

READERS' QUIZ

THE QUERIES

Accounting

1 Cellular Telephone Companies at the time of activation of a Cellular Phone charge the user a one-time activation fee which enables the user of the Cellular Phone to get access to the telephone line. The telephone company would like to explore the following options for recognising the activation fees to its Profit & Loss Account:

1. Take to income the activation fee in the year of receipt/activation;

The answers of these queries shall be sent to us by e-mail at eboard@icai.org or eb@icai.org with 'Readers' Queries' written in the subject line. The answers can also be sent by post to - 'The Editor', The Chartered Accountant, Journal Section, ICAI Bhawan, Institute of Chartered Accountants of India, PO Box 7100, Indraprastha Marg, New Delhi – 110002. The best of the answers received will be published in this column with the name of the contributor who will also be rewarded with 1 hr CPE Credit.

- Editor

2. Compute a statistical forecast based on the previous average usage of its subscribers and distribute the activation fee over that period.

Which of the above would an appropriate methodology or whether any other methodology would be more appropriate?

Law

2 A trust duly formed and registered with the Tax Authorities in India, sells certain handicrafts made by tribal to entities abroad. As a measure to ease the cash flow of the tribal, it receives advances from the importing entities (situated outside India), which is settled on invoicing of the product. One of the importing entities had sent an advance of US \$ 100,000. Due to weather conditions the tribal could not make the handicrafts items



(Regulations) Act 1976?

Taxation

3 An Indian company has a branch in the United States (US). One of its US clients requested the Managing Director of the company (who is situated in India) to the US for a meeting. The branch in the US purchased the ticket for the Managing Director and also spent on his other expenses in the US. Is Fringe Benefit Tax (FBT) attracted towards the cost of the ticket and other expenses incurred for the Managing Director in the following circumstances?

1. If the profits/losses of the US branch is included in the overall profits/losses of the Indian Company;
2. If the branch offers for assessment in USA the profits/losses of the US branch and excludes the same from the income computation for tax in India in light of the provisions of the DTAA.

and hence the trust offered to return back the advance to the importer situated outside India. However, the importer, requested the trust to consider the advance as a donation to be utilised for the welfare of the tribal.

Would accepting the donation contravene the provisions of the Foreign Contribution