# The Registered Accountants' Journal

(Conducted under the auspices of the Society of Auditors, Madras.)

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CONTENTS



**Articled Clerks.**—Reforms are in the air everywhere and the Institute of Chartered Accountants in England now appears to have considered some reforms in the training of Articled clerks. We publish elsewhere in this issue the statement published by the Institute on this subject. These provide, firstly, a period of probationary articles, when the Articled clerk can make up his mind whether he really likes to enter the Profession. Then there is a provision requiring a declaration from the Employer that he has sufficient work to train the Articled Clerks and finally an undertaking by the clerk that he would join some Students Society, the entrance fee and subscription of which is to be paid by the Principal. We have no hesitation in declaring that all the above changes are extremely desirable and we wish to examine how far they apply to conditions in this country.

Rapid industrialisation of the country, and the fact that the number of successful candidates in the theoretical examination conducted by Government for admission to the Register is small, have together contributed to the dearth of Accountants. This scarcity and the inflation caused by the war have in turn contributed to raise the Members of the Profession from a body of hard working, ill paid persons to the level where they can command some respect in the social structure of the land. People are now conscious that the profession is lucrative and large numbers try to get Articles. It is conceivable, in these circumstances, the candidates have no time to ponder whether they are qualified for the strenuous duties of the Accountant. As our English contemporary points out "there is a prevalent impression that any person good at figures is likely to become a Registered Accountant—An Accounting statement is not a mere arithmetical exercise, because its construction requires the power to exercise faculties of judgment and the ability to recognise the features of the setting in which the particular engagement exists from the economic point of view." The period of Probationary articles suggested will acquaint the candidates of the difficulties of the profession and afford them an opportunity to make a fresh decision, if need be.

The Profession in this country will not fail to notice that only a declaration by the employer that he has sufficient work to train Articled clerks is required even under the proposed reforms while, here, the judgment is exercised by the Government and the Accountancy Board. The Profession has sufficiently agitated to effect a reform of the provisions in this respect to bring it on a par with the practice elsewhere. We trust that the National Government will remedy this at a very early date.

The provisions requiring the Articled Clerks to join Students Societies cannot be introduced in this country at this stage. Such Societies are non-existing and it is highly doubtful whether recognised institutions and colleges who give mere coaching for the examination will come under the term. We are inclined to think that, as the name suggests, the Students Societies should be more dynamic as far as students are considered and should provide ample opportunities for the students themselves giving lectures, forming study circles etc. Time is probably ripe for the establishment of these welcome institutions and the Profession as a whole is ready to afford all facilities for the formation of these Societies. It should be noted that the proposed reform in England provides that the payment of Members' Subscription to the Societies should be made by the Employer. No Employer will, we feel sure, consider this as unnecessary expenditure when, it is noted, there is also a provision that the Principals shall have the right to ask for report from such Students Society and any coaching establishment or tutor with whom the clerks may take a course of study.

**Articles Competition.**—We announce an Articles Competition





(details of which are published in this issue) on subjects to be chosen from Accountancy, Company Law, Income-tax Law and Mercantile Law. Our country is passing through great changes today and rapid industrialization is the foremost task of one and all of this country and of our National Government. The subjects abovementioned have an important bearing on our industries and Commerce. They have a wide range of problems which are very important, and interesting at the same time, both to Professional men and the commercial public. Our object, therefore, in arranging for this competition is to induce, through our columns, the best talents in our country to put forth and share their views on any important subjects mentioned and thus help in the common cause.

This is the first of a series of our future scheme. The prizes announced are only nominal in this instance. After watching our readers' support and ascertaining their wishes, we hope to continue this venture by announcing big prizes in future. Our readers will be aware that we have absolutety no profit motives behind. We trust we shall receive hearty support from our readers in our venture.

## SPECIAL ARTICLES

### The Hindu Undivided Family and the Indian Income-Tax Act.

(T. V. VISWANATHA AIYAR, B.A., B.L.,)

**General**:—A "Hindu undivided family" is one of the persons specifically mentioned as a unit of taxation along with others in Section 3 of the Indian Income-tax Act, 1922 which deals with "Charge of Income-tax". Sub Section (9) of Section 2 of the Act defines "person" as including a Hindu undivided family and a local authority.

The expression is used in Section 3 dealing with "charge of Income-tax" and Section 55, which deals with "Charge of supertax" and in Section 14 (1) dealing with exemptions which says that the "tax shall not be payable by the assessee in respect of any sum which he received as a member of the Hindu undivided family where such sum has been paid out of the income of the family". Section 15 deals with exemption in the case of life insurance and Section 25 (A) deals with assessment after partition of a Hindu undivided family.

A correct understanding of the phrase "Hindu Undivided Family" is very necessary because it affects both the assessment and the exemption. Previously the Hindu undivided family had certain advantages in the shape of a higher limit for the purposes of exemption from supertax; but now the Hindu undivided family is taxed under the Finance Acts exactly in the same way as the individual, in spite of the fact that the Hindu undivided family may consist of number of individuals and therefore the quantum of income is likely to be more. This will involve, therefore, the payment of more tax than if the several individuals composing the Hindu undivided family were taxed on their share. The rate of taxation will naturally be more on account of the clubbing. This means, the Revenue would be losing if they, by mistake, assess as individual, those who in truth and in fact form members of a Hindu undivided family taxable as such. As a corollory to this a member of a Hindu undivided family is exempted from payment of tax on income which he receives as a member of the family, provided however it has been paid out of the income of the family.

If therefore a person fails to claim the exemptions to which he is in truth and in fact entitled as a member of a Hindu undivided family, he stands to lose. Hence it is clear that the membership of a Hindu undivided family is important both from the point of view of the tax gatherer and the tax-payer.

**Its Meaning**:—Now, what does this expression "Hindu undivided family" connote under the Indian Income-tax Act?

The Indian Income-tax Act applies to whole of the British India in which two main schools of Hindu Law, the Mitakshara school and the Dayabhaga school, are in operation. The meaning of the expression under the Indian Income-tax Act should, therefore, be in consonance with both these schools of Law. As their Lordships of the Privy Council point out in Kalyanji Vithaldas *vs.* the Commissioner of Income-tax (1936) L. R. 64 I. A. 28. = I.L.R. (1937) I. Cal. 653 P. C. = 1937 I.T.R. 90. "There is, strictly, no co-parcenary under the Dayabhaga school of Hindu Law; but, whatever difference there may be between the principles of the two schools of Hindu Law, the phrase "Hindu Undivided Family" in this Act is used with reference not to one school only but to all schools, and therefore, it is a mistake to paste over the wider phrase of the Act the words "Hindu co-parcenary ..... all the more that it is not possible to say on the face of the Act that no female can be a member". Further on, they say they do not agree "that a Hindu joint family necessarily consists of male members only".

A joint and undivided Hindu family is a body consisting of persons, male or female, who are the sapindas (relations) of each other by birth, marriage or adoption, while a co-parcenary is a body consisting of the male members of a joint and undivided family who are related to the head of the family for the time being within four degrees.

A "Hindu undivided family" is different from a "Hindu co-parcenary" which is a feature of the Mitakshara school of Hindu Law. A Hindu co-parcenary consists only of males and includes only those persons who acquire by birth an interest in the joint or co-parcenary properties. A Hindu co-parcenary is a much narrower body than a Hindu joint family which consists not only of males lineally descended from a common ancestor but



also of their wives, widows or unmarried daughters.

In Anant *vs.* Shanker (1943)—L. R. 70. I. A.—232) Their Lordships of the Privy Council have approved of the observations of the Nagpur High Court in Baji Rao *vs.* Ramakrishna (I. L. P. 1941—Nag. 701) as follows: "We regard it as clear that a Hindu undivided family cannot be naturally brought to an end while it is impossible in nature or law to add a male member to it. The family cannot be at an end while there is still a potential mother, if that mother, in the way of nature or in the way of Law brings forth a new male member". The Privy Council has also referred to with approval the decision of the Madras High Court in Sankaralingam *vs.* Veluchamy (reported in I. L. R. 1943 Mad. 309). It will therefore be seen that a Hindu undivided family is a much wider expression than a Hindu co-parcenary and female members—daughters born in the family until their marriage and women married into the family—are equally members of the joint family.

There can be a joint family with a single male member provided there are widows of deceased co-parceners or other persons entitled to maintenance from him. Thus wives, widows or unmarried daughters can be members of a Hindu undivided family.

Vedathauni *Vs.* C.I.T., Madras (1932) I.L.R. 56. Mad- I = 1933 I.T.R. 70. C.I.T. Bombay *Vs.* Lakshminarayan (1937) I.L.R. 59 Bom. 618 = 1935 I.T.R. 367. C.I.T. Bombay *Vs.* Makanji Lalji, I.L.R, 1937 Bom. 827 = 1937 I.T.R. 539. C.I.T. Madras *Vs.* Lakshmanan Chettiar, I.L.R. 1941 Mad. 104 = 1940 I.T.R., 545. Bhagwati *Vs.* C.I.T., C.P. & U.P., I.L.R. 1941 All. 435 = 1941 I.T.R. 31. Radha Kuar *Vs.* C.I.T., Bihar (1942) I.L.R. 21 Pat. 615 = 1942 I.T.R. 229. Kalyanji Vithaldas *Vs.* C.I.T. Bengal (*Supra*).

The further question has also arisen whether there should at least be one male member in order to constitute a Hindu joint family. It has been held by Their Lordships of the Allahabad High Court in Commissioner of Income-tax Vs. Sarwan Kumar (reported in I.L.R. 1945, All. 509 = 1945 I.T.R. 361) that there can be a Hindu undivided family consisting of female members only and that in the case of an impartible estate the fact that the holder for the time being is exclusively entitled to the estate is not inconsistent with other members of the family being joint with him *vide* Commissioner of Income-tax *Vs.* Visveshwar Singh (1934 I.L.R. 14 Pat. 785 = 1935 I.T.R. 216) and Collector of Gorakhpur *Vs.* Ram Sundarmal (1934 L.R, 61. I.A. 286).

There are certain points in common between a co-parcenary and a joint and undivided Hindu family. For instance, the tie of sapindaship, both being fluctuating bodies, both being creatures of Law, no nucleus or possession of joint family property being necessary for the existence of either co-parcenary or a joint family and lastly a co-parcenary dies if the Hindu undivided family dies. There are, of course, certain essential differences between a Hindu co-parcenary and a Hindu undivided family. A co-parcenary is a narrower body than a joint family and, therefore, a co-parcenary excludes female members of the joint family and consists only of those male members as are within certain limits. Secondly co-parcenary being a narrower body may cease to exist even before the joint family and one may therefore say that although a co-parcenary may come to an end on the death of the sole surviving co-parcener, it is capable of being revived by adoption or birth so long as the joint family continues to exist in the manner stated by the Nagpur High Court and approved by the Privy Council. On the other hand, a joint family does not come to an end on the death of the sole surviving co-parcener but continues so long as there is a single potential mother—a widow of a deceased co-parcener alive. While, therefore, every co-parcenary is a joint family, every joint family need not necessarily be a co-parcenary. Thus a joint family may consist of persons who within it form a co-parcenary *and* persons, who, although members of joint Hindu family, are outside the co-parcenary. Further, a joint Hindu undivided family may consist of persons who do not form any co-parcenary at all. It may consist of surviving female members only, provided there is amongst them a potential mother who by way of nature or by Law may add a male member to it.

It will therefore be seen that it is very necessary that the distinction between a Hindu co-parcenary and a Hindu undivided family should be kept in mind. It is the larger body that is the unit of taxation under the Indian Income-tax Act and some of the trouble that has arisen is due to the fact that the smaller body "Hindu co-parcenary" has been confused for the larger and wider body, namely, the "Hindu undivided family".





## ARTICLES COMPETITION

**Subject** :—Subjects for Articles are to be chosen from Accountancy, Company Law, Income-tax Law and Mercantile Law:

**Prizes** :—The following prizes will be distributed :—

| | | | |
|---|---|---|---|
| 1. | To the writer of the best Article according to the decision of the Special Committee | ... | Rs. 100 |
| 2. | To the writer of the Second best Article | ... | 50 |

**Merit Prize** :—In addition to the above it is proposed to give a Merit Prize of Rs. 25 to the writer of the third best article.

**Special Committee** :—The following members of the Editorial Committee of the Journal will constitute the Special Committee for the purpose of reviewing the Articles and awarding the prizes :—

Sri P. S. Subramania Iyer, B.A., G.D.A., R.A.
,, P. N. S. Aiyar, B.A., G.D.A., R.A.
,, T. S. Kunjithapatham Aiyar, B.A., G.D.A., R.A.
,, R. N. Rajam Aiyar, R.A.
,, M. S. Srinivasan, B.A., G.D.A., R.A.
,, B. Purushotham, G.D.A., R.A.
,, K. V. Srinivasan, B.Sc., G.D.A., R.A. (*Editor*).

**Conditions** :—

1. The Articles should be in legible hand-writing or typewritten.

2. The prizes announced are for the Articles only; a writer may send any number of Articles and thus try to get all the prizes.

3. The closing date for the receipt of the Articles is 25-11-1946; Articles received after that date will not be considered.

4. The prize-winning articles will be published in the Journal in due course.

5. The Editor reserves the right to publish all or any of the other Articles in the Journal.

Result will be announced in the January issue of the Journal.

*Editor.*

## Case Law.

**I. Ram Lal Bechairam *Vs.* Commissioner of Income-tax (1946) 14 I. T. R. 1.**

In the above case, the Allahabad High Court held that it was not open to the Incometax Officer to pursue, under the provisions of Section 114 of the Indian Evidence Act, in the absence of other evidence, that a man keeps all his money at the place where he resides and the assessment based on the presumption that the sum was actually brought into British India could not be sustained.

The Court also held that if a joint family business having two branches, one in British India and another in Native State earned profit on goods supplied by the Branch in the Native State on the British Indian Branch the amount so earned could not be treated as profit because the two shops could not be treated as two separate legal entities. There could therefore be no assessment under Section 4(2) of the Income-tax Act. The assessee was however liable under Section 4(1) of the Act, the amount taxable being based on the cost price which would include the price paid for the goods by the assessee together with the expenses for warehousing the goods and a certain amount for overhead charges at the branch.

**II. K. AR. S. T. Arunachalam Chettiar *Vs.* Commissioner of Income-tax, Madras (1946) 14 I.T.R. 61.**

It was held that the profit arising on the sale of a part of the assessee's rubber plantations was liable to income-tax on the ground that the assessee had entered in the books of account of his money lending business the values of the two plantations and treated them as part of the capital of the business.

**III, Munshi Gulab Singh and Sons *Vs*, The Commissioner of Income-tax (1946) 14 I.T.R. 66,**

In this case the interpretation of Section 10 (2) (ix) of the Indian Income-tax Act was considered. The assessee owned a large printing press at Lahore. He had two competitors who owned smaller presses and were consequently able to charge lower rates to their constituents. The Assessee entered into an oral arrangement with his competitors, agreeing to pay them a portion of the estimated profits earned in working orders secured from his constituents as a result of his competitors quoting uniform rates with the assessee. The estimate of profits was arrived at by deducting certain agreed cost contemplated to be incurred in the execution of the job from the amount of tendered rate. This estimate did not take into consideration the actual profits that may be earned or realised by the assessee or the possible loss that may accrue to him. The Income-tax Tribunal relying on Alagannan Chetty *Vs.* Commissioner of Income-tax, Madras (1928) 3. I. T. C. 44, held that the sums paid to the competitors were incurred for securing business as distinguished from carrying on business or earning profits from it. In this view the Tribunal held that the sums paid were not deductible. The High Court held that the sums were paid to competing firms by the assessee in order to keep up prices for the printing and publishing works executed by the press and thus earn larger profits than could otherwise be realised. The sums were not paid to acquire business but were in the nature of expenditure incurred in canvassing custom or in securing better rates than otherwise would be obtainable for the work executed. Being in the nature of amounts spent with the object of earning increased profit it was not in the nature of capital expenditure. The High Court held, therefore, that the sums were deductible.



Alagannan Chetty *Vs.* the Commissioner of Income-tax was distinguished on the ground that in that case the learned Chief Justice regarded the amount paid as an expenditure incurred for the acquisition of a new concern and not the working of an existing business. In that case the assessee paid a sum of Rs. 12,000 to his rival carrying contractor to induce him not to compete with him. As a result of the non-competition, the assessee obtained the carrying contract at a higher rate. It was held by the Madras High Court that the payment of this sum was not for the purpose of working the contract but for obtaining it, and it was, therefore, capital expenditure and not a permissible allowance under Section 10 (2) (xi) of the Act.

Another question arose for decision in the same case. The assessee's firm paid certain amounts by way of subscription to various schools which agreed to prescribe for classes school books published by it. The amount of subscription depended on the number of books which the school was likely to purchase and the amount of profit the assessee was likely to earn. Though the Tribunal held that this expenditure was incurred with an object in view, viz., the sale of books, it still held that the expenditure was not deductible because it was incurred to secure business. The High Court held that it was a part of the expense to earn profits and therefore was deductible under Section 10 (2) (ix).

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## NEWS & NOTES

### THE FUTURE TRAINING OF ARTICLED CLERKS IN ENGLAND

*(From the Report of the Institute of Chartered Accountants in England and Wales).*

On the Report of the planning Committee it was agreed that the following statement be published:

1. The Council considers that the present system for the training of articled clerks is not fully satisfactory. The object of the changes set out below is to ensure as far as possible:

(*a*) that candidates for admission to membership of the Institute are suitable for the profession;

(*b*) that articled clerks are more adequately trained, both theoretically and practically;

(*c*) that every principal shall recognise and carry out his obligations to articled clerks.

2. The Council considers that the only obligation undertaken by the principal in the existing model form of articles, *viz.*, 'that he . . . shall and will throughout the said term to the best of his ability and power afford him, the said clerk, such reasonable opportunities and work as may be required to enable him to acquire the art, science and knowledge of a professional accountant' is insufficient. It is therefore proposed that powers be taken by bye-laws to make compulsory in all articles 'standard clauses' embodying the following principles whereby:

(*i*) The principal would covenant:

(*a*) That he will to the best of his ability and power engage the clerk on such work and afford him such opportunities and experience as are necessary to enable the clerk to acquire the art, science, and knowledge of a professional accountant.

(*b*) That his professional practice is suitable for the purpose of enabling him to carry out the obligations referred to in (i) (a):

(*c*) That he will afford adequate facilities for attendance at lectures and Students' Society meetings and otherwise for theoretical instruction or study;

(*d*) That he will allow a period of leave of not less than one month for full-time study prior to each examination;

(*e*) That he will pay his clerk's entrance fee and subscription to the local Students' Society (if any);

(*ii*) The clerk would covenant:

(*a*) That he will become a member of the local Students' Society (if any);

(*b*) That his principal shall have the right to ask for reports from such Students' Society and any coaching establishment or tutor with whom the clerk may take a course of study.

Suitable clauses embodying the above principles will be adopted forthwith in the Institute's model forms of articles.

3. The following recommendations of the Council regarding articled clerks will in future be included in the "General Instructions and Syllabus" and issued with each model form of articles:

(*a*) Normally, there should be a period of service in the office of the principal prior to articles, during which the clerk may decide whether the profession is to his liking and the principal may decide whether, in his opinion, the clerk is suitable for the profession.

(*b*) Where the principal is unable to give personal attention to the articled clerk, he should ensure that the clerk is placed under the special care of a partner or a senior member of the staff, preferably a member of the Institute;

(*c*) Each articled clerk should take a first year course in elementary book-keeping and accounting, the course to be either oral or by correspondence, but in either case to be approved by the clerk's principal.



(*d*) The principal should ensure that his clerk has regular access to professional journals.

(*e*) The question of premium should be one for consideration according to the circumstances of each case. It has been suggested, from both within and without the profession, that the premium system should be eliminated as tending to limit entry to the Institute to children of persons of means. There is, however, a widely held view that the premium system is of mutual benefit and is justified by the special responsibility accepted by a chartered accountant in regard to the training of his clerk and also by the tendency to induce in the mind of the clerk a sense of responsibility to ensure that he makes the best use of his training under articles.

Irrespective, however, of all other considerations, the Council is strongly of opinion that no youth of real ability and character should be prevented by lack of means from entering into articles, and therefore commends the growing practice in appropriate cases of granting articles without premium and/or of paying a salary. It also commends the practice, where a premium is paid, of returning such premium or a substantial part thereof during the period of service.

4. With a view to broadening the articled clerk's experience, it is proposed that powers be taken by bye-law to permit principals to arrange for their pupils to spend a maximum in all of six months in industrial or commercial business or other suitable organisation, in order to attain practical knowledge of such subjects as costing, mechanised accounting, secretarial work, budgetary control and factory organisation.

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## READERS' FORUM

*This Section is intended to serve our readers in two ways. Firstly, difficult problems of each individual professional accountant is discussed and answers are obtained. Secondly, the readers who consider the answers get the benefit of the intense study that the answering of the problem implies and all readers get the benefit of the general discussion.*

**Q. 18.** The Income-tax Appellate Tribunal decides that the Income tax Officer should revise his order in the light of certain directions given by them. Can there be an appeal against this revised order and if so, to whom?

"A.B.S."

**Q. 19.** I shall be obliged if any of your readers can let me know the usual percentage of Depreciation allowed by the Income-tax Department on Cinema furniture. I believe they should be treated on the same basis as the hotel furniture where the percentage of Depreciation allowable is fixed at 9 percent.

"S.V.S."

**Q. 20. Professional Etiquette.** Mr. X was appointed the first auditor of an Educational Institution, which office he has held for two consecutive years. In the third year, without [illegible] to Mr. X, Mr. [illegible] the audi[illegible] Does thi[illegible] a breach ? [illegible] so what is the remedy and who is to take the initiative in bringing it to the notice of the authorities?

"S.R."

**Q. 21.**—A. B. & Co., a Registered Firm for incometax, consisted of two partners, one, a Hindu undivided family and the other an individual. In the middle of the accounting year 1945-46 the members of the family got divided. The entire rights of the family in the said firm was allotted to the share of one son who has entered into a fresh partnership deed with the other partner. The accounts of the partnership were not closed upto the date of the partition but continued to the end of the usual accounting period. Is the Income-tax Department right in requiring two separate returns one for the old firm and another for the new one? While making the partition the family has allowed to the firm an estimated sum of Rs. 2500/- as probable bad debts which was debited to the joint family capital account and credited to the firm's profit and loss account. The firm has in the usual course written off some of its debts as bad. Are these bad debts claimable in the assessment of the new firm or are they to be set off only against the sum of Rs 2500/- above referred to?

"S.R."

## STUDENT'S CORNER

# Balance-Sheet—Audit

(S. P. S. IYER, R.A.)

*(Continued from page 146 of 1st Volume.)*

Although depreciation and renewal funds are frequently set up each month on a unit basis, yet the amount of the annual provision must first of all be decided upon, on a basis of percentages the different assets embrace under the heading of "cost of properties" before the unit rate can be determined. At the best such reserves can only be based upon a system of averages, and there is therefore always much room for differences of opinion and discussion as to the sufficiency of the Reserves. However, it is better to err on the side of an over-provision than to underestimate the Reserve.

The practice of charging only the proposition of the loss on dismantled machinery for the period it has been in use against the depreciation Reserve and the Balance of the loss against profit and loss account should not be encouraged, as it would appear to be better business practice to charge the total loss against the Depreciation Reserve, as other machines still in use may outlive their estimated lives.

The leading schedule in support of the Reserves should show:

1. the balances at the beginning of the fiscal period;

2. the provision during the year;

3. the charges to the reserves;



4. the balance at the end of the period.

In considering the sufficiency of the Reserve for depreciation the total charge during the year for repairs and maintenance should always be ascertained and the percentages of these and of the provision for depreciation to the value of the properties at the beginning of the period should be shown in the working papers with a comparison of corresponding statistics for previous years.

**Hidden or Secret Reserves.**—Hidden or Secret Reserves are reserves which exist, and are therefore at the disposal of the company, but are not disclosed on the face of the Balance Sheet.

They may be created in any of the following ways:—

(*a*) by writing down assets to a figure below their true value or by eliminating assets entirely from the Balance Sheet;

(*b*) by undervaluing stock in trade;

(*c*) by writing off Goodwill;

(*d*) by ignoring appreciation in the value of reasonable assets;

(*e*) by making excessive provision for doubtful debts, outstanding liabilities and contingencies;

(*f*) by charging capital expenditure to revenue;

(*g*) by including free reserves amongst liabilities in the Balance Sheet;

(*h*) by crediting non-recurring profits to a reserve for contingencies which is not shown as such in Balance-Sheet.

The maintenance of secret reserves has from time to time given rise to acute controversy in financial circles. It is represented that such reserves are of incalculable value to a business since they enable it in times of depreciation to preserve the credit of the concern, and to maintain dividends without disturbing Balance Sheet values or depleting working capital, and so to avoid violent fluctuations in the market price of its shares. They also provide a fund, if created as in (*h*), against which abnormal and unexpected losses can be written off.

On the other hand, it is contended that they enable unscrupulous persons, to whom the extent and nature of the hidden reserves are known, to deal to their own advantage in the company's shares whilst they also provide a means whereby the effects of bad management and indiscreet employment of the company's resources may be concealed. It has been found, moreover, that companies are prone to utilise hidden reserves in the payment of dividends in bad years without disclosing the fact in the published profit and loss account. Thus a misleading reflection of the state of the company's affairs may be conveyed by such accounts and persons may be induced to invest in the shares of the company under the impression that the current activities of the company are being successfully conducted when in fact the reverse is the case.

Although it is recognised that the provision of adequate reserve is essential to the prudent management and the welfare of any undertaking and that it may not always be desirable, or in the best interests of the share-holders as a whole, that the extent of these reserves should be fully disclosed in the accounts, yet, there is a growing weight of opinion that, where inner reserves are considerable, some reference to them should be made, either in the accounts, or in the reports of the Directors or Auditors; and that in every case, where recourse is had to secret reserves for the maintenance of dividends or for current revenue purposes, the amounts so utilised should be clearly indicated in the published Profit and loss account.

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## NOTIFICATIONS

### Government of India. Department of Commerce.

NOTICE

*Taxation and Cost Accountancy*

The Government of India has recently decided to provide for admission, passage and exchange facilities (where necessary) to Registered Accountants, who desire to go abroad for higher studies in Taxation and Cost Accounting at their own expense. The Registered Accountants, who like to avail themselves of these facilities, should observe the following procedure for submission of applications for admission and passage;—

**Admission.**—Applications for admission should be made in the form prescribed in the Education Department brochure "Information for students desiring to proceed for Advanced studies, 1946-47", copies of which are available from the Manager of Publications, Civil Lines, Delhi, at three annas per copy prepaid in cash or in stamps. In case of candidates who desire to go to the U.S A., 2 copies of a recent photograph and 2 copies of the syllabus of studies prosecuted so far with details of work done since taking degree or auditor's certificate, will be needed in addition to the papers mentioned in the brochure.

There are no specified institutions for studying Taxation and Cost Accounting abroad. The applications received by the Government will be forwarded to the High Commissioner for India in London or the Educational Liaison Officer, U.S.A., as the case may be. It is for them to decide, after taking into consideration the qualifications of the applicants, to which institution or firm the candidates should be attached.

**Passage.**—Passages to the United Kingdom only are now controlled by the Government of India. Persons, who have secured admission abroad, should apply direct to the Civil Passage Controller, Home Department, Government of India, New Delhi, on the prescribed forms obtainable from travel agents, enclosing evidence of admission obtained. On receipt of the application, the Controller will allot the Passage.

Passages to the U S.A. are not under the control of the Government. Arrangements should be made by candidates in direct consultation with travel agents. On production of evidence of admission abroad, the Reserve Bank of India will release the necessary dollar exchange in consultation with the Government. Applications for dollars should be made direct to the Reserve Bank. In cases, where admission has been secured through the Education Department, that Department will inform the Reserve Bank at the same time as intimation regarding their admission is sent to the candidates.

Applications for a priority passage by air to the United Kingdom should be made in the prescribed form to the Secretary, Air Priorities Board (India), New Delhi. No guarantee can, however, be given that a priority passage will be made available.

2. Arrangements for studies can be made only in the United Kingdom and U.S.A.

3. The High Commissioner for India in London and the Educational Liaison Officer in the U.S.A. will look after the welfare of the students while abroad and will also assist in securing residential accommodation for them.



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### Summary of the Recommendations made at the 12th meeting of the Indian Accountancy Board held on the 4th April 1945 and the action taken by Government.

| *Recommendations.* | *Action taken by the Government.* |
|---|---|
| 1. That on the basis of the standards established in the profession, action of the nature described in the Note to Appendix 3 to the Auditor's Certificates Rules, 1932, should be regarded as advertisement. | 1. The Board's Recommendation has been accepted and necessary amendments made to Appendix 3 to the Auditor's Certificates Rules and Restricted Certificates Rules, respectively. |
| 2. That the minimum educational qualifications of candidates for the first Examination should be raised from Matriculation to Intermediate. | 2. The recommendation has been accepted and necessary amendments made to the Auditor's Certificates Rules. |
| 3. Publication of the prescribed form for submission of particulars of audit practice at the end of the Auditor's Certificates Rules for guidance of Registered Accountants applying for inclusion of names in the list of Registered Accountants entitled to train articled clerks. | 3. The prescribed form will be included in the Auditor's Certificates Rules in the next reprint. |

| *Recommendations.* | *Action taken by the Government.* |
| --- | --- |
| 4. Revision of the prescribed form for submission of particulars of audit practice by Registered Accountants applying for inclusion of names in the list of Registered Accountants entitled to train articled clerks. | 4. The form has been revised as proposed. |
| 5. That Registered Accountants should always write Registered Accountant (s) after their signature on all statutory documents. | 5. A circular letter has been issued to all Registered Accountants drawing their attention to the opinion of the Board. |
| 6. Amendment of the proviso (i) to rule 36 of the Auditor's Certificates Rules by substituting the words "fractions of a year" by the words "fractions of a month." | 6. In view of the practical difficulties involved and in view also of the fact that any fractional service rendered as an articled clerk can be counted as audit service under Rule 2 (e) Government do not consider it desirable to make the proposed amendment. |
| 7. Amendment of item 3A of Appendix 3 to the Auditor's Certificates Rules by omitting therefrom the words "of a limited company". | 7. Necessary amendments have been made to Appendix 3 to the Auditor's Certificates Rules and Restricted Certificates Rules. |
| 8. Resumption of the annual publication of the Register of Accountants. | 8. The Labour Department have now sanctioned the printing of the Register. The Register is under print. |
| 9. That the Accountant Members of the Income-tax Appellate Tribunal should not be debarred from occupying the position of the president of the Tribunal and with that view the Central Government be requested to consider the question of amending section 5A of the Income Tax Act. | 9. The amendment confining the Presidentship to a judicial member was moved in the Legislative Assembly by a non-official member and adopted nemcon which indicated that the Legislature was of the opinion that the judicial member was more suited for the post of President than the non-judicial member. Government see no reason to differ from this opinion. |
| 10. That rule 25 (ii) should be amended so as to increase the period of service from 24 months to 28 or 30 months. | 10. Provisions of the existing rule are liberal and further relaxation will result in defeating the underlying intention, *i.e.* to afford the maximum amount of practical training before an articled clerk can appear for the Final Examination. |
| 11. That the Government be requested to take further steps to bring the qualifications of Registered Accoun- | 11. The Government of Madras was requested to reconsider their decision to adopt a departmental system of |



| *Recommendations.* | *Action taken by the Government.* |
| --- | --- |
| tants to the notice of the Local Government, with particular reference to the Hindu Religious Endowment Act, Madras. | audit. They are of the opinion that the departmental system of audit is more efficient and dependable both as regards administrative as well as technical aspects. |
| 12. That the Government be requested to provide facilities for Registered Accountants intending to go abroad to study costings and working of the taxation laws in foreign countries. | 12. The Government has decided to provide admission, passage and exchange facilities (where necessary) to Registered Accountants who desire to go abroad for higher studies in Taxation and Cost Accounting at their own expense. |
| 13. That all Registered Accountants who have been in continuous practice for a period of 5 years be allowed to train one articled clerk and that all Registered Accountants who have been in continuous practice for a period of ten years be allowed to train 3 articled clerks, provided that on the recommendation of the local committee any Registered Accountant who has been in continuous practice for a period of more than 3 years, may be permitted to train articled clerks even before the period of 10 years stated above. | 13. The Central Government after very careful consideration have decided that automatic inclusion in the list of Registered Accountants entitled to train articled clerks will tend to lower the efficiency of the profession. In order to meet the increasing demand for facilities for training they have decided as a temporary measure to permit every Registered Accountant so entitled to take one more articled clerk in addition to the existing quota. |

## NOTICE.

In December 1945 the Central Government in consultation with the Indian Accountancy Board amended rule 40 of the Auditor's Certificates Rules, 1932, permitting every Registered Accountant entitled to train articled clerks to train one more articled clerk in addition to the number of articled clerks already admissible. This concession is of a temporary nature and is liable to withdrawal. A reasonable notice will, however, be given before the concession is withdrawn.

**New Delhi the 30th July, 1946.**

*Registration of Accountants.*

No. 1-A (5)/45.—In exercise of the powers conferred by sub-section (2) of section 144 of the Indian Companies Act, 1913 (VII of 1913), the Central Government is pleased to direct that the following further amendment shall be made in the Auditor's Certificates Rules, 1932, the same having been previously published as required by the said sub-section, namely :—

In the proviso to rule 22 of the said Rules—

1. For clause (1) the following clause shall be substituted, namely :—

"(1) a candidate who produces a certificate in the form given in Appendix 4 in respect of a period of study prior to 1946-47, or for 1946-47 if he has entered into service as an audit clerk before the 1st October, 1945 shall be eligible for admission on passing the Intermediate or equivalent examination "and"

2. In clause (2)—

(*i*) After the words and figures "to be held in 1947" the word and figures "and 1948" shall be inserted; and

(*ii*) in sub-clause (*iii*), for the words "has appeared and failed at" the words "was admitted to" shall be substituted.

**New Delhi, the 3rd August, 1946.**

No. 1-A (2) 46. In exercise of the powers conferred by sub-section (2) of section 144 of the Indian Companies Act, 1913 (VII of 1913), the Central Government is pleased to direct that with effect from the 1st May, 1947, the following further amendment shall be made in the Auditor's Certificates Rules, 1932, the same having been previously published as required by the said sub-section, namely :—

For clause (*ii*) of rule 25 of the said Rules, the following clause shall be substituted, namely :—

"(*ii*) has either completed such period of service as an articled clerk or as an audit clerk or partly as an articled clerk and partly as an audit clerk as is required under rule 36 for enrolment on the Register or is serving the last twelve months of such period or is eligible for such enrolment under clause (*d*) of rule 36"

No. 1-A (6)/45.—In exercise of the powers conferred by sub-section (2) of section 144 of the Indian Companies Act, 1913 (VII of 1913), the Central Government is pleased to direct that the following further amendment shall be made in the Auditor's Certificates Rules, 1932, the same having been previously published as required by the said sub-section, namely :—

For the proviso to rule 19 of the said Rules, the following proviso shall be substituted, namely :—

"Provided as follows :—

(*a*) any period served between the 3rd September 1939 and the 30th September 1946 (both dates inclusive) under articles for any of the Institutes or Societies of Chartered Accountants in England and Wales, Scotland or Ireland or the Society of Incorporated Accountants and Auditors, London, shall be set off against the practical training prescribed under rule 36;

(*b*) the passing between the said dates of the Intermediate or Final Examination of any of the aforesaid Institutes or Societies shall be treated as equivalent to the passing of the First or Final Examination respectively held under these Rules."

**New Delhi the 10th August, 1946.**

No. 1-A (4)/46.—The following draft of certain further amendments to the Auditor's Certificates Rules, 1932, which it is proposed to make in exercise of the powers conferred by sub-section (2) of Section 144 of the Indian Companies Act, 1913 (VII of 1913) is published, as required by the said sub-section for the information of all persons likely to be affected thereby and notice is hereby given that the draft will be taken into consideration on or after the 7th September, 1946.

Any objection or suggestion which may be received from any person with respect to the said draft before the date specified will be considered by the Central Government,

**DRAFT AMENDMENTS**

A. In the said Rules—

I. To clause (2) of the proviso to rule 41, the following words shall be added, namely:—

"the All-India Senior Diploma in Commerce Examination held by the All-India Board of Commercial Studies, Delhi, with Auditing as a special subject, or"

II. In sub-rule (1) of rule 49 B, for the word "six" the word "eight" shall be substituted.



B. In the Note to item (5) in Appendix 3 to the said Rules:—

I. In clause (*d*), the word "or" where it last occurs, shall be omitted.

II. In clause (*e*) after the word "Auditors" the word "or" shall be inserted.

III. After clause (*e*) the following clause shall be inserted, namely:—

"(*f*) A title indicating membership of any Institution as may be recognised by the Central Government."

No 1-A (4)/46 (*i*)—The following draft of certain further amendments to the Restricted Certificates Rules, 1932, which it is proposed to make in exercise of the powers conferred by sub-section (2) of section (3) of the Indian Companies (Amendment) Act, 1930 (XIX of 1930), is published, as required by the said sub-section, for the information of all persons likely to be affected thereby, and notice is hereby given that the draft will be taken into consideration on or after the 7th September, 1946.

Any objection or suggestion which may be received from any person with respect to the said draft before the date specified will be considered by the Central Government.

**Draft Amendments.**

In the note to item (5) of the Appendix to the said rules:—

(1) In clause (*d*), the word "or" where it last occurs shall be omitted;

(2) in clause (*e*), after the word "Auditors" the word "or" shall be inserted; and

(3) after clause (*e*) the following clause shall be inserted, namely:—

"(*f*) A title indicating membership of any Institution as may be recognised by the Central Government".

**Finance Department.**

**CENTRAL BOARD OF RRVENUE.**

*Income-tax.*

*New Delhi, the 27th July, 1946.*

No. 6-D.—In exercise of the powers conferred by sub-section (1) of section 59 of the Indian Income-tax Act, 1922 (XI of 1922), the Central Board of Revenue directs that the following further amendment shall be made in the Indian Income-tax rules, 1922, the same having been previously published as required by Sub-section (4) of the said section, namely:—

In rule 45 of the said Rules, after entry 6 the following entry shall be inserted, namely:—

"7. Senior All-India Diploma in Commerce awarded by the All-India Board of Technical Studies in Commerce, Business Administration and Economics of the All-India Council for Technical Education provided that the diploma holder took "Advanced Accountancy and Auditing" as his optional subject for the diploma course".

**New Delhi, 17th August 1946;**

No. 35.—In exercise of the powers conferred by sub-section (1) of section 59 of the Indian Income-tax Act, 1922 (XI of 1922), the Central Board of Revenue directs that the following further amendments shall, be made in the Indian Income-tax Rules, 1922, the same having been previously published as required by section (4) of the said Section, namely :—

In the "Form of return of total income and total world income for individuals, Hindu undivided families, companies, local authorities, firms and other associations of persons required under sub-section (1) or (2) of section 22", set forth in sub-rule (1) of rule 19 of the said Rules—

(*a*) in item "Depreciation allowable as shown in Part V of this Return—*See note* 17 (*c*)" for the figures, letter and brackets "17 (*c*)" the figures, letter and brackets "17 (*d*)" shall be substituted: and

(*b*) after the above item as so amended the following item shall be inserted, namely :—

"*Scientific Research Expenditure* (if not charged in arriving at the above figure of profit).

(*i*) Any expenditure (not in the nature of capital expenditure) laid out or expended on scientific research related to the business—*See note* 17(*c*). Give details,

(*ii*) Any sum paid to an approved scientific research association or an approved university, college or other institution for such scientific research —*See note* 17 (*c*). Give details.

(*iii*) Any expenditure of a capital nature on scientific research related to the business admissible under section 10 (2) (xiv) of the Act—*See note* 17 (*c*), Give details " ;

(2) in the Statement under Part V.—

(*a*) for the marginal note " *See note* 17 (*c*) " the marginal note " *See note* 17 (*d*) and 17 (*e*) " shall be substituted:

(*b*) in the heading of column 2 for the words, figures, letter and brackets " *See note* 17 (*c*)" the words, figures, letter and brackets " *See note* 17 (*d*) " shall be substituted :

(*c*) in the heading of column 3 the mark "+" shall be placed immediately before the word " Capital "; and

(*d*) at the end of the statement to the existing notes the following further note shall be added, namely :—

" +(3) Capital expenditure on new machinery or plant or new buildings erected should be shown separately and in the Remarks column against each such entry, it should be indicated that initial depreciation is claimed.";

(3) In the Statement under Part VI for the existing heads at the bottom, the following heads shall be substituted, namely :—

" Total Income from property.........

Less (*i*) Claim for irrecoverable rent (Give details separately).

(*ii*) Income from property erected during the period 1st April 1946 to 31st March 1948.

Net income from property carried to Part I of the return............"; and

(4) In the " Notes for guidance in filling up Return Form No. I.T. II"—

(*a*) to Note 1-A, the following shall be added, namely :—

" Super-tax in these cases should be calculated at the rates and in the manner specified in the annual Finance Act." ;

(*b*) in Note 17—

(*i*) after paragraph (*b*) the following new paragraph shall be inserted, namely :—

(*c*) Under Section 10 (2) (xii) (xiii) and (xiv) of the Act, revenue expenditure incurred by the assessee on scientific research related to a business or to the class of business carried on and sums paid to research associations or institutions will be allowed in the assessment of the profits of the year in which the expenses were incurred. Capital expenditure on scientific research will be allowed in five consecutive equal instalments, and allowance will be given also in respect of such expenditure incurred not more than three years before the commencement of the business. Any expenditure on scientific research incurred in the previous year for the assessment year 1945-46 is admissible as a deduction in the assessment year 1946-47, but not in any subsequent year of assessment":

(*ii*) the existing paragraph "(*c*)" shall be re-lettered as "(*d*)"; and

(*iii*) after paragraph "(*d*)" as so re-lettered the following paragraph shall be added, namely :—

" (*e*) Under section 10 (2) (*vi*) of the Act special initial depreciation will be admissible in respect of new buildings, plant and machinery. In the case of buildings, the rate is 10 per cent. of the cost except in the case of buildings erected in the period 1st April 1946 to 31st March 1948 for which it is 15 per cent. In the case of plant and machinery the rate is [illegible] per cent. The allowance will not be deducted in computing the written down value."

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