

The Institute of Chartered Accountants of India

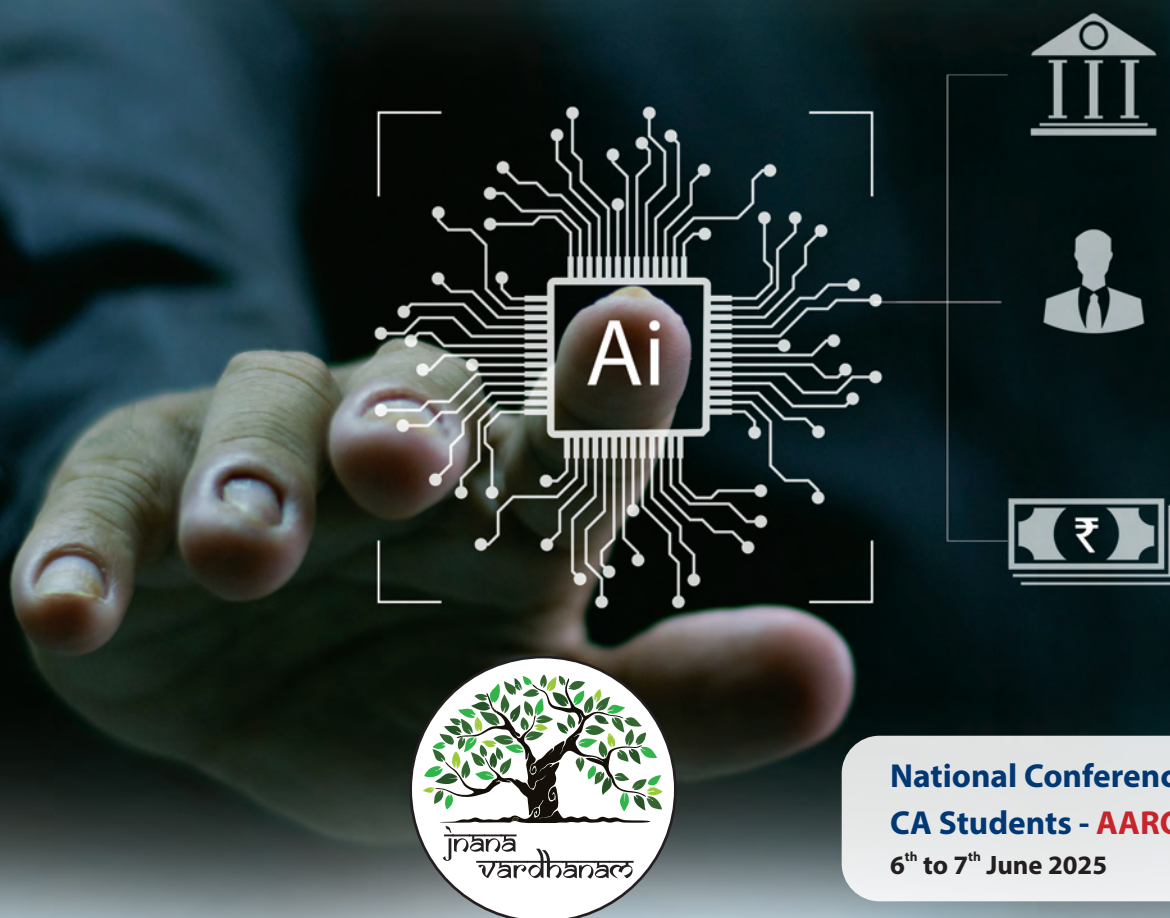
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Bengaluru Branch (SIRC) e-Newsletter

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**National Conference for
CA Students - AAROHANA**
6th to 7th June 2025

CPE MEETINGS

- | | | | |
|---|---|---|--|
| <ul style="list-style-type: none">● Certificate Course on
AI for CA's
2nd to 4th May 2025 | <ul style="list-style-type: none">● Certificate Course on
AI for CA's
9th to 11th May 2025 | <ul style="list-style-type: none">● Study Circle Meeting
Maximizing Productivity:
Advanced Time Management and
Organizational Strategies for CA's
28th May 2025 | <ul style="list-style-type: none">● Study Circle Meeting
ESOP's Beyond Basics: Structuring,
Benchmarking Practices, Cross-
Border Hurdles, and Taxation
11th June 2025 |
| <ul style="list-style-type: none">● Study Circle Meeting
General Information Technology
Controls
7th May 2025 | <ul style="list-style-type: none">● Study Circle Meeting
Recent Judicial Development:
Focus Section 68 to Section 69D -
Judicial Overview
21st May 2025 | <ul style="list-style-type: none">● Certificate Course on
AI for CA's
30th May to 1st June 2025 | <ul style="list-style-type: none">● Study Circle Meeting
Preparation & Presentation of
Appeals before the CIT (Appeals)
and ITAT
18th June 2025 |
| <ul style="list-style-type: none">● Study Circle Meeting
Growth of Global Capability
Centres (GCC) - Opportunities for
CA's- Specific Focus on Indirect Tax
14th May 2025 | <ul style="list-style-type: none">● Certificate Course on
AI for CA's
23rd to 25th May 2025 | <ul style="list-style-type: none">● Study Circle Meeting
Corporate Valuation -
Practical Insights
4th June 2025 | <ul style="list-style-type: none">● Study Circle Meeting
Regulatory Framework for
Related Party Transactions:
An Insight
25th June 2025 |



Dear Professional Colleagues,

Greetings from the ICAI Bengaluru Branch (SIRC)

As we step into the third month of this Managing Committee Year, I am pleased to share the continued progress and initiatives undertaken by the Branch.

Recognizing the growth of our Branch and the increasing participation from both Members and CA Students, we have actively visited multiple land and building options to explore possibilities for a larger, more inclusive space. The aim is to serve our Students and Members fraternity better, with enhanced infrastructure and facilities for learning, collaboration, and support.

In tune with the ever-evolving professional landscape, we successfully conducted Certificate Courses on Artificial Intelligence. These sessions empowered our members with vital insights and hands-on knowledge, enabling them to stay future-ready and explore newer opportunities within the profession.

Our Study Circle Meetings also witnessed active participation, with engaging discussions on

contemporary topics and recent amendments, further enriching our collective professional wisdom.

Sl. No.	Date	Name of the Programme	No. of CPE Hours	No. of Members attended
1	03-Apr-25 to 05-Apr-25	AI Certificate Course Batch 297	18	51
2	09-Apr-25	Study Circle Meeting Investments Analysis & Financial Planning	2	61
3	11-Apr-25 to 13-Apr-25	AI Certificate Course Batch 298	18	60
4	16-Apr-25	SME IPO and Funding - New Regulations	2	62
5	18-Apr-25 to 20-Apr-25	AI Certificate Course Batch 299	18	57
6	23-Apr-25	Study Circle Meet on Fundamentals to Funding - An explainer on how Start-up Finances work	2	73
7	26-Apr-25	Half a day C P E program at Tumkur on Budget, 2025 & Bird's Eye view of New Income Tax bill @ Tumkur	2	31

Sl. No.	Date	Name of the Programme	No. of CPE Hours	No. of Members attended
8	30-Apr-25	Study Circle Meeting TOPIC: ITC Simplified: From Theory to Practice	2	64

Totally 64 hours of CPE deliberations were done benefitting more than 450 Members.

Chartered Accountants play a vital role in ensuring that organizations comply with labour laws, maintain proper payroll systems, and provide statutory benefits to workers and the profession upholds the principles of social justice and fair wages, aligning with the essence of **Labour Day**.

Adi Shankaracharya, the great philosopher and reformer, emphasized clarity of thought, discipline, and pursuit of knowledge—qualities central to the CA profession. His teachings encourage balance, logic, and ethical living, which resonate with the core values of integrity, objectivity, and professional competence in Chartered Accountancy. For Chartered Accountants, **Sri Shankaracharya Jayanti** is a reminder to uphold Dharma (righteous duty) in their work, ensuring truthfulness in financial reporting and decision-making.

Celebrating the birth, enlightenment, and teachings of Sri Gautama Buddha, **Buddha Purnima** represents wisdom, mindfulness, and ethical conduct. For Chartered Accountants, Buddha's principles encourage calm reasoning

under pressure, detachment from bias, and a mindful approach to audits and consulting.

Together, these observances in the month of May inspire Chartered Accountants to, uphold ethical practices and protect worker rights, embrace wisdom and clarity in their professional duties and lead with compassion, discipline, and moral responsibility. These values not only strengthen the profession but also contribute meaningfully to nation-building and economic justice.

As the CA examinations approach, I take this opportunity to extend my best wishes to all CA Students. Your dedication and discipline will surely bear fruit. Stay confident and give it your best!

ICAI Bengaluru Branch (SIRC) SICASA is hosting the National CA Students Conference "Aarohana" on 6th & 7th June 2025. This event offers an excellent opportunity for CA students to gain knowledge, interact with peers, and be inspired by professionals from across India. We request all Chartered Accountants to encourage and register their articled assistants for this enriching experience.

Let us continue to grow together, contribute to the profession, and uphold the values that ICAI stands for.

Warm Regards,

CA Manjunath M Hallur

Chairman

ICAI - Bengaluru Branch (SIRC)



CALENDAR OF EVENTS

CPE MEETINGS FOR THE MONTH OF MAY 2025

DATE AND DAY	TOPIC / SPEAKER	VENUE & TIME	STRUCTURED CPE CREDIT
02.05.2025 Friday to 04.05.2025 Sunday	Certificate Course on AI for CA's <i>Organized under the aegis of Digital Accounting and Assurance Board Hosted by : Bengaluru Branch (SIRC)</i>	Hotel Holiday Inn, Race Course Road, 94, 16/1, Seshadri Road, Gandhinagar, Bengaluru-560009 9:30 am to 6:00 pm	18 hrs
03.05.2025 Saturday	Cricket for members Cricket Tournament for CA Members -2025	Bicc Infinity (Outdoor Cricketing Facility), Giddenahalli Gadi, Attached to Arkavathi River Bridge Honnagnatti Bus Stand, Magadi Main Road, Bengaluru-562162. 6:30 AM onwards	—
07.05.2025 Wednesday	Study Circle Meeting General Information Technology Controls CA. Jagadeesha M G Delegate Fees: Members – Rs.200/- Plus GST	ICAI Bhawan, Vasanthnagar, Bengaluru 6:00 pm to 8:00 pm	2 hrs
14.05.2025 Wednesday	Study Circle Meeting Growth of Global Capability Centres (GCC) - Opportunities for CA's- Specific Focus on Indirect Tax CA. Kalyan Kumar K Delegate Fees: Members – Rs.200/- Plus GST	ICAI Bhawan, Vasanthnagar, Bengaluru 6:00 pm to 8:00 pm	2 hrs
09.05.2025 Friday to 11.05.2025 Sunday	Certificate Course on AI for CA's <i>Organized under the aegis of Digital Accounting and Assurance Board Hosted by : Bengaluru Branch (SIRC)</i>	Hotel Holiday Inn, Race Course Road, 94, 16/1, Seshadri Road, Gandhinagar, Bengaluru-560009 9:30 am to 6:00 pm	18 hrs

CALENDAR OF EVENTS

CPE MEETINGS FOR THE MONTH OF MAY & JUNE 2025

DATE AND DAY	TOPIC / SPEAKER	VENUE & TIME	STRUCTURED CPE CREDIT
21.05.2025 Wednesday	Study Circle Meeting Recent Judicial Development: Focus Section 68 to Section 69D - Judicial Overview CA. Siddesh Gaddi Delegate Fees: Members – Rs.200/- Plus GST	ICAI Bhawan, Vasanthnagar, Bengaluru 6:00 pm to 8:00 pm	 2 hrs
23.05.2025 Friday to 25.05.2025 Sunday	Certificate Course on AI for CA's <i>Organized under the aegis of</i> <i>Digital Accounting and Assurance Board</i> Hosted by : Bengaluru Branch (SIRC)	Hotel Holiday Inn, Race Course Road, 94, 16/1, Seshadri Road, Gandhinagar, Bengaluru-560009 9:30 am to 6:00 pm	 18 hrs
28.05.2025 Wednesday	Study Circle Meeting Maximizing Productivity: Advanced Time Management and Organizational Strategies for Chartered Accountants CA. Manasa Jagadeesh Delegate Fees: Members – Rs.200/- Plus GST	ICAI Bhawan, Vasanthnagar, Bengaluru 6:00 pm to 8:00 pm	 2 hrs
30.05.2025 Friday to 01.06.2025 Sunday	Certificate Course on AI for CA's <i>Organized under the aegis of</i> <i>Digital Accounting and Assurance Board</i> Hosted by : Bengaluru Branch (SIRC)	Hotel Holiday Inn, Race Course Road, 94, 16/1, Seshadri Road, Gandhinagar, Bengaluru-560009 9:30 am to 6:00 pm	 18 hrs
04.06.2025 Wednesday	Study Circle Meeting Corporate Valuation - Practical Insights Dr. V. Rajesh Kumar Delegate Fees: Members – Rs.200/- Plus GST	ICAI Bhawan, Vasanthnagar, Bengaluru 6:00 pm to 8:00 pm	 2 hrs
06-06-2025 Friday to 07-06-2025 Saturday	National Conference for CA Students - AAROHANA	Dr. Babu Jagjivan Ram Research Institute 9:30 am to 6:00 pm	—



CALENDAR OF EVENTS CPE MEETINGS FOR THE MONTH OF JUNE 2025

DATE AND DAY	TOPIC / SPEAKER	VENUE & TIME	STRUCTURED CPE CREDIT
11.06.2025 Wednesday	Study Circle Meeting ESOP's Beyond Basics: Structuring, Benchmarking Practices, Cross-Border Hurdles, and Taxation CA. Sumanth Vankayala Delegate Fees: Members – Rs.200/- Plus GST	ICAI Bhawan, Vasanthnagar, Bengaluru 6:00 pm to 8:00 pm	2 hrs
18.06.2025 Wednesday	Study Circle Meeting Preparation & Presentation of Appeals before the CIT (Appeals) and ITAT CA. Mohit Ashok Parmar Delegate Fees: Members – Rs.200/- Plus GST	ICAI Bhawan, Vasanthnagar, Bengaluru 6:00 pm to 8:00 pm	2 hrs
25.06.2025 Wednesday	Study Circle Meeting Regulatory Framework for Related Party Transactions: An Insight CS. Vijay Kumar Sajjan Delegate Fees: Members – Rs.200/- Plus GST	ICAI Bhawan, Vasanthnagar, Bengaluru 6:00 pm to 8:00 pm	2 hrs

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Advt. material should reach us before 22nd of previous month.

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CA. TUPPAD VIRUPAKSHAPPA

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STRATEGIC SME IPO FUNDING

ACCELERATING GROWTH AND MAXIMIZING VALUATION

CA. Prabhudev Aradhya S and Deepika Aradhya, B.Com, MBA



Executive Summary

Small and Medium Enterprises (SMEs) form the cornerstone of India's economic framework, contributing approximately 45% to the national GDP while accounting for 45% of industrial production, 40% of exports, and 30.50% of services. Despite their significant economic footprint, these enterprises frequently encounter substantial obstacles in accessing adequate capital, resulting in high debt leverage ratios across the sector.

The SME Initial Public Offering (IPO) mechanism presents a transformative opportunity for both growing enterprises and financial professionals, offering a structured pathway to capital acquisition while simultaneously enhancing market credibility and facilitating strategic expansion initiatives.

Strategic Advantages of SME IPOs

1. Strategic Capital Acquisition

SME IPOs enable organizations to secure growth capital without incurring excessive debt obligations, facilitating operational expansion, technological investments, market diversification, and entry into new commercial territories.

2. Enhanced Market Positioning and Institutional Trust

Attaining public listing status on specialized exchanges such as BSE SME or NSE Emerge significantly enhances corporate reputation, fostering greater confidence among customers, supply chain partners, and financial institutions. This elevated market perception frequently translates into enhanced business development opportunities and strategic partnerships.

3. Optimized Valuation Metrics and Wealth Generation

The public listing process typically delivers substantive improvements in company valuation parameters, providing founding teams and early-stage investors with opportunities to recognize significant value appreciation.

4. Sustainable Competitive Differentiation

Listed entities gain distinct competitive advantages through enhanced talent acquisition capabilities, preferential credit arrangements, and improved eligibility for large-scale contracts requiring demonstrated financial transparency and institutional credibility.

Market Performance and Regional Analysis

Recent Market Momentum

- Calendar year 2024: 240 SME IPOs successfully raised approximately ₹8,761 crore
- Calendar year 2023: 182 SME public offerings generated ₹4,686 crore in capital

Regional Distribution (2013-March 2025)

- Karnataka-based SMEs have secured approximately ₹660 crore across diverse sectors including Chemical, Engineering, IT, Electric Equipment, Healthcare, and Furniture
- Regional representation: 27 SMEs from Bangalore and 1 from Mysore have accessed capital markets
- Comparative metrics: Mumbai (276 SMEs), Delhi (151), Chennai (28), and Hyderabad (23)



State-wise IPO Performance (2024)

State	Number of IPOs	Average Listing Returns (%)	Amount Raised (INR Cr)
Maharashtra	70	42.9	2,428.78
Gujarat	55	58.9	1,994.30
New Delhi	28	86.0	1,059.16
Uttar Pradesh	19	92.0	1,098.12
West Bengal	17	71.3	582.22
Rajasthan	14	74.6	540.01
Tamil Nadu	13	58.9	735.25
Haryana	7	60.7	231.54
Madhya Pradesh	7	69.8	279.78
Telangana	6	32.0	245.51
Punjab	4	5.7	122.26
Karnataka	3	69.6	100.18

Government Support Initiatives

The Karnataka state government has implemented progressive policy measures to facilitate SME capital market participation, offering financial assistance of up to 50% of IPO-related costs (subject to a maximum of ₹25 lakhs).

Strategic Transformation Through Public Listing

A public listing represents more than merely a capital-raising mechanism—it constitutes a comprehensive strategic transformation. For growth-oriented SMEs, an IPO represents a structured pathway to organizational advancement with professional guidance available throughout the process.

Qualification Parameters

To qualify for an SME IPO, enterprises must satisfy the following regulatory criteria:

- Post-issue capital not exceeding ₹25 crore
- Operational history of at least three years, with positive net worth demonstrated in two of the preceding three financial years
- Profitability threshold: Minimum EBITDA of ₹1 crore in two of the three most recent fiscal periods
- Management continuity: No requirement for promoter changes

Professional Advisory Opportunities

Financial professionals occupy a pivotal role as strategic advisors to SME clients contemplating public listings. Beyond transactional representation, advisory scope encompasses:

- Merger and acquisition strategy
- Tax optimization frameworks
- Attestation services
- Valuation methodologies
- Peer review audit protocols
- Strategic development initiatives and Capital restructuring
- Joint venture formation and governance

Furthermore, professional services extend to comprehensive pre-listing preparation, post-listing support, and ongoing compliance management, substantially enhancing client value proposition.

Position your client's SME for market leadership. Initiate their IPO journey today

*The author can be reached at
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FLAGS IN FINANCIAL STATEMENTS

Dr. V Rajesh Kumar

1. Introduction

A common grouse among business owners, particularly proprietary concerns and partnership firms, is that they are unable to understand the financial statements. Chartered Accountants (CAs) help them in preparing financial statements of their business entities, in their assessment, and in representing them if need be. However, business owners while aware that financial statements help in making effective decisions, are not equipped with the skill to use the same. They know that Financial Statements are like horoscope which can indicate the past and give a hint for the future prospects / problems. They expect their CAs to flag the warning signals and also good performance. In simple words, they look up to their CAs for showing 'Red Flags' and 'Green Flags.' This article provides a glimpse of 'Red Flags' and 'Green Flags' in Financial Statements.

2. Financial Statements

Financial Statements refers to statements prepared at the end of financial period (usually, one year), for ascertaining the results of the business for the period, and its financial position at a given point of time. Financial Statements include the following:

- Income Statement [which shows the result of the business i.e., profit or loss for a given period of time]
- Balance Sheet [which shows the sources and application of funds], and
- Cash Flow Statement [which shows the inflows and outflows of cash during a given period of time]

Additionally, the Financial Statements of a Joint Stock Company includes -

- Statement of Changes in Equity, and
- Notes to Accounts.

The following paragraphs provide a brief overview of these financial statements.

2.1 Income Statement

It is a statement prepared to ascertain the result of the business (i.e., profit or loss) for the financial period. It is also called Statement of Profit and Loss. Following is the generalised format for preparing Income Statement-

	Rs.
Revenue from Operations	XXX
Less: Cost of Goods Sold	XXX
Gross Profit	XXX
Less: Cash Operating Expenses	XXX
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)	XXX
Less: Depreciation and Amortisation	XXX
Earnings before Interest and Tax [EBIT] or Operating Profits	XXX
Add: Non-operating Incomes	XXX
	XXX
Less: Finance cost and other Non-operating Expenses	XXX
Earnings Before Tax (EBT) or Taxable Profits	XXX
Less: Tax Provision	XXX
Earnings After Tax (EAT) or Net Profits	XXX

2.2 Balance Sheet

A Balance Sheet is a statement which depict details of 'Liabilities' and 'Assets'. Liabilities refers to the 'sources' from which the business entity has got funds for its business, and Assets refers to the 'application' of those funds. In India, the traditional practice has been to present a Balance Sheet in the order of permanence i.e., long-term to short-term. A generalised format of a Balance Sheet is given below-



LIABILITIES	Rs.
1. <u>Owners' Funds:</u>	
Capital	XXX
Retained Earnings	XXX
2. Non-current Liabilities [Long-term Borrowings]	XXX
3. Current Liabilities [Short-term Borrowings]	XXX
	XXX
ASSETS	Rs.
1. Non-current Assets [Fixed Assets]	XXX
2. Current Assets [Short-term]	XXX
	XXX

2.3 Cash Flow Statement

A Cash Flow Statement shows the cash inflows into business and cash outflow from business during the financial period. The Statement presents the cash flows during the period under three broad headings viz., operating activities, investing activities and financing activities. Following is a generalised format in which Cash Flow Statement is presented-

	Rs.
Cash and Cash Equivalent at the beginning of the period	XXX
Add/Less:	
Net Cash Flow from Operating Activities	(+/-)XXX
Net Cash Flow from Investing Activities	(+/-)XXX
Net Cash Flow from Financing Activities	(+/-)XXX
Cash and Cash Equivalent at the end of the period	XXX

Note: Net Cash Flow refers to 'Cash Inflows' minus 'Cash Outflows.'

3. Red Flags in Financial Statements

It is important for the business owners to identify **warning signals** in the financial statements and take corrective action. These warning signals are called '**red flags**'. The following paragraphs gives metrics and benchmarks which indicate 'red flag'.

3.1 Red Flags in Income Statement

Fulfilment of any or all of the following metrics pertaining to income statement indicate lack of 'operational efficiency.'

- (a) **Gross Margin of less than 10%.** Gross margin is measured by-

$$\left(\frac{\text{Gross Profit}}{\text{Revenue from Operations}} \right) \times 100$$

- (b) **Revenue Growth Rate of less than 2%.** Revenue growth rate can be calculated using the following formula-

$$\left[\frac{(\text{Current year Revenue from Operations} - \text{Previous year Revenue from Operations})}{\text{Previous year Revenue from Operations}} \right] \times 100$$

- (c) **EBITDA Margin of less than 3%.** EBITDA margin is measured by-

$$\left(\frac{\text{EBITDA}}{\text{Revenue from Operations}} \right) \times 100$$

- (d) **Net Margin of less than 1%.** Net margin is measured by-

$$\left(\frac{\text{Net Profits}}{\text{Revenue from Operations}} \right) \times 100$$

- (e) **Interest Coverage Ratio less than 1.5 times.** Interest coverage ratio is measured by-

$$\left(\frac{\text{EBIT}}{\text{Finance Cost or Interest on Borrowings}} \right)$$

3.2 Red Flags in Balance Sheet

Fulfilment of any or all of the following metrics pertaining to Balance Sheet indicate 'lack of efficiency in managing resources and stakeholders'

- (a) **Goodwill constituting 30% or more of total assets.** This can be ascertained from the following measure-

$$\left(\frac{\text{Goodwill}}{\text{Total Non-current Assets} + \text{Total Current Assets}} \right) \times 100$$

- (b) **Debt-Equity Ratio exceeding 4 times.** Debt-Equity Ratio can be measured by-

$$\left(\frac{\text{Non-current Liabilities}}{\text{Owners' Funds}} \right)$$

- (c) **Asset Turnover Ratio of less than 0.5** Asset Turnover Ratio can be measured by-

$$\left(\frac{\text{Revenue from Operations}}{\text{Total Non-current Assets} + \text{Total Current Assets}} \right)$$

- (d) **Current Ratio of less than 1.** Current Ratio can be measured by-

$$\left(\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}} \right)$$

- (e) **Quick or Liquid Ratio of less than 0.3.** Quick or Liquid Ratio can be measured by-

$$\left[\frac{\text{Quick Assets (i.e., Total Current Assets excluding Inventory and prepaid expenses)}}{\text{Quick Liabilities (i.e., Total Current Liabilities excluding Bank overdraft and incomes received in advance)}} \right]$$

Additionally, the following criteria pertaining to both Income Statement and Balance Sheet must also be observed:

- (i) Growth rate in receivables exceeding growth rate in operating revenues
- (ii) Growth rate in inventory exceeding growth rate of profits.

These two measures indicate inefficiency in managing receivables and inventory respectively.

3.3 Red Flags in Cash Flow Statement

Fulfilment of any or all of the following metrics pertaining to Cash Flow Statement indicate inefficiency in cash management and in its operations.

- (a) **Payments to owners exceeding 20% of net profits.** Payments to owners include share of profits distributed to proprietor or partners, remuneration to partners etc.,
- (b) **Net Cash Flow from Investing Activities exceeding 40% of net profits.** Net Cashflow from investing activities is calculated as 'Cash Inflows from Investing Activities minus Cash outflows towards investing Activities.'
- (c) **Net Cash Flows from Operating Activities less than 5% of Net Sales.** Net Cashflow from operating activities is calculated as 'Cash Inflows from Operating Activities minus Cash outflows towards Operating Activities'.

Cash Outflows towards investing activities include purchase of fixed assets, and Cash Inflows from investing activities include sale of fixed assets.

Cash Inflows from operating activities include revenue from operations, and Cash Outflows towards operating activities include operating cost (i.e., cost of goods sold + cash operating expenses).

- (d) **Negative Net Cash Flows from Operating Activities.**
- (e) **Total Net Cash Flows is less than 10% of Total Debt.** This ratio is measured by-

$$\left(\frac{\text{Total Net Cash Flows}}{\text{Total Debt}} \right) \times 100$$

Total Net Cash Flows = Net Cash Flows from Operating Activities + Net Cash Flows from Investing Activities + Net Cash Flows from Financing Activities

Total Debt = Non-current Liabilities (i.e., Long-term Debt) + Current Liabilities (i.e., Short-term Debt)

4. Green Flags in Financial Statements

It is equally important for the business owners to know if they are performing well and meeting the requirements of the stakeholders. Following are some of the metrics which indicate good performance of the entity. These are called 'green flags.'

4.1 Green Flags in Income Statement

Fulfilment of the any or most of the following criteria indicate operational efficiency of the business.

- (a) **Gross Margin is exceeding 40%.** Gross margin is measure by-
- (b) **SGA Margin is less than 30%.** SGA margin refers to 'Selling, General and Administrative Margin' and it is measured by-

$$\left(\frac{\text{Gross Profit}}{\text{Revenue from Operations}} \right) \times 100$$

$$\left(\frac{\text{Selling, General and Administrative Expenses}}{\text{Gross Profit}} \right) \times 100$$

Note: This formula is different from the usual formula for SGA margin which is calculated as a percentage of 'Revenue from Operations'

- (c) **R&D Margin is less than 30%.** 'R&D margin' refers to Research and Development Margin and is measured by-

$$\left(\frac{\text{Research and Development Expenses}}{\text{Gross Profit}} \right) \times 100$$

Note: This formula is different from the usual formula for R&D margin which is calculated as a percentage of 'Revenue from Operations'



- (d) **Depreciation Margin is less than 10%.** Depreciation margin is measured by-

$$\left(\frac{\text{Depreciation}}{\text{Gross Profit}} \right) \times 100$$

Note: This formula is different from the usual formula for Depreciation margin which is calculated as a percentage of 'Revenue from Operations'

- (e) **Interest Margin is less than 15%.** Interest margin is measured by-

$$\left(\frac{\text{Interest on Borrowings}}{\text{EBIT i.e., Operating Profits}} \right) \times 100$$

- (f) **Effective Tax Rate is less than the prescribed tax rate under the appropriate law.** Effective Tax Rate is calculated by-

$$\left(\frac{\text{Tax Liability}}{\text{EBT or Taxable profits}} \right) \times 100$$

- (g) **Net Income Margin is exceeding 20%.** Net Income margin is measured by-

$$\left(\frac{\text{Net Profits}}{\text{Revenue from Operations}} \right) \times 100$$

4.2 **Green Flags in Balance Sheet**

Fulfilment of any or most of the following criteria indicate higher efficiency in managing the funding of business and effective utilisation of such funds.

- (a) **Cash and Cash Equivalents are exceeding Debt.**
 (b) **Adjusted Debt to Equity Ratio is less than 0.8.**
 Adjusted Debt to Equity Ratio is measured by-

$$\left[\frac{\text{Total Non-current Liabilities} + \text{Total Current Liabilities}}{\text{Owners' Funds} + \text{Treasury Stock}} \right]$$

Note: Treasury stock refers to shares of a company's own stock that it has repurchased from the public market. These shares are held by the company in its treasury and are not considered outstanding, meaning they are not actively traded in the market and do not carry voting rights or the right to receive dividends

- (c) **Retained Earnings are consistently growing.**

4.3 **Green Flags in Cash Flow Statement**

Fulfilment of the following criteria indicate efficient cash management.

- (a) **Capex Margin is not exceeding 25%.** Capex Margin is measured by-

$$\left(\frac{\text{Capital Expenditure (i.e., Investment in Non-current Assets)}}{\text{Net Profits}} \right) \times 100$$

5. **Conclusion**

Reading financial statements and eliciting information from them is both an art and science. A business owner must be equipped with this skill for ensuring progress in right direction, identifying the danger signals and taking timely corrective action. Accounting professionals must orient their clients with this knowledge and make them self-reliant. In the next article, let us discuss and understand the strategies for managing the red flags.



AGRICULTURAL INCOME BEING TAXED?

CA. Siddesh Nagaraj Gaddi

Due to the application of section 68 of the Act, among other sections that follow, it is seen that the otherwise exempt agricultural income is being taxed indirectly, that too at the highest rates referred to under section 115BBE of the Act.

With no major change in the relevant sections of the new Income-Tax Bill, 2025, the inaction of the Legislature in addressing these significant issues in the Bill, 2025 causes these challenges to stay relevant for the foreseeable future.

Section 68 of the Act is being applied for failure to explain credits in the hands of the assessee earning agricultural income and also in the hands of the borrowers in the event of a lack of explanation on the source of source in case of loans (being lent of agricultural income), etc. Section 69A is attracted when the agricultural proceeds end up in the form of money, bullion, jewellery or other valuable articles. As an extension to section 69A, the acquisition of said valuable assets and other investments out of agricultural income also needs explanation on the nature and source under section 69/69B. Finally, expenditure out of the proceeds of agriculture also needs to undergo scrutiny of section 69C, re-emphasising the greater need for explanation of 'source' and also the

'nature' under the other sections.

In the landmark case of *Kale Khan Mohammad Hanif v. CIT* [1963] 50 ITR 1 (SC) and, *Roshan Di Hatti v. CIT* [1977] 107 ITR 938 (SC) the term 'nature and source' has been expounded to include a need to establish 1) identity, 2) genuineness of the transaction, and 3) creditworthiness. If the same is established, then the Assessing Officer must conduct an inquiry and call for more details before invoking section 68 (similar requirements in the other sections referred to above). If the assessee is not able to provide a satisfactory explanation of the nature and source or the three ingredients being identity, genuineness and creditworthiness, of the subject amount, it is open to the revenue to hold it as the income, and there would be no further burden on the revenue to show that the income is from any particular source.

Considering the widespread application of these section during the course of assessment/reassessments, more so after (the introduction of the Taxation Laws (Second Amendment) Act, 2016 w.e.f 01/04/2017 i.e. AY 2017-18 wherein) wherein the tax rate has been increased from 30% to 60% along with 25% surcharge and cess, and other penal consequences under the provisions of section

115BBE of the Act, the source of the issue can be traced to the following violations/shortcomings:

1. Consistency in disclosures in the ITR.
 - a. Non-disclosure of agricultural income, though exempt, on a consistent basis leads to suspicion when it is disclosed in a particular year for the first time. Even in cases of disclosure in the schedule EI (Exempt Income), more often than not, this schedule of the ITR is entered without application of mind or not on a proper basis. It is imperative to note that there is a provision to disclose gross income alongside the expenses and the resultant net agricultural income in the ITR form.
 - b. While the principle of *res judicata* does not apply to tax proceedings, the "Principle of Consistency" is being followed in multiple precedents. The principle mandates that where the facts and circumstances remain unchanged, there should be no variation in the treatment (income disclosed, in the present case) from the earlier years. Therefore, any deviation from the disclosures in prior years without demonstrating a change in the factual matrix



will raise suspicion about the incomes disclosed in the later years. Thereby requiring the agriculturists to not only explain the previous year's agricultural income but also preceding years', if not subsequent years', exempt incomes. Therefore, sudden disclosure of huge receipts from agricultural operations should not only warrant enough support for the subject year but also consistent disclosures in the preceding and succeeding years.

- c. Such comparative analysis finds justification as we are not strangers to the additions being made on the basis of GP/NP ratios in the context of business/non-exempt income based on the historic data as disclosed in the Tax Audit Reports, and other comparative/multi-year analysis, etc.
- d. Interestingly additions are also being made under Chapter VI, dealing with sections 68 to 69D, merely on the basis of disclosures in the ITR and not on the basis of requirements of each of the above sections i.e cash deposits, investments, acquisition of valuable assets or incurring expenses;
- e. The above-discussed problem only aggravates when the assessee does not file a return in the first instance, either due to the exempt nature of income and other taxable income before lower than the basic exemption limit or due to sheer negligence.
- f. Will the non-disclosure, in cases where the ROI is filed,

or non-filing thereof, lead to the presumption that there is no exempt income which can be explained as a source of the subsequent deposits/investments/expenses? It would be difficult to tide us over this impediment more so in the view of the 'verification' clause made in the ROI wherein it is solemnly declared that *the it is filed to the best of my knowledge and belief, the information given in the return is correct and complete and that the amount of total income and other particulars shown therein are truly stated and are in accordance with the provisions of the Income- tax Act 1961*

2. **Land ownership:** The ownership of the land also poses a challenge when the same is provided on lease *without* proper documents. In such informal arrangements, not only the cultivators but also the receiver of rent in kind (which is also exempt) often find it difficult to justify the 'nature' and 'source'. The problem only aggravates with the passage of time, as the arrangement may no longer exist at the time, as assessment/reassessment leads to difficulty in establishing the genuineness.
3. **Records, books of accounts, audits:** Though the provisions of section 44AA/44AB are not applicable to the agricultural income, there is a need for extensive documentation, considering the requirements of Chapter VI. This is in line with the recent trend of intensifying

the scrutiny around charity (charitable institutions) by way of legislative changes. When there is no legal mandate to maintain documents, to what extent is it legally permissible to insist on the same and make it the sole basis for the addition?

4. One of the requirements of the section dealing with 'nature' and 'genuineness' can also be addressed with the weight of evidence in the nature of proof of receipts from (credible) vendors, labour payments, crop insurance, purchase of raw materials, fertilisers, and pesticides, etc. The same is difficult to expect in this sector as it is highly unorganised, rural and largely constituted by uneducated farmers and traders, in addition to it being riddled with a lack of importance on documentation.
5. No doubt, there is a need to change the approach of the assesses in terms of documentation and disclosures to support the exempt nature of the income and to avoid the clutches of draconian sections, it wouldn't be unfair to expect the following relief considering that this sector plays a significant role in the overall socio-economic fabric of India and not to forget the intent behind keeping it exempt in the first instance.
 - a) A more reasoned approach is required even before the lens of draconian sections is cast on the exempt-agricultural income, by not automatically invoking such sections if there is prima

facie evidence of agricultural activity being carried on. Though it is easier said than done, the approach to examine the taxability of exempt income only in the event of suspicion or the presence of incriminating documents, is present in the case of long-term capital gains (bogus gains from shell companies, penny stock).

- b) The practice of making additions merely on the basis of suspicion, surmises and presumptions without any real inquiry or verification, is not only procedurally unfair but also contrary to the spirit of the Charter. The Taxpayers' Charter, which clearly states that "the Department shall treat every taxpayer as honest unless there is a reason to believe otherwise."
- c) This issue is especially stark in the context of agricultural income, where the nature of business activities does not support formal documentation in many cases. Expecting small agriculturists or rural earners to furnish invoices, audit trails, or structured records is impractical. By applying sections like 68-69C rigidly to such income without even a preliminary verification, we risk punishing those who are outside the formal economy, not due to intent, but due to circumstance. Therefore, for the Charter to be more than a well-worded slogan, its principles must find reflection in practice. A reasoned, fact-based inquiry must precede any addition under sections like 68 or 69C.

Only then can we ensure that trust, fairness, and due process are not just legal concepts, but operational realities in our tax administration.

- d) Even in the absence of documents, the Assessing Officers should consider referring the matter to the Verification Unit (in the faceless regime) or invoke such other provisions of section 133/135A to verify the claims of the assessee made during the course of assessment/apellate proceedings.
- e) Like reports are sought from Merchant Banker, Department Valuation Officer, etc, similar reports could be considered from the Village Accountant, Crop inspector, or such other state authorities with respect to the potential yield, rates prevalent, type of land, irrigation, crop quality, soil reports, etc; This may help to avoid addition on the total amount involved and thereby allowing exemption to the reasonable amount instead of leaving to the whimsical fancies of the officers;
- f) **Extension of Ashneer-Grover type relief to agriculturists:** When the difficulty involved in proving source of source (investment made by the investors in a company) was highlighted in the start-up world, the IT department was quick to provide suggestion by way of tweet, disregarding the requirements of the law, that if the PANs of the investors are shared with the AO by the

company, they can verify the ITRs of the investors. Similarly, is it fair to expect the agriculturists to provide the details of the land ownership, extent of land cultivated, for the department to verify the credibility of the claims?

6. Irrespective of the above, one can take comfort of the below-referred case laws in the absence of robust documentary evidence to prove every aspect of agricultural activity.

7. **CIT vs. Neel Giri Krishi Farms (P.) Ltd.** reported in [2013] 218 Taxman 95 (Allahabad) wherein the Hon'ble High Court of Allahabad noting that the assessee made cash sales, in the absence of any material, which may suggest that the agricultural operations were stopped or were not carried out in the relevant period, there was no evidence to establish that the assessee had sold the agricultural land or that the assessee had stopped the agricultural operations and therefore additions under section 68 were deleted. The relevant extract is as follows:

'...6. The CIT (A) considered the question of addition of Rs.17,87,500/- by AO under Section 68 of the Act and have recorded findings that if in the previous years the agricultural income from the same land on which agricultural crops were produced by the appellant was accepted, he could not have recorded findings that in the present assessment year in



question, the income could not be treated as agricultural income for want of proof of records of fertilizer and chemicals and expenditures incurred on tube-well boring, construction of store house, levelling of field etc. The ITAT has confirmed the findings recorded by CIT (A). Even if each assessment year is treated to be a separate unit, the findings in respect of previous years based on the record of title and possession of agricultural land, and the evidence led for proving that agricultural operations were carried out and crops were produced could not be disbelieved in the subsequent year, for want of primary evidence. The assessee was not required to submit proof of agricultural operations every year, in the absence of any material, which may suggest that the agricultural operations were stopped or was not carried out in the relevant period. There was no evidence to establish that the assessee has sold the agricultural land or that the assessee had stopped the agricultural operations. Further, the CIT (A) and ITAT have recorded findings that the assessee as a Private Company was maintaining regular books of accounts as required under the Companies Act, which were also audited and accepted in the AGM of the Company. The entries in the books were not proved to be bogus. There is nothing under the Income-tax Act debarring the assessee from selling agricultural produce in

cash, and thus additions based only on suspicion could not be sustained.....'

8. **Sridhar Sahoo vs. ITO** reported in [2016] 182 TTJ 41 (Cuttack - Trib.) wherein the Hon'ble ITAT bench at Cuttack considered the existence of cultivable land and the lack of evidence on the part of AO to controvert the facts led to the deletion of the addition. The relevant extract of the same is as follows:

'12. Further, in respect of the capacity of the creditors, I find that each of the creditors has in support of their capacity produced evidence of ownership of agricultural land owned by them before the Assessing Officer. After examining the evidences, the Assessing Officer could not bring any positive material on record to show that from agricultural land possessed by the creditors, they could not have earned so much of agricultural income out of which Rs.1 lakh could not be advanced by them.'

9. It is well-accepted that the agricultural sector in our country is not fully organised. It is a known fact that agriculturists pay labourers in cash. This fact is very much accepted by Hon'ble ITAT bench at Chennai in the case of **Smt. Annakkalanjiam Mathivanan ITA No. 2451/Chny/2018 order dated 22.01.2019**; **Shri Madhusudan Dhakad ITA No.09/Ind/2022 A.Y. 2017-18 Page 5 of 9** is as extracted below:

"...5. The Assessing Officer as well as the CIT(Appeals) have to appreciate the fact that the agricultural products in this country are traded in unorganized sector. The workforce in the agricultural sector is unorganized. When the agricultural products are traded in unorganized sector in the country, expecting the assessee to produce bills for sale of agricultural produce is something which cannot be produced by the assessee. Moreover, when the assessee engages labourers in carrying out agricultural operation and incur expenditure, producing vouchers is something uncalled for. What is to be seen is that whether the assessee has cultivated the land as claimed. When the assessee claims that the land was cultivated with certain crops and when the Assessing Officer has taken up the assessment for examination after three or four years from the relevant financial year, no material evidence will be available on the land to show that the assessee has cultivated as claimed. The only evidence available is the record maintained by the State Government in its Revenue Department. As per the Revenue Board's standing orders of Government of Tamil Nadu, the Village Administrative Officer in his official duty has to go round the village and take stock of the cultivation made at the relevant field and it has to be recorded in Village Account No.2. The Village

Account No. 2 is otherwise known as adangal. Therefore, the only official document maintained in the course of administration is the adangal extract maintained by the Village Administrative Officer. Beyond this, the assessee cannot produce any evidence for establishing the cultivation.'

10. The Hon'ble ITAT bench at Indore held in the case of **ITO Vs. Smt. Shahnaj Bano, ITA No. 443/Ind/04 order dated 07.01.2005** and Shri Madhusudan Dhakad ITA No.09/Ind/2022 A.Y. 2017-18 Page 7 of 9

'...8. As regards investment in flat, the AO has not brought on record any source of income except the income from agriculture claimed by the assessee. If a person has only agricultural income and no other income, then no addition can be made to the total income unless and until the AO proves that the assessee has any other source of income which is taxable under the Income-tax Act. The AO has not brought on record any material or evidence to show that the assessee was having any other source of income except agricultural income which is not taxable. CIT(A) was, therefore, justified in deleting the addition of Rs. 3,45,356/- to the total income made by the AO because the assessee has no income taxable and agricultural income is not taxable....'

11. Further, evidence in the nature of gift deed, pratilipi from tehsil depicting the existence

of "Sagwan Trees" and, photographs showing trees had been cut down were considered as a source of cash deposits in the case of **Poonam Pandey vs. ACIT** reported in [2018] 97 taxmann. com 175 (Delhi - Trib.).

12. The ITAT bench at Bangalore, held in the case of **M/s. Arundhathi, vs. ITO ITA No.605/Bang/2021 Assessment Year: 2017-18** has allowed the appeal of the Assessee in her favour even without an invoice for sales being produced. The relevant extract of the same is as under:

'...7. Aggrieved by the order of the CIT(A), assessee is in appeal before the Tribunal. I have heard the rival submissions. I am of the view that the evidence on record sufficiently demonstrates the factum of carrying on agricultural operation by the assessee. Even the AO and the CIT(A) accept this fact. The only dispute is with regard to quantum of agricultural income. In this regard, it is worthwhile to note that the assessee has returned a gross agricultural income of Rs.39 lakhs and a net agricultural income of Rs.15.09 lakhs, which has not been distrusted or disbelieved by the Revenue authorities. In these circumstances, the explanation offered by the assessee cannot be brushed aside as general and vague. The assessee has filed evidence to show that that the assessee had obtained loan from HDFC, letter of interest issued by the National Horticulture Board, Ministry of Agriculture,

Government of India. **The absence of evidence regarding sale proceeds of flower, in the facts and circumstances of the present case, is not fatal to the case of the Assessee.** The practice of selling flowers to vendors on a wholesale basis, on cash and carry basis, is not disputed or disbelieved by the revenue authorities. In my opinion, on a preponderance of probability, the case of the assessee has to be accepted, as the evidence on record shows that the assessee would have earned a sum of Rs.13.21 lakhs which was the cash deposited in the bank account. In this regard, I am of the view that the fact that sale proceeds in the horticulture sector is generally in the form of cash and this plea of the assessee has to be accepted. I, therefore, delete the addition sustained by the CIT(A) and allow the appeal of the assessee....'

13. In **Chagan Yadav v. ITO** reported in **2024-TIOL-1400-ITAT-JAIPUR** wherein the Hon'ble ITAT bench at Jaipur held that agricultural income, is a majorly cash-based transactions in the rural areas of India, and this cash, which is accumulated, retains the exempt status u/S.10(1) of the Act. The relevant extract of this case is as follows:

'5.4. ...Therefore in my view, it is not justified to deny the claim of the assessee that assessee was not engaged in agricultural activities merely because sales documents were



not in his possession. Under the above circumstances, one can understand that formal codes of agricultural sales or banking transactions may not have been maintained meticulously. However, the absence of such records in my view should not undermine the legitimate source of income when it is backed by credible and direct circumstantial evidences. **As it is a common practice that many farmers prefer to hold on cash rather than deposit it into a bank account due to factors such as lack of financial literacy, trust in banking institutions, or the desire to have liquid cash readily available for agricultural operations or unforeseen circumstances, therefore, in my view accumulating cash over a period of time is a reasonable and acceptable practice in rural areas, particularly for individuals engaged in seasonal or cyclical occupations like farming's from the above circumstances,** as discussed by me above the deposits made by the appellant are therefore a reflection of this accumulated agricultural savings which have been held in cash over several years. Moreover, I am also of the view that in the absence of any adverse material or evidence demonstrating that the cash deposits originated from a taxable source and after evaluating the entire facts and circumstances of the present case, I am of the considered view that the explanation put

forth before me by the assessee coupled with documentary evidence is placed on record. I can safely conclude that these deposits were accumulated savings from agricultural income of the assessee, in my considered view the agricultural income which is explicitly exempt under section 10 (1) of the Income Tax Act retains its exempt status, even if the income received over the years and deposit in cash at a later stage. Therefore, unless the tax authorities can provide credible evidence showing that the funds in question are from a taxable source, the assessee's explanation should be accepted. It is a common practice, particularly in rural and agricultural commodities to conduct transactions in cash and as long as the source is well explained and supported by reasonable evidence it may not be rejected....'

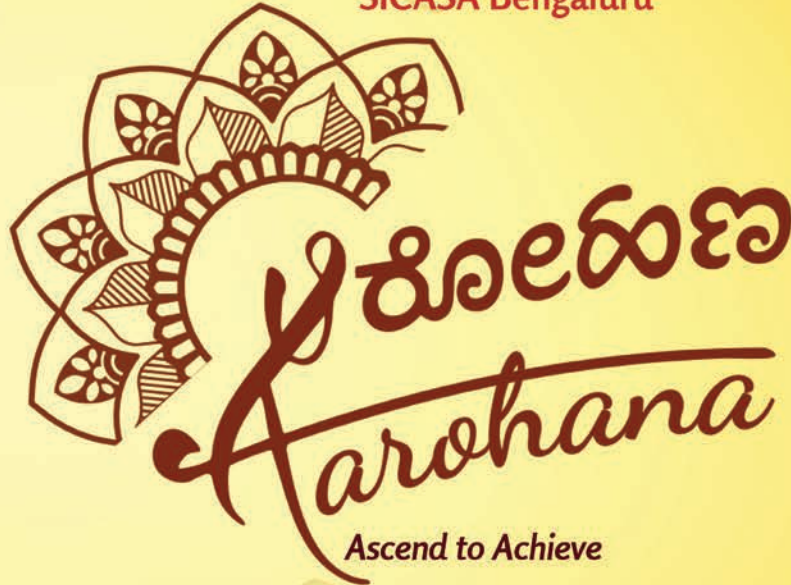
14. Even the theory of human probability should lead to the natural presumption that the subject amount arises out of agricultural activities. But the debate around the quantum remains, which needs to be discharged by the assessee in a cogent manner.
15. On the same footing as above, the excess consideration received over and above the amount referred to in the deed, dealing with the transfer of rural agricultural land is also equally debated.

16. Irrespective of the relief that we can expect from the legislation or the conduct of the administration during the scrutiny proceedings, it is necessary that the assessee bring about a change in the conduct to avoid the rigour of sections 68 to 69C of the Act. The Revenue should also allow (if not encourage) these sectors to become formal economy instead of burdening them with the demand equivalent to the amount involved, for introducing the exempt income into the system (in the form of cash deposits, investments, acquisition of valuable assets, lending activity, incurring expenses, etc)
17. In moving towards a more balanced tax framework, the presumption of honesty must be more than just a principle on paper - it must reflect in day-to-day assessments and administrative conduct. If taxpayers, especially those from informal or exempt sectors, are continually subjected to suspicion without reasonable cause, the very purpose of exemption and the assurance under the Taxpayers' Charter stands defeated. Upholding this trust is not just a matter of policy rather, it is a necessary step in aligning enforcement with fairness.

*With valuable inputs from
CA. Ankit Garg*



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		CA. ASHWINI K 
Paper -2 : Corporate and Other Laws Dates: 17.03.2025 to 19.04.2025	10:30 am to 1:30 pm	CS. BHARATH K L 
Paper-3: Taxation Section B: Goods and Services Tax Dates: 01.05.2025 to 10.05.2025	7:00 am to 1:30 pm	CA. VENKATA KRISHNA KOTHARI 
Paper-3: Taxation Section A: Income Tax Law Dates: 11.05.2025 to 25.05.2025	7:00 am to 1:30 pm	CA. PRASHANTH BHARADWAJ 



GROUP – II

Subject and dates	Timings	Faculty name
Paper-4: Cost and Management Accounting Dates: 26.05.2025 to 30.06.2025	10:30 am to 1:30 pm	CA. PUNITH KUMAR N 
		CA. NARENDRA KUMAR B 
Paper-6 Section B: Strategic Management Dates: 28.05.2025 to 12.06.2025	7:00 am to 10:30 am	CA. RAKSHA KUTHNIKAR 
Paper-6 Section A: Financial Management Dates: 13.06.2025 to 30.06.2025	7:00 am to 10:30 am	CA TRILOK CHANDRA 
Paper-5: Auditing and Ethics Dates: 01.07.2025 to 15.07.2025	7:00 am to 1:30 pm	CA. VIKAS OSWAL 

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Felicitation to Sri Ganapati Bhat, Principal Chief Commissioner of
Income Tax, Karnataka & Goa – Stakeholder Interaction on
Study Visit of Select Committee on Income Tax Bill, 2025,
by CA. H. Padamchand Khincha, and CA. Raveendra S Kore,
Past Chairman, ICAI Bengaluru Branch (SIRC)

A large group photograph of approximately 50 people, including students and faculty, posing in a room with colorful murals on the wall. The group is arranged in several rows, with some individuals standing and others sitting or kneeling in the front. The background features several large, vibrant murals on the wall, depicting various figures and symbols. The people are dressed in a mix of casual and semi-formal attire.

[illegible][illegible]

24 | May 2025