

## CASE STUDY

# A US-based developer and manufacturer of innovative water purification and disinfection technology

SERVICES OFFERED: **Accounting, tax and compliance services**

SECTOR/INDUSTRY: **Water purification**



## Provided integrated accounting, tax and compliance support services

### Challenge

#### **Implement accounting, tax and compliance systems for wholly-owned subsidiary in India**

A US-based developer and manufacturer of innovative water purification and disinfection technology was looking at setting up integrated support services for its wholly-owned subsidiary in India. The client delivers technology and systems to distribute safe drinking water that meets or exceeds WHO standards at affordable prices to those who lack access to the same.

The Indian subsidiary (the company) tied up with local panchayats in India who would help administer the supply and installation of Community Water Systems (CWS) in villages that were in dire need of safe drinking water. The company entered into an MoU with an NGO as their marketing agent to facilitate the functioning and administration of the CWS through the local Panchayats. Thus, there was a tripartite agreement between the company, NGO and local Panchayats for sale of the CWS and collection of service charge from the villagers who are the end customers of the supply of safe drinking water.

The company was looking for an implementation partner to:

- Address key issues such as timing of the revenue recognition and treatment of commissions paid to the NGO.
- Conceptualise an accounting system Panchayat-wise in order to capture data of each CWS project.
- Examine the clauses of the tripartite agreement.
- Examine whether the supply and installation and thereafter, the maintenance of the CWS by the company could be construed as an 'infrastructure facility' and if any tax benefits can be availed under section 80IA of the Income Tax Act, 1961.

## Our Solution

### Provided integrated implementation support services to wholly-owned subsidiary in India

In addition to the predefined scope, SKP developed an innovative and critical revenue model addressing the complexity of the arrangement between the three parties. The CWS systems bought by the Panchayats were financed by a bank and the company collected the service charge in a fiduciary capacity for the Panchayats. SKP helped the client in formulating the accounting policy of revenue on sale of the CWS and apportionment of the service charge among the three parties based on the tripartite agreement.

We addressed the client's requirements and provided the following integrated support services:

- We designed the revenue model for the tripartite agreement ensuring it is compliant with the Accounting Standards and the erstwhile Schedule VI of the Companies Act, 1956.
- We reviewed the draft tripartite agreement and suggested the clauses for sharing of revenue and expenses among the company, NGO and Panchayats.
- We developed the internal control system for its operations and also helped the entity design the accounting system to capture information in line with the company's agreements. The accounting system designed was robust and generated the Profit and Loss account for each CWS project (Panchayat).

## Impact / Value

SKP's overall project support addressed all the required concerns, and provided the company with a detailed assessment of the complex business, tax and regulatory landscape in India. Our analysis helped the client plan its entry strategy and set up the manufacturing facility in record time.

**For more information on this case study, please contact:**

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