 presupposes policy design under specific Ind ASs (e.g., revenue under Ind AS 115, financial instruments under Ind AS 109, leases under Ind AS 116) and then mandates how the outcomes are presented. For SMEs under AS, policy choices (e.g., inventory valuation method, depreciation method, revenue recognition in long-term contracts) can materially change reported outcomes and require clear disclosure. Under Ind AS, the space for arbitrary policy choices is narrower, but policy judgments (e.g., significant financing components in contracts, impairment testing cash-generating units) remain pivotal.

7. Comparative GAAP Lens: India vs Global Practices

Indian Ind AS is closely aligned with IFRS (IAS/IFRS), with certain carve-outs (e.g., differences in treatment of OCI items or exemptions on first-time adoption). US GAAP remains a rules-heavy framework with emphasis on topic-specific guidance (ASC). Global practice shows that principles-based frameworks (IFRS/Ind AS) rely more on judgment and disclosure to achieve faithful representation, whereas rules-based frameworks provide detailed prescriptions but risk complexity. Experienced preparers maintain decision logs for significant judgments, enabling audit trail and governance oversight.

8. Going Concern: Practical Diagnostics and Banking Signals

Under both AS 1 and Ind AS 1, management assesses going concern. Ind AS 1 explicitly requires disclosure of material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In banking practice, covenant breaches, persistent negative operating cash flows, and severe working capital deficits are early indicators.

Boards should document mitigations (capital infusion, debt restructuring, asset sales) and the basis of conclusion. Auditors may include Emphasis of Matter or Material Uncertainty related to Going Concern in their reports when appropriate.

9. Consistency and Comparability: Changes in Policies and Estimates

AS 1 requires disclosure when policies are changed and the effect thereof. Ind AS 1, read with Ind AS 8, requires retrospective application for changes in accounting policies (unless impracticable) and prospective application for changes in estimates, with transparent disclosure. The discipline is to separate policy changes (e.g., inventory valuation from FIFO to weighted average) from estimate changes (e.g., useful life revision for machinery) and error corrections. Comparative information must be restated where required.

10. Materiality, Aggregation and Notes

Materiality under Ind AS 1 governs whether to present line items separately and what to disclose. Boilerplate is discouraged; entity-specific disclosures are preferred. In AS environments, materiality decisions similarly drive clarity in notes. Preparers should adopt a dual-lens approach: quantitative thresholds (e.g., 5% of profit before tax, 1–2% of total assets) and qualitative triggers (e.g., related-party transactions, regulatory breaches), documented annually in a materiality memo approved by governance.

11. Corporate Case Study A (India): Revenue Recognition and Policy Disclosure in a Large IT Services Company

Consider an Indian IT services exporter transitioning from AS to Ind AS. Under AS-based policies, revenue from time-and-material contracts was recognised as billed; fixed-price contracts used percentage of completion based on efforts. Under Ind AS 115, performance obligations are identified, variable consideration is constrained, and a significant financing component may be recognised where payment terms deviate substantially from transfer of services. Policy disclosure moved from brief method statements to granular descriptions of performance obligations, transaction price allocation, contract assets and liabilities, and judgments about principal versus agent. The presentation under Ind AS 1 also created separate lines for ‘contract assets’ and ‘contract liabilities,’ improving working capital analytics for lenders.

12. Corporate Case Study B (Global): Retailer Classification and OCI Discipline

A European listed retailer reporting under IFRS faced volatility in OCI due to cash flow hedges for forecast inventory purchases. Under IAS 1/IFRS 9, OCI items are split between those reclassified to profit or loss and those that are not. The retailer enhanced its disclosures to explain the linkage between hedge reserves in equity and the timing of inventory purchases hitting cost of sales. Analysts benefited from Ind AS/IFRS-style statement of changes in equity (SoCE), which is not required under legacy AS frameworks. The discipline of presentation clarified how risk management policies affect earnings quality.

13. Corporate Case Study C (India): Lease Accounting and Presentation Effects in a Manufacturing Group

An Indian manufacturing group adopting Ind AS 116 recognised right-of-use (ROU) assets and lease liabilities for long-term factory and warehouse leases. The balance sheet expanded, EBITDA improved due to reclassification of lease expenses into depreciation and finance cost, and interest coverage ratios temporarily dipped. Ind AS 1 presentation required separate disclosure of ROU assets and lease liabilities with current/non-current splits, and maturity analyses in notes. Under AS

(where operating lease expense was straight-lined), such effects were not visible on the face of the financials, underscoring the analytical uplift delivered by Ind AS presentation.

14. Numerical Illustration 1: Materiality-Driven Presentation

Assume Entity X has total assets of ₹1,000 crore and profit before tax (PBT) of ₹100 crore. It has an investment in an associate of ₹12 crore. If the entity's quantitative materiality thresholds are 1% of total assets and 5% of PBT, the investment crosses assets-based materiality (₹10 crore) but not PBT-based (₹5 crore). Under Ind AS 1, a separate line item may be warranted on the balance sheet, and additional note disclosure is expected, especially if the associate is strategically significant. Under AS, the same logic would be applied through the materiality lens to determine the level of aggregation and disclosure.

15. Numerical Illustration 2: Change in Estimate vs Policy

Entity Y depreciates machinery of ₹200 crore over 10 years on straight-line method (SLM). After a technical assessment, remaining useful life is revised from 6 years to 8 years. Carrying amount now is ₹120 crore. The change is an estimate, not a policy. The revised annual depreciation becomes $₹120/8 = ₹15$ crore prospectively. Disclosure should include the nature of change and, if material, its effect on current and future periods. If instead the entity switched from SLM to WDV method, it would be a policy change requiring retrospective application (subject to Ind AS 8) and restatement of comparatives where practicable; AS requires disclosure of the effect of such a change on current period profit/loss.

16. Numerical Illustration 3: Going Concern Sensitivity

Entity Z has ₹500 crore of short-term borrowings maturing within 6 months and cash flows from operations projected at ₹60 crore over the same period. A sanctioned refinancing of ₹350 crore is in progress but not yet drawn. If the loan agreements include financial covenants linked to EBITDA/Interest, and current projections indicate risk of breach, management must evaluate material uncertainty. Where mitigating actions (e.g., promoter infusion of ₹100 crore and standstill from lenders) are credible and documented, Ind AS 1 requires transparent disclosures; auditors may highlight the uncertainty. Under AS, although the presentation regime is less prescriptive, the true and fair view and AS 1's disclosure principles lead to similar transparency expectations.

17. Policy Hierarchy and Judgment Framework

Preparers should articulate a three-tier framework: (i) mandatory standards (Ind AS/AS and the Companies Act), (ii) authoritative guidance (ICAI announcements, ITFG bulletins), and (iii) entity-specific policy elections and estimates. A formal 'Judgment Register' documents significant judgments (e.g., determining functional currency, identifying CGUs, assessing control under Ind AS 110) and ties them to disclosures under Ind AS 1. This discipline reduces audit friction and enhances governance oversight by the Audit Committee.

18. Comparative Experience: Indian vs Overseas Businesses

Indian Ind AS adopters report improved investor communication due to Ind AS 1's presentation rigour—especially SoCE and OCI analytics—while also facing heavier disclosure workload. US GAAP preparers, by contrast, benefit from detailed topic guidance but invest more time in cross-referencing and technical memoing. European IFRS filers emphasise entity-specific disclosures to avoid boilerplate. In emerging markets, enforcement strength affects disclosure quality; where regulators and stock exchanges actively review filings, presentation quality rises. Multinationals

operating in India should harmonise internal reporting packs with Ind AS 1 line items to minimise year-end mapping surprises.

19. Disclosures of Sources of Estimation Uncertainty and Significant Judgments

Ind AS 1 requires disclosure of the nature and carrying amounts of assets and liabilities subject to significant estimation uncertainty (e.g., impairment testing assumptions, fair value level 3 inputs, provisions measured using expected value). It also requires disclosing judgments that have the most significant effect (e.g., revenue recognition timing, lease term including extension options). AS regimes generally expect disclosure of the basis of estimates where material, but Ind AS 1 codifies these requirements more sharply.

20. Banks' Analytical Use-Cases

For lenders, Ind AS 1's structured presentation enables ratio analysis: net debt reconciliation via SoCE and cash flow statements, separation of current vs non-current liabilities, and visibility into OCI that may recycle to profit or loss. Under AS, the absence of SoCE and OCI segregation can obscure leverage and earnings quality trends. Credit appraisals should therefore adjust borrowers' AS-based statements to Ind AS-like analytics where feasible.

21. Transition Considerations: AS to Ind AS

First-time adoption (Ind AS 101) interacts with Ind AS 1 presentation. Entities should plan the statement architecture early: define reporting segments, design primary statements, build note templates, and align ERP chart-of-accounts to Ind AS line items. Training finance teams on materiality and disclosure drafting is critical; entity-specific narratives trump boilerplate and are valued by regulators and investors.

22. Corporate Case Study D (Ethics): Prudence and Substance Over Form

Global accounting history cautions against over-aggressive revenue and asset recognition. Scenarios where risks and rewards are not substantively transferred (e.g., bill-and-hold, side letters) test substance over form. Prudence calls for measured estimates and transparent sensitivity disclosures. Indian preparers have strengthened governance—through audit committee scrutiny and independent valuation reviews—to ensure that fair presentation under Ind AS 1 is achieved without optimism bias.

23. Notes Craftsmanship: From Boilerplate to Insight

High-quality notes link numbers to business drivers: for inventory, explain obsolescence trends and provisioning logic; for receivables, aging and expected credit loss matrices; for revenue, contract types and variable consideration risk caps; for leases, maturity analyses and discount rate policies. Preparers should structure notes with headings and cross-references, use tables to present reconciliations, and include sensitivity analyses where estimates are volatile. This approach operationalises Ind AS 1's objective of providing information that is useful to users.

24. Practical Toolkit for Controllers and Auditors

- A disclosure checklist mapped to Ind AS 1 minimum line items and to AS 1 policy requirements.
- A materiality framework with quantitative thresholds and qualitative triggers, approved annually.
- A judgments and estimates register, reviewed quarterly by the CFO and Audit Committee.
- Templates for SoCE, OCI split, and current/non-current classification with examples.
- Pre-close analytics to identify reclassifications and presentation adjustments before audit.

25. Frequently Contested Areas in Reviews

Common review comments include: insufficient entity-specific disclosures; unclear policy change vs estimate change; lack of reconciliation for alternative performance measures; misclassification between current and non-current portions of borrowings; and inadequate explanation of OCI movements. Addressing these proactively aligns with Ind AS 1's fair presentation objectives.

26. Bridging to Audit Reporting

Transparent Ind AS 1/AS 1 compliance reduces audit qualifications and ensures that Key Audit Matters (KAMs) context is well-supported by disclosures. When management presents a clear going concern assessment, robust SoCE reconciliations, and granular policy explanations, auditors can anchor their procedures efficiently, supporting timely closure of financial statements.

27. Conclusion

AS 1 and Ind AS 1, though different in emphasis—policy disclosure versus presentation architecture—are complementary in practice. For Indian corporates and financial institutions, disciplined application of fundamental assumptions, materiality, and entity-specific disclosures elevates the utility of financial statements. Global comparability demands the rigor that Ind AS 1 embeds; domestic relevance is preserved through clear AS 1 policy narratives for entities outside Ind AS. Adopting the toolkits outlined and learning from case studies will help practitioners achieve fair presentation, withstand regulatory scrutiny, and enhance stakeholder trust.

28. Sector-Specific Case Study E (Banking): Loan Loss Provisions and Presentation

A mid-sized Indian bank under AS followed RBI prudential norms, recognising standard asset provisions and NPA provisions as per regulatory percentages. With Ind AS 109 adoption aligned through Ind AS 1 presentation, Expected Credit Loss (ECL) models were introduced. This required segmentation of loan portfolios, forward-looking macroeconomic overlays, and recognition of Stage 1, Stage 2, and Stage 3 allowances. The presentation under Ind AS 1 segregated impairment allowances, reshaping the balance sheet and profit recognition patterns. Disclosure quality became critical: detailed credit risk note reconciliations and sensitivity to GDP growth forecasts improved transparency for investors and regulators.

29. Sector-Specific Case Study F (Insurance): Policy Liabilities and OCI Presentation

An Indian life insurer reported policyholder liabilities under AS 15 actuarial valuation rules. Under Ind AS 117 (forthcoming, aligned to IFRS 17), Ind AS 1 presentation would dramatically alter reporting: recognition of Contractual Service Margin (CSM), separation of insurance revenue from investment income, and OCI presentation of certain remeasurement items. International insurers' experience shows that investors need education on new line items, and preparers must build robust disclosure narratives. Without adequate notes, financial statements risk becoming opaque. Ind AS 1 enforces minimum content, providing a structure for narrative clarity.

30. Sector-Specific Case Study G (Real Estate): Revenue Recognition Complexities

A real estate developer under AS 7 recognised revenue on percentage-of-completion method (POCM). Under Ind AS 115, revenue recognition was revisited: whether control transfers over time or at a point in time. For residential projects, unless criteria for over-time recognition were met (e.g., enforceable rights and no alternative use), revenue was recognised at a point in time (handover). Presentation under Ind AS 1 therefore shifted income patterns and required disclosure of contract liabilities. Numerical illustration: A ₹500 crore project with 70% construction completed but unsold units still under construction would have recognised ~₹350 crore under POCM; under Ind AS 115,

zero revenue may be booked until handover, significantly altering lender covenants and profitability ratios.

31. Numerical Illustration 4: Insurance OCI Reclassification

Assume an insurer holds ₹1,000 crore in debt instruments backing policy liabilities. Fair value changes of ₹40 crore occur during the year. Under Ind AS 1/IFRS 9, if classified as FVOCI, ₹40 crore flows to OCI. Of this, ₹25 crore relates to instruments disposed during the year, which is reclassified to P&L; ₹15 crore remains in equity reserves. Users must trace movements through SoCE. Under AS frameworks, such reclassifications are not structured, creating opacity. The Ind AS 1 discipline ensures clear depiction of realised versus unrealised gains.

32. Numerical Illustration 5: Banking ECL Impact

A bank with a ₹10,000 crore retail loan portfolio estimates 12-month ECL at ₹100 crore (Stage 1). A subset of ₹500 crore shows significant credit deterioration (Stage 2), with lifetime ECL at ₹60 crore. NPAs of ₹200 crore fall under Stage 3 with ECL of ₹120 crore. Total allowance = ₹280 crore. Presentation under Ind AS 1 shows this allowance deduction from loan assets, materially reducing net advances. Under AS/RBI norms, provisioning may have been only ~₹150 crore, highlighting divergence. Disclosure in notes bridges this gap for stakeholders.

33. Checklist Appendix for Reviewers and Controllers

The following practical checklist can guide controllers, auditors, and reviewers to ensure compliance with AS 1 and Ind AS 1:

- Has the entity disclosed all significant accounting policies, including revenue recognition, depreciation, impairment, and inventory valuation?
- Are fundamental assumptions (going concern, consistency, accrual) explicitly confirmed?
- Have changes in policies, estimates, and error corrections been separately disclosed, with effects quantified?
- Are financial statements structured in accordance with Ind AS 1 requirements (balance sheet, P&L with OCI, SoCE, cash flows, notes)?
- Are material uncertainties around going concern assessed and disclosed?
- Does the SoCE reconcile opening to closing balances, with clarity on OCI items?
- Are line items separately presented where material, both quantitatively and qualitatively?
- Has entity-specific disclosure replaced boilerplate?
- Are judgments and estimation uncertainties clearly explained, with sensitivity analysis where significant?
- For AS entities, are significant policies disclosed in a manner sufficient to ensure true and fair view under Companies Act?

This checklist acts as a control tool and aligns reporting with both compliance and investor expectations.

34. Final Observations

The evolution from AS 1 to Ind AS 1 is not merely technical but cultural—moving from compliance disclosure to communication of financial reality. As India progresses with global convergence, corporate preparers and auditors must continue refining note narratives, numerical clarity, and sector-specific transparency. For chartered accountants, mastery of both frameworks allows bridging SME clients under AS and listed corporates under Ind AS, ensuring professional versatility.

The comparative experience of global peers demonstrates that rigorous presentation and disclosure foster investor trust and reduce cost of capital. The way forward lies in embedding materiality judgment, governance oversight, and user-centric disclosure into the DNA of financial reporting.

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Companies (Auditor's Report) Order, 2020 (CARO 2020)

A Clause-by-Clause Professional Analysis with Case Studies, Numerical Illustrations, and Drafting Guidance for Qualified Opinions

Preface and Scope

The Companies (Auditor's Report) Order, 2020 (hereafter "CARO 2020") was issued by the Ministry of Corporate Affairs (MCA) under Section 143(11) of the Companies Act, 2013. CARO 2020 applies to audits of financial statements of most companies, subject to the prescribed exemptions. The order expands the auditor's reporting responsibilities on specific matters that are relevant to governance, stewardship, prudence, and faithful representation. This article provides a comprehensive, clause-by-clause discussion aimed at qualified Chartered Accountants. Each clause is explained with definitions of key terms, audit procedures, intricacies and interpretative issues, corporate case studies, and numerical illustrations. For every clause, we include drafting guidance and sample language for a qualified opinion under that clause where irregularities exist. The analysis cross-references relevant provisions of the Companies Act, 2013, applicable Accounting Standards/Ind AS, and Rules, without reproducing the legal text.

Coverage and Exemptions (High-level)

CARO generally applies to all companies including foreign companies, with notable exemptions for: (a) banking companies, (b) insurance companies, (c) companies licensed to operate under Section 8, (d) One Person Companies, (e) small companies, and (f) certain private companies not meeting prescribed thresholds. Auditors should document applicability on the engagement file at planning stage, with reference to paid-up capital, reserves, borrowings, and revenue thresholds, and re-assess applicability annually.

Clause 3(i) – Property, Plant and Equipment; Intangible Assets; Revaluation; Benami Properties

What must be reported: Maintenance of proper records (quantitative and situation-wise details), physical verification and material discrepancies,

title deeds of immovable properties, revaluation by a Registered Valuer, and proceedings under the Benami Transactions (Prohibition) Act.

Key definitions:

- "Proper records" include description, location, identification numbers, quantity/cost, accumulated depreciation/amortisation, and impairment.
- "Physical verification" means procedures designed to establish existence and condition, with frequency and coverage commensurate with size and risk.
- "Title deeds" include sale deeds, conveyance deeds, lease deeds (for right-of-use assets), and mutation entries where applicable.
- "Material discrepancy" is a variance that could influence economic decisions; auditors should set materiality a priori and evaluate both value and nature.

- “Registered Valuer” refers to a valuer registered under Section 247 read with Rules.

Audit procedures: Walkthrough of fixed asset register, test of additions/disposals, site visits or alternative procedures, reconciliation of physical verification

reports with records, legal review of title deeds including name mismatch (old names, amalgamations), impairment indicators (Ind AS 36/AS 28), and

revaluation working papers including methodology (income, cost, market approach), assumptions, and independence of valuer.

Intricacies: Leased assets recognition under Ind AS 116 (ROU assets) and whether lease deeds are in the company’s name; assets located at third-party premises;

assets under dispute; capital work-in-progress ageing and cost allocations; componentisation under Ind AS 16; benami flags where possession and consideration are in different names without adequate explanation.

Case study: A manufacturing entity capitalised a new plant (₹120 crore). Title deeds for land remain in the name of the promoter’s proprietary firm pending

registration. The company claims a business transfer understanding. Risk: asset may not be legally controlled; impairment and capitalisation risk.

Numerical illustration: PPE gross block ₹500 crore; sample verification covers 75% by value.

Discrepancies found: 2 CNC machines missing (₹1.8 crore), replaced but not

recorded; surplus items on floor (₹0.2 crore). Net discrepancy ₹1.6 crore (0.32% of gross block);

materiality at 0.25% of total assets ⇒ material.

Qualified opinion – specimen language:

“In our opinion and according to the information and explanations given to us, the Company has not maintained adequate records showing full particulars

including quantitative details and situation of certain items of property, plant and equipment. Further, title deeds of immovable properties aggregating

to ₹28.4 crore, as per the fixed asset register, are not held in the name of the Company. Accordingly, the Company has not complied with the requirements

of Clause 3(i)(b) and 3(i)(c) of CARO 2020.”

Documentation tip: Retain copy-extracts of title deeds, reconciliation of name mismatches, and management representation addressing control and litigations.

Clause 3(ii) – Inventory and Working Capital Borrowings

What must be reported: Physical verification, material discrepancies, and whether quarterly returns/statements filed with banks/financial institutions for working-capital limits above ₹5 crore are in agreement with books.

Key definitions:

- “Material discrepancies” include shortages/excesses outside tolerance bands; consider shrinkage norms.
- “Agreement with books” requires reconciliation and explanation of differences (valuation method, cut-off, goods-in-transit).

Audit procedures: Observe/attend stock counts; test count sheets, cut-off (GRNs/GDNs), price testing, NRV testing (Ind AS 2/AS 2), ageing analysis, obsolete/slow-moving provisions, and reconciliation of stock statements filed to lenders with general ledger/ERP.

Intricacies: Third-party godowns, consignment/stock-in-transit, bill-and-hold, job-work inventory, and borrowings backed by drawing power derived from stock.

Case study: A company reported to bank inventory ₹120 crore; books show ₹102 crore due to NRV write-down of ₹18 crore not reflected in bank statement.

Numerical illustration: If drawing power uses inventory at cost; exclusion of NRV write-down artificially inflates DP by ₹18 crore, potentially overstating eligible borrowing.

Qualified opinion – specimen language:

“The Company has working capital facilities in excess of ₹5 crore from banks secured by current assets. Based on our examination, quarterly returns filed with lenders are not in agreement with the books of account, the variance ranging between ₹14.5 crore and ₹19.2 crore during the year. Accordingly, the Company has not complied with Clause 3(ii)(b) of CARO 2020.”

Clause 3(iii) – Investments, Guarantees, Securities and Loans Granted

What must be reported: Whether during the year the company has provided loans, advances in the nature of loans, stood guarantee, or provided security to entities;

terms not prejudicial to the company’s interest; schedule of repayments; whether overdue; and loans repayable on demand granted to promoters/related parties.

Key definitions:

- “Prejudicial to the company’s interest” considers pricing (interest, collateral), tenor, subordination, and purpose.
- “Related party” as per Section 2(76) read with Ind AS 24/AS 18.

Audit procedures: Obtain register u/s 189, evaluate Section 185 (loans to directors etc.) and Section

186 (limits, approvals) compliance; examine board/shareholder approvals, interest rates vs market, security, monitoring of end use, and ageing of receivables.

Case study: Parent advanced ₹50 crore to subsidiary interest-free, repayable on demand, used to acquire land held as inventory; no charge created.

Numerical illustration: Market rate 10% p.a.; interest foregone ₹5 crore annually – potential impairment/ECL under Ind AS 109; disclosure under Ind AS 24.

Qualified opinion – specimen language:

“In our opinion, the terms and conditions of loans amounting to ₹50.0 crore provided to subsidiaries are, prima facie, prejudicial to the Company’s interest

as such loans are interest-free and unsecured without a defined repayment schedule. The Company has, therefore, not complied with Clause 3(iii)(a) and 3(iii)(c).”

Clause 3(iv) – Compliance with Sections 185 and 186

What must be reported: Whether provisions of Section 185 (loans to directors and entities in which directors are interested) and Section 186 (loans and investments, guarantees and security) have been complied with.

Audit procedures: Map each loan/guarantee/investment/security to 185/186; verify limits (60% of paid-up share capital, free reserves and securities premium or 100% of free reserves and securities premium, whichever is more) or special resolution; rate of interest not less than prevailing yield of one/three/five/ten-year Government security; and board approvals with disclosure.

Case study: Company exceeded Section 186 limits by ₹30 crore without prior special resolution; ratified later.

Qualified opinion – specimen language:

“The Company has not complied with Section 186 of the Act in respect of loans and investments aggregating ₹30.0 crore made without obtaining prior approval

of shareholders by a special resolution, as required. Accordingly, the Company has not complied with Clause 3(iv) of CARO 2020.”

Clause 3(v) – Deposits and Deemed Deposits

What must be reported: Compliance with directives of the Reserve Bank of India and provisions of Sections 73 to 76 and rules framed; nature of contraventions; and repayment status of deposits.

Intricacies: Advances from customers beyond 365 days without linkage to performance obligations may be deemed deposits; unsecured loans from members without rule-compliant procedures; non-

filing of DPT-3; and non-maintenance of liquid deposit for repayment reserve.

Case study: Company collected ₹12 crore from franchisees as refundable security without executing agreements; treated as “advance” for years.

Numerical illustration: Required deposit repayment reserve 20% of maturing deposits in FY; shortfall ₹1.2 crore.

Qualified opinion – specimen language:

“In our opinion and according to the information and explanations given to us, the Company has accepted amounts which are in the nature of deposits

without complying with the provisions of Sections 73 to 76 of the Act and the Companies (Acceptance of Deposits) Rules, 2014, including maintenance of

liquid assets for repayment. The outstanding such amounts aggregate ₹12.0 crore as at year-end.”

Clause 3(vi) – Cost Records under Section 148(1)

What must be reported: Whether maintenance of cost records has been specified and, if so, whether such accounts and records have been made and maintained.

Audit procedures: Obtain MCA notifications; if applicable industry/product, review cost ledgers, quantitative reconciliations between financial and cost records, and cost audit reports.

Qualified opinion – specimen language:

“The Central Government has prescribed maintenance of cost records under Section 148(1) for the Company’s products. We have broadly reviewed such accounts and records

and are of the opinion that they have not been maintained in all respects, as the quantitative reconciliations and captive consumption records were not available for our review.”

Clause 3(vii) – Statutory Dues (Undisputed and Disputed)

What must be reported: Whether undisputed statutory dues (GST, Provident Fund, ESI, Income-tax, Customs, Duty of Excise, VAT, Cess, etc.) were regularly deposited and

if any amounts were outstanding for more than six months; and details of statutory dues not deposited on account of disputes.

Audit procedures: Test monthly returns vs challans, 26AS/TIS, reconciliation of input credits, interest and late fee provisions, and legal status of disputes with ageing.

Case study: GST payable of ₹10.2 crore outstanding > six months due to working capital stress; e-way bill penalties assessed but not provided.

Numerical illustration: Interest at 18% p.a. on ₹10.2 crore for 200 days ≈ ₹1.01 crore; financial statement impact material.

Qualified opinion – specimen language:

“The Company has not been regular in depositing undisputed statutory dues, including Goods and Services Tax, with the appropriate authorities. Undisputed amounts outstanding as at year-end for a period of more than six months aggregate ₹10.2 crore.”

Clause 3(viii) – Unrecorded Income

What must be reported: Whether any transactions not recorded in the books have been surrendered or disclosed as income during tax assessments under the Income-tax Act.

Audit procedures: Review income-tax orders, search/survey statements, settlement disclosures, and ensure corresponding recording and tax provisioning in books.

Case study: Income of ₹6.5 crore admitted during survey for unaccounted scrap sales; only ₹3.0 crore recorded.

Qualified opinion – specimen language:

“During the year, income of ₹6.5 crore surrendered under the Income-tax Act has not been fully recorded in the books; ₹3.5 crore remains unrecorded. Accordingly, the Company has not complied with Clause 3(viii) of CARO 2020.”

Clause 3(ix) – Borrowings and Use of Funds

What must be reported: (a) Default in repayment of loans or borrowings or in the payment of interest; (b) Whether declared a wilful defaulter; (c) Application of term loans;

(d) Short-term funds used for long-term purposes; (e) Funds taken to meet obligations of subsidiaries/associates/JVs; (f) Loans raised on pledge of securities of subsidiaries etc.

Audit procedures: Obtain sanction letters, covenant matrices, repayment schedules, bank confirmations; test end-use of term loans to fixed asset invoices; fund-flow analysis

for short vs long-term; examine support/guarantees to group entities; review borrower classification/wilful defaulter lists.

Case study: Term loan ₹200 crore sanctioned for Plant II; ₹40 crore diverted to acquire shares of an unrelated company. Short-term CC used to fund CWIP for six months.

Numerical illustration: Debt service coverage ratio covenant 1.25x; actual 0.92x due to diversion; interest default of ₹3.6 crore for 47 days.

Qualified opinion – specimen language:

“The Company has defaulted in repayment of interest amounting to ₹3.6 crore to lenders; delays ranged from 12 to 47 days. Further, a portion of term loans aggregating ₹40.0 crore has not been applied for the purposes for which they were obtained but has been diverted for investment in equity shares. Accordingly, the Company has not complied with Clause 3(ix)

(a) and 3(ix)(c) of CARO 2020.”

Clause 3(x) – Funds Raised through IPO/FPO and Preferential Allotment/Private Placement

What must be reported: Whether moneys raised by IPO/FPO (including debt instruments) were applied for the purposes for which obtained; and whether preferential allotment

or private placement of shares/convertible debentures are in compliance with Sections 42 and 62.

Audit procedures: Trace offer documents to utilisation schedules, monitor escrow to deployment, board approvals, RPT aspects, and filing of PAS-3, valuation reports, pricing formulae.

Case study: Preferential issue to promoter group at a price below valuation; proceeds used to repay unrelated party loans rather than stated product expansion.

Qualified opinion – specimen language:

“Moneys raised by way of preferential allotment aggregating ₹75.0 crore were not applied for the purposes stated in the explanatory statement to the notice of the general meeting.

Further, the preferential issue was not in compliance with Section 42 read with Section 62(1)(c) of the Act in respect of pricing and valuation.”

Clause 3(xi) – Fraud and Whistle-blower Complaints

What must be reported: Whether any fraud by the company or on the company has been noticed or reported; whether any report under Section 143(12) has been filed;

and whether any whistle-blower complaints were considered.

Audit procedures: Inquiry with management and those charged with governance, review of fraud risk assessments, internal audit reports, vigil mechanism records, and legal files.

Case study: Procurement collusion identified by internal audit (estimated loss ₹2.1 crore); auditor concluded it constitutes fraud by employees.

Qualified opinion – specimen language:

“Based on audit procedures and information provided, a fraud by employees involving misappropriation of inventory amounting to ₹2.1 crore was noticed during the year.

The matter has not been fully provided for in the financial statements. Accordingly, the Company has not complied with Clause 3(xi).”

Clause 3(xii) – Nidhi Company

What must be reported: Whether the company has complied with (a) Net Owned Funds to Deposits ratio; (b) maintenance of 10% unencumbered term deposits; and (c) default in repayment.

Audit procedures: Validate Nidhi status and Rules compliance, compute NOF:Deposits, examine term deposit lien, and test depositor grievance redressal.

Qualified opinion – specimen language:

“The Company has not maintained unencumbered term deposits of not less than 10% of the outstanding deposits as required under the Nidhi Rules, 2014.”

Clause 3(xiii) – Related Party Transactions

What must be reported: Compliance with Sections 177 and 188 and disclosure as required by applicable accounting standards.

Audit procedures: Read RPT policy, minutes of Audit Committee/Board, test approvals and omnibus approvals, benchmark pricing, and verify Ind AS 24/AS 18 disclosures.

Case study: Sale of finished goods to promoter HUF at 8% discount without Audit Committee approval; value ₹28 crore.

Qualified opinion – specimen language:

“The Company has entered into related party transactions without obtaining the prior approval of the Audit Committee as required under Section 177(4). Accordingly, the Company has not complied with Clause 3(xiii).”

Clause 3(xiv) – Internal Audit System

What must be reported: Whether the company has an internal audit system commensurate with size and nature of business and whether internal audit reports have been considered.

Audit procedures: Evaluate scope, coverage, independence, frequency, and follow-up; review key findings and management action plans.

Case study: Internal audit outsourced to a small firm; coverage limited to cash and payroll; critical areas like procurement and ITGC omitted in a complex manufacturing entity.

Qualified opinion – specimen language:

“In our opinion, the Company’s internal audit system is not commensurate with the size and nature of its operations, as the coverage during the year did not include procurement, inventory management, and IT general controls.”

Clause 3(xv) – Non-cash Transactions with Directors or Persons Connected with Them

What must be reported: Whether the company has entered into any non-cash transactions with directors or persons connected with them and compliance with Section 192.

Audit procedures: Scan ledgers for barter/settlements in kind, sale/purchase of assets with directors, and board/shareholder approvals.

Case study: Transfer of a company vehicle to a director at book value despite significantly higher fair value; no shareholders’ resolution.

Qualified opinion – specimen language:

“The Company has entered into non-cash transactions with directors without complying with the provisions of Section 192 of the Act.”

Clause 3(xvi) – Registration under Section 45-IA of RBI Act; CIC; Non-Banking Business

What must be reported: (a) Whether the company is required to be registered under Section 45-IA and has obtained registration; (b) whether it has conducted any NBFC/HFC activities without valid registration; (c) whether it is a Core Investment Company (CIC) and, if so, meets applicable criteria; (d) whether it is an exempted NBFC.

Audit procedures: Review financial assets/income proportion tests, lending/investing patterns, group structure for CIC determination, and RBI returns.

Case study: Treasury subsidiary earns >50% income from financing activities but claims exemption; no CoR obtained.

Qualified opinion – specimen language:

“The Company is engaged in the business of financing as its principal business and is required to be registered under Section 45-IA of the RBI Act. No such registration has been obtained. Accordingly, the Company has not complied with Clause 3(xvi).”

Clause 3(xvii) – Cash Losses

What must be reported: Whether the company has incurred cash losses in the financial year and in the immediately preceding financial year; quantify the amounts.

Definitions: Cash loss = loss after adding back non-cash expenses such as depreciation/amortisation/impairment and after adjusting non-cash income.

Audit procedures: Bridge PBT to cash profit/loss; validate add-backs and non-cash charges.

Numerical illustration: PBT (₹-24.0 crore) + Depreciation (₹12.5 crore) + Amortisation (₹1.0 crore) + Impairment (₹0.5 crore) – Unrealised FX gain (₹0.8 crore)
= Cash loss ₹-10.2 crore.

Qualified opinion – specimen language:

“The Company has incurred cash losses of ₹10.2 crore in the current year and ₹6.8 crore in the immediately preceding year.”

Clause 3(xviii) – Resignation of Statutory Auditors

What must be reported: Whether there has been any resignation of the statutory auditors during the year and whether the incoming auditor has considered the issues, objections or concerns raised by

the outgoing auditor.

Audit procedures: Read ADT-3, board/audit committee minutes, correspondence, and evaluate opening balances/ scope limitations.

Case study: Outgoing auditor resigned citing management-imposed limitations on inventory observation; incoming auditor expanded procedures accordingly.

Reporting language (illustrative):

“There was a resignation of the statutory auditors during the year. We have taken into consideration the issues, objections or concerns raised by the outgoing auditors.”

Clause 3(xix) – Ability to Meet Liabilities Existing at the Balance Sheet Date

What must be reported: Whether, on the basis of financial ratios, ageing, and expected realisation/payment schedules, the auditor is of the opinion that no material

uncertainty exists as on the date of the audit report that the company is capable of meeting its liabilities as and when they fall due within a period of one year.

Audit procedures: Liquidity analysis (current ratio, quick ratio), operating cash flows, ageing of receivables and payables, borrowing headroom, unutilised limits, events after reporting period.

Numerical illustration: Current ratio 0.86; projected operating cash flow deficit ₹22 crore; unutilised CC limit ₹15 crore; maturing term loan instalments ₹12 crore.

Conclusion: Material uncertainty exists.

Qualified opinion – specimen language:

“Based on our examination, a material uncertainty exists that the Company may not be capable of meeting its liabilities as and when they fall due within one year from the balance sheet date. Accordingly, the Company has not complied with Clause 3(xix) of CARO 2020.”

Clause 3(xx) – Corporate Social Responsibility (CSR)

What must be reported: Whether unspent CSR amounts pertaining to ongoing projects have been transferred to special accounts within 30 days and other unspent amounts

to a Fund specified in Schedule VII within six months, in compliance with Section 135.

Audit procedures: Recompute CSR obligation (2% of average net profits as per Section 198), verify project approvals, escrow/special account transfers, and utilisation.

Case study: CSR obligation ₹3.2 crore; spent ₹1.1 crore; ongoing projects ₹1.4 crore; unspent other ₹0.7 crore not transferred within due date.

Qualified opinion – specimen language:

“The Company has not transferred unspent CSR amounts of ₹0.70 crore, not relating to ongoing projects, to a Fund specified in Schedule VII within six months from the end of the financial year.”

Clause 3(xxi) – Consolidated Financial Statements (CARO reporting for Consolidated Entities)

What must be reported: Whether any qualifications or adverse remarks are contained in the CARO reports of the companies included in the consolidated financial statements;

the details of those companies and the paragraph numbers of the CARO reports containing the qualifications or adverse remarks.

Audit procedures: Obtain component auditors’ CARO reports, summarise qualifications, evaluate pervasiveness, and consider impact on the group audit opinion.

Illustration: Two subsidiaries had CARO qualifications under Clause 3(ii) (inventory) and Clause 3(ix) (defaults). The parent’s CARO report should list these with cross-references.

Specimen language:

“Based on the CARO reports of the component auditors of two subsidiaries, we draw attention to qualifications reported under Clause 3(ii) relating to inventory and Clause 3(ix) relating to defaults in repayment of borrowings.”

Appendix – Practical Drafting Notes, Checklists and Working Paper Index

- Link each CARO paragraph to specific audit procedures and evidence.
- Quantify wherever practicable.
- Avoid ambiguous terms; use dates, amounts, and clause references.
- Where management disagrees, include their explanations but report facts objectively.

Working Paper Index (indicative): CARO-1 PPE; CARO-2 Inventory; CARO-3 Loans; CARO-4 185/186; CARO-5 Deposits; CARO-6 Cost; CARO-7 Dues; CARO-8 Unrecorded; CARO-9 Borrowings; CARO-10 IPO/Preferential; CARO-11 Fraud; CARO-12 Nidhi; CARO-13 RPT; CARO-14 Internal Audit; CARO-15 Non-cash; CARO-16 RBI/CIC; CARO-17 Cash Losses; CARO-18 Resignation; CARO-19 Liabilities; CARO-20 CSR; CARO-21 Consolidated.

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THE MONTH GONE BY - AUGUST 2025

TAXATION OF TRUSTS & RELATED ISSUES ON 2ND AUGUST 2025



THE MONTH GONE BY - AUGUST 2025

79TH INDEPENDENCE DAY **15TH AUGUST 2025**



THE MONTH GONE BY - AUGUST 2025

SIRC BEST BRANCH - MEDIUM CATEGORY FOR THE YEAR 2024 AWARDED TO MANGALURU

BRANCH OF SIRC OF ICAI AT AAKKAM- 57TH REGIONAL CONFERENCE OF SIRC

HELD ON 22ND AND 23RD AUGUST 2025



THE MONTH GONE BY - AUGUST 2025

"PREPAREDNESS FOR PEER REVIEW"

&

"AUDIT OF NON-CORPORATE ENTITIES"

AT KANHANGAD

IN ASSOCIATION WITH THE KANNUR BRANCH OF SIRC OF ICAI

ON 26TH AUGUST 2025



MEDIA COVERAGE

VIJAYAVANI ON 16TH AUGUST 2025



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