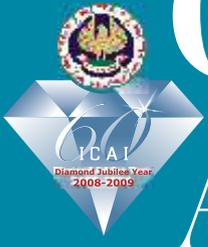


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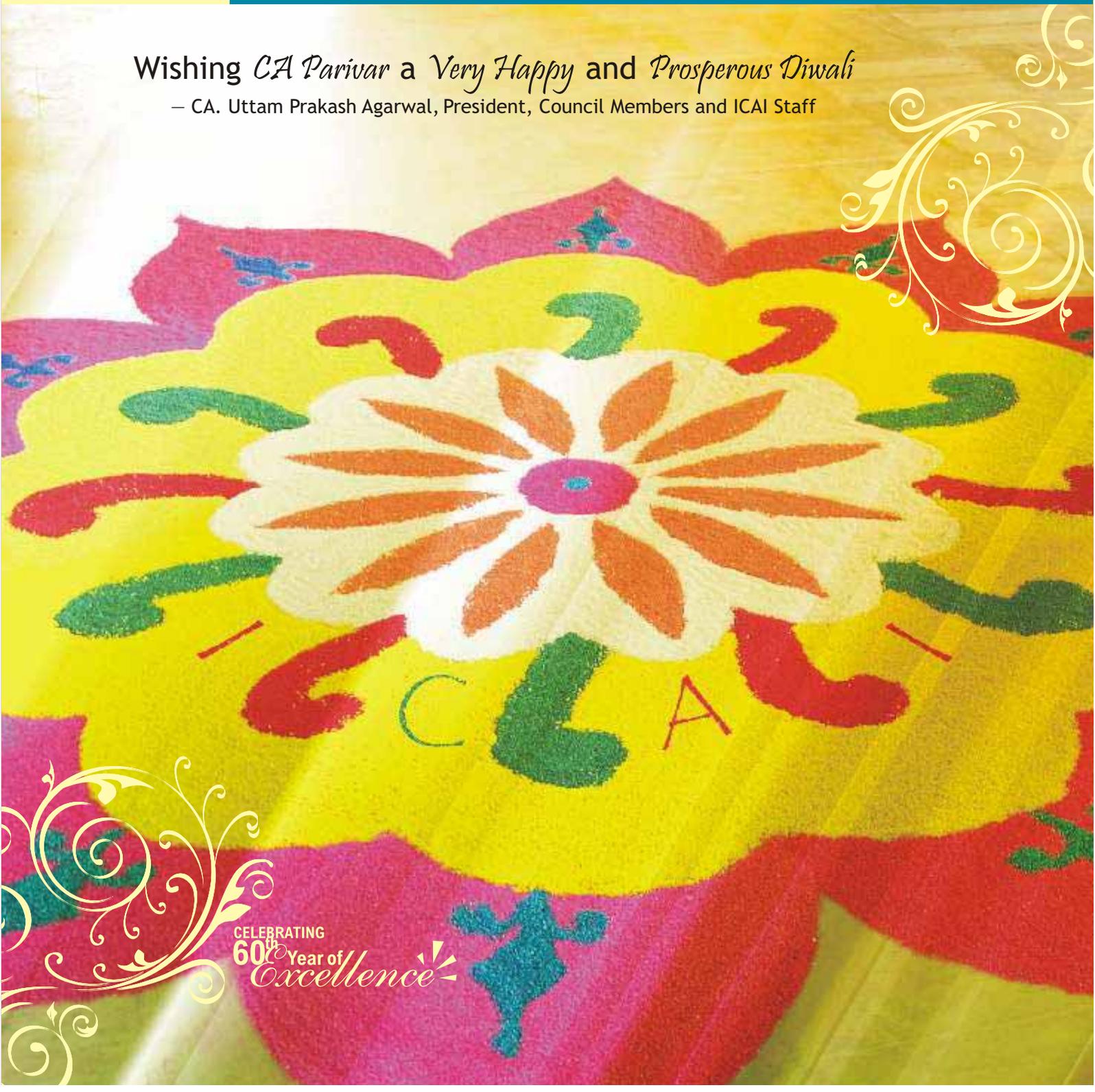
THE CHARTERED ACCOUNTANT



JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

Wishing CA Parivar a Very Happy and Prosperous Diwali

– CA. Uttam Prakash Agarwal, President, Council Members and ICAI Staff



CELEBRATING
60th Year of
Excellence

INDIA BOOSTS GLOBAL ECONOMIC RECOVERY

Led by resurgent economies of Asia, the global economy is slowly but surely emerging from the slump and the worst global recession since Great Depression is coming to an end. The world's most powerful central banker Federal Reserve Chairman Mr. Ben Bernanke has recently confirmed this. The US economy, mired in recession since December 2007, is seeing signs of recovery and in the second quarter of this year, its GDP shrank much less than expected at one per cent. Much the same story is being played out in the rest of the world with German, French and even the UK economies gradually recovering from their own slumps. In fact, Germany and France have already moved out of recession and posted marginal growth of 0.3 per cent in the second quarter of 2009. Economies in North American and Latin American regions are also bottoming out amid clear indications that the global GDP would expand next year, though slowly. The investors worldwide too are veering to the view that the global economy has finally shaken off the fetters of recession.

The credit of boosting this global economic recovery goes mainly to Chinese and Indian economies, which grew consistently and considerably despite global slowdown, rightly said the International Monetary Fund and Moody's. For the April-June quarter, the Chinese GDP expanded by 7.9 per cent while that of India grew 6.1 per cent – picking up from an annual rate of 5.8 per cent in the previous quarter, accelerating for the first time since 2007. The upturn in India reflected a recovery in industrial growth to five per cent from less than two per cent in the previous six months.

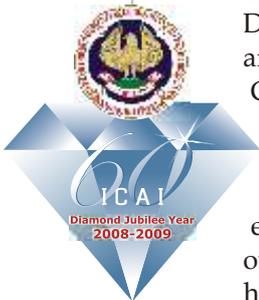
As such, it is welcome that the Asian Development Bank and Moody's have upwardly revised India's growth forecast to 6 - 6.4 per cent for the current fiscal as the pump-priming measures and aggressive monetary easing have boosted the outlook for the economy. The Planning Commission has projected 6.3 per cent economic expansion during the fiscal. This optimism can be attributed to a strong fiscal stimulus, rise in public spending, better capital inflows, stronger industrial output and signs of improved business confidence. Further,

showing clear signs of economic recovery, advance tax collections have registered a positive growth in the second quarter after witnessing a negative growth in first quarter. Total advance tax collections in the second quarter stood at Rs. 49,501.80 crore as against Rs. 38,367 crore in September 2008 while corporate advance tax and advance personal income-tax were up by 14.7% and 1.7%, respectively in the same month. The sharp recovery in the tax collections raises hopes of better second quarter earnings by companies. Just two months ago, the country's industrial output rose 6.8% on the heels of an 8.2% rise in March this year, drawing overseas investors. So far in 2009, foreign institutional investors have net invested close to \$9 billion in Indian equities.

But the threats to our economy continue as agricultural output this year is expected to be stunted by a not so good monsoon although the rainfall recorded in September is expected to "substantially reduce" the earlier estimates of 14-15 million-tonne crop deficit. Exports too are expected to be weak as more than 60 per cent of exports are made to the US, Europe and Japan, which have only just started showing signs of recovery. Another major concern is the domestic food price inflation, which may create a dilemma for the Reserve Bank of India. The RBI will have to keep inflation expectations in check but at the same time not choke off a recovery. Further, the Indian central bank should continue with the low-interest rate regime till the signs of global economic recovery become stronger despite the fact that the higher deficit spending necessitated by the need to stimulate the local economy made a dearer interest rate regime as an anti-inflation measure difficult to implement. With fiscal deficit projected to be around 6.8 per cent in 2009-10, it certainly remains a major worry for the Government which has aimed at bringing it down to 5 per cent in 2011 and 4 per cent by 2012. But this should not be done at the cost of economic recovery and any so-called 'exit strategy' from "monetary accommodation", should be kept on hold till the economy recovers completely.

- Editorial Board

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EDITOR	CA. UTTAM PRAKASH AGARWAL
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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
 ICAI Bhawan, Post Box No.7100, Indraprastha Marg,
 New Delhi-110002, Tel: +91 (11)39893989.
 E-mail: journal@icai.org, Website: www.icai.org

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DELHI: No.7, 1st Floor, Nizamuddin (West) Market. New Delhi-110013. Tel: +91 (11) 46699999. **BANGALORE:** House No. 64, 5th Block, 4th Cross, Koramangala. Bangalore - 560095. Tel: +91(80) 2553 4105/2553 9512. **KOLKATA:** 206-Jodhpur Park, Kolkata - 700068. Tel: +91(33) 2473 5896. Telefax: +91(33) 2413 7973.
CHENNAI: AKS Pooja Complex, 2nd Floor, Old No: 203 New No: 154, R. K. Mutt Road, Mandavelli (Next to Jagan Mohan Clinic), Chennai - 600 028. Tel: +91(44)4218 8984/85. **HYDERABAD:** Flat No. 2, Vimala Vihar Apts. Goutham Nagar, Dilukh Nagar, Hyderabad - 500 060.

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IN THIS ISSUE

Dear CA Parivar,

It's festival time. By the time you receive this Journal, Eid-ul-Fitr, Dussehra and Navratra will have been celebrated and preparations for Diwali will be in full swing. Each and every Indian festival has a deep meaning attached to it. Dussehra, as we know is the triumph of good over evil, not just on the surface but within the heart of each and every human being. Diwali is known as the festival of light and the lighting of the lamps signifies awareness of our inner light that removes the darkness of ignorance and illuminates the way to true knowledge. We are indeed blessed to be a citizen of such a culturally rich country like India.

International Developments

As you are aware, ICAI had signed an MoU with the Institute of Chartered Accountants in England and Wales (ICAEW). I am pleased to inform you that the first results after the signing of the MoU have been declared and four of our members have passed the modules, bringing glory to the Institute. I am sure that more of our members will want to spread their wings internationally and will appear for these examinations in future.

I am happy to inform you that to reinforce the ties between our two Institutes, the Lord Mayor of the City of London, Mr. Ian Lauder (FCA), will be coming to India to visit our Institute. In honour of his visit to the Institute we have organised a number of activities such as meetings with various regulators at Mumbai and New Delhi and a joint seminar with ICAEW on the theme 'A New Vision for Financial Services'. This would pave the way for a long and mutually beneficial relationship between the two premier accounting institutes in the world. The seminar will explore the implications of recent experiences of financial services and the businesses they service and will attempt to develop a vision for the future of a global financial architecture that will restore confidence in the financial services. Besides myself, the seminar will be attended by dignitaries of eminence like Mr. Ian Lauder (FCA), the Lord Mayor of the City of London, Mr. Martin Hagen (FCA), President of the ICAEW and Ms. Naina Lal Kidwai, Group General Manager and Country Head HSBC India, among others. Our chartered accountant brothers and sisters from the industry, who are top CEOs, CFOs and COOs, have also been invited to attend the round table conference to better understand the scope of professional opportunities in the United Kingdom.

As part of the seminar, there will also be panel discussions to develop a vision for the future of financial services with more effectively co-ordinated and co-operative regulation, incorporating more transparent and sustainable corporate governance structures within companies. I am sure that hosting a conference of this magnitude will not only forge stronger ties but also pave the way for greater interaction between our respective organisations.

ICAI International Delegation to Australia 2009

The Institute is growing fast, almost exponentially day by day. We have signed MoUs

with two Australian organisations, the Certified Practising Accountants Australia (CPA Australia) as well as with the Institute of Chartered Accountants of Australia (ICAA), but that is just the tip of the iceberg. To get a better understanding of the opportunities and how to translate them into concrete action benefiting our members, the Institute is forming a delegation to tour selected cities in Australia on self financing basis. This visit will be hosted by the ICAI's Sydney Chapter.

This tour will help promote a better understanding between the delegates and firms of the two countries and will help in actually understanding what kind of opportunities exist for our members there. The economic and regulatory environment specific to Australia will also be studied during the tour. There will be regular interactions and discussions with members and organisations native to Australia to build a complete picture for us. Our delegates will observe the way Australian officials operate thus having a better understanding of how to aid business between the two nations. No doubt, direct networking between members and companies will help strengthen business ties. By keeping the above agenda clear we will get an insight into planning and arranging future requirements for the Institute as well as for our members.

Registrar of Companies: Outsourcing of Work

Opportunities come to those who persevere. The quality of our work is of a caliber that has impressed the Registrar of Companies (ROC). They have decided to outsource the technical scrutiny of balance sheets filed with them under the Companies Act, 1956 to professionals like us. This outsourcing will be for FY 2009-10 with future outsourcing under review after assessing the outcome and impact. Further details in this regard are available on our website www.icai.org

This is one more new professional opportunity for our members. This task has been entrusted with us keeping in mind the high level of integrity, confidentiality and commitment to timelines our profession attaches. I am confident that our professional brothers and sisters will rise to the occasion and take up this new opportunity with great enthusiasm.

Special Audit under Section 14A and Section 14AA of Central Excise Act, 1944

The Chief Commissioner of Excise along with various Excise Officers recently held discussions with us to better understand how to conduct audit and various other modules concerning Special Audit under Section 14A for computing value of goods and under Section 14AA for verifying proper utilization of credit under Central Excise Act and Rules. These discussions were fruitful as they led to a clear direction and understanding of the scope of these new audits.

To make sure that we are best prepared to utilize this opportunity, the Institute is coming out with an insightful and comprehensive new Excise Audit Manual. This Manual will go a long way in improving our skill sets and empowering us with the knowledge required to benefit from this new professional opportunity.



ICAI
Diamond Jubilee Year
2008-2009

President

Welcome to New Secretary, MCA

I wish to inform you that Shri R. Bandyopadhyay has taken charge as new Secretary to the Ministry of Corporate Affairs (MCA). Before joining the MCA he has served as Secretary, Department of Public Enterprises, Special Secretary, Department of Telecommunications and Senior Advisor in the Planning commission, and has many remarkable contributions to his credit. I, on behalf of entire CA *Parivar*, extend hearty welcome to the new Secretary, MCA and assure him all out support of ICAI. At the same time, we should not forget the commendable work done by outgoing Secretary, MCA Shri Anurag Goel. Successful implementation of dream MCA 21 project, enumerating roadmap for the LLP in India and work done for simplification of Companies Act are some of the biggest achievements of his tenure. He always lent full support to the Institute at every fora and truly guided us as mentor. We had organized a farewell for the Shri Goel during the recently held Council meeting.

IRDA Workshops

The Insurance Regulatory and Development Authority (IRDA) is a regulatory body to govern the insurance and re-insurance business in India. Our Institute enjoys a cordial relationship with the IRDA due to the fact that we have always responded to the needs of the insurance sector with great swiftness. Proof of this lies in the fact that when the insurance sector was opened up to private players in 2001 we immediately constituted the Committee on Insurance and Pension (CoIP) to assist in the development of the insurance industry in India.

With the new regulations expounded by the IRDA that insurance firms must have systems and transactions audited on a regular basis by CAs or CA firms, our Institute has been quick to welcome the opportunity created for our members and decided to provide a support system to the members by organising Joint Workshops on Internal/Concurrent Audit of Investment Functions of Insurance Companies jointly with IRDA. These workshops aim to give our members the technical know-how necessary to perfectly carry out the audits required by law.

We are doing everything in our power to ensure that our members can take advantage of this new sector which has been opened to us. The growth opportunities in this new sector are immense and since insurance industry experts would be addressing the technical sessions in these workshops, I request our members to take full advantage of these special workshops by attending them and adding to their growing portfolio of services. At the end of the day we will be doing a great service to millions of our countrymen who have invested their hard-earned money in these companies by ensuring that systematic, transparent and compliant measures are constantly implemented, making the insurance companies strong and more viable.



Goods and Services Tax 2010

This new consolidated Tax is on the anvil and will be implemented soon. As our members are aware, this announcement was made by the Empowered Committee of State Finance Ministers who had accepted the recommendation of the Working Group that had been set up to outline the dual GST which will have a Federal part and a State part. In order to bring about the consolidation of GST and then implement it by 2010 we have held a number of meetings with the Department.

Shri R. Sekhar, Commissioner of Customs, Pune who is also the Government nominee in the Council, has been working in conjunction with ICAI to hold joint workshops in all the five Regions wherein our members from industry and practice along with industry experts could hold discussions with the Department so as to prepare a clear pathway for the convergence and present its views to the Government. These joint workshops of the Customs and Central Excise Departments and the Institute would focus on issues that may arise out of the convergence of taxes for the GST and aim at coming up with solutions to any future questions. Members are welcome to provide their valuable feedback and suggestions on gst@icai.org in this regard.

RBI Bank Empanelment

We have always expressed our reservations in respect of the autonomy granted by RBI to Public Sector Banks (PSBs) with regard to the appointment of its auditors. We had requested the RBI to provide us with the list of auditors for the audit of PSBs. We not only did not receive the list but were surprised to know that appointments were finalised by the PSBs in just two days. We are aware that due diligence compliance cannot be carried out in so short a time. To protect the interest of the common man and to maintain required levels of compliance we have placed our recommendations before the Ministry of Finance. We have stressed that the optimum method would be the original system where only RBI would have the authority to appoint Central Statutory Auditors. We hope that our recommendations are looked into for the betterment of investors across the country.



Constitution of Industry-Specific Groups

Our membership strength has grown at a rapid pace during recent years. Moreover, a large number of members are opting to serve in industry. As such there is need to continuously update this part of fraternity about the changes taking place in various statutes, share the knowledge of various new techniques and sharpen their skills on various professional matters. With this objective, we have decided to form industry-specific groups comprising our members in which issues like IFRS, Direct Taxes Code, Companies Bill, Various issues in GST and other industry-specific issues will be discussed.

Besides, it will also provide a good platform to them for improving networking among themselves.

We have also decided to form groups of members who are CEOs, CFOs and COOs in the industry to compile industry-wise Guidance Notes which would cover industry-specific compliance issues. Our members in industry who are at the helm of affairs have gained considerable experience and insight in complying with various laws and regulations which are peculiar to their specific industries. By sharing their knowledge and experience in compiling these industry specific Guidance Notes our other members and students will get a clear insight into compliance with various laws and regulations industry-wise at a pan India level.

Elections

The time is approaching for all our members to exercise their mandate and vote in the forthcoming elections. As we show our loyalty to our country by voting in the local and general elections, in the same way your loyalty to the Institute lies in the casting of your valuable vote.

The parallels are the same while voting for our country as well as our Institute. In both cases the selection of the right candidate is crucial to governance and progress. As you would want to select the most appropriate candidate for your city and state, in the same manner I exhort you to select the best candidate for your Institute. Select candidates who will be instrumental in building the future of the Institute and our profession. Vote for selfless workers of great integrity and strength who also possess the expertise to take the Institute and all its members to new levels of professionalism and growth.

I would like to mention at this juncture that this year the Election Code of Conduct will be enforced very strictly. No divergence from the Election Code will be tolerated or accepted. If any member finds that the Code of Conduct is not adhered to, please bring this breach to our notice immediately. We will ensure that the elections are conducted smoothly and are held in a free and fair manner. I appeal to all of you to cast vote, and cast it wisely.

Respect For the Profession

It has recently come to our notice that few organisations do not accord the respect due to our profession in the correct perspective. A recent BSNL recruitment tender stated "Supply of Chartered Accountant for maintaining

accounts of USOF Phase-1 Project". We have sent a strong letter of protest to BSNL stating that we provide services to society in a professional and social capacity and cannot be looked upon as a commodity. We have demanded a complete withdrawal of the tender documents with the derogatory expression and to reissue new documents with the necessary changes. Rest assured, we will pursue this matter and ensure that the profession is given the respect that it deserves.

Revision / Updation of Various Regulatory Forms

Some of the regulatory forms like form 2, 3, 6, and 18 needed re-orientation so as to be contemporary in the context of language and information sought from the members through these forms. These forms have since been revised and will take some time before you start using them as these forms are part of the Regulations and require approval of the Central Government.

Infrastructure Development

Maintaining the growth curve in the development of infrastructure that we have embarked upon, I am pleased to inform you that we are constructing buildings of the branches in Jammu & Kashmir and Sangrur in the North, Beawar and Ajmer in the West and Alleppey and Quilon in the South. At this pace I am sure that in a few months time we will create history by having a fully-developed branch in every state, city and town of India. Let us, as a team, move ahead and make this dream a reality.

Members Feedback

In another section of this journal I have compiled a report of the various major activities that have been carried out by me and my colleagues in the Council over the last few months. I sincerely hope that you have been part of these activities and have given your positive input for and during these initiatives. It is in actuality, your participation and input which raise the brand value of the institute and elevates it to new levels.

We would appreciate your honest feedback to the various initiatives and suggestions for upcoming projects. Our member base is so talented and vast that just on the basis of your feedback and ideas we can be inspired to launch new initiatives that will take our Institute to greater heights of glory.

I welcome your ideas and feedback. Mail your feedback to me personally and I promise that each input will be looked into and implemented according to its relevance and practicality.

LLP Act

The LLP Act has been passed, but to be fully effective and operational, several other factors have to be determined first. To that end, the necessary changes in the Chartered Accountants Act, 1949 are under consideration of the Ministry. Once the Ministry passes the recommended changes, we will move ahead to implement the changes required in the procedural guidelines and regulations by the ICAI.

What I would like to emphasize at this juncture are the multitude of positive effects that will accrue to the profession once the LLP Act is fully operational.

The most obvious step would be changing from traditional partnerships to LLP for the limited liability as well as to become an independent and legal body with no cap on increasing the number of partners once the minimum limit has been satisfied. More importantly, as the LLP is an internationally recognised business entity – unlike our traditional partnerships—members will be able to operate on a global platform.

Since the LLP is covered by a comprehensive regulatory regime, work quality and efficiency is ensured which will bring our companies to international levels of service provided. All these factors play a crucial role in providing Indian CA professionals the benefits of dual advantages of limited liability combined with global recognition. As you can see, the LLP Act will provide the necessary impetus to the overall growth of the profession.

Better Service Through Our Decentralised Offices

With the growing membership, there is need to provide services at much desired faster pace. Taking a big step in this direction, we have strengthened the branch infrastructure during the recent months. Moving a step further, I have instructed all our Regional Offices to shift the relevant records and documents to the various decentralized offices namely Ahmedabad, Bangalore, Hyderabad, Jaipur, Pune, Nagpur, Surat, Vadodara, Coimbatore, Ernakulam, Indore, Chandigarh and Thane so as to minimize the response time. The deadline for the effective transfer of records and documents to the decentralized office is October 31, 2009. I am sure that with this move, we will be able to provide more timely service to our members and students.



Accounting Technician

The Regulations now provide exit route for such students who could not complete the Chartered Accountancy course in its entirety. Such students who have passed Intermediate/PE-II/PCE and completed the prescribed period of articleship can opt to apply for issue of Accounting Technician Certificate without any further conditions/fee while continuing to be eligible to appear in the Final Examination. You may like to bring such a development to the notice of such eligible students.

Students Exams

Next Chartered Accountancy exams are approaching fast in November. Being the principles it's our duty to see that the practical experience gained by the articled assistant(s) during their practical training is applied suitably in understanding the theoretical part. This will

surely improve their performance in the exams. As such, We should come forward, devote some time to our articled assistant and ensure maximum utilization of experience gained during their training period. I am sure, that systematic approach combined with determination, zeal and your support will see your articled assistant through with flying colours. My Best Wishes to all the students who are taking the exams in November.

Audit Season Coming to an End

In the last month, many of my professional brothers and sisters must have been on their toes to complete their tax audit assignments and file returns with due diligence and care. The next task is to ensure that all documentation work is also completed as we have a Peer Review system in place. I am sure now all of you will be able to spend time with your loved ones during the coming festive season.

We should always remember the words of Swami Vivekananda who said, *"Don't look back – forward, infinite energy, infinite enthusiasm, infinite daring, and infinite patience—then alone can great deeds be accomplished."*

As I conclude my message, I, on behalf of entire CA Parivar, pay rich tributes to late Andhra Pradesh Chief Minister Y. S. Rajasekhara Reddy, who recently died in a helicopter crash. His untimely death is a great loss to the CA Parivar as well because he had always been forthcoming in supporting our Institute, CA Profession and professionals. He had been the

Chief Guest at the 41st Regional SIRC Conference held at Hyderabad on 29th August 2009. In my view the best tribute to the departed leader would be to imbibe and inculcate his dynamism, inclusive & progressive vision and the spirit of selfless service in our profession.

I wish all the members of the CA Parivar from the bottom of my heart 'A Happy Diwali and a Prosperous New Year' on behalf of all Council Members and the entire staff of the Institute of the Chartered Accountants of India.

My Pranaams to all,

CA. Uttam Prakash Agarwal
New Delhi, September 25, 2009

Journal Has Become More Informative

There are two things I would like to share with my CA Pariwar. First of all, congratulations to the Institute for coming out with such informative and thought provoking current matters in its journal, issue after issue. I really feel that over the years, the CA Journal has improved and now its quality can be compared with the best journals in the world.

However, I think the articles should be made a bit concise so that it does not take much time to read through the important matters.

– CA. Shuvodip Paul



The journal is very informative and innovative, which enhances the image of CA parivar. The topics such as Vastu shastra, Health Tips, Yoga, Meditation, XBRL, International Update, Cross-word etc. in the journal are very informative & interesting. I suggest that the journal should also include features like 'Basic Practicing Guidelines' and 'Professional Tips' for the benefit of new members.

–CA. Vinod U Bohara, Amravati

Constant Upgradation of ICAI Website, Journal Welcome

My heartiest congratulations to the Institute of Chartered Accountants of India for effecting path breaking changes in the ICAI website and journal over the years. I appreciate the untiring efforts being put in by all concerned to make the website and the journal informative and interesting with the ultimate objective of constantly updating the knowledge and skills of the members and other readers. However, I have noticed that the number of advertisements published in the journal is increasing day by day. I feel that there should be some limit for number of advertisements published in the journal and at least these should not be placed on every alternate initial pages of the journal.

–CA. P. Ramachandran

President's Message

I am thankful to the ICAI for the Presidential message that is printed in the journal and also sent by email to the members regularly. It summarises beautifully as to what's happening in the CA fraternity and in India. I find this specially useful since it allows me to be in touch with my country and my Institute. I also wish to thank the ICAI leadership for facilitating the MRA between the ICAI and ICAA, which has been hugely beneficial for all of us in Australia. I also congratulate the Sydney Chapter of the ICAI for enabling the Indian CAs to interact and

network not only amongst ourselves but also with the rest of the Australian corporate representatives and stakeholders.

–CA. Indrani Mukherjee, Sydney

The President's message for the month of September 2009 was very informative and educative. I thank the ICAI president for keeping us informed.

–CA. Jatin Parikh

Ya Esa Suptesu Jagarti

I am happy to note younger professionals are remembering and showing due respect towards their seniors in celebrating Diamond Jubilee of ICAI. Here, I would like to draw attention to their moral and legal obligations enshrined in the logo of our Institute. It says: 'ya esa suptesu jagarti'. This is from *Kathopnishad*, Chapter 2(2), Hymn No. 7. This punch line was suggested by Shri Aurobindo Ashram, Pondicherry, when approached by the first President of our Institute way back in 1949. It refers to a person who is awake in those that sleep, i.e. a person who is ever vigilant. By adopting this motto, Chartered Accountants have offered to remain ever awake as on them rests the onerous duty to oversee the financial affairs for the ultimate benefit of society. It should be executed with courage and conviction, without fear or favour.

–CA. Sudhir Kumar Biswas

Indian CAs Need More Global Recognition

I appreciate the ongoing efforts of our Institute to professionally promote Indian CAs in developed countries and make their presence felt on global scale. However, much remains desired as many developed countries do not give much recognition to skills and expertise of Indian CAs and have put India in 'non-designated countries' list.

—CA. Ashok Aggarwal

EDITOR

For the Attention of Readers

Readers' attention is specifically invited to the fact that the views and opinions expressed or implied in *The Chartered Accountant* journal are the views and opinions of the authors only, and not those of the ICAI. The ICAI bears no responsibility of any sort whatsoever in case of an action taken by any reader based on any article published in the journal.

Write to Editor

'Information is Power' and our ever-evolving profession needs more and more of that today than ever before. Do you have any relevant points to make, experiences to share, and views to spread among the CA fraternity? If yes, e-mail us at eboard@icai.org/nadeem@icai.org or write to: The Editor, The Journal Section, ICAI Bhawan, C-1, Sector 1, Noida (U. P.) 201 301.



Shri R. Bandyopadhyay

Takes Over as Secretary, Ministry of Corporate Affairs



Shri R. Bandyopadhyay has recently taken over as Secretary to the Ministry of Corporate Affairs (MCA). Having an excellent track record, he had earlier been Secretary, Department of Public Enterprises; Special Secretary, Department of Telecommunications and Senior Advisor in the Planning Commission besides occupying many other important positions during his long career. The Institute of Chartered Accountants of India welcomes the new Secretary, MCA and promises full support to all his future endeavours. Following is the brief profile of Shri Bandyopadhyay for the information of readers.

Shri R. Bandyopadhyay joined the Indian Administrative Service in 1974. He has a brilliant academic background with a First-Class-First in M.Sc (Physics) from the University of Calcutta and a Post-MSc Degree from Saha Institute of Nuclear Physics. Shri Bandyopadhyay later did a Master Degree in Rural Development from the University of East Anglia, Norwich, UK.

During his long career, he occupied various important positions in the State of West Bengal as well as in Government of India. At the field level, he served as District Magistrate and Collector in the Districts of Bankura and Burdwan and in the State Government, among others, he functioned as Special Secretary in the Department of Commerce and Industries, Secretary and Principal Secretary in the Department of Public Sector Undertakings and Industrial Reconstruction Urban Development, Water Investigation and Development, Planning and Development and Power. In Delhi, he has worked in the Ministry of Industry and in the Ministry of Steel at different levels.

Before joining as Secretary, Ministry of Corporate Affairs, he had worked as Secretary Department of Public Enterprises, Special Secretary/Additional Secretary in the Department of Telecommunications (DOT) and Senior Adviser in the Planning Commission.

During his tenure in the DOT, he had made remarkable contribution in the phenomenal growth of telecommunications sector in the country. As Senior Advisor (of the Rank of Additional Secretary in the Government of India) in the Planning Commission he was closely associated in the exercise of formulating the 11th Five Year Plan, particularly, for the Rural Development and the Panchayati Raj sectors. He has also functioned as a Member of the "Committee on Financial Inclusion" headed by Dr. C. Rangarajan, ex-Governor of Reserve Bank of India, the final report of which has been submitted to the Government about a year back.



As Secretary of Department of Public Enterprises, he played a very pro-active role in bringing a number of changes as well as to take new initiatives. During this period, the effect of the overall pay revision of the CPSEs has been given effect to. The number of 'Navratna' CPSEs have increased by 6 making it 18 in all. The system of MoUs have been invigorated and about 220 CPSEs are expected to sign the MoUs. Initiatives have been taken to get more CPSEs listed in the Stock Market by holding seminars for CMDs jointly with Bombay Stock Exchange. He has also organized workshops for Principal Secretaries/Secretaries of the State Government to exchange the experience of Government of India in order to improve the functioning of State Level Public Enterprises.

Apart from his official work, Shri Bandyopadhyay has been keenly associated with the modern management, particularly the various aspects of the "Management of Change". With his vast experience and exposure in the industrial sector for a very long period both at the State as well as Central Level, Shri Bandyopadhyay is now in a very suitable position to function as Secretary, Ministry of Corporate Affairs, to monitor and help formulating suitable policies and strategies for the growth and development of the Corporate Sector as a whole in the challenging period.

PHOTOGRAPHS



Meeting with Secretary MCA

CA. Uttam Prakash Agarwal, President ICAI in a meeting with Shri R. Bandyopadhyay, Secretary MCA on September 8, 2009.



Sangrur

CA. Uttam Prakash Agarwal, President ICAI along with Shri D.S. Baina, IAS, Principal Secretary, Local Bodies, Punjab and Smt. Garima Singh, Jt. Commissioner of Income-tax during the foundation stone laying ceremony for the building of Sangrur branch on August 25, 2009.



GASAB Meeting

CA. Uttam Prakash Agarwal, President ICAI seen with other Board members and officials of the Government Accounting Standards Advisory Board (GASAB) in the group photograph taken during 18th Board meeting of GASAB.



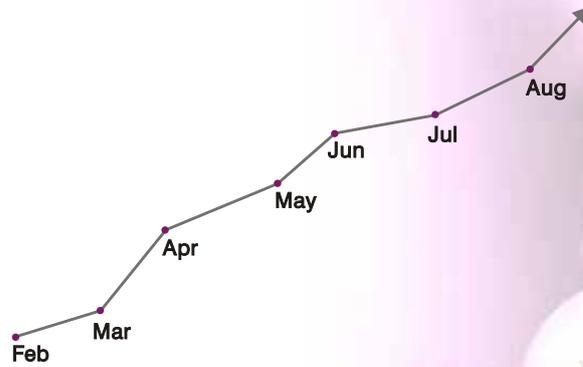
Campus Placement Programme at Mumbai

CA. Uttam Prakash Agarwal, President ICAI addressing the participants of Campus Placement Programme for newly qualified Chartered Accountants organised by CMII at Mumbai on September 1, 2009.



Campus Placement Programme at Delhi

CA. Uttam Prakash Agarwal, President ICAI addressing the participants of Campus Placement Programme for newly qualified Chartered Accountants organised by CMII at New Delhi on August 31, 2009.



ICAI's Initiatives and Activities – A Report (February - August, 2009)



Continuing with its more than 60-year-old tradition of excellence, integrity and service to the nation, The Institute of Chartered Accountants of India has achieved many a milestone so far this year. Amid country-wide celebrations of its Diamond Jubilee year, the Institute has accelerated the pace of its progress and has taken a number of path-breaking, futuristic initiatives and holistic measures this year with the twin aim of making Indian CA best in the world and being an effective partner in nation-building. Be it infrastructure development, capacity-building measures and facilities for members and students, facilitating new professional opportunities, brand building of India CA, information technology, international initiatives, or, helping the Government, the list of activities and initiatives is long. Following is the report of the ICAI's major initiatives and activities from February to August of this year for the information and feedback of readers:

NEW COMMITTEES

Committee on International Taxation:

Tax laws in India are becoming more and more complex. Factors like globalisation of economy, free trade agreements and mergers and acquisitions have added to the existing complexities. In view of this growing complexity of international business and trade, this committee now addresses everything related to international taxation. It also runs the Certificate Course on International Taxation.



Small & Medium Practitioners Committee:

This Committee, set up on the lines of IFAC, identifies and represents the needs of small and medium practitioners. The committee has finalised its terms of reference and formulated action plan to empower the small and medium practitioners.

Representation Committee:

This committee of external communication management takes up all issues which come for its consideration or regulator. As envisaged, this committee on one hand, brings all such issues to be addressed at one place and on the other hand provides one point of communication on behalf of the Institute. A list of representations submitted by the Committee is given in **Annexure A**.

Infrastructure Committee:

This committee constantly monitors the existing ICAI projects, analyses infrastructure requirements of the Institute and helps in building brand image. All the proposals for the capital budget requirements at the Regional Councils/DCOs/ Branches/ Chapters level are now addressed by this committee at much faster pace.

HR & Administration Committee:

This committee has been set up to overcome the inadequate manpower planning across various central committees, decentralised offices, branches and so on, to make available the right kind and the right number of employees and to have better administrative practices. The committee is analysing the manpower requirement at the level of Centre, Region and Branch based on the workload and directing the HRD to provide/rationalise the manpower either by way of new recruitments or by way of transfers.

STRENGTHENING RELATIONSHIP WITH THE GOVERNMENT AND THE REGULATORS

- Discussions held on a continual basis with the officials of Reserve Bank of India (RBI) on various matters relating to audit of banks. Representations were also sent to RBI regarding issue of managerial autonomy of Public Sector Banks in the matter of appointment of





auditors, on various issues of mutual interest such as issues involved in allocation of branch statutory audits of Public Sector Banks for the year 2008-09, on issues related to allotment of Statutory Bank Branch Audits etc.

- Issues of direct interest to the members were pursued with various officials of the Office of Comptroller and Auditor General of India on a regular basis and representations were also sent relating to revision of audit fees of Public Sector Undertakings, differential audit fees of Public sector *vis-a-vis* Private sector, issue relating to requirement of minimum number of partners at Head office of the firm to be appointed as auditors of listed/navaratna/ major companies, etc.
- Pre-Budget and Post-Budget Memorandum 2009 were submitted to the CBDT and CBEC.
- Council meeting was addressed by the Ambassador of India to Bahrain H. E. Dr. George Joseph and by Chairman CBDT Shri S. S. N. Moorthy.
- Two meetings on Public Finance at ICAI were attended and addressed by Prof. Atul Sharma, Member Thirteenth Finance Commission and renowned economist, Dr. P. K. Chaubey, Professor of Economics, Indian Institute of Public Administration, New Delhi, Dr. A. K. Walia, Hon'ble Finance Minister, Govt. of Delhi and Dr. Sunil Kumar Sinha, Head and Senior Economist, CRISIL Ltd. Delhi.
- The detailed and exhaustive comments on the GASAB's Accrual Exposure Draft (AED) 2 on "Property, Plant and Equipment" was submitted for consideration by the GASAB.
- The Ministry of Corporate Affairs in order to revise the norms of managerial remuneration for transparency requested the ICAI to conduct a study on managerial remuneration and to prescribe some norms in this regard. The report incorporating suggestions has been forwarded to the Ministry.
- The Ministry of Corporate Affairs has requested the Institute to suggest amendments to the Court Rules to facilitate winding up. A preliminary draft of suggestions including suggestions and feedback from the Official Liquidator and the High Court judges was submitted.
- Service of the direct tax experts was provided to the assesseees free of cost at a special camp hosted by the Income Tax Department during 28th to 31st July, 2009.
- To provide technical support to Pension Fund Regulatory and Development Authority (PFRDA), a technical Group for PFRDA was constituted at the Institute.
- Accountancy Museum set up by the Institute has been recognised by the Govt. of India and was permitted to use the name *Accountancy Museum of India*.
- On the request of the Ministry of Corporate Affairs, the Institute organized the training programme and arranged the logistic support for the Office of the Official Liquidators, Delhi, from April 20 to May 1, 2009.
- Under the aegis of Investor Education Protection Fund of the Ministry of Corporate Affairs, eight investor awareness programmes were organized at Hisar, Hubli, Rajpura, Yamuna Nagar, Panipat, Nagpur, Chennai and Siliguri.
- A two-day programme on IFRS was organised for

senior CAG officials in the office of C & AG on 1st and 2nd April, 2009.

- On a proposal received from the office of C & AG, a training programme was organised for the senior officers of CAG on IPSAS.
- Faculty support provided for four-day training programme (13-16 April, 2009) on New/Revised Accounting Standards/Auditing & Assurance Standards to the office of C & AG.
- A workshop on Union Budget 2009-10 was organised at the ICAI headquarters which was attended by the Shri S.S.N. Moorthy, Chairman, Shri Ashutosh Dikshit, Joint Secretary (TPL-II), Shri Anand Kedia, Director (TPL-III & IV) from the Central Board of Direct Taxes, and by Mr. Gautam Bhattacharya, Joint Secretary (TRU), Mr. Vivek Johari, Joint Secretary (TRU) and Mr. Sushil Solanki, Central Excise Commissioner from the Central Board of Excise and Customs.
- A series of tripartite workshops involving ICAI, office of C&AG and CMDs/Director (Finance) of State PSUs is being organised first time for auditors of State PSUs. Workshops have already been held at Varanasi and Raipur and scheduled to be held very soon at Patna, Jaipur, Ranchi and Bhopal.
- A series of workshops for Statutory Auditors of PSUs held jointly with Office of C&AG at Delhi, Ernakulam, Mumbai, Kolkata, Lucknow, and Jaipur.
- Two weeks Training Course was organised on "Use of Financial and Accounting Tools in the area of Indirect Taxes" for the Indian Revenue Service (Customs & Central Excise) Group "A" Probationers of 60th batch.
- Workshop on Outcome Budget and Accrual Based Accounting was organised for orientation of the officials of Agartala Municipal Council on 15th & 16th May, 2009 at Agartala.
- Training Programme on Municipal Administration and Accrual-based Accounting in Municipality was held for the officials of Kohima and Dimapur Municipal Council on 20th & 21st August, 2009 at Kohima.
- Information session on 'Forensic Accounting and Fraud Detection Using IT & CAATs - Value Added Services by CAs' was organized for the Economic Offences Wing, Crime Branch, Delhi Police.

Satyam Fiasco Investigation

- A High Powered Committee has been constituted to look into the entire gamut of the Satyam fiasco, including helping/co-ordination with the investigation being carried out by various agencies, going into the roots of the problem, effectiveness of the system in place, systemic issues; to identify the root causes; and to suggest change(s) for making appropriate recommendation(s) to the Central Government, SEBI and other regulators. Its report (Part-I) has already been submitted to the Ministry of Corporate Affairs.
- On a request from CBI for providing a team of Hyderabad-based professionals willing to offer their expertise to investigate the accounting and auditing aspects in Satyam fiasco, a small group was formed comprising four members. The group has already submitted its report.

**INFRASTRUCTURE**

This year infrastructure is high on agenda and issues of maintenance of existing buildings, acquisition of land through government and building, laying down of policy guidelines, maintenance of original documents in respect of land and institutional buildings under the applicable statutes, ensuring adequacy and quality of all capital assets, analyzing requirements of capital asset, ensuring uniformity and standardisation of buildings are being taken on high priority.

**ICAI Bhawans**

- ICAI Bhawan is being built at Sector-62, Noida and its administrative block has been completed and inaugurated on July 1, 2009. Its other blocks, auditorium, research and hostel blocks, are expected to be ready by October, 2009.
- ICAI Bhawan at Bandra Kurla Complex (BKC), Mumbai, will be a state-of-the-art and a multi-storied building with advanced infrastructure at par with international standards in the international financial hub. A writ petition filed against the Institute has now been withdrawn and construction for this dream project has started.
- For the ICAI Bhawan in Kolkata, the physical possession of 10,800 sq. ft. land has already been taken on June 9, 2009, from KMDA. The foundation stone of the Bhawan will be laid in the month of October.
- The refurbishment of the ICAI Bhawan at Colaba, Mumbai, is in progress.
- The reception of the head office of the ICAI has been renovated to have a corporate look.

Centre of Excellence

It has been decided to set up the Centres of Excellence for qualitative practical training in IT, case studies and research, and general management and communication skills to the students and members. The construction for the residential block of the Hyderabad Centre of Excellence is complete. It was inaugurated on July 2, 2009 and became functional from the same date. Further, construction has also been started in Jaipur and Bangalore, while the land allotment is under consideration for the Centre of Excellence in Chennai, Goa, Jaisalmer, Rajkot and Abu Road.

Branches

- Land has been acquired for the building of the branches of Pimpri-Chinchwad (15,000 sq. ft.), Kota (1277.75 sq. ft.), Hubli (38,745 sq. ft.), Sangli (4888.16 sq. ft.), Ahmednagar (4990 sq. ft.), Jalgaon (5200 sq. ft.), Bhilwara (27,000 sq. ft.), Mathura (6988.59 sq. ft.), Faridabad (28890 sq. ft.), Hisar (20498 sq. ft.), Kakinada, Vijaywada, Sangrur, Bilaspur, Bikaner and Ajmer, while the acquisition is still in process for Rohtak.
- The construction of ICAI Bhawan branch building has been completed at Cuttak and Mangalore (renovated). A building measuring 8200 sq. ft. has been acquired for the Pune branch.
- Construction for Auditorium in Ludhiana and Indore has been completed and same have been inaugu-

rated and become functional. Besides, a seminar hall in Guntur has also become operational.

- Building construction has been commenced for the Vadodara, Nashik, Vijaywada and Durgapur branches and the proposal for construction of building is under consideration for the branches of Mathura, Faridabad and Bellary.
- The proposal of acquisition of land is already approved for the branches of Kottayam, Solapur, Kolhapur, Jammu & Kashmir and Nellore. The branches of Varanasi, Bareilly and Allahabad have already started the process of acquisition of land.
- The Building Committees for the branches which do not have their own land or building have been advised to acquire land or building respectively.
- The guidelines regarding building grant to the branches have also been revised. It has been decided to standardise the front elevation of the branch buildings.
- A new branch at Vapi (WIRC) has been set up taking the total number of ICAI branches to 119.

INFORMATION TECHNOLOGY**e-Governance Project - Parivartan**

An e-Governance initiative by the name 'Parivartan' was launched to re-look business processes being followed and introduce IT-enabled systems to make services of the Institute user-friendly. A contract was awarded to Infosys Technologies (Infosys) for the study of Enterprise IT Architecture for ICAI. An IT Strategy Alignment document has been prepared by the Infosys team which will prepare the Institute to develop & implement next generation Information & Communication Technology to provide web-enabled IT services and world class IT education to members and students.

**IT-Directorate**

To bring a unified approach towards all IT initiatives such as Virtual Institute Project, Online Exam & Results Processing, websites & portals, e-Learning, IT education & training, a full-fledged Information Technology (IT) Directorate has been set up which has become operational from April 20, 2009 at ICAI headquarters.

Webcast Channel

- First national ICAI webcast on *Global Economic Crisis - Changing Role of CAs* was held on April 17, 2009, for the first time in the history of the Institute.
- A webcast channel <http://webcast.icai.org> was launched on July 4, 2009 during the Agra International Conference.
- Analysis of the Union Budget, 2009 was presented through this Webcast channel.

Simplified Empanelment Form

Online bank empanelment form has been made much simpler by eliminating the need for a member to go through the technical manual and settings required in downloadable version of the form that existed till last year.

Online Services

- A facility has been provided on the Institute's website for download of Firm Constitution



Certificate by supplying the Firm Registration Number and Date of Establishment of the firm.

- A new user-friendly web interface has been provided to enable members to pay their membership fees online and order Institute's publications online using the Institute's website www.icaai.org. The new interface allows online payment using Axis Bank and ICICI Bank payment gateway facilities and Net Banking facility from selected banks.
- A system has been developed to enable regional offices, Noida Stores and Committee Secretaries to view all successful online payments on day-to-day basis.
- Do Not Disturb (DND) link has been provided on the website to facilitate the members a registration of their mobile numbers and e-mail IDs for mass e-mails and mass SMS not to be sent.
- Online e-learning module on IS Security Cyber Threats & Review was launched to generate IS Security awareness amongst enterprises and members.
- DIRM qualified members were supplied updates daily on insurance and pension sectors through separate web portal www.insuranceicaai.org
- A facility for online mock examination has been created for the CPT students on <http://bos.icaai.org>.

Other IT initiatives

- New ISA eLearning site for members has been developed and is accessible at <http://cit.icaai.org>
- The ISACA study group was created to educate and develop ISA members to provide Information Systems Assurance Services using IS Audit Standards, Guidelines and Procedures.
- Entire local area network (LAN) has been restructured at data centres at Chennai and New Delhi to facilitate better performance of Virtual Institute Project (VIP).
- To address the problem in uploading the CPE hours, CPE portal has been revamped and is accessible on <http://cpe.icaai.org>
- P-EVM (Preferential Electronic Voting Machine), a touch-screen based electronic voting system will be used for conducting ICAI elections for fast, transparent and dedicated voting solutions.
- Downloadable version of ICAI Motto song has been made available on the ICAI website which can be used in the mobile phones as ring tone.

INTERNATIONAL INITIATIVES



- ICAI Chapter has been established in Singapore too.
- The Institute of Professional Accountants of SAMARA Region (SIPA) recognised the ICAI qualification for granting membership of SIPA without requiring to pass any additional examination.
- Expedient issue of letter of good standing to the members for immigration/to pursue higher education abroad and seeking membership of ICAEW, CPA-Australia, ICAA and validity of the certificate also increased from 3 months to 6 months.
- International Conference on the theme *Winds of*

Challenges – Global Strategies for Accounting Profession from July 3-5, 2009, at Agra which was attended by about 2500 delegates from India and Abroad.

- An interactive meeting was held with the trade officials of the various embassies in India at ICAI, New Delhi to discuss issues on mutual co-operation with India. The meeting was attended by the trade officials from the embassies/high commissions of Germany, Iceland, Belarus, Paraguay, Tunisia, Malawi, Maldives, Sri Lanka and Pakistan.
- The process of formation of Ireland & Thailand Chapters of the ICAI is in advanced stage.
- Fee structure for members of the ICAEW and CPA Australia to become members of the ICAI and vice-versa has been finalized.
- Strategic and Finance Committee meeting of CAPA along with the training the trainers (TOT) programme on IFRS for private entities will be hosted by the ICAI from 25 to 27 January 2010 at the Centre of Excellence, Hyderabad.
- Mongolia CPA Institute has sought help in their professional programme and the ICAI will start the work in this regard in October, 2009.
- During the Africa Day celebrations in May 2009, the Mauritian delegation invited the ICAI to visit Mauritius to explore its relations in areas of mutual interest.
- The IFAC has communicated to the ICAI to know if ICAI is interested in hosting World Congress of Accountants 2014.

MRAs and MoUs

MoU with ICAA

As part of a drive to expand the Indian CAs' international horizons and to boost India accountancy profession globally, the memorandum of understanding (MoU) was signed with the Institute of Chartered Accountants in Australia (ICAA). This MoU has been signed on the principles of reciprocity to recognize the qualification, training of each other and admit the members in good standing by prescribing a bridging mechanism.



MoU with University of Djibouti

A memorandum of understanding (MoU) between ICAI and University of Djibouti was signed for imparting training to Djibouti nationals in sphere of accountancy and working collaboratively for institutionalization of Accountancy Body in Djibouti.

Joint Declaration(s)

A joint declaration with the Certified General Accountants Association of Canada (CGA Canada) was signed to augment and strengthen bilateral co-operation and to develop a mutually beneficial relationship in the best interest of members, students and institutions. The declaration will help the two institutes to gain further insights into each other's structure and operation, regulatory framework, with emphasis on the possible co-operation in respect of professional training, education and examination and technical research, as well as an international representation on the top bodies of the profession.

A joint declaration was also signed with Bahrain Institute of Banking & Finance (BIBA). This initiative



would allow both the Institutes to work towards capacity building for professionals of all nationalities within Bahrain and to build up a communication strategy between two bodies so as to portray the desired objectives amongst stakeholders nationally.

MoU with Department of Post

ICAI ARF has taken up a pilot project for implementation of accrual accounting system in two primary postal units of the Department of Posts with regard to which an MoU along with Strategy Paper covering scope of work, costs, time schedule, resource commitments, terms and conditions, etc., was signed on June 24, 2009, by the ICAI and the Department of Post.

MoU with Tally

As per the MoU with Tally, all practising firms using the prior version of Tally will receive the new Tally ERP 9 Auditors' Unlimited Multi-User Edition free of cost that will enable them to carry out audit remotely. In case they do not have the prior version, they may buy the new Tally ERP 9 Auditors' Edition at a special discounted price.

FOR MEMBERS IN INDUSTRY



Formation of CPE Study Circles:

CPE Study Circles for Members in Industry have been formed to further enhance their brand image and provide a forum for interaction to update their knowledge on a continuous basis. The WIRC, the SIRC, the NIRC and the CIRC have formed 5, 7, 3 and 1 CPE Study Circles respectively. Meanwhile, the WIRC, the NIRC and the CIRC are in process of opening one more CPE Study Circle each in their region.

ICAI Job Portal:

The ICAI Job Portal with the state-of-the-art filtering facilities and online payment facility for recruiting entities was launched on August 21, 2009. It is an in-house development with advanced search features to cater to the job needs of the experienced and new CAs and Accounting Technicians.

Concept Paper Released:

A draft concept paper on Indian Chartered Accountants in Public Service – *An Approach for Global Brand Building Exercise in the Knowledge Based World* was prepared so that the due recognition for the CAs is realised in industry within India and abroad. The concept paper has been hosted on the website for inviting comments.

FOR NEWLY QUALIFIED CAs



Campus Placement Programmes

Even in the time of economic crisis and depressed financial system, successful Campus Placement Programmes were organised for the newly qualified chartered accountants besides a Special Campus Placement Programme for those who had undergone three months Residential Programme on Professional Skills Development at NIFM, Faridabad as well as at L. N. Mittal Institute of Information Technology, Jaipur. Moving a step further, the ICAI has introduced one more programme exclusively structured for Small and Medium Sized Enterprises (SMEs) and Small and Medium Chartered Accountants firms. The brief summary of the above programmes is given below in **Table A**.

PROFESSIONAL OPPORTUNITIES/ DEVELOPMENTS/ NEW AVENUES



Submission of Panels:

Following panels submitted to extend the services of our members:

- The Oriental Insurance Co. Ltd
- Central Bureau of Investigation (Kolkata)
- Central Bureau of Investigation (Mumbai)
- The Financial Commissioner & Principal Secretary, Chandigarh.
- Office of the Commissioner of Income Tax-I, Kanpur.

Table A

Particulars	Campus Placement Programmes		
	Campus Placement Programme Mar - Apr, 2009	Special Campus Placement Programme held on 16 th May, 2009*	Exclusively Structured Campus Placement Programme Small & Medium Enterprises SMEs & SMPs -June, 2009.
Number of Centres	16	1	12
Registered Candidates	3842	88	1488
Candidates attended	2076	55	600
Jobs Offered	508	28	133
Percentage of jobs offered vis-a-vis Attended candidates	24.47%	50.90%	22.17%
Number of Companies	54	7	69
Number of Interview Teams	95	7	81
Highest Salary Offered (International Posting)	Rs. 23.00 lakhs per annum	NA	Rs. 19.70 lakhs per annum
Highest Salary Offered (Domestic Posting)	Rs. 9.00 lakhs per annum	Rs. 5.75 lakhs per annum	Rs. 5.75 lakhs per annum
Average Salary Offered	Rs. 6.06 lakhs per annum	Rs. 4.86 lakhs per annum	Rs. 4.34 lakhs per annum

* For Chartered Accountants who had undergone three months Residential Programme on Professional Skills Development at NIFM Faridabad as well as at L. N. Mittal, Institute of Information Technology, Jaipur



- Central Bureau of Investigation (Chennai)
- Central Bureau of Investigation (Bangalore)
- National Institute of Public Finance and Policy, a centre for applied research in public finance and public policy, agreed to appoint our candidates having the ATC certificates for their accounting related vacancies.
- The Insurance Regulatory and Development Authority (IRDA) has come forward to utilize the services of CAs in shouldering the responsibility of protecting the interest of policyholders. IRDA has directed that an insurer having Assets under Management (AUM) of not more than Rs. 1,000 crore shall conduct a Quarterly Internal Audit to cover both Transactions and related Systems and those above Rs. 1,000 crore should appoint a Chartered Accountant firm for audit.
- SEBI has recently revised the fees for inspection audit of Mutual Funds, applicable from the year 2008-09, with fees ranging from Rs. 70,000 to Rs. 8,50,000 based on asset under management.
- As a result of sustained efforts from the Institute, Punjab National Bank has introduced concurrent audit of its large branches by Chartered Accountants. And Bank of Baroda has increased the fees of concurrent auditors to the extent of 25%.
- The Insurance Institute of India has granted exemption in the five papers of Licentiate, Associate, and Fellowship courses to the members of the ICAI. In addition, members of the ICAI with DIRM qualification will be granted additional exemption in the three papers.
- The ICAI Panel of Arbitrators has been updated and hosted on the website of the Institute. To promote the awareness about the benefits to the parties in utilizing the services of the members empanelled on the ICAI Panel of Arbitrators, letters have been sent to the Hon'ble High Courts, Chambers of Commerce, Stock Exchanges and arbitral Institutes mentioning that the Institute maintains the Panel of Arbitrators whose services could be utilised as Arbitrators in the commercial disputes.
- Recommendations were made to IRDA to make CA qualification mandatory for the posts of Compliance Officers in insurance companies and CA independent directors to be made mandatory on the Boards of private insurance companies as in public sector insurance companies.

XBRL

- The ICAI application to the XBRL International Inc. (XII) for establishing the Indian XBRL Provisional Jurisdiction was approved in December 2008 leading to its establishment this year.
- The General Purpose Financial Reporting XBRL Taxonomy for Commercial and Industrial Companies (C & I Taxonomy) has been developed to enable companies to prepare their financial statements, viz., profit and loss statement, balance sheet and cash flow statement in XBRL format, based on the requirements of the accounting standards and Indian Company Law. The C & I taxonomy has further been revised to include the requirements under Clause 41 of the Listing Agreement, on the suggestion of the Reserve Bank

of India. The C & I taxonomy is being finalised for submission to the XBRL International (XII) for accreditation.

- The draft of the banking taxonomy has recently been considered by the Expert Group under the convenorship of the member from RBI on the Steering Committee. The same is being finalized for public exposure.
- The applications from individuals and organisations are being received to join the XBRL Indian Jurisdiction. The rules with regard to fee to be charged and bye-laws are being prepared. Thereafter, the applications for admission to XBRL Indian Jurisdiction would be finalised.
- The website of the XBRL India has been launched.
- A proposal for hosting the next XBRL International Conference in India in January 2010 has been sent to the XBRL International (XII).
- It has been decided to include the XBRL in the CA Study syllabus and explore the possibility of starting a certificate course on XBRL.
- To create awareness about XBRL by developing a pool of knowledge and sharing it, the focus of the September 2009 issue of 'The Chartered Accountant' journal was put on XBRL.

CONVERGENCE WITH IFRS

- To ease the convergence with IFRS, the Ministry of Corporate Affairs has constituted a core group under the Chairmanship of Secretary, Ministry of Corporate Affairs, while three members from the ICAI have been nominated for the core group.
- The ICAI, as part of its efforts to facilitate smooth implementation of IFRS from 2011, has launched a website on IFRS and prepared study materials for each individual IFRS.
- A CD on e-learning on IFRS has also been issued.
- In-house Executive Development Programmes were organised for the corporates for imparting training on IFRS. Nearly 25 such programmes have so far been conducted since February, 2009.
- A study group has been formed to study the tax implications of the implementation of IFRS in India.
- Report on issues relating to SEBI Rules and Regulations (other than Mutual Funds) arising out of convergence has been finalised.
- Report on issues relating to Companies Act arising out of convergence with IFRS has been finalised.

LIMITED LIABILITY PARTNERSHIP (LLP)

- With regard to the provisions of the LLP Act, 2008, the consequential amendments to the provisions of the Chartered Accountants Act, 1949 have been suggested to the Government
- For knowledge dissemination of policy issues, e-portal issues and other operational aspects of LLP, the Institute has organised a chain workshops/seminars on Limited Liability Partnership at various Regional offices/Branches of ICAI.
- To provide a better understanding of this new form of business organisation and to help members assume leading role in successful implementation of this concept in India, the articles published in August 2009 issue of 'The Chartered Accountant' journal focused on LLP.

**CERTIFICATE COURSES****Certificate Course on Enterprise Management**

The objectives of this course is to impart the necessary technical knowledge and expertise and build upon the skill sets of the members of the Institute, thereby assisting them to play a leading role in various aspects of Enterprise Risk Management and develop it as an area of core competence. The course has been launched and its first batch has already concluded in New Delhi

**Master in Business Finance Certificate Course**

This one-year course through self-study, group discussions, case studies, project reports as well as class-room sessions, will empower the members with the technical skills as well as analytical and decision-making power in financial management. The course has been launched this year and batches at New Delhi and Mumbai have already been started in July 2009.

Certificate Course on International Taxation

This Course has been designed to provide a visible means of having acquired specialized knowledge in all aspects of the international taxation. The first batch of Certificate Course on International Taxation, inaugurated by Smt. Saroj Bala, Member, CBDT, was conducted and concluded in Mumbai on May 30, 2009. Later it was also conducted in Hyderabad and New Delhi.

Certificate Course on Valuation

This course has been launched in Delhi, Mumbai, Chennai and Kolkata. The first batch of the course has been successfully completed at all these centres. About 170 participants qualified the course.

Certificate Course on Forex and Treasury Management, and on Derivatives

These Courses were introduced and conducted in Mumbai and New Delhi respectively. A new certificate course with the title Fundamental and Technical Analysis of Stocks is being planned.

BRAND-BUILDING

- *National Leadership and Yoga Camp* for all the elected representatives of the Institute at all three tiers – Central Council, Regional Councils and Branches – was organized on 14th-16th March, 2009 at Haridwar. Participants were trained by the world renowned Baba Ramdev Ji and the event was telecasted live on Aastha channel on all three days.
- T-20 Day & Night Diamond Jubilee Cricket Match between team ICAI and Team IRS Income-tax was organized at Ferozeshah Kotla, Delhi on April 4, 2009. The match was inaugurated by Shri S.S.N.Moorthy, Chairman, CBDT. A ceremonial



match also organized between the ICAI Council Members and the CBDT functionaries. Both the matches were relayed live on DD Sports and received very good response.

- Convocations for award of Associate membership certificates for the newly enrolled members for the period from September 2008 to February 2009 were organized in all the five regions at Mumbai, New Delhi, Chennai, Kolkata, Hyderabad, Jaipur, Bangalore and Ghaziabad. The convocations were attended by dignitaries like Shri Nitin Gadkari, Member of Legislative Council, Maharashtra; Shri S. K. Chattopadhyay, Chief Commissioner of Income Tax-IV; Mr. Kishore Biyani, Managing Director, Pantaloon Retail (India) Limited & Future Group; Shri A. N. Chatterjee, Deputy C&AG; Dr. Sanjay Singh, Member of Parliament; Dr. Justice A. R. Lakshmanan, Chairman, Law Commission of India and former judge Supreme Court; CA. G. D. Agarwal, VP, ITAT Kolkata; CA. Benjamin Lakra, Accountant General, (A & E); CA. Radhye Shyam Agarwala, Chairman, Emami Group; Shri Ashok Bairwa, Minister of State for Information & Public Relations (Independent), Govt. of Rajasthan; and Shri Mangi Lal Garasia, Minister of State for Youth Affairs and Sports (Independent), Govt. of Rajasthan.
- Format of signboard and letterhead used by the Regional Councils and Branches has been standardized to contain the name of the institute on the top and below it the name of the regional council/branch concerned.
- To inculcate a sense of belongingness and to promote the concept of *Parivar* among ICAI members and students, a practice of sending personalized SMSes and e-mails from the President on their birthdays has been started.
- Practise has been started to inform all other events and important messages by e-mail to the members.

SOCIAL RESPONSIBILITY

- The ICAI has adopted the *Go Green* motto and launched the project *Planet Alert*, an initiative to combat one of the biggest challenges of our time – climate change (global warming), to create awareness and find solutions on a long-term and sustained basis.
- As part of *Planet Alert* campaign, on June 5 (World Environment Day), 2009, its first module *Radiothon*, an 18-hour awareness campaign aired across 45 cities in India through the BIG Radio to spread awareness on climate-related issues such as melting of the Himalayan glaciers and the threat to coastal areas, was launched.
- A 'Go Green' run was organized in the morning of July 5, 2009, at Agra which was participated by about 7,000 members, students and their family members. Celebrated actor Mr. Rahul Bose addressed the gathering on global warming and other environmental issues. Further, a documentary on global warming was also released by Mr. Bose, the brand ambassador of the campaign.
- 'CA Parivar' Foundation was constituted as a Trust wherein Chartered Accountants can come together to undertake social and charitable projects to bring recognition and credit to the CA fraternity.

**FOR THE STUDENTS**

- Conditions / grounds for transfer / termination of articles specified.
- Conditions for condonation of breach of Regulation 65 streamlined.
- Scholarship of Rs. 1,000 per month for one year given to 100 articled assistants belonging to economically weaker sections.
- To facilitate each student to appear in CPT examination two times, one online and one paper-pencil, in a period of six months, Online CPT examination is now conducted every month except in June and December when there are paper-pencil examination.
- Three batches of **Three months' Residential Course** were organized during the period. Out of these, two batches were organized at National Institute of Financial Management, Faridabad and one at Indian Institute of Management, Indore.
- **GMCS Classes** - During the period from February 1, 2009–August 31, 2009, 159 batches of General Management and Communication Skill (GMCS) course have been organized at 41 centres and 6668 students have been trained.
- Two sets of mock test papers were prepared to help the students of Professional Competence Course to test their level of preparation for the examination.
- **Dress Code** – A dress code has been issued for the CA students so that they are properly attired while coming to the Institute and while attending classes, seminars, conferences, GMCS classes, IT training, etc.
- A total number of 68 lectures were delivered to CPT students through the Gyandarshan Lecture series. Similarly, 34 lectures were delivered for PCC students.
- Comprehensive study materials for the orientation programme for the Integrated Professional Competence Course (IPCC) and Accounting Technician Course (ATC) were prepared.
- The national sports competition and the national youth festival have been organized in 23 branches so far. Further, elocution contest has been held in 31 branches and quiz contest has been held in 30 branches.
- 10th, 11th, 12th, 13th, 14th and 15th National Conventions of CA Students were organized in Vadodra, Jaipur, Nagpur, Kanpur, Kolkata and Ghaziabad respectively. All conventions were participated by the large number of students.
- 22nd All India CA Students Conference was organized in Ernakulam, Kerala from August 21-22, 2009. Nearly 1500 students participated in the National Conference. 12 students from Sri Lanka and 6 students from Nepal attended the Conference as part of the SAFA Students Exchange Programme.

ITT LABS

To cater to the training needs of large number of students, specific attention has been paid for the establishment of new labs and expansion of existing Information Technology Training Lab (IIT Lab) at various branches across the country. From February 2009 to August 2009 as many as 16 new labs were set up whereas 14 existing labs were further expanded. In these labs 810 computers were installed and 25468



students were enrolled to provide IT training during this period.

OTHER INITIATIVES**Publications**

During the period a number of books, Standards, drafts, guidances and technical guides were released for the professional development and updation of members and benefit of students. The complete list of publications is given in the **Annexure B**.

**Strengthening Peer Review Mechanism**

The Council of ICAI has accepted the recommendation of SEBI that for appointment as an auditor of listed companies for accounting periods commencing on or after April 1, 2009 the auditor Firms/Practice Units must have a certificate from the Peer Review Board of the Institute. Further, the Council also accepted the recommendation of SEBI that the financial statement of an unlisted company coming out with an initial public offer (IPO) should also be certified by the Audit Firms/Practice Units who have been issued a Certificate from the Peer Review Board. Consequent to the decision of the Council 1240 firms were identified which are the auditors of Listed Companies, but have not yet been selected under Peer Review Process. These firms were brought under Peer Review Process, with the aim to fast track their Peer Review clearance so as to comply with the SEBI's recommendations.

Training Programmes has been organised for imparting training to more than 1,500 Peer Reviewers to strengthen the number of Trained Reviewers in the Country. During the period, 24 such programmes were organised in many parts of the country such as Bhubaneswar, Ghaziabad, Hyderabad, Chandigarh, Udaipur, Noida, Trichy, Jodhpur, Kolkata, Bikaner, Dibrugarh, Bangalore, Agra, Lucknow, Bhopal, Indore, Patna, Jameshpur, Siliguri, Meerut, Mumbai, Raipur and Chennai.

Process of consideration of Peer Review Reports has been expedited. Peer Review Certificates have been issued in 1,149 cases since February 2009.

An online group is being formed for all the Peer Reviewers, which shall facilitate exchange of news, and views and other development related to peer review process.

A revised concise collection of Frequently Asked Questions (FAQ's) has been released for the Practice Units and Reviewers.

Quality Review Board constituted by the Government has also made operational and two meeting of the Board has already taken place.

Capacity Building of CA Firms

For capacity building of CA firms, seniority of the oldest firm amongst merging firms given to merged firm and individual members practising in his name also now treated at par with a firm for the purpose of merger of firm. This decision comes into retrospective effect from April, 2005.

An exhaustive feedback of the members on various capacity-building measures of the Institute was collected through a feedback form. An analysis was



done to identify the difficulties/impediments being faced by practising Small & Medium Practitioners in consolidation.

The position of the 39 Networks registered with the ICAI was reviewed by sending feedback forms to the 119 firms. The exercise facilitated identification of the challenges/bottlenecks being faced by them.

CA networking portal www.caconnect.co.in was launched to facilitate the identification and interaction amongst interested practising members for networking, mergers, etc.

Ensured availability of updated comprehensive data of the Networks registered in India, on the website of the Institute for easy accessibility by the end users.

INCREASED FINANCIAL ASSISTANCE

As part of the drive to ensure welfare of members and their families, it has been decided that the sum of financial assistance given to the members/their family members be enhanced up to Rs. 7,500/= per month and in deserving cases even up to Rs. 10,000 per month. Similarly, the one time lump sum grant of one lakh Rupees currently being given to the family of the demised members of below age of 45 years has been revised to Rs. 1.50 lakhs and the age limit has also been raised to 55 years. It has also been decided to consider cases to grant one time financial assistance even up to Rs. 5 lakhs to the family of the demised members where the circumstances so warrant in order to provide some amount of financial security to the widow of the late member of the fraternity. From February 1, 2009 till date, a total financial assistance of about Rs. 89 lakhs was given to the 105 beneficiaries as given below:

Sl. No.	Details	No. of Beneficiaries	Amount in Rupees
1.	Lump sum financial assistance on unnatural death of member	14	46,00,000
2.	Lump sum financial assistance for medical treatment	4	6,00,000
3.	Monthly financial assistance	87	37,09,500
Total		105	89,09,500

SPEEDY DISPOSAL OF DISCIPLINARY CASES

In regard to Complaint cases dealt with under the old Chartered Accountants Act, 1949 as on date, only one case is pending with the Office for prima facie opinion of the Council due to stay from Uttarakhand High Court in this matter. With this, all the Complaint cases have been considered at prima facie stage by the Council but for the aforementioned one case. As regard the Information cases, out of last lot of 23 cases, 10 cases have been prima facie considered by the Council and balance 13 cases would be taken up in the forthcoming meetings.

- Subsequent to the constitution of the Committee on 5th February, 2009, the Disciplinary Committee has held 11 meetings held at different cities over 14 days and has fully heard and concluded 46 cases.
- Under the new Disciplinary mechanism, the Board of Discipline and Disciplinary Committee have considered and decided 1050 cases including the case related to Satyam Fiasco in which Director (Disc.) formed its prima facie opinion.

WOMEN EMPOWERMENT

Recognising the need to work towards empowerment of women to enable them to make their contribution in the profession, society and their personal lives, a Women's Steering Group (WSG) has been established with an aim to define a better role for women CAs coinciding with the International Women's Day i.e. March 8. Two conferences were organized by the WSG at New Delhi and Indore which were graced by Ms. Ravneet Kaur, Jt. Secretary, Banking and Finance, Ministry of Finance and Smt. Malini Gaud, Member of Legislative Assembly of Madhya Pradesh respectively.

ANNEXURE - A



Representations Submitted

- Reserve Bank of India, Mumbai opposing autonomy given to banks to appoint auditors.
- Insurance Institute of India, Mumbai seeking exemption in their Licentiate, Associateship and Fellowship papers for members of the ICAI.
- The Department of Commercial Tax, Government of Uttar Pradesh seeking clarifications under Uttar Pradesh Value Added Tax Act, 2008 and VAT audit provision under the Act and also seeking general extension to obtain and submit the Audit Report till 30th June, 2009.
- The Charity Commissioner (Maharashtra State), Mumbai Request for allowing Chartered Accountants to appear in matters pertaining to registration of societies and registration of trusts.
- The Chief Minister of Goa for introduction of Double entry and Accrual Based Accounting System for Goa Government.
- The Controller of Certifying Authorities, Department of Information Technology, Government of India for empanelment of Auditors for auditing infrastructure of Certifying Authorities.



- The Central Board of Direct Taxes seeking clarification regarding new Form No. 17.
- The Central Board of Direct Taxes on undue hardship faced by assesseees on account of delay of refund in scrutiny cases in respect of A.Y. 2007-08.
- Andaman & Nicobar Islands Khadi & Village Industries Board asking them to amend their quotation notice for preparation, re-casting and auditing of the Budgetary Resources Account and Consortium Bank Credit Account, and bring the same in line with the Code of Ethics.
- Ministry of Finance, Government of Maharashtra and the Commissioner of Sales Tax (Maharashtra State), Mumbai regarding violation in the matter of VAT & CST Registration Certificate of Dealers in Maharashtra.
- Ministry of Social Justice & Empowerment, Government of India for empowerment of visually challenged Chartered Accountants by mandating their employment in government sector in finance and accounts areas.
- All Chief Ministers suggesting introduction of Double Entry Accrual based Accounting system.
- Reserve Bank of India requesting them to provide updated list of districts to ICAI for Bank Branch Auditors Panel.
- The Law & Judiciary Department, Government of Maharashtra, Mumbai suggesting introduction of Amnesty Scheme and on-line system for compliances/registration of documents with the office of the Registrar of Firms, Maharashtra, Mumbai.
- Central Board of Excise & Customs proposing nomination of Chartered Accountants u/ss 14A and 14AA of the Central Excise Act, 1944 for special audit.
- Comptroller & Auditor General of India regarding differential audit fee of Public sector and Private sector.
- The Ministry of Information Technology & Communications Government of India seeking extension of time to submit the Annual Performance Report (APR) to the STPI.
- Chief Finance & Account Officer regarding Audit of schemes under Madhyam Bhojan Pradhikaran.
- The Central Board of Direct Taxes on genuine hardships and practical difficulties faced in getting a Certificate for lower deduction or non-deduction of tax at source.
- The Central Board of Direct Taxes on hardships and practical difficulties likely to arise in the filing of Income tax Returns for A. Y. 2009-10 with respect to the directions given in the CBDT Circular No. 03/2009 dated 21-05-2009.
- Reserve Bank of India regarding Remuneration for Concurrent Audit of Banks.
- The Deputy Comptroller & Auditor General of India requesting them to avoid turnover criteria while forwarding the panel to other Government authorities.
- The Comptroller & Auditor General of India regarding rationalisation of audit fees of public sector undertakings.
- The Principal Secretary, Panchayati Raj, Government of Uttar Pradesh requesting him to cancel the tender floated for Appointment of auditors of Gram Panchayat - DPRO Faizabad.
- The Commissioner of Sales-tax, State of Maharashtra requesting him not to issue the Ordinance for formation of Institute of Sales Tax Practitioners.
- The Minister of State for Finance, Government of India, requesting reconsideration of autonomy given to banks to appoint auditors.
- Ministry of Rural Development, Government of India requesting them to avail the panel of Chartered Accountants from ICAI for conducting various kinds of audits/assignments.
- The Reserve Bank of India on procedure for allocation of Central Statutory Audits of Public Sector Banks.

ANNEXURE B



List of Standards/Other Technical Literature Brought Out

Technical Directorate

Technical Guide on Share Valuation

Technical Guide on Estimation of Future Cash Flows and Discount Rates for the Purposes of AS 28

Auditing & Assurance Standards Board

Standard on Auditing (SA) 230 - Audit Documentation

Standard on Auditing (SA) 250 - Consideration of Laws and Regulations in an Audit of Financial Statements



Standard on Auditing (SA) 260 - Communication with Those Charged with Governance

Standard on Auditing (SA) 570 - Going Concerned

Standard on Auditing SA 560 - Revised Subsequent Events

Standard on Auditing (SA) 210 (Revised) - Agreeing the Terms of Audit Engagements

Standard on Auditing (SA) 265 - Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

Standard on Auditing (SA) 320 (Revised) - Materiality in Planning and Performing an Audit

Standard on Auditing (SA) 402 (Revised) - Audit Consideration Relating to an Entity Using a Service Organisation

Standard on Auditing (SA) 450 - Evaluations of Misstatements Identified during the Audit

Standard on Auditing (SA) 610 (Revised) - Using the Work of Internal Auditors

Standard on Auditing (SA) 510 - Internal Audit Engagements- Opening Balances

Standard on Auditing (SA) 530 - Audit Sampling

Standard on Auditing (SA) 540 - Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures

Standard on Auditing (SA) 550 - Related Parties

Standard on Auditing (SA) 500 (Revised) - Audit Evidence

Standard on Auditing (SA) 720 (Revised) - The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements

Guidance Note on Audit of Banks (Revised 2009)

Training Manual on Engagement and Quality Control Standards

Handbook of Auditing Pronouncements Vol. I & II (2009 Edn.)

Revised Booklet on "What is an Audit – Understanding an Audit of Financial Statements"

Direct Tax Committee

Taxation of Charitable Trust and Institutions - A Study Professional Development

Committee Doing Business in India

Clean Development Mechanism and Carbon Credits - A Primer

Professional Opportunity for Members- An Appraisal

Ethical Standards Board

Code of Ethics (Rev)

Information Technology Committee

Technical Guide on IS Audit

Technical Guide on System Audit of Stock Brokers

Data Analysis for Auditors - Practical Case Studies on Using CAATs

Service Tax Kit (Revised)

CD with booklet of e-learning/ computer based training on using MS Excel 2007

Committee on Insurance and Pension

Technical Guide on Review and Certification of Investments Risk Management System and Process of Insurance Committee

Motor Third Party Claims Management

Technical Guide on Internal / Concurrent Audit of Investment Functions of Insurance Companies Micro Insurance

CTL & WTO

Study on Benefits of Preferential Trade Agreement

Internal Audit Standards Board

Training Material on Internal Audit

Compendium of Standards on Internal Audit (Revised) -2

Standard on Internal Audit (SIA) 8 – Terms of Engagement

Standard on Internal Audit (SIA) 9 – Communication With Management

Standard on Internal Audit (SIA) 10 – Internal Audit Evidence

Standard on Internal Audit (SIA) 11 – Consideration of Fraud in an Internal Audit

Internal Audit Manual

Standard on Internal Audit (SIA) 12 – Internal Control Evaluation

Standard on Internal Audit (SIA) 13 – Enterprise Risk Management

Standard on Internal Audit (SIA) 14 – Internal Audit in An Information Technology Environment

Standard on Internal Audit (SIA) 15 – Knowledge of the Entity and its Environment

Standard on Internal Audit (SIA) 16 – Using the Work of An Expert



Guide to Implementing Enterprise Risk Management Framework

Certificate Course on Enterprise Risk Management

Technical Guide on Internal Audit of Stock Brokers

Technical Guide on Internal Audit of Intangible Assets
Booklet on "What is An Internal Audit"

Board of Studies

Suggested Answers PCC Gr. II Nov. 08

Suggested Answers PEII Gr. II Nov. 08

Suggested Answers PCC Gr. I Nov. 08

Suggested Answers PEII Gr. I Nov. 08

Suggested Answers Final Old course Gr. II Nov. 08

Suggested Answers Final Old course Gr. I Nov. 08

Suggested Answers Final New course Gr. I Nov. 08

Suggested Answers Final New course Gr. II Nov. 08

Revision Test Papers PE II Gr. I June 2009

Revision Test Papers PCC Gr. I June 2009

Revision Test Papers PE II Gr. II June 2009

Revision Test Papers Final (Old) course Gr. I June 2009

Revision Test Papers PCC Gr. II June 2009

Revision Test papers Final (New) course Gr. I June 2009

Revision Test Papers Final (New) course Gr. II June 2009

Revision Test Papers Final (Old) course Gr. II June 2009
Orientation Programme IPCC & ATC

Self Development Series -1 - Personality Development

Self Development Series - 4 - Time & Stress management

Self Development Series - 5 - Skill for General Correspondence

Self Development Series- 6 - Audit Documentation

Compilation PE II Accounting

Compilation PE II Auditing

Compilation PE II Business and Corporate Laws

Compilation PE II Cost Accounting

Compilation PE II Financial Management

Compilation PE II Information Technology

Self Development Series -2 - Public Speaking Skills

Compilation Final Management Accounting and Financial Analysis

Compilation Final Management Information Control System

Compilation Final Corporate Law and Secretarial Practice

MERGER OF FIRMS – SENIORITY/ FIRM NAME ISSUES

To give boost to the capacity building of the Chartered Accountants firms, the Council in its 250th meeting held in April, 2005 had approved a scheme envisaging merger of two or more firms of Chartered Accountants into one firm so that larger firms could come into existence.

The Council in its 280th meeting held in August, 2008 while considering issues relating to seniority of firm and name of the merged firm as a consequence to the merger of firms restated that as and when two or more firms of Chartered Accountants merge, the seniority of the oldest firm amongst the merging firms will be given to the merged firm and the merging firms will have flexibility to choose a name of the merged firm provided the provisions of the Regulation

190 are duly met and the seniority will be reflected as deemed seniority in the firm constitution certificate.

While considering a specific question as to whether such a decision will also apply to previous merger cases (i.e. prior to August, 2008), the Council in its 288th meeting clarified that the decision already taken by it in its 250th meeting held in April, 2005 will apply to all merger cases which had taken place effective from April, 2005 onwards i.e. the decision be given effect retrospectively.

In other words, the principles of seniority and choosing the name of merged firm in accordance with the above decision of the Council will be effective in respect of all merger of Chartered Accountants firms which have taken place from April, 2005 onwards.

Secretary

17th September, 2009

Know Your Ethics

(Continued from September 2009 issue)

Ethical Issues in Question-Answer Form

- Q.** Can a chartered accountant in practice agree to select and recruit personnel, conduct training programmes and work studies for and on behalf of client?
- A.** Yes, the 'Management Consultancy and other Services' as specified by the Council includes both, personnel recruitment and conduct of training programmes and work studies. As such, the same are permitted for a chartered accountant in practice.
- Q.** Whether a member in practice can act as insurance agent and arrange business for the Insurance Companies?
- A.** No, a member in practice is permitted to render Insurance Financial Advisory Services only. It is not permissible to a member to do any kind of marketing and business procurement for any insurance company. Their services are limited to professional services in the form of advisory and consultancy services.
- Q.** Whether Code of Ethics is applicable outside India?
- A.** The Code of Ethics of the Institute is applicable to all the members, even outside India.
- Q.** Can a chartered accountant in practice allow any person to practice in his name as a chartered accountant?
- A.** No, a chartered accountant in practice is prohibited to allow any person to practice in his name as a chartered accountant unless such person is also a chartered accountant in practice and is in partnership with or employed by him.
- Q.** Can a chartered accountant in practice secure any professional business through the services of a person who is not his employee or partner?
- A.** No, the CA Act, 1949 does not permit a practising chartered accountant to secure, either through the services of a person who is not an employee of such chartered accountant or who is not his partner, any professional business.
- Q.** Whether a member in practice is permitted to respond to announcement for empanelment for allotment of audit and other professional work and quote fees on enquiries being received?
- A.** It has been clarified by the Council that if announcements are made for empanelment by Government, Corporations, Courts, Co-operative Societies, Banks and other similar Institutions, the members may respond to such announcements provided the existence of panel is within their knowledge. The Council has further clarified that the quotations of fees can be sent if enquiries are received by the members in this regard.
- Q.** Whether a member in practice is permitted to have his name published in Telephone Directory?
- A.** Yes, a member in practice is permitted to have his name published in the Telephone Directory subject to certain conditions:
1. The entry should appear in the section/category of "Chartered Accountants".
 2. The member/firm should belong to the town/city in respect of which the directory is being published.
 3. The entry should be in normal type of letters. Entry in bolder type or abnormal type of letters or in a box is not permissible.
 4. The order of the entries should be alphabetical and logical.
 5. The entry should not appear in a manner giving the impression of publicity/ advertisement. Entry should not be given in a manner which gives prominence to it as compared to other entries.
 6. The payment, if any, for the entry should not be unreasonable.
 7. The entries should not be restricted and should be open to all the chartered accountants/firms of chartered accountants in the particular city/town in respect whereof the directory is published.
 8. Subject to the above conditions, the members can also include their names in trade directories which are published and/or otherwise available such as electronic media e.g. Internet, telephone services like "Ask Me Services".
- Q.** Can a member in practice indicate in a book or an article, authored /contributed/published by him, his association with any firm of Chartered Accountants?
- A.** No, as per CA Act, 1949, a member is not permitted to indicate in a book or an article, authored/ contributed/published by him, his association with any firm of Chartered Accountants.
- Q.** Can a Chartered Accountant in practice seek professional work from his professional colleagues?
- A.** Yes, as per CA Act, 1949 a member is permitted to apply or request for, or to invite, or to secure professional work from another Chartered Accountant in practice.

(... To be Continued)

*Contributed by Ethical Standards Board of ICAI

A Round-Up on the Campus Placement Programme Organized during September, 2009¹

In its endeavor to provide quality Accounting, Finance, Tax, Audit and Management Consultancy personnel to recruiting entities, the Committee for Members in Industry (CMII) of the Institute has successfully organized one more round of Campus Placement Programme for newly qualified Chartered Accountants at sixteen centres as per following schedule:

Centre	Dates
Mumbai and New Delhi	8 th -12 th September, 2009
Bangalore, Chennai and Kolkata,	8 th -11 th September, 2009
Ahmedabad, Hyderabad, Jaipur and Pune	23 rd -24 th September, 2009
Chandigarh, Coimbatore, Indore, Jaipur, Kanpur, Ludhiana, Nagpur and Surat	23 rd September, 2009

Executive Summary

- Highest salary offered in the Campus Placement Programme is Rs. 10.61 Lacs per annum.
- The Minimum Salary paid is Rs 3.00 Lacs per annum.
- The average salary offered to the candidates is about Rs. 5.15² lacs per annum.
- Around 902³ jobs were offered to the candidates who participated in Campus Placement Programme.
- 71 entities including the Corporate organizations and the Chartered Accountancy Firms have participated during the Campus Placement Programme.
- 133 Interview Panels have participated during this Campus Placement Programme.

Salient features

- Shortest process cycle of Campus Placement Programme.
- Candidates have been given two choices to meet the recruiting organisations. First at bigger centres and second (if the candidates has not been selected at bigger centre) at smaller centres.
- Two rounds of online registration as a facilitation to the candidates.
- The CMII brought out revised publication on 'Handbook for newly qualified Chartered Accountants' to enable candidates to prepare for interviews.
- The committee organised Orientation Programme for candidates to sharpen their soft skills and give updates on the technical side.
- In this Campus Placement Programme candidates who have opted for bigger centres as the first choice for appearing in Campus Placement Programme have been permitted to attend the Orientation Programme at any of the smaller centres to avoid the requirement to travel to bigger centres for attending the Orientation Programme.

We got recruiting entities representing wide range of industries and sectors both from public and private. By ensuring placement for more than 900 candidates ICAI has once again proved itself as a formidable force in providing entry level finance, audit and compliance executives.

In all 3235 candidates had the opportunity to avail this service. The bio-data of these professionals were classified centre-wise and they were given an opportunity to meet 133 interview boards of 71 organisations at Sixteen centres.

The following tables show the statistical information of campus interview at a glance:

A) Bigger Centres

Centre	Number of Interview Teams	Jobs Offered
Bangalore	10	95
Chennai	14	87
Kolkata	14	58
Mumbai	17	147
New Delhi	22	348
Total	77	735

B) Smaller Centres

Centre	Number of Interview Teams	Jobs Offered
Ahmedabad	6	6
Chandigarh	6	36
Coimbatore	2	6
Hyderabad	10	35
Indore	4	10
Jaipur	8	23
Kanpur	3	3
Ludhiana	2	4
Nagpur	4	9
Pune	10	33
Surat	1	2
Total	56	167

C) Consolidated

Number of Candidates Reported	3235
Number of Interview Teams	133
Number of Organisations	71
Number of Jobs Offered	902
Percentage of jobs offered vis a vis attended candidates	28%

For further details kindly visit <http://www.cmii.icaai.org>

¹ An executive summary on the Campus Placement Programme for newly qualified Chartered Accountants conducted by CMII during August-September, 2009. Comments are welcome at placements@icai.org particularly on further penetration of the Campus Placement System.

² Calculated on the basis of offers accepted by candidates.

³ This write up reflects the status as on 24/09/2009 05:30 PM. Results are awaited from some of the companies.

LEGAL DECISIONS¹

DIRECT TAX



Section 28 read with Sections 22 and 56 of the Income-tax Act, 1961 – Business income

Where letting/leasing out of property was part of business object of a concern/person, rental income would be treated as 'business income'

Commissioner of Income Tax, New Delhi vs. D. S. Promoters and Developers Private Limited, 1st May, 2009 (Delhi).

The assessee received rental income from J&K Bank Limited in respect of its property at Lajpat Nagar, New Delhi and from Total Care (India) Pvt. Ltd. as well as Shivalik Tyres Ltd. in respect of the building in South Extension, New Delhi. The Lajpat Nagar property was directly owned by the Assessee, whereas the South Extension property has been leased out to the Assessee. Both the Commissioner (Appeals) and the Tribunal found that same to be business income. The case of the Revenue was that the income derived by the Assessee from the two properties was taxable as 'Income from other sources'.

The Delhi High Court held that:

The fact that the prominent object of the assessee was "to purchase develop, take in exchange or on lease or otherwise acquire lands, houses, farm house, buildings, sheds industrial or otherwise and other fixtures on land and buildings and to let them out on lease, rent, contract or any other agreements as might be deemed fit, or to, construct improve, sell, exchange mortgage lands, houses, flats, sheds, factories sheds and buildings apart-

ments to any person on terms and conditions as might be deemed fit, or to hold, maintain sell, allot, houses apartments, sheds or buildings thereof to the shareholders or to any other person". Even after scrutiny carried out for Assessment Year 1997-1998 to 2000-2001 the receipts were accepted as business income, which was indubitably a plausible view. Since no fresh facts had been brought to light, the consistency rules had been applied. There was no error in this conclusion that the amount received by the assessee from J&K Bank was 'Business income'.

Since the Assessee was not an owner of the South Extension property, it could obviously not have been taxed under the head of 'Income from house property' and, therefore, would have to be assessed under the head 'Income from other sources'. The CIT(A) had also discussed various clauses in the Franchise Agreement in great depth and detail, and had held that the income/commission received by the Assessee from Total Care (India) Pvt. Ltd. was business income. He observed that the premises were chosen by Total Care (India) Pvt. Ltd. firstly because of the location and secondly because of the large number of walk-ins since a restaurant, as well as a Bar, was being run within the same building; the businesses were complimentary to each other; the appellant had covenanted not to open a competing business; Total Care (India) Pvt. Ltd. relied on the expertise of the assessee with respect to display of goods; the appellant exercised control over the opening and closing of the showroom by Total Care (India) Pvt. Ltd.; since Total Care (India) Pvt. Ltd. could not achieve desirable levels of sales, the Agreement had been terminated. In its place a restaurant by the name of Gourmet Gallery had been opened. The Tribunal had also made an in-depth study of the agreements as

also the user to which the entire building in South Extension had been put. It noted that the business of the Assessee, apart from dealing in properties, was also the running of restaurants; that the assessee's purpose was to commercially exploit the business asset, that is, building in South Extension in respect of which it had invested a sum of approximately Rupees 1.3 crores for renovations; that the premises have been earlier utilised to run a store selling garments under the trade name Golden Arch. The thinking of the Tribunal was largely influenced by the manner in which the entire building had been utilised. There was no reason to dislodge the concurrent findings of fact, as there was no perversity in the conclusion arrived at. Accordingly, the amount received by the assessee from Total Care was 'Business income'.

So far as another income was concerned, the Assessee had also been in the restaurant business. All throughout the Assessee was also running its own Bar and had even offered the use of its Bar Licence to Shivalik Tyres Ltd., in the event that the latter had failed to obtain its own. Shivalik Tyres Ltd. was already engaged in the business of restaurant in the name of Orlando at Noida, whilst the Assessee was running Gourmet Gallery. The Assessee had taken a decision to exploit its business assets by entering into an arrangement with Shivalik Tyres Ltd. related to the restaurant business. The fact that the minimum guarantee amount was stipulated in the agreement to ensure the minimum returns of the investment made by the Assessee could as well be a business decision as it could be a lease agreement. Nothing turns on it. These concurrent findings of fact were not perverse and to the contrary, these were relevant. Therefore, the amount received from Shivalik Tyres was business income.

¹ These cases have been compiled and contributed by Mr. Susanta K. Sahu, Secretary, Committee on Economic and Commercial Laws. Readers are invited to send their comments on the selection of cases and their utility at eboard@icai.org. For the convenience of readers full text of these cases have been hosted on the website of the institute at the link: www.icai.org/post.html?post_id=967&c_id=59

The Revenue's appeal was dismissed.

Section 41 of the Income-tax Act, 1961 – Profits chargeable to tax
Taxability of balancing charge of items costed less than Rs. 5,000 prior to and after amendment by Finance Act (No. 2) Act, 1995 with effect from 1-4-1995 [Assessment Year 1990-91]
Nectar Beverages Pvt. Ltd. vs. Deputy Commissioner of Income Tax, 6th July, 2009 (SC)

The assessee who is the manufacturer of soft drinks, purchased bottles and crates, each item of which costed less than Rs. 5,000. During relevant assessment years 1990-91 to 1998-99, the Department sought to tax the sale proceeds of the 100% depreciated written off assets as the business income of the assessee under Section 41(1).

The Supreme Court held that section 41 falls under Chapter IV which deals with computation of business income. Section 41(1) has remained unchanged, both, before 1.4.1988 and even after 1.4.1998. Section 41(2), however, stood deleted between assessment years 1988-89 and 1998-99 for about ten years. Under Section 41(1), where any allowance or deduction has been made in the assessment for any year in respect of loss, expenditure or trading liability incurred by the assessee, and subsequently during any previous year the assessee had obtained, such loss or expenditure in respect of such trading liability by way of remission or cessation thereof, the amount obtained by him, shall be deemed to be income of that previous year in which the recoupment takes place. Prior to 1.4.1988, Section 41(1) and Section 41(2), both, existed on the statute book. Section 41(2) specifically brought to tax the balancing charge as a deemed income under the 1961 Act. It stated that where any plant owned by the assessee and used for business purposes was sold, discarded or destroyed and the moneys payable in respect of such plant exceeded the written down value, then, so much of the surplus which did not exceed the difference between the actual and the written down value was made chargeable to tax as business income of

the previous year in which moneys payable for the plant became due. In other words, section 41(2) made the balancing charge taxable as business income. If the argument of the Department of reading the balancing charge under Section 41(2) into Section 41(1) was to be accepted then it was not necessary for Parliament to enact Section 41(2) in the first instance. In that event, Section 41(1) alone would have sufficed. Section 41(1), Section 41(2), Section 41(3) and Section 41(4) operated in different spheres. One more aspect needs to be highlighted. Each of the sub-sections to Section 41 deals with different and distinct circumstances. For example, Section 41(1) deal with recoupment of trading liability. Section 41(2) dealt with the balancing charge. Section 41(3) specifically deals with balancing charge in respect of assets relating to scientific research whereas Section 41(4) deals with recovery of bad debts earlier allowed. Therefore, each of the sub-sections deal with different and distinct topics and one cannot read recoupment under one sub-section into another.

The entire controversy would stand resolved if one understands the meaning of "balancing charge". Where any allowance or deduction had earlier been made in respect of any loss, expenditure or trading liability and subsequently the assessee has obtained or realized any amount towards such loss, expenditure or trading liability, Section 41(1) deems such realisation/recoupment as assessee's income for the year in which it is realised. Section 41(2) as it stood at the material time stated that if in respect of any plant and machinery, any depreciation had been allowed and subsequently such plant and machinery was sold, discarded or destroyed, the assessee might get some value either as a result of sale or insurance or from salvage or compensation thereabout. The necessity to keep Section 41(2) as a provision in addition to Section 41(1) arose from the fact that, in its very nature, depreciation is neither a loss, nor an expenditure, nor a trading liability, referred to in Section 41(1). The depreciation recovered on sale of the capital asset was includible in the total income as balancing charge only under

Section 41(2). That concept was foreign to the scheme of Section 41(1). The balancing charge under Section 41(2) arose only where any depreciable asset (building, machinery, plant or furniture) was sold. In fact, when the concept of "block of assets" stood introduced w.e.f. 1.4.1988, Section 41(2) stood deleted. However, even after 1.4.1988, the proviso to Section 32(1)(ii) continued till 1.4.1996 when by the Finance (No. 2) Act, 1995 the bottles and crates even below Rs. 5,000 came within the "block of assets" as defined under Section 2(11).

By the above Finance (No. 2) Act, 1995, the first proviso to Section 32(1)(ii) stood deleted w.e.f. 1.4.1996. Consequently, bottles, crates and cylinders whose individual cost did not exceed Rs. 5,000 also came to be included in the block of assets.

In M/s. Cron Bottling Company Pvt. Ltd. vs. ACIT [Civil Appeal Nos. 356-357 of 2006], the sale proceeds relating to bottles and crates purchased after 1.4.1995 were taken into consideration for the purpose of computation of short term capital gains under Section 50 whereas the sale proceeds relating to bottles and crates purchased prior to 31.3.1995 was not offered for short term capital gains on the ground that the assets stood depreciated at 100% under the proviso to Section 32(1)(ii) and hence did not form part of the block of assets.

It was, thus, clear that, bottles and crates purchased prior to 31.3.1995 did not form part of the block of assets and, hence, profits on sale of such assets were not taxable as a balancing charge, neither under Section 41(1) nor under Section 50. In respect of bottles and crates purchased after 1.4.1995, on account of deletion of proviso to Section 31(1)(ii) (vide Finance Act, 1995) such bottles and crates formed part of block of assets and, consequently, such assets purchased after 1.4.1995, in this case, became exigible to capital gains tax under Section 50.

Thus, the assessee succeeded.

Section 45 of the Income-tax Act, 1961 – Capital gains – Chargeability of
Enhanced compensation and interest thereon under Land Acquisition Act

**are taxable in year of receipt
[Assessment Year 1999-2000]**

**Commissioner of Income-tax,
Faridabad vs. Ghanshyam (HUF), 16th
July, 2009 (SC)**

The assessee received enhanced compensation on its lands being acquired by Haryana Urban Development Authority (HUDA) as also interest thereon during the previous year relevant to assessment year 1999-2000. In its return of income, he did not offer the amount of enhanced compensation and the interest received thereon during the relevant previous year for taxation, on the plea that the amount of enhanced compensation received had not accrued to the assessee during the year of receipt as the entire amount was in dispute in appeal before the High Court which appeal stood filed by the State against the order of the Reference Court granting enhanced compensation. The amount was received by the assessee in terms of the interim order of the High Court against the assessee's furnishing

security to the satisfaction of the executing court. The interest received on enhanced compensation during the previous year was also, according to the assessee, not chargeable to tax on the same plea.

The question before this Court was: whether additional amount under Section 23(1A), solatium under Section 23(2), interest paid on excess compensation under Section 28 and interest under Section 34 of the 1894 Act, could be treated as part of the compensation under Section 45(5) of the 1961 Act?

The Supreme Court held that from Section 45 it is clear that capital gains are not income accruing from day to day. It is deemed income which arises at a fixed point of time, viz, date of transfer. Section 45(5), newly inserted by the Finance Act, 1987, w.e.f. 1.4.88 has two aspects. Firstly, Section 45(5) deals with transfer(s) by way of compulsory acquisition and not by way of transfers by way of sales etc. covered by Section 45(1). Secondly, Section 45(5) talks about enhanced

compensation or consideration which in terms of Land Acquisition Act, 1894 results in payment of additional compensation.

The scheme of Section 45(5) was inserted w.e.f. 1.4.88 as an overriding provision. Compensation under the L.A. Act, 1894, arises and is payable in multiple stages which does not happen in cases of transfers by sale etc. Hence, the legislature had to step in and say that as and when the assessee-claimant is in receipt of enhanced compensation it shall be treated as "deemed income" and taxed on receipt basis. This understanding is supported by insertion of clause (c) in Section 45(5) w.e.f. 1.4.04 and Section 155(16) which refers to a situation of a subsequent reduction by the Court, Tribunal or other authority and recomputation/amendment of the assessment order. Section 45(5) read as a whole [including clause (c)] not only deals with re-working as urged on behalf of the assessee but also with the change in the full value of the consideration (computation) and since the



enhanced compensation/consideration (including interest under Section 28 of the 1894 Act) becomes payable/paid under 1894 Act at different stages, the receipt of such enhanced compensation/consideration is to be taxed in the year of receipt subject to adjustment, if any, under Section 155(16), later on. Hence, the year in which enhanced compensation is received is the year of taxability. Consequently, even in cases where pending appeal, the Court/Tribunal/ Authority before which appeal is pending, permits the claimant to withdraw against security or otherwise the enhanced compensation (which is in dispute), the same is liable to be taxed under Section 45(5). This is the scheme of Section 45(5) and Section 155(16). Even before the insertion of Section 45(5)(c) and Section 155(16) w.e.f. 1.4.2004, the receipt of enhanced compensation under Section 45(5)(b) was taxable in the year of receipt which is only reinforced by insertion of clause (c) because the right to receive payment under the 1894 Act is not in doubt. It is important to note that compensation, including enhanced compensation/consideration under the 1894 Act, is based on the full value of property as on date of notification under Section 4 of that Act. When the Court/Tribunal directs payment of enhanced compensation under Section 23(1A), or Section 23(2) or under Section 28 of the 1894 Act it is on the basis that award of Collector or the Court, under reference, has not compensated the owner for the full value of the property as on date of notification.

Accordingly, appeal of the Department was allowed.

Section 80P of the Income-tax Act, 1961 – Deduction in respect of income of Co-operative Societies

Where a co-operative acted as an agent of the Government in distributing State controlled commodities and received "commission", and it was held not entitled to deduction under section 80P(2)(e) [Assessment Year 1989-90]

Udaipur Sahkari Upphokta Thok

Bhandar Ltd. vs. Commissioner of Income-tax, 16th July, 2009 (SC)

The appellant-society was a co-operative society registered under Rajasthan Co-operative Societies Act, 1965. It was running a consumer co-operative store at Udaipur since 1963. The appellant was doing the work of distribution of controlled commodities such as wheat, sugar, rice and cloth on behalf of the Government under the Public Distribution Scheme (PDS) for which it was getting commission. The price, quantity and the person from whom the delivery was to be taken was fixed by the State Government under the relevant State Order. After taking the delivery, appellant stores these goods in its godowns, both owned and rented. The quantity, price and the FPS to whom the delivery was to be given was fixed by the State Government. According to the appellant, the above *modus operandi* indicates that the State Government exercises total control over the stock of controlled commodities stored in the godowns of the appellant-society. In its returns for assessment year 1989-90, the appellant claimed deduction under Section 80P(2)(e) on the income of commission received by it from the Government for storage of controlled commodities. The A.O. disallowed the claim on the ground that the appellant-society was a wholesaler of foodgrains and it was not a mere stockist as claimed.

The issue which arose for determination was as to whether, "commission" received by the appellant from the State Government was really in the nature of payment for the letting of the godowns maintained by the appellant for storage.

The Supreme Court held:

Under section 80P(2)(e), an assessee is entitled to claim special deduction from its gross total income to arrive at total taxable income. The assessee has to establish that exemption is available in respect of income derived from the letting of godowns or warehouses, only where the purpose of letting is storage, processing or facilitating the market-

ing of commodities. If the godown is let out (including user) for any purpose besides storing, processing or facilitating the marketing of commodities, then the assessee is not entitled to such exemption.

On the distinction between contract of sale and contract of agency there is no straight-jacket formula. However, some important circumstances do bring out the effect of the transaction.

The income derived by the co-operative society for the purpose of exemption under clause (e) must be relatable to the letting out or the use of its godowns for any of the three purposes mentioned in clause (e). Any income derived by the society unconnected with such letting or use of the godowns would not fall under clause (e). The High Court was right in coming to the conclusion that the assessee was storing the commodities in question in its godowns as part of its own trading stock and, hence it was not entitled to claim deduction for such margin under section 80P(2)(e).

In every case of this nature one has to examine the contract between the parties. One has also to examine the conduct of the parties. The instant case was concerned with Rajasthan Foodgrains & Other Essential Articles (Regulation of Distribution) Order, 1976. The instant case was concerned with statutory or compulsory sales. Each contract has to be interpreted on its own terms. In the case there are two sales. The first sale was between the Government (through FCI) and the appellant-society, and the second sale was between the appellant-society and Fair Price Shop. The former was the condition precedent to the latter. The issue price was set-off against the sale price which clearly indicates that the netting/difference between the two prices constituted receipt on a commercial basis or net profit. Lastly netting/difference also indicated that the appellant had treated the stock as its own trading stock. Consequently, the appellant was not entitled to exemption/special deduction under Section 80P(2)(e).

Thus, appeal filed by the assessee was dismissed.

Section 132 of the Income-tax Act, 1961 – Search and seizure

It is not mandate of section 132 or any other provision in Act that reasonable belief recorded by designated authority before issuing warrant of authorisation must be disclosed to assessee

Genom Biotech Private Limited, Mumbai vs. Director of Income Tax, Mumbai, 7th May, 2009 (Bom.)

Where revenue had produced before Court the confidential information received by the designated authority as well as the satisfaction note recorded by the designated authority before issuing the warrant of authorization, but had earlier declined to furnish a copy of the satisfaction note to the assessee on the ground that the said note contained the name of the informer and disclosing the name of the informer would seriously prejudice the investigation, it was to be held that it is not the mandate of section 132 or any other provision in the Act that the reasonable belief recorded by the designated authority before issuing the warrant of authorisation must be disclosed to the assessee, and, therefore, the fact that a copy of the information received or the satisfaction note recorded had not been furnished to the assessee could not be a ground to hold that the search and seizure was bad in law.

Section 132 of the Income-tax Act, 1961 – Search and seizure

Where information received was that investments made out of funds brought to India represented undisclosed income of petitioner No. 2 and, therefore, designated authority was justified in forming a belief that conditions set out in clause (c) of section 132(1) were satisfied

Genom Biotech Private Limited, Mumbai vs. Director of Income Tax, Mumbai, 7th May, 2009 (Bom.)

The information was received that during the period from Financial Year 2001-02 to 2007-08 the petitioner No. 1 had evaded tax by claiming deduction of business expenditure amounting to Rs. 170 crores on the

ground that the said amounts had been paid to Cyprus / UK based companies towards marketing and advertisement expenses, but in fact the said amount had been credited by the said Cyprus & U.K. based companies in the private bank account of petitioner No.2 in Cyprus. It was informed that the petitioner No.1 had not paid the tax on the said amount of Rs.170 crores. However, the said amounts had been received by the petitioner No.2 from the Cyprus & U.K. based companies represented the undisclosed income of the petitioner No.2. On discreet enquiry, it was found that the informer as well as the assessee was available at the place mentioned in the written complaint received by the designated authority. On the basis of the preliminary investigation, the designated authority formed a reasonable belief that any delay in taking action might result in removal or destruction of the evidence and accordingly after recording reasons on 13/5/2008 for initiating search and seizure action, issued the warrant of authorisation on 14/15-5-2008.

The High Court held that the *prima facie* belief formed by the designated authority that the tax evasion can be unearthed by initiating search and seizure action would be in consonance with the provisions of section 132(1).

Where the information was that the tax due to the revenue had been evaded by furnishing fake or exaggerated bills, it would be reasonable to believe that the assessee would not disclose the actual *modus operandi* adopted for such tax evasion. Similarly, if the information received was that the assessee had received undisclosed income, then it would be reasonable to believe that the assessee would not disclose details of the undisclosed income received. In the instant case, the information received was that the assessee had been manufacturing fake exaggerated invoices and, therefore, the designated authority was justified in forming a belief that conditions set out in clause (b) of Section 132(1) was satisfied. Similarly,

the information received was that the investments made out of the funds brought to India represented the undisclosed income of the petitioner No. 2 and, therefore, the designated authority was justified in forming a belief that conditions set out in clause (c) of Section 132(1) were satisfied.

Section 281B of the Income-tax Act, 1961 – Provisional attachment to protect revenue

When seized documents showed that director of company was mastermind in siphoning off funds of company to his personal bank account in foreign countries through foreign companies with which he was closely associated, fact that notice under Section 153A as well as order of provisional attachment under Section 281B had been issued on same date would not affect validity of order of such attachment

Genom Biotech Private Limited, Mumbai vs. Director of Income Tax, Mumbai, 7th May, 2009 (Bom.)

The incriminating documents seized during the course of search and seizure operation revealed that the payments made by the petitioner No.1 company to Cyprus / UK based companies towards marketing and advertisement expenses were further liable to be paid over to Ukrainian advertising agencies who were in fact supposed to have advertised the product of the petitioner No.1 company in Ukraine. However, the documents revealed that the said Cyprus/UK based companies credited the amounts received from the petitioner No.1 in the private bank account of the petitioner No.2, Director of the petitioner No. 1 company in Cyprus. Moreover, during the course of search, incomplete and/or unsigned invoices of the foreign companies along with their seals / stamps were recovered from the office of the petitioner No.1. These incriminating documents *prima facie* established that large scale tax fraud had been committed. The petitioner No. 2, director promised that he would explain the entire seized materials but he left for UK and till date the petitioner No. 2, director had

failed to furnish requisite information.

The High Court held that invoking Section 281B to protect the interest of revenue could not be faulted. The fact that the notice under Section 153A as well as the order under Section 281B had been issued on the same date would not affect the validity of the provisional attachment, because, under Section 132 it is not mandatory that the proceedings must be pending on the date of invoking Section 281B. Provisional attachment can be levied even in cases where the proceedings are yet to be initiated. Therefore, issuing 153A notice and invoking Section 281B on the same day would not affect the validity of the order passed under Section 281B.

On facts, it could not be said that invoking Section 281B was unreasonable or uncalled for, especially when the seized documents showed that the petitioner No. 2, director was the mastermind in siphoning off the funds of the petitioner No. 1 to his personal bank account in the foreign countries through the Cyprus/UK based companies with which he was closely associated. Whether the petitioner No.2 continued to be closely associated with those companies was yet to be investigated. In these circumstances, attachment of the shares held by the petitioner No. 2, director in his demat account out of the funds brought from the foreign companies could not be faulted.

Section 148 of the Income-tax Act, 1961 - Issue of notice where income has escaped assessment
Where there was no new material in hands of Revenue leading to view that there was reason to believe that income had escaped assessment, instead, case was a classic instance of a change of opinion, notice under Section 148 was to be quashed.

Jal Hotels Company Limited vs. Assistant Dir. of Income Tax, 25th May, 2009 (Delhi)

A decision may be right or wrong but that was none of the concern of the subsequent officers. So long as the Assessing Officer has consciously considered the facts, the decision

cannot be reopened. It is necessary for new material to come to light in order to justify the issuance of notice under section 148.

In *Calcutta Discount Co. Ltd. vs. ITO* [1961] 41 ITR 191 (SC) the Constitution Bench opined that if from primary facts more inferences than one could be drawn, it would not be possible to say that the assessee should have drawn any particular inference and communicated it to the assessing authority. An assessee could not be charged with failure to communicate an inference, which he might or might not have drawn. In *CIT, Calcutta vs. Burlop Dealers Ltd., 1971 (1) SCC 462* it was held that if the assessee had disclosed his books of account and evidence, from which material facts could be discovered; it was under no obligation to inform the Income-tax Officer about the possible inferences which may be raised against him. It was for the Income-tax Officer to raise such an inference and if he did not do so, the income which has escaped assessment cannot be brought to lay under Section 34(1)(a).

Once the basic or primary facts have been disclosed, the burden to prove that amounts represent undisclosed income of the assessee is on the Revenue. One of the tests prescribed to investigate whether any new material had come to the notice of the officer concerned which material would constitute "reason to believe". This new material was wholly missing in the case in hand.

Where there was no new material in the hands of the Revenue leading to the view that there was reason to believe that income had escaped assessment, instead, the case is a classic instance of a change of opinion, and the impugned notice under Section 148 was to be quashed.

Section 143 of the Income-tax Act, 1961 - Assessment

Assessing Officer should pass an independent order of assessment and Commissioner or other higher authority may have supervisory jurisdiction, but they cannot interfere with functions of Assessing Officer

CIT vs. Greenworld Corporationm, 6th May, 2009 (SC)

The Assessing Officer conducted survey and accepted the income returned by the assessee. In the assessment order, the Assessing Officer recorded a noting that he visited the CIT, Simla who glanced through all documents, queries and replies, and the CIT, Simla in presence of Addl. CIT, Solan directed that once the replies were satisfactory, no more information were required. He also noted that as per direction of the CIT, Simla needful was done and approval was received from Addl. CIT, Solan.

The principal question which arose for consideration was as to whether the order of assessment was passed at the instance of the Higher Authority. A question with regard to the propriety on the part of the Commissioner of Income-tax to interfere with the functions of the Assessing Officer was raised, stating that the said order was passed at the dictate of the higher authorities.

The Supreme Court held that the noting of the Assessing Officer was specific. It was stated so in the proceedings sheet at the instance of the higher authorities itself. No doubt in terms of the circular letter issued by CBDT, the Commissioner or for that matter any other higher authority may have supervisory jurisdiction but it is difficult to conceive that even the merit of the decision shall be discussed and the same shall be rendered at the instance of the higher authority who, as noticed hereinbefore, is a supervisory authority. It is one thing to say that while making the orders of assessment the Assessing Officer shall be bound by the statutory circulars issued by CBDT but it is another thing to say that the assessing authority exercising quasi judicial function keeping in view the scheme contained in the Act, would lose its independence to pass an independent order of assessment.

When a statute provides for different hierarchies providing for forums in relation to passing of an order as also appellate or original order; by no stretch of imagination a higher authority can interfere with the

independence which is the basic feature of any statutory scheme involving adjudicatory process.

In the instant case, one would be constrained to think that the Assessing Officer had passed an order at the instance of the higher authority which was illegal.

Section 150 of the Income-tax Act, 1961 - Provision for cases where assessment is in pursuance of an order on appeal, etc.

If there is no proceeding before appropriate authority or if assessment year in question is also not a matter, which would fall for consideration before higher authority, section 150 of the Act will have no application

CIT vs. Greenworld Corporationm, 6th May, 2009 (SC)

The provision of Section 150 although appears to be of a very wide amplitude, but would not mean that recourse to reopening of the proceedings in terms of Sections 147 and 148 can be initiated at any point of time whatsoever. Such a proceeding can be initiated only within the period of limitation prescribed therefor as contained in Section 149.

Section 150(1) is an exception to the aforementioned provision. It brings within its ambit only such cases where reopening of the proceedings may be necessary to comply with an order of the higher authority. For the said purpose, the records of the proceedings must be before the appropriate authority. It must examine the records of the proceedings. If there is no proceeding before it or if the Assessment year in question is also not a matter which would fall for consideration before the higher authority, Section 150 will have no application.

Section 263 of the Income-tax Act, 1961 - Revision of orders prejudicial to revenue

An order of Assessing Officer can be interfered suo motu by Commissioner not only when an order passed by Assessing Officer is erroneous but also when it is prejudicial to interests of Revenue; Both conditions precedent for

exercising jurisdiction under section 263 are conjunctive and not disjunctive

CIT vs. Greenworld Corporationm, 6th May, 2009 (SC)

An Income Tax Officer while passing an order of assessment performs judicial function. An appeal lies against his order before Appellate Authority. A Revision Application would also lie before Commissioner of Income Tax. It is trite that jurisdiction exercised by Revisional Authority pertains to his Appellate jurisdiction.

Section 263 provides for a revisional power. It has its own limitations. An order of the Assessing Officer can be interfered suo motu by the Commissioner not only when an order passed by the Assessing Officer is erroneous but also when it is prejudicial to the interests of the Revenue. Both the conditions precedent for exercising the jurisdiction under Section 263 are conjunctive and not disjunctive.

An order of assessment passed by an Income-tax Officer, therefore, should not be interfered with only because another view is possible.

The scope of provisions of Section 263 is no longer res integra. The power to exercise of suo motu of revision in terms of Section 263(1) is in the nature of supervisory jurisdiction and same can be exercised only if the circumstances specified therein, viz., (1) the order is erroneous; (2) by virtue of the order being erroneous prejudice has been caused to the interest of the revenue, exist.

**International Taxation
IKEA TRADING (HONG KONG) LTD – A.A.R. No. 771 of 2008 (2008 TIOL 23)**

The applicant, Ikea Trading (Hong Kong) Limited (ITHKL), a non-resident under the Income-Tax Act, 1961, is a company incorporated in Hong Kong. ITHKL is part of the Ikea Group ('Ikea'), which is a multinational retailer of furniture and home furnishing products doing business under the brand name IKEA. Ikea purchases its products from suppliers worldwide including India. For purchase from India, right has been

granted to ITHKL.

ITHKL has setup a Liaison Office (LO) in New Delhi for the purpose of undertaking liaison activities in connection with purchase of goods from India. The LO does not buy or sell the goods itself, it only facilitates the purchase of goods by the applicant at Hong Kong from the Indian suppliers. Orders are placed by ITHKL on Indian suppliers, who supply the goods directly to Ikea Group distribution outlets at Belgium and other countries. Payment for the purchases is made by the centralized payment facility of the Ikea Group in Switzerland.

The main issue before the AAR was “whether any income can be deemed to accrue or arise in India to the LO / ITHKL in view of clause (b) to Explanation 1 to Section 9(1)(i) of the Act under which no income shall be deemed to accrue or arise in India to a non-resident through or from operations confined to the purchase of goods for the purpose of export”.

The AAR following its earlier decision in the case of *Mushtaq Ahmed (307 ITR 401) = (2008-TIOL-20-ARA-IT)*, held that ITHKL, the applicant, does not earn any income in India because its activities are confined to the purchase of goods which are exported by Indian vendors to the applicant or its nominees. Since the applicant does not effect any sales in India no income accrues or arises in India. No income can be attributed to the purchase operations in India by resorting to the deeming fiction under Section 9(1)(i) because the Explanation thereto excludes such attribution. Clause (b) of Explanation 1 acts as an embargo against attributing any income to the purchase operations carried out in India, if such purchases are for the purpose of export.

JDIT vs. Krupp Uhde GmbH [2009] 28 SOT 254 (Bom.)

The assessee, Krupp Udhe GmbH, Germany (Krupp), is a company incorporated in Germany. It is engaged in providing (i) technical know-how/licence, (ii) basic engineering services and (iii) supervisory

activities in connection with construction or installation of specified machineries/assembly provisions. During the A. Y. 1998-99 & 1999-00, it earned income from various projects and supervisory activities. Apart from this it also received interest from the Income-Tax Department. It offered the income to tax @ 10% as per Article 12 and Article 11, respectively, of the India-Germany DTAA (DTAA). Appeals had been filed by Krupp as well as the Income-Tax Department. The order of the ITAT covers appeal filed by both.

The Tribunal answered the various questions raised before it as under:-

1. Whether the overall period for rendering supervisory activities should be clubbed together while determining the existence of a Permanent Establishment (PE) or each contract should be considered separately?

Held – Various projects/sites which are independent of each other and have no interconnection whatsoever should not be considered together while computing the minimum period of six months as prescribed in Article 5(2)(i) of the Tax Treaty. In case, the activities of one project are dependent on certain other projects, then the minimum period may be computed from the date the first activity commenced. However, where different projects are not interdependent on each other, then the period of six months would be counted in respect of each activity separately.

2. Date from which period for determining existence of PE would commence – from the date when the supervisory activity commenced or from the date when the site/construction commenced?

Held – Where initially only supervisory activity is being carried out under a separate and independent contract, the minimum period of six months would commence only when such activity itself had com-

menced and not from the date of the commencement of the project.

3. Whether only the actual days of stay of the technicians, excluding the intervening period, would be considered while counting the period of six months?

Held – Once an activity commenced it continued till its completion and any intervening period cannot be excluded while computing the threshold limit. The tax payer should have offered to tax the amount received by it from an Indian company in respect of deputing its two technicians for inspection of equipments supplied by it as the same amounted to FTS. Further, it was held that as reimbursement of expenses does not result in any income *per se*, therefore, the same could not be taxed under Article 12 of the Tax Treaty.

4. Whether period under Article 5 should be calculated with reference to each financial year?

Held – The threshold time limit for a project should be computed from the date the first activity commenced and ending on the completion of the contract and any intervening period cannot be excluded there from. Further, such period has to be counted activity-wise irrespective of the financial years involved therein.

5. Whether tax is payable in respect of fees for technical services where there is no PE in India?

Held – The fees received by the assessee from an Indian company in respect of deputing its two technicians for inspection of equipments supplied by it amounted to FTS and the same should have been offered to tax by it. However, it was held that as reimbursement of expenses did not result in any income *per se* to the assessee, the same could not be taxed under Article 12 of the Tax Treaty.

(Case Laws on International Taxation have been contributed by
CA. Hiten Shah)

INDIRECT TAX



Service Tax

Section 65(19) of the Finance Act, 1994 - Business auxiliary service

Explanation appended to section 65(19)(ii) is not clarificatory in nature and, hence, is not retrospective in operation

Union of India and Others vs. Martin Lottery Agencies Limited, 5th May, 2009 (SC)

The term "business auxiliary service" was inserted by Finance Act, 2003 which came into force on 01.07.2003. The term "business auxiliary service" includes services as a commission agent

The Parliament by Finance Act, 2008 inserted an explanation in the relevant sub-clause (ii) of Section 65(19), which came into force on or about 16.5.2008 stating that for the purposes of this sub-clause, "service in relation to promotion or marketing of service provided by the client" includes any service provided in relation to promotion or marketing of games of chance, organised, conducted or promoted by the client, in whatever form or by whatever name called, whether or not conducted online, including lottery, lotto, bingo.

The core question which arose for consideration was as to whether the explanation appended to sub-clause (ii) of Section 65(19) is clarificatory or declaratory in nature so as to be construed having retrospective effect and retroactive operation and when sale, promotion and marketing of lottery tickets would be exigible to 'Service Tax'.

The Supreme Court held that for invoking the provisions of Chapter V of the 1994 Act, the basic question which is required to be posed and answered is as to whether the lottery tickets are 'goods' within the meaning of Indian Sale of Goods Act, 1930. It is evidently not.

A Constitution Bench of this Court

in *Sunrise Associates (2006) 5 SCC 603* held that sale of lottery tickets does not involve sale of goods and that at the highest stage, transfer of it would amount to transfer of an actionable claim.

Organising lottery by the State is tolerated being an economic activity on its part so as to enable it to raise revenue. Raising of revenue by the State, by itself cannot amount to rendition of any service. It may be true that for the purpose of invoking the provisions of taxing statute, the morality aspect may not be of much consequence but such a question assumes significance for the purpose of ascertaining as to whether the same amounts to rendition of service within the meaning of the aforementioned sub-clause.

Service tax purports to impose tax on services on two grounds (1) service provided to a consumer and (2) service provided to a service provider.

Service provided in respect of the matters envisaged under clause (19) of Section 65 must be construed strictly. Before a tax is found to be leviable, it must come within the domain of legitimate business and/or trade.

Lottery has been brought within the purview of National Industrial Classification. Lotteries come within the purview of Group 924 class 924(9) and sub-class 924(9)(o) as other recreational activities. It also comes within the purview of Section 4 classifying other community, social and personal service activities.

If it is brought within the purview of the terms 'entertainment' or 'amusement' as provided for in Entries 34 and 62 of List II of the Seventh Schedule of the Constitution of India, 1950, it may come within the purview of service. It is, however, contended that what is being taxed is the services rendered in respect thereof. Services can be rendered in respect of activities of the State if they are permissible in terms of sub-clause (ii) of Clause (19) of Section 65 and the State itself has been rendering services and not otherwise. Where in terms of the agreement, a lottery agent not only distributes the lottery tickets printed by the State but also

distributes some of prizes. It issues an advertisement and it has a right to be consulted in respect of design of a lottery ticket and it may also have a say in the matter of arranging for the lottery. But none is sure as to how service element of the entire transaction is to be ascertained.

A bare perusal of the Board circular letter dated 17-1-2007 would clearly show that lottery tickets were considered to be goods. It is with that mindset, the circular was issued. However, it must have been realised that resale of lottery tickets by the distributor or by others is not permissible. Whether sub-clause (ii) of clause (19) of Section 65 had been applied in case of any other distributor or agent of such lottery tickets is not known. The explanation cannot be said to be a simple clarification as it introduces a new concept stating that organising of the lottery is a form of entertainment. Introduction of such new concept itself would have a constitutional implication. In the year 2003, while amending the provisions of 1994 Act, the Constitution was also amended and Article 268A and Entry 92C in List I were inserted. The courts are in future required to determine whether a service tax within the meaning of Entry 92C would cover sale of lottery or it would come within the purview of residuary entry containing Entry 97 List I. If it is held to be a taxing provision within the purview of Entry 97, the same will have a bearing on the States. The Explanation so read appears to be a charging provision. It states about taxing need. It can be termed to be a sui generis tax. If it is a different kind of tax, the same may be held to be running contrary to the ordinary concept of service tax. It may, thus, be held to be a stand alone clause. A constitutional question may have to be raised and answered as to whether the taxing power can be segregated. If by reason of the said explanation, the taxing net has been widened, it cannot be held to be retrospective in operation. No doubt, the explanation begins with the words 'for removal of doubts'. Does it mean that it is conclusive in nature? In law, it is not. It is not a case where by

reason of a judgment of a court, the law was found to be vague or ambiguous. There is also nothing to show that it was found to be vague or ambiguous by the executive. In fact, the Board circular shows that invocation of clause (ii) had never been in contemplation of the taxing authorities.

In fact, rendition of service for the purpose of imposition of service tax is imperative in character. It must be a part of economic activity. Whereas the economic activity has three characteristics - tax on production; tax on sales and tax on service. The concept of the Value Added Tax comes from the generic expression so as to include not only taxes on sales but also taxes on service as service has become segment of the economic activity.

By inserting the explanation appended to clause (19) of Section 65, a new concept of imposition of tax has been brought in. The Parliament may be entitled to do so. It would be entitled to raise a legal fiction, but when a new type of tax is introduced or a new concept of tax is introduced so as to widen the net, it should not be construed to have a retrospective operation on the premise that it is clarificatory or declaratory in nature.

It is, evident that by reason of an explanation, a substantive law may also be introduced. If a substantive law is introduced, it will have no retrospective effect. In the instant case, the service tax, if any, would be payable only with effect from May, 2008 and not with retrospective effect.

In a case of this nature, the Court must be satisfied that the Parliament did not intend to introduce a substantive change in the law. For the aforementioned purpose, the expressions like 'for the removal of doubts' are not conclusive. The said expressions appear to have been used under assumption that organising games of chance would be rendition of service. It would suffice to hold that the explanation is not clarificatory or declaratory in nature.

The appeal of the revenue was dismissed.

CIRCULARS / NOTIFICATIONS

DIRECT TAXES



I. Circulars:

1. Circular No. 06/2009, dated 31-8-2009

The CBDT, has, vide its Circular No. 06/2009 dated 31/08/09 made a clarification regarding deduction of tax at source from payments of second installment of arrears to government employees on account of implementation of sixth central pay commission's recommendations. Accordingly, all the DDOs and PAOs as the case may be, in the Central/State Government and various organizations under them have been advised to compute the correct tax liability of every employee on second installment of arrears i.e. 60% drawn by him and immediately recover the full tax liability along with education cess thereon at the rates in force. Further, they have been advised to ensure that the tax so recovered is paid to the account of Central Government account immediately as per the Income Tax Rules, 1962.

II. Notifications

1. Notification No. 65/2009 [F. No. 49/22/2009-SO(TPL)], Dated 2-9-2009

In exercise of the powers conferred by section 295 of the Income-tax Act, 1961 the Central Board of Direct Taxes, has, through the Income-tax (Twelfth Amendment) Rules, 2009 made certain amendments in Rule 11N(2) of the Income-tax Rules, 1962.

Rule 11N relates to other provisions in respect of National Committee for promotion of Social

and Economic Welfare. The following amendments have been made:

- (i) The sitting fee per day for the members and the Chairman, for attending the meeting has been increased from Rs. 250/- to Rs. 3,000/-.
- (ii) The members and the Chairman shall be entitled to reimbursement of air conditioned taxi fare instead of "taxi fare" for reaching the venue of the meeting from the place of stay and going back.
- (iii) Clause (iii) relating to guidelines for daily allowances for outstation members has been deleted,
- (iv) Clause (iv) shall be substituted with the following, namely:-

The outstation Chairman or Member may stay and claim reimbursement of rent in any State guest house or for single room in medium range ITDC hotel like Lodi Hotel, Qutab Hotel, Janpath Hotel, Ashoka Yatri Niwas or State Government run tourist hotels/hostels or residential accommodation provided by registered societies like India international Centre or India Habitat Centre. They would separately be entitled for reimbursement of food allowance at the rate of Rs. 500/- per day.

2. Notification No. 67 /2009, Dated 9-9-2009

In exercise of the powers conferred by clause (v) of the Explanation to section 48 of the Income-tax Act, 1961, the Central Government has notified the Cost Inflation index for the financial year 2009-10 i.e. 632.

The complete text of the above circular and notifications can be referred/downloaded from the website www.incometaxindia.gov.in

(Matter on Direct Taxes has been contributed by the Direct Taxes Committee of the ICAI)

INDIRECT TAX



A. EXCISE

I. Notifications:

1. Notification No. 21/2009 CE (NT) dated 20.08.2009 has specified any public sector company as class of persons for the purposes of clause (c) (iii) of section 23A of the Central Excise Act, 1944 i.e. any public sector company can now make an application for advance ruling.

Further, the notification has explained that a "public sector company" shall have the same meaning as is assigned to it in clause (36A) of section 2 of the Income-tax Act, 1961.

2. Notification No. 22/2009 CE (NT) dated 07.09.2009 has added second proviso to Rule 3(7)(a) as follows:

"Provided further that the CENVAT credit in respect of inputs and capital goods cleared on or after 7th September, 2009 from an export-oriented undertaking or by a unit in Electronic Hardware Technology Park or in a Software Technology Park, as the case may be, on which such undertaking or unit has paid –

1. excise duty leviable under section 3 of the Excise Act read with serial number 2 of the notification no. 23/2003-CE, dated 31.03.2003; and
2. the Education Cess leviable under section 91 read with section 93 of the Finance (No. 2) Act, 2004 and the Secondary and Higher Education Cess leviable under section 136 read with section 138 of the Finance Act, 2007, on the excise duty referred to in (A),

- shall be the aggregate of—
- I. that portion of excise duty referred to in (A), as is equivalent to—
 - i. the additional duty leviable under sub-section (1) of section 3 of the Customs Tariff Act, which is equal to the duty of excise under clause (a) of sub-section (1) of section 3 of the Excise Act;
 - ii. the additional duty leviable under sub-section (5) of section 3 of the Customs Tariff Act; and
 - II. the Education Cess and the Secondary and Higher Education Cess referred to in (B)".

II. Circulars:

1. Circular No. 895/15/2009 dated 27.08.2009

Finance Act, 2009 has amended section 35G/35H of the Central Excise Act, 1944 and Section 130/130A of the Customs Act, 1962 regarding powers of the High Court to condone delay in filing appeal/reference application. In this respect, it has been clarified that pending appeals/applications filed with delay, if any, amendments as above may be brought to the notice of the Court by way of filing of interim application. Further, in respect of appeals/applications filed with delay by the Commissionerate which were dismissed by the High Court by invoking the limitation clause under the Act, the filing of review petition may be contemplated as per procedure in the respective High Court in consultation with the empanelled Senior Standing Counsel in this regard.

2. Circular No. 897/17/2009 dated 03.09.2009

Rule 14 of the CENVAT Credit Rules, 2004 provides that where the CENVAT credit has been taken or utilized wrongly or has been erroneously refunded, the same along with interest shall be recovered from the manufacturer or the provider of the output service. In this regard, the aforementioned circular clarifies that the interest shall be

recoverable when credit has been wrongly taken, even if it has not been utilized, in terms of the wordings of the present rule 14.

B. CUSTOMS

I. Notification:

1. **Notification No. 124/2009 Cus. (NT) dated 20.08.2009** has specified the following as class of persons for the purposes of clause (c) (iii) of section 28E of the Customs Act, 1962, namely:-

- i. any public sector company;
- ii. a resident who proposes to import goods claiming for assessment under heading 9801 of the First Schedule to the Customs Tariff Act, 1975 (51 of 1975).
 - i.e. above persons can now make an application for advance ruling.

Further, the notification has explained that a "public sector company" shall have the same meaning as is assigned to it in clause (36A) of section 2 of the Income-tax Act, 1961 and "resident" shall have the same meaning as is assigned to it in clause (42) of section 2 of the Income-tax Act, 1961

II. Circulars:

1. **Circular No. 22/2009-Cus dated 19.08.2009** has been issued to clarify that capital goods manufactured for captive use should be accounted & bonded by following the usual procedure and shall be liable for payment of duty while making clearances outside the unit or debonding or exit from the EOU scheme.

2. **Circular No. 23/2009-Cus dated 01.09.2009** has been issued to enhance the monetary limit of adjudication of cases by Additional / Joint Commissioner of Customs.

3. **Circular No. 24/2009-Cus dated 03.09.2009** has been issued to clarify that in situations where the buyer and the exporter have contracted the goods on FOB basis and the same is reflected in the contract and the LC, but the exporter is forced to send

the goods by air at his own expense due to exigency such as contractual obligation to deliver the goods within a certain period of time, it would not be justified to rework the drawback amount by deducting freight element from the contracted FOB value. However, in order to obviate misuse the benefit of this circular shall be limited to only 3% of the shipments in a financial year.

The following procedure shall, however, be followed for availing this facility. The exporters who intend to take the benefit of this circular should declare the fact of exigency upfront to Assistant Commissioner / Deputy Commissioner (Drawback), before filing the Shipping Bills. Such declarations should, *inter alia*, give the details regarding the nature of exigency, number of consignments exported during the year from all the ports and the number of consignments in which the benefit of this circular has been claimed. The Assistant Commissioner / Deputy Commissioner will satisfy himself about the *bona fides* of the case and take a decision in the matter. In the meantime, however, the shipping bill will be permitted to be filed, processed and the export shipment cleared like any other drawback shipment. It may be noted that the export shipment will, in no case, be stopped. The Assistant Commissioner/Deputy Commissioner will take a decision.

The complete text of the above notifications and circulars on Excise and Customs can be referred/downloaded from the website www.cbec.gov.in

C. SERVICE TAX

I. Notifications:

1. **Notification No. 25/2009 ST dated 19.08.2009** has amended the definition of India given in explanation to rule 3 of Export of Service Rules, 2005. The new definition is as follows:

"India includes the installations, structures and vessels in the continental shelf of India and the exclusive economic zone of India."

2. Notification No. 26/2009 ST dated 19.08.2009 has notified 01.09.2009 as the date on which the services introduced by the Finance Act, 2009 and the amendments made in the existing services vide the Finance Act, 2009 would become effective.

3. Notification No. 27/2009 ST dated 20.08.2009 has specified any public sector company as class of persons for the purposes of clause (b) (iii) of section 96A of the Finance Act, 1994 i.e. any public sector company can now make an application for advance rulings.

Further, the notification has explained that a "public sector company" shall have the same meaning as is assigned to it in clause (36A) of section 2 of the Income-tax Act, 1961

4. Notification No. 30/2009 ST dated 31.08.2009 has exempted, w.e.f. 01.09.2009, the taxable service provided to any person in relation to the transport of goods, the description of which is listed in said notification, through national waterway, inland water and coastal shipping as referred to in clause (105) (zzzzl) of section 65 of the Finance Act, from the whole of service tax leviable thereon under Section 66 of the said Act.

5. Notification No. 31/2009 ST dated 01.09.2009 has exempted the taxable service referred to in clause (105) (zzb) of section 65 of the Finance Act, 1994 provided by a sub-broker, to a stock-broker as defined in clause (101) of Section 65 of the Finance Act, 1994 in relation to sale or purchase of securities listed on a registered stock exchange from the whole of the service tax leviable thereon under section 66 of the said Finance Act.

6. Notification No. 32/2009 ST dated 01.09.2009 has exempted the taxable service referred to in clause

(105) (zzb) of section 65 of the Finance Act, 1994, provided by any person, to a client, in relation to the manufacture of pharmaceutical products, medicines, perfumery, cosmetics or toilet preparations containing alcohol, which are charged to excise duty under Medicinal and Toilet Preparations (Excise Duties) Act, 1955 from the whole of the service tax leviable thereon under section 66 of the said Finance Act.

7. Notification No. 33/2009 ST dated 01.09.2009 has exempted the taxable service provided to any person in relation to transport of goods by rail, as referred to in clause (105) (zzzp) of section 65 of the Finance Act, from the whole of the service tax leviable thereon under section 66 of the Finance Act.

Provided, nothing contained in this notification shall apply to any service provided or to be provided, by any person other than government railway, in relation to transport of goods in containers by rail.

8. Notification No. 35/2009 ST dated 03.09.2009 has amended Notification No. 16/2009 ST dated 07.07.2009, so as to extend the exemption further to four specified councils.

The complete text of the above Service Tax notifications can be referred/downloaded from the website www.servicetax.gov.in

(Matter on Indirect Taxes has been contributed by the Indirect Taxes Committee of the ICAI)

CORPORATE LAWS



1. SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009

The SEBI has issued Circular No. SEBI/CFD/DIL/ICDRR/1/2009/03/09

dtd. 03.09.2009 notifying the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations) by converting and rescinding the SEBI (Disclosure and Investor Protection) Guidelines, 2000 (DIP Guidelines). While incorporating the provisions of the rescinded DIP Guidelines into the ICDR Regulations, certain changes have been made by removing the redundant provisions, modifying certain provisions on account of changes necessitated due to market design and bringing more clarity to the provisions of the rescinded Guidelines. SEBI has also advised that merchant bankers may continue to comply with certain specified Circulars (as listed in this Circular) and contents of which do not form part of the ICDR Regulations and shall therefore continue to remain in force. Also, provisions relating to regulation of the activities of merchant bankers, debenture trustees and registrars to an issue have now been incorporated in the respective regulations through Schedule XX of the ICDR Regulations. In relation to the rescinded Guidelines which contained provisions relating to compliance of listing conditions by a listed issuer, a circular has been issued to all recognised stock exchanges for amending their equity listing agreements. Similarly, SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (hereinafter referred to as "the SEBI (ESOS and ESPS) Guidelines") which contained certain provisions which were required to be complied with by an unlisted issuer at the time of making an initial public offer have been incorporated in the ICDR Regulations and consequently removed from the SEBI (ESOS and ESPS) Guidelines by a separate circular. There are several aspects which are amended and introduced and which include *inter alia* in relation

to exemption from eligibility norms for making an IPO, offer for sale by listed companies, firm allotment in public issues, reservation on competitive basis in public issues, allotment / refund period in public issues, transfer of surplus money in Green Shoe Option (GSO) bank account, etc.

2. Amendment to Equity Listing Agreement

The SEBI has issued Circular No. SEBI/CFD/DIL/LA/3/2009/03/09 dtd. 03.09.2009 pursuant to issuance of the "ICDR Regulations" in relation to issue of capital and the manner of disclosure and incorporating the relevant provisions of the ICDR Regulations. It has amended clause 19 by inserting sub-clause (d) which reads "(d) that in case of a further public offer to be made through the fixed price route, the company shall notify the stock exchange, at least 48 hours in advance, of the proposed meeting of its Board of Directors convened for determination of issue price."

3. Amendment to Equity Listing Agreement

The SEBI has issued Circular No. CFD/DIL/LA/2009/3/2, dtd. 3-2-2009 dtd. 05.09.2009 to amend certain clauses (clauses 35 and 41) in the Equity Listing Agreement to enhance disclosures regarding shareholding of promoters and promoter group. The amendment to clause 35 relates to the format for reporting the shareholding pattern which contains six parts and which should now include details of shares pledged by promoters and promoter group entities in terms of the manner and mode as given in the above Circular. The amendment to clause 41 relates to the format for submitting the quarterly financial result of the company and which should now similarly include details of promoters and promoter group shareholding including the details of pledged shares.

4. Companies eligible for shifting from Trade for Trade Settlement (TFTS)

The SEBI has issued Circular No. MRD/DoP/SE/Cir-11/2009 dtd. 07.09.2009 in relation to several companies having established connectivity with both the depositories during the month of June 2009 and advising the stock exchanges to consider shifting the trading to normal rolling settlement such that at least 50% of other than promoter holdings as per clause 35 of the listing agreement are in dematerialised mode before shifting the trading in the securities of the company from TFTS to normal Rolling Settlement. The company is to obtain a certificate in this regard from the Registrar and Transfer Agent (RTA) and submit the same to the stock exchange/s and if there is no RTA, then it may obtain a certificate from a practicing chartered accountant / company secretary and submit the same to the stock exchange/s.

5. Amendment to SEBI ESOP Guidelines

The SEBI has issued Circular No. SEBI/CFD/DIL/ESOP/

5/2009/03/09 dtd. 03.09.2009 amending the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 pursuant to the issuance of the ICDR Regulations in relation to certain provisions in the SEBI (ESOS and ESOP) Guidelines, 1999 which would be required to be complied with by an unlisted issuer at the time of making an initial public offer. Since these provisions pertain to matters relating to issue of capital, and the same having now been incorporated in the ICDR Regulations, these provisions are removed since the same would be redundant.

6. Investor Complaints and Arbitration Details

The SEBI has issued Circular No. MRD/DoP/SE/Cir-10/2009 dtd. 03.09.2009 in relation to transparency in grievance redressal which is identified as a key area to augment investor protection and it is envisaged that transparency will also improve the general functioning of the market by providing investors the wherewithal to make informed choice. Hence, SEBI has directed that Stock Exchanges shall henceforth disclose the details of complaints lodged by clients / investors against trading members and companies listed in the exchange, on their website which should also include details pertaining to arbitration and penal action against the trading members.

7. SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines, 1999

The SEBI has issued the updated SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines, 1999 on 03.09.2009 which contains all the amendments that have been made to the guidelines upto that date and are incorporated in these updated guidelines.

8. Amendment to SEBI Portfolio Managers Regulations

The SEBI has issued Circular No. IMD/DOF-1/PMS/CIR-6/2009 dtd.

10.09.2009 in relation to compliance requirements for portfolio managers who may undertake new clients subject to the fact that, (a) portfolios of non-compliant client accounts shall be frozen, (b) fresh purchases on behalf of such clients shall not be made, (c) Selling of securities, however, from such frozen portfolios may be undertaken, and, (d) transfer of securities from such frozen portfolios to respective client's account may also be effected. It is also directed by SEBI that the portfolio manager may discontinue the services to those clients who are not co-operating for opening separate client accounts, after serving at least three notices, and return the securities/funds to the client. The portfolio manager shall maintain such client-wise records for a period of eight years.

The complete text of the above circulars on Corporate Laws can be referred/downloaded from the website www.sebi.gov.in

9. Scheme for Electronic Filing of Statutory Documents

The Ministry of Corporate Affairs has issued Notification No. S.O.2276(E) dtd. 07.09.2009 issuing the Scheme for Filing of Statutory Documents and other Transactions by Companies in Electronic Mode (Amendment) Scheme, 2009 which will be effective from 13.09.2009 and which *inter alia* includes electronic / online payment of stamp duty through the MCA portal and that the Central Government shall initially collect stamp duty payable on Form No.1, Memorandum of Association, Articles of Association, Form No. 5 and Form No. 44 at the time of their e-filing. Also, a transition period of three and a half months is provided to enable the companies to use their already purchased stamp papers and that 01.01.2010 shall be the cut-off date for a company to compulsorily make payment electronically for stamp duty in respect of the States which have authorised the Central

Government to collect stamp duty on their behalf and in respect of the States from whom the authorization is yet to be received, the company shall continue to pay stamp duty outside the MCA portal.

10. Amendment to Electronic Filing and Authentication of Documents Rules

The Ministry of Corporate Affairs has issued Notification No. GSR 642(E) dtd. 07.09.2009 and amend the Companies (Electronic Filing and Authentication of Documents) Rules, 2006 providing that if stamp duty on such certain notified documents is paid electronically through the MCA portal www.mca.gov.in, the company shall not be required to make physical submission of such documents, in addition to their submission in the electronic form. It is also provided that in respect of certain documents filed under the Companies Act, 1956 which are not covered for payment of stamp duty through MCA portal, and stamp duty payable on such documents in respective states is equal to or less than one hundred rupees, the company shall scan such stamped documents complete in all respects and shall file electronically for evidencing by the Registrar and shall not be required to submit such documents, except those which are required to be filed for compounding of offences under section 621A(4)(a) the Companies Act, 1956, in the physical form separately. It is also provided that the company shall retain such documents duly stamped in original for a minimum period of three years from the date of filing of such documents. One may refer to the above citation for further details.

The complete text of the above two circulars on Corporate Laws can be referred/downloaded from the website www.mca.gov.in

(Matter on Corporate Laws has been contributed by CA. Jayesh Thakur)

DISCIPLINARY CASE

Summary of a disciplinary case - Council of the Institute of Chartered Accountants of India Vs. Dayal Singh FCA & Anr.¹ (Chartered Accountant Reference No. 5 of 2005) decided on 10.05.2007 by the High Court of Delhi, New Delhi under Section 21(5) of the Chartered Accountants Act, 1949.

Facts of the case:

Shri Ashok Kumar, Supdt. of Police, CBI, ACB, New Delhi (hereinafter referred to as the "Complainant") filed a complaint against Shri Dayal Singh, Chartered Accountant, New Delhi (hereinafter referred to as the "Respondent") under Section 21 of the Chartered Accountants Act, 1949 (hereinafter referred to as the 'Act') to the Institute of Chartered Accountants of India (hereinafter referred to as the 'Institute') alleging, *inter alia*, that the Respondent was instrumental in getting a loan of Rs.49.8 lakhs sanctioned from Union Bank of India, Zonal Office, New Delhi in 1989 in favour of M/s. S.K.Trading Co., Delhi on the basis of forged documents such as quotations, supply orders, money deposit receipts of various firms, rent deed and rent receipts etc. It was also alleged that the Respondent gave a false certificate dated 22nd December, 1989, stating that M/s S.K. Trading Co. had brought the contribution required in the books on the basis of which the party got released a term loan of Rs. 12.6 lakhs from Union Bank of India, Delhi. According to the Complainant, the Respondent had committed professional misconduct under Clauses (5) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

The Council of the Institute *prima facie* opined that the respondent was guilty of professional and/or other misconduct and referred the case to the Disciplinary Committee for enquiry. The Disciplinary Committee on perusal of the documents on

record and those produced at the time of hearing, upon recording the evidence and hearing the final submissions made by the parties, came to the conclusion that the Respondent was guilty of "other misconduct" within the meaning of Sections 22 and 21 of the Chartered Accountants Act, 1949.

The Council on consideration of the report of the Disciplinary Committee, along with the written representation of the Respondent, accepted the report of Disciplinary Committee and found that the Respondent was guilty of "other misconduct" within the meaning of Section 22 read with Section 21 of the Chartered Accountants Act, 1949. The Council decided to recommend to the High Court that the name of the Respondent be removed from the Register of Members for a period of one month. As required under Section 21(5) of the Act, the matter was referred to the Delhi High Court with the recommendations of the Council.

The Judgment of the Division Bench of the High Court of Delhi comprising of Hon'ble Mr. Justice Madan B. Lokur and Hon'ble Mr. Justice V.B. Gupta is summarized below:

Decision of the Hon'ble Court:

The Hon'ble Court observed that It was found that Respondent issued a certificate in favour of M/s S.K. Trading Company for getting financial assistance from some Banks. The Court further observed that it appears that the officers of the bank completed all paper formalities

perhaps at the behest of Respondent or at least on the basis of his certificate for disbursement of the loan. The activity of Respondent in issuing such a vague certificate with the intention of persuading the bank to grant his client a loan amounts to "other misconduct" within the meaning of the Act read with the Regulations framed thereunder. The Hon'ble Court agreed with this conclusion of the Council.

The Hon'ble Court also observed that the lack of responsibility displayed by Respondent clearly shows that he had acted in a manner unbecoming of a Chartered Accountant and, therefore, the Council rightly recommended removal of his name from the register of members for a period of one month. As regards the punishment recommended by the Council, the Hon'ble Court observed that there has to be some degree of integrity and probity which is expected of a Chartered Accountant who is regularly concerned with financial transactions and on the basis of whose recommendations and certificates financial institutions such as banks disburse loans or enter into other financial transactions. Under the circumstances, the Court was of the view that the punishment awarded to the Respondent was not unduly harsh.

On overall consideration of the matter, the Hon'ble High Court accepted the finding & recommendation of the Council and ordered that the name of the Respondent be removed from the register of members for a period of one month.

¹ For full text of the Judgment please see Institute's publication viz. Disciplinary Case Vol.IX, Part I, p. 209 or visit Editorial Board page at http://www.icai.org/post.html?post_id=967&c_id=59

Classification of compulsorily convertible debentures in the balance sheet as equity – whether appropriate

The following is the opinion given by the Expert Advisory Committee of the Institute in response to a query sent by a member. This is being published for the information of readers.

A. Facts of the Case

1. A private limited company is engaged in the business of construction and development of real estate. The company has, during the year ended 31st March, 2008, issued 'Compulsorily Convertible Debentures' to a large International Bank under a Foreign Direct Investment Regime under the Foreign Exchange Management Act, 1999. The key features of the debentures issued are as below (emphasis supplied by the querist):

(i) The debentures issued are compulsorily convertible into equity shares after a tenure of 39 months from the date of issue. The querist has emphasised that the debentures so issued are mandatorily convertible in order to be subscribed by an International Bank from foreign funds under the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) (Amendment) Regulations, 2000, read with Press Note No. 2 of 2005 issued by the Ministry of Commerce & Industry, Government of India.

(ii) Till the date of conversion, interest is payable @ 13.65% on quarterly basis.

(iii) The debentures are unsecured.

2. The company has not yet adopted Accounting Standard (AS) 30, 'Financial Instruments: Recognition and Measurement', and Accounting Standard (AS) 31, 'Financial Instruments: Presentation' issued by the Institute of Chartered Accountants of India, and is debiting interest payable on such debentures to the profit and loss account.

3. The querist has stated that in the balance sheet of the company for the year ended 31st March, 2008, the amount received on issue of convertible debentures is classified under the head 'unsecured loans', as the auditors are of the view that till such a debenture is converted into equity, it continues to be a debt, and therefore, to be classified under 'Loan Funds'.

4. According to the querist, in the view of the management of the company, such amounts received are not repayable and are convertible into equity shares. In substance, it is capital of the company, and therefore, should be classified under the head 'share capital' under

'shareholders' fund'. In this regard, the querist has drawn the attention of the Committee to the Framework for the Preparation and Presentation of Financial Statements issued by the Institute of Chartered Accountants of India. As per the querist, this Framework enunciates the underlying concepts in the preparation and presentation of financial statements. The Framework defines 'liability' as a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits. The Framework defines 'equity' as the residual interest in the assets of the enterprise after deducting all its liabilities. Based on the above, the management is of the view that since the result is not an outflow from the enterprise of resources, the compulsorily convertible debentures could not be a liability, and, therefore, could be classified as equity.

B. Query

5. The querist has sought the opinion of the Expert Advisory Committee on the correctness of the view held by the management of the company that the compulsorily convertible debentures should be classified as equity. If the answer is in the negative, whether it could be shown in any other way under 'shareholders' funds', i.e., as a separate item between shareholders' funds and loan funds as is being done in the case of share application money.

C. Points considered by the Committee

6. The Committee notes from the Facts of the Case that the debentures issued by the company carry an interest @ 13.65% on quarterly basis till the date of conversion. Accordingly, the Committee is of the view that till the date of conversion the debentures are of the nature of loans.

7. The Committee also notes that the company under consideration is a private limited company and, therefore, the provisions of Schedule VI to the Companies Act, 1956 would apply with respect to the form of balance sheet of the company. The Committee notes that Schedule VI to the Companies Act, 1956 requires debentures to be classified under the head 'secured

loans' and that the disclosure is required to be made with respect to the terms of redemption or conversion (if any) of debentures issued to be stated together with earliest date of redemption or conversion. The Committee further notes that the debentures issued by the company are unsecured. Accordingly, the Committee is of the view that the same should be classified under the head 'unsecured loans' in the balance sheet of the company.

D. Opinion

8. On the basis of the above, the Committee is of the opinion that the compulsorily convertible debentures cannot be classified as share capital/shareholders' funds/equity till the conversion thereof. Such debentures also cannot be shown as a separate item between shareholders' funds and loan funds. Such debentures should be classified under the head 'unsecured loans' with appropriate disclosures with respect to the term of conversion along with the earliest date of conversion in accordance with the requirements of Schedule VI to the Companies Act, 1956.

1. The Opinion is only that of the Expert Advisory Committee and does not necessarily represent the Opinion of the Council of the Institute.

2. The Opinion is based on the facts supplied and in the specific circumstances of the querist.

3. The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in twenty five volumes. These volumes are also available in the form of a CD, viz., CD of Compendium of Opinions with user friendly features. These are available for sale at the Institute's office at New Delhi and its regional council offices at Mumbai, Chennai, Kolkata and Kanpur.

4. Recent opinions of the Committee are available on the website of the Institute at URL:

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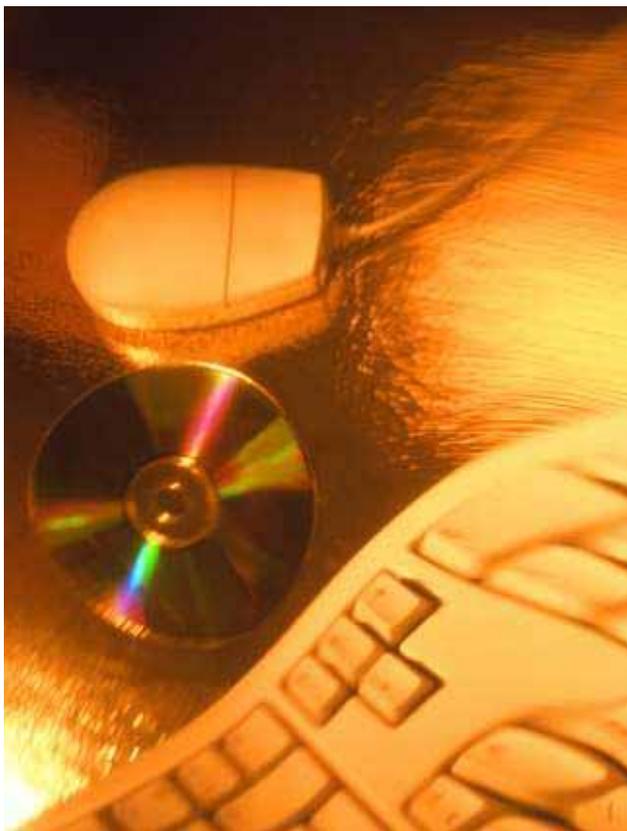
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Committee on Information Technology
The Institute of Chartered Accountants of India
ICAI Bhawan, Plot No. 52-54, Vishwas Nagar
Shahadara, Delhi - 110 032, India

e-Mail: cit@icaai.org, elearn@icaai.in
Web: <http://cit.icaai.org> | www.icaai.org
Phone: 011-30210621/ 619.

Recognition of Cost and Revenue of Computer Software



In software industry an entity provides end-to-end business solutions that leverage technology. The company provides solutions that span the entire software life cycle encompassing technical consulting, design, development, software re-engineering, maintenance, systems integration, package evaluation and implementation, testing and infrastructure management services. In addition, the company offers software products for various industries and business process management services. This article deals with accounting of cost of computer software developed or obtained for internal use and gives clear picture regarding revenue recognition of software.



S.P. Dhandayuthapani

The author is faculty of Commerce in Governments Arts College, Kumbakonam. He can be reached at eboard@icai.org

Whether AS 10 or AS 26 Will be Applicable?

Some intangible assets may be contained in or on a physical substance such as a compact disk (in the case of computer software), legal documentation (in the case of a license or patent) or film (in the case of motion pictures). The cost of the physical substance containing the intangible assets is usually not significant. Accordingly, the physical substance containing an intangible asset, though tangible in nature, is commonly treated as a part of the intangible asset contained in or on it.

In some cases, an asset may incorporate both intangible and tangible elements that are, in practice, inseparable. In determining whether such an asset should be treated under AS 10, Accounting for Fixed Assets, or as an intangible asset under AS 26, judgment is required to assess as to which element is predominant. For example, computer software for a computer controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is

treated as a fixed asset. The same applies to the operating system of a computer.

Where the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

Stages involved in the development of computer software are explained below:

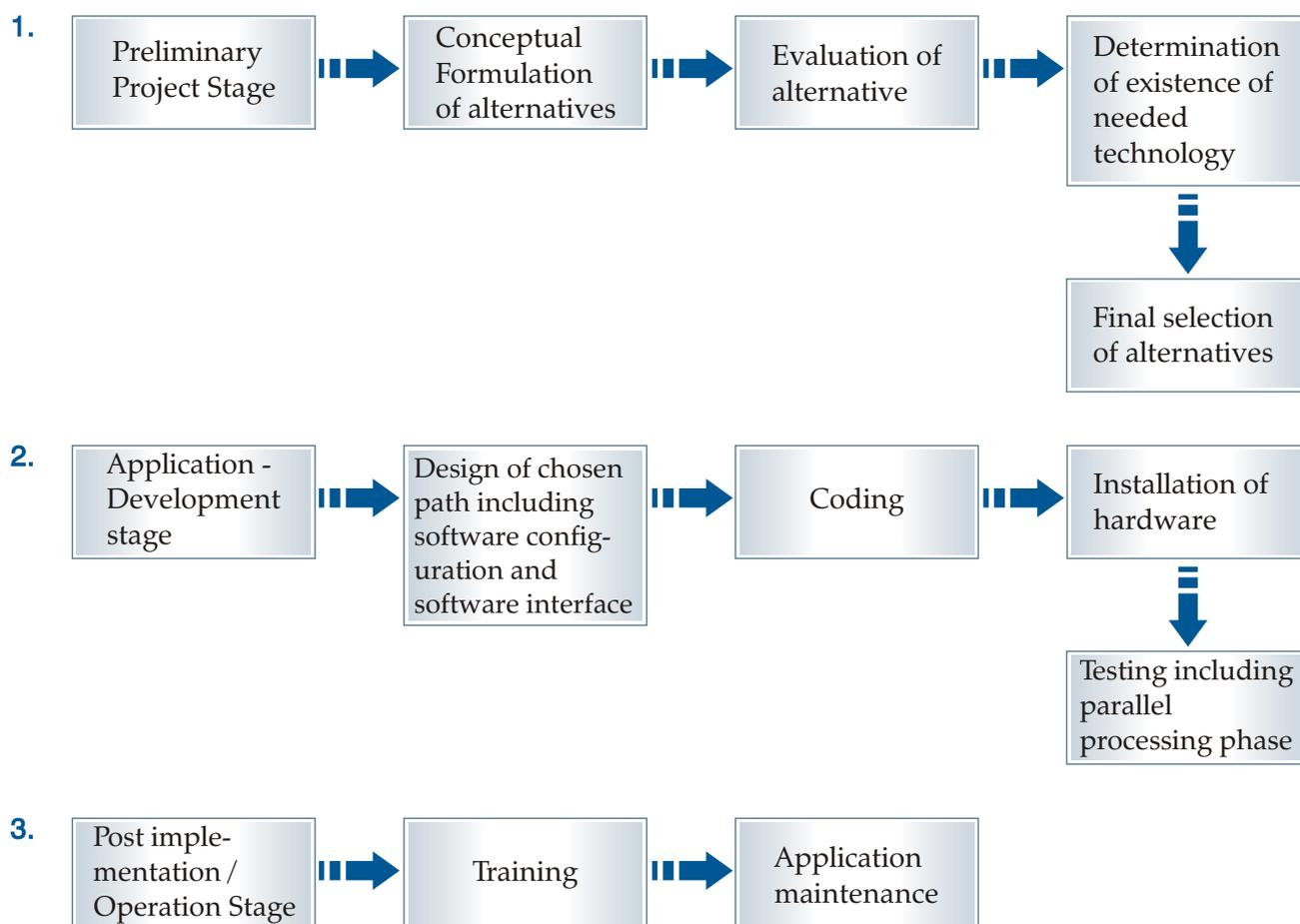
1. The preliminary project stage,
2. The application development stage,
3. The post-implementation & operation stage.

Software to be capitalised, it must be reasonably assured that those expenditures will result in additional functionality.

Capitalisation of costs should begin when both:

- a. Preliminary project stage is completed.
- b. Management commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended.

Cost Accumulation Phase



Internal and external costs incurred during the preliminary stage should be expensed. Internal and external costs incurred to develop internal-use software during the Application development stage should be capitalised. Costs to develop or obtain software that allows for access or conversion of old data by new systems should also be capitalised. In order to costs of specified upgrades and enhancements to internal-use computer

Allowable capital costs include only the following:

- a. External direct costs of materials and services consumed in developing or obtaining internal-use computer software. (Examples of these costs included but are not limited to fees paid to third parties for services provided to develop the software during the application development stage, costs incurred to obtain software

- from third parties, and travel expenses incurred by employees in their duties directly associated with developing software.)
- b. Payroll and payroll-related costs (for example, costs of employees benefits) for internal-use computer software project, to the extent of the time spent directly on the project (Examples of employees activities include but are not limited to coding and testing during the application development stage.)
 - c. Interest costs incurred while developing internal-use computer software. Capitalisation should cease when all substantial testing is completed. General and Administrative costs and overhead costs should not be capitalised as costs of internal-use software.

Tracking and Reporting Costs

Responsibility for Reporting and Tracking Project Costs:

The appropriate administrative person from each participating department will be responsible for recording costs on the correct WBS element. This individual will verify expenses monthly and make necessary corrections. The project manager will be responsible for ensuring that all participating departments are properly recording and classifying costs on a timely basis.

Criteria for Identifying Capital vs. Expense Costs

Costs to Capitalise:

1. Software acquisition costs
2. Costs directly related to software development, including:
3. Material costs
4. Developer salary & benefit costs
5. Outside Consultant costs (including time and related expenses)
6. Project Team testing
7. Data conversion software
8. Manager salary & benefit costs for project oversight if directly related to software development.

Costs not to be capitalised:

1. Discovery Costs -- those costs incurred before the project scope is broadly defined and before

management approval.

2. Costs to develop and offer end user training of new or upgraded software
3. Costs to implement, after development is complete
4. Data conversion costs (other than costs to develop or obtain software that allows for access or conversion of old data)
5. All other testing – not done by the project team
6. Documentation costs
7. Staff training, including developers
8. Travel costs for any Institute employees
9. Costs incurred after implementation has begun (defined as the point at which the software is in use, in a production environment, by the users for whom the software was designed). For example, maintenance agreements may not be capitalised.

Tracking and Reporting Costs: The tracking of salaries will be based on percentage of time dedicated to the project. (i.e. if an individual works 80 hours for the week, and he/she allocates 50% to a capital project, the 50% will be based on the 80 hours worked, not on a regular 40 hour work week).

Equipment costs related to capital projects must also be tracked. Materials' costs relating to capital projects, including equipment must also be tracked. If an equipment item (whether minor or major) is purchased, and will be used 50% or more on the project for development, the allocable portion of its cost should be charged to the capital element for the project.

Cost of Revenue: Cost of revenue includes manufacturing and distribution costs for products sold and programs licensed, operating costs related to product support service centers and



Some intangible assets may be contained in or on a physical substance such as a compact disk (in the case of computer software), legal documentation (in the case of a license or patent) or film (in the case of motion pictures). The cost of the physical substance containing the intangible assets is usually not significant. Accordingly, the physical substance containing an intangible asset, though tangible in nature, is commonly treated as a part of the intangible asset contained in or on it.

Capitalisation of costs should begin when preliminary project stage is completed and management commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended. Allowable capital costs include external direct costs of materials and services consumed in developing or obtaining internal-use computer software.



product distribution centers, costs incurred to support and maintain Internet-based products and services, warranty costs, inventory write-downs, costs associated with the delivery of consulting services, and the amortisation of capitalised research and development costs associated with software products that have reached technological feasibility.

Sales and Marketing: Sales and marketing expenses include payroll, employee benefits, stock-based compensation and other headcount-related expenses associated with sales and marketing personnel, and the costs of advertising, promotions, tradeshow, seminars, and other programs. Advertising costs are expensed as incurred.

Product Warranty: The company has to provide for the estimated costs of hardware and software warranties at the time the related revenue is recognised. For hardware warranty, the company has to estimate the costs based on historical and projected product failure rates, historical and projected repair costs, and knowledge of specific product failures (if any). The specific hardware warranty terms and conditions may vary depending upon the product sold and country in which we do business, but generally include parts and labour over a period generally ranging from 90 days to three years. For software warranty, the company has to estimate the costs to provide bug fixes, such as security patches, over the estimated life of the software. The company has to regularly reevaluate estimates to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary.

Revenue Recognition

In respect of software industry, the company derives revenues primarily from software devel-

opment and related services, licensing of software products and from business process management services. Arrangements with customers for software development and related services are either on a fixed price, fixed timeframe or on a time and material basis.

Revenue is recognised when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility

is probable. We may enter into certain arrangements where we are obligated to deliver multiple products and/or services (multiple elements). In these arrangements, we may generally allocate the total revenue among the elements based on the sales price of each element when sold separately (vendor-specific objective evidence).

Revenue for retail packaged products, products licensed to original equipment manufacturers (OEMs), and perpetual licenses for current products under company's Open and Select volume licensing programs generally is recognised, as products are shipped. A portion of the revenue related to certain products, which include all Application and PC operating systems, is recorded as unearned due to undelivered elements including, in some cases, free post-delivery telephone support and the right to receive unspecified upgrades/enhancements of Internet software on a when-and-if-available basis. The amount of revenue allocated to undelivered elements is based on the vendor-specific objective evidence of fair value for those elements using the residual method. Under the residual method, the total fair value of the undelivered elements, as indicated by vendor-specific objective evidence, is recorded as unearned, and the difference between the total arrangement fee and the amount recorded as unearned for the undelivered elements is recognised as revenue related to delivered elements. Unearned revenue due to undelivered elements is recognised ratably on a straight-line basis over the related product's life cycle. Revenue related to Windows Vista is not subject to a similar deferral because there are no significant undelivered elements.

Revenue from multi-year licensing arrangements are accounted for as subscriptions, with

billings recorded as unearned revenue and recognised as revenue ratably over the billing coverage period. Certain multi-year licensing arrangements include rights to receive future versions of software product on a when-and-if-available basis under Open and Select volume licensing programs (Software Assurance). In addition, other multi-year licensing arrangements include a perpetual license for current products combined with rights to receive future versions of software products on a when-and-if-available basis under Open, Select, and Enterprise Agreement volume licensing programs.

Revenue related to game console and other hardware components is recognised upon shipment of the product to retailers. Revenue related to games published by us is recognised when those games have been delivered to retail-

Cost of revenue includes manufacturing and distribution costs for products sold and programs licensed, operating costs related to product support service centers and product distribution centers, costs incurred to support and maintain Internet-based products and services, warranty costs, inventory write-downs, costs associated with the delivery of consulting services, and the amortisation of capitalised research and development costs associated with software products that have reached technological feasibility.

fixes and technical support, are accrued when the related revenue is recognised. Provisions are recorded for estimated returns, concessions, warranties, and bad debts.

Revenue on time-and-material contracts is recognised, as the related services are performed and revenue from the end of the last billing to the balance sheet date is recognised as unbilled revenues. Revenue from fixed-price, fixed-timeframe contracts is recognised as per the percentage-of-completion method. The input (efforts expended) method may be used to measure progress towards completion as there is a direct relationship between input and productivity. Provisions for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates. Costs and earnings in

excess of billings are classified as unbilled revenue while billings in excess of costs and earnings are classified as unearned revenue. Maintenance revenue is recognised ratably over the term of the underlying maintenance agreement.

The company may provide its



ers. Revenue related to games published by third parties for use on the Xbox platform is recognised when games are manufactured by the game publishers. Online advertising revenue is recognised as advertisements are displayed. Search advertising revenue is recognised when the advertisement appears in the search results or when the action necessary to earn the revenue has been completed. Consulting services revenue is recognised, as services are rendered generally based on the negotiated hourly rate in the consulting arrangement and the number of hours worked during the period. Consulting revenue for fixed-price services arrangements is recognised, as services are provided.

Revenue generally is recognised net of any taxes collected from customers and subsequently remitted to governmental authorities. Costs related to insignificant obligations, including bug

clients with a fixed-period warranty for corrections of errors and telephone support on all its fixed-price, fixed-timeframe contracts. Costs associated with such support services are accrued at the time related revenues are recorded and included in cost of revenues. The company estimates such costs based on historical experience and estimates are reviewed on a periodic basis for any material changes in assumptions and likelihood of occurrence.

The arrangements generally meet the criteria for software development and related services whether the software development and related services can be considered a separate unit of accounting. The company may use the relative fair value method to allocate revenue to maintenance services and the software development and related services. In cases where the company is unable to establish objective and reliable evidence

of fair value for the software development and related services, the company may use the residual method to allocate the arrangement consideration. Maintenance revenues are recognised ratably over the term of the underlying maintenance arrangement while software development and related services revenues are recognised using the percentage of completion method.

In respect of license fee, revenues may be recognised when persuasive evidence of an arrangement exists, delivery has occurred, the license fee is fixed and determinable, and the collection of the fee is probable. Arrangements to deliver software products generally have three elements: license, implementation and Annual Technical Services (ATS). Vendor specific objective evidence of fair value (VSOE) may be established for ATS. VSOE is the price charged when the element is sold separately. When other services are provided in conjunction with the licensing arrangement, the revenue from such contracts are allocated to each component of the contract using the residual method, whereby revenue is deferred for the undelivered services and the residual amounts are recognised as revenue for delivered elements. In the absence of an established VSOE for implementation, the entire arrangement fee for license and implementation is recognised as the implementation is performed. Revenue from client training, support and other services arising due to the sale of software products is recognised as the services are performed. ATS revenue is recognised ratably over the period in which the services are rendered.

Revenues from business process management and other services are recognised on both, the time-and-material and fixed-price, fixed timeframe basis. Revenue on time-and-material contracts is recognised as the related services are rendered. Revenue from fixed-price, fixed timeframe contracts is recognised as per the proportional performance method using an output measure of performance.



Revenue is recognised when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. We may enter into certain arrangements where we are obligated to deliver multiple products and/or services (multiple elements). In these arrangements, we may generally allocate the total revenue among the elements based on the sales price of each element when sold separately (vendor-specific objective evidence).

When the company receives advances for services and products, such amounts are reported as client deposits until all conditions for revenue recognition are met.

Illustrated Policy Accounting for Consideration given by a Vendor to a Customer (Including a Reseller of the Vendor's Products):

The discount terms in the company's arrangements with customers generally entitle the customer to discounts if the customer completes a specified cumulative level of revenue transactions. In some arrangements, the level of discount varies with increases in the levels of revenue transactions. The discounts are passed on to the customer either as cheque payments or as a reduction of payments due from the customer. The company recognises discount obligations as a reduction of revenue based on the ratable allocation of the discount to each of the underlying revenue transactions that result in progress by the customer towards earning the discount. The company recognises the liability based on its estimate of the customer's future purchases. Also, when the level of discount varies with increases in levels of revenue transactions, the company recognises the liability based on its estimate of the customer's future purchases. If the company cannot reasonably estimate the customer's future purchases, then the liability is recorded based on the maximum potential level of discount. The company recognises changes in the estimated amount of obligations for discounts using a cumulative catch-up adjustment. Furthermore, the company does not recognise any revenue up front for breakages immediately on the inception of an arrangement.

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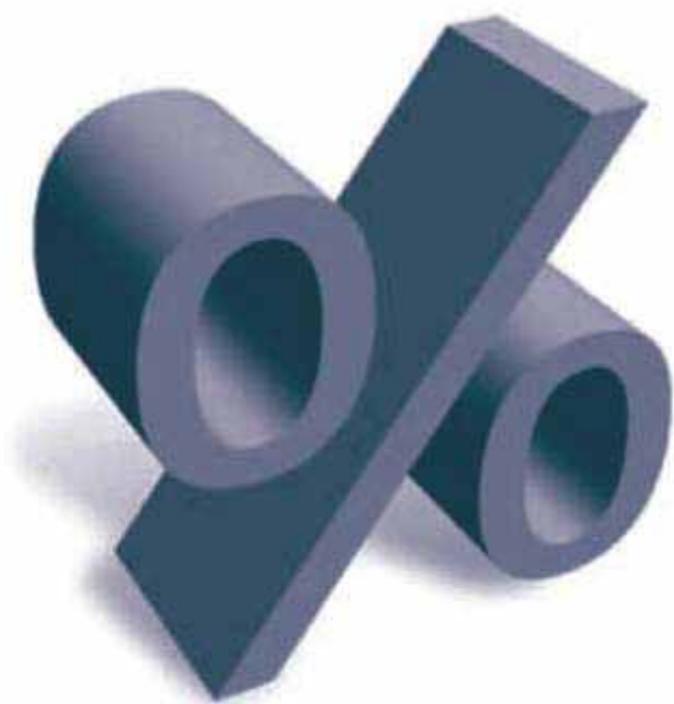
Committee for Members in Industry
The Institute of Chartered Accountants of India

(Established by the Chartered Accountants Act, 1949)

Website : www.cmii.icai.org; www.icai.org

For further information and details please contact at: placements@icai.org, chairmancmii@icai.org

Interest Allowable on Capital Borrowed - An Interesting Thought



Section 36(1)(iii) under Chapter IV of the Income-tax Act, 1961, provides for deduction of interest paid in respect of capital borrowed utilised 'for the purpose of business or profession' while computing business income. The deduction of interest earlier and now has occasioned amendments on account of interpretational issues for claiming deduction. This article provides an insight into allowability of interest under Section 36(1)(iii) and issues related thereof. It also addresses contentious issues related to the proviso and amendment post Finance Act, 2003.



CA. Shailendra Sharma

*The author is a member of the Institute.
He can be reached at
shailendra.shashikant.sharma@icai.org*

Section 36(1)(iii) under Chapter IV of the Income-tax Act, 1961 ('the Act'), provides for deduction of interest paid in respect of capital borrowed utilised 'for the purpose of business or profession' while computing business income. The provision for deduction of interest is prevailing erstwhile under the Income-tax Act, 1922 regime, eligible under Section 10(2)(iii) while computing income from business and profession. However, the deduction of interest earlier and now has occasioned amendments in the recent past on account of interpretational issues for claiming deduction.

Definition

Before comprehending the conditions and issues laid down for claiming deduction under Section 36(1)(iii), it would be pertinent to understand the terms used pursuant to interest on borrowed capital elaborated as under:

Business – 'Business' is a term imported in fiscal statute, construed in a broad rather than restricted sense. Business is not restricted to trading or manufacture but includes any activity in the nature of sale, trade or manufacture to fall within the category of business. In layman terms if someone

starts business and terminates after one transaction, still it would be considered as business.

Capital – The expression 'Capital' mean funds and not other asset, for interest payable on capital borrowed and interest being payable on loan for funds and not on any other asset acquired under a contract.

Capital Borrowed – The term 'Capital Borrowed' would understand relationship of a borrower and a lender who contemplates lending of money and borrowing of lender's money by the borrower with a contractual stipulation for repayment along with interest on loan.

Interest – 'Interest' is the return/compensation for retention of a sum of money belonging to or owed to another by one person. The essence of interest is that it is a payment which becomes due because the creditor has not had his money at the due date.

For Business Purpose – The expression 'for the purpose of business' is wider in scope thus deduction under Section 36(1)(iii) is much wider than one available under Section 57(iii).



The Regulation

With regards to claiming deduction for the amount of interest paid on capital borrowed utilised for the purpose of business or profession, it is vital for allowability of interest on borrowed capital that following conditions are fulfilled under Section 36(1)(iii) of the Act:

1. Capital must be borrowed by the assessee;
2. Capital should be borrowed by the assessee for the purpose of business or profession or vocation;
3. Assessee should have paid the amount of interest claimed as an allowance under clause (iii) of Section 36(1); and
4. The amount of interest paid, in respect of capital borrowed for acquisition of an asset for

extension of existing business or profession (whether capitalised in the books of account or not); for any period beginning from the date on which the capital was borrowed for acquisition of the asset till the date on which such asset was first put to use, shall not be allowed as deduction.

However, subsistence of the above mentioned four conditions are subject to enormous litigation depending on the facts and circumstances of each case.

Legislation before Finance Act, 2003

Prior to the Finance Act, 2003 amendment, payment of interest on capital borrowed for expansion of business was allowable under this clause, even though the assets brought into existence with the help of the borrowed capital may not be actually used for the purpose of the business in the relevant accounting year. Under these circumstances, where an assessee borrowed money for expansion of its existing business, any interest paid thereon was allowable. Perhaps, the legislation by no means manifested deduction of interest on capital borrowed for expansion of business/capital assets but, instead treated interest payment as capital expenditure.

Legislation after Finance Act, 2003

In order to clarify the anomaly on implications of interest deductibility, the Finance Act, 2003, inserted proviso with effect from 01-04-2004, as a result payment of interest in respect of capital borrowed towards acquisition of asset for extension of existing business or profession, whether capitalised in the books of account or not, for any period beginning from the date on which such asset was first put to use, will not be allowed as a deduction. Considering the amendment, interest payment on moneys borrowed for acquiring capital asset would be disallowed till the asset is

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put to use. Based on this understanding, interest would enhance cost of assets rather than be eligible for treatment as a charge on the current profits. Such a view is consistent with the pre-existing law as per the provision of actual cost under Explanation 8 to Section 43(1) explained subsequently. Essentially for deduction of interest a pre requisite is whether it is commencement of new business or merely an extension or expansion of existing business needs to be examined.

The amendment simplified that interest on borrowed capital, whether used for new business / continuing business/for expansion of business should be treated as addition to the actual cost of asset which cannot be a charged to the profits, till such date on which the asset is brought to use. Apparently, interest would be capitalised along with asset under the block system of accounting till the asset being brought is put to use.

Key Issues for Consideration

Many issues have been reported with respect to claiming deduction of interest payment charged to the Profit and Loss account on borrowed capital for the purpose of business, which are debatable at various levels.

Borrower and lender must be two different entities:

The term 'borrowed' and 'paid' in Section 36(1)(iii) clearly postulate two different connotations, one who lends capital and the other who borrows and pays interest. Ideally same entity cannot be its own lender and neither borrower nor interest can be paid to self. As a result, interest paid by one unit of assessee to its other unit cannot be allowable since it is paid and received by the same person and not transacted between different entities. This would be possible where separate books of accounts are maintained for the two separate units, as in the case of *Malwa Mills Karamchari Paraspar Sahakari Sanstha Ltd. vs. CIT [1983] 140 ITR 379 (Madhya Pradesh)*. Thus, it is

evident that this clause permits deduction of interest on moneys borrowed by an assessee from another. Payment of interest by an assessee to himself will not be deductible.

Paid/Payable

In order to claim allowance in respect of interest on borrowed capital, interest must be 'paid' during the accounting year. Having regard to the definition of 'paid' under Section 43(2) of the Act, an allowance may be granted under this clause in respect of interest actually paid when assessee follows cash basis of accounting, or in respect of interest accrued where the mercantile system of accounting is adopted. Where mercantile system of accounting is followed, interest, becoming due and payable upfront, is held to be allowable. Further, inference can also be drawn from the definition of 'interest' under Section 2(28A) of the Act, whereby interest would mean payable in any manner in respect of moneys borrowed or debt incurred inserted since Finance Act, 1976.

Conversely to this understanding, CBDT issued Circular No. 07/2006 dated July 17, 2006 which clarified the position regarding deduction of interest under Section 36(1)(iii) in view of the amendment to Section 43B during the Finance Act, 2006. Pursuant to the amendment under Section 43B explanations 3C and 3D clarify that sum payable as interest on any loan/borrowing/advance from any public financial institution/scheduled bank would be allowed as a deduction if interest has been actually paid. In case interest has been converted into a loan/borrowings/advance which has not been actually paid shall not be allowed as a deduction in the computation of income. As intended in the Memorandum explaining the provision of the Finance Bill, 2006 the unpaid interest whenever actually paid to the bank/financial institution would be treated as revenue expenditure. Hence, the legislation made it clear that, converted interest by any



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Treatment of interest whether capital or revenue in nature depends upon utilisation of loans raised. If interest of a capital nature is expensed out through Profit and Loss account or if interest of revenue nature is capitalised, there would be a contravention of Accounting Standard-16 and the auditor would be required to comment in the audit report under the Companies Act, 1956. It would also vitiate the true and fair view of the financial statements.



nomenclature in wake of its conversion into loan / borrowing / advance would be eligible for deduction in computation of income of the previous year in which the converted interest is actually paid.

Interest payment capital/revenue

Treatment of interest whether capital or revenue in nature depends upon utilisation of loans raised. If interest of a capital nature is expensed out through Profit and Loss account or if interest of revenue nature is capitalised, there would be a contravention of Accounting Standard-16 and the auditor would be required to comment in the audit report under the Companies Act, 1956. It would also vitiate the true and fair view of the financial statements.

In *Srishti Securities (P) Ltd. vs. Jt. CIT [2005] (IT Appeal No. 3761 dated April 1, 2005) (Mumbai ITAT)* the Hon'ble ITAT Mumbai held that, interest paid by the investment company on funds borrowed for purchase of shares, irrespective of the fact whether such shares were to be held as stock-in-trade or investment or for acquiring controlling interest in other companies, was deductible under Section 36(1)(iii) of the Act.

Section 37 is an omnibus Section, which permits deduction of any expenditure laid out for the purposes of business. In *JCT Ltd. vs. DCIT [2005] 276 ITR 115 (Calcutta)*, the Hon'ble Calcutta High Court held that interest paid on the borrowed capital, under the deferred payment scheme for a period till the asset was first put to use would not be eligible for deduction under Section 36(1)(iii) or Section 37 as revenue expenditure, but it is to be treated as capital expenditure and to be included in the actual cost of the asset.

Interest treatment on exempt income

If amounts borrowed are invested, then such borrowal will not be eligible for deduction in the books in which the borrowals have been credited. For instance, if a loan taken for carrying on business is later invested in shares, interest on the

loan is not eligible for deduction against business income. The principle is affirmed by the Hon'ble ITAT in the case of *Mandideep Engg. & Packaging Industries (P) Ltd. vs. DCIT [2000] 77 ITD 307 (Indore)* where dividend income on shares is exempt under Section 10(33) of the Act; interest on borrowal cannot be claimed as an expense. Similarly, if income from such investment is chargeable to tax, then the assessee could claim interest only against such income.

Relevance of Explanation 8 to Section 43(1)

Section 43 clarifies certain terms relevant to income from profits and gains of business and profession. Thereby, the Section commences with the words 'in Sections 28 to 41 and unless the context otherwise requires' 'actual cost' shall mean actual cost of the assets, restricting the explanation applicable to that portion of cost for any other person or authority. Explanation 8 was inserted in Section 43(1) by Finance Act, 1986 with retrospective effect from 1-4-1974 under which 'Actual cost' meant nothing more than cost to be ascertained accurately.

In fact, Explanation 8 primarily applies to Sections 32, 32A, 33 and 41 which deal with concepts on determination of cost of asset for claiming depreciation. However, the Legislature used the words 'unless the context otherwise requires' concept, where the analogy of actual cost does not apply to Section 36(1)(iii). Relying on the decision of *DCIT vs. Core Health Care Ltd. [2008] 167 Taxman 206 (Supreme Court)* the Hon'ble Apex Court has laid stress on, Explanation 8 being inapplicable and having no relevance to Section 36(1)(iii) of the Act.

Emphasising the need to adopt a purposive interpretation of Explanation 8 under Section 43(1), Courts are of the view that interest on the capital borrowed for acquisition of an asset for the period before the asset is first put to use needs to be added towards its capital cost and for period thereafter interest is not permitted to be added

towards actual cost. Prominently, the language of Explanation 8 to Section 43(1) does not in any manner make any distinction in the acquisition of an asset when a new business is being set up or when the expansion is being carried out.

However, considering the explanation of 'Actual Cost' for an asset, precisely there seems no relevance in relation to Section 36(1)(iii), the reasoning flows from bare reading of Section 43(1). In fact, addition of proviso to Section 36(1)(iii) of the Act is nothing else but clarifying the same underlined object in the scheme of the Act providing for the manner in which such an interest on the capital borrowed is to be dealt with. Though proviso to Section 36(1)(iii) was added vide Finance Act, 2003 but a view could be taken that the proviso was merely clarificatory as it has made explicit what was already implicit.

Understanding the terms 'extension and expansion'

Interest paid on the amount of borrowed capital is deductible under Section 36(1)(iii) of the Act on fulfillment of certain conditions as highlighted:

- There should be a borrowing;
- Capital must have been borrowed for business purposes; and
- Interest should have been paid or be payable in respect thereof.

Under expansion of an existing business it is to be interpreted whether it is really expansion of an existing business or is it commencement of a new business. In fact in case of altogether new business, which has no relationship with the existing business, interest on borrowed capital cannot be allowed against the profits of the existing business.

One of the conditions under proviso to Section 36(1)(iii) is that interest paid, in respect of capital borrowed for acquisition of an asset towards extension of existing business or profession, should be capitalised and not allowed as a deduction. The intention why Central Board of Direct Tax (CBDT) inserted Explanation 8 to Sec 43(1) vide Finance Act, 1986 w.e.f April 1, 1974 and proviso to Sec 36(1)(iii) vide Finance Act, 2003, was to curb tax avoidance on claiming deduction of interest associated with assets to be capitalised. Under

common parlance and dictionary meaning, it is important to note that there is no difference between the words 'extension' and 'expansion' of business. As rightly affirmed, in the case of *CIT vs. Mahindra Ugin & Steel Co. Limited* [2000] 250 ITR 84 (Bombay), where the Hon'ble Bombay High Court has read 'extension' as 'expansion' of business.

The Courts have held that setting up of a straw-board factory is considered as expansion of the existing business and not altogether a new business. Hence, the assessee was entitled for deduction of interest paid in the case of *CIT vs. Hindustan Machine Tools Limited* [1989] 175 ITR 212 (Karnataka), *CIT vs. Indian Telephone Industries Limited* [1989] 175 ITR 215 (Karnataka). A recent development has been in the case of *CIT vs. Monnel Industries Limited* ITA No. 450/2008 dated November

21, 2008 (Delhi) wherein it was held that, capital borrowings by itself, does not entail for capital asset, nor does it give an advantage of an enduring nature. So long as interest is paid on capital borrowed in respect of new line of business by an existing company for purposes of ascertaining income under Section 28 of the Act, interest can be claimed as a deduction under Section 36(1)(iii) of the Act. However, rationale of the decision would

have to be vetted and reviewed post amendment with effect from 2004-05.

The effect of proviso to Section 36(1)(iii) inserted from assessment year 2004-05 is to disallow interest on borrowings for acquiring capital asset till the date on which the asset was put to use even if it is for expansion of existing business. The law always distinguished between money borrowed for existing business – whether for expansion or otherwise and money borrowed for setting up an altogether new business. Revenue felt that expansion of business should be treated at par with new business and that interest on borrowing for capital asset on expansion should not be permitted as a deduction per *CIT vs. Hindustan Zinc Limited* [2003] 269 ITR 369 (Rajasthan).

Also, where machinery is purchased out of borrowed funds for the purpose of business, merely because such machinery had not been



actually used in business during assessment, interest paid on amount borrowed should not be disallowed as per *CIT vs. Associated Fibre & Rubber Industries (P.) Ltd.* [1999] 102 Taxman 700 (SC) and *Calico Dyeing & Printing Works vs. CIT* [1958] 34 ITR 265 (Bombay). The above view has been affirmed by the Supreme Court's judgment in case of *DCIT vs. Core Health Care Ltd.* [2008] 167 Taxman 206 (Supreme Court) and *JCIT vs. United Phosphorous Ltd.* [2008] 299 ITR 9 (Supreme Court), wherein it was held that interest paid in respect of borrowing to purchase capital assets, though not put to use in the concerned financial year prior to the insertion of proviso with effect from 1-04-2004, can be permitted as an allowable expenditure. It was also clarified that proviso to Section 36(1)(iii), inserted by the Finance Act, 2003 with effect from 1-4-2004, operates prospectively with effect from 1-4-2004.

Hence, from assessment year 2004-05 where borrowing is specifically for the purpose of acquiring capital asset, interest is not an admissible deduction till the date asset is brought to use. The cost of asset acquired out of such borrowing will stand enhanced by the amount of interest, so that where the asset is depreciable one, it will earn depreciation. However, in case of assets like land, it will be a dead loss for the assessee in that case it will neither be admissible as a deduction nor will it earn depreciation.

Diversion of borrowals to sister concerns

A number of issues have come-up with respect to disallowance of interest. One such issue under debate is with regard to disallowance of interest in cases where admittedly borrowed funds are transferred to subsidiary company without charging any interest. Section 36(1)(iii) provides for deduction of interest on loans raised for by an assessee in the books of account, but the onus to prove that funds raised, are utilised for business purposes lies with the borrower. Of late, it is observed that borrowers advance funds to sister concerns/associates without any interest and claim benefits of interest deduction. This has resulted in



not presenting a true and correct picture of the accounts along with enormous litigation on the cost being incurred by borrower and the sister concern/associate enjoying benefits of the liquidity.

In fact, every case of interest on borrowings need not be disallowed if borrower advances funds to a sister concern. It would depend on the facts and circumstances of respective case. It is observed that when borrowed funds are advanced under commercial expediency, deduction of interest should be allowed under Section 36(1)(iii). However, money is said to be advanced to a sister concern for commercial expediency in many circumstances. The Hon'ble Supreme Court in the case of *S. A. Builders Ltd. vs. CIT* [2007] 289 ITR 26 (Supreme Court) has ruled that when holding company has deep interest in its subsidiary, who advances borrowed money to its subsidiary being utilised by the subsidiary for business purposes, the holding company would ordinarily be entitled to claim deduction of interest under Section 36(1)(iii) on its borrowed loans. Such interest is deductible if advances are intended for commercial expediency.

In any event, before disallowing interest expenditure on borrowed money alleged to have been advanced to sister concerns, what is required to be examined by the Assessing Officer is the extent/quantum of benefit derived from borrowed funds advanced to sister concerns *CIT vs. Motor General Finance Ltd.* [2005] 272 ITR 550 (Delhi). Moreover, confirming rationale of the observation

A number of issues have come-up with respect to disallowance of interest. One such issue under debate is with regard to disallowance of interest in cases where admittedly borrowed funds are transferred to subsidiary company without charging any interest. Section 36(1)(iii) provides for deduction of interest on loans raised for by an assessee in the books of account, but the onus to prove that funds raised, are utilised for business purposes lies with the borrower.



As long as funds borrowed are used in the business, interest payment would remain as a deductible expenditure in the computation of business income. It is allowable under the provision only because the amount on which it is paid continues to be used in the business and its payment is, therefore, necessary for the purpose of running the business. If the expenditure incurred is ostensibly for business, but not so in reality, it is not allowable.

by Apex Court (*supra*) it is evident that once established about nexus between the expenditure and the purpose of the business (which need not necessarily be assessee's business), expenses should not be disallowed in considering deductibility of genuine expenses during the course of carrying out its business.

If it is established that there are sufficient funds, other than loan, available with the borrower in the form of share capital, reserves and surpluses for diverting sum to its sister concern, it cannot be said that loan advanced to the sister concern is financed out of borrowings *CIT vs. Radico Khaitan Ltd. [2005] 274 ITR 354 (Allahabad)*. It cannot possibly be ruled out that funds to the extent diverted to sister concerns or other persons free of interest are required by the assessee for the purpose of its business and loan to that extent is necessary to be raised. Theory of direct nexus between borrowings and diversion of funds for non-business purposes could not be subscribed to. Rather, there should be nexus of use of borrowed funds for the purpose of business to claim deduction under Section 36(1)(iii) as viewed by *CIT vs. Abhishek Industries Ltd. [2006] 286 ITR 1 (Punj. & Har.)*.

In all such cases where mixed funds are used for both business and other than business purposes, there is no presumption that moneys used for other purposes came out of borrowed funds. It can be argued that interest free funds given are out of own funds to the extent of capital and reserves; if the borrower has sufficient owned funds, and other interest-free funds borrowed from relatives and friends not related to

business. This proposition would safeguard position on non-disallowance; if own funds are not sufficient to cover interest free advances, a proportionate disallowance is possible as confirmed in the case of *Metro Exporters Ltd. vs. ITO, MUMBAI ITA No. 1693/M/05 dated February 20, 2009 (Mumbai ITAT)*.

Conclusion

Section 36(1) (iii) of the Act refers to "the amount of interest paid in respect of capital borrowed for the purposes of business or profession" where capital borrowed should be for the purpose of business is inevitable. Implicitly under this provision capital borrowing should not only be invested in the business, but should continue to remain in the business.

Deduction of interest on capital borrowed under the Act is vehemently argued by the revenue against the claim of the assessee. On understanding the provision and imbibing intention of the legislature it is in fact a boon to the assessee where expenditure incurred as commercial expediency is allowable provided the expenditure has business nexus.

As long as funds borrowed are used in the business, interest payment would remain as a deductible expenditure in the computation of business income. It is allowable under the provision only because the amount on which it is paid continues to be used in the business and its payment is, therefore, necessary for the purpose of running the business. If the expenditure incurred is ostensibly for business, but not so in reality, it is not allowable. ■

Valuation of Taxable Service Under Works Contract Composition Scheme – Effect of Amendments

The levy of service tax on Works Contract Service has been mired in controversies ever since inception of this Service with effect from June 1, 2007. One of the major controversies has been regarding the valuation to be adopted for taxable service under the Works Contract Composition Scheme in two specific cases. Now, the Government has resolved this controversy by making amendment to the Works Contract Composition Scheme *vide* Notification No. 23/2009 – ST dated 7-7-2009, and inserting an explanation to Sub Rule 1 to Rule 3 of Works Contract (Composition Scheme for Payment of Service Tax) Rules, 2007. Further, sub-rule 4 has also been added to Rule 3. This article analyses the effects of these amendments.



CA. S. Ranga Swamy

The author is a member of the Institute.

*He can be reached at
eboard@icai.org*

Right from the inception of Works Contract Service with effect from 1-6-2007, innumerable controversies have surrounded the levy of service tax on such service. One of the major controversies has been regarding the valuation to be adopted for taxable service under the Works Contract Composition Scheme in the following cases:

- i) In case the goods are supplied partly by the client free of cost to the service provider and some goods are used by the service provider in execution of the contract.
- ii) In case the goods are supplied by the service provider under a separate contract as sale of goods and the value of such goods is excluded in the gross amount charged by the service provider for such works contract.

Now, the Government has resolved this controversy by making amendment to the Works Contract Composition Scheme *vide* Notification No. 23/2009 – ST dated 7-7-2009, and inserting the following explanation for the explanation to Sub-Rule 1 to Rule 3 of Works Contract (Composition Scheme for Payment of Service Tax) Rules, 2007.



It seems that the provisions of Notification No. 1/2006 dated 1-3-2006 have been adopted for the works contract composition scheme also to the extent of gross value of the service is concerned. As per Notification no. 1/2006 service provider can opt to pay service tax on 33% of the gross amount charged which includes the value of the plant, machinery, equipment, parts and any other material sold during the course of providing erection, commissioning or installation service.

Existing Explanation: For the purposes of this rule, gross amount charged for the works contract shall not include Value Added Tax (VAT) or sales tax, as the case may be, paid on transfer of property in goods involved in the execution of the said works contract.

Amended Explanation: For the purposes of this sub-rule, gross amount charged for the works contract shall be the sum –

- (a) including –
- (i) the value of all goods used in or in relation to the execution of the works contract, whether supplied under any other contract for a consideration or otherwise; and
 - (ii) the value of all the services that are required to be provided for the execution of the works contract;
- (b) excluding –
- (i) the value added tax or sales tax as the case may be paid on transfer of property in goods involved; and
 - (ii) the cost of machinery and tools used in the execution of the said works contract except for the charges for obtaining them on hire:

Provided that nothing contained in this Explanation shall apply to a works contract, where the execution under the said contract has commenced or where any payment, except by way of credit or debit to any account, has been made in relation to the said contract on or before the 7th day of July, 2009."

New Insertion of Sub-Rule 4

Further the following sub-rule 4 to Rule 3 has been added-

"(4) The option under sub-rule (3) shall be permissible only where the declared value of the works contract is not less than the gross amount charged for such works contract."

Departmental Clarification

Further the Government has given clarification *vide* Circular D. O. F. No. 334/13/2009-TRU dated 6th July, 2009 pertaining to the amendments in

Rules of Works Contract Composition Scheme as given below:

"5.1 Changes in the Works Contract (Composition Scheme for Payment of Service Tax) Rules, 2007: These rules provide a simplified procedure for working out the tax liability by the service providers providing works contract service. Instead of working out the service element from the value of works contract and paying service tax at full rate (i.e. 10%) the service provider is allowed to pay 4% on the 'gross amount charged' for the works contract. The reason for prescribing the lower rate under the scheme is that the service provider need not bifurcate the gross value of works contract. It was expected that the gross value should be shown to include the total value of materials as well as services used in providing the taxable services. However, it has been reported that in certain cases, the taxpayers are not including the full value of the goods required for execution of works contract for working out service tax liability under the Composition Scheme by either excluding the value of goods received free of cost from their client or splitting the contract into a sale contract (for a portion of goods required to execute the works contract) and works contract (for only a portion of the total value of goods and the labour charges), thus reducing the value of works contract for the purposes of calculating service tax. In order to plug this loophole, the Explanation appearing in sub-rule (3) is being amended to provide that the composition scheme would be available only to such works contracts where the gross value of works contract includes the value of all goods used in or in relation to the execution of works contract whether received free of cost or for consideration under any other contract. This condition would not apply to those works contracts, where either the execution of works contract has already started or any payment (whether in part or in full) has been made on or before the date of the amendment, i.e. 07.07.2009, from which the said amendment becomes effective (refer notification No. 23/2009-ST dated 07.07.2009)".

It seems that the provisions of Notification No 1/2006 dated 1-3-2006 have been adopted for the works contract composition scheme also to the extent of gross value of the service is concerned.

As per Notification no. 1/2006 service provider can opt to pay service tax on 33% of the gross amount charged which includes the value of the plant, machinery, equipment, parts and any other material sold during the course of providing erection, commissioning or installation service. In case of construction service the gross amount charged shall include the value of goods and materials supplied or provided or used by the provider of such construction service. Moreover service provider cannot avail any CENVAT credit on inputs, input services and capital goods apart from the benefit under Notification No. 12/2003-ST dated 20-6-2003.

In the case of works contract composition scheme also the provider of taxable service opting to pay service tax under the said composition scheme is debarred from availing CENVAT credit of duty on inputs, used in or in relation to the said works contract, under the provisions of CENVAT Credit Rules, 2004. However the provider of taxable service can avail the CENVAT credit of duty on Capital Goods and Service Tax on various Input Services, used in or in relation to the said works contract, under the provisions of CENVAT Credit Rules, 2004.

Treatment of Works Contract Service

As per Section 65(105)(zzzza) of Finance Act, 1994 "Taxable Service" means any service to any person, by any other person in relation to the execution of a works contract, excluding works contract in respect of roads, airports, railways, transport terminals, bridges, tunnels and dams is a taxable service.

Explanation – For the purposes of this sub-clause,

Works Contract means a contract wherein, –

- (i) transfer of property in goods involved in the execution of such contract is leviable to tax as sale of goods, and
- (ii) such contract is for the purposes of carrying out, –
 - (a) erection, commissioning or installation of plant, machinery, equipment or structures,

In the case of works contract composition scheme, the provider of taxable service opting to pay service tax under the said composition scheme is debarred from availing CENVAT credit of duty on inputs, used in or in relation to the said works contract, under the provisions of CENVAT Credit Rules, 2004. However the provider of taxable service can avail of the CENVAT credit of duty on Capital Goods and Service Tax on various Input Services, used in or in relation to the said works contract, under the provisions of CENVAT Credit Rules, 2004.

whether prefabricated or otherwise, installation of electrical and electronic devices, plumbing, drain laying or other installations for transport of fluids, heating, ventilation or air-conditioning including related pipe work, duct work and sheet metal work, thermal insulation, sound insulation, fire proofing or water proofing, lift and escalator, fire escape staircases or elevators; or

- (b) construction of a new building or a civil structure or a part thereof, or of a pipeline or conduit, primarily for the purposes of commerce or industry; or
- (c) construction of a new residential complex or a part thereof; or
- (d) completion and finishing services, repair, alteration, renovation or restoration of, or similar services, in relation to (b) and (c); or
- (e) turnkey projects including engineering, procurement and construction or commissioning (EPC) projects.

The clarifications given by the Department regarding treatment of works contract for levy of service tax are summed up below:

- Contracts which are treated as works contract for the purpose of levy of VAT/Sales Tax shall also be treated as works contract for levying service tax.
- In case the service provider opts for composition scheme under VAT/Sales Tax, then the value for goods and services will not be available separately as VAT/sales tax will be levied on composite value. The onus to prove the value of the goods involved will be on the service provider. Hence separate records are to be maintained for materials and services.



- In case the service provider does not opt for composition scheme under VAT/Sales Tax and pays VAT/Sales Tax on goods identification method, then the value adopted for the purposes of payment of VAT/Sales Tax will be accepted for allowing deductions towards the goods sold during the execution of the contract.
- The service provider can opt for paying service tax on the basis of Rule 2A of Service Tax (Determination of Value) Rules, 2006 which provides that value of works contract service shall be equivalent to the gross amount charged for the works contract less the value of transfer of property in goods involved in the execution of the said works contract. In this case, the assessee has to pay service tax @10.3% on value of services and avail CENVAT credit on inputs (being consumables), capital goods and input services.
- The service provider can exercise the option under the Works Contract Composition Scheme contract wise and pay service tax @4.12% but once the said option is exercised with respect to a particular contract, the said opinion cannot be withdrawn. CENVAT credit on inputs is not available. However, CENVAT credit on input services and capital goods is available.
- The exercise of option tax at 4.12% under Works Contract Composition Scheme will be independent of the exercise of option under VAT/Sales Tax. Exercise of options under Service Tax Law and VAT/Sales Tax Law need not be co-existing.
- The option exercised under Works Contract Composition is final and cannot be withdrawn for a particular works contract.

It is clear from the above clarifications that classification of an activity under Works Contract is possible, only if it involves transfer of property. When the contract is recognized as Works Contract under VAT/Sales Tax, it can be treated as Works Contract under the provisions of Service Tax Law also.

Now after the amendment in the law, the gross amount charged as value of works contract under VAT/Sales Tax provisions, need not be recognized as gross amount of such works contract for levy of service tax. The value of goods supplied by the client at free of cost is also to be added to the gross amount charged for works contract under service tax law whereas it is not required under VAT provisions.

Valuation under VAT Law vs. Service Tax Law

Under VAT provisions, broadly three options are available for determining the taxable turnover of works contract as given below –

(a) Regular Method:

Where the value of transfer of property in goods and the service involved in the execution of such works contract and such values are supported by distinct documentation in the books of accounts then the value of such goods is the value for the purpose of VAT/Sales tax. It is similar to the Rule 2A(1)(i) of the Valuation Rules under Service Tax Law for determining the value of service.

(b) Standard Deduction Method:

Where the books of accounts are not segregated for the goods and service involved in the execution of the works contract then value for the purpose of VAT/Sales tax is determined based on the standard deduction/abatements allowed for labour charges. It is similar to the abatements allowed under Notification no. 1/2006 dated 1-3-2006. However there is no such provision under Valuation Rules for Works Contract Service.

(c) Composite Method:

Where the assessee opts for a composition scheme under VAT/Sales tax provisions then the gross amount charged for the works contract is the tax base for the purpose of payment of VAT/Sales tax. It is similar to the Works Contract Composition Scheme under Service Tax Law.

In terms of sub-rule (ii) of Rule 2A (1) of the Valuation Rules, if VAT/Sales tax is paid on the actual value of transfer of property in goods involved in the execution of such contract then such value adopted for the purpose of payment of VAT/Sales tax shall be taken as the value of transfer of property in goods which is allowed to be deducted while determining the value of Works Contract Service. Hence for the purpose of valuation of works contract service which involves



transfer of property in goods in the execution of such works contract, it is essential to understand the determination of tax base for the purpose of levy of works contract tax under the VAT provisions. As Works Contract is a composite contract involving supply, sale/transfer of goods and provision of services, levy of Service Tax is to be confined to that portion of the value which represents the services provided in relation to the execution of works contract and it is similar to the levy of Sales Tax/VAT on the value of goods supplied/sold/transferred in a works contract by the service provider.

In case the service provider opts for a composition scheme under VAT/Sales tax then the gross amount charged for the works contract is the tax base for the purpose of payment of VAT/Sales tax and the same value can be taken as the basis for levy of service tax also.

Now after the amendment the gross amount charged as value of works contract under VAT/Sales Tax provisions, need not be recognized as gross amount of such works contract for levy of service tax. The value of goods supplied by the client at free of cost is also to be added to the gross amount charged for works contract under service tax law whereas it is not required under VAT provisions.

As per the amended provisions of service tax law "gross amount charged for the works contract shall be the sum,-

(a) including-

(i) the value of all goods used in or in relation to the execution of the works contract, whether supplied under any other contract for a consideration or otherwise; and

(ii) the value of all the services that are required to be provided for the execution of the works contract;

(b) excluding-

(i) the value added tax or sales tax as the case may be paid on transfer of property in goods involved; and

(ii) the cost of machinery and tools used in the execution of the said works contract except for the charges for obtaining them on hire."

A new sub-rule 4 has also been inserted to specify that the option of payment of service tax @4% under sub-rule (3) thereof shall be

permissible only where the declared value of the works contract is not less than the gross amount charged for such works contract.

In other words the amendment has been brought in determining the gross value for the purpose of works contract composition scheme as the service providers are not considering the total value of the goods required for execution of works contract for working out service tax liability under the composition scheme by excluding the value of goods received at free of cost from the customer or splitting the contract into a sale contract for supply of goods required to execute the works contract and another contract for supply of a portion of the goods as well as the service/labour charges. In this way the value of works contract gets reduced for the purposes of calculating service tax.



Service Tax Planning in Context of Amendments

- The contracts may be classified broadly in the following categories.
 - i) Turnkey Contract or EPC contract
 - ii) Civil Works –
 - A Contract for supply of materials such as cement, steel and other materials
 - A Contract for labour/service
 - A works contract/composite contract consisting of both material and labour portions.
 - iii) Erection, Commissioning & Installation Work –
 - A Contract for supply of materials such as plant, machinery, equipment or structures
 - A Contract for labour/service
 - A works contract/composite contract consisting of both material and labour portions.
- It is advisable to get the separate contracts each for civil work and erection/commissioning/installation work. Gross value should be shown to include the total value of materials as well as services used in providing the taxable services. For example in case of a composite Civil Contract it should consist of value of cement, steel and other related materials as well as value of labour/service for such construction contract.

Under the provisions of Service Tax Law both the contractor and sub-contractor are liable to pay service tax under works contract service. The Government has not addressed this issue in the Budget 2009. When it is possible to allow exemption to the sub-contractor from payment of VAT at state level, it is to be considered to frame similar provisions at central level by taking required administrative measures and using the software technology for this purpose.



Similarly in case of composite Erection, Commissioning & Installation Contract it should consist of value of plant, machinery, equipment or structures as well as labour/service for such erection contract.

- In case of Turnkey Projects or EPC Contracts or Composite Contract of Civil Construction Activity or Composite Contract of Erection, Installation and Commissioning Work which contains composite rates without breakup of material and labour, the option under Composition Scheme is simple and beneficial by payment of service tax @4.12% on total gross value less VAT.
- In respect of Composite Contract which is divisible and consists of material portion more than 60% and service portion less than 33%, payment of service tax @10.3% on service value determined under Rule 2A of Service Tax (Determination of Value) Rules, 2006 is beneficial. In case material portion is less than 60% and service portion is more than 33% then payment of service tax @4.12% on total gross value less VAT under Works Contract Composition Scheme is beneficial.
- For this purpose breakup of supply portion and service portion in a contract is to be given.
- Generally material portion will be more than 60% in composite contract of erection, commissioning and installation since it contains supply of plant, machinery, equipment or structure and hence payment of service tax @10.3% on service value determined under Rule 2A of Service Tax (Determination of Value) Rules, 2006 is beneficial.
- Normally the civil construction contract will be composite and indivisible which includes value of materials such as cement, steel, fixtures etc. In this case payment of service tax @4.12% under Works Contract Composition Scheme is beneficial.

Tax in the Hands of Sub-Contractor

Another controversy surrounding the works contract service is levy of service tax in the hands of

sub-contractor when the main contractor is discharging the liability in total for a works contract. Under the provisions of VAT Law for an assessee opting for composition scheme, tax is not payable on the amounts paid or payable to a sub-contractor as consideration for execution of works contract whether wholly or partly and such amounts shall be deducted from the total consideration for the works contract executed and tax paid at the concessional rate notified for the purpose. However, it has to be proved that such sub-contractor is also registered with the tax authorities and liable to pay tax and such amounts are shown in the returns filed by such sub-contractor. If an assessee who is executing a works contract sells any goods liable to tax other than by way of transfer of property in such goods in any works contract executed by him, he shall pay tax on such goods at the rate applicable to them without any deductions for input tax on purchase of such goods.

Under the provisions of Service Tax Law both the contractor and sub-contractor are liable to pay service tax under works contract service. The Government has not addressed this issue in the Budget 2009. When it is possible to allow exemption to the sub-contractor from payment of VAT at state level, it is to be considered to frame similar provisions at central level by taking required administrative measures and using the software technology for this purpose.

Conclusion

The amendment by Notification no. 23/2009-ST dated 7-7-2009 may lead to another controversy regarding value of goods supplied by the client free of cost to the service provider. In case the service provider has used goods partly and client also supplied goods partly free of cost for execution of the contract then determining the value of such goods will become difficult and lead to further complications. Hence it is required to frame the guidelines in this regard. Otherwise the purpose of Works Contract Composite Scheme may not be fulfilled. ■



Preparing for Goods & Service Tax

“Be prepared – Goods & Service Tax (GST) is coming with effect from 01.04.2010”, declared the Finance Minister in his Budget speech for 2009-10. Collaborative efforts led by Empowered Committee of State Finance Ministers have helped reach an agreement on the basic structure of GST in keeping with the principles of fiscal federalism enshrined in the Constitution. The GST would result in abolition of multiple types of taxes on goods and services. Going by global experience, the GST can be a big boon if it has right kind of rate and legislation. It is high time for all concerned, including Chartered Accountants, to start preparing for smooth introduction, implementation and operation of GST. This article explores the concept.



CA. R. S. Bhatt

*The author is a member of the Institute.
He can be reached at
eboard@icai.org*

Introduction

In the speech for Budget 2009-2010, the Finance Minister Mr. Pranab Mukherjee has given a clarion call: “Be prepared – Goods & Service Tax (GST) is coming w.e.f. 01.04.2010.” In two paras he has referred to GST.

Para 82 : “.....Tax reform, like all reforms, is a process and not an event. Therefore, I propose to pursue structural changes.....in indirect taxes by accelerating the process for the smooth introduction of the Goods and Services Tax (GST) with effect from 1st April, 2010.”

Para 85 : “I have been informed that the Empowered Committee of State Finance Ministers has made considerable progress in preparing the roadmap and the design of the GST. Officials from the Central Government have also been associated in this exercise. I am glad to inform the House that, through their collaborative efforts, they have reached an agreement on the basic structure in keeping with the principles of fiscal federalism enshrined in the Constitution. I compliment the Empowered Committee of State Finance Ministers for their untiring efforts. The broad contour of the GST Model is that it will be a dual GST comprising of a Central GST and a State GST. The Centre and the States will each legislate, levy and administer the Central GST and State GST, respectively. I will reinforce the Central



GST is comprehensive value added tax on goods and services. It is levied and collected on value addition at each stage of sale or purchase of goods or supply of services based on input tax credit method but without State boundaries. There is no distinction between taxable goods and taxable services and they are taxed at a single rate in a supply chain of goods and services till the goods/services reach the consumer.

Government's catalytic role to facilitate the introduction of GST by 1st April, 2010 after due consultations with all stakeholders."

Dr Asim K Dasgupta, Chairman of Empowered Committee and Revenue Secretary Mr. P. V. Bhide have also reiterated that GST is coming w.e.f. 1.4.2010.

Our Ex-Finance Minister Mr. P. Chidambaram had been making this call in his four budget speeches as given below, which will also throw some light on the type of GST that is coming.

Budget Speech 2004-05: Para 119: "Now I turn to my indirect tax proposals It is my intention to align India's tariff structure with those of ASEAN countries. Eventually, there should be a uniform rate of tax on goods and services."

Budget Speech 2005-06: Para 94: "In the medium to long term, it is my goal that the entire production – distribution chain should be covered by a National VAT, or even better a goods and service tax, encompassing both the Centre and State."

Budget Speech 2006-07: Para 155: "It is my sense that there is large consensus that the country should move towards a national level Goods and Service Tax (GST) that should be shared between the Centre and the State. I propose that we set April 1, 2010 as the date for introduction of GST. World over goods and services attract the same rate of tax. That is the foundation of the GST. People must get used to the idea of GST. Hence we must progressively converge the service tax rate and the CENVAT rate."

Budget Speech 2007-08: Para 116: "I wish to record my deep appreciation of the spirit of co-operative federalism displayed by State Governments and especially their Finance Ministers. At my request, the Empowered Committee of State Finance Ministers has agreed to work with the Central Government to prepare a roadmap for introducing a national level Goods

and Services Tax (GST) with effect from April 1, 2010."

Thus it is very clear that GST is coming. So let us be prepared for the same. Industries, trading communities, Central Government and State Governments, would-be practitioners of GST and, as such, all, including we Chartered Accountants, should prepare for the smooth introduction and operation of GST.

Before we list out segment wise required preparations, we must know what happened after the initial above mentioned announcements by Ex-Finance Minister Mr. P. Chidambaram and what sort of GST is being proposed.

The real work started with the appointment of Joint Working Group (JWG) by the Empowered Committee of State Finance Ministers to give recommendations regarding detailed framework to be adopted for GST, in May 2007. JWG was given the task to suggest a model for the base and rate structure of GST. The working group was instructed to keep the following in mind:-

- (a) GST should be so designed that it should be revenue neutral to the Centre and States. Interests of the Special Category, North Eastern State and Union Territories have to be especially kept in mind.
- (b) The group will examine different models and see that power of levy, collection and appropriation of revenue needs to be vested in the Centre and the States by looking at the *pros and cons*.
- (c) The various models suggested by the working group should ensure that double taxation is avoided.
- (d) The working group would ensure that the suggested model takes into account the problems faced during interstate transactions and any revenue loss.
- (e) The working group should consider how zero-rated goods and services and Non-VAT items

such as petroleum goods and alcohol might be treated under the new regime.

- (f) The model developed should reflect the interest of the Centre, States, trade, industry, agriculture and services.

JWG submitted the report in October 2007 after making study of GST Act of several countries and making study tours to Brazil, Australia and Singapore.

Before we look at their recommendations briefly, let us understand in simple words as to WHAT IS IDEAL GST?

GST is comprehensive value added tax on goods and services. It is levied and collected on value addition at each stage of sale or purchase of goods or supply of services based on input tax credit method but without State boundaries. There is no distinction between taxable goods and taxable services and they are taxed at a single rate in a supply chain of goods and services till the goods/services reach the consumer. The administrative power will be vested with a single authority to levy tax on goods and services. The main features of GST are as under:-

- (a) It is based on the principle of value added tax and either "input tax method" or "subtraction" method, with emphasis on voluntary compliance and accounts based system.
- (b) Comprehensive levy and collection on both goods and service at the same rate with benefit of input tax credit or subtraction of value of penultimate transaction value.
- (c) Minimum floor rates of tax, generally not exceeding two rates.
- (d) No scope for levy of cess, re-sale tax, additional tax, special tax, turnover tax, etc.
- (e) No scope for multiple levy of tax on goods and services such as sales tax, entry tax, octroi, entertainment tax, luxury tax, etc.
- (f) Zero rating of exports and interstate sales of goods and supply of services.
- (g) Taxing of capital goods and inputs whether goods or services relating to manufacture at

lower rate, so as to reduce inventory carrying cost and cost of production.

- (h) A common law and procedure throughout the country under one single administration.

Main Advantages of Comprehensive GST

- (a) Introduction of GST would result in abolition of multiple types of taxes on goods and services.
- (b) Reduces effective rates of tax to one or two floor rates.
- (c) Reduces compliance cost and increases voluntary compliance.
- (d) Removes cascading effect of taxation and removes distortion in the economy.
- (e) Enhances manufacturing and distribution efficiency, reduces cost of production of goods and services, increases demand and production of goods and services.
- (f) As it is neutral to business processes, business models, organisation structure, geographic location and product substitutes, it will promote economic efficiency and sustainable long term economic growth.
- (g) Will give competitive edge in international market for goods and services produced in India, leading to increased exports.
- (h) Reduces litigation, harassment and corruption.
- (i) Will result in widening tax base and increased revenue to the Centre and State.
- (j) Reduces administrative cost for the Government.

Now we will look at recommendations of the working group

Recommendations of Joint Working Group

- 1) JWG has recommended a dual GST. It means that there will be Central GST to be administered by the Central Government and at the same time there will be State GST to be administered by State Governments.
- 2) Central GST will replace existing CENVAT and service tax and the State GST will replace State VAT.



Today we are finding separate VAT laws in all States. There should be one GST Act applicable to whole of India. The description of entries prescribing rate of tax is not uniform in present VAT laws which results into same commodities being taxed differently in different States.



The success of GST will largely depend on the determination of ideal rate at Central level as well as State level which should be acceptable by public and revenue neutral to Government. All efforts should be made to keep the GST rate as low as possible. The standard rate of 16% adopted for CENVAT along with residuary rate of VAT 12.5% brings the overall rate to 28.5%, which is too high a rate compared globally. Ideally, GST rate may be kept at about 18%.

- 3) Central GST should subsume following indirect taxes on supplies of goods and services:-
 - Central excise duties and additional excise duties levied on pan masala, petroleum and tobacco products and those levied under Additional Duties of Excise (Goods of special importance) Act, 1957.
 - Additional custom duties in the nature of countervailing duties.
 - CVD and other domestic taxes impose on imports to achieve a level playing field between domestic and imported goods which are currently classified as customs duties.
 - Cesses levied by the Union viz., cess on manufactured bidis, rubber, tea, coffee and cess on unmanufactured tobaccos.
 - Surcharges levied by the Union viz., National calamity contingent duty, education cess, special additional duties of excise on motor-spirit and high speed diesel (HSD).
- 4) State GST should subsume following State taxes:-
 - Purchase tax
 - State Excise duty
 - Entertainment tax
 - Luxury tax
 - Octroi
 - Entry tax in lieu of octroi
 - Taxes on lottery, betting and gambling
 - Tax on consumption or sale of electricity
- 5) The proposed GST should have two components – Central GST and State GST – the rates of which will be prescribed separately keeping in view the revenue considerations, total tax burden and the acceptability of the tax.
- 6) More than 40 services are identified on which service tax should be levied/ collected by States.
- 7) For the purpose of assessment and administration of different assesseees following categorisation has been recommended:-
 - Gross turnover of goods up to Rs. 1.5 crore should be assigned exclusively to the State;
 - Gross turnover of services up to Rs. 1.5 crore should be assigned exclusively to the Centre; and
 - Gross turnover of above Rs. 1.5 crore should be assigned to both the Governments – for the administration of CGST to the Centre and for the administration of SGST to the State.
- 8) Exports should be zero-rated and should be relieved of all embedded taxes and levies at both Central and State level.
- 9) The JWG has also proposed list for exempted goods which includes items such as life saving drugs, fertilizers, agricultural implements, books and several food items.

Expectations from Forthcoming GST

We have just now studied above as to what ideal GST means. Going by global experience, GST can be a big boon, if it has right kind of rate and legislation. Coming GST should fulfil expectations of different segments of society in particular the expectations of Trade and Industry. Let us examine these expectations:

A. Expectations from the Central & State Government – Preparations by both Governments for GST

(a) Centre State interaction

Considering the federal nature of our country and Centre–State relationships, Central Government should be prepared to pass more powers of taxation to State and share more revenue with the States if GST has to be successful.

(b) Constitutional amendments

Under the scheme of our Constitution no tax can be levied without the authority of law. Power to levy tax on goods and services are vested with both Central Government and State Government under Article 246 and List-I and List-II of the VII Schedule of

the Constitution. Neither the Central Government nor the State Government can usurp the powers of the others without amending several provisions of the Constitution. Following Articles need to be amended by the Central Government:

- Article 246 – relating to subject matter of laws made by Parliament and by the legislatures of the State.
- Article 269 – relating to taxes levied and collected by the Union but assigned to the State.
- Article 270 – relating to taxes levied and distributed between the Union and the States
- Article 286 – relating to restrictions as to imposition of tax on the sale or purchase of goods
- List-I & List-II of the VII Schedule of the Constitution – some of the important entries
- Article 366 – important definitions

(c) Re-engineering of Central & State employees

There should be a thorough re-engineering of the department of GST at Central level as well as State level. This is very much required to clearly define, understand and administer functions in such a way that the responsibility, accountability and authority of each tax department at the Central and State level are clearly understood.

(d) Single authority to deal with

As it is known that number of official at Central level is less as compared to State level officials it is expected that Central officials be assigned special task to monitor the operations of large dealers (who have pan India operations) under CGST and SGST. The day-to-day operations related to registration, payment of tax and submission of returns for all the dealers (irrespective of their size) should be assigned to the State.

The assesseees with specific turnover, say, up to Rs. 500 crore and the assesseees whose operations are limited to one State only should be assessed by State Department for both CGST and SGST. In general, the idea is that assesseees should interact with one tax authority only.

Presently, under the recommendation of JWG, CGST will be monitored by the Central Government and SGST will be monitored by the State Government. It means that the assesseees will have to deal with two authorities which may be unacceptable by all dealers. Because from the past practical experience, everyone knows that interpretations, procedures, whims and approach widely differ at both levels.

The above concept will be discussed further while understanding about expected model of GST.

(e) Tax payment

Payment of CGST should be made in the bank accounts of Central Government. Similarly payment of SGST should be made in the bank accounts of State Government.

(f) Verification Agency

Cross verification of documents should be strengthened under GST to avoid evasion and wrong claims. In France, the Government has created organisation called “National Directorate of Verification” which verifies transactions above 300 million Francs involving national and international dealings. Similarly, there is Regional Directorate of Verification which verifies similar transactions within the districts/divisions. Similar arrangements should be made under our GST regime also.

(g) MIS amongst different Government Departments

MIS has to be an integrated activity of the SGST and CGST offices as well as other Government Departments. The integration of activities of SGST, CGST, customs and



It is presumed that Central Sales Tax will be phased out with the introduction of GST, but issue of GST on interstate transactions will be there. Proper mechanism needs to be introduced so that dealers get input credits for any GST levied on inter-state transactions. Only this can avoid cascading effect in the real sense.

income tax through PAN number, TINXYS should be an essential part of GST regime.

(h) Creation of IT infrastructure – GST Public Services Offices (PSO)

Cross verification, MIS and interaction between different departments and dealers necessitate complete computerisation of all Government departments in all States and as well as availability of computer facility with each and every dealer covered under GST. Even today it is observed that computers and Internet facilities are not easily available in villages and towns. Lack of knowledge of computer in such areas is a hard reality. Therefore, there is a need to bring the awareness about the computer amongst the dealers across India. In the initial period of five years opening of Government sponsored kiosks at various centres facilitating compliance of law through Internet and computers should be seriously considered. In fact, we are reminded of Mr. Sam Pitroda who created the Centre for Development of Telematics (CDOT), an autonomous telecom R&D organisation which made yellow signed Public Call Offices (PCO) ubiquitous throughout India. In the same fashion we highly expect that GST PSO (Public Service Offices) should be created in every village in the form of computer kiosks.

(i) Training of Staff

Today excise and service tax staff do not very conversant about VAT provisions. Similarly, State employees administering VAT Act do not know excise and service tax provisions. Thus both Central and State staff will require learning and training in the administration of GST Act.



(j) Stability of GST Act and rates

As recommended by Dr. Kelkar, there should be an agreement between Central Government and all State Governments that there should not be any change in the GST Act or rates without concurrence of both Central and State Governments. This only can lead to stability of GST Act.

B. Expectations from the GST Act

(a) Present lacuna to be removed

Finance Ministers of all States are jubilant because of the buoyancy in the collection of VAT revenue and feel that by and large harmonisation has been achieved in the VAT laws throughout the country with deviation in rates being less than 3% of the cases. However, we all know that everything is not right as far as dealers are concerned. Following lacuna found in the present VAT laws should be removed from the GST Act.

- (i) Today we are finding separate VAT laws in all States. There should be one GST Act applicable to whole of India.
- (ii) The description of entries prescribing rate of tax is not uniform in present VAT laws which results into same commodities being taxed differently in different States. Under GST there should be common schedules applicable in all States.
- (iii)(a) Input tax credit is not given of the tax paid on each and every goods used in business. Different States follow different rules in granting tax credit. Under the GST Act, it is expected that all the tax paid on all inputs should be available for adjustment against output tax. This only can bring removal of cascading effect and one price pan India making entire India one national market.
- (b) If dual GST is introduced, i.e. CGST at Central level and SGST at State level, it is proposed that input tax credit for CGST will be given only against the payment of CGST. Similarly, input tax credit of SGST will be given only against the payment of SGST. In other words, if there is a balance input tax credit available in either of the GSTs, it cannot be adjusted interchangeably, i.e., input tax credit of CGST

cannot be adjusted against payment of SGST. This is not acceptable to trade and industries. Input tax credit of one GST should be allowed to be adjusted against other GST if balance is available.

(iv) The procedural provisions relating to:-

- granting of registrations
- preparation of bills
- filing of returns
- scrutiny of returns
- assessments
- granting of refund
- audit
- cross-verification
- appeal
- allowance of credit notes etc.



are different in different States. Under GST Act, same procedural rules should be prescribed for all States.

(v) It is highly expected that all steps are taken to ensure that no pending work relating to either sales tax, VAT or other indirect taxes remains outstanding before implementation of GST so that everybody can concentrate on the new law. It is therefore, suggested that some schemes for summary disposal for all the pending cases should be pronounced before GST comes into operation.

(b) GST Rate

(i) Fixation of revenue neutral rate

The success of GST will largely depend on the determination of ideal rate at Central level as well as State level which should be acceptable by public and revenue neutral to Government.

The golden rule for collection of tax is given by world's oldest economist Kautilya alias Chanakya Muni more than 1000 years ago. He said that the king should collect tax from different persons as the bumble bee collects honey

from different flowers without making any harm to them. Thus all efforts should be made to keep the GST rate as low as possible.

• The standard rate of 16% adopted for CENVAT (now first lowered to 14% then 12% and then 8% under various schemes), along with residuary rate of VAT 12.5% brings the overall rate to 28.5%, which is too high a rate compared globally. Some of the global rates of GST as given below will be really an eye opener.

- Taiwan/Japan – 5%
- European Union (EU) – 19.5% (average)
- Organization for Economic Co-operation and Development (OECD) countries – 17.7%
- Asia Pacific countries – 10.8%
- South American countries – 14.2%
- Mexico – 15%
- Australia – 10%
- Canada – 6%
- Hong Kong/Bahrain – Nil

Ideally, GST rate may be kept at about 18% considering the fact that now CGST will also be available on value added transactions which will enhance Government revenue to a large extent.

(ii) No SGST on CGST

As per legal position today, sales tax / VAT are charged on excise duty element also. Under the new system, excise duty, i.e. CGST will be levied on each value added transactions up to consumers. It means that, SGST will further increase on such element with each value added transaction. For example, if CGST is 10% and SGST is also 10%, with each value added transaction, there will be additional burden of 1% of SGST (10%

Considering the high level of distortions in the indirect tax system, one can argue that the real output effect of a well implemented GST in India would be at least 1.4% of the GDP in Canada. This amounts to \$ 15 billion annually, implying that the economic value of GST reforms would, at a modest 3% discount rate, be close to half a trillion dollars or 50% of the country's present GDP.



SGST on 10% CGST). Ultimately, there will be a heavy burden on consumers. Hence, it is recommended that no SGST should be levied on any CGST element.

(c) Interstate transactions

It is presumed that Central Sales Tax will be phased out with the introduction of GST, but issue of GST on interstate transactions will be there. Proper mechanism needs to be introduced so that dealers get input credits for any GST levied on interstate transactions. Only this can avoid cascading effect in the real sense.

(d) GST model

There are four alternatives in this context:-

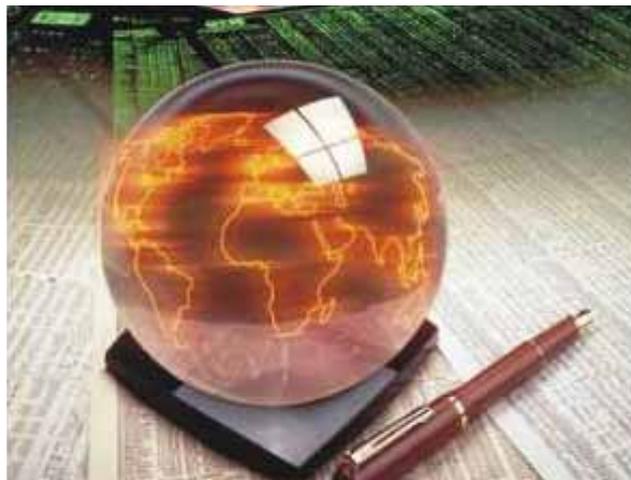
- GST at Central Government Level (Option I)
- GST at State Government Level (Option II)
- GST at both, Central and State Government Levels (Option III)
- One GST with allocation of dealers between Central and State (Option IV)

Canada has GST at Central Level extending to all goods and services covering all stages of value addition. In addition, there is tax at province (state) level in different forms which include VAT, Retail Sales tax and so on. European Union (EU) nations (each one is independent nation but, part of a Union and have agreed to adopt common principles for taxation of goods and services) have adopted "classic" VAT. If we consider EU as a country equivalent and member nations as state equivalents, EU has only State Level VAT with special rules for intra-community (inter-member state) transactions.

In Indian context, an additional dimension is added by the provisions of Constitution which specifically reserve power to impose tax on specific activities to specific level of government e.g. tax on import of goods can be imposed by Union government only whereas tax on sale of goods involving movement of goods within the state can be imposed by State Governments only.

Presently, option III is being recommended by JWG.

However, the experts' expectation is Option IV, which will have following salient



features:-

- Instead of there being Central GST and State GST, there will be one GST Act.
- Administration and assessment is explained in detail in para A(d) above under the title "Single authority to deal with". The advantage of such arrangement has also been given.
- It will be easy to operate, interpret and monitor one Act to the advantage of both Government as well as dealers.

(e) Motor Spirits, Naphtha & Natural Gas

It is recommended by JWG that no ITC will be available on purchase of petrol and diesel although sales tax rates on these products are as high as 26% (& 25%) on petrol and 28% (& 26%) on diesel in Maharashtra, 23% on petrol and 21% on diesel in Gujarat. In almost all States rates are very high and no ITC is available. For Trade and Industries if cost sheet is prepared for any product fuel and transportation cost – direct and indirect costs will definitely form about 20% of the total cost. Trade and Industries strongly expect that rates should be rationalised or input tax credit should be made available to avoid unnecessary burden to final consumers.

Similarly, on naphtha also there is high rate e.g. in Maharashtra – 12.5% (with reduced input tax credit) and in Gujarat – 16% + 2.5% = 18.5% (with no input tax credit), if used as fuel. If used as raw material, input tax credit is available but there will be accumulation of refund as end products are mostly taxable at 4%. Thus it is highly expected that rate of tax should be reduced to 4%.

Similarly, natural gas is taxable at 12.5% with the same issues as given in the case of naphtha. Hence, its rate should also be reduced to 4%.

If we look globally, in Australia GST rate is 10% on petroleum products and natural gas with availability of input tax credit when used for business operations.

In Canada, GST rate is 6% federal + 14% provincial with availability of input tax credit when used for business operations.

In Singapore, rate is 7% with availability of input tax credit when used for business operations.

In Sri Lanka, rate is 15% for petrol and input tax credit is available when used for business operations. Surprisingly diesel, kerosene, LPG, crude oil, ATF etc. are all exempt.

Thus it is believed that in India high rates of tax on petroleum products is one of the reasons for high cost of final product which is to be borne by common man i.e. consumers.

It is possible to reduce rates and provide ITC under the GST regime because State Governments are going to get additional income by way of service tax which will duly compensate loss of revenue on petroleum products. Hence, Trade and Industry expect that rate on petroleum products must be rationalised and input tax credit must be made available.

C. Expectations from Chartered Accountants

Introduction of GST is going to open up an entire new field of practice for all chartered accountants. Today, for expert advice on excise and service tax industry has to go to different experts and for VAT to different experts. When all Acts are going to be merged in one, it is high time that all chartered accountants also took up study of VAT, excise and service tax and become GST expert. Many Governments have opened single window where all queries pertaining to development of Trade and Industries are answered. Similarly, if we have one single window i.e. one GST expert answering all the queries, Trade and Industries will be very happy to take their services. Thus all chartered accountants also need to prepare for GST practice.

Preparation for GST

- Central & State Government should be prepared to fulfil the expectations of Trade and Industries as listed above.
- Even Trade and Industry need to prepare as they will have to reallocate and rearrange following activities:
 - (i) If separate departments are existing in the companies to monitor excise, service tax and VAT, they all will have to be merged in an amicable manner.
 - (ii) Record keeping will have to be changed and IT software will have to be updated in order to comply with GST provisions.
 - (iii) Teachings and trainings will be required at all levels.
 - (iv) Trade and Industries will have to rethink about their market strategies, stock transfer policies and godown keeping policies in different States depending upon GST provisions.

Global Experience

Globally GST is not a new concept. Today it is in operation in more than 150 countries. Brazil introduced federal VAT replacing wholesale tax and the State VAT replacing the State turnover tax in 1967. The tax base for the federal VAT is industrial production. The tax base for the State VAT includes all goods with the exception of some industrial products, imports, agricultural inputs, food products and services. Agriculture, minerals and services are excluded from tax.

Mexico implemented VAT regime in 1980 to replace 30 federal excise taxes and 400 municipal and state taxes. The tax base covers businesses connected with the sale of goods and services. Mexico has uniform VAT rate and bases across the States and it follows the destination principle. The tax may be regarded as a unified national VAT with revenue sharing.

The European Union (EU) has fully harmonised VAT since 1993. Initially, it was achieved through

Dr. Vijay Kelkar has suggested two more sectors to be included under the GST regime which are not part of the present discussion on the GST configuration – first is taxation of real estate sector and second is taxation of rail sector. He wants to include these two sectors in the GST tax base either immediately or during the subsequent phase.

the “approximation” of rates i.e. by fixing a specified range within which VAT rates could vary.

Dr. Vijay Kelkar's Views on GST

It is worth quoting some of the views of the chairman of 13th Finance Commission, Dr. Vijay Kelkar who has always pitched for the introduction of GST. He elaborates that:-

- A well designed destination-based GST on all goods and services should be the most elegant method of eliminating distortions and taxing consumption.
- Under this structure, all different stages of production and distribution should be interpreted as a mere tax pass-through, and the tax essentially ‘sticks’ on the final consumption within the taxing jurisdiction.
- The introduction of GST should also bring about a macroeconomic dividend, as it reduces the overall incidence of indirect taxation and therefore, the overall tax burden by removing many adverse features of the present sales tax system.
- The effective revenue neutral rate at which GST can be implemented should be far lower than 30% indicating a significant reduction in the effective tax burden on our economic agents.
- The comprehensive GST should fully eliminate the export of taxes and improve international competition. This in turn, should help in increasing the production and exports of labour-intensive manufacturers and also, boost employment in our economy.
- Considering the high level of distortions in the indirect tax system, one can argue that the real output effect of a well implemented GST in India would be at least 1.4% of the GDP in Canada. This amounts to \$ 15 billion annually, implying that the economic value of GST reforms would, at a modest 3% discount rate, be close to half a trillion dollars or 50% of the country's present GDP.
- More importantly, this means potentially creating an additional productive employment for as many as 4 to 5 million. The introduction of GST would also be a reform measure whose economic impact will rival that of the elimination of licensing in 1991.
- The existing tax system introduces myriad distortions which favour some goods and services at the expense of others. Such distortions in our tax system are also adversely affecting the

growth for manufacturers, particularly labour-intensive manufacturers, who are extremely important in meeting the challenge of providing productive employment. This should be achieved by the introduction of GST.

It is also worth quoting his views and concerns relating to GST expressed at the speech delivered by him recently at ASSOCHAM 3rd National Conference on “GST for Accelerated Economic Growth and Competitiveness”.

While discussing on design issues, on the issue of rate structure and value he said: “The primary concern of all State Governments is protection as well as enhancement of existing revenue streams. There are three parameters which need to be balanced here – one is the range of taxes presently being levied which will be subsumed into the GST. This will determine the tax base of the GST. The other two parameters are the number of rates and the numerical value of these rates which will be applied to this base.”

On interstate sales and Central Sales Tax (CST) he has said,

“While CST will be abolished in the GST regime, the treatment of interstate sales will need to be carefully thought through. It would be necessary to guard against tax arbitrage where local sales which will be taxed could be shown as interstate sales.”

While deliberating on operational issues he has advised all States and Centre to have a common approach relating to legislation, various assessment procedures, exemptions, thresholds and composition.

To avoid any tax evasion under GST regime, he has emphasised on sharing of information amongst Centre and States, introduction of practical IT infrastructure, continuation of check-post for some more time.

He has also suggested two more sectors to be included under the GST regime which are not part of the present discussion on the GST configuration – first is taxation of real estate sector (this issue was raised in 2003 FRBM Task Force report) and second is taxation of rail sector. He wants to include these two sectors in the GST tax base either immediately or during the subsequent phase. This is highly a debatable issue itself having lot of *pros and cons* for the same.

Conclusion

In the end, I will conclude that if coming GST will fulfil our expectations as listed above it will turn out to be good and serving tax. ■

Rate of Taxes, Tax Deducted at Source & New Pension Scheme in Direct Taxes Code Bill, 2009

In line with the Finance Minister Pranab Mukherjee's statement that tax reform is a process, not an event, the government has recently introduced a new direct taxes code that seeks to simplify the tax regime in India. This was a much-awaited proposal as the government currently computes taxes based on the Income-tax Act, 1961. To moderate tax rate and simplify tax laws, all direct taxes including FBT and Income Tax have been brought under one code. This article focuses on Rate of Taxes, TDS and New Pension Scheme in Direct Taxes Code Bill, 2009.



CA. Vimal Punmiya

*The author is a member of the Institute.
He can be reached at
eboard@icai.org*

The Income-tax Act, 1961 having been a bible for the taxation sector, has served the general public, professionals and also the judicial authorities to take the just decisions. But in due course of time, ample number of amendments has made the provisions of the Income-tax Act, very much complicated, intricate and obscure.

Hence, a necessity for a new act was felt which could include the amendments in its final touch and could give a concise form to the act. Also, the increasing sophistication of commerce and development of information technology demanded that a flexible,

Payments, which are made without deducting Tax Deducted at Source, are disallowed. For the purpose of deduction of tax the income shall be increased to such an amount as is prescribed in Schedule III in case of Resident and Schedule IV in case of Non-Resident assessee.



comprehensive and knotless regulatory body should emerge, which reduces the scope of litigation and makes the consolidated provision and the tax language simple and unfussy so that even a layman can understand the tax implications. The government has introduced a new direct taxes code that seeks to simplify the tax regime in India. This was a much-awaited proposal as the government currently computes taxes based on the Income-tax Act, 1961. Finance Minister Pranab Mukherjee has said that tax reform is a process, not an event. To moderate tax rate and simplify tax laws, all direct taxes including FBT and Income Tax would be brought under one code. Thus evolved the Direct Taxes Code Bill, 2009.

It is observed that the common people who form the largest section of our society are generally burdened with heavy load of tax. In their cases, sometimes even when the expenses are genuine the provisions for such are not supported while on the contrary others, who are earning the huge income, or the unincorporated bodies like HUF, AOP and BOI could claim more expenses than the actuals. In order to ensure that the people who try to evade taxes could not escape the law, the Government has introduced the concept of GAAR and made such other modifications in the new Bill.



Few topics are briefly explained as under:

Rate of Tax

- Substantial relaxation in income tax slabs for individuals. New slabs are given in Table A below.
- Abolition of Surcharge and Education Cess.

Type of Person/Assessee	Revised Slabs
Individual	Table A
Partnership Firm & Other Unincorporated Bodies	30%
Co-operative Societies	Table B
Companies	25%

Table A

New Slabs	Rates of Taxes
NIL	0-1,60,000*
10%	1,60,000-10,00,000
20%	10,00,000-25,00,000
30%	Above 25,00,000

* Rs. 1,90,000/- in case of women resident in India & Rs. 2,40,000/- in case of individual above the age of 65 years.

Table B

Rates of taxes	Slabs
10%	0-10,000
20%	10,000-20,000
30%	20,000 & above

Also, the maximum ceiling of Rs. 1 lakh on deduction under Section 80C has been tripled to Rs. 3 lakh.

Comments

It shows that the individuals belonging to the income group of Rs. 10 lakh and below can enjoy their returns peacefully with a small amount of tax payment. It reveals that the system feels that such amount of income is normal and necessary for today's state of affairs. Finally, common people are rescued from the pinch of tax which they suffered

all these years.

Partnership Firms & Other Unincorporated bodies are punished by an increased rate. This is because authority may have felt that there are some loopholes which help such crew to evade taxes.

Companies are given relaxation in rate of tax from 30% to 25% that shows that the system is happy with the performance of companies and also wants their further development and emergence.

- Tax rates for non-residents (including foreign companies) – Special Sources at flat rates

Interest (whether in foreign currency or rupees)	20%
Dividend not subject to dividend distribution tax	20%
Other Investments Income	20%
Royalties and Fees for Technical Service	20%
Capital Gains	30%

- Foreign Companies Tax rate reduced to 25%
- MAT rate 0.25% of Gross Assets of Banks & 2% of Gross Assets for Others.

The Value of Gross assets referred to above shall, subject to the provisions of Chapter V, be computed in accordance with the Formula =A+B+C-D-E,

Where A=the value of the gross block of fixed assets of the company as on the last date of the financial year.

B=the value of capital work in progress of the company as on the last date of the financial year.

C= the book value of all other assets of the company as on the last date of the financial year.

D= the accumulated depreciation on the value of the gross block of fixed assets, claimed upto the last date of the relevant financial year.

E= the amount of debit balance of profit and loss account, if included in the amount 'C'.

- Dividend Distribution Tax Rate remained unchanged to 15%, which is payable only by Companies and not by Mutual Funds. It is not levied on dividend to Pass-thru entities
- Capital Gains
 - Residents –
 - Individuals at Slab Rate given in Table A
 - Unincorporated bodies at 30%
 - Companies at 25%
 - Non-Profit Organization at 30%
 - Non-Residents – 30%
- Wealth Tax
 - Tax rate reduced from 1% to 0.25%
 - Threshold limit for levying Wealth Tax has also been increased to 50 crore.
 - Wealth tax will be payable by an individual, HUF, and private discretionary trusts.
 - Wealth Tax will be levied on net wealth on the valuation date i.e. the last day of Financial Year.

People with substantial wealth are also given relaxation by increasing the threshold limit outlying to Rs. 50 crore also the rate have been tumbled down to 0.25%, which gave the reason to the wealthy people to be pleased.

Tax Deducted at Source

Payments, which are made without deducting Tax Deducted at Source, are disallowed. For the purpose of deduction of tax the income shall be increased to such an amount as is prescribed in Schedule III in case of Resident and Schedule IV in case of Non Resident assessee. However, in case where the deductee has failed to furnish



Direct Taxes Code specifies that the deductee can make application to Assessing Officer seeking a certificate of no deduction of Income Tax from payments to be received by him. Similarly deductor can make application to Assessing Officer for Certificate of no deduction of Income Tax to payments to be made by him.

On the whole, we can say that the Direct Tax Code Bill, 2009 has permitted relaxation on the rates of taxes but has clearly emphasized that the TDS compliance and filing of returns is compulsory for the general public to save on their money. The Government wants more and more people to file their income tax returns.



his Permanent Account Number to the deductor, the appropriate rate referred to in sub-section (1) shall be the higher of the rate specified in sub-section (3) or 20 per cent.

Under Section 195, the payment of income shall be deemed to have been made, if the amount is paid by

- (a) Cash
- (b) Issue of cheque
- (c) By credit of any account whether called suspense account or by any other name; or
- (d) By any other mode as may be prescribed.

Before making the payment of income, the deductee has to ensure that the tax deductible in respect of the income has been paid, if the payment is made wholly, or partly in kind. The deductor may, at the time of making any deduction of tax from the payment made against the employment, increase or decrease the amount to be deducted from the deductee for the purpose of adjusting any deficiency, or excess, arising out of any previous deduction or non-deduction during the financial year in respect of such deductee.

The Assessing Officer shall give to the deductee or the deductor, as the case may be, such certificate as may be appropriate, if he is satisfied that the total income of the deductee justifies no deduction of income-tax. The deductor shall not deduct any tax until the certificate issued is cancelled by the AO or until the expiry of the validity of such certificate.

Complying with various TDS provisions is a tedious process and is subject to rigorous penalty or prosecution in certain cases if there is any failure to comply with these procedures. The process of getting the TDS certificate from the AO personally sounds strange, since the person and the authority both will be at great intricacy, where even to get a benefit of a small amount of TDS, the person has to rush to the AO's office and AO has to issue TDS certificates to a number of people. Even signing it would lead him to more of a superfluous work rather than a

constructive work. It all will result into voluminous paperwork procedures.

Direct Taxes Code specifies that the deductee can make application to Assessing Officer seeking a certificate of no deduction of Income Tax from payments to be received by him. Similarly deductor can make application to Assessing Officer for Certificate of no deduction of Income Tax to payments to be made by him.

Point of time of Deduction – The point of time of deduction is on settlement of amount payable in cash, by issue of cheque/draft, by credit to any account (suspense or other) or by any other prescribed mode. No exemption for payments for personal purposes of the payer viz. payment to doctor, payment to contractors etc. No exemption for payments to Government. Exemption on the basis of self-declaration Form 15G, 15H, etc has been abolished.

TDS rates for salary, rent, interest, commission or brokerage, payment to contractor and any other income can be explained in detail as under-

Salaries
Paid to Employees – The average rate of income tax on Salary paid during the Financial Year, will be computed as per the rates specified earlier for the individuals.

- All persons paying the salaries have to deduct the TDS before making the payment when such payment exceeds the prescribed limit.

Rent

- Definition of Rent in respect of House Property has been changed to include any income derived directly or indirectly from letting out the property.
- Rate reduced to 1% for use of Machinery, Plant or Equipment. Rate for use of land or building (including factory building) or land appurtenant to a building (including factory building) or furniture or fitting is 10%, but limit of Rs. 1,20,000/- remained constant.

Interest

- Interest for resident persons is to be



charged at 10% and the non-resident is to be charged at 20%.

- No distinction between interest and securities and other interest.
- Exemption for interest payment to financial corporation, banks (including co-operative banks), insurance companies, mutual funds and other notified institutions, associations or bodies
- Rejection to the exemption of interest paid by co-operative bodies to co-operative societies.
- Rejection to the exemption for interest exceeding Rs. 10,000/- paid by a co-operative bank to its members on time deposits.
- Favourably exemption is granted for interest on Income Tax Refunds.

Fees for Professional or Technical Services, Royalty, Non-Compete Fees

- Tax on Fees for Technical Services defined under clause 105 of provision 284 of the code is to be deducted at 10%.
- TDS rate for Royalty defined under clause 240 of provision 284 is also fixed at 10%. Further, Royalty also
 - Includes transfer of all or any rights in respect of live coverage of any event.
 - Includes transfer of all or any rights in respect of cinematographic films.
 - Includes consideration for the use or right to use of transmission by satellite, cable, optic fiber or similar technology.
 - Ship and aircraft higher (other than covered by table in 14th schedule) also covered.
- No definition of Profession or Professional Services.
- No exempt limit – tax deductible even on payment of Rs. 100/-

Commission or Brokerage Remuneration or Prize

- Brokerage or Commission not defined.
- Combined rate for insurance, sale of lottery tickets as well as other commission at 10%.
- Exemption limit increased to aggregate of Rs. 5,000/-.
- No exemption for brokerage in relation to securities transaction.

On any other income the TDS rate is fixed at 10% for Resident and 30% for the Non-Resident.

The only practical way out is to make the investments in different avenues and ensure that the interest accrued on it is less than the prescribed limit for application of TDS.

New Pension Scheme & Others

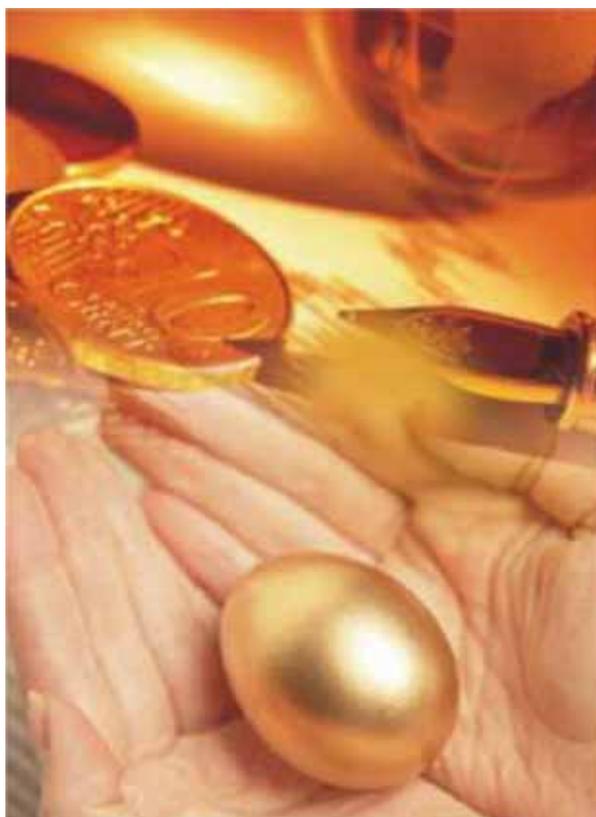
New Pension Scheme, life insurance policies, approved provident fund, approved superannuation funds and mutual funds are altogether termed as pass-thru entities.

- Dividends received by such pass-thru entities (except life insurance) are not subject to Dividend Distribution Tax.
- Contribution to New Pension Scheme up to Rs. 3 lakh is deductible for investor along with other permitted savings.
- Amount withdrawn from New Pension Scheme taxable as income from residuary sources (earlier known as income from other sources) unless:
 1. Utilized to purchase annuity plan or
 2. Rolled over into another account.
- Annuity received from New Pension Scheme is taxable as Income from Residuary Sources.
- Sums received under life insurance policy, including bonus are taxable under Income from Residuary Sources.
- Deduction for sums paid to/ deposited up to Rs. 3 lakh in account with permitted savings intermediary – not complete EET.

On the whole, we can say that the Direct Tax Code Bill, 2009 has permitted relaxation on the rates of taxes but has clearly emphasized that the TDS compliance and filing of returns is compulsory for the general public to save on their money. The Government wants more and more people to file their income tax returns.

Social Security for Unorganised Sector— New Pension Scheme

According to National Sample Survey Organisation data for 1999-2000, out of a total workforce of 397 million, only 28 million workers are employed in the organised sector. The rest of them work in the unorganised sector with negligible social security arrangements. The absence of a meaningful social security arrangement does not merely pose problems for individual workers and their families but also has wider ramifications for the economy and society. Keeping this in view, the Government has launched the 'New Pension Scheme', which is expected to benefit millions in India's unorganised sector. However, there are certain drawbacks and challenges pertaining to this pension scheme too. This article provides an overview of the New Pension Scheme.



CA. V. K Gupta

*The author is a member
of the Institute.*

They can be reached at eboard@icai.org



Dr. Anuradha Gupta

*The author is Associate Professor,
PGDAV College, Delhi.*

The New Pension Scheme is expected to benefit millions in India's unorganised sector by enabling them to access the benefits of a pension scheme. According to National Sample Survey Organisation data for 1999-2000, out of a total workforce of 397 million, only 28 million workers are employed in the organised sector. The rest work in the unorganised sector.

According to the latest report of the National Commission for Enterprises in the Unorganised Sector (NCEUS), also known as the Arjun Sengupta Committee, submitted to the Government of India in 2006, there are over 340 million (approximately 34 to 37 crore) workers in the unorganised sector in India.

The absence of a meaningful social security arrangement does not merely pose problems for individual workers and their families but also has wider ramifications for the economy and society. From an economic point of view, it debilitates the worker's efficiency and his/her ability to contribute meaningfully to increase production and productivity. Low earning power coupled with vulnerabilities leads to poverty which reduces the aggregate demand in the economy. Socially, it leads to dissatisfaction and disaffection, especially when a small segment of the society is well-endowed and seen to be prospering.

However, in the context of a developing country such as India, social security arrangements for the working poor have much wider ramifications for the economy and society. From a macro-economic point of view, it helps to develop a healthy and contented workforce capable of enhancing its contribution to the national income, which would, in turn, enhance the capacity of the economy to grow. When more than 90 per cent of the workforce is in the unorganised/informal sector, there is greater urgency for sustaining a higher rate of growth of the economy. A workforce with higher capability and security could contribute to higher growth, which, in turn, would enhance the aggregate demand in the economy through higher purchasing power of this vast mass of the workforce. The mutually reinforcing nature of this relationship needs to be recognised and exploited.

The share of the aged (60+ years) in India is lower than the corresponding figure in its Asian neighbours in East and South-East Asia. However, as the demographic transition picks up in India, the share of the aged is likely to increase. Projections indicate that the current share of 7.47 per cent for the aged is likely to increase to 9.8 per cent by 2021. What is important from the social security point of view is the need for an institutional mechanism for taking care of the aged informal workers, in general, and the poor, in particular.

The study by Rajasekhar, (2005) revealed that old age was a major concern for the workers. According to the study, agricultural labourers and construction workers reported the fear of not

being able to work during old age. Insecurity with regard to old age was perhaps due to breaking up of the joint family system and also because the poor were more likely to be living in nuclear families. With the proportion of aged persons expected to increase significantly in the future, their work-related insecurities are also expected to increase due to various reasons. Firstly, adults in poor households themselves face insecurity of work and income in their quest to lead lives of security and some dignity. Successive Population Censuses have shown a declining work participation rate (WPR) among the elderly. This may be a positive feature, implying that they are able to retire early. For the informal workers, however, this could be a source of risk, since their earnings during their working lives are unlikely to support their needs in the old age. Secondly, in India, the aged are generally dependent on their

The New Pension Scheme will allow customers to choose a fund manager of their choice at the beginning of each financial year. Also, customers can choose their investment pattern according to their risk appetite. The scheme is based on defined contributions, unlike the present system where pension benefits are based on a formula linked to the last-drawn salary.



children for support. The presence of the aged in poor families adds to the financial burden and further deprivation of the family as a whole. The insecurity of the household is further exacerbated among the aged. Thirdly, the absence of adequate public healthcare facilities, and the increasing cost of private healthcare facilities for the aged can throw the household into a major crisis (Alam, 2006).

The Sengupta Committee noted that unorganised sector workers contribute around 60% to the country's national economic output. Around 28 crore people work in the rural sector, of which an estimated 22 crore are in the agricultural sector. Around 6 crore reside in urban areas. Women make up 11-12 crore, of which around 8

crore are engaged in agriculture. Concerned over the absence of a social security mechanism for people working in the unorganised sector, former Finance Minister P Chidambaram advised the pension regulator to open up the New Pension Scheme (NPS) to private citizens as well as there was need to reach out to these sections in order to make 'defined contribution' pension schemes a success story. The New Pension Scheme (NPS) will allow customers to choose a fund manager of their choice at the beginning of each financial year. Also, customers can choose their investment pattern according to their risk appetite. The scheme is based on defined contributions, unlike the present system where pension benefits are based on a formula linked to the last-drawn salary.

New Pension Scheme

The New Pension Scheme (NPS) was launched on International Labour Day on 1st of May this year for unorganised sector. Earlier the NPS was set up to invest the pension contributions of the government employees who have joined service after January 1, 2004 with only three public sector managers owned by Life Insurance Corporation, UTI Asset Management Company and State Bank of India. The corpus currently stands at Rs. 1,500 crore, but this is likely to increase to as much as Rs. 6,000 crore in the next six months with 21 state governments expected to transfer their pension funds to the NPS.

NPS is a defined contribution pension scheme open to any Indian citizen between the age of 18 and 55. In a defined contribution scheme, the individual invests a certain amount in a pension scheme till he retires. At retirement, he is allowed to either withdraw the money that has accumulated or buy an immediate annuity from an insurance company to generate a regular income, or do both. The option he exercises depends on the way the pension scheme is structured. Buying an immediate annuity assures a regular payment from the insurance company. This payment can be monthly, once every three months, once every six months or once every

year. To start investing in the NPS, first and foremost, you need to open an account in a prescribed form. You will need to visit a point of presence (PoP), fill up the prescribed form with the required documents. Once you are registered, the Central Recordkeeping Agency (CRA) will send you a Permanent Retirement Account Number (PRAN), along with telephone and internet passwords. The PRAN will be the primary means of identifying and operating this retirement account.

The New Pension scheme has brought cheers on the faces of a large number of working professionals all over the country. Now not only the government sector but also the private sector employees will benefit from the New Pension Scheme which became effective from May 1st, 2009. The Pension Fund Regulatory Development Authority (PFRDA) is the regulatory body in India which looks after the pension fund by the new pension scheme. The government will root any changes if needed in the New Pension Scheme after a complete year from May 1st 2009. The part of the funds which will go into high risk share markets may get reviewed once again at a later point of time.

Features of NPS

- **Two types of accounts**

Two types of accounts are available under the NPS. Tier-I account: Individuals can contribute their savings for retirement into this non-withdrawal account. Tier II account: Under this saving facility, individuals are free to withdraw their savings whenever they require. Tier I account is available for contribution from May 1st, 2009. The commencement of the Tier II account will be notified shortly by PFRDA. Tier-I is mandatory for all Government servants joining Government service on or after 1.1.2004. In Tier I, Government servants will have to make a contribution of 10% of his Basic Pay, DP and DA which will be deducted from his salary bill every month by the PAO concerned. The Govt. will make an equal matching contribution. Tier I contribution will be kept in a

The money you invest in NPS will be managed by professional fund managers. Currently, you have the choice of picking up one of the following six fund managers: ICICI Prudential Pension Management, IDFC Pension Fund Management, Kotak Mahindra Pension Fund, Reliance Capital Pension Fund, SBI Pension Funds, and UTI Retirement Solutions.



The negative feature of NPS is that unlike other tax-saving instruments like Public Provident Fund (PPF) and Employees' Provident Fund (EPF), wherein the amount at maturity is tax-free, in case of NPS this amount is taxable. The PFRDA, which is running the NPS, has approached the government to give NPS a tax treatment similar to that for PPF and EPF.



non-withdrawal Pension Tier I account. Tier II will be optional and at the discretion of Government servants. Tier II contributions will be kept in a separate account that will be withdrawal at the option of government servant. The scheme of voluntary contribution under Tier II will not be made operative during the period of interim arrangement and, therefore, no recoveries will be made from the salaries of the employees on this account.

- **Amount of investment**

The minimum amount that needs to be invested per contribution is Rs. 500. A minimum of four contributions need to be made per year. Other than this, a minimum of Rs. 6,000 needs to be invested per year. This means those who plan to invest the minimum amount of Rs. 500 need to make 12 contributions per year. There are no upper limits on the amount of money that can be invested as well as the number of contributions that can be made. You need to decide on the frequency of your contributions across the year, at your convenience.

The investments can be made through cash, local cheque or a demand draft at the chosen point of presence.

- **Investment portfolio**

The NPS currently offers three investment funds to choose from:

(I) Asset class E: Investments will be made in thirty stocks that constitute the Bombay Stock Exchange Sensex or the fifty stocks that constitute the National Stock Exchange Nifty. The investments in stocks will be made in the same proportion as the weightage of the stock in the particular index. For example, Reliance Industries currently has around 17% weightage in the Sensex, so if Rs. 100 is being invested in Asset Class E, that would mean Rs. 17 would be invested in the stocks of Reliance Industries.

(II) Asset class G: Investments will be made in

debt securities issued by the central as well as the state governments.

(III) Asset class C: Investments will primarily be made in debt securities issued by entities other than the state and central government, liquid funds of mutual funds, fixed deposits of banks, etc.

At the time of filling the form, you need to indicate what proportion of your money should be invested in which asset class. You can choose to invest a maximum of 50% in the equity option, i.e. asset class E and a maximum of 100% in the other two options.

- **Investment Options**

The NPS offers you two options to invest your money-

(i) Active choice: Individual funds (Asset class E, asset class C and asset class G).

Option one, called active choice, will allow investors to choose the proportion of money going into equity (E), credit risk bearing income instruments (C) and government security (G). Investors can also choose their fund managers out of a basket of six fund houses. However, investment in equity would be restricted to index funds tracking the BSE Sensex and S&P CNX Nifty and subject to a maximum of 50 per cent of investor's money.

(ii) Auto Choice: Lifecycle fund (see table).

In case the participant is unable to make a choice regarding asset allocation then contributions would be invested in "Auto Choice". In auto choice the investment would be determined by a predefined portfolio. The NPS offers you two options to invest your money. In the auto choice, until the age of 35, the asset allocation would be that 50% will be in equity, 20% in government bonds and 30% in debt. For the age bracket of 35-55, it would be 10% equity, 80% government bonds and 10% debt Active choice: Individual funds (Asset class E, asset class C and asset class G).

Table for Lifecycle Fund*

Age (years)	(In%)		
	Asset Class E	Asset Class C	Asset Class G
Up to 35 years	50	30	20
36 years	48	29	23
37 years	46	28	26
38 years	44	27	29
39 years	42	26	32
40 years	40	25	35
41 years	38	24	38
42 years	36	23	41
43 years	34	22	44
44 years	32	21	47
45 years	30	20	50
46 years	28	19	53
47 years	26	18	56
48 years	24	17	59
49 years	22	16	62
50 years	20	15	65
51 years	18	14	68
52 years	16	13	71
53 years	14	12	74
54 years	12	11	77
55 years	10	10	80

*In case of Auto Choice, the first reallocation among the asset classes shall take place on 1st October, 2009 and thereafter.

How it works

• Membership

A citizen of India, whether resident or non-resident, aged between 18-55 years on the date of submission of the application, can open account under NPS. Investors can open these accounts in 22 entities prescribed by PFRDA. These include LIC, State Bank of India, ICICI Bank and UTI Asset Management. Any citizen can register. NRIs need a local bank account, and need to be KYC compliant. There are a lot of NRI regulations - present in detail in the offer documents.

Individual who are not granted an order of discharge by a court (un-discharged insolvent) or individuals of unsound mind and pre-existing account holders under NPS are not eligible for NPS.

• Withdrawal

On attaining normal retirement age (NRA) of

60 years, account holders will be required to compulsorily withdraw at least 40 per cent of their pension wealth and the remaining 60 per cent can be withdrawn as a lump sum or in a phased manner.

A minimum of 10 per cent every year will be allowed under phased withdrawal. If an account holder makes a withdrawal any time before 60 years of age he has to compulsorily annuitise 80 per cent of his accumulated pension wealth; such sum should be used to purchase annuity from any Insurance Regulatory and Development Authority-regulated life insurance company. The remaining 20 per cent can be withdrawn as a lump sum.

In the unfortunate event of death of the account holder at any time, the nominee will have an option to receive 100 per cent of NPS pension wealth in lump sum. If the nominee wishes to continue with New Pension System, he or she will have to subscribe to NPS individually. If you withdraw before you're 60, you have to invest 80% of your money in an annuity and take the remaining as a lumpsum. At 60, you have to put at least 40% into an annuity, and take the rest out (you can phase the rest till you're 70). And if you die, the whole amount will be given to the nominee as a lump sum. There is a 10-Year window between the age of 60 and 70 when the subscriber can withdraw the money.

• Fees:

The fees is about Rs. 100 for registration (350 to one entity and 40 to another). Apart from that, there's a Rs. 30 per transaction that you'll pay. Annual fees is 350 a year. The fund management charges are very low - add up to about 0.009% or so. This is where NPS wins hands down against all other modes of creating a corpus to generate income after retirement. The fund management charge of NPS is 0.0009% of the value of the investment, every year. In comparison, pension plans of insurance companies charge 0.75-1.75% as fund management charge, which is 800-2000 times higher. The other expenses charged are also very reasonable.

• Fund Managers

If one is not happy with his current fund manager, he can switch fund managers. PFRDA, the pension fund regulator, will declare the value of your investment every year in April. At that point of time, if not satisfied with the performance of your fund manager, you can switch to another



fund manager between May 1 and May 15. For now, once you select you can't change the fund manager or your investment ratio till May 2010.

- **Taxation**

All pension fund investment is tax-free. Under Section 80CCD of the Income Tax Act, investments of up to Rs. 1 lakh in the NPS can be claimed as tax deductions. This Rs. 1 lakh limit is not over and above the Rs. 1 lakh limit available under Section 80C. In fact, the combined limit of investments made under Section 80C, 80CCD and section 80CCC (for investments made into pension plans of insurance companies) is Rs. 1 lakh.

- **Regulation**

An independent Pension Fund Regulatory and Development Authority (PFRDA) will regulate and develop the pension market. As an interim arrangement till such time the statutory PFRDA is set up an interim PFRDA has been appointed by issuing an executive order by Ministry of Finance. It has also been decided that Tier II will not be made operative during interim period. Till the regular Central Record Keeping agency and Pension Fund Managers all appointed and the accumulated balances under each individual are transferred to them, it has been decided that such amounts representing the contributions made by the government servants will be kept in the Public Account of India. This will be a temporary arrangement as announced by the Government.

- **Permanent Pension Account Number**

It has been decided that pending formation of a regular Central Record Keeping Agency, Central Pension Accounting Office (CPAO) will function as the Central Record Keeping Agency for the above scheme. Immediately on joining government service, the government servant will furnish particulars such as his name, designation, scale of pay, date of birth, nominee(s) for the fund, relationship of the nominee etc. in the prescribed

form for allotment of Permanent Pension Account Number. The PAO concerned will allot a unique 16 digit Permanent Pension Account Number (PPAN). The first four digits of this number will indicate the calendar year of joining government service, the next digit indicates whether it is a Civil or a Non-civil Ministry, the next six digits would represent the PAO Code (which is used for the purpose of compiling monthly accounts), the last five digits will be the running serial number of the individual government servant which will be allotted by the PAO concerned. PAO will allot the serial number pertaining to individual government servants from 00001 running from January to December of a calendar year. A register will be maintained for allotment of PPAN to ensure that PPAN are allotted in sequence and there is no duplication of PPAN. You will get an IPIN and a TPIN to get your account status online or on the telephone. The site online is:

<http://npscra.nsdl.co.in>

- **Investment of funds**

The money you invest in NPS will be managed by professional fund managers. Currently, you have the choice of picking up one of the following six fund managers: ICICI Prudential Pension Management, IDFC Pension Fund Management, Kotak Mahindra Pension Fund, Reliance Capital Pension Fund, SBI Pension Funds, and UTI Retirement Solutions. It is important to remember that at the point of filling up the form, the choice of one of these six pension fund managers needs to be indicated. The application will not be accepted if this choice is not made.

- **Retirement**

NPS by default sets the retirement age at 60. Once you attain that age, you can use the money that has accumulated to generate a regular pension for yourself. In order to do this, you have to compulsorily buy immediate annuity from a life insurance company with 40% of the money that has accumulated. As explained at the beginning, buying an immediate annuity will assure a regular payment for you.

Since a minimum of 40% needs to be used to buy an immediate annuity, a maximum of 60% of the money accumulated can be withdrawn.

- **Flexibility**

There is a lot of flexibility. Whenever you wish to make a contribution you are allowed to do so. If you skip a month it doesn't matter. If you skip two

months it doesn't matter, As long as there is a minimum, which we will put as annual contribution. Lastly, the costs are low.

Drawbacks of New Pension Scheme

- **Taxable on Maturity**

The negative feature of NPS is that unlike other tax-saving instruments like Public Provident Fund (PPF) and Employees' Provident Fund (EPF), wherein the amount at maturity is tax-free, in case of NPS this amount is taxable. The PFRDA, which is running the NPS, has approached the government to give NPS a tax treatment similar to that for PPF and EPF. Currently, the only way to not to pay tax is to buy immediate annuities using the entire amount at maturity, which is not bad because you were anyway accumulating the corpus to generate a pension. Sources say an effort is being made by PFRDA to make the NPS completely tax free on par with other schemes.

- **No guaranteed rate of return**

No return is guaranteed as it is in case of EPF and PPF. The amount of money you make depends on how well the fund managers chosen by you perform. But, the extremely low charges in NPS surely give it an edge over the pension plans of insurance companies. Returns are not guaranteed. But experts say that one could expect equity returns to be about 15 to 17% annually over a period of 7 to 10 years and 6 to 8% from the growth option.

In India, Rajasthan is the only state to have successfully implemented a micro pension scheme for its low-income unorganized sector workers. The scheme - Rajasthan Vishwakarma Unorganized Sector Workers (Motivational) Contributory Pension Scheme 2007 – was started in mid-August 2007.

The pension scheme is jointly implemented by the state government and Invest India Micro Pension Services Ltd. (IIMPS), a group company of the Invest India Economic Foundation (IIEF), as consultant and turnkey implementation agency. It is open to bonafide resident workers of the state, and covers as many as 20 occupations. According to the latest numbers, an estimated 17,000 workers have enrolled in the six districts of Jaipur, Ajmer, Bikaner, Udaipur, Dausa and Dhaulpur. The state government aims to cover at least half-a-million workers by 2010. IIMPS says as many as 80 million, most of them in the urban sector, of the 370 million

unorganised sector workers in India are capable of saving for their retirement, and estimates that the aggregate annual savings capacity of this population will exceed Rs. 11,000 crore.

Challenges

- The biggest challenge in rolling out the pension scheme is financial education in the unorganised sector. Currently, the regulatory body is studying the operations of pension fund schemes in other world markets.
- The New Pension Scheme promises great flexibility. You can choose your own investment option as well as your fund manager. But the tax treatment may become a stumbling block to the scheme's success. However, the regulator is confident that a solution will be found soon.
- Bank branches and post offices have been appointed as service providers who will collect your contributions. But there is no aggressive selling strategy. Unlike insurance products which are sold, this will have to be proactively bought by the individual. We had to keep the cost down, in case we have to have agents in the scheme, who will distribute the product, the cost would have gone up.
- Creating awareness is the other challenge.
- In the uncertain economy after the global meltdown, management of funds has become a tough task for investment companies and fund managers. Recently all the mutual funds have seen a major downfall in the net asset value of their units; some of them have become even negative. The role of information and technology will be very crucial in catering to the unorganised sector. The fund managers have to be very alert regarding the economic conditions and the investment climate so as to provide the benefit of this scheme to its subscribers.
- Management of Funds, cost effectiveness, professional advice for investment activities, operational efficiency, good governance, transparency in organisation & management, performance evaluation & review of the portfolio are certain key issues which are to be looked into so that the benefit of the pension scheme reaches in an efficient manner not only to the government employees but also to private employees in the unorganised sector.

Earned Value Analysis For Projects



Due to depressed market conditions, all industries, including software industry, have started looking at various cost reduction techniques. One such technique is 'Earned Value Analysis' whose successful implementation can result in better control on cost over-run and schedule over-run and better visibility of programme performance among other benefits. Earned Value Analysis helps in finding the schedule performance and cost performance to answer the question “What we got for the money we spent so far?”. This article explores the concept.



C. R. Venkata Ramani

*The author is a Sr. Cost Consultant.
He can be reached at
eboard@icai.org*

Due to depressed market conditions, all industries, including software industry, have started looking at various cost reduction techniques. One such technique is 'Earned Value Analysis' (EVA). For any project, there will be planned resources and actual used resources. In software industry, the time limit within which the project has to be completed is also mentioned by the buyer of the software. Any delay and cost overrun will affect both the software company and its client. If it is a fixed bid, then only the company is affected. If it is time and material contract, both are affected. Time overrun is also called as schedule overrun.

Earned Value Management, which is used to track earned value, is an integrated system of project management and control. It enables the software company or any project contractor and their client to monitor the progress of the project in terms of cost, schedule etc. Traditional project management method tends to compare the actual costs with

planned expenditure with little respect to percentage of completion of projects phase wise.

The successful implementation of Earned Value Analysis under Earned Value Management can result in

- Better control on cost over-run
- Better control on schedule over-run
- Better visibility of program performance
- It gives the likely expenditure of the project with the present pace of progress
- It gives the likely completion date based on present pace of progress
- Reduced risk as timely correction can be made either allowing more resources to complete the project in time
- Identifying either programme manager's inefficiency or defectiveness in plan
- Demanding more bid amount when the cost overrun is due to technical change demanded by client

In short, under Earned Value Management (EVM), Earned value analysis helps in finding the schedule performance and cost performance to answer the question "What we got for the money we spent so far?"

Primary Measures

1. **Budget Cost of Work Scheduled (BCWS) – The spending plan:** This is also known as Planned Value or simply PV. Each project is planned to have certain number of resources (employees) per month and time limit for completion. The resources (employees) are loaded with other costs like material and other overheads. These overheads include R&D also. So there will be planned cost for each project month-wise till targeted month.
2. **Budgeted Cost of Work Performed (BCWP)- This is also known as Earned value or simply EV:** Each project collects 'Earned value' as work completed on pro-rata basis. Suppose, for any milestone or phase, the amount earmarked is \$X as per plan and the said phase on any particular point of time is completed 80%, then the earned value will be \$ 0.80X. If it is completed 100%, then the earned value will be \$X.
3. **Actual Cost of Work Performed (ACWP) – Actual spending:** This is also known as Actual cost (AC). Actual costs for resources (employees) are collected month-wise or as on any particular date as per requirement.

Derived Measures

From the above three primary measures it is possible to derive measures that can be used to accurately assess the status of the project and predict its future state. The earned value is compared with actual costs and planned costs up to that particular point of time. This comparison will give Cost overrun and schedule overrun. This will also predict future likely cost at which the project is likely to be completed.

1. **Cost Variance (CV)** – The difference between the earned value (BCWP) and the actual cost (ACWP) i.e. $CV = BCWP - ACWP$. (Another way of thinking of this is the difference between the planned and actual costs of work completed.). It can also be taken as $CV = (EV - AC)$.
2. **Schedule Variance (SV)** - An indicator of how much a programme is ahead of or behind schedule. $SV = BCWP - BCWS$. In simple terms, it can be shown as $SV = (EV - PV)$
3. **Cost Performance Index (CPI)** – The cost efficiency factor representing the relationship between the actual cost expended and the earned value. $CPI = BCWP/ACWP$ or EV/AC . A CPI = 1 suggests a relatively efficient cost factor, while a $CPI < 1$ may be cause for concern for the project manager or management.
4. **Schedule Performance Index (SPI)** – The planned schedule efficiency factor representing the relationship between the earned value and the



From the three primary measures (Budget Cost of Work Scheduled, Budgeted Cost of Work Performed, Actual Cost of Work Performed), it is possible to derive measures that can be used to accurately assess the status of the project and predict its future state. The earned value is compared with actual costs and planned costs up to that particular point of time. This comparison will give Cost overrun and schedule overrun. This will also predict future likely cost at which the project is likely to be completed.

initial planned schedule. $SPI = BCWP/BCWS$ or EV/PV . A $SPI = 1$ is good. $SPI < 1$ suggests actual work is falling behind the planned schedule.

5. **Budget at Completion (BAC)** – The base line budget total value at completion.
6. **Estimate at Completion (EAC)** – It tells the likely expenditure when the project is completed when it goes in the same pace of progress. It is obtained by $BAC(\text{value})/CPI$.
7. **Estimated Time at Completion (ETC)** – It tells the likely time when the project is to be completed with the present pace of progress. It is obtained by $BAC(\text{period})/SPI$.

The performance status of the project is to be discussed in monthly meetings of the project managers by the top management and corrective actions should be taken.

Benefits of Communication to Stakeholders

- **Estimation of Delivery Date:** Client will know when he is likely to get the finished project and he can plan accordingly.
- **Promote Accountability in Managers:** When developers understand how their individual work (or lack thereof) influences the project, they tend to be more focused on their specific work goals. They also better understand the significance of estimating the amount of work needed to complete specific tasks. There exists a mindset among some project managers that they should “protect” their developers from the distraction of project metrics. In reality, communicating project status to the development staff tends to establish a sense of accountability for their assigned pieces of the project and often results in more realistic estimates for completion of future tasks.
- **Timely intervention of management:** Reporting real project status, including earned value, at regular intervals provides an opportunity to address potential problems early in the project when it is still possible to resolve problems and avoid cost overruns and schedule slippage. The project team takes a proactive approach to prevent problems from occurring. The team also thinks whether the plan given by them earlier is realistic or not. Management uses the information to resolve issues that are beyond the control of the project team.

Example

In one simple example, if a three month project

is having the following details.

The project total cost is \$ 500 K and period of completion is 12 months. But at the end of three months, the overall % of completion of the project is 80% only. The primary data calculation details are given below in table -1.

(in Dollars '000)

Particulars	April 08	May 08	June 08	Total
Work Planned(PV)	20	30	50	100
Actual Cost (AC)	18	30	44	92
Earned Value (EV)	16	24	40	80

Table -1: Primary data

As per the traditional accounting, the cost under-run will be 8 when it compares the PV and AC. But when we track this with earned value, the actual cost overrun will be 8. The derived data from primary data are given in table 2.

(Fig. in \$'000)

Particular of variances	April 08	May 08	June 08	Total
Cost Variance (CV) (Cum EV- Cum Actual Cost)	-2	-8	-12	-12
Schedule Variance (SV) (Cum EV – Cum Planned)	-4	-10	-20	-20
Cost Performance Index (CPI) (Cum EV/Cum Actual)	0.89	0.83	0.87	0.87
Schedule Performance Index (SPI) (Cum EV/Cum Planned)	0.80	0.80	0.80	0.80
Estimate at Completion (EAC) (Total Budget (BAC)/CPI)				500/ 0.87 = 575
Estimated time at Completion (ETC)				12/ 0.80 = 15 mon- ths

Table 2: Derived Data

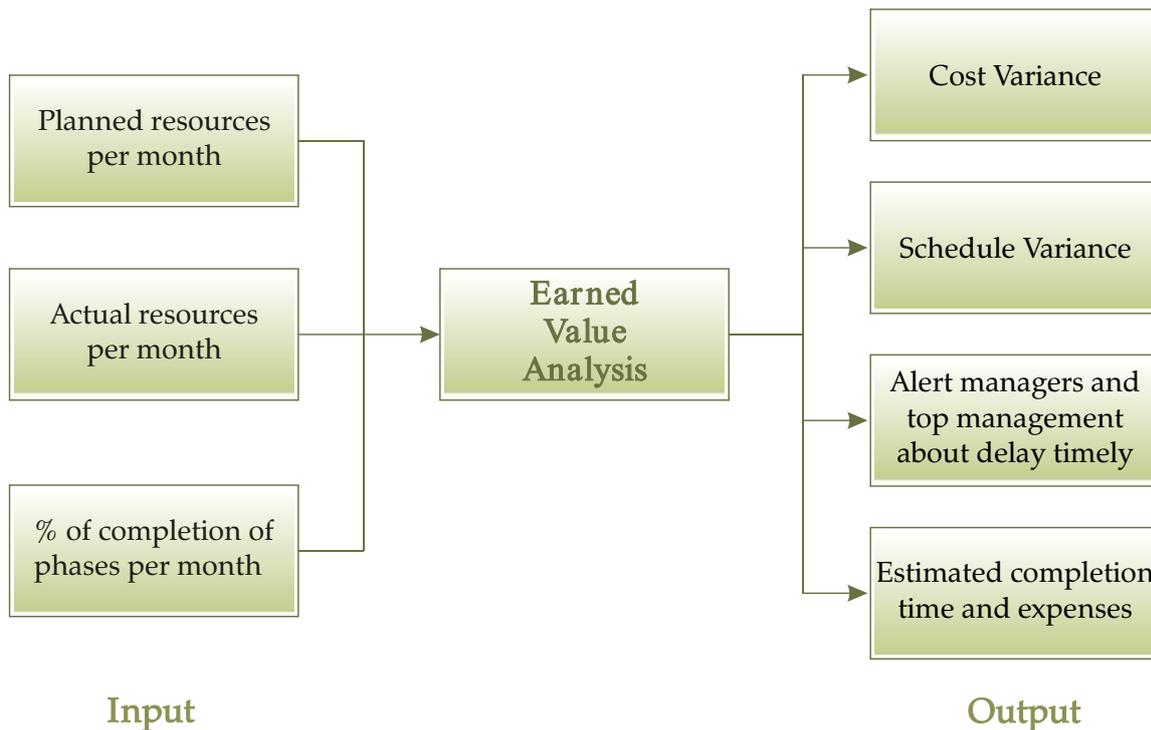


Fig. 1 Benefits of EVA

Thus derived data helps the managers and top management to take timely decision when projects are analysed month wise. The Fig. 1 given above tells the benefits of EVA at a glance and the requirement in short.

Conclusions from the example

Since CPI and SPI are less than one, it shows some adverse indications about cost and schedule plan. It shows that there is cost over-run as well as schedule over-run. EAC states that the project may cost \$ 575 K instead of \$ 500 with the same set of progress. If the present trend of progress

is continued, the project completion will be extended by 3 months. i.e. 15 months instead of 12 months. So management should analyse the reasons for longer period. The reason may be either plan is wrongly prepared or the client has deviated from plan or the team is inefficient. The management should find the real reason and take necessary corrective action. If the spec of the plan is changed, the client should be impressed to pay more. If the defect lies with the team, either the person responsible may be replaced by efficient one or additional resource is employed to put the rail back on track though it costs more. But delivery period is important in the buyer's market as in software line. If the plan is not made properly, action is to be taken in future to take care of the shortcomings.

This tool is one of the valuable weapons in the hands of management to control costs on projects. This is applicable to all types of projects right from civil to software projects. In software industry, if the Digite tool combined with Microsoft project will help in feeding the basic or primary data for the above tool. Many inbuilt softwares are also available but they are costly. Any qualified expert can guide the company to evolve suitable plan for EVA so that company can maximize their profit. From the above simple example, complex examples can be built by the experts.



Reporting real project status, including earned value, at regular intervals provides an opportunity to address potential problems early in the project when it is still possible to resolve problems and avoid cost overruns and schedule slippage. The project team takes a proactive approach to prevent problems from occurring.

Appraisal of Business Performance: A Financial Perspective



Every stakeholder is interested in reviewing the economic performance of any business. Particularly, the top management of a Company would like to refer, review and evaluate the year end results of the firm to find out whether the actual financial performance has gone as they planned. This is pertinent in the exercise of careful planning for future operations of the business. Financial performance appraisal is a basic exercise for monitoring the past performance and to have fruitful planning. This article focuses on various tools of analysis for appraisal of business performance.



*CA. (Dr.) Nikhil Zaveri **Dr. Subhash M. Joshi

* The author is a member of the Institute working as Director SEMCOM Institute.

**The author is a Faculty in Accounting & Finance, SEMCOM Institute.

They can be reached at
eboard@icai.org

Business is an important activity in human life. Productivity and profitability are the two yardsticks against which the performance of a business organisation is judged. Therefore, it should be clear as to what is productivity and profitability. By definition, business activity aims at earning profit, which is a surplus generated by revenue. The soundest way to find out profit earned by any entity is using accounting techniques. Profit & Loss Account (revenue statement) shows correct and reliable amount of net surplus of business. The trend of this can reveal the profitability of the firm.

Financial Appraisal: Meaning, History and Importance

Financial appraisal is an objective evaluation of the profitability and financial strength of a business unit. The techniques of financial statement analysis are used for the purpose of financial appraisal. Therefore, financial appraisal is the process

of scientifically making a relevant, comparative and critical evaluation of the profitability and financial health of a given firm through the application of the techniques of financial statement analysis. The accounting system is concerned with the classification, recording, summarising and presentation of financial data. This data is analysed for the purpose of evaluation and appraisal of the performance.

Financial statement analysis attempts to unveil the meaning and significance of the items composed in profit and loss account and the balance sheet so as to assist the management in the formation of sound operating financial policies. For sure, the analysis and appraisal of financial statements reveal the significant facts relating to financial strength, profitability, corporate efficiency, weaknesses, managerial performance, solvency and other such factors relating to a company. The technique of appraisal is applied to the analysis and study of accounting data with an idea of answering the questions like:

- (1) Is investment in the company safe?
- (2) Does the company earn adequate profit?
- (3) Is the company solvent enough to meet its obligations whenever they mature?
- (4) Does the company earn enough to build reserves for future growth?
- (5) Is the company properly capitalised?

To quote Roy Foulke, if a train is moving forward at known rate of speed, it is reasonable to assume that it will continue to move at approximately the same rate unless some obstacle interrupts its progress abruptly or the locomotive power is increased or decreased. Similarly it is reasonable to assume that unless some drastic change takes place in a business, it will continue to move in the same general direction as indicated by its comparative trends.

Appraisal is the useful measure of past performance. The source data, that is Management Information System, is meant to:

- (1) ensure adequate profitability.
- (2) to have an early warning of something going wrong.
- (3) to have basis for allocation of resources.
- (4) to evaluate managers.

Performance evaluation is a central feature of an effective management information system. In a way, financial analysis is decision information system. The appraisal is the evaluation of worth, quality and performance. The performance is evaluated with source data to check the quality of performance as well as to form a judgement of probable future performance. Appraisal of past answers two basic questions:

- (1) How well the business done in comparison with what could be evaluated?
- (2) What can be done to improve the future performance?

With this reference, financial appraisal is a scientific evaluation of the profitability and financial strength of a firm. Financial appraisal is a process of evaluating the summarised financial and business data to obtain a better understanding of a firm's position and performance. This financial data is provided by the science of Accounting. Accounting is defined as the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and in interpreting the results thereof (AICPA). Another important definition given by Smith and Ashbourne is worth mentioning: "Accounting is the science of recording and classifying business transactions and events, primarily of financial character, and the art of making significant summaries, analysis and interpretations of those transactions and communicating the results to the persons who must make decisions or form judgements. Thus, it is very clear that the analysis, interpretation and understanding is not possible unless the data is available, which is the function of accounting.



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Process of Financial Appraisal

The data for financial analysis and appraisal basically emerge from financial statements. Such analysis covers:

- (1) Segregating of individual components of financial statements and groups of specified elements duly defined so that the computation can be clearly ascertained for checking and accuracy. The data contained in the income statement and the balance sheet are to be completely recast and presented in a condensed and unified form.
- (2) To establish significant relationships between the individual components of income statement and balance sheet. This is done through application of the tools and techniques of financial analysis.
- (3) Evaluation and interpretation of the comparative data obtained by application of the tools of financial analysis.

As per John Myer : Financial statement analysis is largely a study of relationships among the various financial factors in a business as disclosed by a single set of statements, and of the trends of these factors, as shown in a series of statements.



beginning of the twentieth century. Until about the end of the nineteenth century, financial statements were regarded merely as a proof of the bookkeeper's work. By the end of the nineteenth century the bankers started insisting on their clients to submit the balance sheets on which they were basing their decisions for credit appraisal and approval. In February, 1895 New York State Bankers' Association adopted a resolution insisting for getting a signed statement of assets and liabilities from the borrowers to be analysed by them for their decision to approve the credit. In 1900 the association published a standard form for application for credit which included space for a balance sheet. Certain bankers were using comparative statements also.

With the passage of time, the standards of comparison like insisting for certain minimum quick ratio were developed. After banking and credit, there was awareness of reliance on data and objective analysis of such data developed among

The analysis and interpretation of financial statements is an attempt to determine the meaning and significance of the financial data to check the performance in past, forecast for the future business performance and verifying the financial strength of the firm. financial analysis is the evaluation of a firm's past, present and anticipated future financial performance and financial condition.

History of Financial Performance Appraisal

The need for a summary of accounts of a business enterprise was appreciated since the beginning of Accounting. Luca Pacioli, the author of the first published accounting treatise (published in 1494) insisted for the preparation of summaries, which he called 'inventory.' In the sixteenth century the summary of the accounts was made an integral part of the ledger in the form of a balancing account. As the business enterprises assumed larger proportions during the later part of the nineteenth century and corporations began to have many investors, it became necessary to make copies of accounting summaries for distribution to all the shareholders, and so the balancing account was developed into the contemporary balance sheet. The forms used today for preparation of the financial statements were developed in the

the investors in industries like railroads, automobiles and others. Certain books and publications were published containing what they called modern analytical methods. The Art of Wall Street Investing by John Moody published in 1906 is worth mentioning. In 1919, Alexander Wall criticised bankers who based their decisions in regard to granting of credit on current ratios alone. He argued that to get a complete picture, relationships among other items over and above current assets and current liabilities should also be analysed. Subsequently, there have been many studies and improvements in the subject of ratio analysis. This technique is used and relied by a large number of analysts for various purposes and extensively used by the top management personnel, particularly in the field of accounting, costing and finance, in almost all industries.

The ratio measurements used in financial statement analysis falls in two groups. (1) Those

which measure the relationships among the items in a single set of statements, and (2) those which measure the changes in these items in successive statements. The first is a static analysis, measuring position at a point of time or for a period, the second is a dynamic analysis, measuring change of position. In 1925, Stephen Gillman propounded a different type of analysis. This was dividing the magnitudes of significant items or groups of items in each of a series of statements by their magnitudes in one year in the series selected as the base, thus obtaining a series of trend relative to the base year. This was trend analysis. This is comprehensive and presents broad view of the balance sheet relationships.

The history of the growth of financial statement analysis technique reveals that it has been developing over a period of more than eight decades. From the crude beginnings of rough comparison of statements in the beginning to the use of fairly definite procedures, employing latest scientific ways of analysis has gradually evolved. There are varied improvements in the classification, terminology, arrangement and presentations in the financial statements. In recent years the annual reports of well known companies have changed from merely formal, technical documents to attractive and interesting treasures of financial and business statistics. Instead of being directed merely to the shareholders, the modern reports are also prepared to interest general public, customers, government agencies, financiers, investors and the employees. The reports contain not only financial statements and other statistics, but also stories with respect to the company's activities, future programmes, economic setting of the company, strengths, employees, technology, productivity and future strategy and vision of the company.

In the later part of the twentieth century, the content and presentation of the company annual reports have been thoroughly improved and recast to meet with the need of the time, to protect the investors as well as to improve the utility of annual financial statements and the annual reports. Directors report, Management discussion & analysis, MAOCARO audit report (now CARO Report, 2003), details of technology, energy conservation, various notes and details covering the corporate governance, notes and schedules to income statement and the balance

sheet, balance sheet abstract and company profile, cash flow statement, graphical and statistical details (like details of important parameters for last decade), compliance/reporting details relating to accounting standards today make the annual reports the statistical treasures for the management as well as various outside users of the data. The reported facts and data are being used to work out various ratios and other relevant analysis by the top management with reference to the issue before them for decision making.

Methods of Financial Analysis

The analysis and interpretation of financial statements is an attempt to determine the meaning and significance of the financial data to check the performance in past, forecast for the future business performance and verifying the financial strength of the firm. In other words, financial analysis is the evaluation of a firm's past, present and anticipated future financial performance and financial condition. Its objectives are to identify the firm's financial strengths and weaknesses and to provide the essential foundation for financial decision making and planning. Broadly, the methods of analysis are:

- (1) **Horizontal analysis:** This is the comparison, analysis and interpretation of a similar item of financial statements relating to two accounting periods.
- (2) **Vertical analysis:** This is comparison, analysis and interpretation of two items or variables of financial statements relating to the same accounting period.
- (3) **Static and dynamic analysis:** Static analysis measures the relationships among the items in a single set of statements. Dynamic analysis measures the changes in such items in successive statements. Static analysis is vertical analysis and dynamic analysis is horizontal analysis.



(4) **Internal and external analysis:** The internal analysis is the analysis of financial data by the management of the enterprise itself for internal decision making. External analysis means the analysis of the data from the financial statements done by any outsider like investors, banker, government, any creditor, customer and others for taking a relevant decision.

Many techniques are available for financial analysis, like leverage analysis, index analysis, trend analysis, cost-volume-profit analysis, funds flow analysis and ratio analysis. Ratio analysis is a simple, logical and easy to comprehend technique of financial analysis. A ratio is an arithmetical relationship between two figures. Financial ratio analysis is a study of ratios between various items or groups of items in financial statements. Ratios can be worked out to verify the profitability, liquidity, solvency, leverage and turnover of the firm.

The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of a firm. An accounting figure conveys meaning when it is related to some other relevant figure and/or information. Many a time the absolute figures are misleading.



Superiority of Ratio Analysis as a Technique in Financial Analysis

- (1) The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of a firm. An accounting figure conveys meaning when it is related to some other relevant figure and/or information. Many a time the absolute figures are misleading. For example- Accounting Year 2001-02: Net Profit Rs.400 lacs and Sales Rs.2300 lacs. Accounting Year 2002-03: Net Profit Rs.600 lacs and Sales Rs.4200 lacs. Apparently it seems that the profit has gone up in 2002-03 as compared to 2001-02. In fact, the profitability has gone down in the accounting year 2002-03.
- (2) Ratio analysis simplifies comprehension of financial statements. It tells the whole story of changes in activity and financial condition of business.
- (3) A ratio reflecting a quantitative relationship helps to form a qualitative judgement.

- (4) Ratio analysis helps inter-firm comparison.
- (5) The analysis of ratio can disclose relationships as well as bases of comparison which reveal conditions and trends that cannot be detected by an inspection of the individual components of the ratio.
- (6) Business organisation is a system. Any business and/or financial event is always related to other events. It affects other events and/or being affected by other events. The activities and events happening in any area of a firm are not autonomous, not isolated from the company's overall economy as well as not absolute in value. Therefore, the summary result expressed by a ratio on the basis of comparison of two or more relevant data is more meaningful and more reliable.
- (7) As stated by Peter Drucker growth is the result of success. Growth can be result of superior

performance. Ratios between various financial and accounting data can be used as managerial tools for providing measurement of performance and

for comparison against standards, goals and targets, and the causes of significant super performance and under performance may be objectively determined.

- (8) Various ratios are the grass root evaluations of specific area in themselves. The combination of ratios selected for broad strategic activities of the business would lead to total integration, which will give correct and comprehensive understanding of the situation for best possible decision making.
- (9) Ratio analysis is an important dimension for sizing up a situation. In ratio analysis the process is the expression of one magnitude in terms of another. Prudent and critical dimensions of a business organisation can be calculated to take stock of the situation, which is a reality and would also help in guiding prediction and economic decision making by the top management.
- (10) Ratio analysis is the most popular and widely used cross-sectional technique of financial statement analysis.

- (11) In a well managed business, important decisions should be based on careful analysis of all available data, and not on hunch or guess work. The basic source of financial data is its accounting records. Comparative analysis of ratios and its analysis with reference to industry standards can show whether the business is balanced or not, and in what areas not balanced. This will enable the management to think of actions required to regularise the same.
- (12) Balance sheet and Profit & Loss Account provide heap of numerical figures in absolute terms. The figures are jumbled together in such a way that one cannot make out anything from the scattered jungle of absolute data. In order to make proper interpretation and derive some meaningful inferences, certain quantitative relationships have to be established between two or more figures. Absolute figures are by themselves mute and cannot speak out or reveal their significance. However, quantitative relationships when established can provide many qualitative clues for proper interpretations.
- (13) The checking of progress of the company and monitoring of market value of the Share of Company, and by analysis of certain critical ratios of the business activity, it is possible to predict probable failure and bankruptcy of the business.
- (14) Careful framing of financial statements and implementation of sound ratio analysis [basic ratio of Return on Investment (ROI) which covers most of the areas of business activities] as a tool of analysis can achieve excellence in financial performance. This has been proved by practice in General Motors, USA.

Trend Analysis

For studying the trend of various items of financial statements and activities of business, figures of a single year are not enough. Comparative figures of more years are significant. Such comparative data may be either absolute figures or may be presented in percentage form. The items and their values in the first year, which

is the base year, are compared with similar items of other years in the form of percentage. This process is called 'trend analysis'. The year selected as base should be a year of normal performance. The items which have logical relations only should be compared. It is required that in the preparation of the financial statements for various years, consistency should be maintained so that the analysis of items/performance is meaningful. Trend analysis in particular reflects limited meaning if not used with ratio analysis. However, the statistical tools like Time series, regression, etc. make trend analysis stronger.

Common Size Statements

Ratios on comparative basis and trend analysis do not provide any common base with which all items in each statement can be compared. The common size analysis (common size Profit & Loss Account and common size Balance Sheet) will be helpful in this case. Common size financial statements are to be prepared in which all items are compared with one common item, which is significant. For example, in income statement, Sales may be taken as 100 and all items in the statement are compared as percentages of sales. Similarly, in case of balance sheet the relation of each item to total assets is computed. These percentages are compared with similar percentages of another year and/or another Company to draw valid conclusions. Prima facie, this analysis throws light on the cost structure and financial parameters of business on common footing. Since the base of analysis is made common, its comparison and analysis throws clear understanding of the performance and standing.

Cost Analysis

Normally, this is followed in isolation, particularly, when decisions are market-oriented or product-oriented. However, BEP Analysis along with Margin of Safety and Angle of Incidence



through chart form give amazing results. It gives excellent results pertaining to state of an individual company's status in relation to industry; competitors' analysis and cost analysis. This becomes very important in the recessionary situation when the cost-cutting takes place and how competitors are strategizing for survival & growth.

Conclusion

Financial management implies the managerial activity concerned with planning and controlling of the firm's financial resources. Firms acquire financial resources to carry out their activities and generate surplus. These financial transactions are recorded and summarised scientifically, which is an Accounting activity. At the end of the accounting period, income summary and summary of assets and liabilities are prepared. These data are useful to form judgement about the operating performance and financial position of the firm. One can get further insight about financial strengths and weaknesses of the firm/company if the figures/data reported in year end financial statements are properly analysed. This analysis is referred to as ratio analysis. Ratio is a comparison of two logically related items, i.e. amounts in rupees, of income statement, balance sheet or *inter se*. The result of this comparison has a message to the reader of the financial statements. Another definition of a ratio is given by Webster's dictionary. As per that, a ratio is an indicated quotient of two mathematical expressions and as the relationship between two or more things. The relationship between two accounting figures, expressed mathematically, is known as a financial ratio, or simply a ratio. Ratio helps to summarise large quantities of financial data and to make qualitative judgements about the firm's financial performance.

The ratio analysis involves comparison for a



meaningful interpretation of the financial statements. A single ratio in itself does not indicate favourable or unfavourable condition. It should be compared with some standard. Standards of comparison may consist of:

- (1) *Past ratios*: Ratios calculated from the past financial statements of the same company.
- (2) *Competitor's ratios*: Ratios of some selected firms, especially the most progressive and successful competitor, at the same point in time.
- (3) *Industry ratios*: Ratios of the industry to which the firm belongs.
- (4) *Projected ratios*: Ratios developed using the projected, or proforma, financial statements of the same firm.

Item number one above is known as time series analysis. Reference to competitors' ratios is inter-firm comparison. Another version of comparison and analysis is comparing the result of ratios with the average ratios of the industry to which the Company belongs. Whatever is the way of comparison and analysis, the technique of ratio analysis is very popular method of analysis of financial statements, since it is very simple, conveying straight meaning and reliable as its results are based on the figures taken from audited year end annual accounts.



Ratios on comparative basis and trend analysis do not provide any common base with which all items in each statement can be compared. The common size analysis (common size Profit & Loss Account and common size Balance Sheet) will be helpful in this case. Common size financial statements are to be prepared in which all items are compared with one common item, which is significant.

Sensitivity Analysis with Ms-Excel - Data Table and Scenario Manager



Sensitivity analysis is a process of understanding effect of change in one or more variable on other variable. For example we may want to know how change in product price affects its revenue and profit. With data table we can perform sensitivity analysis for change of one or two variables but with scenario manager we can perform sensitivity analysis by varying as many as 32 input values (changing cells). This article deals with the use of Ms-Excel inbuilt tools namely 'Data Table' and 'Scenario manager' to conduct Sensitivity analysis. Use of these tools is an easy and effective way to conduct sensitivity analysis.



CA. Liyakatali G. Lal

The author is a member of the Institute.

*He can be reached at
eboard@icai.org*

Sensitivity analysis is a process of understanding effect of change in one or more variable on other variable. Most spreadsheet models are constructed based on some assumption about certain input variable. In such models sensitivity analysis determines how outputs vary in response to change in its input. For example, we may want to know how change in product price affects its revenue and profit. Microsoft Office Excel has two inbuilt tools to perform sensitivity analysis.

1. Data Table : One-way and Two-way data table
2. Scenario Manager

With data table we can perform sensitivity analysis for change of one or two variables but with scenario manager we can perform sensitivity analysis by varying as many as 32 input values (changing cells).

Data Table

With a *one-way* data table, one can see how change in one input will change many outputs and with a *two-way* data table, we can see how changes in two inputs change a single output.

One Way Data Table

Let us see an example to understand the use of data table and obtain a meaningful sensitivity analysis. Mr. Cold is thinking of starting a store to sell Fruit Drink. Before opening the store, he is curious to know how his profit, revenue and variable cost is affected by the price he charges for a fruit drink.

Figure 1 shows input variables where range B1:B4 contains our assumptions. Create the name in A1:A4 to correspond to cell B1:B4 (Insert >> Name >> Create >> Select - Left Column). We will assume annual demand for fruit drink in cell B2 equals 65000-9000*price. Let us compute Revenue in cell B6 with formula =Demand*Price, Variable cost in cell B7 with formula =Demand*Unit_Cost and Profit in cell B8 with formula =Revenue-Variable_cost-Fixed_cost

Now, we want to know how change in Price (for example, from Rs. 3 through Rs. 6.5 in 0.25 increments) affects annual profit, revenue and variable cost. Since we are changing only one input, a *one way data table* will solve our problem.

To set up a one-way data table, let us begin by listing input values in column A. Prices of fruit drink (ranging from 3 through 6.5 in 0.25 increments) in the range A14:A28. Next, move to next column (i.e. column B) and up one row from the list of input values, and there list the formulas we want a data table to calculate i.e. enter the formula for profit in cell B13, the formula for revenue in cell C13 and the formula for variable cost in cell D13.

Now select the table range (A13:D28). The table range begins from one cell above the first input. After selecting table range, go to Data >> Table. Now fill Data Table dialog box as shown in Figure 2 on next page. As the column input cell use the cell in which you want the listed inputs i.e. the values listed in the first column (column A) of the data table range to be assigned. Because the listed inputs are price, I chose B1 (See Figure 1) as the column input cell. After clicking OK, Excel creates the one-way data table shown in Figure 2

	A	B	C	D
1	Price	5.00		
2	Demand	20,000.00		
3	Unit Cost	1.50		
4	Fixed cost	45,000.00		
5				
6	Revenue	100,000.00		
7	Variable cost	30,000.00		
8	Profit	25,000.00		

Figure 1 : Inputs to see profitability

	A	B	C	D	E	F	G	H
11								
12		Profit	Revenue	Variable cost				
13	Price	25,000.00	100,000.00	30,000.00				
14	3.00	12,000.00	114,000.00	57,000.00				
15	3.25	17,562.50	116,187.50	53,625.00				
16	3.50	22,000.00	117,250.00	50,250.00				
17	3.75	25,312.50	117,187.50	46,875.00				
18	4.00	27,500.00	116,000.00	43,500.00				
19	4.25	28,562.50	113,687.50	40,125.00				
20	4.50	28,500.00	110,250.00	36,750.00				
21	4.75	27,312.50	105,687.50	33,375.00				
22	5.00	25,000.00	100,000.00	30,000.00				
23	5.25	21,562.50	93,187.50	26,625.00				
24	5.50	17,000.00	85,250.00	23,250.00				
25	5.75	11,312.50	76,187.50	19,875.00				
26	6.00	4,500.00	66,000.00	16,500.00				
27	6.25	(3,437.50)	54,687.50	13,125.00				
28	6.50	(12,500.00)	42,250.00	9,750.00				

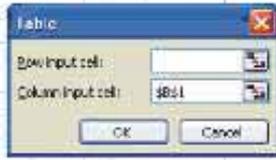


Figure 2 : Data Table dialog box and one way data table with varying prices

In the range B14:D14, profit, revenue, and variable cost are computed for a price of Rs. 3. In cells B15:D15, profit, revenue, and variable cost are computed for a price of Rs. 3.25, and so on... for the range of prices. The profit-maximizing price among all listed prices is Rs. 4.25. At this price you will observe an annual profit of Rs. 28,562.50, annual revenue of Rs. 113,687.50 and an annual variable cost of Rs. 40,125.00.

Two Way Data Table

Suppose I want to determine how annual profit varies as price varies from Rs. 3 through Rs. 6 and unit variable cost varies from Rs. 0.75 through Rs. 2.5 (both in 0.25 increments). Since we're changing two inputs, we need a two-way data table. See Figure 3, where I list the values for one input (price) in the first column of the table range i.e. in Column H and the values for the other input (unit cost) in the first row of the table range i.e. in Row 13. A two-way data table can have only one

output cell, and the formula for the output must be placed in the upper left corner of the table range. Therefore, I placed the profit formula =Revenue-Variable_cost-Fixed_cost in cell H13.

Select table range (H13:P26) then go to Data>> Table. Now, fill into data table dialogue box - Cell H13 (price) as the column input cell and cell I13 (unit cost) as the row input cell (See figure 1 for input value). After clicking OK, excel creates the two-way data table shown in Figure 3.

	G	H	I	J	K	L	M	N	O	P
11										
12			UNIT COST							
13		25,000.00	0.75	1.00	1.25	1.50	1.75	2.00	2.25	2.50
14	PRICE	3.00	40,500.00	31,000.00	21,500.00	12,000.00	2,500.00	(7,000.00)	(16,500.00)	(26,000.00)
15		3.25	44,375.00	35,437.50	26,500.00	17,562.50	8,625.00	(312.50)	(9,250.00)	(18,187.50)
16		3.50	47,125.00	38,750.00	30,375.00	22,000.00	13,625.00	5,250.00	(3,125.00)	(11,500.00)
17		3.75	48,750.00	40,937.50	33,125.00	25,312.50	17,500.00	9,687.50	1,875.00	(5,937.50)
18		4.00	49,250.00	42,000.00	34,750.00	27,500.00	20,250.00	13,000.00	5,750.00	(1,500.00)
19		4.25	48,625.00	41,937.50	35,250.00	28,562.50	21,875.00	15,187.50	8,500.00	1,812.50
20		4.50	46,875.00	40,750.00	34,625.00	28,500.00	22,375.00	16,250.00	10,125.00	4,000.00
21		4.75	44,000.00	38,437.50	32,875.00	27,312.50	21,750.00	16,187.50	10,625.00	5,062.50
22		5.00	40,000.00	35,000.00	30,000.00	25,000.00	20,000.00	15,000.00	10,000.00	5,000.00
23		5.25	34,875.00	30,437.50	26,000.00	21,562.50	17,125.00	12,687.50	8,250.00	3,812.50
24		5.50	28,625.00	24,750.00	20,875.00	17,000.00	13,125.00	9,250.00	5,375.00	1,500.00
25		5.75	21,250.00	17,937.50	14,625.00	11,312.50	8,000.00	4,687.50	1,375.00	(1,937.50)
26		6.00	12,750.00	10,000.00	7,250.00	4,500.00	1,750.00	(1,000.00)	(3,750.00)	(6,500.00)
27										
28		Max	49,250.00	42,000.00	35,250.00	28,562.50	22,375.00	16,250.00	10,625.00	5,062.50

Figure 3: A two way table showing profit as a function of price and unit cost

As an example, in cell K14, when we charge price of Rs. 3 and the unit cost is Rs. 1.25, our annual profit equals Rs. 21,500.00, For each unit cost, the profit-maximizing price is highlighted i.e. in cell I18, when we charge price of Rs. 4 and the unit cost is Rs. 0.75, our maximum annual profit equals Rs. 49,250.00 and so on.

Here are some notes on this problem:

1. As you change input values in a worksheet, the values calculated by a data table change too. For example, if we increased fixed cost by Rs. 10,000 all profit numbers in the data table would be reduced by Rs 10,000.
2. You can't delete or edit a portion of a data table. If you want to save the values in a data table, select the table range, copy the values and then right-click and select Paste Special. Then choose 'Values' from the Paste Special menu. If you do this changes to your worksheet inputs will no longer cause the data table to update.
3. When setting up a two-way data table, be careful not to mix up your row and column input cells. A mix-up will cause nonsensical results.
4. If data table is too large, with each change in worksheet 'Automatic' (default) calculation mode will slow down the work. Set worksheet calculation mode to 'Automatic except tables' (Tools >> Options >> Calculation) and hence data table will be recalculated only when we Press F9 (recalculation) key.

Data table can be used for many problems. Like the one for retirement planning. Say, at the end of each year we will put same amount into retirement fund for next 30 years and earn the same interest rate each year. We want to see how the final corpus at the end of 30 years will change, if we vary our annual contribution from Rs. 5,000 through Rs. 25,000 and the rate of interest varies from 6% through 14%.

Scenario Manager

Scenario manager can be used to perform sensitivity analysis by varying multiple input values. For the Scenario Manager we need to

1. First define the set of input cells we want to vary;
2. Next we name the scenarios and enter values for each scenario; and
3. Finally we select the output cells (also called result cells) that we want to track.

The Scenario Manager will create a beautiful report containing the inputs and the values of the output cells (result cells) for each scenario.

Let us see an example to understand the use of Scenario Manager and obtain a meaningful analysis. See Figure 4, where input variable are defined to calculate Net Present Value (NPV). Range D1:D8 contains inputs like tax rate, Year-1 sales, sales growth, year-1 price and cost, interest rate and so on.

Unit sales for year 2 to 5 is increased by sales growth and is calculated by multiplying sales of previous year with 1+sales growth (%) i.e. in year 2 by formula =C10*(1+\$D\$3), in year 3 by formula =D10*(1+\$D\$3). Likewise, unit price and unit cost is calculated for year 2 to 5. Revenue, cost, profit before tax and profit after tax is self explanatory. Tax is calculated by multiplying profit before tax with tax rate (Cell D1) i.e. for year 1 by formula =C15*\$D\$1 (here, \$ sign is used for absolute referencing). NPV is calculated in cell C19 by using NPV function. Syntax of NPV function is =NPV (Interest Rate, Range of Value). Therefore, in cell C19 formula is =NPV(D6,C17:G17).

Suppose we want to create following three scenarios and look at effect on NPV and each year's after tax profit. Input cells which we want to vary are defined in range D2:D4 (see figure 4).

Let us define Best scenario. Click on Tools >> Scenarios >> Add, then fill in the Add Scenario

	A	B	C	D	E	F	G
1			Tax Rate	0.40			
2			Yr 1 sales	12,000.00			
3			Sales growth	0.07			
4			Yr 1 price	7.50			
5			Yr 1 cost	6.00			
6			Int Rate	0.12			
7			Cost growth	0.05			
8			Price growth	0.02			
9	Year		1	2	3	4	5
10	Unit Sales A		12,000.00	12,840.00	13,738.80	14,700.52	15,729.55
11	Unit Price B		7.50	7.75	7.95	8.20	8.44
12	Unit Cost C		6.00	6.30	6.62	6.95	7.29
13	Revenue D=A*B		90,000.00	99,139.00	109,316.20	120,477.38	132,778.12
14	Costs E=A*C		72,000.00	80,692.00	90,832.15	102,106.11	114,716.21
15	Profit (BT) F=D-E		18,000.00	18,447.00	18,484.05	18,371.27	18,061.91
16	Tax G		7,200.00	7,378.80	7,373.61	7,348.51	7,224.76
17	Profit (AT) H=F-G		10,800.00	11,068.20	11,110.44	11,022.76	10,837.14
18							
19	NPV		39,421.65				
20							
21							

Figure 4 : Input data for Scenario Analysis

dialogue box as shown in Figure 5. We need to enter name for the scenario (Best) and select D2:D4 as input cells (changing cells) containing the values that will define scenario.

	Yr 1 sales	Sales growth	Yr 1 price
Best	20,000.00	20%	10.00
Most likely	10,000.00	10%	7.50
Worst	5,000.00	2%	5.00

Press OK. Similarly fill the details for 'Most Likely' and 'Worst' Scenario. After all the three scenarios are defined, the Scenario Manager Dialog box, shown in Figure 7, will show the scenarios which we have defined.

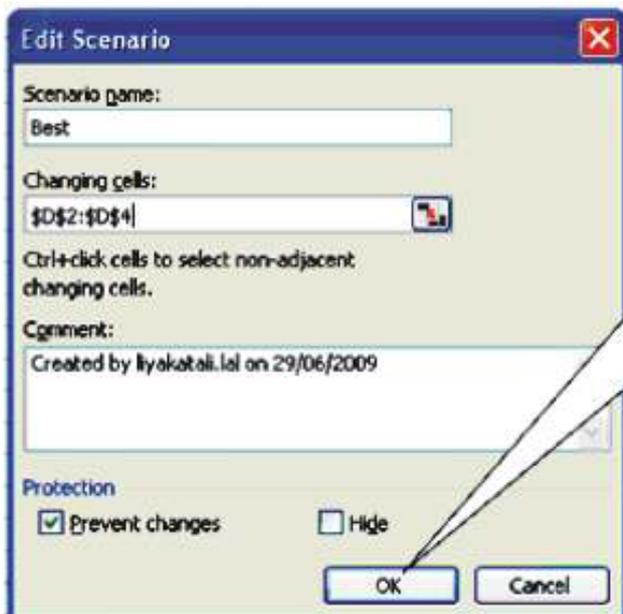


Figure 5 : Data input range for the scenario



Figure 7 : Scenario Manager Dialog Box

Then press OK, fill in the Scenario value dialog box (See Figure 6) with the input values that define Best Scenario.

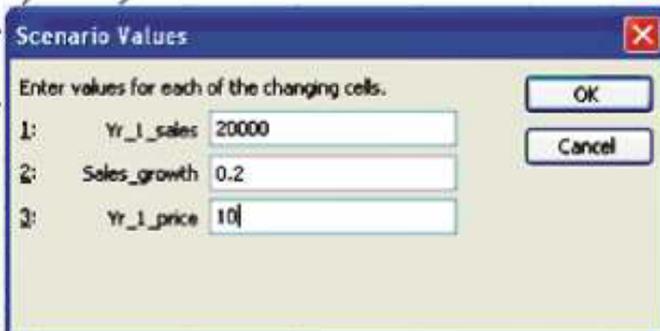
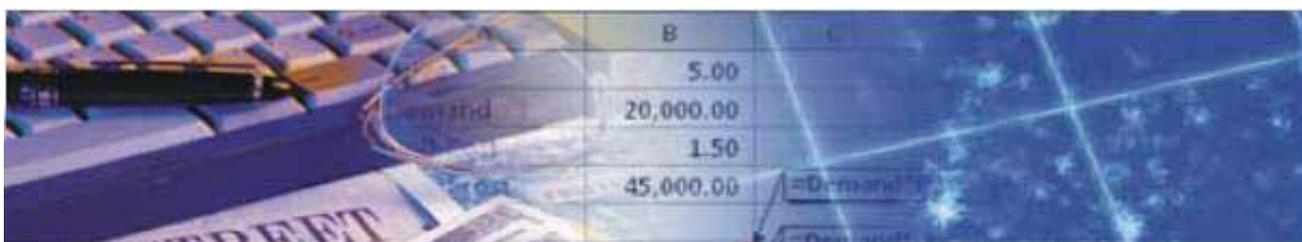


Figure 6 : Input values for 'Best' scenario

In the Scenario Summary dialog box result cells are each year's after tax profit (range C17:G17) and NPV (cell C19) selected. Result cell from more than one range is separated by comma (Ctrl key can

also be used for selecting multiple ranges). After selecting Scenario summary, Press OK to create the beautiful Scenario Summary report as shown in Figure 8.



Notice that Excel includes a column, labeled Current Values, for the values that cost, the worst case loses money in each year.

Scenario Summary				
	Current Values:	Best	Most Likely	Worst
Changing Cells:				
Yr_1_sales	12,000.00	20,000.00	10,000.00	5,000.00
Sales_growth	0.07	0.20	0.10	0.02
Yr_1_price	7.50	10.00	7.50	5.00
Result Cells:				
\$C\$17	10,800.00	48,000.00	9,000.00	(3,000.00)
\$D\$17	10,978.20	57,600.00	9,405.00	(3,519.00)
\$E\$17	11,060.42	69,016.32	9,741.10	(4,090.33)
\$F\$17	11,022.76	82,560.80	9,980.12	(4,718.50)
\$G\$17	10,837.14	98,588.50	10,087.17	(5,408.35)
\$C\$19	39,421.65	246,310.60	34,533.13	-14,462.85

Notes: Current Values column represents values of changing cells at time Scenario Summary Report was created. Changing cells for each scenario are highlighted in gray.

Figure 8 : The Scenario Summary report showing all the three Scenarios

were originally placed in the worksheet (See Figure 4). The worst case loses money (a loss of Rs. 14,462.85), whereas the best case is quite profitable (a profit of Rs. 246,310.60). Because in the worst-case price is less than our variable

Conclusion:

Sensitivity analysis is an integral part of financial analysis. Data Table and Scenario Manager are inbuilt tools of Ms-Excel which is an easy and effective tool to conduct sensitivity analysis.

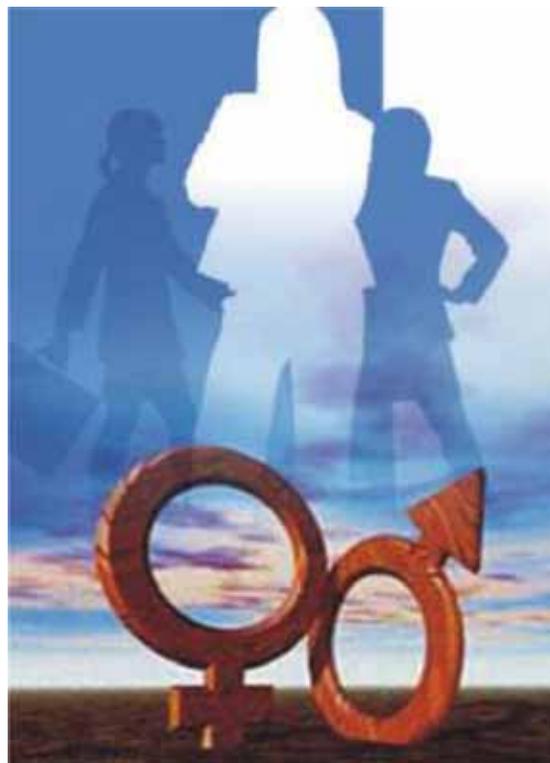
Corrigendum

- Attention of readers are invited to paragraph nos. A57, A58, A59,.....A76 of Exposure Draft of Standard on Auditing (SA) 200 (Revised), "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", published in September, 2009 issue of the Journal at page nos. 488 and 489. The above mentioned paragraph nos. should be read as paragraph nos. A56, A57, A58,..... A75.
- Attention of readers are invited to Standard on Auditing (SA) 560 (Revised), "Subsequent Events", published in the Volume 1 of the Handbook of Auditing Pronouncements- 2009 edition at page no. 725. The footnote no. 1 should be added in the title of the Standard, which should be read as follows:

"The date SA 560 (Revised) would come into force, three Guidance Notes, i.e., **Guidance Note on Auditor's Report on Revised Accounts of Companies Before Circulation to Shareholders, Guidance Note on Revision/Rectification of Financial Statements** and **Guidance Note on Revision of the Audit Report** issued in the year December 1979, August 1983 and January 2003 respectively, would stand withdrawn."

Gender Inclusivity and Opportunities at Workplace

It is said that there is a direct correlation between employment of women and economic growth of a nation. As per the latest trend, India Inc is taking in larger women workforce as women bring their own perspective for things and over the time have emerged as better professionals in any situations. Over the years, the corporate world in India has realized that women bring with them their unique and commanding brand of leadership, distinct personality, knowledge and skills. They have also understood that by harnessing these positive traits of women employees and by removing the impediments in their career, companies will be able to reap advantages and grow in leaps and bounds. This article offers an insight into the issue.



CA. Gargi Ray

*The author is a member of the Institute.
She can be reached at
wsg@icai.org*

Working women have a dual responsibility of striking a balance between their career and their family and personal life. Due to certain inherent limitations and impediments faced by working women, they need a secured work place and better prospects for their career growth. Realising these requirements, the Constitution of India has enshrined the principles of Equal Opportunities and Inclusivity in its Articles and Directive principles. There have been various enactments over the years to safeguard and protect the interests of working women.

In the early years of country's independence, companies were addressing gender inclusivity as a matter of fulfilling the obligations laid down by various acts or at the most as Corporate Social Responsibility. However, over the period of time there has been growing acceptance among the companies that gender inclusivity leads to more diverse, open and innovative organisations. It has been widely accepted that an inclusive and diverse culture is imperative for any global company as it leads to better employee engagement, fosters innovation and brings in a wealth of ideas and energy into the organisation. As



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former president of NASSCOM puts it, "Indian companies no longer view gender inclusivity as a Corporate Social Responsibility activity but as a business imperative".

Companies have realized that gender inclusivity is not just having a simple set of initiatives or policies to ensure that women have a secure and harassment-free working environment but it is a multi-dimensional, transformational journey involving multiple stake holders with a view to create a holistic/empowered society where men and women have different but equal roles to play. It means that the best practices and policies should be imbibed into the working environment.

The best practices adopted by leading companies in information technology, hotel and tourism, pharmaceutical and petroleum and natural gas sectors have been broadly discussed below:

IT Industry

NASSCOM has launched an initiative to applaud the 'gender inclusive' initiatives of IT/BPO companies with the following objectives:

- Benchmark the participation of women in IT i.e. the benefits that companies have reaped by having women leaders in their workforce.
- Sensitize senior management and policy-makers in the IT-BPO industry on gender inclusivity and women-friendly policies and share best practices in this area.
- Highlight the success stories of companies that have brought more women into their corporate leadership.
- Equip women with insights, training and mentoring on necessary skills to gear up and achieve their leadership aspirations.

To achieve the above mentioned objectives, NASSCOM has formed focused website sub-groups, developed various networking activities to bring women IT professionals in various cities together, has set up gender inclusivity programmes in companies and has organized

mentoring circles. It has instituted 'Gender Inclusivity Awards' to recognize IT/BPO companies that have gender inclusive initiatives in place for fostering women empowerment and leadership.

According to NASSCOM sources, in general all IT/BPO companies have the following practices and policies in place:

- The companies foster a "culture of inclusion" as a business imperative and recognise gender inclusivity as a key factor in organisational agility, innovation and success.
- They are open to accept different capabilities that women bring into workplace and create a nurturing environment for them to take leadership roles.
- These companies have set up special cells and introduced policies and processes that spur women participation, especially at the higher levels of decision-making.
- The companies ensure security and dignity to its women employees.

A Glance at Best Practices Adopted by Leading IT/BPO Companies

At **Infosys Technologies Limited**, women employees constitute more than 30% of the total workforce. Infosys has won the 'NASSCOM Award for Gender Inclusivity' for second consecutive year in 2008, demonstrating application of its robust policies towards its women employees. The company is distinguished in this area through its 'leadership commitment' towards gender inclusivity, accountability, diversity programs organized, originality and integration of programs with business strategy and results. Apart from the regular policies, the company has taken special initiatives, some of which have been discussed below:

Infosys Women Inclusivity Network (IWIN) promotes a gender-sensitive work environment. IWIN recognizes the unique aspirations and needs of women. It provides avenues for vocational, personal and psychological counsel to enable

professional and personal development.

A satellite office has been set up for pregnant women and young mothers to spare them from commuting to the main office which is situated on the outskirts of Bangalore. The company has also given opportunities to people to avail a part-time work option.

The company regularly organises gender sensitivity workshops, parenting workshops, health and counseling programmes and professional counseling sessions. It also offers sabbaticals to its employees.

A fairly new initiative of the company to create networking between students and workforce is 'Spark'. Spark is a one day programme which exposes students to the best in class learning environment and techniques. This facilitates students to take informed decisions at a very early stage in their career. Senior women employees interact with girl students and provide them the insights on various possible career opportunities for women in Information Technology. Also, employees give information to students on the gender inclusive practices in place at Infosys and other companies thereby sensitizing them to the unique challenges that working women face and how they cope with them.

IBM has a framework and processes primed to have effective workforce diversity mechanism. This framework and policies are enhanced by transparency, accountability and a measurable system. Workforce diversity rests on three pillars, namely, equal opportunity, affirmative action and work-life integration programmes. Senior leadership team formulates the diversity strategy for the enterprise by putting focus on organization-wide diversity ratio, appropriate governance through toll gate and tracking mechanism and diversity representation in leadership, strategic forums, key projects, and regional and global award programs. It educates and sensitizes the managers about the role of diversity employees at the workplace through programs like 'Mindset', 'Diversity and Inclusive Leadership' (D&IL) and 'Shades of Blue'.

Diversity and inclusivity have been integral part of the overall communication strategy at IBM. Various communication initiatives include strategic communications, diversity specific communications special training programmes, showcasing of success stories, leveraging DNG to communicate and celebrating diversity events.

The policies such as flexible and conducive work environment, job rotation with shared services, etc. are oriented towards ensuring work-life balance. The policies towards health and safety of women workforce are transport policy with special focus on women employees, 24x7 helpline, prevention of sexual harassment (POSH) policy, self-defence training, focus on women health and programmes oriented towards ensuring emotional wellbeing.

IBM has also launched initiatives like 'women only' recruitment drives, payment of higher referral bonuses for referring diversity candidates and enterprise-wide focus on growing women leaders.

Potential women leaders at IBM are selected and groomed through programmes like Human Resources Leadership Development Program (HRLDP), Emerging Leaders Programme, etc. Some of the tools used for encouraging women to emerge as successful leaders include ShareNets, mentoring, action learning, business acumen development programs, accelerated management programme for leadership pipeline development, and 'let's interact -diversity special' programme series. Capability building and development initiatives include special training programs for women in managerial positions, taking the stage, focus on developing managers through various programs, diversity network groups (DNG) and 'iConnect - roundtables with senior women leaders'.

It has institutionalized BU-level and organization-wide reward programme such as 'annual organization-wide diversity award - Best Business Unit', 'process and leaders' and 'quarterly Diversity and Inclusion Manager Award'.

HCL Technologies has in recent past come out with quite a lot of innovative human resources programmes. The 'women first' initiative has taken forward the 'employee first' initiative to a higher platform. The 'Women First' council strives to provide women employees with a forum to express their creativity, concerns and share new action ideas. The objectives of the policy are to create unique employee experience, invert the organizational structure, enhance transparency & accountability, 'learn-grow-on' and 24x7 help line to provide expert counseling on women related issues.

Convergys Global Women's Network has the vision to empower women employees and

promote professional excellence among them. It has empowered women in the changing times to shore up their competitiveness and enhance their global reach. It provides a platform for women to get together, share and exchange views on a wide range of women-oriented subjects. During these interactive sessions, eminent women personalities from various social, educational and professional fields are invited to share their experiences with women members of the Convergys team. The sessions are designed to encourage women team members to harness their talents to the fullest and carve a niche in the professional world while managing greater work-life balance.

The human resource policies at **TCS**, governed by the Tata Code of Conduct, promote diversity and equity in the workplace. It has in place an Ethics Management System to handle ethical violation such as sexual harassment at workplace and other issues that women associates may face. The company offers its women associates the option of long leave for medical reasons as an extension of maternity leave and for other family commitments. 'Maitree' is an initiative of TCS that helps the associates connect with others and with themselves in a world that is generally becoming impersonal. Maitree conducts regular informational sessions for women on topics like cancer awareness, stress management, yoga and art of living, rearing children and nurturing talent.

Some of the policies of **Aricept Technologies** to attract and retain talented women workforce include formal Ethical Code of Conduct to prevent and address any type of harassment related issues and ensuring non-discriminatory work culture and flexible working hours. Apart from these policies, women in senior positions serve as positive role models for other employees.

Accenture has the inclusive culture embedded in its ongoing success mantra. It has focused on recruitment campaign to attract women professionals. The campaign includes a metrics-based recruitment process, a referral programme, a strong connection with colleges dedicated to providing women education, a tailored

advertising campaign and weekend recruitment events. The other policies of the company include global flexible work arrangement and maternity returners programme which help ease the transition for new parents back into the workforce by providing career guidance and support for finding ideal re-entry roles. 'Vaahini' is a formal community of all women employees where they can share experiences and create opportunities to learn and grow. Other initiatives include day-care centres, women networking portal and gender sensitization training to supervisors & managers.

The company has launched several other initiatives too to encourage women employees to take up key roles. Some of these policies are:

- 14-month 'India leadership development programme' for high potential, senior women managers.
- 'Developing high performing women programme' to enable women managers to develop relevant skills as part of their career journey.
- Career counseling and mentoring

CISCO has the following policies in place for their women workforce:

'On-ramp' and 'off-ramp' Programme: Through this programme, the company allows women employees to make a gradual transition rather than being on-work or off-work. Women employees who are "on-ramp" can focus aggressively on their careers while they can opt for "off-ramp" option when required by reducing workloads. The company also has mentoring circles, coaching and flexible working hours for women. A 'Vibrant Women's Action Network' (WAN) has been formed which is a voluntary employee network within the company which empowers women at all levels to develop influencing and leadership skills that support their career growth. 'Women's Leadership Development' programmes are also being run for women at unit level as well as corporate level.

Hotel Chains and Tourism

Research studies show that all the leading hotel



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All leading companies have robust policies against sexual exploitation and efficient security mechanism to ensure that the workplace is safe. Majority of hotel chains comply with the human rights policies of ensuring equal opportunities, non-discrimination, anti-harassment, anti-bullying, etc.

The large chains have diversity councils and diversity committees which are totally supported and participated by the senior management. For example, Hilton Hotels Corporation's diversity policies are formulated by the corporation's Board of Directors under the direction of its 'Diversity Committee'. The companies have clearly defined 'codes of conduct' towards equal opportunity, inclusivity, diversity and career growth.

Pharmaceutical & Health Care Industry

It has been witnessed that in the recent past the proportion of women work force has constantly increased in the pharmaceutical industry.

Dr. Reddy's Laboratories (DRL) has a programme called 'Parichay'— a referral scheme wherein women candidates are given additional bonus through which the company aims at increasing gender balance. Some of the policies and initiatives of DRL towards their women employees include:

- Drop facility for women who need to work after 8 p.m.
- Maternity policy has an additional one month leave apart from the statutory leave
- Flexible working hours for working mothers for a period of one year from the date of child birth besides the facility of day-care centres.
- A very proactive ombudsman process and all women 'Anti-Harassment Committee' to effectively respond to the complaints.
- Gender sensitivity programmes are organized on regular basis to ensure continual reinforcement of key messages.
- The company is also working at newer initiatives such as part-time work possibilities, sabbaticals, focused 'women leadership development interventions,' etc.

AstraZeneca is a multinational healthcare company headquartered in the United Kingdom and is operating in over 100 countries. Women employees constitute half of its workforce. It has flexible working hours and facilities of 'work from home' and subsidized day-care centres for its women employees. The company has also in place provides small peer-mentoring groups to offer support, build leadership skills, and discuss business solutions.

Petroleum and Natural Gas

In India, almost all the companies operating in petroleum and natural gas industry come under the ambit of Ministry of Petroleum and Natural Gas. The ministry has taken various initiatives for welfare, development and empowerment of women employees. The ministry has regular programmes on 'gender sensitization, external and in-house training programmes on women health, and sponsors women employees to attend the national meet of the forum of 'women in public sector'. It has also formed 'Women Forums' in PSUs to cater to the needs and interests of women employees. It has set up committees to attend to redressal of complaints on "sexual harassment at work place".

At **IBP** gender equality is linked to ability. It actively supports 'Forum of Women in Public Sector (WIPS)' through special coordinators in each region. To foster the concept of continuous learning, the company encourages women employees to attend various workshops and training programmes.

Thus, we see that corporate world in India has realized that women bring with them their unique and commanding brand of leadership, distinct personality, knowledge and skills. They have also understood that by harnessing these positive traits of women employees and by removing the impediments in their career, companies will be able to reap advantages and grow in leaps and bounds. Even though there are some issues concerning women employees that have not yet been addressed, overall it can be said that Indian companies have ensured robust gender inclusivity policies and initiatives and help their women employees to achieve greater heights in their career. Now, it is for all the women employees to come forward and avail of benefits of these initiatives, policies and opportunities and take the country forward on the path of growth. ■

»» India Revising Tax Treaties to Nab Defaulters: Pranab

India will go for amending double taxation avoidance treaties with other countries to allow for exchange of information on tax evaders, Finance Minister Pranab Mukherjee has said. "With a large number of countries, I have instructed my office to renegotiate the clause for exchanging information in the avoidance of double taxation agreement. This is almost with every country," he said recently adding that this was a follow-up to a decision of the G20 leaders to "discipline" tax havens. The Swiss government has agreed to share information with other countries by revising bilateral tax treaties with interested countries. "But information will be related to only tax collection, not for any other purpose. Not even for publicity or sharing information with anybody, but (to) facilitate the tax authority to collect the taxes from the defaulters" he said. India began the process of revising the tax treaty with Mauritius well before the financial crisis, said the minister. "The Mauritius prime minister said that he has some problems. We have agreed to compensate him. Talks were to begin in that line," said Mukherjee.

Source: <http://www.hindustantimes.com>

»» Interest Rates May Go Up by Year-end: Rangarajan

The economy is showing the signs of recovery and interest rates are set to rise by the end of the current fiscal, said C. Rangarajan, Chairman of the Prime Minister's Economic Advisory Council. He informed that the improvement in credit off-take will push up demand for credit, as the economy recovers, while interest rates may harden a little bit by end of the fiscal.

Source: <http://economictimes.indiatimes.com/news/>

»» RBI Asks Banks to be Proactive in Monitoring Frauds

Expressing concern over increasing incidence of frauds in banks, particularly in housing and mortgage loans, the RBI has asked CEO-chaired special committees in the banks to be proactive in investigating and monitoring these irregularities. The banks' special committee of the board, which is chaired by the CEO (of each bank), should be responsible for the fraud investigation and monitoring function and discharge the relative oversight responsibility in a pro-active manner. The RBI further said the incidence of frauds in the banks has been showing an increasing trend over the recent years, both in terms of number of frauds and the amounts involved.

Source: <http://economictimes.indiatimes.com/news/>

»» Norms for Repo in Corporation Bonds Ready

The Reserve Bank has come out with draft guidelines on repo in corporate debts that will allow banks and other eligible institutions to raise short-term funds by selling corporate bonds with an option to repurchase them within a year. Aimed at developing the corporate debt market, the draft guidelines said debt securities that have been assigned 'AA' or higher ratings by credit rating agencies will be eligible for repo transactions. Besides commercial banks, non-banking financial companies (NBFCs), financial institutions (like Exim Bank, NABARD, NHB and SIDBI), insurance companies, mutual funds, housing finance companies and RBI-approved primary dealers will be allowed to undertake repo transactions in corporate debts.

Source: <http://economictimes.indiatimes.com/news/>

»» RBI Group Likely to Moot Two PLRs; Cap on Sub-PLR Lending

The Reserve Bank working group, constituted to revisit benchmark prime lending rate (BPLR), is likely to recommend two types of PLRs and may put a ceiling on banks' sub-PLR lending. The working group had received suggestions from Indian Banks' Association (IBA) and other industry experts to rework the existing BPLR system and had formed a draft report. Reserve Bank constituted a special working Group to revisit the existing BPLR structure in July this year to bring more transparency in the manner in which banks arrive at the BPLR.

Source: <http://economictimes.indiatimes.com/news/>

» India to Trim Government Schemes, Subsidies in FY11

India will aim at scrapping irrelevant government schemes and reduce subsidies in the next fiscal year, the finance ministry said, as it grapples to keep a lid on spending and rein in the fiscal deficit. The government's stimulus spending to revive a slowing economy has strained its finances and could take the fiscal deficit to a 16-year high of 6.8 per cent of GDP in 2009/10, to be funded by a record 4.51-trillion-rupee market borrowing. In a budget circular for 2010/11, the finance ministry asked all ministries and departments to prioritise government aided schemes and activities. Ministries also need to give details of government guarantees on repayment of loans, tax revenues shown on books but not realised, and non-tax revenues that are yet to be collected. The fiscal deficit in the year ended March 2009 stood at 6.2 per cent of GDP.

Source: <http://economictimes.indiatimes.com/news/>

» RBI to Continue Soft Monetary Policy Till Recovery is Secured

The Reserve Bank has said that the soft monetary policy adopted by it to counter the impact of the global financial meltdown on the country will continue till the economic recovery is secured. "Especially on monetary policy, we will not exit unless we are sure that recovery is secured... but soon thereafter when we make the judgement that the recovery is secured, we have to unwind the accommodative monetary policy," RBI Governor D. Subbarao said. RBI will look at number of factors like WPI inflation, CPI inflation, components within inflation, industrial growth and credit expansion while unwinding the soft monetary policies.

Source: <http://economictimes.indiatimes.com/news/>

» India Inc Mops Up Rs 40,000 Crore via Debt in Q1

India Inc's fund raising through private placement of debt surged 42 per cent to Rs. 40,300 crore in the first quarter of the current fiscal, with over half of the fund being mobilised by financial institutions. The April-June quarter of the current fiscal witnessed a mobilisation through debt (bonds) on private placement basis of Rs. 40,300 crore, up 42 per cent from Rs. 28,385 crore raised in the first quarter of last financial year. With over 67 institutions and corporate houses raising the total amount during the June quarter of the current fiscal, the biggest mobilisation through the route came in from financial institutions, including banks. On sector-wise basis, private sector surpassed public sector in terms of fund raising.

Source: <http://economictimes.indiatimes.com/news/>

» India Unlikely to Allow FDI in Multi-brand Retail

India is unlikely to allow foreign investment in multibrand retail at least in the next couple of years. "It's a sensitive sector. I don't see it happening... certainly not in one or two years," Department of Industrial Policy and Promotion Joint Secretary Gopal Krishna said during his interaction with Swedish industry captains. India does not allow foreign investment in multi-brand retail, although it does permit 51 per cent foreign direct investment (FDI) in single brand segment. World's biggest furniture retailer IKEA of Sweden recently dropped its USD 1 billion investment plan to set up single-brand retail outlets in India after New Delhi showed no inclination to allow FDI beyond 51 per cent in that segment.

Source: <http://economictimes.indiatimes.com/news/>

» Sri Lanka Expecting USD 100-mn FDI from India by end-December

Sri Lanka is expecting a foreign direct investment (FDI) from India to the tune of USD 100-million by end-December, a senior Lankan Government official has said. "We are targeting FDI worth USD 1,000-million by the end of this year (2009) and India's contribution this year is expected to be around USD 100-million," Sri Lanka's Minister of Investment Promotion, Navin Dissanayake, said. In 2008, Sri Lanka attracted a total FDI of USD 889-million out of which India's contribution was USD 126-million. Last year, out of the USD 126-million FDI which came from India, a major share of around USD 100-million came from Bharti Airtel.

Source: <http://economictimes.indiatimes.com/news/>

»» IFAC, IVSC to Collaborate on Improving Global Valuation Consistency

The International Federation of Accountants (IFAC) and the International Valuation Standards Council (IVSC) have signed a Memorandum of Understanding designed to enhance their respective impact on issues surrounding valuations, particularly those related to improving the consistency of global valuation standards affecting the preparation and audits of financial reports. According to Michel Prada, Chairman of the Board of Trustees for the IVSC, this MoU demonstrates the cohesive and united approach of the IVSC, IFAC, and International Auditing and Assurance Standards Board (IAASB) to maintaining standards as global markets continue to develop.

Source: <http://www.ifac.org/>

»» Ethics Board Publishes Implementation Support Materials

The International Ethics Standards Board for Accountants have developed support materials to assist in the adoption and implementation of the revised *Code of Ethics for Professional Accountants* (revised July 2009). These materials, including an overview of the revised Code and a tool to assist jurisdictions in comparing the revised to the existing Code, are located in the Resources section of the Ethics homepage at <http://www.ifac.org/Ethics/Resources.php>.

Source : <http://www.ifac.org/>

»» ASBJ and IASB Reaffirm Co-operation in Achieving Convergence

The Accounting Standards Board of Japan (ASBJ) and the International Accounting Standards Board (IASB) recently held their tenth meeting to accelerate convergence of Japanese Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRSs). The meeting was led by Ikuo Nishikawa, Chairman of the ASBJ, and Sir David Tweedie, Chairman of the IASB. As part of the meeting, representatives of the IASB provided an update on their ongoing project work, in particular on those projects that form part of the convergence programme between the IASB and the US Financial Accounting Standards Board (FASB) and on the measures that are being undertaken by the IASB in response to the financial crisis.

Source: <http://www.iasb.org/News/>

»» SEC to Make IFRS Roadmap 'Priority'

US regulator the Securities and Exchange Commission says the proposed roadmap to convergence between US Generally Accepted Accounting Principles and International Financial Reporting Standards will become a main focus in the next few months. Speaking to a New York State Society of CPAs conference in New York, the new chief accountant for the SEC, Jim Kroeker, said: Turning back to the roadmap will be an important priority for us this fall. A roadmap was released last November that aimed to have US companies filing financial results in line with IFRS by the year 2014, with some companies being given the option to file this way sooner. But the SEC has been criticised for its slow start to the changes, with the Chairman of the International Accounting Standards Board criticising the regulator for not making a commitment to IFRS.

Source: <http://www.accountancymagazine.com/>

»» Standard-setter Defends G-20 Progress

The International Accounting Standards Committee Foundation has written to US President to defend the International Accounting Standards Board's new stance on fair value accounting rules and to state it has made 'substantial progress' on the G-20 objectives it was set in April. Objectives set included global convergence towards accounting standards, and looking into remodelling its fair value rules that force banks to value their assets at current market price – blamed by many in the banking sector as fuelling the crisis. But the IASC Foundation defended the IASB's stance on fair value, stating: 'In making their proposals and in order to provide transparency and reflect economic reality, the IASB's emphasis has been to define in a balanced and transparent way the appropriate criteria for classifying instruments to be measured at cost and fair value — not to increase or decrease arbitrarily the use of fair value. 'The IASB is not proposing that the loan book of banks will be held at fair value,' it added.

Source: <http://www.accountancymagazine.com/>

»» Fourth Report of PIOB Now Available

The Public Interest Oversight Board (PIOB) has issued its Fourth Public Report, in which it describes its oversight of international audit, ethics, and education standard setting. The report focuses on the relevance of the PIOB's public interest mission and its activities of the past year, which included monitoring and evaluating the final stages of the IAASB's Clarity Project.

Source: <http://www.ifac.org>

»» Fair Value Measurement Round Tables

In November and December 2009 the IASB will hold round table discussions on its proposals for fair value measurement. Round tables will be held in North America, Asia and Europe. An audio recording of the round table discussions will be made available on the website shortly after each round table. The IASB has a project to define fair value and to provide guidance on measuring fair value in IFRSs. The round tables will discuss the IASB's proposals (as reflected in the exposure draft Fair Value Measurement). Each round table will last two hours. Although they aim to admit every interested party to the round tables, there may not be room for all those who wish to attend. In the interest of admitting as many interested parties as possible, only one participant per organisation is permitted in the round tables while others may attend as observers.

Source: <http://www.iasb.org/News/>

»» IASB Publishes Proposals for Amendments

The International Accounting Standards Board (IASB) has issued for public comment an exposure draft of proposed amendments to eleven International Financial Reporting Standards (IFRSs) under its annual improvements project. The proposals range from clarification of the measurement of non-controlling interests in IFRS 3 *Business Combinations* (as revised in 2008) to changes of wording to clarify the meaning of IFRSs and remove unintended inconsistencies. Unless otherwise specified, the proposed effective date for the amendments is for annual periods beginning on or after 1st January, 2011. The IASB requests comments on the exposure draft by 24th November, 2009.

Source: <http://www.iasb.org/News/>

»» IASC Proposals for Enhanced Accountability and Stakeholder Outreach

The Trustees of the International Accounting Standards Committee Foundation (IASC Foundation), the oversight body of the International Accounting Standards Board (IASB), has published for public comment proposals that form the second part of a two-part review of the IASC Foundation Constitution. The proposals build on governance enhancements implemented as a result of the first five-yearly Constitution Review, completed in 2005. They follow the recent establishment of a public accountability link to a Monitoring Board of capital market authorities as a result of the first part of this review. The key proposals seek to Enhance the IASB agenda-setting processes, Expand the IASB's liaison with other organisations, Establish a procedure for the possibility of an accelerated due process, Provide further geographical balance among the Trustees and Change the name of the organisation to the IFRS Foundation to provide clarity regarding the Foundation's mission.

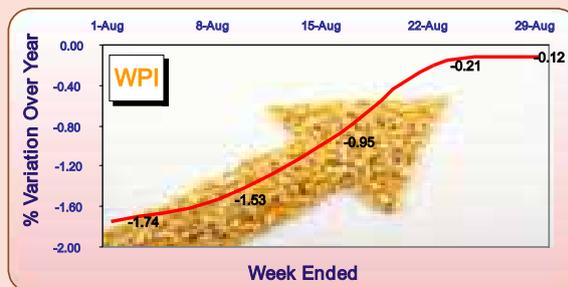
Source: <http://www.iasb.org/News/>

»» Supercart Not up to Standard on IFRS 8

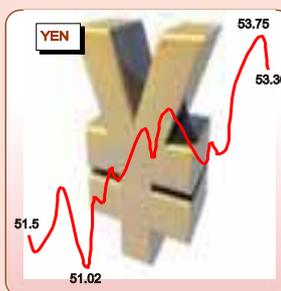
The Financial Reporting Review Panel in UK has decided that supermarket trolley group Supercart plc's failure to disclose information required by IFRS 8, *Operating Segments*, was 'not in accordance' with the standard. In its accounts for 2007, Supercart said it omitted the information on the grounds of commercial sensitivity. The FRRP said IFRS 8 is mandatory for periods on or after 1st January, 2009, but the company applied it early. The FRRP said the directors have accepted its conclusions and, in the recently published accounts for 2008 have complied with the requirements of IFRS 8, including the disclosure of the relevant information for 2007 by way of comparison.

Source: <http://www.accountancymagazine.com/>

Economic Indicators



Indian Rupee vs. Major Foreign Currencies (August 17, 2009 to September 15, 2009)



Stock Markets



Selected Indicators

Item	Unit/Base	2008		2009				
		Sep. 5	July 31	Aug. 7	Aug. 14	Aug. 21	Aug. 28	Sep. 4
Cash Reserve Ratio	per cent	9.00	5.00	5.00	5.00	5.00	5.00	5.00
Bank Rate	Per cent per annum	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Prime Lending Rate	Per cent per annum	13.25-14.00	11.00-12.00	11.00-12.00	11.00-12.00	11.00-12.00	11.00-12.00	11.00-12.00
Deposit Rate	Per cent per annum	8.75-10.00	6.50-7.75	6.50-7.75	6.50-7.75	6.50-7.75	6.50-7.75	6.50-7.75
Call Money Rate (Low/High)	Per cent per annum	6.25/10.00	1.50/3.30	1.25/4.00	1.75/3.45	1.75/3.35	1.00/3.30	1.75/3.30

Note: Readers are Invited to contribute write-ups or any relevant and interesting piece of information for this feature at eboard@icai.org.

ACCOUNTANT'S BROWSER

“PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE”

Index of some useful articles taken from Periodicals/Newspapers received during August-September 2009 for the reference of Faculty/Students & Members of the Institute.

1. ACCOUNTING

Accountants' Reports to Third Parties by Siobhan Orsi. *Accountancy Ireland*, August 2009, pp.26-28.

IAS 20, Accounting for Government Grants & Disclosure of Government Assistance – A Closer Look by K.S. Muthupandian. *The Management Accountant*, August 2009, pp.645-651.

IFRS for SMEs - More Good News ! by Liam Mcquaid. *Accountancy Ireland*, August 2009, pp.24-25.

IFRS Transition is Just Around the Corner, & Here Are a Few Practical Steps Toward the Implementation of IFRS 1 by Joanne Barradas. *CA Magazine*, August 2009, pp.32-36.

The Logic of Pension Accounting by Christopher J. Napier. *Accounting & Business Research*, vol.39/3, 2009, pp.231-249.

Organisational Founding, Strategic Renewal, & the Role of Accounting: Management Accounting Concepts in the Formation of the “Penny Post” by Alan J. Richardson. *Journal of Management Accounting Research*, Vol.20 Special Issue, 2008, pp.107-127.

Strategies Adopting in Teaching of Accounting Subjects to Higher Educational Students by R.V. Pazhani. *University News*, August 17-23, 2009, pp.13-19.

The Voluntary Adoption of Internationally Recognised Accounting Standards & Firm Internal Performance Evaluation by Joanna Shuang Wu & I.X. Zhang. *The Accounting Review*, Vol.84/4, 2009, pp.1281-1309.

2. AUDITING

“Audit Manual” for a Secretarial Audit by Ramanan Eswar & S. Kumars. *Chartered Secretary*, August 2009, pp.1085-1107.

The Effect of Auditor Quality on Financing Decisions by Xin Chang etc. *The Accounting Review*, Vol.84/4, 2009, pp.1085-1117.

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Bernard Marr. *Accountants Today*, Sep. 2009, pp.46-47.

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Full Texts of the above articles are available with the Central Council Library, ICAI, which can be referred on all working days. For further inquiries please contact on 011-23370154 or by e-mail at library@icai.org

CPE
06
HRS

IRDA-ICAI Joint Workshop on Internal/Concurrent Audit of Investment Functions of Insurance Companies

Organised by the Committee on Insurance and Pension of ICAI jointly with Insurance Regulatory and Development Authority (IRDA)

Theme

IRDA vide its recently issued Circular dated 4th August, 2009, has made it compulsory for the insurers having Asset under Management (AUM) over Rs. 1000 Crores to appoint a firm of Chartered Accountants as Concurrent Auditor to have its Investment transactions and related Systems audited on a concurrent basis. This Workshop is being conducted to provide necessary technical guidance to the members of our Institute and others concerned on the manner of auditing of the Investment transactions and related Systems of Insurance companies.

Date & Time: 12th October, 2009 (Monday)
09:00 a.m. to 06:00 p.m.

Venue Hotel Sahara Star, Vile Parle (East), Mumbai

Discussion Sessions

Topics to be Discussed	Speakers
• Regulatory oversight on Insurance Companies	Mr C R Muralidharan Member (F&I), IRDA
• Impact of Investment and Accounting on Actuarial functions	Dr R Kannan Member (Actuary), IRDA
• Opportunities for CA's in Investment functions of Insurers	CA. S N Jayasimhan , Joint Director, IRDA
• Audit programme and procedure for Internal/ Concurrent Audit of Investment Functions - Life Insurer	Imminent Faculty
• Audit programme and procedure for Internal/ Concurrent Audit of Investment Functions - Non- Life Insurer	Imminent Faculty
• Audit of Systems and Processes in Insurance Companies	Imminent Faculty

Contact Persons & Details

For registration, please contact the following officials of ICAI:
Ms. Srabani Kapoor
WIRC of ICAI, 9321239894, kapoor@icai.in
CA. Mukesh Kumar
Secretary, COIP of ICAI, (011) 30110566, coip@icai.org

Website

www.icai.org

CPE
20
HRS

Auditors Training Programme on Finacle CBS



Organized by: Committee on Information Technology of ICAI

Location	Hosted by	Course Dates	Venue
Pune	Pune Branch of WIRC of ICAI	October 26-30, 2009	C2 (Class-room2), B1 (Bldg no-1), Infosys, Hinjewadi Phase 1, Pune
Chennai	SIRC of ICAI	December 18-22, 2009	ICAI Chennai

The Committee on Information Technology is going to organize a **NON Residential** training programme on "Auditors Training Programme on Finacle CBS" in association with M/s. Infosys Technologies at Pune & Chennai at the above mentioned dates. This course aims to provide hands-on training on the basic use of Finacle CBS (Version 7) and an introduction to the use of its Audit & Control features. Delegates have to make their own lodging and boarding arrangements. Registration is on *First-Cum-First-Serve* basis for 25 delegates on receipt of application with Fee of **Rs. 25,000/- (Rupees Twenty Five Thousand only)** per delegate payable by DD/ Pay-Order/ Online (<http://icai.org/ccm.html?progid=48>) drawn in favour of "The Secretary, ICAI" payable at Delhi and has to be sent to "The Secretary, Committee on Information Technology, The Institute of Chartered Accountants of India, ICAI Bhawan, Plot No. 52-54, Vishwas Nagar, Shahdara, Delhi - 110 032.

Further details, pre-requisites and course schedule are available at www.icai.org. Please contact: cit@icai.in/ Ph.011-30210619/ 621 for further details and assistance, if any.



New Publications

FROM THE AUDITING AND ASSURANCE STANDARDS BOARD

HANDBOOK OF AUDITING
PRONOUNCEMENTS
(2009 Edition)

Pages

Vol. I - (Pages: 1218+12 initial pages+4 cover pages)

Vol. II - (Pages: 615+12 initial pages+4 cover pages)



- Authoritative text of auditing pronouncements as on July 1, 2009.
- Availability of technical literature on auditing at one place.
- One stop reference for members as well as all professionals and academicians.
- Two distinct volumes one, for Standards and Statements and another for Guidance Notes.
- Contents of both volumes given in each volume for cross reference.

Volume I

Compendium of Standards and Statements

- Compendium of Statements on Auditing and containing the text of 38 Engagement and Quality Control Standards.
- Contents of each Standard and Statement given at the beginning for quick reference and overview.

Additions since the 2008 edition:

- Contains the text of the nine (9) revised/new Standards on Auditing (SAs) issued under the Clarity Project, which are effective for audits of financial statements for periods beginning on or after April 1, 2009. The text of the corresponding SAs has also been kept for the ease of reference.

- Also contains the text of nine (9) revised/new Standards on Auditing (SAs) issued under the Clarity Project, which are effective for audits of financial statements for periods beginning on or after April 1, 2010. The text of the corresponding SAs has also been kept for the ease of reference.
- The text of the following SAs issued under the Clarity Project have been added:
 - SA 210 (Revised), "Agreeing the Terms of Audit Engagements".
 - SA 230 (Revised), "Audit Documentation".
 - SA 250 (Revised), "The Auditor's Responsibilities Relating to Laws and Regulation in an Audit of Financial Statements".
 - SA 260 (Revised), "Communication with Those Charged with Governance".
 - SA 265, "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management".
 - SA 320 (Revised), "Materiality in Planning and Performing an Audit".
 - SA 402 (Revised), "Audit Considerations Relating to an Entity Using a Service Organisation".
 - SA 450, "Evaluation of Misstatements Identified during the Audit".
 - SA 500 (Revised), "Audit Evidence".
 - SA 510 (Revised), "Initial Audit Engagements—Opening Balances".
 - SA 530 (Revised), "Audit Sampling".
 - SA 540 (Revised), "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures".
 - SA 550 (Revised), "Related Parties".
 - SA 560 (Revised), "Subsequent Events".
 - SA 570 (Revised), "Going Concern".
 - SA 580 (Revised), "Written Representations".
 - SA 610 (Revised), "Using the Work of Internal Auditors".
 - SA 720, "The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements".
- Status of AASB's Standards vis-à-vis IAASB's Standards issued under the Clarity Project—As on July 1, 2009.

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Price (includes CD-ROM): Rs. 900 (Box Pack)

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counter at the Regional Offices or at the Head Office of the Institute. Copies can also be obtained by post. To order by post, send a demand draft for the amount of price of the publication (add the charges indicated below for the desired mode of delivery) in favour of "*The Secretary, The Institute of Chartered Accountants of India, New Delhi*", payable at New Delhi, to the Postal Sales Department, The Institute of Chartered Accountants of India, A-94/4, Sector-58, NOIDA - 201 301 - (U.P.).

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- 
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 - o *Presentations*—contain snap shots of the

- fundamental principles contained in the auditing standards along with some notes.
- o Documentation Requirements in the SAs.
- o Case Studies and Technical Posers.
- o Text of the revised/newly issued Standards on Auditing under the Clarity Project, effective for audits of financial statements for periods beginning on or after April 1, 2010.

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Invitation to Join Panel of Examiners

The Institute is in the process of strengthening its panel of examiners with professionals/ academicians/ resource persons for all the papers in CA IPCE and Final (New Course) Examinations in general and for the following subjects in particular:

1. Strategic Financial Management
2. Advanced Auditing and Professional Ethics
3. Advanced Management Accounting
4. Information Systems Control and Audit
5. Direct Tax Laws
6. Indirect Tax Laws
7. Taxation



8. Information Technology

Persons who have the requisite proficiency in the above subjects, inclination for evaluation of answer books and who can spare time may send in the Empanelment Form duly filled in to the Additional Secretary (Exams), The Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, New Delhi – 110002. The form may be obtained by sending a request letter or in the alternative, downloaded by clicking on to link http://www.icai.org/resource_file/15857ExaminersEmpanelmentForm.pdf

Scholarships From The S. Vaidyanath Aiyar Memorial Fund

The Managing Committee of the S. Vaidyanath Aiyar Memorial Fund has decided to award scholarships to 60 articled assistants of the value of Rs. 500/- per month for a period of one year for the year 2008-09 to poor, needy and meritorious articled assistants requiring scholarship to pursue the chartered accountancy course.

The eligibility criteria for applying for scholarship will be as under:

- i) Passed 10 + 2 examination with a minimum of 70 per cent marks and Passed Common Proficiency Test of ICAI in the first attempt
or
Passed B.Com. Examination of a recognized University with a minimum of 60% marks
- ii) Currently undergoing articled training as per CA Regulations.
- iii) Annual income of both parents from all sources be not more than Rs. 1.50 lakhs per annum.

The above criteria can be relaxed in deserving cases. Physically challenged articled assistants will be given preference.

Articled Assistants who wish to avail the scholarship should submit their applications in the prescribed form, latest by 30th November 2009. The application form can be downloaded from www.icai.org or can be had from the Institute.

The Joint Secretary (MSS)
The Institute of Chartered Accountants of India,
“ICAI Bhawan” Post Box No. 7100 Indraprastha
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website www.icai.org, email : cabf@icai.in



Enterprises today are increasingly deploying ERP solutions to get information for decision making and better manage their operations. Chartered Accountants, whether in industry or profession are increasingly playing a lead role in ERP implementations - Functional Consultants in the Finance Domain.

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- ⊙ Contact your POU to start a batch
- ⊙ 15 CPE Hours

Further details of these courses are available on the Committee Portal at <http://cit.icaai.org> and Institute website at www.icaai.org.

You can also contact erp@icaai.org for assistance.



Committee on Information Technology
The Institute of Chartered Accountants of India
ICAI Bhawan, Plot No. 52-54, Vishwas Nagar
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**Permission for pursuing a course along articleship
[Regulations 65 & 78, Form 112]**



Attention of the students /articled assistants is drawn to Regulation 65 of the Chartered Accountants Regulations, 1988, reproduced below: -

“Without the previous permission of the Council, obtained on application made in the approved form, no articled assistant shall, during the period of his service as an articled assistant, take any other course of study or training, whether academic or professional, or engage in any business or occupation.”

Of late, it has been noted with concern that the students/articled assistants have not been adhering to the requirements of the aforesaid Regulations while pursuing another course alongwith articleship and have been declaring such a fact while applying for enrolment as a Member of the Institute and seeking condonation for Breach of Regulation 65/78 for having not taken the permission at the appropriate time.

The Executive Committee while considering such cases expressed its anguish and exhorted the students/articled assistants to pursue only one course alongwith articleship, even that be a graduation course and seek permission of the Council by filing of Form 112 duly certified by the Principal i.e. Chartered Accountant and the Principal of the College concerned within 30 days of taking admission.

The Executive Committee has further noted that the additional course(s) has/have been pursued by the students / articled assistants in violation of the provisions of Regulation 65/78 and directed that all requests including cases for which condonation requests have been received be dealt with, in terms of the guidelines, provided herein below: -

Period of Delay	Condition(s) to be complied with by the student for condonation of delay in filing of Form 112.
Upto 1 year	Condone the breach of Regulation 65 and enroll, after three months, from the date of the meeting at which a decision is taken for condonation.

More than 1 year but upto 3 years	Condone the breach of Regulation 65 and enroll, after six months, from the date of the meeting at which a decision is taken for condonation.
More than 3 years but upto 5 years	Condone the breach of Regulation 65 and enroll, after one year, from the date of the meeting at which a decision is taken for condonation.
More than 5 years but upto 7 years	Condone the breach of Regulation 65 and enroll, after two years, from the date of the meeting at which a decision is taken for condonation.
More than 7 years but upto 10 years	Condone the breach of Regulation 65 and enroll, after two years, from the date of the meeting at which a decision is taken for condonation as well as on completion of the three months' Residential Course.
More than 10 years	Condone the breach of Regulation 65 and enroll, after three years, from the date of the meeting at which a decision is taken for condonation as well as on completion of the three months' Residential Course.

The Committee further decided that the students / articled assistants who have not so far taken permission for pursuing additional course alongwith articleship are required to file Form 112 duly completed with the Institute on or before 31st December, 2009 and thereafter no request for Breach of Regulation 65 / 78 will be considered for condonation.

It is clarified that similar provisions will apply to the audit assistants mutatis mutandi.

The above decisions of the Executive Committee are brought to the attention of the Students / articled assistants / audit assistants for necessary compliance.

Secretary

14th September, 2009

ICAI AWARDS FOR EXCELLENCE IN FINANCIAL REPORTING

Invitation to Participate in the Competition for the year 2008-09

Last date for receipt of entries: 15th October, 2009

Objective

To recognise and encourage excellence in the preparation and presentation of financial information with the mission of greater accountability and well-informed decision making.

Categories of the Awards

Category I

Manufacturing and Trading Enterprises (including Processing, Mining, Plantations, Oil and Gas enterprises)

Category II

Banking and Financial Institutions (including NBFCs, Mutual Funds, Unit Trust of India, Investment Bankers, HFCs etc.)

Category III

Service Sector (including Hotels, Consultancy, Transport, Stock Exchanges, R&D, Private Hospitals)

Category IV

Insurance Sector

Category V

Information Technology, Communication and Entertainment enterprises

Category VI

Infrastructure & Construction Sector (including Power generation and supply, Port Trusts, Metro, Roads)

Category VII

Others (Section 25 companies, Educational Institutions, NGOs, Charitable hospitals and other organisations)

In a case, where an organisation is engaged in more than one business, the dominant source of revenue will determine the category to which the organisation belongs.

Awards to be distributed

Hall of fame to be awarded to the entity that has been winning the first prize under the same category continuously in the last five years, if any. One Gold Shield and one Silver Shield will be awarded in each category for the best entry and the next best entry, respectively. Apart from the above-mentioned awards, Plaques will be awarded for commendable entries.

Conditions for Entry

I The Annual Report for entry, to the Compe-

tion for the year 2008-09, should relate to the financial year ending on any day between 1st April, 2008 and 31st March, 2009 (both days inclusive).

II Ten copies of the following documents should be sent:

(a) Annual Report

(b) Quarterly/Half-yearly Financial Results published during the year (specifically mentioning their date of publication) along with the Limited Review/Audit Report, where applicable.

III The following documents (or such other similar documents as are prepared by the organisation concerned) should form part of the Annual Report:

(a) Balance Sheet

(b) Profit and Loss Account

(c) Directors' Report

(d) Chairman's statement or speech at the Annual General Meeting. If a copy of the statement or speech of the Chairman was circulated to the shareholders along with the Annual Accounts, specific mention of this fact may be made.

IV The entry to the Competition should be accompanied by a declaration that the Annual Reports submitted are the same that have been circulated to the common shareholders.

V No fee is payable.

VI Cyclostyled copies of the Annual Report and Accounts will not be accepted. This condition, however, does not apply to entities covered by Category VII.

VII In all matters concerning the Competition, the decision of the panel of judges appointed by the Institute will be final.

Entries to the Competition for the year 2008-09 should be submitted in the duly filled entry form (available on the Institute's Website www.icai.org under the link http://www.icai.org/resource_file/16823icai_awards_efr.pdf) with relevant enclosures and sent to:

The Secretary, Research Committee, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002; E-mail: research@icai.org

Invitation for Research Proposals

Research Committee invites applications for Research Projects from members and others for carrying out research in the field of accounting and other affiliated fields for example: accounting for chain departmental stores, accounting in health care industry, accounting for electricity generation and distribution companies, accounting in aviation industry, accounting for shipping companies, management control systems, approaches to social cost-benefit analysis in the Indian context, etc. The Committee would provide financial support for the approved Research Projects.

The Eligibility Criteria

- (a) The applicant must be a member of the Institute of Chartered Accountants of India with a research aptitude having at least 10 years of post-qualification experience either in the practice of the profession or as an employee with a reputed manufacturing/service organisation; or
- (b) The applicant must be holding a post-graduate degree from a recognised University or an institute of national repute and must have at least 10 years research and/or teaching experience;

Applications from persons having an experience less than as stated above may also be considered on the basis of merit.



The Evaluation Criteria

Only those research proposals will be accepted that result in formulation of guidance material in the form of Technical Guide, Studies, Monographs for the members of the Institute in accounting and allied areas, such as the following:

- the issues on which no accounting standards are available or
- the issues that may arise in the implementation of accounting standards and other pronouncements in the industry-specific situations.

Duration

The duration of research project should not exceed 3 months from the date of the approval of the research proposal unless a longer period is otherwise justified.

Documents to be Submitted with the Research Proposal

The proposal should be accompanied by a

- ❖ Complete bio-data including experience in the relevant field of interest.
- ❖ Synopsis of the project explicitly specifying the objective, scope and issues that would be addressed in the final proposed document. It should also contain a justification for the proposal and the detailed chapter plan.

The proposal should also indicate the estimated expenditure and expected honorarium for this purpose. The amounts in this regard would be remitted on the final acceptance of the draft by the Research Committee.

Research proposals complete in all respects should be sent to the Secretary, Research Committee, at the following address:

The Institute of Chartered Accountants of India,
ICAI Bhawan,
Post Box No. 7100,
Indraprastha Marg,
New Delhi - 110 002
E-mail: research@icai.org

ELECTION - 2009 CIRCULAR

No. 54-EL(1)/1/2009

3rd September, 2009

Dear Contesting Candidate,

Sub: Election Code of Conduct – Compliance regarding.

You may be aware that the Chartered Accountants (Amendment Act) 2006 required the Central Government to specify the Rules on the manner in which the election to the Council is required to be conducted. Accordingly, the Central Government made the Chartered Accountants (Election to the Council) Rules, 2006, which are applicable to our elections.

2. Rule 16 of the Chartered Accountants (Election to the Council) Rules, 2006 requires the Council of the Institute to frame and issue an Election Code of Conduct for maintaining a healthy and peaceful atmosphere during the election process for ensuring a free and fair election. Accordingly, the Council of the Institute framed the Election Code of Conduct containing instructions/ norms/ prohibitions as enclosed for the forthcoming election to be held on 4th and 5th December, 2009. The Election Code of Conduct shall be applicable to all candidates and their authorized representatives for the election to the twenty-first Council and twentieth Regional Councils. This Code shall come into force from 3rd September, 2009 and shall remain in operation till the last date for receipt back of postal ballots, i.e., 17th December, 2009. *[As per Election Rules in place, the Election Code of Conduct is required to be in force till the conclusion of counting of votes. However, the Council of the Institute has decided to recommend to the Central Government to keep the said Code in force till the last date for receipt back of postal ballots, i.e. 17th December, 2009. Accordingly, an amendment in the Rules is proposed. Consequently, the said date of 17th December, 2009 is subject to the decision to be taken by the Central Government in due course. All concerned are therefore requested to watch for our further announcement by around the end of October, 2009.]*

3. It should be appreciated that compliance with the above Election Code of Conduct would not only meet the expectations of the members of the profession and the society at large, but would also avoid basis for allegation(s) on violation of provisions of the Chartered Accountants (Election to the Council) Rules, 2006. It should be noted in this regard that the Election Code of Conduct is deemed to be a guideline of the Council under item (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949 and is therefore obligatory for each candidate and his authorized representative(s) to comply with the Election Code of Conduct framed by the Council.
4. An extract of the relevant provisions of Rules 16 and 42 of the Chartered Accountants (Election to the Council) Rules, 2006 specified by the Central Government, on the conduct of the candidates and their authorized representatives, as also aforementioned, as expected thereunder, in connection with the election, is also **enclosed** herewith for your ready reference.

Yours faithfully,

(T. Karthikeyan)
Secretary

Encl: As above

Copy to:

1. Chairmen of Non-Standing Committees of the Council.
2. Chairmen of Regional Councils and Chairmen of Branches thereof.
3. All Members concerned including those heading /concerned with Study Circles of Regional Councils/Branches, Chapters abroad, CPE Chapters, CPE Study Circles and Voluntary Associations/ Societies or its equivalents whose members are Chartered Accountants.

Extract of the relevant provisions of Rules 16 and 42 of the Chartered Accountants (Election to the Council) Rules, 2006 specified by the Central Government.

Rule 16: Election Code of Conduct.

- (1) With a view to maintain a healthy and peaceful atmosphere during the election process for ensuring a free and fair election, the Returning Officer, shall issue a Election Code of Conduct for candidates, as approved by the Council before issue of notification under sub-rule (2) of rule 4, and which shall be published on the web-site of the Institute.
- (2) The Election Code of Conduct shall contain instructions and norms to be followed by candidates and their authorized representatives appointed under these Rules during the entire election process including at the polling booth and counting centre.
- (3) The Election Code of Conduct shall come into force from the date of issue of notification under sub-rule (2) of rule 4.
- (4) The Election Code is deemed to be a guideline of the Council under item (1) of Part II of the Second Schedule of the Act and it is obligatory for each candidate to comply with the Election Code of Conduct.

Rule 42: Disciplinary action against member in connection with conduct of election.

- (1) A member shall be deemed to have brought disrepute to the Council under item (2) of Part IV of the First Schedule of the Act if, in connection with an election to the Council of the Institute, he is found to have contravened the provisions of sub-rule (2) or all or any of the clauses of sub-rule (3) or sub-rule (4) of this rule.
- (2) Only one manifesto or circular shall be issued by a candidate in relation to the election in the period commencing from the date of issue of final list of nominations to the candidates.
- (3) A manifesto or circular issued shall conform to the following requirements in the interest of maintaining dignity in the election, namely:-

- (a) A manifesto or circular shall contain information regarding the candidate himself and shall not make any reference, directly or indirectly, to any other candidate;
 - (b) The information, which a candidate may furnish in a manifesto or circular regarding himself, shall not differ in any material respect from the information furnished by the Institute to the voters under rule 9. A candidate may, however, include in such manifesto or circular, any additional information not contained in the information furnished under rule 9;
 - (c) A manifesto or circular shall neither contain any appeal to the voters on the basis of caste or on communal, religious, regional or sectional lines nor any tall claim;
 - (d) The distribution of a manifesto or circular shall be restricted only to the members of the constituency concerned;
 - (e) A certified copy of such manifesto or circular shall be sent to the Returning Officer by speed/registered post within 15 days of its issue;
 - (f) While a candidate may repeat, in any form, the manifesto or circular issued under sub-rule (2) of this rule without changing its contents, however, he shall not issue more than one manifesto or circular.
- (4) A member shall not adopt one or more of the following practices with regard to the election to the Council, namely :-

- (i) Bribery, that is to say, any gift, offer or promise of any gifts or gratification to any person by a candidate or any other person, with his connivance, with the object directly or indirectly of :-
 - (a) inducing a member to stand or not to stand as a candidate at an election or rewarding him for act or omission; or
 - (b) inducing to withdraw his candidature or rewarding such withdrawal; or
 - (c) inducing a voter to vote or not to vote at an election, or as a reward for act or omission;

Explanation - For the purpose of this clause, the term "gratification" is not restricted to pecuniary gratification or gratifications estimable in money, and it includes organising parties or providing any other form of

entertainment, and all forms of employment for reward; but it does not include the payment of any expenses bonafide incurred at or for the purpose of any election;

- (ii) undue influence, that is to say, any direct or indirect interference or attempt to interfere on the part of a candidate or any other person, with his connivance, with the free exercise of any electoral right;
 - (iii) the publication by a candidate or by any other person, with his connivance, of any statement of fact which is false, and which he either believes to be false or does not believe to be true, in relation to the personal character or conduct of any candidate or in relation to the candidature or withdrawal of any candidate, being a statement reasonably calculated to prejudice the prospects of that candidate's election;
 - (iv) the obtaining or procuring or abetting, or attempting to obtain or procure, by a candidate or by any other person, with his connivance, any assistance for the furtherance of the prospects of the candidate's election from any person serving under the Government of India or the Government of any State, other than the giving of vote by such person, if he is a member entitled to vote;
 - (v) the hiring or procuring, whether on payment or otherwise, of a vehicle by a candidate or by any other person, with his connivance, for the conveyance of voters;
 - (vi) resorting to disorderly behaviour or misbehaviour within the zero tolerance zone to be determined by the Returning Officer of the polling booth and/or venue for counting of votes;
- Explanation.-** For the purpose of this clause, canvassing for votes, distribution of visiting cards, pamphlets, manifestos, letters, hand-outs, circulars and the like, erection of any stall and display of any banner shall be treated as disorderly behaviour or misbehaviour.
- (vii) exhibiting or placing any notice or sign board relating to the election by a candidate or by any other person with the connivance of the candidate at any time and any where during the election period including on the date or dates of polling within a distance of 200 meters from the polling booth;
 - (viii) non-compliance with any of the directives or circulars or instructions issued by the Returning Officer under these Rules in any matter relating to elections;
 - (ix) contesting the election representing a political party or on political lines;
 - (x) any act specified in clauses (i) to (ix), when done by a member, who is not a candidate, but is acting with the concurrence or connivance of a candidate;
 - (xi) the receipt by a member or an agreement by a member to receive any gratification:-
 - (a) as an inducement or reward for standing or not standing as a candidate; or
 - (b) as an inducement or reward for withdrawing his candidature; or
 - (c) as an inducement or reward for himself or any other person for voting or refraining from voting; or
 - (d) as an inducement or reward for inducing or attempting to induce any voter to vote or refrain from voting; or
 - (e) inducing or attempting to induce any candidate to withdraw his candidature;
 - (xii) Contravention or misuse of any of the provisions of these Rules or making of any false statement knowing it to be false or without knowing it to be true, while complying with any of the provisions of these Rules.

CHAPTER VII REGIONAL COUNCILS

134. Elections to the Regional Councils

- (10) Subject to the provisions contained in this Chapter, the provisions regarding election prescribed in Chapter VI of these Regulations shall 'mutatis mutandis' apply to the election to the Regional Councils.



Effective Period

Commencing from the mid night of 2nd September, 2009 i.e. from early hours of 3rd September, 2009 to 5.00 pm on 17th December, 2009.

ELECTION CODE OF CONDUCT

[made under rule 16 of the Chartered Accountants
(Election to the Council) Rules, 2006]

for

Compliance by Candidates and their authorized representatives for Election to the Twenty First Council and Twentieth Regional Councils to be held on 4th and 5th December, 2009.

Effective date: The Election Code of Conduct containing instructions and norms for compliance by candidates and their authorized representatives comes into force from Thursday, the 3rd September, 2009 and shall be in force till the last date for receipt of postal ballots, i.e., 17th December, 2009*.

1. As you may be aware, the Chartered Accountants (Election to the Council) Rules, 2006 has been specified by the Central Government, under the Chartered Accountants Act, 1949. Rule 16 of the said Rules requires the Council of the Institute to approve an Election Code of Conduct, with the view to maintain a healthy and peaceful atmosphere during the election process for ensuring a free and fair election. In accordance with this requirement, the Council of the Institute has approved an Election Code of Conduct for candidates and their authorized representatives for required compliance, which is as follows:
 - (a) Any infrastructure, forum including programmes, by whatever name called, manpower, machinery, facilities, or communication medium – electronic or otherwise, of the Institute, its Regional Councils and Branches shall not be used in any manner whatsoever by any contesting candidate and/or their authorized representatives. While there is no bar for participation in an event/programme organized by the Institute and/or its organs, as an ordinary participant, however, that forum/event shall not be used for publicity/ electioneering in any form whatsoever. This restriction is equally applicable to any Study Circle or Chapters, by whatever name called, within or outside India, which are affiliated to the Institute/its Committees, Regional Councils/their Committees and Branches of the Regional Councils/ their Committees as also Voluntary Associations/ Societies, by whatever name called, which are run, controlled or managed by/for and/or on behalf of Chartered Accountants within or outside India.
 - (b) In the event of any invitation being received, by a candidate, from any other outside agencies such as Industry Associations like CII, FICCI, ASSOCHAM, Chambers of Commerce etc., and Voluntary Bodies like Rotaries, Non Government Organizations etc. for participation in any of their events/programmes etc., in any capacity – professional or otherwise, while there is no bar for participation in such an event/programme, as an ordinary participant, however, that

* As per Election Rules in place, the Election Code of Conduct is required to be in force till the conclusion of counting of votes. However, the Council of the Institute has decided to recommend to the Central Government to keep the said Code in force till the last date for receipt back of postal ballots, i.e. 17th December, 2009. Accordingly, an amendment in the Rules is proposed. Consequently, the said date of 17th December, 2009 is subject to the decision to be taken by the Central Government in due course. All concerned are therefore requested to watch for our further announcement by around the end of October, 2009

- event/forum shall not be used for the purpose of publicity/electioneering in any manner whatsoever.
- (c) The above restrictions shall be applicable not only for any event/programme held within a candidate's own constituency but outside his constituency including overseas events/programmes as well.
- (d) There shall be a ban on erection of stall, distribution/supply of any gift, any refreshment to voters, display of banners, distribution of pamphlets/visiting cards/letters/circulars or any other publicity materials including free distribution of books/calendars/diaries/ handouts and the like during the election days i.e. 4th and 5th December, 2009 inside as well as outside the zero tolerance zone.
- (e) There shall be no supply, at the polling venue, of refreshment(s) to the supporters or volunteers of candidates.
- (f) Organization of parties or even participation in any party or providing any form of entertainment, e.g., musical nights and the like, with the direct and/or indirect involvement of the candidate in any form/manner whatsoever is prohibited. The exception to this prohibition is any function/event/programme organized at own residence or office of the candidate himself.
- (g) Only one manifesto or circular or support seeking appeal shall be issued by a candidate in relation to the election in the period commencing from the date of issue of final list of nominations to the candidates and the same may be repeated only by the candidate in any form including SMS without changing the contents thereof in any manner.
- (h) No contesting candidate shall maintain a separate website as a part of electioneering or for the purpose of election. In other words, website maintained by a Firm/member in practice, in accordance with the relevant Council Guidelines is outside the purview of this Code.
- (i) The newsletters published in any form including electronic mode shall not use the column "Chairman Page/Writes"; and in replacement thereof, the nomenclature "Committee Writes", "Regional Council Writes" / "Managing Committee Writes" as the case may be, shall be used. Alternatively, it may be a column in the name of "Editorial Board". The name(s) of the editor/publisher of the newsletters etc. can however be printed, wherever the same is legally required to be mentioned.
2. It is pertinent to mention here that the said Election Code, in terms of the aforementioned Rule is deemed to be a Guidelines of the Council under Item No. (1) of Part (II) of the Second Schedule to the Chartered Accountants Act and therefore it is obligatory for each candidate for compliance with the Code of Conduct.
3. Besides the aforementioned requirements, Rule 42 of the Chartered Accountants (Election to the Council) Rules, 2006 also places certain restrictions on members of the Institute in connection with the conduct of election. Non-compliance with the provisions of the Rule 42 shall also attract disciplinary action against a member of the Institute, in terms of the provisions of the Chartered Accountants Act, 1949 and the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007.
4. In view of the aforementioned requirements of the statute, candidates, their authorized representatives and members associated with the Election of the Institute are hereby required to ensure that the relevant provisions referred to above are not violated in any manner whatsoever, in their own interest.
- We seek the support and cooperation of all concerned in not only maintaining a healthy and peaceful atmosphere during the election process for ensuring a free and fair election, but also to sustain the image and reputation of the profession in the eyes of the public at large.

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA, NEW DELHI – 110 002

3rd September, 2009

NOTIFICATION
(Chartered Accountants)

No. 54-EL(1)/2/2009: In pursuance of sub-rule (2) of rule 4 of the Chartered Accountants (Election to the Council) Rules, 2006 specified under the Chartered Accountants Act, 1949 read with regulation 134 of the Chartered Accountants Regulations, 1988, The Institute of Chartered Accountants of India is pleased to notify the following important dates relating to the next elections of members to its Council and Regional Councils:

Sl. No.	Stages of Election	Dates Fixed
1.	The last date and time for receipt of nominations	Thursday, the 24.9.2009 – 6.00 p.m.
2.	(i) Date(s) and place of scrutiny of Nominations; and (ii) Last date for scrutiny of nominations	1.10.2009 to 8.10.2009 – (New Delhi)
3.	The last date and time for withdrawal of nominations	19.10.2009 – 6.00 p.m.
4.	The date or dates of polling – (i) Ahmedabad, Bangalore, Chennai, Delhi/New Delhi, Hyderabad, Jaipur, Kolkata, Mumbai and Pune (ii) Other cities/towns	4 th and 5 th December, 2009 5 th December, 2009
5.	The last date for receipt of applications for permission to vote by post under rule 28 of the Chartered Accountants (Election to the Council) Rules, 2006	1.10.2009
6.	The last date and time for receipt by post of ballot papers back	17.12.2009 – 5.00 p.m.
7.	Dates of Counting of Votes – If manual counting is followed If polling is held through Electronic Voting Machine	19.12.2009 to 3.1.2010 19.12.2009 to 24.12.2009 (outer limit)
8.	The date of declaration of results	6.1.2010*

(T. Karthikeyan)
Secretary

* The date to be reckoned for the purpose determining the limitation period for filing election dispute application.



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NOTIFICATION
(Chartered Accountants)

No. 54-EL(1)/3/2009: In pursuance of sub-rule (1) of rule 9 of the Chartered Accountants (Election to the Council) Rules, 2006 specified under the Chartered Accountants Act, 1949 read with Schedule 4 thereto, the Institute of Chartered Accountants of India is pleased to notify that nominations of candidates who desire to stand for election to its Twenty First Council, to be held in December, 2009 should be forwarded in the manner specified in rule 9 of the said Rules (details of which will be found printed in the Nomination Form also) addressed to Shri T. Karthikeyan, Secretary to the Council (by name), at ICAI Bhawan, Indraprastha Marg, New Delhi – 110 002 so as to reach him not later than **6.00 p.m. on 24.9.2009.**

The nomination shall be in the Form approved by the Council of the Institute under sub-rule (3) and in the manner specified in rule 9 of the said Rules. While filing the nominations, candidates should keep in mind the provisions of the Chartered Accountants (Election to the Council) Rules, 2006, particularly those contained in rules 9, 10, 11 and 12 of the said Rules. The nomination forms can be had from the Office of the Institute at ICAI Bhawan, New Delhi as well as from the Regional Offices at Mumbai, Chennai, Kolkata and Kanpur w.e.f. **3rd September, 2009**. The nomination forms will however be accepted by the Secretary to the Council at the above address at New Delhi only, effective from the said date.

The number of persons to be elected from each Regional Constituency is shown below in column (3) against the respective Constituency:

Sl. No.	Number and Name of the Regional Constituency	No. of persons to be Elected
1.	Western India Regional Constituency The States of Goa, Gujarat and Maharashtra and the Union Territories of Dadra & Nagar Haveli and Daman & Diu	11
2.	Southern India Regional Constituency The States of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu and the Union Territories of Lakshadweep and Pondicherry	8
3.	Eastern India Regional Constituency The States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Sikkim, Tripura, West Bengal and the Union Territory of Andaman & Nicobar Islands	3
4.	Central India Regional Constituency The States of Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Rajasthan, Uttaranchal/Uttarakhand and Uttar Pradesh	4
5.	Northern India Regional Constituency The States of Haryana, Himachal Pradesh, Jammu & Kashmir & Punjab and the Union Territories of Chandigarh and Delhi	6

The fee of election and security deposit required to be paid under rules 10 and 11 of the said Rules must be by way of demand draft drawn in favour of the Secretary, The Institute of Chartered Accountants of India, payable at New Delhi.

(T. Karthikeyan)
Secretary



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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA, NEW DELHI – 110 002

3rd September, 2009

NOTIFICATION
(Chartered Accountants)

No. 54-EL(1)/4/2009: In pursuance of sub-rule (1) of rule 9 of the Chartered Accountants (Election to the Council) Rules, 2006 specified under the Chartered Accountants Act, 1949, read with Schedule 4 thereto and sub-regulations (5) and (10) of regulation 134 of the Chartered Accountants Regulations, 1988, the Institute of Chartered Accountants of India is pleased to notify that nominations of candidates who desire to stand for election to its Twentieth Regional Councils, to be held in December, 2009 should be forwarded in the manner specified/prescribed therein (details of which will be found printed in the Nomination Form also) addressed to Shri T. Karthikeyan, Secretary to the Council (by name) at ICAI Bhawan, Indraprastha Marg, New Delhi – 110 002 so as to reach him not later than **6.00 p.m. on 24.9.2009**.

The nomination shall be in the appropriate form (Revised Form "17" of Schedule 'A' to the Chartered Accountants Regulations, 1988) and in the manner prescribed in regulation 134. While filing the nominations, candidates should keep in mind the provisions of the Chartered Accountants (Election to the Council) Rules, 2006, particularly those contained in sub-rules 9, 10, 11 and 12 of the said Rules and the provisions of regulation 134 of the said Regulations. The nomination forms can be had from the Office of the Institute at ICAI Bhawan, New Delhi as well as from the Regional Offices at Mumbai, Chennai, Kolkata and Kanpur w.e.f. **3rd September, 2009**. The nomination forms will however be accepted by the Secretary to the Council at the above address at New Delhi only, effective from the said date.

The number of persons to be elected to each Regional Council is shown below in column (3) against the respective Regional Council :

Sl. No.	Name of the Regional Council	No. of persons to be Elected
1.	Western India Regional Council	22
2.	Southern India Regional Council	15
3.	Eastern India Regional Council	6
4.	Central India Regional Council	9
5.	Northern India Regional Council	12

The fee of election and security deposit required to be paid under regulation 134 of the said Regulations read with rules 10 and 11 of the said Rules must be by way of demand draft drawn in favour of the Secretary, the Institute of Chartered Accountants of India, payable at New Delhi.

For the purpose of elections to the Regional Councils, subject to the provisions contained in Chapter VII of The Chartered Accountants Regulations, 1988, the provisions relating to elections as contained in the Chartered Accountants (Election to the council) Rules, 2006 specified under the Chartered Accountants Act, 1949, shall '*mutatis mutandis*' apply.

(T. Karthikeyan)
Secretary



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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA, NEW DELHI – 110 002

NOTIFICATION
(Chartered Accountants)

No. 54-EL(1)/5/2009: In exercise of the powers conferred by sub-rule (1) of rule 10 of the Chartered Accountants (Election to the Council) Rules, 2006 specified under the Chartered Accountants Act, 1949, The Institute of Chartered Accountants of India has decided that in respect of election to its Twenty First Council to be held in December, 2009, a candidate for election shall pay in all a fee of Rs. 5000/- (Rupees Five Thousand only) for his candidature, irrespective of the number of nominations that may be filed.

The said fee is required to be paid by a demand draft drawn in favour of Secretary, The Institute of Chartered Accountants of India, payable at New Delhi.

(T. Karthikeyan)
Secretary



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NOTIFICATION

(Chartered Accountants)

No. 54-EL(1)/6/2009: In exercise of the powers conferred by sub-regulation (7) of regulation 134 of the Chartered Accountants Regulations, 1988, The Institute of Chartered Accountants of India has decided that in respect of election to its Twentieth Regional Councils to be held in December, 2009, a candidate for election shall pay in all a fee of Rs. 2,500/- (Rupees Two Thousand Five Hundred only) for his candidature, irrespective of the number of nominations that may be filed.

The said fee is required to be paid by a demand draft drawn in favour of Secretary, the Institute of Chartered Accountants of India, payable at New Delhi.

(T. Karthikeyan)
Secretary



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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA, NEW DELHI – 110 002

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NOTIFICATION

(Chartered Accountants)

No. 54-EL(1)/7/2009: In pursuance of sub-rule (1) of rule 11 of the Chartered Accountants (Election to the Council) Rules, 2006 specified under the Chartered Accountants Act, 1949, The Institute of Chartered Accountants of India hereby notifies that in respect of election to its Twenty First Council to be held in December, 2009, a candidate shall pay an amount of Rs. 20,000/- (Rupees Twenty Thousand only) as security deposit, for his candidature, irrespective of the number of nominations that may be filed. The security deposit so paid shall be forfeited, if he fails to secure not less than 2% (two per cent) of the original votes, as defined in rule 35 of the said Rules, polled in the concerned regional constituency.

The said deposit is required to be paid by a demand draft drawn in favour of Secretary, the Institute of Chartered Accountants of India, payable at New Delhi.

(T. Karthikeyan)
Secretary



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NOTIFICATION

(Chartered Accountants)

No. 54-EL(1)/8/2009: In pursuance of sub-rule (1) of rule 11 of the Chartered Accountants (Election to the Council) Rules, 2006 specified under The Chartered Accountants Act, 1949, read with sub-regulation (10) of Regulation 134 of the Chartered Accountants Regulations, 1988, the Institute of Chartered Accountants of India hereby notifies that in respect of election to the Twentieth Regional Councils to be held in December, 2009, a candidate shall pay an amount of Rs. 10,000/- (Rupees Ten Thousand only) as security deposit, for his candidature, irrespective of the number of nominations that may be filed. The security deposit so paid shall be forfeited if he fails to secure not less than 1% (One per cent) of the original votes, as defined in rule 35 of the said Rules, read with Regulation 134(10), polled in the concerned Regional Council.

The said deposit is required to be paid by a demand draft drawn in favour of Secretary, The Institute of Chartered Accountants of India, payable at New Delhi.

(T. Karthikeyan)
Secretary



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NOTIFICATION

(Chartered Accountants)

No.54-EL(1)/9/2009: In pursuance of sub-rule (3) of rule 12 of the Chartered Accountants (Election to the Council) Rules, 2006 specified under The Chartered Accountants Act, 1949 read with regulation 134 of the Chartered Accountants Regulations, 1988, the Council of The Institute of Chartered Accountants of India hereby notifies that the Panel for the scrutiny of nominations for elections to its Twenty First Council and Twentieth Regional Councils to be held in December, 2009, shall be composed of the following:-

1.	Shri T. Karthikeyan Returning Officer and Secretary, The Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, NEW DELHI – 110 002.
2.	Smt. Renuka Kumar, IAS Joint Secretary Ministry of Company Affairs Government of India 5th Floor, A Wing, Shastri Bhawan, Dr. Rajendra Prasad Road, NEW DELHI – 110 001
3.	Shri K. P. Sasidharan, IA & AS Director General (Commercial) Office of the Comptroller & Auditor General of India, 9, Deen Dayal Upadhyay Marg, NEW DELHI-110 002

(T. Karthikeyan)
Secretary



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NOTIFICATION

(Chartered Accountants)

No. 54-EL(1)/10/2009: In pursuance of rules 21 and 29 of The Chartered Accountants (Election to the Council) Rules, 2006 specified under the Chartered Accountants Act, 1949 read with Schedule 6 thereof and sub-regulation (10) of regulation 134 of the Chartered Accountants Regulations, 1988, it is hereby notified that 4th and 5th December, 2009 have been appointed as the dates for the recording of votes for elections to the Twenty First Council and Twentieth Regional Councils of The Institute of Chartered Accountants of India for Ahmedabad, Bangalore, Chennai, Delhi/New Delhi, Hyderabad, Jaipur, Kolkata, Mumbai and Pune. At all other places 5th December, 2009 has been appointed as the date for recording of votes.

All polling booths will remain open from 8.00 a.m. to 8.00 p.m. on the respective date(s).

(T. Karthikeyan)
Secretary



INVITATION TO COMMENT

The Committee on Accounting Standards for Local Bodies of the Institute of Chartered Accountants of India invites comments on any aspect of this Exposure Draft of Accounting Standard for Local Bodies (ASLB) 5, 'Property, Plant and Equipment'. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Committee on Accounting Standards for Local Bodies, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than, **October 31, 2009**. Comments can also be sent by e-mail at caslb@icai.org or caslb@icai.in.

Accounting Standard for Local Bodies (ASLB) 5 Property, Plant and Equipment (Based on corresponding IPSAS 17)

(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objectives and the Preface to the Accounting Standards for Local Bodies¹).

The Accounting Standard for Local Bodies (ASLB) 5, 'Property, Plant and Equipment', issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned². The following is the text of the Accounting Standard for Local bodies.

Objective

1. The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting should apply this

Standard in accounting for property, plant and equipment, except:

(a) When a different accounting treatment has been adopted in accordance with another Accounting Standard for Local Bodies; and

(b) In respect of heritage assets. However, the disclosure requirements of paragraphs 78, 79 and 82 apply to those heritage assets that are recognised.

3. This Standard applies to entities described as local bodies in the Preface to the Accounting Standards for Local Bodies³.

4. This Standard applies to property, plant and equipment including infrastructure assets⁴.

5. This Standard does not apply to:

- (a) Biological assets, i.e., living animals or plants, related to agricultural activity;
- (b) Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources; and
- (c) Natural resources like natural lakes.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in 5(a) to 5(c).

6. Accounting Standards for Local Bodies may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, ASLB on 'Leases'⁵ requires an entity to evaluate its recognition of an item leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard. Guidance on accounting for leases can be found in Accounting Standard (AS) 19, 'Leases' until the ASLB on this subject is formulated.

7. An entity shall apply this Standard to property that is being constructed or developed for future use as investment property but does not yet satisfy the definition of 'investment property' in ASLB on 'Investment Property'⁶. Once the construction or development is complete, the property becomes investment property and the entity is required to apply ASLB on 'Investment Property'. ASLB on 'Investment Property' also applies to investment property that is being redeveloped for continued future use as investment property. An entity using the cost model for investment property in accordance with ASLB on 'Investment Property'

¹ Attention is specifically drawn to paragraph 4.2 of the 'Preface to the Accounting Standards for Local Bodies', according to which Accounting Standards are intended to apply only to items which are material.

² Reference may be made to the paragraph 7.1 of the 'Preface to the Accounting Standards for Local Bodies' providing the discussion on the compliance with the Accounting Standards for Local Bodies.

³ Refer paragraph 1.3 of the 'Preface to the Accounting Standards for Local Bodies'.

⁴ Assets under Service Concession Arrangements are not included. Separate pronouncement is under preparation.

⁵ The Accounting Standard for Local Bodies is under preparation.

⁶ The Accounting Standard for Local Bodies is under preparation.

shall use the cost model in this Standard. Guidance on accounting for investment property can be found in Accounting Standard (AS) 13, 'Investments' until the ASLB on this subject is formulated.

Heritage Assets⁷

8. This Standard does not require an entity to recognise heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant and equipment. If an entity does recognise heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.

9. Some assets are described as 'heritage assets' because of their cultural, environmental or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

- (a) Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
- (b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
- (c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates; and
- (d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years. Entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

10. Some heritage assets have service potential other than their heritage value, for example, an historic building being used for office accommodation or for commercial purposes. In these cases, they may be recognised and measured on the same basis as other items of property, plant and equipment. For other

heritage assets, service potential is limited to their heritage characteristics, for example, monuments and ruins. The existence of alternative service potential can affect the choice of measurement base.

11. The disclosure requirements in paragraphs 78 to 83 require entities to make disclosures about recognised assets. Therefore, entities that recognise heritage assets are required to disclose in respect of those assets such matters as, for example:

- (a) The measurement basis used;
- (b) The depreciation method used, if any;
- (c) The gross carrying amount;
- (d) The accumulated depreciation at the end of the period, if any; and
- (e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Definitions

12. The following terms are used in this Standard with the meanings specified:

Carrying amount (for the purpose of this Standard) is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses⁸.

Class of property, plant and equipment means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid and the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Property, plant and equipment are tangible items that:

- (a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative pur-

poses; and

- (b) Are expected to be used during more than one reporting period.

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is:

- (a) The period over which an asset is expected to be available for use by an entity; or
- (b) The number of production or similar units expected to be obtained from the asset by an entity.

Terms defined in other Accounting Standards for Local Bodies are used in this Standard with the same meaning as in those other Standards.

Recognition

13. The cost of an item of property, plant and equipment should be recognised as an asset if, and only if:

- (a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- (b) The cost or fair value of the item can be measured reliably.

14. Spare parts and servicing equipment are usually carried as inventory and recognised in the statement of income and expenditure as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

15. This standard does not prescribe the unit of measure for recognition, i.e. what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals and small items of equipment, and to apply the criteria to the aggregate value.

16. An entity evaluates under this

⁷ The Accounting Standard on 'Heritage Assets' is under preparation.

⁸ Guidance on accounting for impairment losses on cash generating assets can be found in Accounting Standard (AS) 28, 'Impairment of Assets' until the ASLB on this subject is formulated.

recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it⁹.

Infrastructure Assets

17. Some assets are commonly described as 'infrastructure assets'. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

- (a) They are part of a system or network;
- (b) They are specialised in nature and do not have alternative uses;
- (c) They are immovable; and
- (d) They may be subject to constraints on disposal.

Although ownership of infrastructure assets is not confined to Local Bodies, significant infrastructure assets are frequently found in the Local Bodies. Infrastructure assets meet the definition of property, plant and equipment and should be accounted for in accordance with this Standard. Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.

Initial Costs

18. Items of property, plant and equipment may be required for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognised as an asset because without them the entity is unable to operate the hospital in accordance with the regulations.

Subsequent Costs

19. Under the recognition principle in

paragraph 13, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in the statement of income and expenditure as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

20. Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, or a furnace may require relining after a specified number of hours of use. Items of property, plant and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 14, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs 72 to 77).

21. A condition of continuing to operate an item of property, plant and equipment (for example, a water treatment plant) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Measurement at Recognition

22. An item of property, plant and equipment that qualifies for

recognition as an asset should be measured at its cost.

23. Where an asset is acquired at nil or nominal consideration, its cost should be measured at its fair value as at the date of acquisition.

24. An item of property, plant and equipment may be acquired at nil or nominal consideration. For example, land may be contributed/ transferred to a Local Body by a State Government or a Government agency or a developer at no or nominal consideration, to enable the Local Body to develop parks, roads and paths in the development. An asset may also be acquired at nil or nominal consideration by the exercise of powers of acquisition. Under these circumstances the cost of the item is its fair value as at the date it is acquired.

25. For the purposes of this Standard, the measurement at recognition of an item of property, plant and equipment, acquired at no or nominal cost, at its fair value consistent with the requirements of paragraph 23, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 38, and the supporting commentary in paragraphs 39 to 42, only apply where an entity elects to revalue an item of property, plant and equipment in subsequent reporting periods.

Elements of Cost

26. The cost of an item of property, plant and equipment comprises:

- (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- (c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

27. Examples of directly attributable costs are:

- (a) Costs of employee benefits¹⁰ arising directly from the construction or acquisition of the item of property, plant and equipment;
- (b) Costs of site preparation;

⁹ See paragraph 21

¹⁰ Guidance on accounting for employee benefits can be found in AS 15 (Revised 2005) until the ASLB on this subject is formulated.

- (c) Initial delivery and handling costs;
- (d) Installation and assembly costs;
- (e) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
- (f) Professional fees.

28. An entity applies ASLB on 'Inventories'¹¹, to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. Guidance on accounting for 'Inventories' can be found in Accounting Standard (AS) 2, 'Valuation of Inventories' until the ASLB on this subject is formulated. The obligations for costs accounted for in accordance with ASLB on 'Inventories' and this Standard are recognised and measured in accordance with ASLB on 'Provisions, Contingent Liabilities and Contingent Assets'¹². Guidance on accounting for 'Provisions, Contingent Liabilities and Contingent Assets' can be found in Accounting Standard (AS) 29, 'Provisions, Contingent Liabilities and Contingent Assets' until the ASLB on this subject is formulated.

29. Examples of costs that are not costs of an item of property, plant and equipment are:

- (a) Costs of opening a new facility;
- (b) Costs of introducing a new product or service (including costs of advertising and promotional activities);
- (c) Costs of providing service in a new location or with a new class of users (including costs of staff training); and
- (d) Administration and other general overhead costs.

30. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

- (a) Costs incurred while an item

- capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;
- (b) Initial operating losses, such as those incurred while demand for the item's output builds up; and
- (c) Costs of relocating or reorganising part or all of the entity's operations.

31. Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognised in the statement of income and expenditure, and included in their respective classifications of income and expense.

32. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of operations, the cost of the asset is usually the same as the cost of constructing an asset for sale (see ASLB on 'Inventories'). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. ASLB 4, 'Borrowing Costs', establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.

Measurement of Cost

33. The cost of an item of property, plant and equipment is the cash price equivalent or, for an item referred to in paragraph 23, its fair value at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period

of credit unless such interest is recognised in the carrying amount of any item in accordance with ASLB 4, 'Borrowing Costs'.

34. One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at the fair value of the consideration given. It may be appropriate to consider also the fair value of the asset acquired if this is more clearly evident. An alternative accounting treatment that is sometimes used for an exchange of assets, particularly when the assets exchanged are similar, is to record the asset acquired at the net book value of the assets given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration.

35. The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with ASLB on 'Leases'¹³. Guidance on accounting for 'Leases' can be found in Accounting Standard (AS) 19, 'Leases', until the ASLB on this subject is formulated.

Measurement after Recognition

36. An entity should choose either the cost model in paragraph 37 or the revaluation model in paragraph 38 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Cost Model

37. After recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation Model

38. After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would

¹¹ The Accounting Standard for Local Bodies is under preparation.

¹² The Accounting Standard for Local Bodies is under preparation.

¹³ The Accounting Standard for Local Bodies is under preparation.

be determined using fair value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 45 to 47.

39. The fair value of items of property, plant and equipment is usually determined from market-based evidence by appraisal in a manner set out in the Appendix by a person holding a recognised and relevant professional qualification for valuation. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialised buildings, motor vehicles and many types of plant and equipment.

40. For some assets, it may be difficult to establish their market value because of the absence of market transactions for these assets. Some entities may have significant holdings of such assets. Guidelines for determination of fair value of such assets are given in Appendix.

41. The frequency of revaluations depends upon the changes in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

42. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- (a) Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to its depreciated replacement cost.
- (b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 46 and 47.

43. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued.

44. A class of property, plant and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

- (a) Land;
- (b) Buildings;
 - (i) Commercial buildings such as office complexes, markets; and
 - (ii) Non-commercial buildings such as administrative buildings, community centres, schools, health centres;
- (c) Roads;
- (d) Machinery;
- (e) Electricity transmission networks;
- (f) Pipelines;
- (g) Drains;
- (h) Bridges;
- (i) Motor vehicles;
- (j) Furniture and fixtures; and
- (k) Office equipment.

45. The items within a class of property, plant and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period say the relevant financial year and provided the revaluations are kept up to date.

46. If the carrying amount of a class of assets is increased as a result of a revaluation, the increase should be credited directly to revaluation surplus. However, the increase should be recognised in the statement of income and expenditure to the extent that it reverses a revaluation decrease of the same class of assets previously recognised in statement of income and expenditure.

47. If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease should be recognised in statement of income and expenditure. However, the decrease should be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.

48. Revaluation increases and decreases relating to individual assets within a class of property, plant and equipment must be

offset against one another within that class but must not be offset in respect of assets in different classes.

49. Some or all of the revaluation surplus included in net assets/equity in respect of property, plant and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognised. This may involve transferring some or the whole of the surplus when the assets within the class of property, plant and equipment to which the surplus relates are retired or disposed of. However, some of the surplus may be transferred as the assets are used by the entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through **statement of income and expenditure.**

Depreciation

50. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately.

51. An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges and lighting within a road system.

52. A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

53. To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

54. An entity may choose to

depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

55. The depreciation charge for each period should be recognised in the statement of income and expenditure unless it is included in the carrying amount of another asset.

56. The depreciation charge for a period is usually recognised in **statement of income and expenditure**. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of a concrete mixer used in the construction of a building is included in the cost of the building.

Depreciation Amount and Depreciation Period

57. The depreciable amount of an asset should be allocated on a systematic basis over its useful life.

58. The residual value and the useful life of an asset should be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) should be accounted for as a change in an accounting estimate in accordance with ASLB 2, 'Accounting Policies, Changes in Accounting Estimates and Errors'¹⁴. Guidance on accounting for changes in accounting estimates can be found in Accounting Standard (AS) 5, 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' until Accounting Standard for Local Bodies on the subject is formulated.

59. Depreciation is recognised even if the fair value of the assets exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset does not negate the need to depreciate it. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed and adjusted accordingly.

60. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

61. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

62. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

63. The future economic benefits or service potential embodied in an item of property, plant and equipment are consumed by the entity principally through the use of the asset. However, other factors such as technical or commercial obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits or service potential that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

- (a) Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
- (b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
- (c) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.
- (d) Legal or similar limits on the use of the asset, such as the expiry dates of related leases.

64. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets.

65. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

66. If the cost of land includes the cost of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

Depreciation Method

67. The depreciation method should reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity.

68. The depreciation method applied to an asset should be reviewed at least at each annual reporting date and, if there has been a significant change in the expected pattern of the consumption of the future economic benefits or service potential embodied in the asset, the method should be changed to reflect the changed pattern. Such a change should be accounted for as a change in an accounting estimate in accordance with ASLB 2, 'Accounting Policies, Changes in Accounting Estimates and Errors'¹⁵.

69. A variety of depreciation methods can be used to allocate the deprecia-

¹⁴ The Accounting Standard for Local Bodies is under preparation.

¹⁵ The Accounting Standard for Local Bodies is under preparation.

ble amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

Compensation for Impairment or Losses

70. Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up should be included in statement of income and expenditure when the compensation becomes receivable.

71. Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

- (a) Impairments or losses of items of property, plant and equipment are recognised;
- (b) Derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;
- (c) Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining surplus or deficit when it becomes receivable; and
- (d) The cost of items of property, plant and equipment restored, purchased or constructed as replacement determined in accordance with this Standard.

Derecognition

72. The carrying amount of an item of property, plant and equipment should be derecognised:

- (a) On disposal; or

(b) When no future economic benefits or service potential is expected from its use or disposal.

73. The gain or loss arising from the derecognition of an item of property, plant and equipment should be included in the statement of income and expenditure when the item is derecognised (unless ASLB on 'Leases' requires otherwise on a sale and leaseback). Gains should not be classified as revenue.

74. The disposal of an item of property, plant and equipment may occur in a variety of ways (e.g. by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in ASLB 3, 'Revenue from Exchange Transactions' for recognising revenue from the sale of goods. ASLB on 'Leases' applies to disposal by a sale and leaseback.

75. If, under the recognition principle in paragraph 13, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

76. The gain or loss arising from the derecognition of an item of property, plant and equipment should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

77. The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with ASLB 3 reflecting the effective yield on the receivable.

Disclosure

78. The financial statements should disclose, for each class of property, plant and equipment recognised in the financial statements:

- (a) The measurement bases (i.e.,

cost model or revaluation model) used for determining the gross carrying amount;

- (b) The depreciation methods used;
- (c) The useful lives or the depreciation rates used;
- (d) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- (e) A reconciliation of the carrying amount at the beginning and end of the period showing:
 - (i) Additions;
 - (ii) Disposals;
 - (iii) Acquisitions through entity combinations;
 - (iv) Increases or resulting from revaluations under paragraphs 38, 46 and 47 and from impairment losses (if any) recognised or reversed directly in net assets/equity;
 - (v) Impairment losses recognised in the statement of income and expenditure;
 - (vi) Impairment losses reversed in the statement of income and expenditure;
 - (vii) Depreciation; and
 - (viii) Other changes.

79. The financial statements should also disclose for each class of property, plant and equipment recognised in the financial statements:

- (a) The existence and amounts of restrictions on title, and property, plant and equipment pledged as securities for liabilities;
- (b) The amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;
- (c) The amount of contractual commitments for the acquisition of property, plant and equipment; and
- (d) If it is not disclosed separately on the face of the statement of income and expenditure, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in the statement of income and expenditure.

80. Selection of the depreciation

method and the estimation of the useful life of the assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

- (a) Depreciation, whether recognised in the **statement of income and expenditure** or as a part of the cost of other assets, during a period; and
- (b) Accumulated depreciation at the end of the period.

81. In accordance with ASLB 2 on *'Accounting Policies, Changes in Accounting Estimates and Errors'* an entity discloses nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:

- (a) Residual values;
- (b) The estimated costs of dismantling, removing or restoring items of property, plant and equipment;
- (c) Useful lives; and
- (d) Depreciation methods.

82. If a class of property, plant and equipment is stated at revalued amounts, the following should be disclosed:

- (a) **The effective date of the revaluation;**
- (b) **Whether an independent valuer was involved;**
- (c) **The methods and significant assumptions applied in estimating the assets' fair values;**
- (d) **The extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;**
- (e) **The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners;**
- (f) **The sum of all revaluation surpluses for individual items of property, plant and equipment within that class; and**
- (g) **The sum of all revaluation deficits for individual items of property, plant and equipment within that class.**

83. Users of financial statements may also find the following information relevant to their needs:

- (a) The carrying amount of temporarily idle property, plant and equipment;
- (b) The gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
- (c) The carrying amount of property, plant and equipment retired from active use and held for disposal; and
- (d) When the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

Transitional Provisions

84. An entity that adopts accrual accounting for the first time in accordance with Accounting Standards for Local Bodies should initially recognise property, plant and equipment at cost or fair value. For items of property, plant and equipment that were acquired at no cost, or for a nominal cost, cost is the item's fair value as at the date of acquisition. The same principle will apply for items of property, plant and equipment which exists at the time when accrual accounting is adopted for the first time but recognised in subsequent years after the adoption of accrual accounting for the first time.

85. The entity should recognise the effect of the initial recognition of property, plant and equipment as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the property, plant and equipment is initially recognised.

86. Prior to first application of this Standard, an entity may recognise its property, plant and equipment on a basis other than cost or fair value as defined in this Standard, or may control assets that it has not recognised. This Standard requires entities to initially recognise items of property, plant and equipment at cost or, fair value as at the date of initial recognition in accordance with this Standard. Where assets are initially recognised at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the asset's fair value as at the date of acquisition. Where the cost of acquisition of an asset is not known, its cost may be estimated by reference to its fair

value as at the date of acquisition.

87. When an entity initially recognises an item of property, plant and equipment at cost in accordance with this Standard, it shall also recognise any accumulated depreciation and any accumulated impairment losses that relate to that item, as if it had always applied those accounting policies.

88. When an entity takes advantage of the transitional provisions in paragraphs 84 that fact should be disclosed. When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the assets or classes of asset that were not recognised at the previous reporting date but that are now recognised should be disclosed.

Appendix A Implementation Guidance 1– Determination of Fair Value of Property, Plant and Equipment by Appraisal

This guidance accompanies, but not a part of, ASLB 5.

1. If no evidence is available to determine the market value in an active and liquid market of an item of property, plant and equipment, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location. For example, the fair value of vacant land that has been held for a long period during which time there have been few transactions may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available. In the case of specialised buildings and other man made structures, fair value may be determined by a valuer using depreciated replacement cost, or the restoration cost or service units approaches. In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost. For example, in the event of loss, a building belongs to a Local Body may be reproduced rather than replaced with alternative accommodation because of its significance to the community.

2. If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment, an

entity may need to estimate fair value using, for example, reproduction cost, depreciated replacement cost, or the restoration cost or service units approaches. The depreciated replacement cost of an item of property, plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgment is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued.

Implementation Guidance 2 – Frequency of Revaluation of Property, Plant and Equipment

This guidance accompanies, but is not part of, ASLB 5.

1. Paragraph 38 of ASLB 5 requires entities that adopt the revaluation model to measure its assets at a revaluated amount does not differ significantly from that which would be determined using fair value at the reporting date. Paragraph 41 of ASLB 5 specifies that the frequency of revaluations depends upon the changes in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. The purpose of this guidance is to assist entities that adopt the revaluation model to determine whether carrying amounts differ materially from the fair value as at reporting date.

2. An entity assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, the entity determines the asset's fair value and revalues the asset to that amount.

3. In assessing whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date, an entity considers, as a minimum, the following indications:

External sources of information

(a) Significant changes affecting the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity

operates or in the market to which the asset is dedicated;

- (b) Where market exists for the assets of the entity, market values are different from their carrying amounts;
- (c) During the period, a price index relevant to the asset has undergone a material change;

Internal sources of information

- (d) Evidence is available of obsolescence or physical damage of an asset;
- (e) Significant changes affecting the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. Adverse changes include the asset becoming idle, or plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite. Favourable changes include capital expenditure incurred during the period to improve or enhance an asset in excess of its standard of performance assessed immediately before the expenditure is made; and
- (f) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse or better than expected.

4. The list in paragraph 3 is not exhaustive. An entity may identify other indications that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. The existence of these additional indicators would also indicate that the entity should revalue the asset to its current fair value as at the reporting date.

Implementation Guidance 3 – Illustrative Disclosures

Examples

This guidance accompanies, but is not part of, ASLB 5.

A Local Body controls a wide range of property, plant and equipment and is responsible for replacement and maintenance of the property. The following are extracts from the notes to its Balance Sheet as at 31st March 20X1 and illustrate the principal disclosures required in accordance with this Standard.

Notes

1. Land

(a) Land consists of five thousand hectares at various locations. Land is valued at fair value as

at 31st March 20X1, as determined by an authorised independent valuer.

(b) Restrictions on Titles:

Five hundred hectares of land (carried at Rs. 62 lakh) is designated as public interest land and may not be sold without the approval of the state legislature. Two hundred hectares (carried at Rs. 25 lakh) of the public interest land and a further two thousand hectares (carried at Rs. 250 lakh) of other land are subject to title claims by former owners in jurisdictional High Court and the Court has ordered that the land may not be disposed of until the claim is decided; the Local Body recognises the jurisdiction of the Court to hear these cases.

2. Buildings

- (a) Buildings consist of administrative buildings and commercial buildings at various locations.
- (b) Buildings are initially recognised at cost, but are subject to revaluation to fair value on an ongoing basis. An authorised valuer from a panel of recognised valuers determines fair value. All revaluations within a class of assets is completed within the financial year. Revaluations are kept up to date.
- (c) Depreciation is calculated on a straight-line basis over the useful life of the building. Administrative buildings have a useful life of twenty-five years, and commercial buildings have a useful life of fifteen years.
- (d) The Local Body has entered into five contracts for the construction of new buildings; total contract costs are Rs. 250 lakh.

3. Machinery

- (a) Machinery is measured at cost less depreciation.
- (b) Depreciation is calculated on a straight-line basis over the useful life of the machine.
- (c) The machinery has various useful lives:
Tractors: 20 years
Concrete Mixer: 14 years
Cranes: 15 years
- (d) The Local Body has entered into a contract to replace the cranes it uses to clean and maintain the buildings - the contracted cost is Rs.100 lakh.

4. Furniture and Fixtures

- (a) Furniture and fixtures are measured at cost less depreciation.
- (b) Depreciation is calculated on a straight-line basis over the useful life of the furniture and fixtures.
- (c) All items within this class have a useful life of seven years.

5. Infrastructure Assets

(a) Infrastructure assets are shown at cost less depreciation.

(b) Useful lives of various categories of infrastructure assets:

Flyovers: 25 years

Water supply net work: 30 years

Storm water drains: 25 years

Reconciliations

(Amount in Rs. Lakh)

	Gross Block					Depreciation				Net Block	
	Opening balance	Additions during the year	Disposals	Revaluations (net)	Closing balance	Opening balance	Depreciation during the year	Depreciation written back	Closing balance	At the end of the year	At the beginning of the year
Land	25,000	1,500	100	1,000	27,400	19,150	2,397	12	21,535	5,865	5,850
Buildings	10,000	600	-	200	10,800	5,850	475	-	6,325	4,475	4,150
Plant & Machinery	3,000	150	25	-	3,125	1,250	103	3	1,350	1,775	1,750
Infrastructure assets	65,000	15,000	-	(1,500)	78,500	44,500	1,425	-	45,925	32,575	20,500
Vehicles	150	50	-	-	200	25	20	-	45	155	125
Office equipments	250	30	-	-	280	52	13	-	65	215	198
Other assets	7,500	150	100	-	7,550	4,500	295	45	4,750	2,800	3,000
Total	1,10,900	17,480	225	(300)	1,27,855	75,327	4,728	60	79,995	47,860	35,573

Appendix B

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this appendix is only to bring out the major differences between this Accounting Standard for Local Bodies (ASLB) and the corresponding International Public Sector Accounting Standard (IPSAS) 17, 'Property, Plant and Equipment'.

Comparison with IPSAS 17, 'Property, Plant and Equipment'

Definition

1. IPSAS 17 defines the terms 'Entity Specific Value', 'Exchange Transactions', 'Non-exchange Transactions', 'Impairment Loss of Cash Generating Assets', 'Impairment Loss of Non-cash Generating Assets', 'Recoverable Amount' and 'Recoverable Service Amount'. ASLB 5, 'Property, Plant and Equipment' does not define these terms for the reasons given below:

- (a) 'Entity Specific Value': This term is defined in the context of determining commercial substance of an exchange transaction. The concept of commercial substance is not used in ASLB 5 for measuring fair value of assets acquired in exchange for a non-monetary asset(s) with a view to simplify the requirements in this regard as the accrual accounting in Local Bodies in India is at its inception stage.
- (b) 'Exchange Transactions' and 'Non-exchange Transactions': For accounting for items of property, plant and equipment acquired without incurring any obligation, ASLB 5 uses the terms 'Nil' and 'nominal consideration' in

paragraph 23 in place of the term 'non-exchange transactions'. Accordingly, neither the term 'Non-exchange Transactions' nor the term 'Exchange Transactions' has been used. The aforesaid terms are not used because, these have different connotations in the ASLB 3, 'Revenue from Exchange Transactions'.

- (c) 'Impairment Loss of Non-cash Generating Assets' and 'Recoverable Service Amount': The concept of impairment loss of non-cash generating assets has not been dealt with keeping in view the complexities involved in its application at the very early stage of adoption of accrual basis of accounting in Local Bodies in India.
- (d) 'Impairment Loss of Cash Generating Assets' and 'Recoverable Amount': Since, at present, there is no ASLB on the above subject and reference has been made for guidance to Accounting Standard (AS) 28, 'Impairment of Assets', till formulation of ASLB on this subject, these terms have not been defined in ASLB 5.

Measurement of Cost

2. IPSAS 17 requires to measure a property, plant and equipment acquired in exchange for non-monetary asset(s) or combination of non-monetary asset(s) at fair value unless the exchange transaction lacks commercial substance or the fair value of neither assets received nor the assets given up is reliably measurable. IPSAS 17 gives detailed guidance on when an exchange transaction has

commercial substance. Under the proposed ASLB 5, 'Property, Plant and Equipment', an entity measures such acquired assets at fair value. The standard recognises an alternative accounting treatment that is sometimes used for an exchange of assets, particularly when the assets exchanged are similar, to record the asset acquired at the net book value of the assets given up.

Since the Local Bodies are at early stage of adoption of accrual basis of accounting, it would be difficult for Local Bodies to apply the complexity of determining the exchange transactions that have commercial substance.

Transitional Provisions

3. IPSAS 17 contains a transitional provision providing relief from the requirement to recognize all property, plant and equipment for five years following the date of first adoption of accrual accounting. ASLB 5 does not provide for the same. However, on the lines of other ASLBs, ASLB 5 also requires in the introductory paragraph that the Standard will be recommendatory in nature in initial years for use by local bodies and mandatory for local bodies in a State from the date specified in this regard by the State Government concerned.

Terminology

4. ASLB 5 uses different terminology, in certain instances, from IPSAS 17. For example, the use of the term 'statement of income and expenditure' in ASLB 5. The equivalent terms in IPSAS 17 are 'surplus or deficit' and/or 'statement of financial performance', because in India, the Local Bodies do not, at present, use these terms. ■

INVITATION TO COMMENT

The Committee on Accounting Standards for Local Bodies of the Institute of Chartered Accountants of India invites comments on any aspect of this Exposure Draft of Accounting Standard for Local Bodies (ASLB) 6, 'Events After the Reporting Date'. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Committee on Accounting Standards for Local Bodies, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi - 110 002, so as to be received not later than, **October 31, 2009**. Comments can also be sent by e-mail at caslb@icai.org or caslb@icai.in.

Accounting Standard for Local Bodies (ASLB) 6 Events After the Reporting Date (Based on corresponding IPSAS 14)

(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objectives and the Preface to the Accounting Standards for Local Bodies¹).

The Accounting Standard for Local Bodies (ASLB) 6, 'Events After the Reporting Date', issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned².

The following is the text of the Accounting Standard for Local Bodies.

Objective

1. The objective of this Standard is to prescribe:

- When an entity should adjust its financial statements for events after the reporting date; and
- The disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting date.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting date indicate that the going concern assumption is not appropriate.

Scope

2. An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in the accounting for, and disclosure

of, events after the reporting date.

3. This Standard applies to the entities described as Local Bodies in the Preface to the Accounting Standards for Local Bodies³.

Definitions

4. The following terms are used in this Standard with the meanings specified:

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and**
- Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).**

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

Terms defined in other Accounting Standards for Local Bodies are used in this Standard with the same meaning as in those other Standards.

Authorising the Financial Statements for Issue

5. In order to determine which events satisfy the definition of events after the reporting date, it is necessary to identify both the reporting date and the date on which the financial statements are authorised for issue. The reporting date is the last day of the reporting period to which the financial statements relate. The date of authorisation for issue is the date on which the financial statements have received approval from the individual or body with the authority to finalise those statements for issue.

6. The process involved in preparing and authorising the financial statements for issue may vary for different types of entities within and across jurisdictions. It can depend upon the nature of the entity, the governing body structure, the statutory requirements relating to that entity and the procedures followed in preparing and finalising the financial statements. In some cases, the governing body of an entity is required to issue its financial statements to a standing committee for approval. In such cases, the financial statements are authorised to issue when the governing body authorises them for issue to the standing committee.

Example

On 18th March, 20X9, the governing body of an entity authorises financial statements for issue to its

¹ Attention is specifically drawn to paragraph 4.2 of the 'Preface to the Accounting Standards for Local Bodies', according to which Accounting Standards are intended to apply only to items which are material.

² Reference may be made to the paragraph 7.1 of the 'Preface to the Accounting Standards for Local Bodies' providing the discussion on the compliance with the Accounting Standards for Local Bodies.

³ Refer paragraph 1.3 of the 'Preface to the Accounting Standards for Local Bodies'.

standing committee. The standing committee approves the financial statements on 26th March, 20X9. The financial statements then filed with the State Government on 17th May, 20X9.

The financial statements authorised for issue on 18th March, 20X9 (date of governing body's authorisation for issue to the standing committee).

Recognition and Measurement

7. In the period between the reporting date and the date of authorisation for issue, elected government including local body may announce its intentions in relation to certain matters. Whether or not these announced government intentions would require recognition as adjusting events would depend upon whether they provide more information about the conditions existing at reporting date and whether there is sufficient evidence that they can and will be fulfilled. In most cases, the announcement of government intentions will not lead to the recognition of adjusting events. Instead, they would generally qualify for disclosure as non-adjusting events.

Adjusting Events After the Reporting Date

8. An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting date.

9. The following are examples of adjusting events after the reporting date that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

- (a) The settlement after the reporting date of a court case that confirms that the entity had a present obligation at the reporting date. The entity adjusts any previously recognised provision related to this court case in accordance with proposed ASLB on 'Provisions, Contingent Liabilities and Contingent Assets'⁴ or recognises a new provision. Guidance for accounting on 'Provisions, Contingent Liabilities and Contingent Assets' can be found in Accounting Standard (AS) 29, 'Provisions, Contingent Liabilities and Contingent Assets' until the ASLB on this subject is formulated. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with relevant paragraph of the Accounting

Standard for Local Bodies on 'Provisions, Contingent Liabilities and Contingent Assets'.

- (b) The receipt of information after the reporting date indicating that an asset was impaired at the reporting date, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:
- (i) the insolvency of a debtor which occurs after the reporting date may often confirm that a doubt of recovery existed at the reporting date on a receivable account and that the entity needs to adjust the carrying amount of the receivable account; and
- (ii) the sale of inventories after the reporting date may give evidence about their net realisable value (NRV) at the reporting date;
- (c) The determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date;
- (d) The determination after the reporting date of the amount of revenue collected during the reporting period to be shared with another entity under a revenue sharing agreement in place during the reporting period;
- (e) The determination after the reporting date of performance bonus payments to be made to staff if the entity had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date; and
- (f) The discovery of fraud or errors that show that the financial statements were incorrect.

Non-adjusting Events After the Reporting Date

10. An entity should not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date.

11. The following are examples of non-adjusting events after the reporting date:

- (a) The insolvency of a debtor which occurs after the reporting date where no condition existed at the reporting date in respect of that debtor and, the entity does not adjust the carrying amount of the receivable amount. For example,

insolvency of the debtor occurred due to his premises and other assets destroyed in fire after the reporting date.

- (b) Where an entity has adopted a policy of regularly revaluing property to fair value, a decline in the fair value of property between the reporting date and the date when the financial statements are authorised. The fall in fair value does not normally relate to the condition of the property at the reporting date, but reflects circumstances that have arisen in the following period. Therefore, despite its policy of regularly revaluing, an entity would not adjust the amounts recognised in its financial statements for the properties. Similarly, the entity does not update the amounts disclosed for the property as at the reporting date, although it may need to give additional disclosure under paragraph 27; and
- (c) Where an entity charged with operating particular community service programmes decides after the reporting date, but before the financial statements are authorised, to provide/distribute additional benefits directly or indirectly to participants in those programmes. The entity would not adjust the expenses recognised in its financial statements in the current reporting period, although the additional benefits may meet the conditions for disclosure as non-adjusting events under paragraph 27.

Dividends or Similar Distributions

12. If an entity declares dividends or similar distributions after the reporting date, the entity shall not recognise those distributions as a liability at the reporting date.

13. Dividends may arise in the local body when, for example, a local body controls and consolidates the financial statements of a transport undertaking that has outside ownership interests to whom it pays dividends. In addition, some local bodies adopt a financial management framework, for example 'public private partnership' models, that require them to pay income distributions to their controlling entity, such as the state government.

14. If dividends or similar distributions to owners are declared (i.e. the dividends or similar distributions are appropriately authorised and no longer at the discretion of the entity) after the reporting date but before the financial

⁴ The ASLB on 'Provisions, Contingent Liabilities and Contingent Assets' is under preparation.

statements are authorised for issue, the dividends or similar distributions are not recognised as a liability at the reporting date because they do not meet the criteria of a present obligation in the proposed ASLB on *'Provisions, Contingent Liabilities and Contingent Assets'*. Such dividends or similar distributions are disclosed in the notes in accordance with the proposed ASLB 1, *'Presentation of Financial Statements'*⁵. Dividends and similar distributions do not include a return of capital.

Going Concern

15. The determination of whether the going concern assumption is appropriate needs to be considered by each reporting entity. However, the assessment of going concern is likely to be of more relevance for individual entities than for a local body as a whole. For example, an individual entity e.g., transport undertaking may not be a going concern because the local body of which it forms part has decided to transfer all its activities to another entity. However, this restructuring has no impact upon the assessment of going concern for the local body itself.

16. An entity should not prepare its financial statements on a going concern basis if those responsible for the preparation of the financial statements or the governing body determine after the reporting date either that there is an intention to liquidate the entity or to cease operating, or that there is no realistic alternative but to do so.

17. In assessing whether the going concern assumption is appropriate for an individual entity, those responsible for the preparation of the financial statements, and/or the governing body, need to consider a wide range of factors. Those factors will include the current and expected performance of the entity, any announced and potential restructuring of organisational units, the likelihood of continued government funding and, if necessary, potential sources of replacement funding.

18. In the case of entities whose operations are substantially budget-funded, going concern issues generally only arise if the government announces its intention to cease funding the entity.

19. Some entities, may be required to be fully or substantially self-funding, and to recover the cost of goods and services from users. For any such entity, deterioration in operating

results and financial position after the reporting date may indicate a need to consider whether the going concern assumption is still appropriate.

20. If the going concern assumption is no longer appropriate, this Standard requires an entity to reflect this in its financial statements. The impact of such a change will depend upon the particular circumstances of the entity, for example, whether operations are to be transferred to another entity, sold or liquidated. Judgment is required in determining whether a change in the carrying value of assets and liabilities is required.

21. When the going concern assumption is no longer appropriate, it is also necessary to consider whether the change in circumstances leads to the creation of additional liabilities or triggers clauses in debt contracts leading to the reclassification of certain debts as current liabilities.

22. Accounting Standard for Local Bodies (ASLB) 1, *'Presentation of Financial Statements'* requires certain disclosures if:

- (a) The financial statements are not prepared on a going concern basis. ASLB 1 requires that when the financial statements are not prepared on a going concern basis, this must be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered to be a going concern; or
- (b) Those responsible for the preparation of the financial statements are aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting date. Proposed ASLB 1 requires such uncertainties to be disclosed.

Restructuring

23. Where a restructuring announced after the reporting date meets the definition of a non-adjustable event, the appropriate disclosures are made in accordance with this Standard. Guidance on the recognition of provisions associated with restructuring can be found in proposed ASLB on *'Provisions, Contingent Liabilities and Contingent Assets'*. Simply because a restructuring involves the disposal of a component of an entity this does not in itself bring into question the entity's ability to continue as a going concern. However, where a

restructuring announced after the reporting date means that an entity is no longer a going concern, the nature and amount of assets and liabilities recognised may change.

Disclosure

Disclosure of Date of Authorisation
24. An entity should disclose the date when the financial statements were authorised and who gave that authorisation.

25. It is important for users to know when the financial statements were authorised for issue, as the financial statements do not reflect events after this date.

Updating Disclosure about Conditions at the Reporting Date

26. If an entity receives information after the reporting date, but before the financial statements are authorised, about conditions that existed at the reporting date, the entity shall update disclosures that relate to these conditions, in the light of the new information.

27. In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the reporting date but before the financial statements are authorised, even when the information does not affect the amounts that the entity recognises in its financial statements. One example of the need to update disclosures is when evidence becomes available after the reporting date about a contingent liability that existed at the reporting date. In addition to considering whether it should now recognise a provision an entity up-dates its disclosures about the contingent liability in the light of that evidence.

Disclosure of Non-adjusting Events After the Reporting Date

28. If non-adjusting events after the reporting date are material non disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity should disclose the following for each material category of non-adjusting event after the reporting date:

- (a) The nature of the event; and
- (b) An estimate of its financial effect, or a statement that such an estimate cannot be made.

29. The following are examples of non-adjusting events after the reporting date that would generally result in disclosure:

⁵ ASLB 1, *'Presentation of Financial Statements'* is under preparation.

- (a) An unusually large decline in the value of property carried at fair value, where that decline is unrelated to the condition of the property at reporting date, but is due to circumstances that have arisen since reporting date;
- (b) The entity decides after reporting date, to provide/distribute substantial additional benefits in the future directly or indirectly to participants in community service programmes that it operates, and those additional benefits have a major impact on the entity;
- (c) An acquisition or disposal of a major controlled entity or the outsourcing of all or substantially all of the activities currently undertaken by an entity after the reporting date;
- (d) Announcing a plan to discontinue an operation or major programme, disposing of assets or settling liabilities attributable to a discontinued operation or major programme, or entering into binding agreements to sell such assets or settle such liabilities;
- (e) Major purchases and disposals of assets;
- (f) The destruction of a major building by a fire after the reporting date;
- (g) Announcing, or commencing the implementation of, a major restructuring;
- (h) The introduction of legislation to forgive loans made to entities or individuals as part of a programme;
- (i) Abnormally large changes after the reporting date in asset prices or foreign exchange rates;
- (j) In the case of entities that are liable for income tax or income tax equivalents, changes in tax rates or tax laws enacted or announced after the reporting date that have a significant effect on current and deferred tax assets and liabilities;
- (k) Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the reporting date; and
- (l) Commencing major litigation arising solely out of events that occurred after the reporting date.

Annexure – A

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this appendix is only to bring out the major differences between this Accounting Standard for Local Bodies (ASLB) and the corresponding International Public Sector Accounting Standard (IPSAS) 14, 'Events After the Reporting Date'.

Comparison with IPSAS 14, 'Events After the Reporting Date'

1. Authorising the Financial Statements for issue
 - (i) IPSAS 14 includes the events occurring between the reporting date and the date when the financial statements are authorised for issue, even if those events occur after the publication of an announcement of the surplus or deficit, the authorisation of the financial statements of a controlled entity or publication of other selected information relating to the financial statements. ASLB 6

presumes that the publication of an announcement of the surplus or deficit, the authorisation of the financial statements of a controlled entity or publication of other selected information relating to the financial statements are made only after the date when the financial statements are authorised for issue.

- (ii) IPSAS 14 contains additional commentary in its paragraph 7 on responsibility for authorizing the financial statements. ASLB 6 does not provide this commentary in view of the fact that the responsibility for authorisation of financial statements may differ in each state or local body and is not relevant so far local bodies in India are concerned.
 - (iii) IPSAS 14 contains additional commentary in its paragraph 8 on determining the date of authorisation of the financial statements for issue which are finally to be authorised for issue by another body and also this body may have the power to require changes in the audited financial statements. ASLB 6 does not provide the same in view of the fact that ordinarily no such power to require changes in the audited financial statements is there in India so far local bodies are concerned.
2. IPSAS 14 contains additional commentary in its paragraph 27 on rare circumstances in which any persons or organisations have the authority to amend the financial statements after issuance. ASLB 6 does not provide this commentary presuming that no such requirements are applicable to local bodies in India.

Classifieds

4741	Lucknow based FCA seeks professional work on subcontract/ retainership/assignment basis. Email: mukand_ca@yahoo.co.in. Call: 9415001285.
4742	CA seeking - Indian firms having US GAAP-Tax-Payroll-FAS109-SAS70-SOX work. Contact: Rajiv at 9818949504, ifrs2usgaap-ca@yahoo.com
4743	FCA, DISA with office in Delhi wishes to join reputed CA firm on long term partnership/retainership/contractual terms. Contact: jaimataki2009@rediff.com
4744	Required Chartered Accountants on partnership/assignment/retainership/ subcontract/employment basis, semi-qualified and articulated assistants (for the state of Jammu & Kashmir)/ Northern States. Apply box: 4744 C/o Journal Section, The Institute of Chartered Accountants of India, ICAI Bhawan, C-1, Sector-1, Noida-201 301.

HEALTH TIPS



Herbs for "Soul healing"

- A tree is known by its fruit; a man by his deeds. A good deed is never lost; he who sows courtesy reaps friendship, and he who plants **kindness** gathers love.
- **Each moment** of the life has its own beauty a picture which was never before and shall never be seen again

Contributed by
CA R. S. Agrawal, Mumbai
He can be reached at rsagrawal@icai.org

Nature's gift to human being:

Ashwagandha (Winter Cherry)	Shatavari (Asparagus)	Brahmi (Bacopa)
<ul style="list-style-type: none"> • It suppress pains of any sort as it eradicates vata that initiates pain; therefore good results in vata dominant disorders like rheumatoid arthritis (ama-vata), Osteoarthritis (sandhi-gata-vata), gout (vata-rakta), sciatica (backache) etc; • Being anti-inflammatory reduces swelling and restores blood supply; • It also heals wounds and injuries; • It helps in nurturing nervous system; • It relieves stress, promotes calmness and mental satisfaction; • Nourishes brain and improves mental concentration; • Increases muscular endurance and helps in building up of stamina; • Prevents early aging and rejuvenates whole body to provide youth; • Powerful immune booster that helps in fighting any foreign invasion in the body ; • It also has antioxidant properties that avoid symptoms of early aging; • It also helps in increasing sperm count and also the quality of sperms; • Its properties also suppress kapha; • It relieves tension; • Provide strength to heart muscles and keeps heart working normal; • Helpful in treating urinary tract infections (UTI); • Wonderfully increases physical endurance after a long illness like tuberculosis; 	<ul style="list-style-type: none"> • It helps in balancing the female hormonal system and normalizes hormonal secretion; • It cleanses the blood. • It nourishes the womb and ovum and prepares the female organs for pregnancy; • It prevents threatened miscarriage; • It treats PMS symptoms just by relieving pain and controlling blood loss; • It aids in proper lactation for nursing mothers; • It relieves the menopausal symptoms such as hot flashes by producing estrogens, it makes up for low estrogen levels in women who are in menopausal or have had hysterectomies (removal of uterus) or oophorectomies (removal of ovaries); • It increases the white blood count; • It contains essentials of vitamin-B, calcium and zinc; • Highly beneficial in amenorrhea, dysmenorrheal, leucorrhea and other pelvic disorders; 	<ul style="list-style-type: none"> • A classic brain and nerve tonic that improves intelligence level, alertness, mental performance, maintains mental calmness, increases learning capacity, consciousness, mental clarity and mental concentration level; sharpens short-term and long-term memory, relieves stress; • Effective in Attention Deficit Disorder (ADD) and Attention Deficit Hyperactivity Disorder (ADHD); • Rejuvenating nerve and brain cells; • It increases protein synthesis and activity in brain cells; • It calms restlessness in children and cures several mental disorders; • Good effects on insomnia cases; • Decreases anxiety and mental fatigue and promotes freshness in mind; • Very effective in depression related problems; • It helps in lowering blood pressure. • Maintains normal body temperature thus relieving body from hyperthermia and fevers; • Also effective in treating menstrual disorders and painful menses; • It works as an antioxidant and retards aging thus keep the person young and youthful; • It is anticancer; • It also help in treating all types of epilepsy, bronchitis, chronic cough, asthma, hoarseness, arthritis, rheumatism, backache, fluid retention, blood, fevers, cleanser, constipation, hair loss, digestive problems, chronic skin conditions like eczema, psoriasis, abscess and ulceration. • Its actual literal meaning "Godlike" in the honor of "Brahma" the "Creator"
<ul style="list-style-type: none"> • Caution: Ashwagandha is not recommended for persons suffering from high BP even though it is good stress reliever. 	<ul style="list-style-type: none"> • Caution: Even when herbs do not cause side effects, it is very much important to know how our body will respond to any such elements. 	<ul style="list-style-type: none"> • Caution: To date, no side effects have been reported however women who are pregnant or nursing are advised to consult with a physician
<ul style="list-style-type: none"> • Effect on Tridoshas-Ashwagandha balances Vata and Kapha doshas. 	<ul style="list-style-type: none"> • Effect on Tridoshas- Shatavari balances Pita dosha. 	<ul style="list-style-type: none"> • Effect on Tridoshas- Brahmi balances all the tridoshas i.e. Kapha, Vata and Pita but mainly Kapha and Vata.



Ashwagandha (Winter Cherry)



Shatavari (Asparagus)

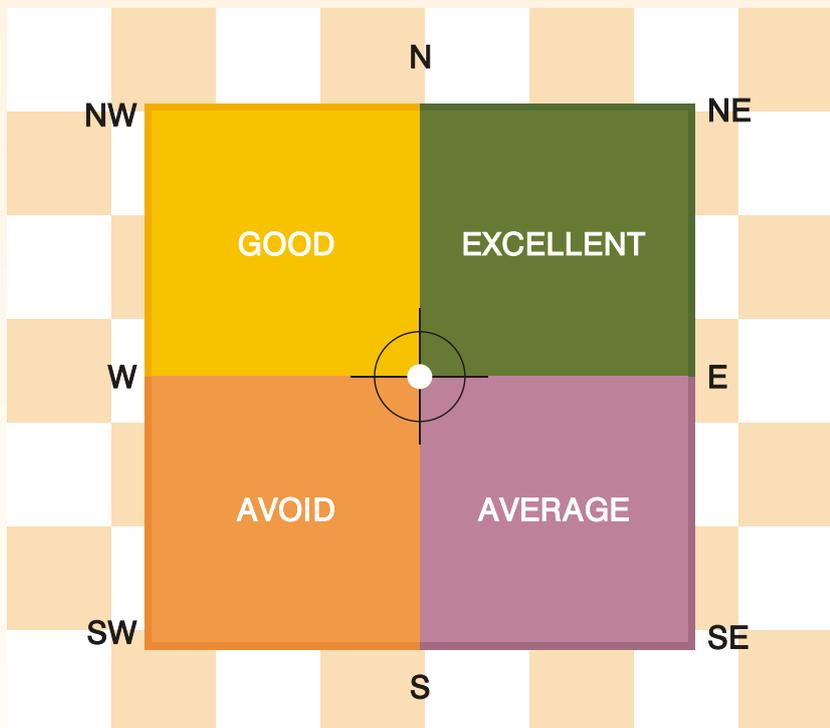


Brahmi (Bacopa)

Disclaimer:

The above information have been taken from the reliable sources, still the author is not liable for any loss or damage that may be caused directly or indirectly by the above information. A physician is always recommended for any remedy.

Placement of Study Room



Kashyap Nitin Pathak

The author is a Vastu expert.

He can be reached at kash3001@rediffmail.com

The sages who were the creators of all occult sciences like Vastu Shastra and Astrology, in their respective verses have mentioned five things which are predefined. They believed that God has not given these five things in our hands. These are: *Janma* (Birth), *Maran* (Death), *Paran* (Marriage or Spouse), *Vidya* (Education or Knowledge), *Lakshmi* (Wealth). It would be bold for me to say but I would not like people to take this statement as a hundred percent conclusive. Education is one thing which will also depend on your determination, surrounding circumstances, opportunities, personal skills, traits, interests and will power. Though I cannot deny the fact that based on my experience, finally it may be a matter of destiny too.

Skill and education are two things which are called hidden wealth which no one can take away from you. Someone can take away your wealth from you but not your skills or talents. Some individuals are born with it, and some develop it or

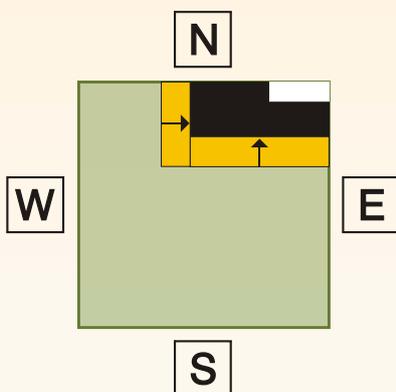
polish their talent with the help of training. The STUDY ROOM will have some bearing on your concentration, thinking, mental peace and grasping capacity.

Study Room

In this science of directions there is a big debate about the placement of study room because we will encounter two issues. The first is placement of the room and second the direction one should face while in the room. The North East or *Eeshanya* corner of the house is ruled by the planet Jupiter. Jupiter is the lord of knowledge and good wisdom. A study room in this area is best. But if your room is placed here which direction should you face while reading? If you can face the North or East then the placement and facing both would be correct.

The other argument: A lot of Vastu practitioners suggest that the placement should be in the West or South West direction. The logic to this is that if the room is so placed then your facing direction would

be East or North East. The most ideal and beneficial would be the first case. In my observation students who had study corners in the West in spite of facing the correct direction felt lazy and tired. They could not put in long hours of study, also they had to work harder than other students. Success in education will also depend on your birth horoscope. Please understand the figure given aside carefully for a complete understanding of study area.



The area in yellow and black denotes the total region covered for the study room. The yellow indicates the placement of your study table and the arrows denote the direction in which you should sit. The white denotes the space where you can keep all your study material including laptops or desk-top if any used for study purposes.

Colours of the wall

Your surrounding will influence you and your energy while studying. The colours best suited for a study room are white, light green and light yellow. White signifies the moon, light green signifies the planet mercury and light yellow signifies the planet Jupiter. Colours also have an impact on your temperament. Black, maroon, red, dark brown will make you short of temperament and you will get angry easily. While calm mind can better absorb everything one reads.

The study room should be adequately ventilated to ensure smooth flow of air. Oxygen is life and doing some breathing exercises like *pranayam* in the morning will help students to grasp things better. Sitting posture should be as straight as possible to avoid discomfort and back problems in the future. Studying in the bed in a sleeping posture is one thing which should be completely stopped.

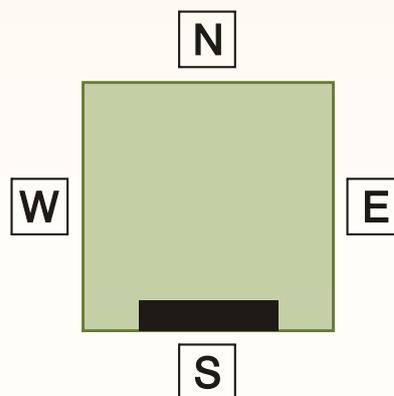


The sleeping posture in yoga is for relaxation of the mind and body. In this posture your concentration cannot be at the peak.

The Septic Tank

The septic tank is heaviest and is usually at a higher level than the ground. The South is a direction meant for bearing heavy load. Loading other directions will obstruct the free flow of energy as per *vastu*. The North and East regions should never be blocked

with extreme heavy things above the ground. In case you cannot revise your placement of the septic tank then you will need to strengthen the direction blocked by this heavy weight. Plastic tanks are suitable ideally with white colour. Septic tank seems to be a small issue, but if kept in the incorrect direction then can have a lot of adverse effects. In the North it obstructs flow of money. In the East it will affect health of people and make the environment of the house dull and without zest. In the West it can cause mental disorders, excess negative thinking, heaviness on the heart and a feeling of unhappiness.



THIS MONTH FOR YOU

(based on Tarot Card reading)



Puja Mathur
The contributor is
Tarot Card reader.
She can be reached at
pujatarot@yahoo.com

BEST DAY for Money: 9,15,16,26

DIVINE HELP: Take the right decision at the right time. Use lot of light blue colour.

ARIES

Manage your finances appropriately. Short journey is there with loved ones. There are chances to buy properties. Be caring towards the seniors in the family. This month enhances your creativity to excel in life. Pay more attention to your health.



TAURUS *DIVINE HELP: All hurdles will vanish and you will rise with victory.*

BEST DAY for Money: 8,9,10,16,19



This month you will have lot of opportunities regarding money, career and love. Avoid taking blind decisions. Your work will be appreciated this month. Your efforts will be rewarded appropriately.

DIVINE HELP: Keep lot of faith and have patience. **GEMINI**

Regarding money matters go through all the details and take advice from a knowledgeable person. Feel the strength and apply the same in your work. Please overcome your negative emotions regarding relationships. Try to balance with harmony and peace in your heart.



CANCER *DIVINE HELP: This Diwali you will go for a short spiritual trip. You will feel blessed with mercy.*

BEST DAY for Money: 8,9,12,13,26,27



All the relationship issues which were coming and going and irritated you will now be stable and bring happiness to you. New opportunities regarding career will be available for you. Pay extra attention to legal issues.

BEST DAY for Money: 6,7,15,16,26,27

DIVINE HELP: Have patience and faith in your efforts to materialize.

LEO

You are working hard towards achieving your goal and you are utilizing all your skills to manifest the same. Things are coming your way so accept everything open-heartedly. Try and accept new relationships with your colleagues.



VIRGO *DIVINE HELP: Believe in your inner vision. Before taking any decision listen to your conscience.*

BEST DAY for Money: 4,5,16,17,27,28



Regarding your work don't take abrupt decisions. Whatever new work you are doing acquire all information about it. Avoid arguments at your work place. Don't lend money to anyone. Take care of your health.

BEST DAY for Money: 14,16,19,20,27

DIVINE HELP: Move from your past mistakes and move ahead in your life.

LIBRA

You have been a spendthrift in the past. This Diwali you will have to be careful regarding your finances. Curtail your expenses and save for a rainy day. You will receive a nice gift from your elderly family members.



SCORPIO *DIVINE HELP: You are heading towards progress.*

BEST DAY for Money: 6,8,9,10,11,16



You feel you are always burdened with excess work. This is the preferable time for you to enjoy. Move with your heart. You are still waiting for your destined goal to be accomplished. Lots of opportunities regarding work are coming your way.

BEST DAY for Money: 6,7,8,9,14,15

DIVINE HELP: Open yourself to alternative pathways. **SAGITTARIUS**

Think twice before going on a journey. You may face some difficulties. Don't hand over your responsibility to others. While purchasing any property go through every minute detail. Do some charity this month to overcome your property issues.



CAPRICORN *DIVINE HELP: This is not the right time to take major decisions.*

BEST DAY for Money: 1,2,8,9,10,11,16,17,19



You have over enjoyed in the past so this month your money is on the standing mode. Be careful about your expenses. This is a coming and going phase for money which will not remain for long. Your efforts will be justified.

BEST DAY for Money: 1,2,8,9,16,17,29 *DIVINE HELP: You will break the vicious circle of negativity and move towards positivity.* **AQUARIUS**

Lots of new and lucrative opportunities regarding your work will be there. You are going to enjoy a good outing with your family. Finance related projects will be beneficial. You will enjoy bonding with your colleagues.



PISCES *DIVINE HELP: Overcome your past issue and see a new aspect of your life.*

BEST DAY for Money: 1,2,3,4,8,9



You will start a new venture. You are going to have enough money to fulfil all your needs. Don't try to be very diplomatic. Whatever is happening around you will be beneficial for you.

"DISCLAIMER: The views expressed or implied in this feature are those of the author and not of the ICAI, which will not be responsible for any action taken on the basis of this feature."

CROSS

WORD 040

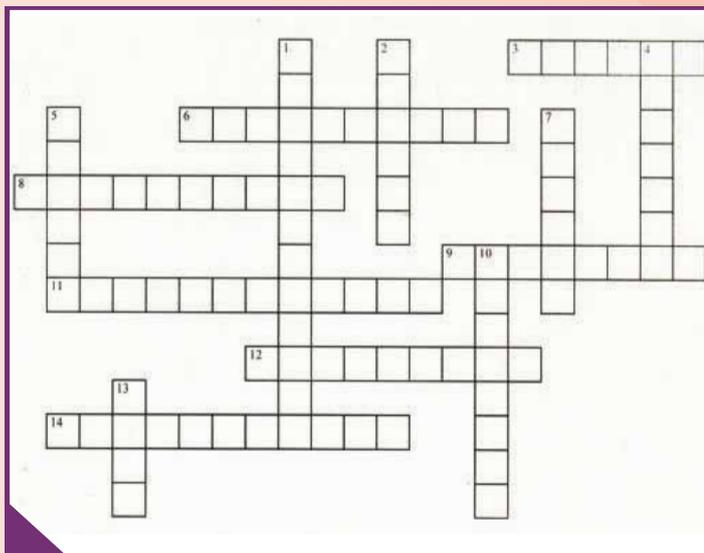
ACROSS

- This model should be used to analyze the factors in the macro-environment that affect the viability of any proposed project/business.
- _____ Agreement is entered into in case of carve-outs where only part of the company is carved out and transferred under the transaction. (10)
- The basic accounting _____ include cost, matching, full disclosure, etc. (10)
- As per recent notification if CENVAT credit has been taken or _____ wrongly, the same along with the interest shall be recovered. (8)
- The systematic allocation of the cost of equipment and buildings used in a business from the balance sheet to the income statement over the useful life of the asset. (12)
- The declaration and payment of dividends is reported in the _____ activities section of the statement of cash flows. (9)
- World Congress of Accountants is scheduled to be held at _____ next year. (5,6)

DOWN

- In the case of two acceptable alternatives, this guideline directs the accountant to select the alternative that result in less profit and less asset (or more liability). (12)
- Recently one of the ITT Lab was inaugurated at _____. (6)
- Insurance premiums that had been in advance but have expired in the current period should be reported in the current period as Insurance _____. (7)
- The income statement and the statement of cash flows report amounts covering a _____ of time. (6)
- The accounting equation remains in balance because of _____ entry accounting. (6)
- _____ rights are contractual obligations used to protect a minority shareholders. (3,5)
- Investing activities include cash inflows from the _____ of investments. (4)

Note: Members can claim one hour CPE Credit - Unstructured Learning through self-declaration for attempting above Crossword.



SOLUTION Crossword

039



Please

1

A man and a little boy entered a barbershop together. After the man received the haircut and shave - he placed the boy in the chair. "I'm going to buy a green tie to wear for the parade," he said. "I'll be back in a few minutes."

When the boy's haircut was completed and the man still hadn't returned, the barber said, "Looks like your father forgotten all about you."

"He wasn't my daddy," said the boy. "He just walked up, took me by the hand and said, 'Come on, son, we're going to get a free haircut!'"

2

As a passenger ship passed a small island, a bearded man could be seen shouting and furiously waving his arms.

"Who is that?" a passenger asked the captain.

"I have no idea," the captain replied, "But every year when we pass he goes mad like this."