



# The Chartered Accountant Student

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## Message from the President

Beloved Students,

After successfully launching the curriculum and holding the first CPT examination on 12<sup>th</sup> November 2006, we are focusing on other initiatives for the CA students. We expect that the inflow of students into CA curriculum will go up tremendously and therefore we are taking measures to improve the infrastructure of ICAI and its limbs across the country.

### Computer Centres

In the new curriculum, Information Technology Training (ITT) will be provided during the course of articleship training period. The syllabus of ITT is modernized. Instead of making students to go to private organizations, we would like them to get this training in Regional Centres and Branches. For this purpose, a special grant is given upto Rs. 10 lakhs per center to get equipped for this purpose and get accredited by Board of Studies.

### Students Associations

Henceforth, the students associations at Regional and Branch levels will become more active as every student who passes CPT and joins PCC and articleship training will become a member of the students association (unlike PE-I & PE-II students who could not be members). The students activities will multiply providing more opportunities to develop interpersonal skills.

### Continuous Professional Learning (CPL)

We intend promoting the concept of Continuous Professional Learning among students. For this



purpose Regional Centres and Branches will promote weekly study circles for students. These weekly study circles will provide platforms for students to develop communication skills, conceptual understanding skills, share practical experience gained, develop proficiency in group discussion and to analyse case studies. Concept of CPL should go a long way in grooming the CA students into complete professionals. Select and nominated members would be observers to guide, mould and shape their personality while eminent resource persons from society, industry, practice can also address and inspire them.

### Students Welfare Fund

It is high time that we create a corpus for promoting education and welfare measures of students. Steps are being taken to create a separate trust for this purpose. From out of the fund, scholarships for meritorious and needy students would be given for pursuing Curriculum. Financial assistance will also be given for certain contingencies. We will tie up

with LIC for students group insurance so that CA students can avail life coverage at a nominal cost.

**E-Learning**

We will be launching e-learning for professional competency course (PCC) in the near future. This would facilitate students to get on to their course modules through electronic mode. The web based learning will be effective, interesting, interactive and enriching. Later it will be expanded to cover final course also. Lectures of renowned experts on the subjects would also be made available to the students.

**Practice Makes You Perfect**

Those students who are unfortunate not to pass in the examination may attribute the failure to deficiency in the understanding of the subject or lack of memory power or inadequate preparation or certain extraneous reasons. But believe me friends when I say that for many of them it is lack of presentation skills in the examination that spoils the effort. How to empower you with this important skill to qualify? ‘Practice’ is the only answer.

If you prepare for your examination by writing notes or jotting down hints, it helps you to acquire this ability besides improving legibility. You should solve illustrations and exercises repeatedly instead of merely reading the problems in the subject. Even the same problem when solved at periodical intervals helps you to minimize the mistakes and curtails the time taken. You must attempt several problems to have complete command over the topic. Different questions may have finer aspects that surface only when you actually solve them. By practicing this, you will have a complete confidence to solve all kind of problems. Writing answers should not be restricted to numerical questions but also to questions requiring descriptive answers. Accuracy and speed are twin ‘tools’ which can fetch impressing marks. If you prepare by solving problems and writing notes, gradually the level of understanding goes up and ability to provide relevant points / steps with minimum time gets inculcated. Even when you attend classes infuse the habit of taking notes from the lecture.

Students should always remember that knowing the answer does not by itself get you the marks but on the other hand it is the presentation skill that enables the examiner to know what you know that ultimately gets rewarded. In a professional examination like ours it is not the size but the quality of the answer that matters.

You may learn the subjects by reading, discussing, listening to lectures but the best way to learn and excel in the examination is by writing and solving. The more the pages you exhaust by writing, answering and solving during the preparation period, the more confident you will be to face the examination. The more time you spend in mere reading, without writing, the larger uncertainty creeps in and mastery over the subject is difficult.

During the last fortnight prior to examination you must solve atleast two model examinations per subject to prune your presentation skill. Evaluate those answer sheets and you will find the fruits of this endeavour amazing. Aristotle said “we are what we repeatedly do. Excellence then is not an act but a habit.” I am confident that you will get addicted to the habit of ‘good practice’, ‘quality performance’ and reap rich dividends not only in examination but all through your life to secure a bright future.

Jai Hind. Jai ICAI.

Yours affectionately,



**CA. T. N. Manoharan**  
**President, ICAI**

**Date:** 30<sup>th</sup> November, 2006

**Place:** Delhi.

**HIGHLIGHTS**

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# Human Relations Management : Past Present & Future

Sucharti S. Rajadhyaksha

## The past

The early part of 20th century saw a growing disillusionment about the principles and practices of the Scientific Management Movement. This approach to management [made so popular by F.W. Taylor and his followers] was finally under attack. A major line of argument against the philosophy was the fact that Taylor did not seem to be sympathetic to the human aspects of an organisation. He treated the human element with a hint of contempt. Although his 'Shop Management' or 'Principles of Scientific Management' are still quoted sometimes in seminars and lectures, many believe that he took the employees of an organisation as if they were any other factor of production. His disregard for employee aspirations is said to have bred the awful "industrial autocracy" that had no respect for dignity of mankind.

The human beings who form a primary part of the definition of 'organisation' itself could not be ignored for long. So in response to the shortfalls and ignorance of Taylorism, the **Human Relations Movement (HRM)** gathered momentum through the 1920s and 1930s, thanks largely to Harvard bigwig, Elton Mayo. Mayo practically laid the foundation of HRM with his famous Hawthorne Experiments, which were conducted largely in Western Electric Company between 1924 and 1932. Hugo Munsterberg professed similar thinking and the two virtually created a framework for managers to think more freely with a human inclination.

Suddenly the human beings and their problems in an organisation became the centre of attraction. The Hawthorne Studies were criticised for being trifle unscientific but still it cannot be denied that HRM chalked out new *territory in the field of management*. People-centric policies became the order of the day.

The core of HRM was the belief that humans are both, the means as well as the end for organisational activities. The company should be treated not merely as a technical system but also as a fully-grown social environment by itself. The employees are an integral part of an organisation; they contribute immensely to its success and hence must be given what they truly deserve. Their feelings or sentiments must be considered with priority and their suggestions must be given importance in organisational decision-making. The management of a company must take efforts to keep the workers happy and permit them the natural tendency of grouping and socialising. Managers must consistently pay attention to the demands of the employees and seek to satisfy them. The general motto being 'happy and satisfied workers make efficient workers.'

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Taken to an extreme HRM means keeping your employees happy at any cost. Taken sensibly it only means that an organisation benefits by having workers who feel content and joyous at the work place. Workers who feel happy and proud at being associated with your company normally provide better quality of work. If they are given respect and dignity then they generally come up with higher efficiency and more effectiveness while completing their tasks.

The basic HRM was subsequently improvised by social scientists like Douglas McGregor, Kurt Lewin, Abraham Maslow, Keith Davis and others. They brought theories and models of psychology, sociology and anthropology to assist in greater understanding of the human mind. They came to the table with a new set of techniques to tackle hitherto unsolved human relations problems in management. They gave HRM a more defined and scientific look, which it lacked earlier. Of course their philosophy came to be known as the **Behavioural Science Approach (BSA)**, rather than HRM. But admittedly the two philosophies have more in common between them and less to differentiate.

It is argued that the growth of trade unionism has a lot to do with the scaling down of Taylorism and the increasing influence of the HRM. And to an extent it is true! Labour unions did take to the HRM as fish to water. They decried Taylor's 'use' of human beings as if they were hammers or spanners. In some instances they compelled companies to alter their policies to bring in more empathy in supervision and directing. And yet to say that only trade unionism made HRM a popular approach to management will be a big mistake. It will be like saying that slow speed of the old typing machine is the only reason for development of the modern computer.

Subsequently, HRM grew from strength to strength. Industrial visits revealed that its close cousin, the BSA, made more inroads into the boardrooms of major companies. The period from 1950s and 1970s truly belonged to the BSA and, to some extent, even to HRM. But all that is the long and distant past. It is the present that is bringing HRM back into focus.

## The present

The breakneck speed of industrial developments and the increasing variations in organisational behaviour is making people fall back on history. The growing competition and its accompanying need to out compete each other is forcing companies to become aggressive in the market. If aggression was an affordable luxury to big corporations twenty-five years back, today it is the need for survival.

Technological upgradation, profits, internal rate of returns, return on investments, debt: equity ratio, infusion of funds, sales revenue, ad-spent, sales growth and the like are the most common issues of interest in board meetings of a company. Human aspirations and demands of workers come later. Also the demand-supply equation for labour is such that a 'demanding' labourer can easily be replaced by another.



In many companies the labour unions are no longer aggressive but are submissive to the management. Privatisation has also taken some wind out of them. As a result numerous instances can be found of companies showing complete disregard for the human aspect of management.

Practically each one of you while visiting corporates on audit assignment may have heard people say the following things around you:

- (a) "Our company makes us work for fourteen hours and pays us only for ten."
- (b) "In my company one small mistake will be brutally punished while the best of the work goes unnoticed without rewards. And our boss says that the salary we get is enough of a reward."
- (c) "Our company is good but the work environment is spoiled by a few supervisors who act like dictators."
- (d) "My boss thinks that all women are inefficient and all the men are efficient."
- (e) "We are not allowed to make groups or enjoy each other's company at the work place. The management fears that we will form a union or something."
- (f) "Our company has been making big profits for over ten years now but they don't even provide health and education benefits for children of workers."
- (g) "I feel like resigning from the job. Normally I work like a dog without a leave. Now my family wants to go for an outing and my boss is not sanctioning a two-day leave."
- (h) "I don't respect my boss. I am just scared of him."

You may have heard of companies that do not keep any faith in their employees. Gender discrimination at the work place is common. Leaves are difficult, even on medical reasons. Employees' opinions not being taken into consideration at all while taking major decisions is frequent practice. Punishments being harsher than deserved or rewards being paltry is so often heard.

All the above cases are examples of total ignorance or neglect of the human aspect of management. If these cases were very rare then this article had little value, but the fact is that these instances are very frequent in India. Such things are happening so often that the Indian industrial environment is newly under scrutiny from both, the associations of entrepreneurs and the government.

Companies are flouting humanistic practices in favour of profit or wealth oriented policies. Exploitation is passed under the title of discipline. However, few companies are well aware of human values and respect the dignity of labour. But those examples are dwindling. The harsh reality is evident: companies that do not care for maintenance of cordial human relations are increasing in number.

Unhappy employee is suddenly not such a great worry since for every single resigning employee ten others are waiting outside flashing their fancy resumes. These companies feel that they are (and should continue to be) the ones who dictate terms to the employees. The employees come for a job and good salary. As long as they get that they should be happy. Sounds like Taylor is coming back from the grave to haunt the Indian industry!

The funny thing is that managers in such companies might go outside for seminars and speak in favour of HRM. But when they come back to the office they forget what they said in the sophistication of the five-star hotel at the seminar. Worrying factor to a lot of thinkers is that such hypocrisy is increasingly becoming visible.

### The future

It is well known that the future of Indian businesses is great. In some sectors India is already notching impressive figures in the global context. Globalisation has truly hit the Indian market. Large-scale businesses are already flourishing. Hence domestically too companies are looking at brighter prospects now.

However, one has to understand that a lot depends on how the entrepreneurs respond to the new environment. How do they perform in attending to their businesses? How they manage the human relations? What is their attitude about the 'softer' (meaning human) aspect of management? In the long run, not companies with maximum wealth but companies with maximum satisfied human beings have tended to do better. This applied earlier and will continue to apply in the future.

The future businesses will be larger and more complex. The environment will, in all probability, become even more competitive. The fields will be more global than one-country-centric. The markets will get more dynamic than they are right now. The changes to be made by a company in its policies or practices will be rapid. A highly situation adaptive company will fare better.

All of this means that the focus on the basic skill set of the company will only intensify. How an organisation maintains its human relations will matter more than before. Whether it's the employees or government regulators, consultants or paid managers, customers or media personnel, organisations will have to cater intelligently to the needs of the 'associated human elements'. Remember (as Peter and Waterman said famously in their book *'In Search of Excellence'*) that the basics of an organisation are often the customers, the employees and new ideas in business. In all three the human element is reflected.

Company or group loyalties will be critical. Unskilled labour force will be available in abundance but highly skilled, loyal, responsible and intelligent people are likely to be scarce. Firms blessed with such employees would be advised to stick to them.

In that event an organisation will have to treat its employees with the respect and honour that they deserve. Basic human rights will have to be preserved. A few rupees thrown on the face of the disgruntled will not always make them happy. Firms that understand such facts and adhere to human-centric practices will get the needed loyalty.

### Conclusion

Basically an organisation is a collection of people. It is also owned and managed by specific people. It attracts people of various kinds from customers to suppliers. Its internal and external environment is filled with human relations. As a result, concern for people should be of paramount importance to the management. The reasonable

demands of people must be met. The reasonability of the demands can be determined through a mutual discourse. Keeping people happy (especially the employees) may not be the final goal but it does become a vital means in achieving the final goal of profit or wealth maximisation.

Basic human rights must be safe and guarded whatever the kind of organisation. And above all, an employee who participates in making the organisation successful must feel safe, secure, satisfied and happy. The whole experience of being part of the organisation must be of contentment and value addition. Remember, even the organisation's interest lies in having such groups of employees.

## Case study

A medium scale company called Rajan Mechanics bought a highly advanced CNC Machine at a whopping cost of eleven crore rupees. At that time it was the single costliest asset of the company. The company had just about come near their profits and had many hopes resting on the new CNC. It expected to recover the cost of the machine through increased sales revenue in a period of about two and a half years. To achieve that it was imperative to use the machine in three shifts consistently from the first day.



Some young and enthusiastic workers of the company were selected to be trained in the use of the machine. When the training started, they were initially given lectures to make them aware of the theory and principles in the functioning of the machine. That part of training went off very well as the machine manufacturers had sent engineers to conduct the training sessions.

But when the workers came over to the actual piece of machinery the workers looked confused. So the engineers took a worker named Kale as a volunteer to show that the machine was quite simple to operate. Kale being the confident type they knew that he would have no problems while demonstrating the working techniques.

Kale started the machine and was showing how the semi-automatic machine could do the cutting and grinding of hard metals, when an accident occurred. Kale's hand got sucked inside the port from where the metals were to be manually placed in the machine. Inside it got caught in the vice and could not be taken out.

Everyone first panicked. When they came to the senses, they realised the gravity of the situation. The engineers quickly informed everyone that it was not the time to debate whether Kale had done the procedure wrongly or was there a

manufacturing fault in the machine. They also concluded that they had never considered such an eventuality while manufacturing the machine.

A quick assessment indicated that two options were available to the company. In the faster option the vice part of the machine would have to be cut down using oxy-acetylene flames. And redoing the machine would then be an additional expense of around one crore. It would also mean that the machine would not be operable for a period of four months. That would obviously jeopardise all the plans laid by Rajan Mechanics. The other option was to slowly open the machine that will require cutting some minor portions and more than ten hours. Kale has to endure extreme pain for the period. He also risked losing his hand in the process. The company was to still spend 10 to 15 lakhs on redoing the machine and medical expenses. Machine will be operational within a week.

Kale was scared and was willing for any solution as long as he was relieved of his pain.

If you are the manager who has to take the final decision quickly what would be your decision and how would you take it? Also give detailed reasoning of why you took the decision?

### Points to ponder over

- ◆ An organisation is a socio-technical system.
- ◆ Often there is a dilemma between the social and the technical priority.
- ◆ In his decisions, a manager can display his inclination.
- ◆ One cannot ignore the genuinely human aspects (problems) that arise in an organisation.
- ◆ The decision making manager in this case will have to consider both, the technical aspect (of the machine, its costing, engineering, long term impact on planning etc.) and also the human one (a man may lose his limb, his means of living and so on) before taking the decision.
- ◆ It is on such occasions that a company displays its true intentions towards human aspects of management. □

You may send your responses to this Case Study by e-mail to [ssuneja@icai.org](mailto:ssuneja@icai.org) with the subject line 'Case Study - HRM- December, 2006' by the end of December, 2006. The best reply will be awarded a certificate and cash prize of rupees one thousand.

# New Corporate Insolvency Law in the Offing

Dr. P.T. Giridharan

Major reforms in the Companies Act, 1956 were by and large initiated by the introduction of the Companies Bill, 1997. Such of those major reforms suggested in that Bill were made possible through subsequent amendment Act(s). One area, which concerned the attention, was with regard to winding-up of companies. Earlier, the provisions relating to winding-up of companies were contained in about 200 sections, which formed one-third of the main Act. Besides, there were several other related corporate laws, which have to be complied before the process could end. Such of those processes were cumbersome, lengthier and involved lot of legal wrangles. The result was that to wind-up a company, it took 5-25 years and even more.

The then Department of Company Affairs constituted a committee in October 1999 to examine the corporate insolvency law and re-model it in line with the international practices. The High Level Committee on the law relating to insolvency of companies under the Chairmanship of Justice V. Balakrishna Eradi submitted its report in July 2000. After considering the report, a Bill was introduced in the Parliament to the effect and subsequently became an Act on 13<sup>th</sup> January, 2003, known as The Companies (Second Amendment) Act, 2002. It is important to note that except very few provisions of the said Amendment Act, majority of the operative provisions have not yet been notified and the operation of new law on insolvency to be vested on the proposed New Tribunal known as National Company Law Tribunal (NCLT).

**The issue of the law relating to corporate insolvency is not as simple as it could be visualized. It is not only micro in nature but to be viewed on a macro base.** Earlier under the Companies Act, 1956, the winding-up process was dependent on other statutes such as Sick Industrial Companies (Special Provisions) Act, 1985 (SICA), the Recovery of Debts due to Banks and Financial Institutions Act, 1993 etc. As far as the changes in the SICA, 1985 is concerned, the Act has been repealed (1.1.2004) by the SICA Repeal Act, 2003 by which the Board for Industrial and Financial Reconstruction (BIFR) has been dismantled and the entire process of winding up, revival and rehabilitation of companies is now entrusted upon the National Company Law Tribunal, NCLT (hereinafter referred as "Tribunal") The issues in insolvency are focused mainly on the following parameters for which the law has given new dimensions and directions. Yet in all perspective, the system of winding-up that is going to be in place is basically

time bound. What are those major wings in the new system/procedure of corporate insolvency?

## 1. Time Factor

Sub-section (4) of section 424G [Companies (Second Amendment) Act, 2002] provides that the winding up of a company shall, as far as may, be concluded within one year from the date of order made for winding-up of the company. The order for winding up is based on the time factor prescribed in section 424A, 424B, 424C and 424D.

As per section 424A (4), the reference that an industrial company has become sick shall be made to the Tribunal by the company within 180 days of its coming to know of the facts or within 60 days of final adoption of accounts whichever is earlier.

The Tribunal shall thereafter make such inquiry as it may deem fit and pass final orders within 60 days from the date of commencement of inquiry or require by order any operating agency to submit the report within 21 days (extendable to 40 days) from the date of such order. (Section 424B).

Under section 424C, if after inquiry under section 424B, the Tribunal within reasonable time will decide whether it shall be practicable for the company to make its net worth exceed accumulated losses or make the repayment of its debts. It may give such time to the company do so. On the other hand, it may direct any operating agency to prepare a scheme. The scheme shall be prepared by the operating agency within 60 days from the date of order by the Tribunal. The Tribunal may extend the said period to ninety days, recording reasons for extension. The scheme so prepared by the operating agency will be sanctioned by the Tribunal within 60 days (extendable up to 90 days) and shall come into force on such date as may be specified by the Tribunal. However, different dates may be prescribed for different provisions of the scheme.

## 2. Insolvency Test

For making reference to the Tribunal that the company has become sick is based on any of the following factors:

- (a) that the accumulated losses in any financial year equal to fifty percent or more of its average net worth during four years immediately preceding such financial year or
- (b) failed to repay its debts within any three consecutive quarters on demand made in writing for its repayment by a creditor or creditors of such company.

*The author is Joint Director of Studies, ICAI.*

Determination of insolvency based on erosion of net worth or based on debts is closely interlinked with the cash flows or balance-sheet insolvency. Their determination or valuation is not an exact science and entity has to be appropriately valued either as a going concern or assets being impaired, broken up and sold separately. In determination of insolvency based on failure to repay of debts, alternative critical factor is that the entity has failed to repay the debts (short, medium or long?) within any (?) three consecutive quarters (?). This will again become a subjective/conflicting opinion. It may be worthwhile mentioning here that the JJ Irani Committee on Company Law has recommended the Test of Liquidity for liquidation of companies.

### 3. Statement of Affairs

The Statement of Affairs is an important constituent in the process of filing the petition for winding up of the company. This statement is necessary in case a petition is filed up against the company or if the company opposes to the petition. (Section 439A) The statement is also crucial to enable the liquidator to ascertain the nature and extent of assets, liabilities and list of creditors of the company. More often the non-filing (for years) or delay in filing the statement hampers the process of winding up. In the Amendment Act, 2002, the company has to file the statement with the Tribunal and no time limit has been prescribed as to when it shall be filed in situations other than voluntary winding up.

### 4. The Update of Accounts

According to section 446A, it is the responsibility of directors and other officers to submit audited books of accounts to the Tribunal. This involves that books of account of the company are to be completed and audited up to date of winding up order made by the Tribunal and submitted at the cost of the company. On the other hand, the law states that if no up-to-date audited accounts are available, proforma accounts shall caused to be prepared by the operating agency (Section 424H(e)). The penal liability for non-compliance under the section is a punishment for a term not exceeding one year and a fine for an amount not exceeding Rs 1 lakh. The offence is thus non-compoundable under section 621A of the Companies Act, 1956.

### 5. Realization of Assets

Quick and early disposal of assets for settlement of dues is another important core area for easy insolvency. The disposal of assets in turn depends upon its valuation of assets, its state of affairs, whether to be discarded as scrap or as impaired assets etc. Also, it is to be seen whether such of those assets have been securitised and if so the legal angles and entangles as per the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. In

such cases, it may not be possible to quickly dispose such of those assets.

### 6. Creditors' List

For proper discharge of the functions of the Tribunal, it is provided in section 424H that the operating agency to prepare among other things, a list of creditors showing separately secured and unsecured creditors. It is important to note that the list includes the amount due to them. Perhaps, it is a drafting error that the list does not mention of preferential creditors who receive payment before unsecured creditors.

### 7. Dues Settlement

The settlement of dues is a time consuming process and operational mostly on piece-meal basis. Adequate care should be exercised in the settlement of dues if the ranking in terms of amount is high and to be seen whether the realization of assets shall be enough to settle the dues timely and in an appropriate manner.

### 8. Submissions

The presentation before the Tribunal is another factor for insolvency to be time bound. The parties/agencies appearing for submissions before the Tribunal are:

- ◆ **Operating Agency:** The role of Operating Agency in the process of revival and rehabilitation of sick companies is very vital in the sense that it determines the efficiency and efficacy of the whole insolvency system. The operating agency shall prepare the scheme as expeditiously as possible and ordinarily within a period of sixty days extendable up to 90 days for consideration by the Tribunal. Similarly, when it is not practicable for a sick industrial company to make its net worth exceeds the accumulated losses or make its repayment of debts, the operating agency shall prescribe necessary measures in relation to such company. Besides, for the proper discharge of the functions of the Tribunal, the operating agency have to assist the Tribunal on many facets such as preparation of complete inventory of all assets, liabilities, books of accounts, registers etc., list of shareholders and creditors, preparation of a valuation report in respect of shares, assets, estimating the reserve price, lease rent, and on share exchange ratio. Besides, where no up to date audited accounts are available, the operating agency shall prepare pro-forma accounts also. Thus, it can be observed that the entire system of insolvency rest primarily on the role-played by the operating agency.
- ◆ **Official Liquidator:** The appointment of Official Liquidator is one area wherein the new law provides

for certain changes. The Official Liquidator shall be from a panel of professional firms of Chartered Accountants, Advocates, Company Secretaries, Cost & Works Accountants or firms having combination of these professions. They may also be a body corporate consisting of such professionals as may be approved by the Central Government or such liquidator may be a full time or part time officer of the government. The liquidator shall appoint security guards to protect the property in the company, appoint valuers, surveyors or chartered accountants to assess the value for assets of the company within 15 days and give advertisements inviting bids for sale of assets within 15 days from the date of valuation report.

- ◆ **Legal representatives:** The new law also provides for the applicant company or the appellant to appear either in person or authorized legal representatives (CA's, CS's, CWA's or Legal Practitioners) to appear for the presentation of the case before the Tribunal.

## 9. Revival & Rehabilitation

In case the Tribunal orders the operating agency to prepare a scheme, it may involve any one or more of the following aspects:

- ◆ Final Reconstruction
- ◆ Takeover
- ◆ Amalgamation
- ◆ Sale or Lease
- ◆ Rationalization
- ◆ Preventive and Remedial Measures
- ◆ Incidental, consequential or supplemental measures

A scheme prepared by the Operating Agency shall be examined by the Tribunal, and further considered by the company, its shareholders, creditors, employees and thereafter it have to be approved at the general meeting. The creditors may also prepare a scheme for revival or rehabilitation and submit the same to the Tribunal for its sanction.

The options that have been prescribed are practically time consuming and involve compliance of various laws, where over-riding effect of this Act over the other may or may not available. In certain circumstances, it is very complex with special reference to laws relating to labour, take-over etc.

## 10. Tribunal

The commencement of winding up is a deciding factor for early exit of the companies. In case of voluntarily winding

up, it shall be deemed to have commenced at the time of passing of the resolution by the company. In any other case, it shall be deemed to commence at the time of petitioning for winding-up. However, what is more important is not the commencement of winding up but the time by which the entire process comes to an end. For this purpose, the new law has provided a time period of one year from the date in which winding up of order is passed by the Tribunal. The completion of such an affair within the said period depends on how the operating agency and the Official Liquidator discharge their functions.

## Conclusion

Changes are of continuous process in any field of activity. Times have come that doing business anywhere in the globe has to made easy and for that laws of a country should be in tune with the changes that are taking place elsewhere. One cannot remain in oblivion and remain in isolation. If we need to cater the economy to grow on a rapid pace and invite MNC's in India, the Corporate Laws should be fine tuned on a constant basis. The steps towards implementation of new insolvency law have already begun; it is a journey towards a new beginning in the frontiers of Corporate Insolvency Laws. □

# Introduction to VAT

Amit Suresh Tolani & Nandkishor Ramkrishna Udgiri

The public hue and cry against the introduction of Value Added Tax (VAT) had posed a great problem in its implementation. The traders and businessmen had projected VAT as the root cause of increase in price of goods. The public sentiments had been aggravated blatantly to exert pressure on administration to stop its implementation for the general interest of the public.



## F.M. SPEECH

Finance Minister P. Chidambaram in his speech given on March 24, 2006 said that 21 States were ready to migrate to the proposed Value Added Taxation (VAT) system from the scheduled date of April and urged the remaining states to implement the new regime to make use of the "historic opportunity".

"According to the Empowered Committee Chairman (West Bengal Finance Minister Asim Das Gupta), 21 States have agreed to implement VAT from April 1 and others have to follow... It is a historic opportunity for States to add a new dimension to Centre State relationship where an Empowered Committee is really setting the agenda".

"I am happy that State finance ministers have promptly committed themselves to implement VAT. I urge the State finance ministers not to miss this opportunity but to continue with the roadmap drawn". Mr. Chidambaram said.

## WHY VAT ?

As the economic rationale behind the implementation of sales tax was not considered, administrative problems were faced after the introduction of sales tax. The problems of inter-state trade and double taxation were also posed since economic circumstances of the states were heterogeneous. Consequently CST was introduced in 1956. If the government had given a thought of VAT at that time the story of India's tax structure would have been completely different. The law of CST took India away from VAT which ideally must be destination based.

Thus the demerits of Sales Tax had called the urgent need of implementation of vat.

## Demerits of Sales Tax

### 1. Large numbers of rates

There were huge numbers of rates depending upon the categories of goods. There was no uniformity among the rates of taxes and the rates were also so high that they were increasing the cost of doing business.

### 2. Cascading effect

Since there was no set off provisions for the tax paid on purchases, the tax paid gets added in the cost price and when the seller again sells the above goods, he knowingly or unknowingly

charges tax on this cost price, thereby creating cascading effect of tax on tax.

### 3. Burden of additional taxes

Huge no. of taxes such as turnover tax, surcharge and additional surcharge was levied other than sales tax levied on sales which created unnecessary burden on the shoulders of consumers thereby exploiting them.

### 4. Discouraging Ancillarisation

Ancillarisation means getting most of parts/components manufactured from outside. To avoid paying tax the large manufacturers instead of buying parts from outside, manufactured those parts themselves which discouraged small scale industries development heavily and also had adverse impact on quality of products.

Apart from above, the sales tax had various other problems like huge formalities involved in terms of forms, filing of returns, etc. System of sales tax hampered the mobility of goods and induced non-compliance of rules and corruption heavily

## WHAT IS VAT ?

The term "Value Added" refers to increase in value of goods and services at each stage of production or transfer of goods and services. Thus value added tax is basically a tax to be levied on the value added by an organization at each stage of its rendering services or producing goods.

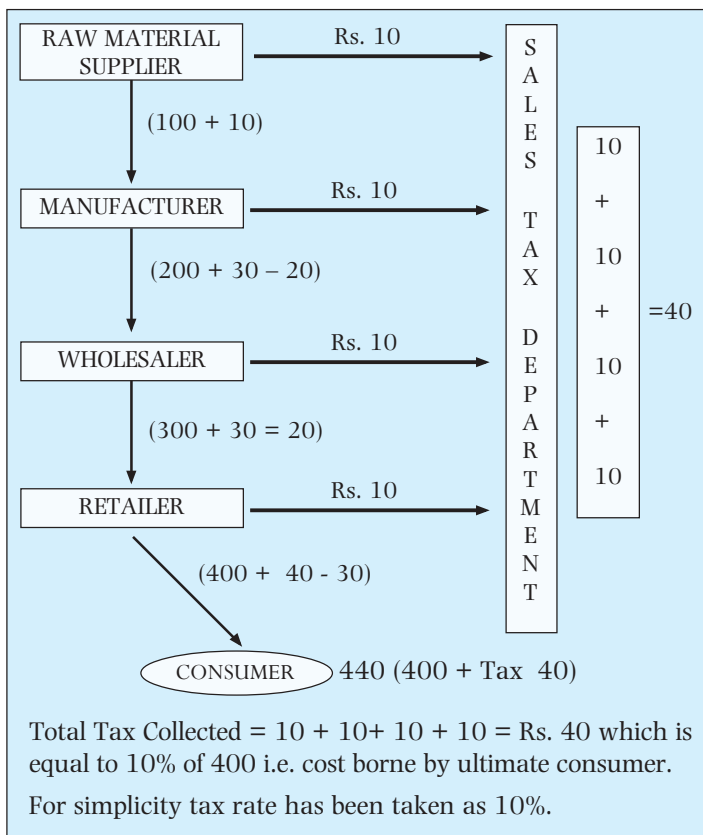
Under VAT system, a dealer collects tax on his sales, retains the tax on his purchases and pays balance to the government treasury. Thus, it is a consumption tax because it is borne ultimately by the final consumer. VAT is a multipoint tax system as the tax paid by the dealer is passed on to the buyer with the provisions for set off on tax paid on purchases at each point of sale.

## Explanation to the Chart below

VAT is collected by Sales tax Department at each point of sale.

- As in the given chart when the supplier sells goods to manufacturer at Rs. 100 he charges 10% VAT i.e. Rs.10 and pays to the ST Department.
- Now, when manufacturer sells goods to the wholesaler after adding some value/profit say at Rs.200 he will collect VAT of Rs.20 (10% of 200) and get the input VAT Credit of Rs.10 which he had paid on purchase from supplier in above point, hence he will pay Rs.10 (VAT Collected Rs.20 VAT Credit Availed Rs.10) to the department.
- Similarly when the wholesaler sells goods to retailer say at Rs.300, he will collect VAT Rs.30 (10% of 300) and get the VAT Credit of Rs.20 which he paid on purchases from wholesaler in above point no.2, hence he will pay Rs.10 (30-20) to the department.
- Ultimately the chain gets completed when retailer sells goods to consumer. Now say retailer is selling at Rs.400 he will collect Rs.40 (10% of 400) from consumer and pay Rs.10 (40-30) to the department.

*The authors are students of the Institute. This article was included as paper in the 3rd National Convention held in Kolkata on 12<sup>th</sup> & 13<sup>th</sup> August, 2006.*



Now the VAT paid by the ultimate consumer is Rs.40 which is equal to total tax collected by the department.

Due to the above inbuilt shifting ability of VAT, it is finally borne by ultimate consumer though it is collected at different stages. Hence, it proves that VAT liability does not multiply despite of its several collections at different stages.

**CALCULATION OF VAT**

Following example will illustrate the tax credit method under VAT as compared to Sales Tax.

Particulars	Transaction with VAT	Transaction without VAT
Purchase by A	100	100
Value Added by A	50	50
Sub-total	150	150
Add Tax @ 10%	15	15
Total	165	165
Purchase by B from A	150*	165*
Value added by B	50	50
Sub-total	200	215
Add Tax @ 10%	20	21.5
Total	220	236.5
Total Tax increased	-	1.5
Total price increased	-	16.5

\*Since the set-off provisions are available in VAT, the input VAT paid on purchases will not get added to the cost of purchases but in case of sales tax i.e. without VAT, the tax paid will get added to the cost of purchases.

Let us examine the above concept from different angles:

**Angle 1**

**Manufacturers & Traders**

1	They get input credit of VAT on their purchases which can be availed during the net payment of output tax (vat on sales-vat on purchases)
2	The VAT collected by the department is borne by the final consumer ultimately.
3	The system of VAT works on tax credit method which eliminates the cascading effect of tax on tax. Thus, effectively tax is levied on the "Value Added".
4	Dealers will have to maintain all the bills & invoices of purchases & sales properly to avail the credit, this means they will lose the idea of tax evasion which they were used to do earlier by not issuing invoices.

**Angle 2**

**Government/Sales Tax Department**

1	Under VAT Act there is loss of revenue to the State Government due to the set off/ input tax credit allowed, but this is covered by tax collectible at each stage & withdrawal of incentives/exemptions allowed earlier to the industries. The Revenue Neutral Rate (RNR) has also been so fixed so as not to incur any loss on account of introduction of VAT. The Government of India will also compensate if there will be any loss in the initial years
2	VAT necessitates the proper billing & invoicing system because of which:- a) Proper sales & purchases are booked which ultimately helps in correct assessment of income. b) Tax evasion is curtailed
3	VAT ensures smooth administration of the tax structure.

**Accounting treatment for VAT**

◆ As per AS-2 only those taxes have to be included in cost of purchases which are not subsequently recoverable from the taxing authorities.

Example: VAT on the goods covered under negative list is not entitled for credit hence VAT paid on such goods will be included in cost of purchases.

◆ VAT for which we are entitled to avail input credit will not be debited or added to "Purchase Account" but debited to separate account called "VAT Credit Receivable Account".

**Purchases A/c.....Dr**  
**VAT Credit Receivable A/c.....Dr**  
**To Supplier/Bank A/c**

◆ Since VAT is collected from customers on behalf of the VAT authorities, its collection is not an economic benefit & should not be recognized as an income of the enterprise. Similarly VAT payment is not an expense so the VAT collected from

the customers should not be credited or included in Sales Account but credited to "VAT Payable Account"

**Customers/Bank A/C.....Dr.**

**To Sales A/c**

**To VAT Payable A/c**

As & when VAT Credit is actually utilized against VAT Payable on sales, the following entry would be passed:

**VAT Payable A/c.....Dr**

**To VAT Credit Receivable A/c**

◆ Till the VAT credit is not availed the VAT Receivable will remain under "Loans and Advances" on Asset Side and similarly VAT payable under the head "Current Liabilities" on Liabilities side.

**What if one of the distributors incurs loss?**

Suppose in the above (Chart) example the wholesaler sells to retailer at Rs.150 Now his purchase cost is Rs.200, therefore he will be incurring loss of Rs.50. He will charge vat Rs.15 i.e. 10% of 150, but he is having input credit of Rs.20. So for Rs.5, he will be eligible for refund or carry forward.

Thus, the Government has taken due care so that in the chain no distributor suffers from the hardships.

**RATES OF TAX**

Sr. No.	Particulars	Rates of Tax
1	Goods specified under First Schedule	Exempt from tax
2	Goods specified under Second Schedule	1%
3	Goods specified under Third Schedule	4%
4	Goods specified under Fourth Schedule	20%
5	In respect of other goods not specified in any of the above Four Schedules	12.5%

Rates of taxes are uniform all over, only the goods specified in each schedule vary from state to state.

**HOW TO PAY VAT ?**

**1. Returns & Assessment:**

Every dealer is required to file a monthly return under the VAT Act in the prescribed manner and in the prescribed form for the prescribed period. Such returns shall be accompanied by the tax due after taking rebate/setoff as provided in the Acts/Rules . Generally annual returns are not prescribed in VAT Acts of most states.

**2. VAT payable**

Credit will be given the same month for entire VAT paid within the state on purchase of inputs and goods. This credit is deducted from tax liability and the balance tax is paid.

**3. Refund**

Excess credit is carried forward to next month. In case the credit

is not utilized for certain period, it is refunded to the dealer. On account of set-off provision the refund of tax is a normal feature of the law and is expected to be paid within the prescribed time from the end of month in which return is filed. In a sales tax regime, refund instance are by way of exceptions which is generally not paid to the assessee in time.

**WHAT IF THERE IS DELAY ?**

Simple interest is payable for the delay from the due date on account of:

- (a) Delay in Filing returns
- (b) Delay in filing revised returns beyond 3 months
- (c) Failure to declare any tax or interest
- (d) Failure to pay any tax
- (e) Failure to pay any amount which is payable

**ESSENTIAL FOR SET-OFF**

There are certain conditions which have to be completed for claiming set-off

**1. Set-off to be allowed only to a Registered Dealer:**

On purchase for manufacturing/Trading/Works contract/Lease, set-off can be claimed by Registered Dealers.

Set –off is available to registered dealer on purchase of;

- (a) Raw material, Parts, Components, Spares.
- (b) Fuel
- (c) Trading goods
- (d) Packing Material
- (e) Purchases of any goods debited to P&L A/c (e.g. Purchase for sales promotion schemes, Advertisements, Repairs & Maintenance of Assets, stationery, etc.)
- (f) Capital Assets- "Capital Assets" is defined to mean as defined under Income Tax Act

excluding "Jewellery or Property" held for personal use.

**2. A valid TAX INVOICE is must to claims set-off.**

A registered dealer, selling any goods, must issue to the purchaser a TAX INVOICE containing following particulars, and retain a copy thereof for three years from the end of the year in which sale is booked.

- (a) The word Tax Invoice in bold letter at the top or prominent place
- (b) Name, Address and Registration Number of Selling Dealer.
- (c) Name and Address of purchasing Dealer
- (d) Serial Number and Date
- (e) Description, Quantity and Price of the goods sold.
- (f) The amount of Tax charged, to be show separately
- (g) Signed by the selling dealer or a person authorized by him.

**3. Maintenance of Account**

Every registered dealer shall keep and maintain true and correct

account of daily transactions showing goods produced, manufactured, bought and sold, value thereon together with invoice and bills. Along with all these details all VAT dealers are required to keep following records.

#### (a) VAT account

This can be maintained manually or computerized. VAT account should contain details of Input and Output tax, Debit note and credit note issued/received during the period.

#### (b) Purchase Records

Proper accounting of all purchases in a chronological order stating therein the data of the goods so purchased, the name and registration number of the selling dealers, tax invoice number and date, the amount of purchase price and amount of tax paid.

#### (c) Sales Register

Sales register should contain tax invoice number, name and address of the buyers, total sale value, exempted sales-such as consignment sales/stock transfer, etc. All copies of invoice should be retained in serial number.

#### (d) Debit Note and Credit Notes Register

Copies of the Debit note and credit note issue/received are to be recorded in a book and should be filed separately under different rates of tax in the same manner of purchases/sales register. The end result of debit/credit note accounts should be taken into account while adjusting monthly tax payable.

#### (e) Period of Retention of Accounts

All books and records shown above shall be retained by a dealer until the expiry of 5 years after the end of the year to which such records relate to or for such other period as may be prescribed.

### EFFECTS OF ECONOMY

#### 1. Effects on Price level/ Inflation

There is a general notion that VAT has inflationary effect on the economy but such a change in the inflation rate can be produced by an expansionary monetary policy. Presently inflation among nations is seen mainly due to rising oil prices in the international market.

After the VAT was first introduced, a survey was conducted by Alan S Tait on its impact on the basis of International Monetary Fund data which shows that VAT is never introduced in isolation.

There are number of variables influencing price change, and therefore, it is difficult to empirically assess the effect of VAT on prices. The impact of VAT on prices, therefore, cannot be strictly segregated from the general trend in the inflation.

- ◆ First, the taxes that have been replaced are also relevant.
- ◆ Second, the design to yield equal or higher revenue also makes a difference.
- ◆ Third, other concurrent changes such as rise in oil or steel prices in the international & internal markets, increase in

utility rates, changes in wage levels, administrative changes such as monetary policy, price control, monitoring of prices and so on, make due impact on price rise.

It is seen that the net price effect of VAT would be nil if the VAT is an equal-yield tax, There would not be any effect on the overall price change although there may be changes in relative prices. The tax being revenue neutral, the aggregate demand is unchanged & so there would be no impact on aggregate price level. The economists all over the world have viewed that VAT is not inflationary.

#### 2. Uniformity

There was huge number of rates under Sales Tax Act whereas under VAT Act there are only 4 rates which ensure the uniformity. Taking into account the set off of tax the rates under VAT Act are not high as compared to the rates under Sales Tax.

#### 3. Impact on CST

The Government has proposed to reduce CST to 2 % in 2006 and ultimately abolish it in 2007. However, the States are now collecting nearly Rs.15000 crores every year from CST. Accordingly, a need of compensation from Government of India will arise for the loss of revenue as CST is phased out. Moreover if CST is phased out there is also a critical need of placing a regulatory frame work in terms of “**Taxation Information Exchange System**” to give the comprehensive picture of inter-state trade of all commodities. The process of setting up TIES has already been started.

#### 4. Revenue impact on economy

Tax revenue of the States which have implemented VAT increased by 13.8% during fiscal 2005-2006 to touch Rs.76,903 crores against Rs.67,588 crores recorded in the previous fiscal. The tax revenue growth of 25 VAT implementing states taken together had settled to 15 to 16 %. The table given below represent the current revenue growth.

A simple predictable VAT regime with a moderate rate, would promote efficiency, competition and the growth of common market. VAT implementation will significantly improve tax compliance and

Sr. No.	States	Revenue in Crores		Diff	Growth (%)
		Current year	Last year		
1	West Bengal	5406	5086	320	6.29
2	New Delhi	5686	4201	1485	35.35
3	Maharashtra	18669	16845	1854	11.03
4	Karnataka	8079	7545	534	7.08
5	Haryana	4400	3731	669	17.93
6	Kerala	6937	6648	289	4.35
7	Punjab	4281	3366	915	27.18
8	A.P.	12570	11022	1548	14.04

will also help to increase revenue . There are few States/Union Territories which have to still implement VAT. The Economic Survey 2005-06 states that its non-implementation was creating complications and may also lead to undesirable diversions of trade and business from one State to another.

The benefits of the VAT system like simple and uniform tax structure all over the country and achieving a common market for goods would not accrue until all the States/Union Territories implement VAT at the earliest. Moreover, the successful implementation of Central Sales Tax reforms would require all States/ Union Territories to first successfully implement the State-level VAT. Any delay in the implementation would affect the small and medium enterprises, which account for a major production output in the State, and would lead to the flight of capital and business to neighbouring States.

To sum up, the total effect of the VAT system will rationalize the tax burden and bring down, in general, the overall price level. This will also stop unhealthy tax-rate war and tax diversion among the States, which had adversely effected interest of all the States in the past. Moreover this VAT design will significantly bring in simplicity and transparency in the structure, thereby improving tax compliance and eventually the revenue growth, as mentioned in the beginning.

#### **WHY DELAY IN IMPLEMENTATION OF VAT ?**

The possibility of the harassment by the tax inspectors is the outward reason for opposition by the trading community. Also proper records are required to be maintained which is very cumbersome job. Some people also argue that VAT will lead to price rise & as such it is unconstitutional to replace it with existing sales tax. However, the real reason is different. There is less scope of tax evasion under VAT & there will be stricter compliance. The trading community wants to retain the scope of tax evasion, as it existed under the sales tax structure.

#### **ROLE OF CHARTERED ACCOUNTANT**

Chartered Accountants have a key role to play in the proper implementation & success of VAT

##### **Recording Keeping**

VAT will require proper record keeping & accounting. Systematic records of input credit & its proper utilization is the key to success of VAT. Chartered Accountants have expertise in these areas so they can play very significant role in ensuring proper implementation of VAT

##### **Tax Planning**

Careful study of VAT is required to plan purchases & sales . A Chartered Accountant can ensure that the benefit of cost reduction is passed on by the supplier to his client company. On the other hand when the similar pressure comes from the buyers of his client company, he must be ready with full data to resist claims.

##### **Facing audit by departmental auditor**

There will be audit wing in the department & certain

percentages of dealers will be taken up for audit every year on scientific basis. The audit wing will be independent of the tax collection wing, to remove bias. There will be cross verification with Central Excise & Income Tax also. Only the Chartered Accountants can ensure the satisfaction of departmental auditors. He can systematically & fully reply audit queries & sort out audit objections, due to his professional expertise.

#### **STEPS NEEDED TO STABILISE VAT**

It is necessary that the Empowered Committee should have periodic meetings with the State finance ministers on all transition issues and continue to persuade the non-VAT States to get on board at the earliest. Also the States should not levy any tax which is not Vatable & check that the benefits pass on to the final consumer.

The dealer have to play a vital role to be transparent and keep the records clean and avail that credit that is really due to him. They should finely tune their accounting entries as per the Guidance Note issued by the ICAI.

Finally, the philosophy of VAT and its noble intentions should be highlighted in an unambiguous manner to seek the whole hearted acceptance of VAT of the common people.

It is only when there is uniformity in the taxation system through proper implementation , the proposal to integrate the various in direct taxes by evolving a uniform “GOODS AND SERVICE TAX (GST)”, would be possible.

#### **Conclusion**

At the macro level, there are two issues which make the introduction of VAT critical for India. First, industry watchers say that the VAT system, if enforced properly, forms part of the fiscal consolidation strategy for the country. It could, in fact, help address the fiscal deficit problem and the revenues estimated to be collected could actually mean lowering of the fiscal deficit burden for the Government. Second, any globally accepted tax administrative system will only help India integrate better in the World Trade Organization regime.

Gradual phasing out of CST is needed after the introduction of VAT. Since the States are collecting nearly Rs.15,000 crores every year, accordingly there will be need for compensation of loss by Government of India when CST will be phased out. Consequently, there will be a need for putting in place a regulatory framework in terms of Taxation Information Exchange System (TIES) to give a comprehensive picture of inter-state trade of all commodities & activities.

Even after one & half year VAT is still in its infant stage, as it has not been accepted by traders whole heartedly yet. For the successful implementation of VAT, co-operation of the traders from all over India is a must and government should also look into the grievances of the traders. This system is worth enough and if we go by the long term approach this will surely help in increasing the trade, business and ultimately growth of the nation. □

# Accounting Standard 15: Employee Benefits

Rabindra Kaiborta

## Introduction

The complexity in employee compensation structures have increased quite considerably in recent times.

The manner in which today's employee gets remunerated has been significantly innovated, and very often accounting is complex and challenging.

The revised Accounting Standard 15 - 'Employee Benefits' (AS 15), generally deals with all forms of employee benefits (other than stock compensation for which a separate guidance note is promulgated), many of which were not dealt with by pre-revised AS 15.

The standard has a significant impact on the financial statements of an enterprise, broadly arising due to:

- (a) Specificity on actuarial assumptions and actuarial method to be applied.
- (b) Definition of employee under revised AS 15, includes part time, casual and temporary employees. In the absence of this definition in the pre-revised AS 15, provisions may not have been made by some enterprises.
- (c) Coverage of all forms of employee compensation, for example, post retirement medical expenses, jubilee award, loyalty programs, etc.
- (d) Treatment of provident fund as defined benefit rather than defined contribution.
- (e) Treatment of gratuity scheme funded with LIC as defined benefit rather than defined contribution.
- (f) Deferral of past service cost, which was not permitted by pre-revised AS 15.
- (g) Accentuation of constructive obligation for recognition purposes.
- (h) Application of the transitional provisions.
- (i) Tax effect of the above items.

In this paper, a discussion has been done on the above issues and to provide perspective in a simple manner including on the transitional adjustments. As this standard is still nascent and hence there will be many issues, consensus over which would develop over time.

There is a very interesting folklore that accentuates the importance of this standard. Many believe that accounting under German GAAP tends to be very conservative. Despite that, in 1993, under German GAAP Daimler-Benz reported a profit of 168 million Deutsche Marks but under US GAAP for the same period, the company reported a loss of almost a billion Deutsche Marks, largely caused by pension blues. Other than being a solid case for global convergence of accounting standards, it also highlighted problems related to pension accounting and funding. Though in India, pension payments are quite insignificant in comparison to global enterprises, as Indian

*The author is a student of the Institute. This article was included as paper in the 19th All India CA Students' Conference held in Chennai on 26<sup>th</sup> & 27<sup>th</sup> August, 2006.*

companies become global, this will become a critical issue. Not to forget, pension accounting in the Government sector (other than a corporate entity), is on a cash basis, and it is to state the obvious, that the actuarial liability would be humongous.

## Applicability

The Standard applies from April 1, 2006 in its entirety for all Level 1 enterprises. Certain exemptions are given to other than Level 1 enterprises, depending upon whether they employ 50 or more employees. Listed companies that have to report quarterly as per SEBI requirements, will have to deal with all the issues in their first quarter of April-June 2006. This dossier is developed predominantly for Level 1 enterprises, and does not consider exemptions available to other than Level 1 enterprises.

## AS 15 (REVISED)- EMPLOYEE BENEFITS

### 1. Synopsis of Revised AS 15 Requirements

1. The Standard deals with all forms of employee compensation other than employee stock option. It also covers casual and temporary employees. Therefore all contract employee obligations would also get covered.
2. Liability is recognized not only for legal obligation or formal plans but also for constructive obligation, such as those arising out of informal practices, where the cost is unavoidable.
3. Short term employee benefits fall due within one year, and include, wages, leave, bonus etc. They are accounted for on an undiscounted basis. Non accumulating leave do not carry forward and hence are recorded as they occur. Accumulating leave is utilized or encashed in future years and hence provision for the same is required.
4. Post employment plans, could be defined contribution plans or defined benefit plans. Accounting for defined contribution is fairly straight forward, and contributions are recognized to income statement as and when they become due.
5. Accounting for defined benefit plan requires actuarial computation. The Standard does not allow flexibility in terms of the actuarial method to be used and requires the **Projected Unit Credit method** to be applied invariably. Similarly, the requirements relating to actuarial assumptions are more specific.

The assets held under the defined benefit plan are also required to be fair valued. Actuarial gains and losses are required to be recognized immediately. Past service costs are required to be deferred over the vesting period. To the extent the benefits are vested, past service cost should be charged immediately to the income statement.



- 6 Long term employee benefits include long term loyalty and jubilee awards, bonus, etc which fall due beyond one year and are accounted for in a similar fashion as defined benefit plans, except that past service cost are not deferred and are recognized immediately.
- 7 Termination benefits like voluntary retirement cost are recognized based on when the liability crystallizes rather than when the enterprise becomes demonstrably committed to a voluntary retirement scheme. To this extent there is a dilution of the general principle of recognizing liability based on constructive obligation.
8. There is a sunset provision to the option of deferring termination benefit. No amount can be carried forward beyond accounting period commencing on or after 1 April, 2010.
9. Transitional provisions require incremental provision due to revised AS 15 to be adjusted to revenue reserves net of the tax effect.

**2. Meaning of the term 'Employee'**

The term employee is not defined under the standard. Here we look at some perspective on who could be included as an employee for the purposes of revised AS 15. It may be noted that it is important to know who is an employee, since what is paid to an employee is employee cost, whereas what is paid to other than employee is other operating costs. Also the obligation relating to an employee would be measured as per revised AS 15, whereas it is arguable if obligation relating to a non-employee should be measured using revised AS 15 or AS 29.

AS 15 does not define who is an 'employee', but states in paragraph 6 that: "An employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the

purpose of this Standard, employees include directors and other management personnel". This suggests that the intention was for the term 'employee' to apply more widely than simply to persons with a contract of employment as 'casual' and 'temporary' staff may frequently not have such contracts. Further, as directors are explicitly included, this indicates that a contract of employment is not necessary in order to consider an individual to be an employee since directors can frequently have letters of appointment that fall short of a formal employment contract.

The existence of an employee relationship is a judgement to be made in the light of all the facts and circumstances in order to reflect the substance of the arrangement. In particular, whilst a contract of employment may suggest such a relationship, in-substance employee relationships can exist without employment contracts. The following indicators may suggest an employee relationship may be more likely to exist, and may help in making individual judgements:

- ◆ A contract of employment exists;
- ◆ Individuals are considered employees for legal/tax/social security purposes;
- ◆ Services must be performed at a location specified by the employer;
- ◆ There is a large amount of oversight and direction by the employer;
- ◆ Necessary tools, equipment and materials are provided by the employer;
- ◆ Services provided through an entity are in substance services provided by a specific individual, indications of which could be that the entity:

**Chart 1: Time line depicting the forms of Employee Benefits**

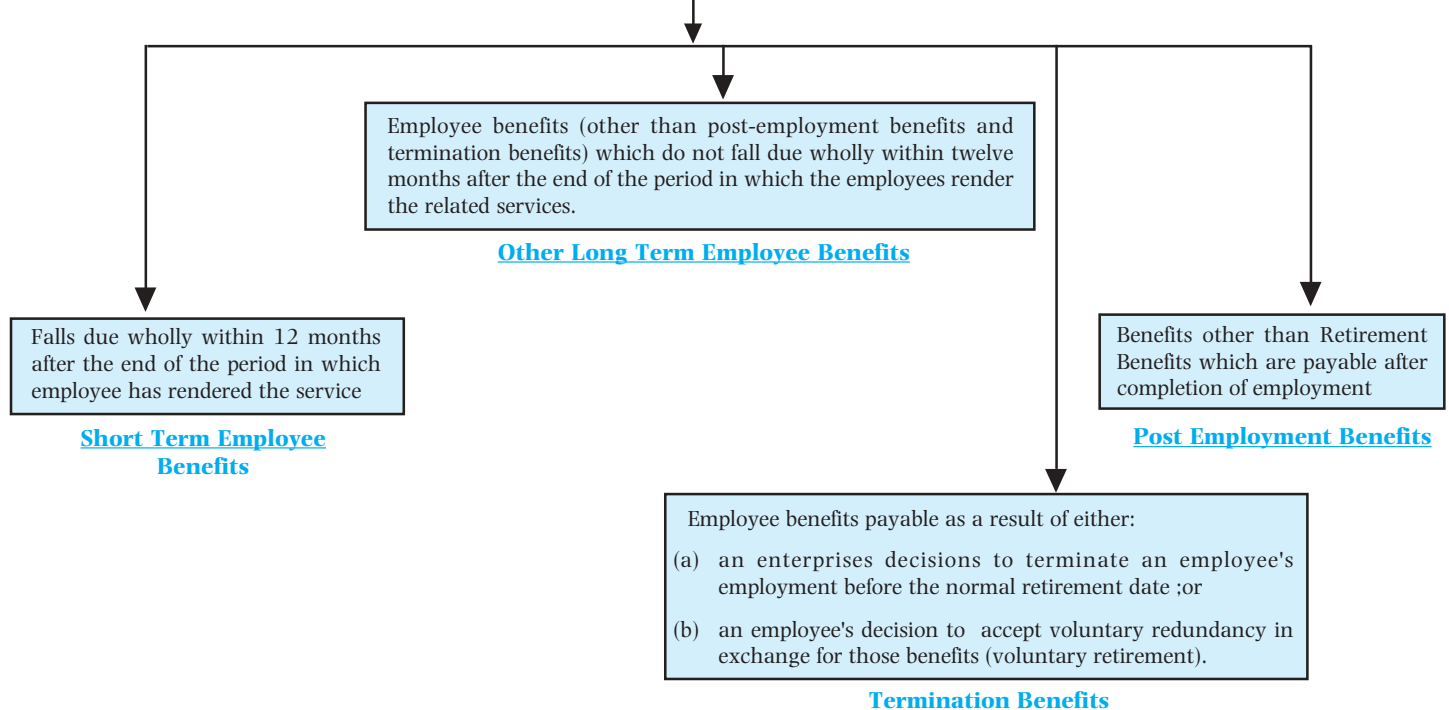
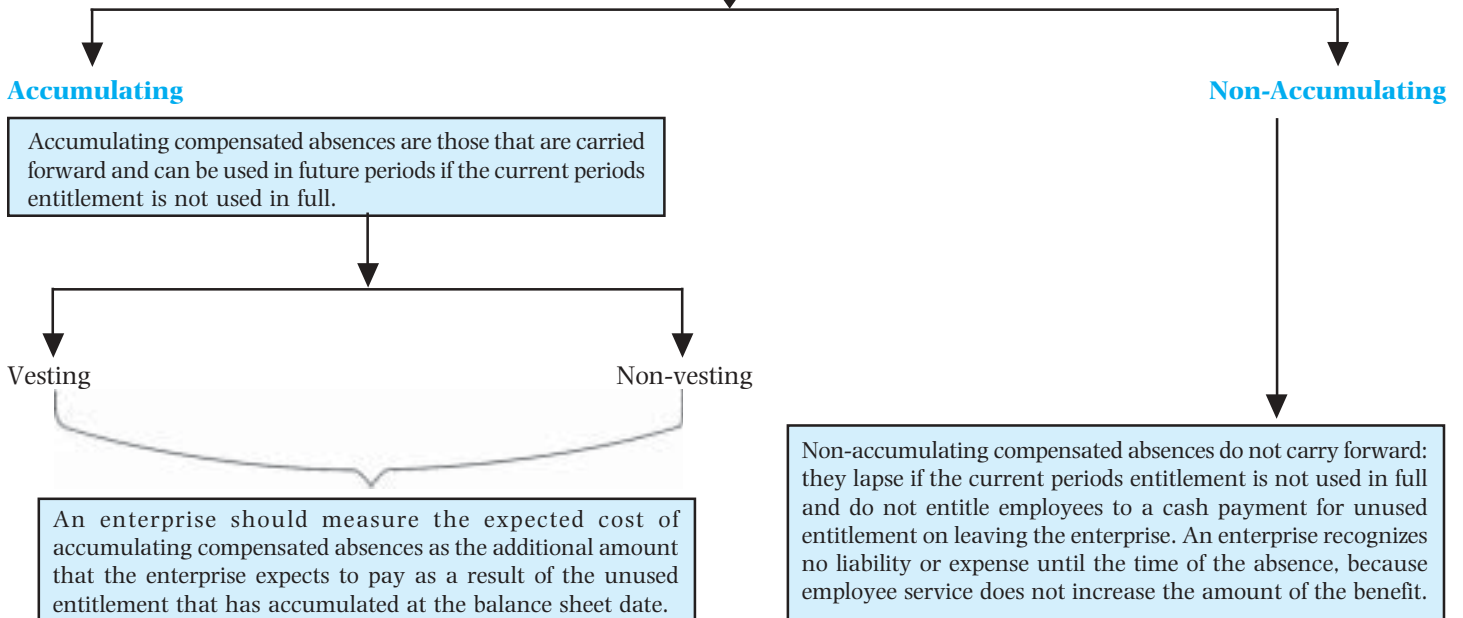


Chart 2 : Short Term Compensated balances



- Has no other clients;
- Has served the employer for a long period;
- Faces little or no financial risk;
- Requires the explicit permissions of the employer to concurrently undertake additional employment elsewhere.

### 3. Type of Employee Benefits

Employee benefits include (See Chart 1):

- ◆ Short-term employee benefits, such as wages, salaries and social security contributions (e.g., contribution to an insurance company by an employer to pay for medical care of its employees), paid annual leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees;
- ◆ Post-employment benefits such as gratuity, pension, other retirement benefits, post-employment life insurance and post-employment medical care;
- ◆ Other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation; and
- ◆ Termination benefits.

### 4. Short Term Employee Benefits

Short-term employee benefits generally include (See Chart 2):

- ◆ Wages, salaries and social security
- ◆ Contributions (e.g., contribution to an insurance company by an employer to pay for medical care of its employees).

- ◆ Paid annual leave, profit-sharing and bonuses (if payable within twelve months of the end of the period )
- ◆ non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees;

### 5. Post Employment Benefits : Defined Contribution v Defined Benefits

Defined contribution plans are post-employment benefit plans under which an enterprise pays fixed contributions into a separate fund and will have no obligation to pay further contributions. Under defined contribution plans, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee. In defined benefits plans, the actuarial and investment risk fall on the employer.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

The distinction between defined contribution and defined benefit is important, since accounting is significantly different for the two plans (See Chart 3). In defined contribution plans, the contribution is charged to income statement, whereas in defined benefit plans, detailed actuarial calculation is performed to determine the charge.

ABC Ltd offers employees a gratuity plan where retired employees are paid an amount equal to 15 days of their final salary for each year that the employee worked for the company, subject to a ceiling of Rs. 5 lakhs.

ABC Ltd makes annual contributions to LIC that promises to make the payments to employees after retirement. LIC cannot request that the company make additional contributions to cover plan shortfalls. LIC does, however, reserve the right to increase the company's future required contribution rate.

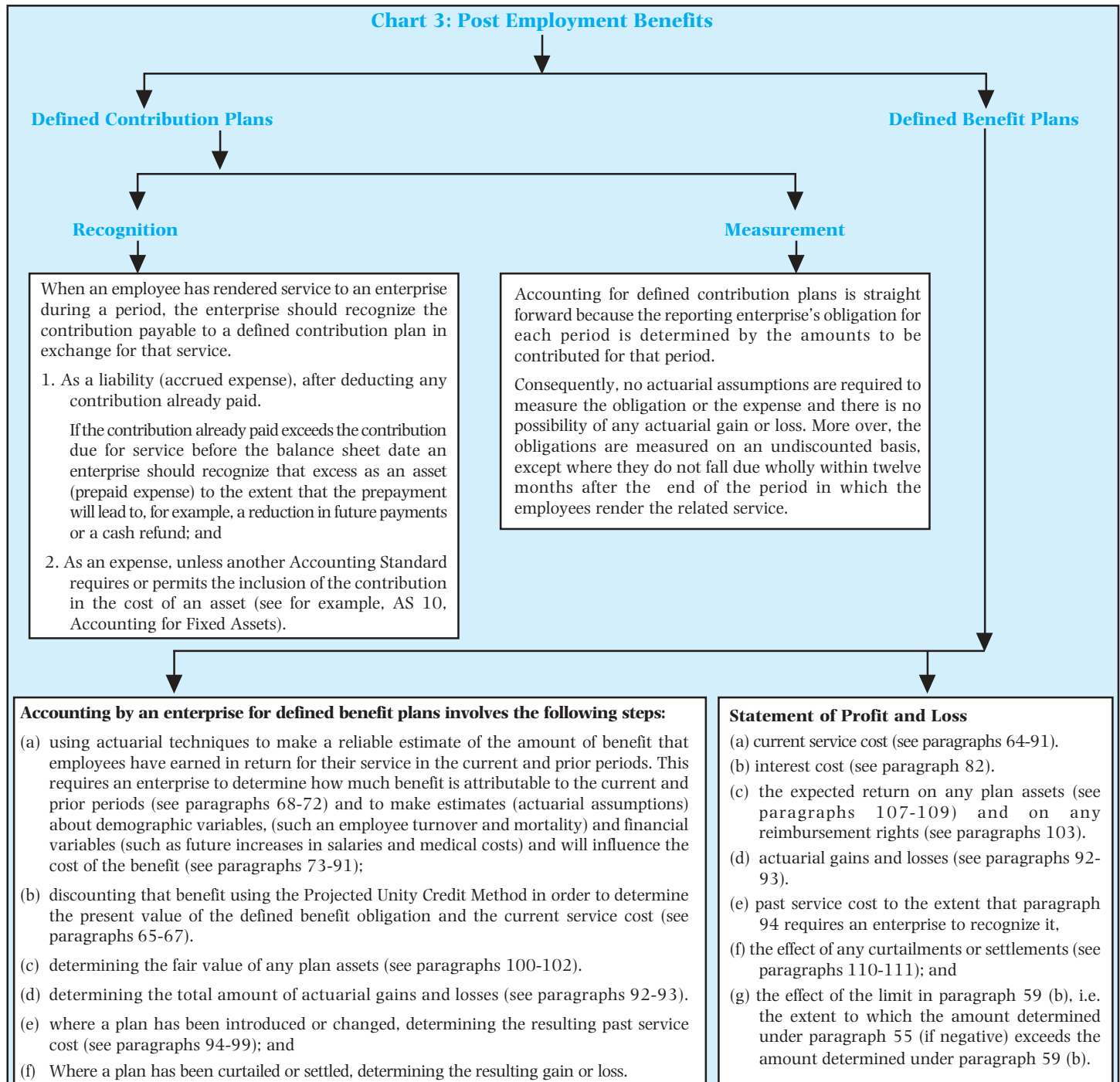
**Is this gratuity scheme a defined contribution or defined benefit scheme?**

An enterprise may pay insurance premiums to fund a post-employment benefit plan. The enterprise should treat such a plan as a defined contribution plan unless the enterprise will have an obligation to either:

- (a) pay the employee benefits directly when they fall due;
- (b) pay further amounts if the insurer does not pay all future

employee benefits relating to employee service in the current and prior periods.

If the enterprise retains such an obligation, the enterprise should treat the plan as a defined benefit plan. Further, paragraph 26 of revised AS 15 sets out examples of cases where an enterprise's obligation is not limited to the amount that it agrees to contribute. This includes a plan benefit formula that is not linked solely to the amount of contributions.



Thus in the given case, based on the above reasoning, the gratuity scheme funded with the LIC is a defined benefit scheme. In a defined benefit scheme, there will be a defined benefit obligation and plan assets if the obligation is funded. In the given case, the obligation will be determined based on the PUC method and as per revised AS 15 principles and not as per LIC valuation.

On the asset side, a question arises as to whether the funds under the scheme as certified by LIC would be treated as plan assets or reimbursement rights. The distinction is important (though both are measured on fair valuation basis) because plan assets are reduced from the defined benefit obligation and the net amount is disclosed in the balance sheet, whereas, in the case of reimbursement rights, the defined benefit obligation and the reimbursement rights are shown separately as liability and asset on the balance sheet. This would have the impact of making the balance sheet heavy both on the asset side as well as the liability side.

As per revised AS 15, plan assets include a qualifying insurance policy. A qualifying insurance policy is one which is for exclusive benefit of the employee and where the creditors have no access to it in a bankruptcy situation and neither it is available to the reporting entity except to pay the employee or receive surplus balance in the fund. Therefore funds with LIC under group gratuity scheme would constitute a qualifying insurance policy and consequently would be treated as a plan asset and not a reimbursement right.

**6. Other Long Term Employee Benefits**

Other long-term employee benefits include, for example:

- (a) long-term compensated absences such as long-service or sabbatical leave;
- (b) jubilee or other long-service benefits;
- (c) long-term disability benefits;
- (d) profit-sharing and bonuses payable twelve months or more after the end of the period in which the employees render the related services and
- (e) deferred compensation paid twelve months or more after the end of the period in which it is earned.

The recognition of other long-term employee benefits and their measurement as per the standard is given in Chart 4.

**7. Termination Benefits**

This Standard deals with termination benefits separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service.

**Disclosure**

Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists.

As required by AS 29, "Provisions, Contingent Liabilities and Contingent Assets" an enterprise discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.

As required by AS 5, "Net Profit or Loss for the Period, Prior Period items and Changes in Accounting Policies" an enterprise discloses the nature and amount of an expense if it is of such size, nature or incidence that its disclosure is relevant to explain the performance of the enterprise for the period.

**Chart 4: Other Long Term Employee Benefits**

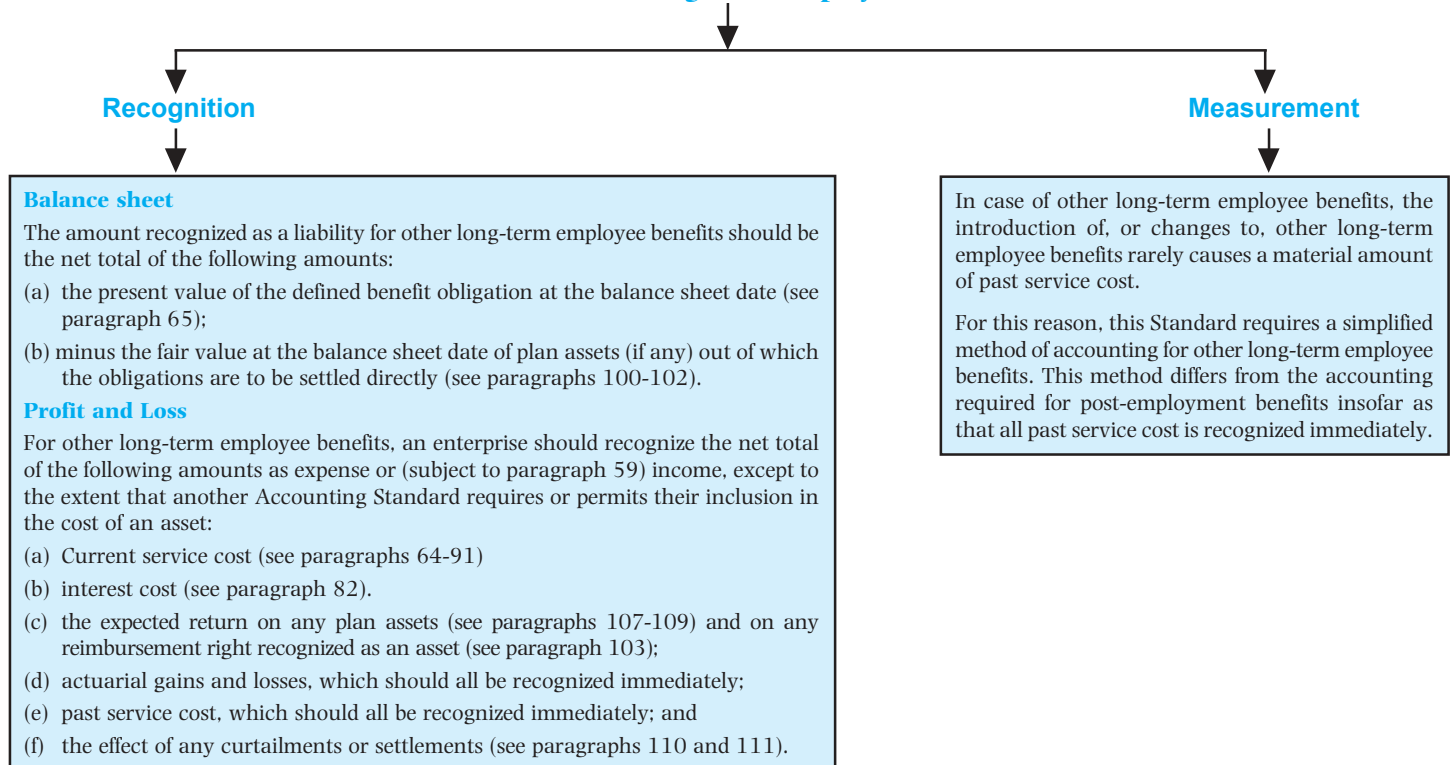
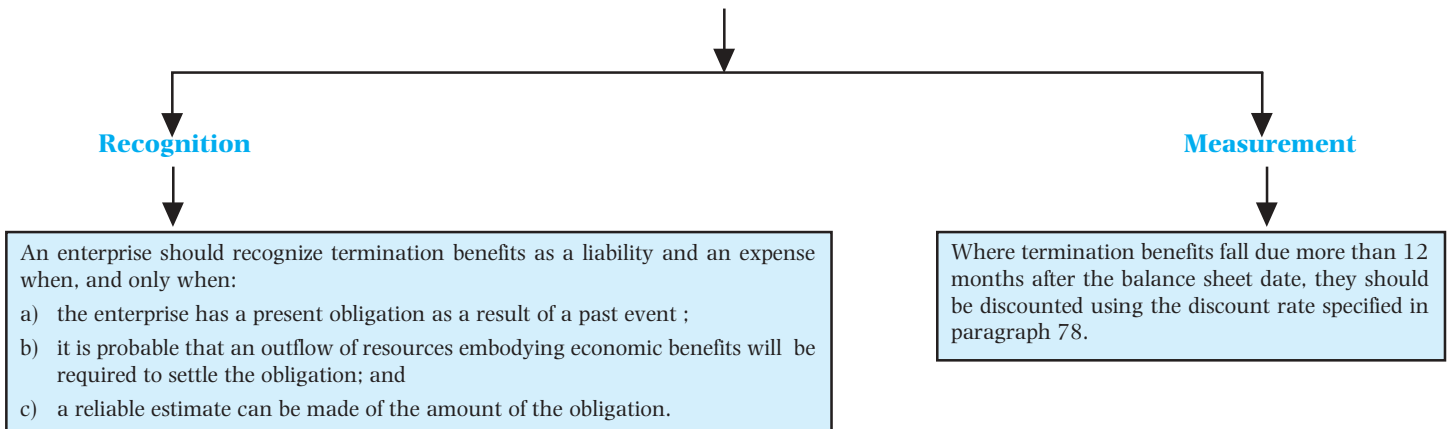


Chart 5: Termination Benefits



Termination benefits may result in an expense needing disclosure in order to comply with this requirement.

Where required by AS 18, "Related Party Disclosures", an enterprise discloses information about termination benefits for key management personnel

IAS 19 provides that an enterprise should recognize termination benefits as a liability and an expense when, and only when, the enterprise is demonstrably committed to either

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

It further provides that an enterprise is demonstrably committed to a termination when, and only when, the enterprise has a detailed formal plan for the termination and is without realistic possibility of withdrawal.

When drafting AS 15 (revised), the standard setters felt that merely on the basis of a detailed formal plan, it would not be appropriate to recognise a provision since a liability cannot be considered to be crystallized at this stage. See Chart 5 for its recognition and measurement as per the standard. Accordingly, the revised AS 15 (2005) requires more certainty for recognition of termination cost, for example, if the employee has sign up for the termination scheme.

As per the transitional provision of revised AS 15, as regards VRS as paid upto 31 March, 2009, there is a choice to defer it over pay back period, subject to prohibition on carry forward to periods commencing on or after 1 April, 2010.

### 8. Actuarial Assumptions

Actuarial assumptions comprising demographic assumptions and financial assumptions should be unbiased and mutually compatible.

Financial assumptions should be based on market expectations, at the balance sheet date, for the period over which the obligations are to be settled.

Therefore assumption relating to inflation, salary growth rates, labour turnover, etc have to be based on long term indications, which could be materially different from current or short term statistics. For example, current salary growth rates may be very high, but over a very long term it is inconceivable to expect that trend to be sustained.

The rate used to discount post-employment benefit obligations (both funded and unfunded) should be determined by reference to market yields at the balance sheet date on government bonds (Risk free rate). The currency and term of the government bonds should be consistent with the currency and estimated term of the post employment benefit obligations.

Therefore, the discount rate for determining actuarial liability in the case of a company in India, cannot be based for example, on US treasury bill rates. The discount rate should be long term government bond rates applicable in India.

### 9. Actuarial gains and losses and the Corridor Approach

In determining actuarial liability for post employment benefit schemes, significant assumptions are made in respect of interest rate, expected return on plan assets, salary growth rate, attrition rate, etc. Actuarial gains and losses are experience adjustments to the assumptions used and effect of changes in actuarial assumptions.

Under IAS 19 as well as US GAAP actuarial gains and losses can be carried forward and charged to future periods under the corridor approach. Revised AS 15 does not permit options and requires that actuarial gains and losses should be recognized immediately in the statement of profit and loss.

Immediate recognition of actuarial gains and losses represents faithfully the enterprise's financial position.

The ICAI has taken a puritanically correct approach based on fair value considerations.

An enterprise will report an asset only when a plan is in surplus and a liability only when a plan has a deficit.

Paragraph 94 of the framework for the Preparation and Presentation of Financial Statements notes that the application of the matching concept does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.

Deferred actuarial losses do not represent future benefits and hence do not meet the Framework's definition of an asset, even if off set against a related liability.

Similarly, deferred actuarial gains do not meet the Framework's definition of a liability.

Whilst the requirement for full recognition of actuarial gains and losses based on the framework seems puritanical, it puts, Indian companies to a disadvantage against its western counterparts who are allowed the deferral policy as an option.

Therefore Indian companies under Indian GAAP are not on the same level playing field as their western counterparts adopting IFRS or US GAAP.

Under IFRS and US GAAP, the primary argument for the 'corridor approach' is that in the long term, actuarial gains and losses may offset one another. Defined benefit schemes tend to be extremely long term and hence this approach may be necessary.

## 10. Issues and discussions

### Past service cost and backwardation

Sometimes post employment benefit schemes may be modified. This would have a positive or negative impact not only in respect of future service to be rendered but also for service that has already been rendered.

The impact to the extent the service has already been rendered is known as the past service cost. An enterprise should recognize past service cost as an expense on a straight line basis over the average period until the benefits become vested. There is no option to charge unvested past serviced cost immediately to the profit and loss account. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an enterprise should recognize past service cost immediately. In the pre-revised AS 15, past service cost was required to be recognized immediately and deferral was not permitted.

### Backwardation of Benefits

If an employees' service in later years will lead to a materially higher level of benefit than in earlier years, an entity should attribute benefit on a straight-line basis from

- a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

### Leave Benefits

The pre-revised AS 15, was applicable to leave benefit only to the extent encashable on retirement, since it covered only retirement benefits. Nevertheless, the Expert Advisory Committee had opined that all leave cost computation was to be based on actuarial techniques.

If a provision for leave encashable on retirement was not made, it would be a violation of pre-revised AS15 as well as true and fair. If leave (other than encashable on retirement ) provision was not made, this would not be in violation of pre-revised AS 15 since it did not cover such leave, but would be a violation of accrual basis of accounting and consequently financial statements would not be true and fair. It may be noted that the revised AS 15 covers all forms of leave benefit.

Entitlement to compensated absences falls into two categories: accumulating and non-accumulating.

Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full.

Accumulating compensated absence may be either encashed or used for further leave only. An enterprise recognizes the expected cost of short-term employee benefits in the form of compensated absences in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and in the case of non-accumulating compensated absences, when the absences occur.

An enterprise has 10 employees, each of whom have 100 days leave credit to their balance. As per the employment policy, the leave can be fully utilized in any of the following years without limit. If the employee wishes to encash the leave, he/she can do so, only on retirement/resignation subject to a ceiling of 90 days. As per the scheme of the company, the leave is encashable at the basic wage prevailing at the time of encashment. The enterprise experience is that all the employees will utilize 10 days of leave in the near future and each of them will encash 90 days on retirement/resignation.

### How will the leave liability be measured ?

Short-term employee benefits are employee benefits (other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render the related service.

Therefore though the benefit may actually be availed after one year, since it falls due within one year, it would be treated as short term. Provision is required to be made at the expected liability amount on an undiscounted basis.

To the extent that the leave will be encashed, the provision is made at the estimated basic wage that would apply at the time of encashment.

To the extent leave will utilized, the provision is made based on the cost to the company.

It may also be noted that PF is required to be paid on encashed leave other than that encashed at the time of superannuation.

Therefore in determining the actuarial liability, PF should be added to the provision made for leave expected to be encashed other than at time of superannuation.

### Death-in-Service Benefits

A death-in-service (or disability) benefit may be provided in many way. A lump sum and/or pension may be paid to survivors based on a specific formula, e.g. a lump- sum of  $4 \times$  salary plus a pension of say  $1/3 \times$  salary to the surviving spouse. This benefit can be provided through a post-employment benefit plan (defined benefit or defined contribution plan), or it can be provided on a stand-alone basis.

Sponsors often insure these benefits with third party insurance companies. AS 15 does not provide any guidance on how to account for such benefits.

The death-in-service benefits may be accounted as follows:

Other than defined benefit post employment plan

1. In the case of benefits insured with their parties, in the period in respect of which the related insurance premiums are payable; the premiums should be charged to the income statement, since this would be a defined contribution scheme.

2. In the case of benefits not insured, account for the liability to the extent that deaths have occurred before the balance sheet date. In other words, accounting is done when the event occurs.
3. In the case of death-in-service benefits provided through a post-employment benefit plan, an enterprise should recognize the cost of those benefits by including their present value in the post employment benefit obligation.

## 11. Transitional Provisions and Impact Assessment

### Employee Benefits other than Defined Benefit Plans and Termination Benefits

Where an enterprise first adopts this Statement for employee benefits, the difference (as adjusted by any related deferred tax expense) between the liability in respect of employee benefits other than defined benefit plans and termination benefits, as per this Statement, existing on the date of adopting this Statement and the liability that would have been recognized at the same date, as pre-revised AS 15 under the enterprise's previous accounting policy, should be adjusted against opening balance of revenue reserves and surplus.

#### Defined Benefit Plans

On first adopting this Statement an enterprise should determine its transitional liability for defined benefit plans at that date as:

- (a) the present value of the obligation (see paragraph 65) at the date of adoption;
- (b) minus the fair value at the date of adoption of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 100-102);
- (c) minus any past service cost that under paragraph 94, should be recognized in later periods.

The difference (as adjusted by any related deferred tax expense) between the transitional liability and the liability that would have been recognized at the same date, as per the pre-revised AS 15 under the enterprise's previous accounting policy, should be adjusted immediately, against opening balance of revenue reserves and surplus.

#### Termination Benefits

This Statement require immediate expensing of expenditure on termination benefits (including expenditure incurred on voluntary retirement scheme (VRS)).

However, where an enterprise incurs expenditure on termination benefits on or before 31<sup>st</sup> March, 2009 within three years of this Statement first coming into effect, the enterprise may choose to follow the accounting policy of deferring such expenditure over its pay-back period. However, the expenditure so deferred cannot be carried forward to accounting periods commencing on or after 1st April, 2010 subject to a maximum of 5 years.

## 12. Comparison to IAS 19, Employee Benefits

Revised AS 15 (2005) differs from International Accounting Standard (IAS) 19, *Employees Benefits*, in the following major respects:

### 1. Recognition of Actuarial Gains and Losses

IAS 19 provides options to recognize actuarial gains and losses and follows:

- (i) by following a 'Corridor Approach', which results in deferred recognition of the actuarial gains and losses, or
- (ii) immediately in the statement of profit and loss, or
- (iii) immediately outside the profit or loss in a statement of changes in equity titled 'statement of recognized income and expense'.

The revised AS 15(2005) does not admit options and requires that actuarial gains and losses should be recognized immediately in the statement of profit and loss.

The following are the reasons of requiring immediate recognition in the statement of profit and loss.

- (a) Deferred recognition and 'corridor' approaches are complex, artificial and difficult to understand. They add to cost by requiring enterprises to keep complex records. They also require complex provisions to deal with curtailments, settlements and transitional matters. Also, as such approaches are not used for other uncertain assets and liabilities, it is not appropriate to use the same for post-employment benefits.
- (b) Immediate recognition of actuarial gains and losses represents faithfully the enterprise's financial position. An enterprise will report an asset only when a plan is in surplus and a liability only when a plan has deficit. Paragraph 94 of the Framework for the Preparation and Presentation of Financial Statements notes that the application of the matching concept does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities. Deferred actuarial losses do not represent future benefits and hence do not meet the Framework's definition of an asset, even if offset against a related liability. Similarly, deferred actuarial gains do not meet the Framework's definition of a liability.
- (c) Immediate recognition of actuarial gains and losses generates income and expense items that are not arbitrary and that have information content.
- (d) The primary argument for the 'corridor approach' is that in the long term, actuarial gains and losses may offset one another. However, it is not reasonable to assume that all actuarial gains or losses will be offset in the future years; on the contrary, if the original actuarial assumptions are still valid, future fluctuations will, on average, offset each other and thus will not offset past fluctuations.
- (e) Deferred recognition by using the 'corridor approach' attempts to avoid volatility. However, a financial measure should be volatile if it purports to represent faithfully transactions and other events that are themselves volatile.
- (f) Immediate recognition is consistent with AS 5, *Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies*. Under AS 5, the effect of changes in accounting estimates should be included in the net profit or loss for the period if the change affects the current period only but not future periods. Actuarial gains and losses are not an estimate of future events, but result from events before the balance sheet date that resolve a past estimate (experience adjustments) or from changes in the estimated cost of employee service before the balance sheet date (changes in actuarial assumptions).

- (g) Any amortisation period (or the width of a 'Corridor') is arbitrary.
- (h) Actuarial gains and losses are items of income and expense. Recognition of such items outside the statement of profit and loss, as per the option (iii)\_above is not appropriate.
- (i) Immediate recognition requires less disclosure because all actuarial gains and losses are recognized.
- (j) Immediate recognition is also permitted under IAS 19. Providing only one treatment is in line with the ICAI's endeavour to eliminate alternatives, to the extent possible.
- (k) The existing AS 15 (1995) also requires immediate recognition of actuarial gains and losses.

## 2. Recognition of Defined Benefit Asset

Both IAS 19 and revised AS 15 (2005) specify an 'asset ceiling' in case of a situation of defined benefit asset. AS 15 (2005) provides that the asset should be recognized only to the extent of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. IAS 19, on the other hand, provides that the asset should be recognized to the extent of the total of (i) any cumulative unrecognized net actuarial losses and past service cost; and (ii) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

IAS 19, however, also provides that the application of this should not result in a gain being recognized solely as a result of an actuarial loss or past service cost in the current period or in a loss being recognized solely as a result of an actuarial gain in the current period.

The aspect with regard to unrecognized net actuarial losses is not relevant in the context of revised AS 15 (2005) since it does not permit the adoption of 'corridor approach'.

In respect of past service cost, it is felt that in a situation of defined benefit asset, the asset, to the extent of unrecognized past service cost, should not be required to be recognized in views of the prudence consideration for preparation of financial statements.

## 3. Termination Benefits-Recognition of Liability

IAS 19 provides that an enterprise should recognize termination benefits as a liability and an expense when, and only when, the enterprise is demonstrably committed to either.

- (a) terminate the employment of an employee or group of employees before the normal retirement date; or
- (b) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. It further provides that an enterprise is demonstrably committed to a termination when, and only when, the enterprise has a detailed formal plan for the termination and is without realistic possibility of withdrawal.

It is felt that merely on the basis of a detailed formal plan, it would not be appropriate to recognize a provision since a liability cannot be considered to be crystallised at this stage. Accordingly, the revised AS 15 (2005) provides criteria for recognition of liability in respect of termination benefits on the lines of AS 29, *Provisions, Contingent Liabilities and Contingent Assets*.

## 4. Transitional Provisions

In respect of transitional liability for defined benefit plans, IAS 19 provides that if the transitional liability is more than the liability that would have been recognised at the same date under the enterprise's previous accounting policy, the enterprise should make an irrevocable choice to recognize that increase as part of its defined benefit liability

(a) immediately, under IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*; or

(b) as an expense on a straight-line basis over up to five years from the date of adoption subject to certain conditions. IAS 19 also requires that if the transitional liability is less than the liability that would have been recognized at the same date under the enterprise's previous accounting policy, the enterprise should recognize that decrease immediately under IAS 8.

The revised AS 15 (2005), on the other hand, provides no choice in this regard, and requires that the difference between the transitional liability as per this Statement and the liability that would have been recognized as per the pre-revised AS 15 under the enterprise's previous accounting policy, should be adjusted against the opening balance of revenue reserves and surplus. This treatment is in line with the transitional provision provided in other Indian Accounting Standards.

In respect of termination benefits, the revised AS 15 (2005), considering that the industry in India at present is passing through a restructuring phase, specifically contains a transitional provision providing that where an enterprise incurs expenditure on termination benefits on or before 31<sup>st</sup> March, 2009 within three years of this Statement first coming into effect, the enterprise may choose to follow the accounting policy of deferring such expenditure over its payback period. However, the expenditure so deferred cannot be carried forward to accounting periods commencing on or after 1<sup>st</sup> April, 2010 subject to a maximum of 5 years.

IAS 19 does not provide such a transitional provision .

## 13. Illustrative Accounting Policies

### Employee benefits

- i. Provident Fund is defined contribution scheme and the contributions are charged to the Profit & Loss Account of the year when the contributions to the government funds are due.
- ii. Gratuity liability and Pension liability are defined benefit obligations and are provided for on the basis of an actuarial valuation made at the end of each financial year.
- iii. Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation.
- iv. Actuarial gains/losses are immediately taken to the profit and loss account and are not deferred.
- v. Payments made under the Voluntary Retirement Scheme are charged to the Profit & Loss account over a five year period.



**TO BE PUBLISHED IN PART III SECTION 4 OF THE GAZETTE OF INDIA**

**NOTIFICATION**

**27th November 2006**

No. 13-CA (EXAM)/CPT/F/2007: - In pursuance of Regulation 22 of the Chartered Accountants Regulations, 1988, the Council of the Institute of Chartered Accountants of India is pleased to notify that the Common Proficiency Test will be held on **Sunday, the 4th February 2007** in two sessions as below, at the following centres provided that sufficient number of candidates offer themselves to appear from each centre.

**COMMON PROFICIENCY TEST**

[As per provisions of Regulation 25 D (3) of the Chartered Accountants Regulations, 1988 and the syllabus as published in the pages 291-293 of the journal the Chartered Accountant August 2006 issue and pages 12-13 of Chartered Accountants Students' Newsletter August 2006 issue.]

<b>First Session (i.e. Morning Session)</b>	<b>9.00 AM to 11.00 AM (IST)</b> Section - A Fundamentals of Accounting Section - B Mercantile Laws
<b>Second Session (i.e. Afternoon Session)</b>	<b>12.30 PM to 2.30 PM (IST)</b> Section - C General Economics Section - D Quantitative Aptitude

**EXAMINATION CENTRES**

- |                     |                   |                        |
|---------------------|-------------------|------------------------|
| 1. AGRA             | 35. GUWAHATI      | 69. PATNA              |
| 2. AHMEDABAD        | 36. GWALIOR       | 70. PIMPRI-CHINCHWAD   |
| 3. AHMEDNAGAR       | 37. HISAR         | 71. PONDICHERRY        |
| 4. AJMER            | 38. HUBLI         | 72. PUNE               |
| 5. AKOLA            | 39. HYDERABAD     | 73. RAIPUR             |
| 6. ALLAHABAD        | 40. INDORE        | 74. RAJKOT             |
| 7. ALWAR            | 41. JABALPUR      | 75. RANCHI             |
| 8. AMBALA           | 42. JAIPUR        | 76. ROHTAK             |
| 9. AMRITSAR         | 43. JALANDHAR     | 77. ROURKELA           |
| 10. ANAND           | 44. JALGAON       | 78. SAHARANPUR         |
| 11. ASANSOL         | 45. JAMMU         | 79. SALEM              |
| 12. AURANGABAD      | 46. JAMNAGAR      | 80. SANGLI             |
| 13. BANGALORE       | 47. JAMSHEDPUR    | 81. SILIGURI           |
| 14. BAREILLY        | 48. JODHPUR       | 82. SONEPAT            |
| 15. BATHINDA        | 49. KANPUR        | 83. SURAT              |
| 16. BELGAUM         | 50. KARNAL        | 84. THANE              |
| 17. BHILWARA        | 51. KOLHAPUR      | 85. THIRUVANANTHAPURAM |
| 18. BHOPAL          | 52. KOLKATA       | 86. THRISSUR           |
| 19. BHUBANESWAR     | 53. KOTA          | 87. TIRUCHIRAPALLI     |
| 20. BIKANER         | 54. KOTTAYAM      | 88. TIRUPUR            |
| 21. CHANDIGARH      | 55. KOZHICODE     | 89. TUTICORIN          |
| 22. CHENNAI         | 56. LUCKNOW       | 90. UDAIPUR            |
| 23. COIMBATORE      | 57. LUDHIANA      | 91. UDUPI              |
| 24. CUTTACK         | 58. MADURAI       | 92. UJJAIN             |
| 25. DEHRADUN        | 59. MATHURA       | 93. VADODARA           |
| 26. DELHI/NEW DELHI | 60. MEERUT        | 94. VARANASI           |
| 27. DHANBAD         | 61. MORADABAD     | 95. VELLORE            |
| 28. DURG            | 62. MUMBAI        | 96. VIJAYAWADA         |
| 29. ERNAKULAM       | 63. MUZAFFARNAGAR | 97. VISAKHAPATNAM      |
| 30. ERODE           | 64. NAGPUR        | 98. YAMUNANAGAR        |
| 31. FARIDABAD       | 65. NASHIK        |                        |
| 32. GHAZIABAD       | 66. NOIDA         |                        |
| 33. GUNTUR          | 67. PANIPAT       |                        |
| 34. GURGAON         | 68. PATIALA       |                        |

The Council reserves the right to withdraw any centre at any stage without assigning any reason.

Applications for admission to Common Proficiency Test is required to be made on the relevant prescribed form as contained in the Information

Brochure, which may be obtained from the Joint Secretary (Examinations), The Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, New Delhi – 110 002 on payment of Rs. 400/- (Rs.300/- towards examination fees and Rs. 100/- towards cost of application form and Information brochure) per application form. Since the cost of Information brochure containing Common Proficiency Test application form includes the examination fee no separate fee is required to be remitted at the time of submitting the filled in application form. The Information brochure containing Common Proficiency Test application form will also be available in the Regional and Branch Offices of the Institute and can be obtained therefrom on cash payment on or from **5th December 2006**.

Common Proficiency Test application forms duly filled in may be sent so as to reach the Joint Secretary (Examinations) at New Delhi not later than **26th December 2006**. Applications received after **26th December 2006** shall not be entertained under any circumstances. Applications duly filled in will be received by hand delivery at the offices of Institute at New Delhi and at the Decentralised Offices of the Institute at Mumbai, Chennai, Kolkata, Kanpur, Ahmedabad, Bangalore, Hyderabad, Jaipur and Pune upto **26th December 2006**. Candidates residing in these cities are advised to take advantage of this facility. **It may be noted that there is no provision for acceptance of application forms after 26th December 2006 with late fee.**

**QUESTION PAPER BOOKLET LANGUAGE**

Common Proficiency Test will be an objective type multiple choice based examination. Candidates will be allowed to opt for Hindi medium Question Paper Booklet for answering the questions. Detailed information will be found given in the Information brochure.

Common Proficiency Test (CPT) is open only to those students who are already registered with the Institute of Chartered Accountants of India for the said course and fulfill the requisite eligibility conditions.

(G. SOMASEKHAR)  
JOINT SECRETARY (EXAMS.)

**ANNOUNCEMENT**

**27th November, 2006**

The second Common Proficiency Test (CPT) of the Institute will be held on **4th February 2007** at the following centres : 1) **Centres in India** - Agra, Ahmedabad, Ahmednagar, Ajmer, Akola, Allahabad, Alwar, Ambala, Amritsar, Anand, Asansol, Aurangabad, Bangalore, Bareilly, Bathinda, Belgaum, Bhilwara, Bhopal, Bhubaneswar, Bikaner, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi/New Delhi, Dhanbad, Durg, Ernakulam, Erode, Faridabad, Ghaziabad, Guntur, Gurgaon, Guwahati, Gwalior, Hisar, Hubli, Hyderabad, Indore, Jabalpur, Jaipur, Jalandhar, Jalgaon, Jammu, Jamnagar, Jamshedpur, Jodhpur, Kanpur, Karnal, Kolhapur, Kolkata, Kota, Kottayam, Kozhikode, Lucknow, Ludhiana, Madurai, Mathura, Meerut, Moradabad, Mumbai, Muzaffarnagar, Nagpur, Nashik, Noida, Panipat, Patiala, Patna, Pimpri-Chinchwad, Pondicherry, Pune, Raipur, Rajkot, Ranchi, Rohtak, Rourkela, Saharanpur, Salem, Sangli, Siliguri, Sonapat, Surat, Thane, Thiruvananthapuram, Thrissur, Tiruchirapalli, Tirupur, Tuticorin, Udaipur, Udupi, Ujjain, Vadodara, Varanasi, Vellore, Vijayawada, Visakhapatnam and Yamunanagar.

Applications for admission to Common Proficiency Test is required to be made on the relevant prescribed form as contained in the Information Brochure, which may be obtained from the Joint Secretary (Examinations), The Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, New Delhi – 110 002 on payment of Rs. 400/- (Rs.300/- towards examination fees and Rs. 100/- towards cost of application form and Information brochure) per application form. Since the cost of Information Brochure containing Common Proficiency Test application form includes the examination fee no separate fee is required to be remitted at the time of submitting the filled in application form. The Information brochure containing Common Proficiency Test application form is also available in the Regional and Branch Offices of the Institute and can be obtained therefrom on cash payment on or from **5<sup>th</sup> December 2006**.

Common Proficiency Test application forms duly filled in may be sent so as to reach the Joint Secretary (Examinations) at New Delhi not later than **26<sup>th</sup> December 2006**. Applications received after **26<sup>th</sup> December 2006** shall not be entertained under any circumstances. Applications duly filled in will be received by hand delivery at the offices of Institute at New Delhi and at the Decentralised Offices of the Institute at Mumbai, Chennai, Kolkata, Kanpur, Ahmedabad, Bangalore, Hyderabad, Jaipur and Pune upto **26<sup>th</sup> December 2006**. Candidates residing in these cities are advised to take advantage of this facility. **It may be noted that there is no provision for acceptance of application forms after 26<sup>th</sup> December 2006 with late fee.**

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Candidates will be allowed to opt for Hindi question paper booklets for the said CPT. Further details will be available in the Information Brochure containing the application form.



## All India Elocution and Quiz Contest

**Venue: Jaipur Branch of CIRC of the ICAI, D-1, Institutional Area, Jhalana Doongiri, Jaipur**

12th All India Elocution Contest, will be held on January 15, 2007 at 10.30 a.m. and 6th All India Quiz Contest for CA Students will be held on January 16, 2007 at 10.30 a.m.

Winners of the Regional level contestants will participate in these contest

All students are co-ordially invited to join these programmes.

## e- learning initiatives of the ICAI

World-over e-Learning has evolved to become effective medium to impart education. It has become a buzzword among students' fraternity and no academic institution can afford not to follow this route. There are umpteen reasons why organizations introduce e- learning. In its efforts to use modern tools of information technology, the ICAI has planned to introduce e-learning portal "ICAI-Online". Initially it will be for the students of Professional Competence Course and gradually scaled up to cover other courses. In addition, 100 hours of Information Technology Training will also be imparted online. It will have following advantages for the students:



### 1. Convenience

E-learning is certainly revolutionizing the current teaching method, not only due to the easiness and low price involved but also because of the comfort in learning it may provide.

You can log on to the site from wherever you want, whenever you want, day or night i.e. 24×7×365 basis. You can even study from the comfort of your own home. You don't need to worry about the time or about arriving late for the class. In fact, you don't even need to leave your home.

### 2. Flexi Schedule

You do not have to bother how you will manage time for your oral coaching classes while you are undergoing the articulated training. E-Learning offers you flexi schedule as per your time management.

### 3. A Superior Learning Platform

Many online courses consist only of scrolling through long passages of text. The ICAI will offer a progressive, highly-interactive online learning experience involving enriching videos, ambient sound, engaging imagery and instructional narration. You will get interactive guidance while solving problems of accountancy, cost accounting, financial management and taxation.

### 4. Distinguished Faculty

You will get opportunities to interact with talented and industry-experienced instructors of the ICAI at scheduled time and resolve your queries instantaneously.

### 5. Affordability

On line courses on all six subjects of Professional Competence Course and 100 Hours Information technology training will be available at a nominal fee.

### 6. Online Discussion Boards

"ICAI-Online" shall allow you to form discussion groups or forums to facilitate discussion and collaboration with like-minded group of students having a common focus or interest.

### Online 100 Hours Information technology Training

100 Hours Information Technology Training (ITT) shall be available on this site on an optional basis. This is in addition to the existing system of classroom training through Regional Councils / Branches / other accredited institutions. Students will be able undergo ITT online and appear in the examination at the approved centres.

So, no more hassles of traveling long distances or staying away from your home for undergoing ITT.

*Expected date of implementation of online 100 Hours ITT: February 1, 2007*

## Final Course under New Syllabus

It has been decided to introduce Final Course under the new syllabus on and from January, 15 2007. Students of Professional Education (Course –II) who will pass in the November, 2006 examination may opt for joining concurrently the Final (New) Course and 3 years of practical training. Such students will be eligible to appear in the Final Examination under the new syllabus pending last 6 months of articulated training on or before the last day of the month preceding the month in which the examination is held under Regulation 29B of the Chartered Accountants Regulations, 2006.

It is to mention that students of Professional Education (Course-II) who will pass in the November, 2006 examination may also join concurrently Final course under the old syllabus as well as 3 years of articulated training. By virtue of Regulation 29A of the Chartered Accountants Regulations, 2006 such students will be eligible to appear in the Final Examination pending last 12 months of articulated training on or before the last day of the month preceding the month in which the examination is held.

Reproduced below is the relevant extract of the Implementation schedule notified as per announcement Bos/Announcement/14/2006 date October 23, 2006.

Last Final Examination ( Old) to be held on	November, 2009
First Final Examination ( New) to be held on	November, 2008

Students, who are undergoing articulated training and Final course under the old syllabus, may also switch over to final course under the new syllabus. For such students, Regulation 29B of the Chartered Accountants Regulations, 2006 will be applicable, i.e., they will be eligible to appear in the Final Examination under the new syllabus pending last 6 months of articulated training on or before the last day of the month preceding the month in which the examination is held.

Category of students	Eligibility to appear in	
	Final Examination under the old syllabus	Final Examination under the new syllabus
Students of Professional Education (Course –II) who will pass in the November, 2006 examination if opt for concurrently joining the Final ( New ) Course and 3 years of practical training (assuming that such students will join articleship training on or before April 30, 2007)	May 2009 (They will get one more chance for appearing in Final Examination under the old syllabus in November 2009)	November 2009
Existing students of Final course if opt for switching over to the Final ( New ) Course (assuming that such students will complete 30 months of articleship training on or before October 30, 2008)		November 2008

# Invitation to CA Students to Contribute Articles

Students are invited to write articles in the subject areas. Although, in recent past we have received poems or brief write-up, we feel that newsletter can be effective medium for the students to share their knowledge. Such articles should be written after thorough understanding of the topic and after referring to several good books and journals. They may add their own views on contemporary developments in the chosen topic.

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. Emails can be sent to [casnewsletter@icai.org](mailto:casnewsletter@icai.org). Please write your complete name, address and the registration number in your correspondence.

## 100 hours Information Technology Training

In the new scheme of Education and Training, 250 Hours Compulsory Computer Training will be replaced by 100 Hours Information Technology Training (ITT) with effect from 1<sup>st</sup> December, 2006. The new curriculum of 100 Hours ITT has been framed revamping the old curriculum. A student shall start 100 Hours of Information Technology Training only after undergoing three months of practical training by which he/she is expected to develop knowledge about the practical applications of Information Technology in various areas of professional practice. It is also desired that students should study the subject of Information Technology concurrently while undergoing 100 Hours Information Technology Training so that a proper balance between theoretical knowledge and practical application is achieved.

In order to provide the students with a reference material, the Board of Studies will be providing a kit comprising of 3 modules of 250 Hours Compulsory Computer Training course material (which were used under the old scheme) and a supplementary study material. Students are advised to study only the relevant topics of these three modules along with the supplementary study material. A table giving the page references of the relevant topics of 250 hours Compulsory Computer Training Programme course material is included in the supplementary study material to facilitate the students for easy identification.

There will be good number of students who registered themselves for 250 hours Compulsory Computer Training but did not start their training as on date, they will now be required to undergo 100 Hours ITT. Such students, who have already received the course material for 250 Hours CCT, can get a copy of the Supplementary Study Material free of cost from the accredited institute where they will be undergoing 100 Hours ITT. Alternatively, the soft copy of the supplementary Study Material is available on the ICAI website [www.icai.org/Students/Courses/Computer Course](http://www.icai.org/Students/Courses/Computer Course) which can be freely downloaded.

**Check your Address :** All students should check their mailing address printed here. In case, there is any change or the PIN Code (Postal Index Code) is either missing or incorrect, kindly inform immediately the concerned Regional Office giving full particulars of your address along with correct PIN Code. This would enable us to ensure smooth and prompt delivery of the Newsletter.

**Editor : CA. T.N. Manoharan**

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