



# The Chartered Accountant Student

March, 2007 □ Vol 10 No 10

Pages : 28

## Message of the President

Dear Students,

It is with happiness I greet you as the 55<sup>th</sup> President of the ICAI. In my first communiqué, I would like to set certain targets for ourselves and our commitment will be to achieve these targets during the year. While drawing these plans, I take clue from the plan of the some global Universities which impart classroom teaching and are registering for virtual campus envisioning the concept that students becoming more like telecommuters. They might



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## Message of the Vice President

Beloved Students,

It gives me immense pleasure to communicate with you as Vice President of the Institute. Immense opportunities are created by economic globalization and liberalization. Demand for accounting and finance professionals are on the rise. As student of chartered accountancy you will be direct beneficiary of the favourable economic scenario. Chartered accountancy is an exciting and rewarding profession that can take you places you never thought possible. Success in business is often about seeing an opportunity and grabbing it before the competition



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## Message of the Chairman, Board of Studies

Beloved Students,

It gives me immense pleasure to communicate with you as a Chairman of Board of Studies. As a chairman in 2005-06, I worked for simplification and improvement of the academic process, releasing compilation of various suggested answers, organizing virtual classes, etc. During the last academic year, the Board of Studies worked for developing and implementation of the new scheme of education and training as well as transition scheme for the students of old scheme of education and training.



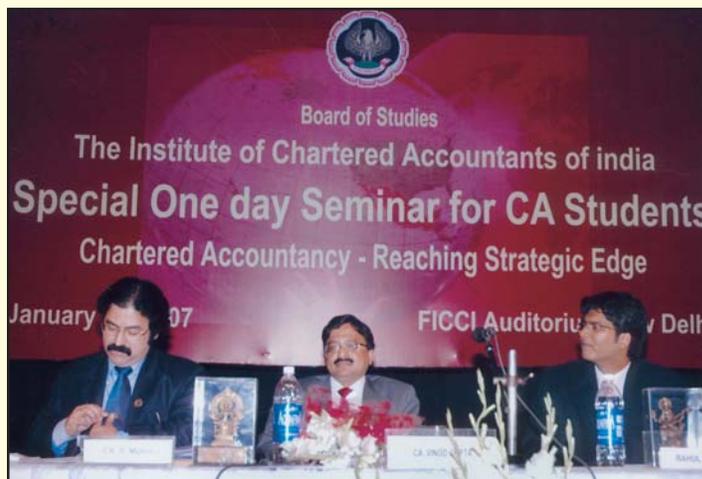
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# Special One Day Seminar for CA students *Chartered Accountancy – Reaching Strategic Edge*

January 31, 2007 – FICCI Auditorium, New Delhi



CA. V. Murali Member, BOS (then Chairman) felicitating C.A. MP. Vijay Kumar faculty in the area of accountancy and finance



CA. Vinod Gupta, faculty in taxation with CA. V. Murali and Mr. Rahul Gupta student of final



CA. V. Pattabhi Ram faculty in the area of capital markets with CA. V. Murali



Students having tea

## Best Article Award

Articles written by students in Institute's Newsletters from June, 2005 – May, 2006



**Ms. Binal J Sheth, Baroda**

Importance of Financial Planning

*(Published in April-June, 2006 issue of the Newsletter of Baroda Branch of WICASA.)*

***Our Heartiest Congratulations !***

## Eligibility of the Chartered Accountants to appear in Civil Service Examinations

A student who has passed Final examination of the Institute of Chartered Accountants of India has been recognised for recruitment of Superior services/Posts under the Central Government. Accordingly, candidates possessing this qualification are eligible for admission to the Civil Services Examination, which is conducted by the Commission for recruitment to IAS, IPS and other Group 'A'/Group 'B' Central Services/Posts.

# The Chartered Accountant Student

March, 2007



Vol 10 No 10

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## Invitation to Write Articles

Members, academicians, students and others may send their original articles for inclusion in this newsletter. Typically the length of articles should be between 2000 to 4000 words. **Articles written by the students are encouraged.** Every year best articles that are written by students are awarded cash prize and a certificate at the annual function of the Institute. All correspondence in this regard should be done at **Board of Studies, ICAI, C-1, Sector – 1, Noida 201301.** Please write your complete **name, complete address and the membership/registration number** in your correspondence. **Also send a copy of recent passport size photograph.**

**Total Circulation:** 96,600 copies .

### Message of the President

(...Continued from page 1)

meet faculty and peers one day in a week on campus and then use simulations, virtual classes and download information in the rest of the week to complete coursework. This concept is much more appealing for our theoretical education scheme.

It is heartening to note that many 12<sup>th</sup> Standard pass students are now students of CA course. Please note that you are a totally different breed, young in age and vibrant, but matured in knowledge. What is now required is change in your attitude. In the alphabets, if 'A' stands for 1 mark, 'B' for 2 marks, 'C' for 3 marks and so on, the word "KNOWLEDGE" will total to 93 marks, whereas "ATTITUDE" scores exact 100. What is required is you must change your attitude from that of a college going young student, to that of a sincere, serious and matured CA student, who is required to display special skills and exhibit intelligence. Do not compare yourself with other college going students. You are above others. You are future Chartered Accountants and you can become a good Chartered Accountant with bright future, only and only if you change your Attitude today. It will be my desire to see how best the ICAI can help you change and improvise your attitude.

I take this opportunity to share with my thoughts about the pedagogy, which we are planning to implement through Board of Studies:

1. *E-learning*: In higher education, the increasing tendency is to create a Virtual Learning Environment (VLE), which broadly achieved through E-learning. A growing number of physical universities have begun to offer a select set of academic degree and certificate programmes via the Internet at various levels and in a wide range of disciplines. As you are aware that E-learning is an all-encompassing term generally used to refer to computer-enhanced learning, although it is often extended to include the use of mobile technologies such as PDAs and MP3 players. Both *asynchronous* activities, i.e. use of web-based teaching materials and hypermedia in general,

multimedia CD-ROMs, discussion boards, collaborative software, e-mail, blogs, wikis, text chat, computer aided assessment, educational animation, simulations, games, learning management software, with possibly a combination of different methods being used and *synchronous* activities in which the target participants join in a chat session or a virtual classroom or meeting. To me this is most suited for distance education.

To capture advantages of E-learning which include flexibility and convenience for the learner, facilitation of communication between learners, greater adaptability to a learner's needs, more variety in learning experience with the use of multimedia and the non-verbal presentation of teaching material, we have planned to implement E-learning for the chartered accountancy course. To begin with E-learning would be launched for Information Technology Training.

2. *Dedicated TV Hours in a channel*: The Board of Studies is conducting multi-city virtual classes in which students can directly interact with the expert faculty on various important topics. Another alternative will be the broadcasting of lectures of important topics through academic channel. Broadcasting of various important topics in the morning/evening hours will be having demonstrative impact in the mind of young students. As the President, it will be my endeavour to add some extra hours so as to include additional topics and additional speakers for more effective communication and information.

3. *Strengthening Virtual Classroom*: The scope of existing virtual classes will be enlarged in terms of frequency and coverage of locations. Students should take advantage of these classes.

4. *Graduation and Post-graduation studies*: We have conceptualized a collaborative value added academic process with Indira Gandhi National Open University (IGNOU) by which a student of Professional Competence Course may join B.Com. course majoring in Accounting and Finance of

IGNOU. Synergizing the academic curriculum of the first stage of chartered accountancy, 100 Hours Information technology training and practical training with language, humanities and social science and commerce courses, such student will be able to complete graduation in commerce. Out of 92 credit courses of IGNOU, under this collaborative scheme a student of PCC will get exemptions of common courses. This will address the problem faced by some students in attending day college while undergoing articleship training.

In today's information era, our members and students have to work hard. They have to learn newer skills and understand contemporary developments. I find you need to be ever receptive to the knowledge. Learning is not limited to study material or classroom teaching, but extends to all spheres around us. In this quest of learning and gaining knowledge, we

often find that whatever we have gained is insignificant as compared to the ocean of knowledge available to us. However, whatever we may do, the process of learning and improving ourselves is unending. Sir Winston Churchill said **“Every day you may make progress. Every step may be fruitful. Yet there will stretch out before you an ever-lengthening, ever-ascending, ever-improving path. You know you will never get to the end of the journey. But this, so far from discouraging, only adds to the joy and glory of the climb.”**

With best wishes,

Yours truly



February 21, 2007

CA. Sunil Talati

## Our New President

**CA. Sunil H. Talati**, FCA, aged 55 years has been elected as the President of the Institute of Chartered Accountants of India (ICAI), the Apex Body of the profession of Chartered Accountants in India, for the year 2007-08 w.e.f 5th February 2007. Besides being a Fellow member of the ICAI, he is a postgraduate in commerce and also a law graduate.

A member of the ICAI with more than 30 years of standing, Shri Talati was elected to the Council of ICAI for the first time in 2001 and thereafter in 2004 and 2007. He was Vice-President of the Institute for the year 2006-07. He has in the past held the position of Chairman of Expert Advisory Committee, Financial Reporting Review Board, Corporate & Allied Laws, Corporate Governance Committee; and Vice-Chairman of Professional Development Committee, Committee for Members in Industry, Board of Studies, Committee for Information Technology and Professional Development Committee. Besides the above, he has also served on the Examination Committee, Disciplinary Committee, Expert Advisory Committee, Committee for Vision & Restructuring, Fiscal Laws Committee, Research Committee, Committee on Ethical Standards, Professional Development Committee, Editorial Board, Financial Market and Investor's Protection, Expert Advisory Committee, Committee on Information Technology. Audit Committee, Accounting Standards Board and Board of Studies as a Member.

CA. Talati is also the Chairman of Centre of Excellence on Education, Training and CPD of South Asian Federation of Accountants (SAFA) – an Apex Body of SAARC. He participated in the XVII World congress of Accountants held in November 2006 at Istanbul, Turkey.

He has been the Vice-Chairman of the Western India Regional Council (WIRC) of ICAI and also Secretary of the Ahmedabad Branch of WIRC of ICAI.

During his association with the ICAI, he was actively involved in preparing Pre and Post Budget suggestions/proposals. He has contributed actively in bringing out different publications brought out by various Committees.

Shri Talati has authored the Income Tax Ready Referencer in Gujarati and was also instrumental in bringing out Form 2C of Income Tax Act in Gujarati.

Besides achieving excellence in education and profession, he had been excelling in extra curricular activities also. He had been the first Rotaract Governor in India from District 305 and first Chairman of National Council of Rotaract Governors. In addition to the various posts in Jaycees and in other social leading clubs, he was a sportsman right from School and College days; champion in Swimming, Tennis and Badminton. He is a regular columnist in Gujarati 'Financial Express' every Tuesday and monthly Journal Tax Reporter.

### Message of the Vice President

(...Continued from page 1)

does. You can outpace the others by becoming a student of chartered accountancy.

In tandem of the economic development and globalization, chartered accountancy curriculum has been changed incorporating latest developments in financial reporting, financial management, management accounting, taxation, corporate laws and information technology. Adequate importance has been given to develop practical skill of information technology among the students to equip them to function in the modern business environment.

Under the new scheme of education and training, entry level test has been benchmarked to entrance examinations conducted for other professional courses. After passing 10<sup>th</sup> standard examination, a student can join Common Proficiency Test (CPT) course and select chartered accountancy as a career. Students can appear for the CPT after appearing 10+2 standard examination. The entry norm has been designed to encourage the young talent to make the career planning early and join the challenging profession.

The Board of Studies is working out a collaborative academic system with IGNOU and other universities to facilitate under-graduate and post-graduate studies for the CA students under distant learning mode. Details of the collaborative programme will be

announced shortly. Even the students who are undergoing Final Course will be able to pursue a specialized M.Com programme designed by the BOS with IGNOU.

I would emphasize that uniqueness of the chartered accountancy education is concurrent practical training along with theoretical education. Learning process gets enhanced through practical application of various aspects of professional importance. For focused training, students should pay undivided attention to various training modules. Accordingly, a student should properly plan for pursuing various modules of theoretical education as well as additional course of studies.

To succeed you need 'will' more than ability. A strong commitment to work and accomplish. Nothing should come in between you and your objectives. Do not look for excuses and scapegoats. To quote Bo Bennett – **“Avoiding the phrase “I don't have time”, will soon help you to realize that you do have the time needed for just about anything you choose to accomplish in life.”**

With best wishes,

Yours truly

**Ved Jain**

**Vice-President**

**February 21, 2007**

## Our New Vice President

**CA. Ved Kumar Jain**, FCA, New Delhi, aged 53 years has been elected as the Vice-President of the Institute of Chartered Accountants of India (ICAI), the Apex Body of the profession of Chartered Accountants in India, for the year 2007-08 w.e.f 5th February 2007. He stood in the merit list in the CA Intermediate and Final Exams. He is also a Law graduate from Delhi University.

A member of the ICAI with more than 30 years of standing, Shri Jain was elected to the Council of ICAI for the first time in 2004 and thereafter in 2007. He has held the position of Chairman and Vice-Chairman of Fiscal Laws Committee and Chairman of Audit Committee. Besides the above, he has also served on the Executive Committee, Disciplinary Committee, Accounting Standards Board, Auditing & Assurance Standards Board, Committee for Members in Industry, Committee on

Financial Market and Investor's Protection, Professional Development Committee, Board of Studies, Committee on Ethical Standards, Editorial Board, Continuing Professional Education Committee, International Affairs Committee, Committee on Accounting Standards for Local Bodies as a Member.

He specializes in Direct Taxes and has about 27 years experience of handling complicated tax matters, appeals, tax planning of big Corporates. He regularly interacts with Central Board of Direct Taxes on various issues relating to Finance Bill, circulars, notifications, clarifications, extensions etc.

He has been a member of Income Tax Appellate Tribunal, Ministry of Law, Justice & Company Affairs, Govt. of India. He regularly contributes articles on tax matters to various journals and newspapers.

### Message of the Chairman, Board of Studies

(...Continued from page 1)

The New Scheme of Education and Training emphasizes on –

- ◆ Elimination of prolonged entry norm through Professional Education (Course-I) route but instituting a uniform entry level test – the Common Proficiency Test;
- ◆ After passing 10<sup>th</sup> standard examination a student can prepare for entry level test while pursuing 10+2 level study;
- ◆ To encourage young talented students having aptitude for accounting education to make an early entry to the profession;
- ◆ Balanced approach towards theory and training by way of emphasizing commencement of the training at the beginning of the chartered accountancy curriculum.

During the academic year 2007-08, the Board of Studies will work for stabilizing the new scheme of education and training. Broad principles of functioning would be:

- ◆ Complementing theoretical education by appropriate modules of practical training;

- ◆ Providing quality education through e-learning, virtual classes and dedicated TV channel and lectures in DVD format.
- ◆ Building an upgraded Information Technology Training through e-learning supported by dedicated faculty at the Board of Studies for on-line query resolution and virtual classes;
- ◆ Facilitating additional courses of study during articleship training in collaborative academic process;
- ◆ Globalizing chartered accountancy education through organisation of education and training abroad;

### SAFA Student Exchange Programme

The Board is organizing SAFA Students' Exchange Programme under the aegis of Institute of Chartered Accountants of Pakistan. Sixteen student delegates of the ICAI will visit Karachi and participate in various programmes including presentation in All Pakistan Students' Seminar. In the era of globalisation, developing understanding about cross-border transactions and handling cross-cultural relationship are important learning processes. Experience of these students will be brought to you through the newsletter. We plan to organize more such

## Our New Chairman, Board of Studies

**CA. Jaydeep Narendra Shah**, has been nominated as the Chairman, Board of Studies, of the Institute of Chartered Accountants of India (ICAI), for the year 2007-08. He is also Vice-chairman of Peer Review Board and member of Auditing & Assurance Standards Board, Research Committee, International Affairs Committee, Editorial Board and Financial Reporting Review Board. This is his second term in the council of the Institute. Presently, he is a partner of M/s. Shah Chari & Co., Chartered Accountants, Nagpur.

Academically, he is M.Com. from Nagpur University securing 1st position in the order of Merit for which he was awarded P. Satyanarayanan Gold Medal and Jawaharlal Nehru Memorial Award. He passed B.Com. from Nagpur University standing 8th in the order of merit.

Earlier, CA. Shah was Vice-Chairman of Western India Regional Council of The Institute of Chartered Accountants of India for the year 1997-98. He was elected as a member of the Western India Regional Council of the ICAI for 3

consecutive terms i.e. 1995-98, 1998-2001 and 2001-2004. He was member of Managing Committee of Nagpur Branch of WIRC of ICAI during 1991-95 and served as its Secretary for 1991-92, 1992-94 and Chairman for 1994-95. He has also chaired technical sessions and delivered lectures in All India conferences and seminars organised by the Institute and its various regional councils and branches and various other organizations / associations.

He has also been a member of Board of Studies, Accounts and Statistics Board of Nagpur University for three years. He was a visiting faculty to 47th IRS batch in National Academy of Direct Taxes. He was also a visiting faculty at education course for C.A. Final Students organised by WIRC and Bombay Chartered Accountant Society. He was also a visiting faculty for Post Graduate Students at Bhartiya Vidya Bhawan for 10 years. In addition, he had been a faculty for Revisionary Coaching classes organised by Nagpur Branch of WIRC of ICAI for PE-II and C.A. Final Exam.

international student exchanges and invite international students in our seminars to strengthen the learning process.

### E-learning

It is an age of collaborative competition. Advancement in information technology has increased the scope of knowledge sharing. E-campus is order of the new academic system. Our academic resource is no less. We need to develop courses in digital format and disseminate appropriately to the students. The Board is committed to develop courses through e-learning for all subjects and provide on-line academic support to students. We shall work out an implementation schedule shortly. Case study based learning will be introduced once the e-learning is in place.

### Wrap up point

At the end of this letter I wish to give you a small piece of advice. Today, to succeed you need to be emotionally sound and ready to change. Your emotions help you in your relations, your work and in situations of stress. You should believe in yourself

and control your emotions. In this light go through the words of Og Mandino

**How do I change?**

**If I feel depressed I will sing.**

**If I feel sad I will laugh.**

**If I feel ill I will double my labour.**

**If I feel fear I will plunge ahead.**

**If I feel inferior I will wear new garments.**

**If I feel uncertain I will raise my voice.**

**If I feel poverty I will think of wealth to come.**

**If I feel incompetent I will think of past success.**

**If I feel insignificant I will remember my goals.**

**Today I will be the master of my emotions.**

With best wishes,

Yours truly

**Jaydeep N. Shah**  
Chairman,  
Board of Studies

February 21, 2007

## Students' Newsletter The Chartered Accountant Student

### Distribution policy

#### **Eligibility to receive newsletters without being charged separately**

Students will be getting the newsletter without separately being charged as per the following guidelines:

1. Students of Professional Education (Course – I) who have not taken transition to Common Proficiency Test for a period of one year.
2. Students of Professional Education (Course – II) who have not taken transition to Professional Competence Course and joined articleship under the new scheme for a period of one year.
3. Students registering for Professional Competence Course and joined articleship will be getting Newsletter for a period of 42 months.
4. Students registering for Final Course under the old scheme will be getting newsletter for a period of 36 months.

The above categories of the students need not pay any amount separately along with fees. **Students registering for the Common Proficiency Test will not be sent any Newsletter. However, if they desire they may subscribe.**

**For subscribing the newsletter, the student may download the subscription form from the website of the Institute.**

### Non Receipt of Newsletter

We are dispatching students' newsletters through the post office every month. The newsletters are dispatched on 26, 27 and 28 of previous month. Some newsletters are returned to us on account of different

reasons concerning addresses. A small number of students also send complaints relating to non-receipt of newsletters to whom we send replacement copies.

In case of change in address, students should write to the concerned Regional Office. Students should also check their mailing address that are printed in the newsletter. In case, there is any correction or the PIN Code (Postal Index Code) is either missing or incorrect, students should inform the concerned Regional Office giving full particulars of address along with correct PIN Code. Please note that PIN Code is a critical component in the addresses.

This would enable us to ensure smooth and prompt delivery of the Newsletter.

If the newsletters are not received by the first two weeks of any month please request for replacement copies by writing to [casnewsletter@icai.org](mailto:casnewsletter@icai.org) or sending letter to the address given herein. Newsletters are sent subject to availability. You should request for the replacement copy within the month of publication.

All correspondence for issues relating to the newsletter should be done at:

**The Director of Studies**  
**Board of Studies,**  
**The Institute of Chartered Accountants of India,**  
**C-1, Sector – 1, Noida 201301.**

Please mention your full name, complete address registration number in all your correspondence.

# The Process of Securitisation: Simplified

Ashish Shailesh Masurekar

The process of securitisation in India is governed by *The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002* (often referred to as Securitisation Act).

Securitisation Act defines Securitisation as 'acquisition of financial assets by any Securitisation Company or Reconstruction Company (SPV) from any Originator, whether by raising of funds by such company from Qualified Institutional Buyers (QIBs) by issue of security receipts representing undivided interest in such financial assets or otherwise'.

Securitisation is a process through which illiquid assets are transformed into more liquid form and distributed to a broad range of investors through capital markets. The process involves packaging of individual homogeneous loans and distributed among various investors in the form of Coupons or Pass through certificates or Pay through certificates through a SPV.

In other words, Securitisation is the process of conversion of existing assets or future cash flows into marketable securities. In simple words, securitisation deals with the conversion of assets which are not marketable into marketable ones.

For the purpose of distinction, the conversion of existing assets into marketable securities is known as asset-backed securitisation and the conversion of future cash flows into marketable securities is known as future-flows securitisation.

## Objective

A lender has to normally wait for recovery of principal and interest over a period of time. When securitisation is done, he sells his right to receive future payments and receives upfront payment at a discounted value. He can use these funds once again for advancing loans. By this process his long term illiquid assets are converted into current assets.

Some of the assets that can be securitised are loans like car loans, housing loans, ticket sales, credit card receivables, lease finance receivables etc.

**Example of securitisation of future receivables:** Suppose Mr X wants to open a multiplex and is in need of funds for the same. To raise funds, Mr X can sell his future cash flows (cash flows arising from sale of movie tickets and food items in the future) in the form of securities to raise money.

This will benefit investors as they will have a claim over the future cash flows generated from the multiplex. Mr X will also benefit as loan obligations will be met from cash flows generated from the multiplex itself.

*The author is a student of ICAI.*

Securitisation can be with recourse (i.e. when SPV or investors can recover the defaulted amount from the Originator) or it can be without recourse (i.e. loss if any is to be borne by the SPV or investors).

**Modus Operandi** (as per provisions of Securitisation Act)

The following steps briefly describe the working of this technique:

1. Originator sells the loan (or other financial asset) to the SPV at a discounted value.
2. SPV raises the money from investors by raising debt instruments which are listed on stock exchanges. (The securities are rated by credit rating agencies like CRISIL etc)
3. Money raised by SPV is given to the Originator.
4. SPV collects from the borrower the principal and interest amount and repays the debt instrument held by investors.

**Note:** Securitisation can also be made partially i.e. only principal amount portion or only interest portion or only a part of the loan (say) 75% of the loan amount is securitised.

The diagram on next page illustrates the process of Securitisation in India:

## Benefits of Securitisation

◆ **Economic benefits:** Securitisation benefits the economy as a whole by bringing financial markets and capital markets together. Financial assets are created in the financial markets, e.g., banks or mortgage financing companies. These assets are traditionally refinanced on on-balance sheet means of funding of the respective banks.

Securitisation connects the capital markets and financial markets by converting these financial assets into capital market commodities. The agency and intermediation costs are thereby reduced.

### ◆ Benefits to Originator:

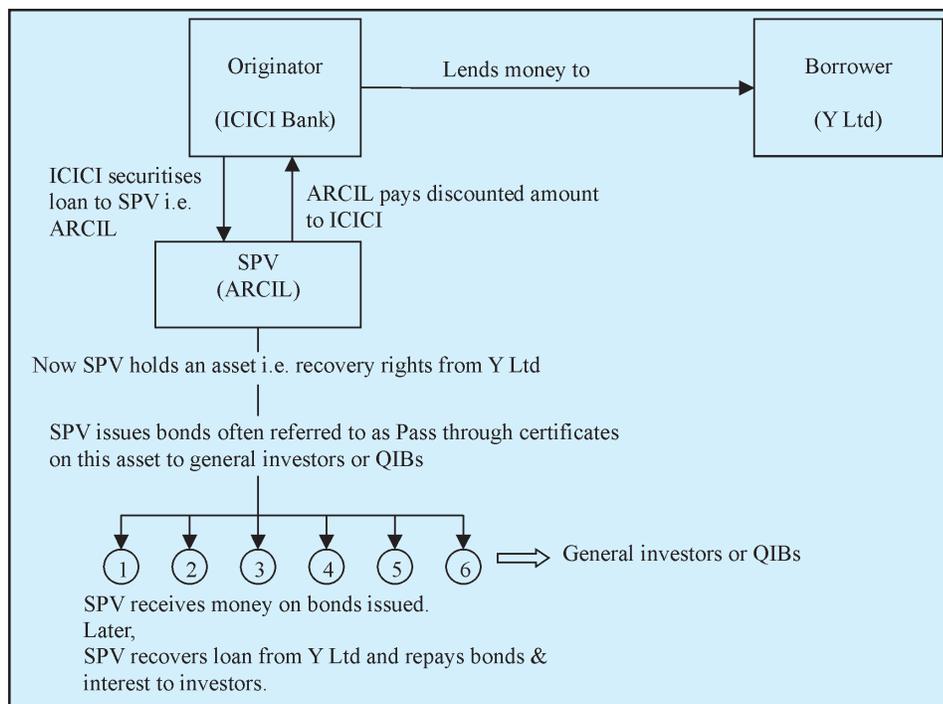
- Securitisation can be used as a strategic tool by corporates- (explained by Barclays Bank)
- Use of securitisation as an alternative funding tool by corporates - (article by Ganesh Rajendra of Deutsche Bank)

◆ **Benefits to Investors:** Investor experience of investing in securitised paper has internationally been quite good,



for primarily three reasons:

- Securitisation being a structured finance instrument can be more closely aligned to investor needs. Investors can invest in exactly what suits their investment policy the best.
- Securitisation asset classes have shown much higher rating resilience. Rating transition histories have been published by both Moody's and Standard and Poor's depicting this. Recently, Fitch also came out with a rating transition history of ABS to prove this point.
- Default history of securitisation transactions is much safer - there have been very few defaults over the past 16 years.
- Default recovery rate of securitisation transactions has been significantly higher than in case of defaulted corporate bonds.



or to free capital tied up in NPAs and other loans through securitisation.

### Risks involved

#### **Does securitisation increase risk of the economic system?**

The benefits of securitisation are, however, not unquestionable. Securitisation converts loan relationships into capital market commodities and therefore, increases the power of the capital market.

A debate on the potential risks of the capital market-financial market connectivity was initiated (or carried forward) by Prof Henry Kaufman. Prof Kaufman said: "The shift to marketable from non marketable assets brought about by securitisation has stretched credit creation. It tends to sustain borrowers longer in economic expansion and probably to expose them more in contractions. It also has had the important side effect of removing the illusion of price stability for non marketable assets. Some of the new securitised instruments have therefore magnified the volatility of financial asset prices."

### Conclusion

Securitisation is expected to become more popular in the near future in the banking sector. Banks are expected to sell off a greater amount of non-performing assets (NPAs) to ARCIL by 2007, when they have to shift to Basel-II norms. Blocking too much capital in NPAs can reduce the capital adequacy of banks and can be a hindrance for banks to meet the Basel-II norms. Thus, banks will have two options- either to raise more capital

### ◆ Glossary

- **Special Purpose Vehicle (SPV):** The word "special purpose vehicle" or "special purpose entity" is a buzzword in structured finance and can be potentially confusing. The word "vehicle" is a marketplace equivalent of "entity". Therefore, SPV and SPE mean the same thing. As opposed to a general purpose vehicle or a trading corporation, a special purpose vehicle, as the name suggests, is formed for a special purpose: therefore its powers are limited to what might be required to attain that purpose and its life is destined to end when the purpose is attained. A SPV is also called as a Securitisation Company (SC). However, when such deals are made in case of loans which are doubtful of recovery, the SPV is known as Reconstruction Company (RC). In India ARCIL is the SPV or Asset Reconstruction Company (ARC) for securitisation and reconstruction of financial assets. (Source: Misc. sources)
- **Qualified Institutional Buyers (QIBs):** A Qualified Institutional Buyer in law is a purchaser of securities that is financially sophisticated and is legally recognised by security market regulators to need less protection from sellers than most members of the public. For mutual

funds it is generally an investor that is investing a large amount of money and presumably also meets the legal conditions in the country where the fund is located.

(Source: Wikipedia)

- **ARCIL:** Asset Reconstruction Company (India) Limited (ARCIL) is the first Asset Reconstruction Company (ARC) to commence business in India. ARCs are established to acquire non-performing assets (NPAs) from financial institutions and banks with the objective of focused management of these assets and maximization of recovery. Relieving institutions and banks of the burden of NPAs should allow them to focus on core activities. ARCIL has been set up to fulfill these objectives in the Indian banking landscape.

Adopting a bank based model of ARC, ARCIL has been sponsored by the significant players in the Indian financial sector, namely State Bank of India, ICICI Bank Ltd., IDBI Ltd. and Punjab National Bank.

ARCIL is registered with Reserve Bank of India (RBI under Section 3 of the SRFAESI Act) 2002 as a Securitisation Company (SC) and Reconstruction Company (RC) and commenced business with effect from August 29, 2003 and is a financial institution within the meaning of section 2(h)(ia) of the Recovery of Debts due to Banks and Financial Institutions Act, 1993. ARCIL is also an Associate member of Indian Banks' Association.

(Source: ARCIL website)

- **Pass through Certificate:** They are interests in a financial asset sold by a SPV to QIBs. Money collected by the SPV as monthly principal and interest payments from the borrower is distributed to those who own certificates.

(Source: Misc. sources)

- **Non Performing Assets (NPA):** A loan or lease that is not meeting its stated principal and interest payments.

**Basel-II norms:** Basel II norms provide banks with guidelines to measure the various types of risks they face — credit, market and operational risks — and the capital required to cover these risks.

BASEL-II norms are to banking what Duckworth-Lewis is to cricket. Both are complex, mathematically inclined, enigma for the layman but still very logical and needs some intuition to understand. Duckworth-Lewis changed the rules of the game and as Basel II is likely to do too. □

(Source: The Hindu Business Line Financial Daily)

## VAT – NEW SCHEME

*P. Akila*

- Student :** It is May of 2007  
I told Welcome PCC  
I heard a voice
- VAT :** “Hey, Today  
I’m introduced in the new course
- Student :** I told “wish me also”, you are an alien subject
- VAT :** See, I am VAT  
Though alien.... accept me!  
I am good to all....  
I’ll help you to compete the World....  
I’ll put uniform to all traders....  
I’ll reduce the cost of product....and  
I’ll give credit for tax you pay  
I also give you all a credit  
by phasing out CST
- Student :** At last I told....“WELCOME.”  
And called her as VAT (Value Added Tax)

*The author is a student of ICAI.*

## “DARE TO BE DIFFERENT”

*Karan Batra*

*If you think you are beaten, you are,  
If you think you dare not, you don't,  
If you like to win but think you can't,  
It is almost certain you wont.*

*If you think you'll lose, you are lost,  
For in this world we find,  
Success begins with a fellow's will,  
It's all in the state of mind.*

*If you think you are outclassed, you are,  
You've got to think high to rise,  
You have got to be sure of yourself before  
You can ever win a prize.*

*Life's battle don't always go,  
To the stronger or the faster man,  
But sooner or later the man who wins  
Is the man WHO THINKS HE CAN.*

*The author is a student of ICAI.*

# Limited Liability Partnership – An Introduction

Rishabh R. Adukia

## What is LLP?

The global business environment witnessed major changes in the last decade. With increased expansion and globalisation, opportunities for professionals have become enormous. However, increasing incidence and *scale of actions* against professional advisors for liability in respect of financial loss to stakeholders made consulting professionals, (particularly audit firms) vulnerable. It was feared that those with substantial professional indemnity insurance would be likely targets regardless of the degree of fault. In light of these developments, the traditional partnership structure with agency relationship and unlimited liability was seen as a deterrent to growth of firms and ability to attract young talent.

A limited liability partnership combines the elements of partnership and companies. All partners have limited liability as in case of companies. The partners are allowed to manage the business directly as in case of partnership. In most areas, the tax liability is also different from that applicable to companies.

It is different from limited partnership. While in limited partnership, liabilities of only certain non-managing partners is limited. The limited liability partnership is a corporate body with separate legal personality and perpetual succession.

It was then that the idea of limited liability partnership (LLP) emerged.

## The advantages and disadvantages of LLP

### Advantages

The organisation and ownership of an LLP is flexible in nature. It is more suitable for small organisations with limited number of partners. The advantages of this form of organisation are plenty:

- ◆ *Pass through tax treatment* : The income of LLP is taxed in the hands of the members, thereby avoiding double taxation as in case of companies.
- ◆ *Boon for professionals* : The introduction of LLP is a boon for the professionals combining the benefits of partnership and companies. Before the introduction of this concept, professionals like accountants, lawyers and others had only two options for forming an organisation, i.e., sole proprietorship or partnership, both requiring unlimited liability of the partners. However, this option is not available to professionals in some countries. Subsequently, some

countries allowed professionals to form corporates. Here, the cumbersome process, formalities and double taxation outweighed the benefits of limited liability for many.

- ◆ *Limited liability* : An LLP provides limited liability to its members. Though personal liability arises in case of wrongful acts or omissions, a partner is not personally liable for such acts or omissions of other partners.
- ◆ *Flexible management structure* : LLP may have all the partners taking part actively in day-to-day management or it may have a centralised management structure. As in general partnership, the internal structure of LLP can be organised as per mutual agreement.
- ◆ *Lesser formalities* : The requirements as to board meetings, resolutions, annual meetings, etc. are not there in case of LLP. There is less paperwork in case of LLP, even the formation of a partnership agreement is not mandatory. The filing requirements are also less as compared to a company.
- ◆ *Flexible capital structure* : The salaries and other compensation, distribution of profits paid to partners are not questionable by any authority as in case of companies.
- ◆ There is no limit for the maximum number of members.
- ◆ Since LLP is a separate legal entity, its existence is not effected by the entry or exit of partners.



### Disadvantages

- ◆ The income is taxed at the rates of individuals in case of individual member. The benefit of corporate tax is not available.
- ◆ There is a requirement of at least two partners. A person alone cannot form a LLP.
- ◆ Where there are two partners, exit of one partner on account of death or otherwise would force the other to close the LLP where a new partner is not available or not admitted.
- ◆ The interests and rights in a LLP are not freely transferable as in case of companies where the shares are freely transferable.

Choosing the right type of organisation and whether the existing enterprise should be converted into an LLP or not, is necessary for effective risk management. LLP combine the advantages of

The author is a student of ICAI.

a general partnership regarding their management, operation and taxation and of companies regarding liability of the owners. This form of organisation is particularly beneficial for entrepreneurs, professionals and enterprises providing services.

### **The Law on LLP**

The primary intention of LLP is that its external structure should mirror that of the limited company but in terms of conduct of internal affairs it would be similar to traditional partnership. While retaining this basic structure, countries including Australia, USA, UK, Japan, and Singapore have framed their laws with suitable changes.

In India, the Limited Liability Bill, 2006 was introduced in the Rajya Sabha on 15<sup>th</sup>, December 2006.

Some of the provisions of the Bill are:

- ◆ LLP would be a body corporate and a legal entity separate from its partners.
- ◆ A LLP will have perpetual succession.
- ◆ The Indian Partnership Act, 1932 shall not be applicable to LLP.
- ◆ Any change in the partners would not effect the existence, rights or liabilities of the limited liability partnership.
- ◆ Any individual or body corporate may be a partner in a limited liability partnership.
- ◆ Every limited liability partnership shall have at least two partners and there is no limit to maximum number of partners. However, if the number of partners falls below two and the sole partner knowingly carries on the business in such a manner for more than six months, he would be personally liable for the obligations of the limited liability partnership incurred during that period.
- ◆ A partner may contribute to the LLP in cash, property or as contracts of service.
- ◆ Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

LLP can be formed either by:

1. registering with the Registrar, or
2. filing for conversion of an existing general partnership/ company to a LLP.

### **Conclusion**

This kind of business organisation has been structured keeping in mind the needs of business. It is expected that it will considerably benefit businesses and professionals in conducting their affairs. This will also lead to more productivity and help in the growth of the economy as well. It should encourage entrepreneurship and bring in more investments in turn lead to growth of the economy. □

# Corporate Governance – A Mechanism of Business Management

Nikhil Benawat (Garg)

## AN OVERVIEW OF CORPORATE GOVERNANCE

It is almost a truism that the adequacy and the quality of corporate governance shape the growth and the future of any capital market and economy. The concept of corporate governance has been attracting public attention for quite some time in India. The topic is no longer confined to the halls of academia and is increasingly finding acceptance of its relevance and underline importance in the industry and capital market. Progressive firm in India have voluntarily put in place system of good corporate governance. Focus on corporate governance and related issue is an inevitable out come of a process, which leads firms to increasingly shift to financial markets as the preeminent source for capital. In the process more and more people are recognizing that corporate governance is indispensable to effective management discipline. This growing consensus is both an enlightened and a realistic view. In an age where capital flow worldwide, just as quickly as information, a company that does not promote a culture of strong, independent oversight, risks its very stability and future health.

The modern corporate model is based on a system of trust and confidence and operates on the assumption that shareholder entrust directors to provide oversight of the executive who professionally deploy companies assets for its long term sustainability and shareholders value this system of corporate stewardship works effectively when shareholders have a high level of confidence that their representatives are managing the affairs of the company in its best interest. To achieve this level of investor confidence, the corporate leaders need a set of tools that provide greater visibility into their organizations and strengthen their business management.

ONE OF THE BEST TOOL ABLE TO CATTER THE NEEDS OF CORPORATES IN THE “CORPORATE-GOVERNANCE”

– A.D. SHROFF

(Founder president, Forum of Free Enterprise) in his words explain the life of corporate world as follows:

**“Corporate world was born with human and shall survive as long as men survives.”**

“THUS THE CONTINUOUSLY CHANGING DYNAMIC WORLD INHERENTLY REQUIRES, CONTINUOUS NURTURING ADAPTATING TO THE DYNAMIC BUSINESS ENVIRONMENT”

The author is a student of ICAI.

**Now arise the question, what actually the word corporate and governance imply?**

## CORPORATE

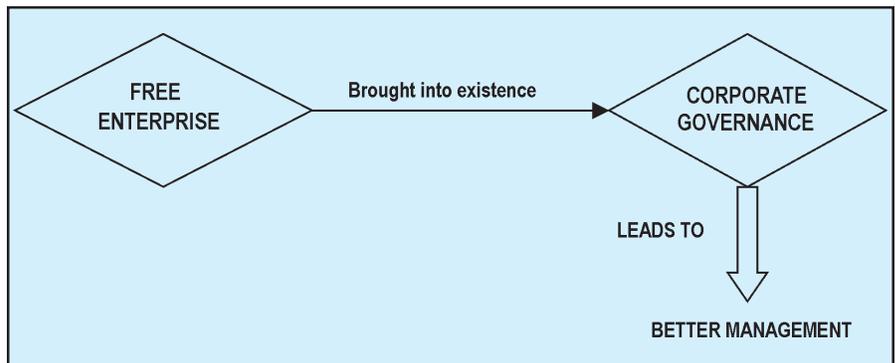
Corporate today are responsible for generation of maximum of global economic activities. They are prominent players in all types of markets ranging from goods and services to capital resources. Most business corporation shares many of their feature with *democratically elected government*. Both are leader in their respective spheres.

## GOVERNANCE

It is an act of governing, i.e., to regulate by authority the working of CORPORATES

## BUSINESS MANAGEMENT: (TYPES AND MANAGED BY):-

1. OVERALL BUSINESS MANAGEMENT – BOARD OF DIRECTORS



2. DAY TO DAY BUSINESS MANAGEMENT: MANAGEMENT STAFF

## CORPORATE GOVERNANCE DEFINED

Being such a dynamic topic, it is understandable that corporate governance being based on science of human behaviour, cannot have a universal definition, unlike other sciences such as physics and chemistry. Nevertheless it is generally defined under two categories:

1. Narrow sense definition given by MILTON FRIEDMAN
2. Broader sense definition given by JAMESWOLFENSON
  1. *Narrow sense definition*

“The conduct of business in accordance with shareholders desire which generally is to make as much as money as possible while



conforming to the basic rules of the society embodied in law and local customers.”

## 2. Broader sense definition

“Corporate governance is about promoting corporate fairness, transparency and accountability.”

## HISTORICAL DEVELOPMENT

Public interest in corporate governance is nothing new. It dates back to 1970 when in the wake of the establishment, maintenance and review of internal controls was passed in the Trade-way committee was formed following the saving and loan crises. In 1990 the Cadbury Committee code of best practice in the U.K., the combined code of London stock exchange, the blue ribbon committee of U.S., the OECD code of 1998 and the joint efforts of the world bank and the OECD to develop benchmarks in corporate governance have kept public interest kindling.

## DEVELOPMENT IN INDIA

The initiative taken by government in 1991 aimed at economic liberalization and globalization of domestic economy, led India to initiate reform process in order to suitably respond to development taking place world over on account of interest generated by the Cadbury committee Report,

The Confederation of India Industry(CII), The Associated chambers of Commerce & Industry (ASSOCHAM), The Securities & Exchange board of India (SEBI) constituted committee to recommend initiative in Corporate Governance.

This all objective implies a OVER ALL GOOD MANAGEMENT of Company. The present crisis of confidence in corporate leadership owes its origin to the failure of seemingly infallible corporate like ENRON, ARTHUR ANDERSON, TYCO, GLOBA CROSSING. The resent U.S mutual fund problem have further added to the interest.

Thus we can understand from the following discussion that corporate Governance is not just another management or social fad, But it is the *ultimate management tool*.

### **We would consider the definition as given by ICSI**

“Corporate governance is the application of best management practices, compliance of law is true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility by sustainable development of all stakeholders”

### **We will now consider how does corporate governance act as mechanism of business management? Compliance of law in true letter and spirit.**

SEBI requires the listed companies to include a separate report on corporate governance in their annual report by including clause 49 in listing agreement. The disclosure of the corporate governance to be made in annual report are as under:

1. disclosure on mandatory requirement.
2. disclosure on non mandatory requirement

According to the listing agreement there are some mandatory requirements and disclosures, we will be dealing with the relevant requirement and disclosures leading to better management of company affairs:

### **a) Disclosure are requirements which are mandatory:**

#### **1. BRIEF STATEMENT ON COMPANIES PHILOSOPHY ON CODE OF GOVERNANCE**

##### THE LETTER OF LAW

Under this heading each company must setout its philosophy on corporate governance keeping in view nature of its business, the objectives sought to be achieved and the manner in which it will serve the companies stakeholders.

##### THE SPIRIT OF LAW

Through this requirement the organizations explicitly prescribe the norms of ethical practice and code of conduct which are communicated to all stakeholders and should be clearly understood and followed by each member of the organization. Also there is evaluation and if possible recognition of the code of conduct.

Disclosure on code of governance →all members have to follow the code thus leading to better management.

#### **2. BOARD OF DIRECTORS**

BOD controls the company and its management by laying down the code of conduct, overseeing the process of disclosure and communications, ensuring that appropriate system of financial control and reporting and monitoring risk are in place, evaluating the performance of management and others. It is accountable to the shareholders for creating, protecting and enhancing wealth and resources for the company and reporting to them on the performance in a timely and transparent manner.

### **Recommendations for composition of BOD**

##### THE LETTER OF LAW

As per clause 49-IA of listing agreement. the BOD of the company shall have a optimum combination of executive and non executive directors. Further

- not less than 50% of the BOD shall comprise of non executive directors
- number of independent director is dependent on whether the chairman is executive or non executive
- if Board has a non executive chairman, at least one third of the board should comprise of independent directors
- if board has an executive chairman at least, half of Board should comprise of independent directors.

Till recently, it has been the practice of most of the companies in India to fill the Board with representatives of the promoters

of the company, and independent directors if chosen where also hand picked there by ceasing to be independent directors.

#### THE SPIRIT OF LAW

The board should comprise of following groups of directors:- promoter director, executive and non executive director, a part of who are independent. Most competent persons are appointed in the board.

Appointment criteria must satisfy all administrative requirement.

#### **Recommendation for nominee directors appointment**

#### THE LETTER OF LAW

These are a set of directors in Indian companies who are the nominees of the financial or investment institutions to safeguard their interest.

As per clause 491A(4) nominee director appointed by an institution which has invested in or and to the company shall be deemed to independent director.

#### THE SPIRIT OF LAW

According to this clause as the nominee director is appointed he is in a better condition to judge the proper working of overall management of the company. Thus in this sense the proper watch on management of company affairs is exercised.

Recommendations for nominee directors appointment: → act as a watchdog on companies management thus fetching out best management practice.

### DISCLOSURES

#### **(a) Disclosure on remuneration of directors**

#### THE LETTER OF LAW

The specific disclosure on the remuneration of directors regarding all elements of remuneration package of individual directors summarized under major groups such as salary, benefits, bonuses, pensions etc., detail of fixed component and performance linked incentives, along with performance criteria, service contracts if and whether issued at a discount as well as the period over which accrued and over which exercisable, should be made in the section on corporate governance of the annual report.

#### **(b) Disclosure of non executive directors pecuniary relationship or transactions**

#### THE LETTER OF LAW

As per clause, all pecuniary relationships or transactions of non executive directors vis-à-vis the company should be disclosed in the annual report pecuniary relationships and transactions refer to any relationship or transaction of a director with the company which gets him any monetary benefit, reward,

remuneration including remuneration for directorship in whatever form.

#### THE SPIRIT OF LAW

- (a) Thus the shareholders are also in the position to know what amount of salary, or any another monetary benefit is being given to the directors thus any *abnormal payment if any* is challenged by the shareholders thus the salary structure of the company becomes as required by the conditions *this improve the financial management of the company*.
- (b) As the salary structure of the company improves new independent directors get tempted to join the company in this sense *the overall management of company improves*.

### AUDIT COMMITTEE

#### **Recommendations**

#### THE LETTER OF LAW

Clause 49 stipulates that BOD shall setup a qualified and independent audit committee and give its terms of reference.

The system of good corporate governance promote relationships of accountability between:

- ◆ BOD
- ◆ MANAGEMENT
- ◆ AUDITOR

Management accountable to →

- ◆ BOD
- ◆ SHAREHOLDERS

Thus role of audit committee is to act as a catalyst for management performance.

The need for having an audit committee grows from the recognition of the audit committees position in the large mosaic of the governance process, as it relates to the oversight of financial reporting.

A proper and well functioning system exist therefore, when the three main groups are responsible for financial reporting. The board the internal auditor and the outside auditors - form the *three-legged stool* that supports responsible financial disclosure and active and participatory oversight. However, it is important to ensure that the board functions effectively unless which the audit committees will do no better.

#### **Constitution of committee**

#### THE LETTER OF LAW

Under clause 49 of listing agreement it is stated that audit committee shall have:

- at least three director as members
- 2/3<sup>rd</sup> of members must be independent directors

- all the members of audit committee must be financially literate
- at least one of them must be accounting or FM expert

#### THE SPIRIT OF LAW

Thus a qualified and independent audit committee is to be setup by the company, this would go a long way in enhancing the credibility of the financial disclosures of the company and promoting transparency.

Through recommendations on constitution of committee → qualified and independent audit committee is setup.

#### DISCLOSURE REQUIREMENTS

##### **(a) basis of related party transactions**

#### THE LETTER OF LAW

As per clause 49 which states that statement in summary form of transactions with related parties in ordinary course of business shall be placed periodically before audit committee.

#### THE SPIRIT OF LAW

With help of this statement, summary form of transactions with related parties the management prudence and quality can be examined.

If material individual transaction occur with related party it faces the expert views and prudence of expert accounting committee.

For the material transactions *exceeding arm's length* basis the management justification is also required thus fetches best qualities of managerial personnel

Disclosure of related party transactions → gives proof regarding the prudence in transaction of management.

##### **(b) Disclosure of Accounting Treatment**

#### THE LETTER OF LAW

As per clause 49 4(B), where in the preparation of financial statements a treatment different from that prescribed in accounting standards has been followed the fact should be disclosed in the financial statement.

#### THE SPIRIT OF LAW

As the deviation in accounting is to be disclosed along with managements explanation as to why it believes such alternative treatment is more representative of true and Fair view of the underlying business transactions, *better managerial skills are thus required.*

DISCLOSURE OF ACCOUNTING TREATMENT DEVEATION → asks for written management representation thus leading to better management.

##### **(c) board disclosure: risk management**

#### THE LETTER OF LAW

Clause 49, provides that the company shall lay down procedures to inform board members about the risk assessment and minimization process.

#### THE SPIRIT OF LAW

Through this disclosure, the company establishes the process of identifying, analyzing and treating risk so removing such hurdles in achievement of its objective.

It involves establishment of a link between risk-return and resetting priorities.

These procedures shall be periodically reviewed to ensure that management control is ensured. Through board disclosure on risk management → control procedure in form of risk management are followed.

##### **d) Proceeds from Public Issue, Rights Issue, Preference Issue etc.**

#### THE LETTER OF LAW

AS PER CLAUSE 49 when money is raised through an issue it shall disclose to the audit committee the use/application of funds by major category or quarterly basis as a part of their quarterly declaration of financial results.

#### THE SPIRIT OF LAW

Thus it helps in financial management of the company and provides funds whenever necessary.

### 3. MANAGEMENT

#### THE LETTER OF LAW

As per clause 49 IV(F) as a part of directors report or as an addition thereto, a management discussion and analysis report should form part of the annual report of the shareholders. Within the limit set by the companies competitive position, this report should disclose information about following aspect.

Industry structure and development

Opportunities and threats

Segment-wise or product-wise performance

Outlook

Risk and concerns

Internal control system and adequacy

Discussion on financial performance with respect to operational performance

Material developments in human resources

#### DISCLOSURE TO BOARD ABOUT THE INTEREST OF MEMBERS OF SENIORS MANAGEMENT

#### THE LETTER OF LAW

As per clause 49 IV(F)2 the senior management shall make disclosures to the board relating to all materials financial and commercial transactions where they have personal interest, that may have a potential conflict with the interest of the company at large.

Thus new independent directors get tempted to join the company and in this sense *the overall management of company improves.*

**SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE****THE LETTER OF LAW**

As per clause 49 IV(F)3 a board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholders and investors complaints like transfer of shares, non receipt of balance sheet, non receipt of dividend declared etc.

The shareholders are the blood of the corporate world. They are the muscle that moves a viable and accessible financial reporting structure.

Thus ultimately the management of the company improves to fulfill their requirements.

**REPORT ON CORPORATE GOVERNANCE****THE LETTER OF LAW**

As per clause 49 VI there shall be a separate section on corporate governance in the annual report of the annual report of the company with a detailed compliance report on corporate governance.

Non compliance of any mandatory requirement of this clause with reason thereto and the extent to which the non-mandatory requirement have been adopted should be specifically highlighted.

**THE SPIRIT OF LAW**

Through this requirement a quick review of compliance can be viewed. Thus, its genuineness can be estimated which helps in rating on corporate governance, e.g. as GODREJ CONSUMER PRODUCT company in the country was rated by "ICRA" a "CGR2".

**NON MANDATORY REQUIREMENT**

The company on its own initiative can opt for non mandatory requirement as a measure of GOOD GOVERNANCE but if the company follows the non mandatory requirement then the disclosure is to be given in corporate governance report.

**NON MANDATORY REQUIREMENTS**

These requirements may be implemented at the discretion of the company however, the disclosures of the compliance with mandatory requirements and adoptions/non adoptions of the non mandatory requirements shall be made in the section on

corporate governance of the annual report.

It needs to be emphasized that adoption of good practices is far better than complying with the same practices under legal compulsion. Corporates must, therefore, on their own, adopt and implement the non mandatory requirements of corporate governance as measure of good governance.

Through compliance of law in true letter and spirit → Objective of better management practice is achieved

**CONCLUSION**

- ◆ Thus I would like to conclude by emphasizing that corporate governance is not just another management or social fad.
- ◆ It is the ultimate management tool.
- ◆ Good corporate governance is a journey and not a destination
- ◆ Corporate governance is a very rewarding journey for those who choose the right path.

Above all, corporate governance is both about doing things right and doing the right things.

- ◆ Thus, it can be through corporate governance that

**"PEOPLE COME TO ACCEPT PRIVATE ENTERPRISE NOT AS A NECESSARY EVIL., BUT AS AN AFFIRMATIVE GOOD."**

Corporate governance is more a way of business life than a mere legal compulsion. There is nothing laudable about complying with conditions which the companies are forced to adopt through the process of legal prescription. Of course, companies must focus on their core objective of earning profits but the earning and sharing of profits need to be aligned with the expectations of stakeholders. The investors tend to value and remain loyal to organizations which have established credentials for making efforts aimed at benefiting various categories of stakeholders. Adoption of distinct corporate governance practices distinguishes a company from other companies, which are content merely in complying with prescribed legal requirements. The companies adopting "distinct corporate governance practices" stand out from others.

**ALSO IT IS IMPORTANT TO NOTE FROM THE RECENT AMMENDMENT THAT NON-COMPLIANCE LEADS TO DE-LISTING** □

**CPT Calendar upto February, 2008**

|  |                |                   |                    |                   |
|--|----------------|-------------------|--------------------|-------------------|
| <b>Date of CPT Examination</b>                             | May 6, 2007    | August 5, 2007    | November 4, 2007   | February 3, 2008  |
| <b>Last date of registration with the Board of Studies</b> | March 1, 2007  | June 1, 2007      | September 1, 2007  | December 1, 2007  |
| <b>Date of release of examination form</b>                 | March 2, 2007  | June 5, 2007      | September 5, 2007  | December 5, 2007  |
| <b>Last date for submission of examination form</b>        | March 23, 2007 | June 26, 2007     | September 26, 2007 | December 26, 2007 |
| <b>Date of publication of result</b>                       | June 01, 2007  | September 1, 2007 | December 01, 2007  | March 01, 2008    |

## Keyman Insurance Policy

CA. Sachin Jain

### Definition

**K**eyman insurance can be defined as an insurance policy where the proposer as well as the premium payer is the employer, the life to be insured is that of the employee and the benefit, in case of a claim, goes to the employer. The 'keyman' here would be any person employed by a company having a special skill set or substantial responsibilities and who contributes significantly to the profits of that organization.

### Who can be a Keyman?

Anybody with specialized skills, whose loss can cause a financial strain to the company, would qualify as a "Keyman" for the purpose of Keyman Insurance. For example, they could be:

- Directors of a Company
- Key Sales People
- Key Project Managers
- People with Specific Skills

### Advantages of keyman insurance to the company

1. In case of death of a keyman, the company gets money to cope up with the loss
2. Any company buying keyman insurance for its employee can claim a deduction for the premium paid for the policy as a business expense under Section 37(1) of the Income Tax Act.
3. No advance intimation/approval is necessary from the Income Tax authorities to claim deduction of insurance premium payment.
4. If the company receives the proceeds on maturity, then they are taxable.
5. The company can also raise loans on the policy from LIC.
6. The fact that the employee/director's life is insured for a large sum that will be paid by LIC to his family on his death, is bound to ensure loyalty and avoid employee turnover.
7. For the executives earning *high salaries*, this policy can be given as a hike in salary and save on the tax outgo.
8. At the same time, it also helps the company in its tax planning.
9. The directors can also safeguard their immediate family from getting affected by the vagaries of the industry and the various business cycles that a company has to face.
10. Insulates the risk of financial loss against loss of a Keyman.
11. Interest on loans taken against a keyman insurance policy may also be allowed as business expense.

12. Keyman Insurance policy is a positive measure to improve the retention of the keyman in the company.



### Disadvantages of Keyman insurance

1. The amount of claim or maturity under a keyman insurance policy is not exempt under Section 10 (10D) of the Income Tax Act.
2. The maturity proceeds of a keyman insurance policy is treated as income u/s 2(24) of the Income Tax Act. If the policy matures in the hands of the person who has taken the policy, it is taxable u/s 28 as "Profits and gains of business or profession."
3. If the policy, after attaining surrender value, is endorsed to the employee, then the surrender value/maturity value is chargeable to tax under Section 17 of the Income Tax Act. This is because it is treated as 'profit in lieu of salary' in the hands of the employee.

The policy is beneficial from the keyman's point of view. This is in case the company decides to endorse the policy to the keyman. This can be done only after a surrender value has been attained, which usually takes 2-3 years (depending on the insurer). In doing so, the keyman benefits, by having an insurance policy in his name the initial premiums of which, have already been paid by his company.

### Treatment of Payments for the Company

- ◆ All claims maturity, surrender or death benefit received by the company are taxable.
- ◆ In case of the keyman retiring, the company may surrender the policy for its cash value, or assign the policy absolutely in favour of the keyman.
- ◆ In case of an assignment, the surrender value of the policy at the time of assignment would be taxed in the hands of the employee.

### Insurance Worth of a Keyman

- ◆ The insurance worth of a keyman is the lower of:
  - ◆ 5 times the average net profit of the company for the past 3 years
  - ◆ 2 times the average gross profit of the company for the past 3 years
  - ◆ 10 times of the keyman's annual compensation package.

*The author is a member of ICAI.*

## Transition Scheme for Students of Professional Education (Course-II) - Updated

**(I)** Professional Education (Course-II) students who have passed Professional Education (Examination-I) / Foundation Examination can switch over to Professional Competence Course. Such students are classified into two categories –

### Category (a)

- ◆ Students who have passed one of the Groups of Professional Education (Examination-II);
- ◆ Students who have appeared in Professional Education (Examination-II), but not passed any of the Groups; and
- ◆ Students who have registered for Professional Education (Course- II) and eligible to appear in Professional Education (Examination-II), but not yet appeared.

### Category (b)

- ◆ Students who are registered, provisionally or otherwise, for Professional Education (Course-II), but ineligible to appear in Professional Education (Examination-II).

Transition scheme for the students falling under **Category (a)** above is as follows:

#### Box-1. Relevant extracts of Implementation Schedule

|  |                    |
|--|--------------------|
| Commencement of New Scheme   | September 13, 2006 |
| Registration commences for Articles under New Scheme<br>[Applicable to students who are studying Professional Education (Course-II) after passing Professional Education (Examination-I) / Foundation Examination] | September 13, 2006 |
| Last Professional Education (Examination-II)   | May, 2008          |
| <b>First Professional Competence Examination for students joining Professional Competence Course after passing Professional Education (Examination-I) / Foundation Examination</b>                                 | <b>May, 2007</b>   |

- (i) Register concurrently for Professional Competence Course (PCC), Articled / Audit training and 100 Hours Information Technology Training.

Complete 100 hours Information Technology Training:

Appear in Professional Competence Examination (PCE) **in the eligible attempt of Professional Competence Examination** without the requirement of completion of minimum 18 months of practical training in accordance with the eligibility norm stated in Box-3; *or*

- (ii) Continue with Professional Education (Examination-II) till the last Professional Education (Examination - II) to be held in May 2008.

Transition scheme for the students falling under **Category (b)** above is as under: -

- (i) Register concurrently for Professional Competence Course (PCC), Articled / Audit training and 100 Hours Information Technology Training;

Complete 100 hours Information Technology Training;

Appear in Professional Competence Examination (PCE), after completion of minimum 15 months of articled training or equivalent period of audit training 3 months prior to the first day of the month in which examination is held. The students are permitted to undergo training partly as an articled assistant and partly as an audit assistant.

- (ii) Continue with Professional Education (Course-II)/ Examination till the last Professional Education (Examination-II) to be held in May 2008. Students who were provisionally registered in Professional Education (Course-II) but could not submit the proof of passing of Professional Education (Examination-I) on or before September 13, 2006 have to take admission to Professional Competence Course after passing the said examination. However, these categories of students will be remitting the fees applicable to students of Professional Education (Course-II), who are converting to Professional Competence Course (See Box-6).

**Note:** 6 months of articleship training is equivalent to 8 months of audit training. Any fractional period of audit training is not counted. So a student who falls under **Category (a)** and who is undergoing audit training has to complete 24 months of training for appearing in PCE.

**Box-2. Professional Education (Course-II) students who have passed Professional Education (Examination-I) / Foundation Examination**

**Students of Professional Education (Course-II) who have passed PE-I/ Foundation Examination**

**Category A:**

- ◆ Students who have passed one of the groups of Professional Education (Examination-II);
- ◆ Students who have appeared in Professional Education (Examination-II), but not passed any of the Groups; and
- ◆ Students who have registered for Professional Education (Course-II) and eligible to appear in Professional Education (Examination-II) but not yet appeared

**Category B**

- ◆ Students who are registered, provisionally or otherwise, for Professional Education (Course-II), but not eligible to appear in Professional Education (Examination-II)

- ◆ Register for Professional Competence Course (PCC), Articled/Audit training and 100 Hours Information Technology Training;
- ◆ Join articles thereafter for 3 ½ years / equivalent period of audit training (56 months);
- ◆ Complete 100 Hours Information Technology Training;
- ◆ Appear in Professional Competence Examination (PCE) as stated in the box without the requirement of completion of minimum 18 months of practical training; **or**
- ◆ Continue with Professional Education (Examination-II) till the last Professional Education (Examination-II) to be held in May 2008

- ◆ Register for Professional Competence Course (PCC), Articled / Audit training and 100 Hours Information Technology Training;
- ◆ Join articles concurrently for 3 ½ years / equivalent period of audit training (56 months);
- ◆ Complete 100 Hours Information Technology Training;
- ◆ Appear in Professional Competence Examination (PCE) on completion of minimum 18 months of articled training; **or**
- ◆ Continue with Professional Education (Course-II) / Examination till the last Professional Education (Examination-II) to be held in May 2008.

**Box-3. Eligibility norm of Professional Education (Course –II) students who have switched over / will switch over to Professional Competence Course (PCC) to appear in Professional Competence Examination (PCE)**

| Sl No. | 1  | 2  |
|--------|--|--|
|        | Category of students of PE-II  | Eligibility to appear in Professional Competence Examination \ ( PCE) As Modified    |
| 1.     | PE- II students who have passed foundation examination                                   | May 2007   |
| 2.     | PE- II students who have passed PE-I examination held in May 2005 or in any earlier term | May 2007   |
| 3.     | PE- II students who have passed PE-I examination held in November 2005                   | November 2007  |
| 4.     | PE-II students who have passed PE-I examination held in May, 2006                        | These students fall in category (b) and will appear PCE as per the transition scheme |

**Box-4. Transition Scheme for Professional Education (Course-II) Students other than those who have passed Professional Education (Examination –I) or Foundation Examination**

**Students of Professional Education (Course-II) who have not passed PE-I/Foundation**

- ◆ Continue in PE-II till last PE-II examination is held, complete 250 Hours CCT/100 Hours ITT and join 3 years articleship
- ◆ In case a student does not qualify PE (Examination-II) in the last PE (Examination-II) to be held in May, 2008, he / she is allowed to appear in Professional Competence Examination (PCE) to be held in November, 2008 and thereafter. On qualifying PCE and completion of 250 Hours CCT/100 Hours ITT, he / she is allowed to join 3 years articleship

◆ Switch over to CPT

**(2) Subject-wise exemption:** A Professional Education (Course-II) student who has been granted an exemption under Regulation 37A(7) in one or more papers shall continue to enjoy the said exemption in the corresponding paper(s) under PCC given below in Box 5.

| <b>Box-5. Subject-wise Exemption for PE-II Examination</b> |  |
|--|--|
| Existing Professional Education (Course-II)                | New Professional Competence Course               |
| Group I  | Group I  |
| Paper 1: Accounting (100 Marks)                            | Advanced Accounting (100 Marks)                  |
| Paper 2: Auditing  | Auditing and Assurance (100 Marks)               |
| Paper 3: Business and Corporate Laws                       | Law, Ethics and Communication                    |
| Section A: Business Law (60 marks)                         | Part I: Law (60 Marks)                           |
| Section B: Corporate Laws (40 marks)                       | Business Laws (30 Marks)                         |
|  | Part II: Business Ethics (20 Marks)              |
|  | Part III: Business Communication (20 Marks)      |
| Group II   | Group II   |
| Paper 4: Cost Accounting and Financial Management          | Cost Accounting and Financial Management Part I: |
| Section A: Cost Accounting (60 marks)                      | Cost Accounting (50 Marks)                       |
| Section B: Financial Management (40 marks)                 | Part II: Financial Management (50 Marks)         |
| Paper 5: Income-tax and Central Sales Tax                  | Taxation   |
| Section A: Income Tax (75 marks)                           | Part I: Income-tax (75 Marks)                    |
| Section B: Central Sales Tax (25 marks)                    | Part II: Service Tax and VAT (25 Marks)          |
| Paper 6: Information Technology                            | Information Technology and Strategic Management  |
|  | Section A: Information Technology (50 Marks)     |
|  | Section B: Strategic Management (50Marks)        |

**(3) Group-wise exemption:** A student of Professional Education (Course-II) who has passed in any one but not in both the groups of the Professional (Education-II) is granted exemption from passing the same group in PCE, i.e., if a student has passed Group I of Professional Education (Course-II) he is granted exemption from appearing in Group I of PCE, or if a student has passed Group II of Professional Education (Examination-II) he is granted exemption from appearing in Group II of PCE. □

| <b>Box-6. Fee Structure of Professional Competence Course</b>  |   |   |
|--|---|---|
| 1  | 2   | 3   |
|  | <b>Fees for (i) Indian students residing in India and other SAARC countries and Bhutan, and (ii) students belonging to other SAARC countries and Bhutan</b> | <b>Students other than stated in Column 2 i.e. (i) the students of foreign countries other than SAARC countries and Bhutan and (ii) Indian students residing abroad other than SAARC countries and Bhutan</b> |
|  | (In Rs.)  | US\$  |
| (1) Professional Competence Course:  |   |   |
| (a) Registration fee as articulated/audit clerk  | 500   |   |
| (b) Students' Associations' fee  | 500   |   |
| (c) Registration fee with BOS  | 500   |   |
| (d) Tuition fee for PCC  | 4000  |   |
| (e) Registration fee for 100 hours ITT   | <u>2000</u>   |   |
|  | 7500  | 500   |
| <ol style="list-style-type: none"> <li>1. Existing students of Professional Education ( Course –II) , who want to switch over to Professional Competence Course ( PCC) and did not pay earlier Registration fee for 250 Hours Compulsory Computer Training , are required to pay (i) Re-registration Fee Rs.250 , (ii) Cost of new study materials of PCC Rs. 400 , (iii) Registration Fee as articulated/ audit trainee Rs. 500 , (iv) Students' Association Fee Rs. 500 and (v) Registration fee with Board of Studies for 100 Hours Information Technology Training Rs. 2000; <b>Total Rs.3650.</b></li> <li>2. Existing students of Professional Education ( Course –II) , who want to switch over to Professional Competence Course ( PCC) and already paid Registration fee for 250 Hours Compulsory Computer Training , are required to pay (i) Re-registration Fee Rs.250 , (ii) Cost of new study materials of PCC Rs. 400 , (iii) Registration Fee as articulated/ audit trainee Rs. 500 and (iv) Students' Association Fee Rs. 500; <b>Total Rs.1650.</b></li> <li>3. Existing students of Professional Education (Course –II), who want to switch over to Professional Competence Course (PCC) and already paid one instalment of Registration fee for 250 Hours Compulsory Computer Training , are required to pay (i)Re-registration Fee Rs.250, (ii) Cost of new study materials of PCC Rs. 400, (iii) Registration Fee as articulated/ audit trainee Rs. 500 and (iv) Students' Association Fee Rs.500; <b>Total Rs. 1650</b> plus balance amount of Registration Fee for 100 Hours Information Technology Training.</li> <li>4. Fees stated in 1-3 above are also applicable to students who were provisionally registered for Professional Education (Course-II) but could not submit proof of passing of Professional Education (Examination-I) on or before September 13, 2006.</li> </ol> |   |   |

## COMMON PROFICIENCY TEST

### **Delay in Issue of Admit Card due to Registration Number and Qualifying Examination Details**

The experience of processing of CPT examination OMR forms has revealed that a large number of candidates :

- i) Do not write CPT course Registration Number and date of registration (date of registration to CPT course is different to date of issue of registration letter)
- ii) Do not write Roll Number and Year of Qualifying examination (i.e. 12<sup>th</sup> class)
- iii) Do not write name in the same style and pattern as to what is registered at the time of registration to the course with the Board of Studies (say – students add or delete middle part of name or write surname first or last, leave extra space in name or do not leave one box/circle blank between parts of name, abbreviate surname or parts of name etc.)
- iv) Do not get the examination form attested by a Chartered Accountant or Gazetted Officer or Principal of a School/College.

Evidently, the students do not take requisite care to darken the circles in OMR examination form correctly thereby leading to delay in issue of admit cards to them and avoidable paper work for the office and inconvenience/anxiety to students as well. This situation can be remedied and still better services could be provided if the students take little more care to read and understand the instructions given in the information brochure issued along with the examination

form and follow them meticulously.

Students who have submitted CPT Registration form to the Institute and have not got the Registration letter until the submission of CPT examination form are advised, in their own interest, to obtain the Registration letter/registration number and date of registration. In the meanwhile, such students can submit the examination form but must inform their registration number and date before issue of admit card.

#### ELIGIBILITY CRITERIA CUT OFF DATES FOR THE YEAR 2007-08

In accordance with Regulation 25 D of the Chartered Accountants Regulations, 1988, a student to be eligible to be admitted to the Common Proficiency Test need to fulfill the following eligibility requirements :

- (i) Must have been registered with Board of Studies for CPT course at least two months prior to the first day of the month in which the CPT examination is scheduled to be held.
- (ii) Must have already appeared or passed the 12<sup>th</sup> class or equivalent examination of Central or State Higher/Senior Secondary Education Board.

#### DARKENING OF ANSWER CIRCLE IN ANSWER SHEETS

Students should ensure that they darken the answer circles in the Answer Sheets correctly using HB Pencil as per illustration given below so that OMR Scanner machine could pick up the answers as given by students. If a circle already darkened is to be changed, erase it completely and leave no mark and then darken another circle. Darkening of multiple circles (i.e. more than one circle as answers) is taken as wrong answer and negative mark formula is applied.

#### Marking the Answer

**Example:** For Question number 52 , if you consider the correct answer to be C, mark as shown below (Correct method):

52      (A)      (B)      ●      (D)

#### Not as shown below (Wrong method):

52      (A)      (B)      ✓      (D)

52      (A)      (B)      ✗      (D)

52      (A)      (B)      ●      (D)

52      (A)      (B)      ●      (D)

52      (A)      ●      ●      (D)

Help us to serve you better.

**G. Somasekhar**  
Joint Secretary (Exams).

| SCHEDULE OF IMPORTANT DATES   |   |   |
|-------------------------------|---|---|
| Month/<br>Year of<br>CPT Exam | Cut off date of Appeared<br>Clause  | Cut off date<br>to CPT Course<br>Registration |
| May, 2007                     | Must have appeared in 12 <sup>th</sup> class exam in March/April 2007 <b>but before 1<sup>st</sup> May 2007</b> or already passed 12 <sup>th</sup> class exam in the year 2006 or prior to the year 2006. | <b>1<sup>st</sup> March,<br/>2007</b>         |
| August,<br>2007               | Must have passed/appeared in 12 <sup>th</sup> class exam in March/April 2007 <b>or</b> prior to the year 2006.  | <b>1<sup>st</sup> June,<br/>2007</b>          |
| November,<br>2007             | Must have passed/appeared in 12 <sup>th</sup> class exam in March/April 2007 <b>or</b> prior to the year 2006.  | <b>1<sup>st</sup> September,<br/>2007</b>     |
| February,<br>2008             | Must have passed/appeared in 12 <sup>th</sup> class exam in March/April 2007 <b>or</b> prior to the year 2006.  | <b>1<sup>st</sup> December,<br/>2007</b>      |

## Announcement

### 1. Applicability of various Publications for Professional Education (Examination –II) to be held in May 2007

Bos/Ancmnt/227/08/2007

February 13, 2007

#### Paper 1: Accounting

Accounting Standards 1 to 29 [including revised AS 15(2005)].

For the students at PE-II level, Accounting Standards and Guidance Notes related to the topics given in the study material are more relevant. They are not expected to know in detail the advanced standards like Consolidated Financial Statements (AS 21), Accounting for Investments in Associates in Consolidated Financial Statements (AS 23), Discontinuing Operations (AS 24), Financial Reporting of Interests in Joint Ventures (AS 27), Impairment of Assets (AS 28) and Provisions, Contingent Liabilities and Contingent Assets (AS 29).

For the topic of Accounts of Insurance Companies, the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002 will be applicable. Students should refer to Fifth Edition (December 2005) of the study materials.

#### Paper 2: Auditing

Auditing and Assurance Standards – 1 to 30.

Students at PE II level are expected to have familiarity with all these Auditing and Assurance Standards. They are expected to know in-depth only such Auditing Standards, which have been dealt within the main text of the study material. Students should refer to Fifth Edition (September 2005) of the study materials.

#### Paper 3: Business & Corporate Laws

The study material revised and updated as on 15<sup>th</sup> November 2005 edition is relevant for May, 2007 Examination. There has been no legislative change since then.

#### Paper 5: Income-tax and Central Sales Tax

Study Material for Income-tax and Central Sales Tax - June 2005 edition **read along with** "Professional Education (Course-II) – Supplementary Study Paper - 2006 – Income-tax and Central Sales-tax" containing amendments made by the **Finance Act, 2006, relevant for assessment year 2007-08**.

**Note** – The study material contains the amendments made by notifications/circulars/other legislations up to 30.04.2005 and the supplementary study paper – 2006 contains the amendments made by the Finance Act, 2006 as well as amendments made by notifications/circulars/other legislations between 1.5.05 and 30.04.2006. Further, the amendments made between 1.05.2006 and 31.10.2006 are published in the Revision Test Papers for May 2007 examination. All these amendments are relevant for May 2007 examination.

### 2. Applicability of various Publications for Final Examination to be held in May 2007

Bos/Ancmnt/227/10/2007

February 14, 2007

#### Paper 1: Advanced Accounting

##### I. Statements and Standards

1. Framework for the Preparation and Presentation of Financial Statements
2. Accounting Standards – AS 1 to AS 29 [including revised AS 15 (2005)].

##### II. Guidance Notes on Accounting Aspects

1. Guidance Note on Treatment of Reserves Created on Revaluation of Fixed Assets.
2. Guarantees and Counter-Guarantees Given by Companies.
3. Guidance Note on Treatment of Expenditure during Construction Period.
4. Guidance Note on Accrual Basis of Accounting.
5. Guidance Note on Accounting Treatment for Excise Duty.
6. Guidance Note on Accounting for Depreciation in Companies.
7. Guidance Note on Availability of Revaluation Reserve for Issue of Bonus shares.
8. Guidance Note on Accounting Treatment for MODVAT/CENVAT.
9. Guidance Note on Accounting for Securitisation.
10. Guidance Note on Accounting for Equity Index and Equity Stock Futures and Options (2003).
11. Guidance Note on Accounting for Corporate Dividend Tax.
12. Guidance Note on Accounting for Investments in the Financial Statements of Mutual Funds.
13. Guidance Note on Accounting for Employee Share-based Payments.
14. Guidance Note on Accounting for Fringe Benefits Tax.
15. Guidance Note on Accounting for Credit Available in respect of Minimum Alternate Tax under the Income Tax Act, 1961.

#### Paper 3: Advanced Auditing

##### I. Professional Topics/Subjects

1. Code of Ethics

##### II. Statements and Standards

1. Framework of Statements on Standard Auditing Practices and Guidance Notes on Related Services.
2. Auditing and Assurance Standards AAS 1 to AAS 34
3. Statement on Qualifications in Auditor's Report

4. Statement on the Companies (Auditor's Report) Order, 2003 [2005 Edition].

*III. Guidance Notes/Study Guide/Monograph*

*Guidance Notes on Auditing Aspects:*

1. Guidance Note on Independence of Auditors
2. Internal Control Questionnaire.
3. Guidance Note on Accountant's Report on Profit Forecasts and / or Financial Forecasts.
4. Guidance Note on Audit Reports and Certificates for Special Purposes
5. Guidance Note on Audit of Fixed Assets.
6. Guidance Note on Audit under Section 44AB of the Income Tax Act [2005 Edition].
7. Guidance Note on Audit of Abridged Financial Statements.
8. Guidance Note on Audit of Inventories.
9. Guidance Note on Audit of Debtors, Loans and Advances.
10. Guidance Note on Audit of Investments.
11. Guidance Note on Audit of Miscellaneous Expenditure.
12. Guidance Note on Audit of Cash and Bank Balances.
13. Guidance Note on Audit of Liabilities.
14. Guidance Note on Audit of Revenue.
15. Guidance Note on Audit of Expenses.
16. Guidance Note on Section 227 (3) (e) and (f) of the Companies Act, 1956.
17. Guidance Note on Certificate of Corporate Governance [2006 Edition].
18. Guidance Note on Revision of Audit Report.
19. Guidance Note on Computer Assisted Audit Techniques (CAATs).
20. Guidance Note on Audit of Payment of Dividend.
21. Guidance Note on Audit of Capital and Reserves.

**Paper 4: Corporate Laws and Secretarial Practice**

April, 2006 edition (revised as on February, 2006) is relevant for May, 2007 Examination. Amendments in the SEBI (DIP) Guidelines 2000 as amended up to February, 2006 may be made applicable.

**Paper 7: Direct Taxes**

1. Study Material for Direct Taxes (as amended by Finance Act, 2006) – June 2006 edition. The relevant assessment year is A.Y.2007-08.
2. Select cases in Direct and Indirect Taxes (2006) – An Essential reading for the Final Course.[Portions relating to Direct Taxes]
3. Final Course – Supplementary Study Paper – 2006 Direct Taxes and Indirect Taxes – Amendments made by the

Finance Act, 2006. [Portions relating to Direct Taxes]. This publication is relevant for those who have any earlier edition (prior to June 2006 edition) of the Direct Taxes study material.

**Note** – Study material contains amendments made by notifications/circulars/other legislations up to 30.04.2006. The amendments made between 1.05.2006 and 31.10.2006 would be published in the Revision Test Papers for May 2007 examination. All these amendments are relevant for May 2007 examination.

**Paper 8 : Indirect Taxes**

1. Study Material for Indirect Taxes (as amended by Finance Act, 2006).
2. Select cases in Direct and Indirect Taxes (2006) – An Essential reading for the Final Course [Portions relating to Indirect Taxes]
3. Final Course – Supplementary Study Paper – 2006 Direct Taxes and Indirect Taxes – Amendments made by the Finance Act, 2006 [Portions relating to Indirect Taxes]. This publication is relevant for those who have any earlier Indirect Taxes Study Material (prior to the one as amended by Finance Act, 2006).

**Note** – Study material contains amendments made by notifications/circulars/other legislations up to 30.04.2006. The amendments made between 1.05.2006 and 31.10.2006 would be published in the Revision Test Papers for May 2007 examination. All these amendments are relevant for May 2007 examination.

**3. Introduction of Final Course under New Syllabus and other related Issues**

**Ancmnt/BOS/227//06/2007**

**February 7, 2007**

- (i) Final Course under New syllabus is introduced. Admission to the Final (New) Course under the Regulation 29B of the Chartered Accountants (Amendment) Regulations, 2006 will commence on and from February 1, 2007.
- (ii) Existing students of Final (old) course may switch over to Final (New) course and continue with the existing scheme of articleship, if any, which they are undergoing. They will be provided a new set of study materials at a cost of **Rs.1100**.
- (iii) Students, who have passed the Professional Education (Examination-II) / Intermediate Examination but not yet joined Final course and also not completed the articleship training, may join the Final (New) Course.
  - Students who have undergone Professional Education (Course-II) with articleship but not yet completed the same, will continue the articleship under the same scheme which

they are undergoing presently. They will be allowed to appear in the Final Examination under the new syllabus pending last six months of articleship training on or before the last day of the month preceding the month in which the examination is held.

– Students who have undergone Professional Education (Course-II), without articleship, will undergo three years of articleship training and they will be allowed to appear in the Final Examination under the new syllabus pending last six months of articleship training on or before the last day of the month preceding the month in which the examination is held.

They will be required to pay fees as given below:

Final Course – Without articleship Rs.8500

With articleship Rs.9000 (including articulated registration fee of Rs.500)

In addition, students have to pay Rs.500 on account of registration fee with Board of Studies and Rs.500 on account of Students' Association fee if these fees are not paid earlier.

(iv) Students who have passed Professional Education (Examination-II) / Intermediate Examination and who have completed articleship training may join Final (New) course under Regulation 29B of the Chartered Accountants (Amendment) Regulations, 2006 and appear in the first Final (New) Course Examination to be held in November, 2008. They will be required to pay a fee of Rs. 8500.

(v) Admission to Final (old) course under Regulation 29A of the Chartered Accountants Regulations, 1988 will continue till October 31, 2007. Students who will join the same are required to pay the following fees:

Final Course – Without articleship Rs.4000  
– With articleship

Rs.4600

(vi) First Final Examination (New) Course will be held in November, 2008 and Last Final Examination (Old) Course will be held in November, 2009.

#### **4. Release of New Set of Model Test Papers for CPT Students**

**Bos/Ancmnt/227/2007**

**February 19, 2007**

The Board of Studies has released a new set of 10 Model Test Papers and consolidated these test papers along with 10 old Model Test papers released in November 2006. The Model Test Papers are freely downloadable from [http://www.icai.org/icairoot/students/new\\_scheme/cpt\\_mtppaper.html](http://www.icai.org/icairoot/students/new_scheme/cpt_mtppaper.html)

A Book on Model Test Papers (Volume-I) will be available for sale at all Regional Offices / Branches of the Institute on and from March 1, 2007 (Price Rs.250/- Pages 839).

#### **5. Release of Model Test Papers for Professional Competence Examination to be held in May 2007**

**Bos/Ancmnt/227/12/2007**

**February 19, 2007**

The Board of Studies has released Model Test Papers for the students of Professional Competence Course who intend to appear in Professional Competence Examination to be held in May 2007. The Model Test Papers are also available for sale in all offices of the Institute and may be obtained by post from the Noida Stores, ICAI Bhawan, Institute of Chartered Accountants of India, C-1, Sector-1, Noida 201301. Students may send their request to [noidastores@icai.org](mailto:noidastores@icai.org).

##### **Price of Model Test Papers**

| <b>Model Test Papers</b>       | <b>Postal Charges by Registered Parcel</b> |            |
|--------------------------------|--|------------|
| <b>Course</b>                  | <b>Rs.</b>                                 | <b>Rs.</b> |
| Professional Competence Course | 40   | 40         |

Model Test Papers for the students of Professional Competence Course is available for free downloadable from our website: [www.icai.org](http://www.icai.org).

#### **6. Release of Revision Test Papers for May 2007 Examination**

**Bos/Ancmnt/227/11/2007**

**February 19, 2007**

The Board of Studies has released Revision Test Papers for Professional Education (Course-I), Professional Education (Course-II) – ( Group I and Group-II ) and Final Course – (Group-I and Group-II ) for May 2007 Examination. These Revision Test Papers will be freely distributed to the eligible students by the respective Regional Offices.

These Revision Test Papers are also available for sale in all offices of the Institute and may be obtained by post from the Noida Stores, ICAI Bhawan, Institute of Chartered Accountants of India, C-1, Sector-1, Noida 201301. Students may send their request to [noidastores@icai.org](mailto:noidastores@icai.org).

##### **Price of Revision Test Papers**

| <b>Courses</b>                                     | <b>Postal Charges by Registered Parcel</b> |            |
|--|--|------------|
| <b>Courses</b>                                     | <b>Rs.</b>                                 | <b>Rs.</b> |
| Professional Education (Course –I)                 | 40   | 40         |
| Professional Education (Course –II) (Group I & II) | 80   | 55         |
| Final Course (Group I & II)                        | 80   | 55         |

All Revision Test Papers are available for free download from our website: [www.icai.org](http://www.icai.org).

## **100 Hours Information Technology Training(ITT) Calendar upto February, 2008**

100 Hours Information Technology Training would commence only after a student gets registered for PCC and article training and develops a primary knowledge about the training component of Chartered accountancy education and training scheme. Therefore, a student can join 100 hours ITT only after expiry of at least three months of practical training.

The 100 Hours ITT is moduled in 20 days @five hours per day on full time basis. This is treated as part of the practical training.

Study material for 100 Hours ITT is provided to students along with the study material of Professional Competence Course. Students, who are joining 100 Hours ITT separately, will be provided with the study material at the time of admission to the programme.

A student is required to pass two module tests and submit a project to become eligible for final online examination.

Final online examination is conducted on last Sunday of every month. Accordingly, the examination schedule is as given below:

|                   |                   |                    |                   |
|-------------------|-------------------|--------------------|-------------------|
| March 25, 2007    | April 29, 2007    | May 27, 2007       | June 24, 2007     |
| July 29, 2007     | August 26, 2007   | September 30, 2007 | October 28, 2007  |
| November 25, 2007 | December 30, 2007 | January 27, 2008   | February 24, 2008 |

100 Hours ITT training completion certificate will be issued by the concerned Regional Office within 20-25 days of the Online Examination.

### **Virtual Classes**

The Board of Studies has decided to conduct next series of virtual classes for Professional Education Course II / Professional Competence Course and Final Course students. These revisionary classes will be delivered by eminent faculty in different subjects for the benefit of the students appearing in May 2007 examinations. The classes will be conducted at 20 Reliance World centres across the country from 19th of March. The students do not have to pay any fee.

Details of classes and the Reliance World centres will be hosted on [www.icai.org](http://www.icai.org) under BOS announcements on students page. Since each centre has limited capacity (15-20 persons), entry will be on "First come first serve basis". Students are advised to register themselves at concerned ICAI Branch office for attending the class.

### **Form IV (See Rule 8)**

1. Place of publication: New Delhi
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