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***Towards a Corruption Free Society
- Role of Chartered Accountants***



President's Communication

Dear Students,

At the outset, I wish to extend my heartiest wishes to all of you for your forthcoming CA Examinations which is scheduled to be held in November, 2010. I am confident that your strenuous and persistent efforts will lead you along the path of crowning glory and soaring success. This is one of the most important examinations of your professional career so remember not to get entangled in the web of overconfidence. Concentrate on your studies and develop an integrated approach to deal with practical problems.

We at the Institute are actively engrossed in strengthening and revamping the examination pattern where the students would have to be more analytical. In order to meet the requirements of contemporary professional world, it has been decided to revise the structure of question papers for the PCE, IPCE and Final (old and new course) examinations from November, 2010 examination onwards. Under this pattern, there will be one question compulsory, among other questions; one choice will be provided uniformly in all the papers. In addition, in one of the questions, one internal choice may be provided as far as possible. I hope this revise structure will be very helpful for our students to tackle the examinations in a comprehensive manner.

It is our earnest endeavour to impart quality world class professional education; hence, Institute's Board of

studies is all set to launch the most awaited coaching classes for the CA students through **Virtual Classrooms**. At the initial stages test series will be conducted in this month and from November 2010 onwards virtual classes will be in full swing. After the introduction of **Virtual Classrooms**, the students pursuing CA course even in the remotest corner of country may be brought into the main stream of learning and knowledge.

I would also like to extol Board of Studies for organizing Campus Placement Programme for selection of Articled Assistants in a grand style. We received overwhelming support from Chartered Accounting Firms of repute in making this programme a thumping success. I do hope that this trend will remain continue and the CA firms will render their support in full vigour and enthusiasm in future too. I exhort our students to avail such opportunities to widen their professional horizons.

I am very glad to know that the present issue of the Students' Journal has its impetus on theme entitled '*Corruption Free India*'. At the present scenario, the theme is quite relevant and meaningful. Our Accounting Profession is all about **Honesty, Integrity, Transparency and Ethical Practices**. On the occasion of 141st birth anniversary of *Mahatma Gandhi*, let's swear an oath to redeem our country from the menace of burgeoning corruption.

Wishing you a very happy Vijaya Dashmi.

Yours sincerely,

CA. Amarjit Chopra

President, ICAI, New Delhi



Vice-president's Communication

Dear Students,

I take this opportunity to convey my best wishes for your ensuing November 2010 examinations. This is high time for you to gear up for your respective examinations. You are

expected to sharpen your technical and analytical skills to tackle the examination successfully. Follow a systematic and well-planned time table for your regular studies. Develop a practical approach to solve the problems rather depend upon cramming the notes. You should know the fact that the CA examinations aim to test the application of the theory in a real life like situation. Hence, the standard of CA examination is very high and at par with professional courses of international repute.

I am sure that your Articleship training will enable you to apply theory into practice in a competent manner. You can derive benefits of the views and interviews of the students who performed exceedingly well in the previous examinations. It can be a benchmark for you to chart out your study plan. Our Board of Studies is very proactive to facilitate you to prepare systematically for your respective examinations. I strongly recommend you to refer to the Institute's study materials. A deep and thorough study of Practice Manual and Compilation of Suggested Answers will help you to understand the difficulty level and pattern of examination. Similarly, the Summary of Examiners' Comments may be instrumental

in identifying the common pitfalls committed by the students while attempting the questions. I think it is the best way to learn from the mistakes of others. Also try to attempt a self examination/assessment test based upon previous examination question papers or model test papers. Such a strategy will be very beneficial in building an environment of self-confidence and elevate your morale. By doing this you may be able to hone your strong points and improve upon weak points.

I am highly delighted to know that the theme of this month's CA Students Journal is based upon 'Corruption Free-India'. This theme becomes more befitting on the occasion of Gandhi Jayanti to mark 141st birth anniversary of the Father of our Nation, Mahatma Gandhi as he preached and practiced lessons of Truth throughout his life. Corruption is now a global problem and very common in both developed and developing countries. To eradicate corruption in all its form and practice, our accounting profession can play a pivotal role. We have the onus of providing steadfast and transparent information, both in the public and private sectors. We are considered as the eyes and ears of management. I do hope that you will also promote transparency and fairness in your professional practices.

With best wishes for Vijaya Dashmi.

Yours sincerely,

CA. G. Ramaswamy

Vice-President, ICAI, New Delhi



Message From The Chairman, Board of Studies

Choose Your Career carefully

Dear Students,

The profession of chartered accountants provides various options for a very bright and successful career path. To ensure success, it may be very important for each one of you to choose your career very carefully. Please do not accept whatever comes to you as your fate. The success in life will surely come only if we are determined. **You need to have bigger dreams and unless you dream you cannot achieve.** We need not worry about the failures in our life. What is important is a sincere trial and participation. It is important to remember that

"If you run a lions' race and even if you lose, you are still a lion"

"If you run a rats' race and even if you win, you are still a rat"

The almighty will give you the right result at the right time. Carefully consider the following aspects :

- **Area of Interest**

You need to take a decision about areas of your interest, which may be management, strategy, finance, taxation, corporate laws, accounting, auditing or information technology. Each area will provide further deeper specialisation in specific aspects. You may choose more than one option. This would really mean that you will give more emphasis on area chosen but you need to keep yourself fully abreast and updated with respect to other areas also.

- **Develop a Specialist in you**

You need to carefully develop a specialist in you by acquiring in-depth knowledge, undertaking deeper study, having practical outlook and a committed focus on the area of your interest. You need to take it as a challenge to ensure that no one else knows it better than you. It is also very important to fully keep a track of the latest developments and undertake deeper research. For this, you need to regularly attend conferences, workshop, and training, courses. The focus needs constant review based on the changing environment.

- **Choose a Proper Path**

You may decide to join an industry as an employee or alternatively work with a practicing CA firm or may opt to be self-employed as a practitioner. For all these, it is important to have active participation in various professional activities. Regular updation and excellent delivery in the area of your expertise will enable you to gain strength to be on the right path.

- **Entrepreneurship**

You may also choose to be an entrepreneur after completing your chartered accountancy course. Here

your training-both theoretical and practical - would come handy as you would have already learnt practical aspects of business processes and you would have a sound theoretical knowledge of important aspects of business. Remember to keep an entrepreneurial attitude so that you can slowly move to the position of Chief Executive Officer or may take up to manage business of other investors.

- **Track Business Environment**

It is important to regularly keep track of business environment by participating in various national and international conferences organised by the Institute as well as by various trade bodies and regulators. A regular study of at least one business news paper (Economic Times, Business Standard, Financial Express or Business line), at least one business magazine (Business World, Business Today, and Business India), and finance and management magazine (Harvard Business Review, The Chartered Accountant World, the Economist or the Time) is must for keeping yourself updated. All relevant website are also to be tracked.

- **Practical Training**

The period of practical training of 3 years is most important to shape up your career. Do not over-concentrate only on study of relevant books and study material but also take your practical training seriously and sincerely. This opportunity will not come back and any lack of devotion will not only adversely affect your performance in the examination but your career growth as well.

- **Sincerity**

Be sincere in all your jobs how so ever small it may be. Do not hesitate to undertake assignments which may not be in the area of your interest, as those assignments may actually take you to the right direction of your area of interest as long as you keep your focus and determination.

- **Key to success:**

The following attributes are most important:

- Long term vision
- Sincere, directed and well stratagised hard work
- Discipline
- Firm commitment

You need to plan your move, effectively and efficiently as Bhagwan Shri Krishna has said in Bhagwat Geeta:

"KARMANYE VADHIKARASTE, MA PHALESHU KADACHANA"

With Best Wishes

Yours sincerely,

CA. Vinod Jain

Email : chairmanbos@icai.org

INTERVIEW

We have asked a set of questions to Raghav Aggarwal, the 3rd rank holder of CA Final (New Course) Examination held in May 2010. The questions and his responses are included in these pages.



Raghav Aggarwal

Sri Ganganagar, 3rd Rank, CA Final, May 2010

Q. How do you feel being third rank holder in the final examinations? How do you visualise your success?

A. There is a famous dialogue from a Hollywood flick 'I love it when a plan comes together'. In CA exam, nobody can plan to get a predetermined rank but can prepare for targeted marks (obviously practically visualised). So, I feel happy to be able to achieve it.

Q. How did you prepare for the examinations? What were the various component of your plan?

A. It was basically the pre-thought out plan which has come to my forte. The first study of all the 8 subjects took 6 months. The first revision took around 4 months during which I used to give mock tests of old papers in exam simulated conditions and I was elated to see that my marks in real exams were 5-10% higher than my mock tests in all subjects barring ISCA.

Q. Do you regret not being first in the examinations. Do you think you could have done something more to be first.

A. I gave my best. It was first and second rank holders who did better than me. Nothing can be taken away from them. So, no qualms about that.

Q. What are your views on the articleship training? What way the training has helped you in your learning and examinations?

A. It is immensely useful in the papers of auditing, DT, IDT. For other papers, its impact is not so direct as other subject deal with diverse topics and no CA firm can offer all those fields in one bouquet. But nothing can be compared to articleship when it comes to learning experience as it hones all types of skills required to face the real world after exams.

Q. Please tell us about the contribution of study materials, students' newsletter, suggested answers and revision test papers in your success.

A. If there is one thing which I think I did different from the mob, it was these ICAI publications. I used to visit ICAI.org on daily basis. The updation of study material, RTP, updated case laws were all necessary, to the extent that I took no coaching at all.

Q. How have your family members and friends have contributed to your success?

A. In the wee hours of preparations specially their support came handy. Timely scheduled, entertainment in my break time and providing solace at the time of frustations were all helpful.

Q. Why did you choose CA as a career? Having passed the examinations what prospects you see for yourself?

A. Watching my father practising as a C.A. from the childhood intrigued me with the kind of respect he gets and that fuelled the urge to become a C.A. I want to join him in practice now.

Q. What challenges are being faced by a chartered accountant today? How do you intend to overcome them?

A. There are different set of problems in big and small cities. I would like to draw some difficulties in small towns. There is dearth of applications of AS etc., which make the work very subjective, and proper delegation becomes all the more difficult, which curb growth opportunities in the long run.

Q. Do you think that the present students of chartered accountancy lack in general management and communication skills? What should they do to improve these skills?

A. Up to an extent yes. The 3 months course on GMCS should be made compulsory.

Q. What advice you would like to give to the other chartered accountancy students?

A. Just put consistent efforts, do not divert towards coaching necessarily by mob following and do the articleship sincerely.



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Tackling Corruption: The Chartered Accountants' Way

*Nidhi Singh

This is the "decree" or "mandate" of heaven. If the emperor or king, having fallen into selfishness and corruption, fails to see to the welfare of the people, heaven withdraws its mandate and invests it in another. The only way to know that the mandate has passed is the overthrow of the king or emperor; if usurpation succeeds, then the mandate has passed to another, but if it fails, then the mandate still resides with the king.

The Chou, 1050-256 BC, China

The King shall protect trade routes from harassment by courtiers, state officials, thieves and frontier guards . . . [and] frontier officers shall make good what is lost. . . Just as it is impossible not to taste honey or poison that one may find at the tip of one's tongue, so it is impossible for one dealing with government funds not to taste, at least a little bit, of the King's wealth.

The Arthashastra, Kautilya, chief minister to the king in India, circa 300 BC-AD 150

In a state where corruption abounds, laws must be very numerous.

Publius Cornelius Tacitus, Roman historian, circa AD 56-177

Corruption is a social epidemic spread over different countries throughout history and across the globe. Literature dating back to thousands of years also documents the presence of corruption. Corruption has no shape. It manifests itself in a variety of ways, continuously morphing into new forms. It ranges from misuse of position of trust for a personal gain to bending of rules and regulations and also to turning a blind eye to acts which are

morally and socially unacceptable to the society. The main forms of corruption can be bribery, embezzlement, fraud, scams, extortion or broadly "some act that is against the law". It also includes severe deficiencies in corporate integrity systems, such as conflicts of interest between major stakeholders; inadequate transparency and accountability on the part of important markets, market players and oversight mechanisms; and serious lapses in corporate due diligence, governance and integrity.



It is not confined to individual or organisational level but is a global phenomenon in both developed and developing

countries. It cuts across borders. It has no face. Despite rules and regulations, various checks and awareness programmes, corruption is still prevalent. For instance corruption scandals erupted in countries like Belgium, United Kingdom, Japan, Italy, Russia and Spain only a few years back. Not long ago, allegations of corruption surfaced affecting the governments in both developed and developing countries like Australia, Bolivia, Brazil, Bulgaria, France, Haiti, India, Malaysia, Paraguay, South Africa, and the USA. In Brazil, the corruption scandal forced the president to resign. In Italy, several political leaders and officials holding high positions in government were forced to submit resignation amidst allegations of their links to the Mafia while in Japan the prime minister was discredited and removed from office. This shows that no country and no system are immune from corrupt practices. Scandals and scams have toppled many Governments and made companies bankrupt.

* The author is Assistant Secretary, ICAI.

Bribery is the highest form of corruption. The figures indicating the amount paid in terms of bribery is staggering. In developing countries alone, corrupt politicians and government officials have received bribes believed to be in the range of US\$ 20 to US\$ 40 billion annually. Corruption allows companies and countries to disregard the law without paying heed to the consequences. Financial resources meant for developmental purposes get diverted in the form of kickbacks and bribes for unproductive usage. Hence the consequences range from water shortages in Spain, exploitative work conditions in China or illegal logging in Indonesia to unsafe medicines in Nigeria and poorly constructed buildings in Turkey. Even payments which companies make to "get things done" are found to have harmful consequences, as they help nurture and sustain corrupt bureaucracies, political parties and governments.

The impact of corruption on business and society cuts at the roots of development and progress. It channelises resources from productive to unproductive sectors and divides the gap between the rich and the poor. It weakens the fundamentals of institutions and diverts wealth to the undeserving. The ill consequences of corruption are mammoth from increase in risks and costs to business, damaging of investor confidence in markets, curbing of economic development to reduction of foreign direct investment. It also forces investors to form joint ventures with local companies. According to a recent study conducted by World Bank, forming of joint ventures may discourage high technology firms from investing overseas since businesses with more complex outputs want to retain full control over production processes.

In order to examine what companies are currently doing to manage the risk of corruption and the steps they can consider to protect themselves in a better manner in the future, one of the consultancy firms conducted a global survey and interviews with senior executives and anti-corruption experts. The results of the survey indicated that the businesses are more keenly aware than ever of the dangers of corruption since many companies are losing real and significant business opportunities because of corruption risks. An increasing number of

companies recognised their vulnerability to corruption and the benefits of effective anti-corruption programmes and controls. Despite being aware of corruption, many companies' underlying policies and controls currently did little to identify and mitigate risk due to poor design or implementation. Therefore, companies need to expand the scope and rigor of their efforts to manage corruption risks with well-designed controls that are clearly communicated and enforced throughout the organisation.

Role of Chartered Accountants in Combating Corruption

Chartered accountants work in different capacities in the society. Their role ranges from being auditors, accountants, and internal auditors, accountants working in the academic world to consultants or business advisors in the fields of national and international taxation, information systems, corporate law, project management, corporate finance, etc. Due to the vital and diverse nature of work performed by chartered accountants, they have a significant role to play in combating corruption.

They can ensure that the transactions carried out in the organisations are valid, legitimate and recorded properly according to

the recognised and acceptable accounting standards. Since they are bound by rigorous codes of professional and personal ethics which calls for the highest levels of integrity and objectivity; therefore, they have a moral responsibility to protect the interest of the society. As they hold key positions within an organisation - whether in an internal capacity or external capacity - they have access to highly privileged and confidential information. As both the accountants and auditors perform their respective functions on the bases of established national and international standards of practice which lay down clear guidelines in identifying indicators of fraud and other irregularities, therefore, they are in a position to report these to the highest levels of authority.

The responsibility of chartered accountants who are working in the capacity of an internal auditor is broader in scope as they are concerned with activities covering every aspect of a business. The

Importance of Practical Training

It is easier to remember a concept when you learn it by doing. Chartered Accountancy is a unique learning scheme in which a student gets exposure to practical activities and learns by doing the intricacies involved in various fields.

very definition of internal auditing specifies the role and importance of chartered accountants as an auditor. Internal Auditing is defined as "An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." Since auditors understand the operations of a business very thoroughly, therefore, they can help the management in identifying risks and controlling the weak areas. They have a higher responsibility since their work is also referred by the independent auditors and other external parties. The very nature of work performed by the internal auditors and their critical position in an organisation provides them with an opportunity to influence the top management on practising good corporate governance. Thus they can ensure that the organisations are being proactive in developing policies against corruption and making efforts in preventing and tackling it.

In the wake of the recent accounting scandals and scams worldwide and also due to the companies being more aware of perils of corruption demand for the forensic accountants have grown up. This has opened up yet another area of opportunity for the Chartered Accountants. The forensic accountants search for frauds and criminal transactions in banks, corporate entities or from any other organisation's financial records. They look out for conclusive evidences. As forensic accountants, they can also help clients to develop anti-corruption policies and procedures, whistle blowing systems and internal control procedures, all of which would help the companies to mitigate the risks of fraud and corruption in their business processes.

A lot of deliberation is doing the rounds regarding good "Corporate Governance" practices to be followed by organisations as a measure to tackle or reduce corruption. A recent study examined the relationship between financial accounting information, corporate control mechanisms and corruption. Also it investigated the governance role of financial accounting information as the direct and indirect use of externally reported financial accounting data in control mechanisms. According to a study, corporate control mechanisms were among the most effective tools to reduce the incidences of corruption because they promoted

values such as accountability, transparency, fairness and responsibility. As a result, in this current age when more focus is being placed on good governance practices and sound risk management, both the accounting and audit professionals have an important role to play in preventing, detecting and reporting on corruption. Since these highly trained professionals are bound by very high standards of performance and conduct, therefore, they are looked upon with reverence and high amount of trust is placed on them from all quarters of the society.

It is believed that if the professional accountants adhere to their code of ethics which is based on the three fundamental values i.e. expertise, integrity and transparency, they would be able to play a more pivotal role in eradicating corruption. The first principle i.e. Expertise implies knowledge and experience and, consequently, permanent education. It is an essential parameter for rendering of professional services. The second principle is "Integrity". It is a platform where word and action meet. To have integrity is to honor commitments, to promise that which one truly proposes to do and to do what one promises. The last principle is "Transparency". It means if transparency exists, corruption will not be possible. Since corruption is one of the major hurdles to development and growth of any entity and accountants have a larger role to play in cutting it at the grass root level, therefore, their commitment can be aptly summarised as "If the accounting profession is committed to development, then it should commit itself to combat corruption".

In the end it can only be said that corruption requires a multifaceted attack. It requires, for example, a set of regulations against corrupt practices, a code of conduct for employees and vendors, awareness raising campaigns, training of staff, internal control systems, sanctions and incentives for anti corruption measures, protection policy for whistleblowers, an open approach towards information reporting, commitment and involvement of all agencies involved, employees, customers, external service providers, in brief, all citizens of the society. Since corruption affects one and all, therefore, everyone is morally obligated and duty-bound to fight corruption. Eventually, it is the responsibility of each and every individual to contribute to anti-corruption efforts. We all should resolve to commit ourselves towards contributing however little to the cause of the anti corruption.

How Chartered Accountants Can Fight Corruption

*Sumeet S Baruka



Introduction

Corruption is a serious disease and occurs in every economy, in every corner of the world. No country is free of corruption. There can be various reasons viz., competition, inflation, desire for luxury, etc. Now, more than ever before, it has become evident that it is one of the world's greatest challenges due to its detrimental consequences. Many things have been said about its effects on the overall development of a country. No doubt, it hampers economic growth by various means such as deterring investment and raising transaction costs and uncertainty. Although it may be difficult to describe, corruption is generally not difficult to recognize. In regard to corporate world; corruption is a dishonest activity in which a director, executive, manager, employee or contractor of an entity acts contrary to the interests of the entity and abuses his position of trust in order to achieve some personal gain or advantage for himself or for another person or entity. Cases of corruption are unveiled more and more frequently even though most of them don't take place in broad daylight. According to World Bank report (2007), corruption is a 1 trillion-dollar industry around the world, thus combating corruption becomes one of the most important issues in the 21st century. Since corruption is a multidimensional phenomenon, caused by several factors, the solution cannot be simple and the fight must be pursued on many fronts. The major emphasis should be put on prevention, review, reporting, and control through various means; where the role of Chartered Accountants comes into picture. Businesses should work against corruption, in all its forms, including extortion and bribery.



Responsibility of Management

Top management has the ultimate responsibility for preventing and fighting corruption because it establishes the financial reporting framework. Directors and managers are the ones who define the corporate culture. Yet, they often sign shady contracts, ignoring the negative implications.

Practically, it is impossible for management to uncover all errors and irregularities. The difficulties to monitor managers and the information asymmetry between principal and agents add up to the problem. Furthermore, what the board can do is limited because it is not engaged on a full-time basis and relies on the internal and external auditors for the necessary information.

Large bribery cases often involve top management. In order to conceal or delay the bad news, managers try to manipulate financial reports. Hence to control such management, audit of their acts in such capacity is required. A Chartered Accountant plays very important role in combating corruption by bringing in light the corrupt activities of management through reporting.

Importance of Financial Accounting Information

Financial accounting information can be defined as 'the product of corporate accounting and external reporting systems that measure and publicly disclose audited, quantitative data concerning the financial position and performance of publicly held firms' (Bushman & Smith, 2001). Thus, financial accounting is the fundamental

* The author is a student of ICAI (Reg.No.WRO0310916)

source of independently certified information about the performance of executives. Indeed, financial accounting systems provide valuable information to corporate control mechanisms that help to alleviate the agency problem which results from the separation of managers and financiers.

Financial reporting has gradually become a highly complex activity that is of considerable interest to many persons throughout modern industrial society. While in past it was a relatively simple practice, primarily attracting the interest of small groups of industrialists and financiers.

Financial reports play an important role in the economic life not only in the decisions of investors but also in contributing to the allocation of capital. It helps in analysing the performance and feasibility of various business units and recognising the strategic business units (SBU's) within the organisation and also helps in determining the related future decisions.

Role Played by a Chartered Accountant

A Chartered Accountant aims to make this century an age of corporate integrity. A wave of corporate scandals in recent years has eroded public's confidence in corporate entities. Thus, the need for improved financial accounting and reporting and for higher levels of transparency in the development of the world's financial markets has become urgent.

Audit is an important mechanism to prevent fraudulent reporting. A Chartered Accountant in his capacity of statutory auditor plays an important role in reporting. Auditors, especially internal auditors have a broad understanding of business operations because they are present year-round. They have a hawk eye view on management and from that position they can play a significant role in checking organization's corrupt activities. They establish control mechanisms that prevent and detect the flaws in the organization. Equally, external auditors can discourage managers and accountants from falsifying financial statements and at the same time, they, by checking the internal control system, can contribute to the enhancement of the firm's regulations. The perceived high level

of confidence both in financial reporting and in the ability of auditors to provide safeguards to shareholders and the effective board accountability help in reducing corruption.

Corporate governance, as an antidote to corruption, has been attracting a lot of attention and debate lately. A Chartered Accountant critically examines the relevant literature that investigates the governance role of financial accounting information as the direct and indirect use of externally reported financial accounting data in control mechanisms. Specifically, he focuses on the role of accounting data in prevalent control mechanisms (primarily in executive compensation contracts) and the underlying causes that led to the shift of contracts towards option awards.

The use of transparent financial accounting information in corporate control mechanisms through proper guidance of and review by a Chartered Accountant enhances the effectiveness of the governance process which in turn prevents corruption.

Corporate control mechanisms are among the most effective tools to reduce the incidences of corruption, from its supply side, because they promote values such as accountability, transparency, fairness and responsibility. These mechanisms are fundamental for the enhancement of the operation of securities' markets which in the dubious environment of the 21st century seek relevant and reliable information based on transparent financial statements.

A Chartered Accountant deals not only with the internal government of an organisation such as the relation between the board of directors and management but also with its relation to its suppliers, to its consumers, to its business partners, and to the government. The illegal flow of capital from the private sector to the pockets of government is definitely restrained.

The separation of ownership and control in organizations created problems regarding the stewardship of enterprises. The principal-agent problem or agency problem in the modern corporation and mainly the fact that managers have often different motives from the owners explains

Prioritization

Prioritizing what needs to be done is especially important. Without it, you may work very hard, but you won't be achieving the results you desire because what you are working on is not of strategic importance.

the point why firms get involved in corrupt practices undertaking great risks. For example, undertaking a public project by bribing public officials may increase the compensations for the manager, but the firms may be held criminally liable for the bribery involvement for the years to come and the shareholders are forced to bear such a risk.

Along with above referred problems a Chartered Accountant also considers the potential existence of “complex interactions between incentive contracts written on objective performance measures and features of organizational design such as promotion ladders, allocation of decision rights, task allocation, divisional interdependencies, and subjective performance evaluation”

The Sarbanes-Oxley Act; the Companies (Auditor’s Report) Order, 2003 (CARO) has changed substantially the roles and responsibilities of corporate managers, directors, and both external and internal auditors. We all understood the important role of auditors after Enron collapse and WorldCom Inc.’s bankruptcy. Following these, the public has come to believe that corporate executives are more interested in “lining their own golden parachutes” than in looking out for the interests of their stakeholders.

CARO, section 227 (1A), section 227(2), section 227 (3) and many other provisions of Companies Act, requires the auditor to go in proprietary of business and transactions entered on behalf of the entity. By getting into propriety of business a Chartered Accountant can thoroughly scrutinize the need of transaction, its validity and the amount involved is as per the requirement or more than it is involved because of some fraudulent or immoral intentions. A Chartered Accountant prevents the management from window dressing its accounts or creating secret reserve as management have some depraved views in such activities.

Olken (2005) conducted a field experiment in which he randomly increased the probability of auditing the funds of Indonesian local governments in World Bank – financed projects. He found that credible threats to increase the probability of audits did reduce corruption. Criminal charges were

seldom filed following the audits. Instead, corrupt local officials faced social and political costs. Thus increasing the likelihood of audits by a Chartered Accountant (or a person with similar recognition in other countries) reduced corruption in local governments and organisations in many instances.

Accurate recording, classification and reporting of transactions in financial statements, full compliance with disclosure standards and annual external audit lead to quality information and a strong external reporting system. Corporate managers who are engaged in bribery practices often face a more difficult task of hiding the bribe payments from the shareholders when the accounting practices are of high standard and the entity is subject to audit by a Chartered Accountant. In India appointment of

government companies’ auditor by Comptroller and Auditor General (C&AG) and further review by him and power to conduct supplementary audit serves the purpose of moral check of the employees thereby reducing chances of corruption.

Conclusion

With the passage of time, corruption has increased by leaps and bounds. Being a social evil, corruption affects on the overall development of a country by hampering the economic growth. Experience strongly suggests that combating corruption requires

an indirect approach that starts with its root causes. A Chartered Accountant creates an environment which helps in curbing the corrupt activities from its root level.

The system of audit / review by a Chartered Accountant makes it harder to conceal corruption because it uproots all the facts based on which decisions were made and transactions were carried on by the entity and their propriety. Since corruption is a multidimensional phenomenon, the solution cannot be simple and the fight must be pursued on many fronts with the enforcement of audit mechanisms by a Chartered Accountant being the key.

Last but not the least, a Chartered Accountant thinks beyond just accounting numbers by looking at the result of the firm’s performance and he focuses on its potential use in eradicating corruption.

Goal Setting

To start managing time effectively, you need to set goals. When you know where you are going, you can then figure out what exactly needs to be done, in what order. Without proper goal setting, you will fritter your time away on a confusion of conflicting priorities.

Clubbing of Minor's Income – Some Issues

*Sudeep Goyal

Since the inception of taxation, the taxation of minor has been a controversial subject. Although after 1992-93 when the new law came into the force, the role of minor in tax has reduced significantly. However, some intricate issues still persist. E.g.

- a) Clubbing of a minor u/s 64(1A)
- b) Signing of return of minor u/s 140

The above issues are examined in the following cases

- (i) If both parent die and minor is living with grand parents.
- (ii) If one parent dies and other has remarried and minor is living with the remarried parent.
- (iii) If one parent dies and other has remarried and minor is living with grand parents.
- (iv) The minor is of unsound mind or the minor has self earned income from personal skills
- (v) Both the parents of the minor are alive and their marriage subsist but the minor is living with his uncle.

Section 64(1A) of Income Tax Act, 1961 provides

In computing the total income of any individual, there shall be included all such income as arises or accrues to his minor child not being a minor child suffering from any disability of the nature specified in section 80U:

Provided that nothing contained in this sub-section shall apply in respect of such income as arises or accrues to the minor child on account of any –

- (a) Manual work done by him; or

- (b) Activity involving application of his skill, talent or specialised knowledge and experience.

Explanation: For the purposes of this sub-section, the income of the minor child shall be included,

- (a) Where the marriage of his parents subsists, in the income of that parent whose total income (excluding the income includible under this sub-section) is greater; or

The income of the minor will be clubbed with that parent whose income is greater. It may be an un-equitable situation but tax laws and equity are strangers.

- (b) Where the marriage of his parents does not subsist, in the income of that parent who maintains the minor child in the previous year, and where any such income is once included in the total income of either parent, any such income arising in any succeeding year shall not be included in the total income of the other parent, unless the Assessing Officer is satisfied, after giving that

parent an opportunity of being heard, that it is necessary so to do.

Therefore, normally the income of a minor is clubbed with parent whose income is higher.

Now regarding the intricate cases my views are as under

Case 1: If both parents die and minor is living with grand parents – As both the parents of the minor have expired it is impossible to club the income in any parent. This does not mean income of minor will not be taxed anywhere. Such interpretation would result into an impasse and therefore it should be interpreted in a way to give effect to the scheme of the Act. This is called the

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rule of “Purposive Construction” [*LIC of India v/s Retd. LIC officers association (2008) 3SCC 321–SCJ*].

It is also very clear that income cannot be included in the hands of grand parent as the section prescribes the clubbing of income only in the hands of father and mother. Therefore applying the rule of “Purposive Construction” we have to see the object behind the same. In this case the object was to prevent tax avoidance by artificial incomes of minors. Keeping all this in mind it can be justifiably said that in such case the minor will be liable to pay tax on his own income and the same will not be clubbed in any other person.

Case 2: If one parent dies and other has remarried and minor is living with the remarried parent –

In this case as there is only one parent alive and minor lives with him the income will be clubbed with that parent. It is also supported by explanation in Section 64 (1A) which provides that if the marriage of the parents does not subsist, the income will be clubbed of the parent who maintains the minor child.

Case 3: If one parent dies and other has remarried and minor is living with grand parents – The situation in this case is slightly different from case no. 2 as the minor is not living with the surviving parent.

Therefore, the condition of clubbing with surviving parent is not fulfilled. Hence, the income of the minor will not be clubbed under the surviving parent. Therefore applying the same logic as in case no. 1, the law cannot result into impasse, therefore the minor will be liable to pay tax on his own income and it will not be clubbed with any other person.

Case 4: The minor is of unsound mind or the minor has self earned income from personal skills

– As it very clear from the above section that if the minor is having any disability u/s 80U or the minor has some self earned income from his personal skills then the provisions of Section 64(1A) are not applicable. Hence the income of such minor will not be clubbed under any parent and the minor will be liable to pay tax on his own income.

Case 5: Both the parents of the minor are alive and their marriage subsist but the minor is living with his uncle – In this case, though it may sound

strange, but it fulfils all conditions for clubbing and is not covered by any exception. Therefore, the income of the minor will be clubbed with that parent whose income is greater. It may be an unequitable situation but tax laws and equity are strangers. Further, Section 65 provides that in case of clubbing, the attributable tax can be recovered from the person whose income has been clubbed with other. This section may provide some relief to the parent.

Signing of return under Section 140

Section 140 of Income Tax Act, 1961 requires signing of the return by an Individual. In case if the Individual is minor, then his/her return should be signed by the minor’s Guardian. However, as per Income Tax Act, 1961, Guardian is not defined.

The same has been defined in the ‘**Hindu Minority and Guardianship Act, 1956.**

Be Positive

Your attitude shows through in everything you do. Project a positive attitude, even in the face of criticism or in the case of nervousness. Strive to learn from your meeting and to contribute appropriately, maintaining an upbeat manner and a smile.

As per Section 4 of the Hindu Minority and Guardianship Act, 1956

“In this Act, -

(a) “minor” means a person who has not completed the age of eighteen years;

(b) “major” means a person having the care of the person of a minor or of his property or of both his person

and property, and includes -

(i) a natural guardian,

(ii) a guardian appointed by the will of the minor’s father or mother,

(iii) a guardian appointed or declared by a court, and

(iv) a person empowered to act as such by or under any enactment relating to any court of wards;

(c) “natural guardian” means any of the guardians mentioned in section 6.”

Now as per Section 6 of the Hindu Minority and Guardianship Act, 1956

“The natural guardians of a Hindu, minor, in respect of the minor’s person as well as in respect of the minor’s property (excluding his or her undivided interest in joint family property), are -

(a) in the case of a boy or an unmarried girl—the father, and after him, the mother: provided that the custody of a minor who has not completed the age of five years shall ordinarily be with the mother;”

Now as per Section 4 read along with the Section 6 of the Hindu Minority and Guardianship Act, 1956, following understanding can be drawn with the help of the following examples:

- Case 1:** If both parent die and minor is living with grand parents – According to me as per Section 4(b) of the Hindu Minority and Guardianship Act, 1956, in this case Grandfather will be the Guardian.
- Case 2:** If one parent dies and other has remarried and minor is living with the remarried parent – In this case the Guardian will be the living parent.
- Case 3:** If one parent dies and other has remarried and minor is living with grand parents – In my opinion in this case the Guardian will be the Grandfather as explained in the Section 4(b) of the Hindu Minority and Guardianship Act, 1956.
- Case 4:** If both the parents of the minor are alive but the minor has not completed the age of Five years – As per Section 6(a) of the Hindu Minority and Guardianship Act, 1956, in this case the Guardian will be the Mother of the minor.

Case 5: If both the parents of the minor are alive and the minor has completed the age of Five years – As per Section 6(a) of the Hindu Minority and Guardianship Act, 1956, in this case the Guardian will be the Father of the minor.

Case 6: Both the parents of the minor are alive and their marriage subsist but the minor is living with his uncle – According to me as per Section 4(b) of the Hindu Minority and Guardianship Act, 1956, in this case the Uncle of the minor will be the Guardian.

As per Section 140 of the Income Tax Act, 1961

“The return under Section 139 shall be signed and verified –

- (a) In the case of an individual, -
- (iii) Where he is mentally incapacitated from attending to his affairs, by his guardian or any other person competent to act on his behalf;”

The minor is considered as mentally incapacitated as he is not competent enough to handle his own affair. Therefore in terms of sub-clause (iii) of clause (a) of Section 140 the return of the minor will be signed by his guardian or any other person competent to act on his behalf. The guardian includes father, mother, grand parent, any person appointed by court or any person competent to act on his behalf.

If none of these persons is available, to avoid any deadlock it may be advised that minor will sign his own return.

CROSSWORD

September-2010
Solution

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Accounting

Sale of Investments held under Held to Maturity (HTM) category

Securities acquired by banks with the intention to hold them up to maturity may be classified under Held to Maturity (HTM) category. Banks are, however, allowed to shift investments to/from HTM with the approval of the Board of Directors once a year. Such shifting is normally allowed at the beginning of the accounting year and no further shifting to/from HTM is allowed during the remaining part of that accounting year.

In this connection, it has been observed that many banks are resorting to sale of securities held under HTM category, that too frequently, to take advantage of favourable market conditions and

to book profits. However, securities under HTM category are intended to be held till maturity and accordingly are not required to be marked to market.

In view of above, it has been decided by RBI that if the value of sales and transfers of securities to/from HTM category exceeds 5 per cent of the book value of investments held in HTM category at the beginning of the year, bank should disclose the market value of the investments held in the HTM category and indicate the excess of book value over market value for which provision is not made. This disclosure is required to be made in 'Notes to Accounts' in banks' audited Annual Financial Statements.

(Source: www.rbi.org.in)

SEBI (Mutual Funds) (Amendment) Regulations 2010

In exercise of the powers conferred by section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Board made the following regulations (vide notification dated 29th July, 2010) to further amend the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, namely:-

- These regulations may be called the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2010.
- They shall come into force on the date of their publication in the Official Gazette.
- In the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 -
 - (i) in regulation 34, for the figure and word "45 days" the words "fifteen days" shall be substituted;
 - (ii) in regulation 35, -
 - (a) in sub-regulation (3), for the words "six weeks", the words "five working days" shall be substituted;
 - (b) in sub-regulation (4), for the words "six weeks", the words "five working days" shall be substituted.
 - (iii) in regulation 36, -
 - (a) in sub-regulation (1), for the words "thirty days", the words "five working days" shall be substituted;

- (b) in the proviso to sub-regulation (1), for the words "thirty days", the words "five working days" shall be substituted;
- (c) in sub-regulation (2), for the words "thirty days", the words "five working days" shall be substituted.
- (iv) in regulation 52, -
 - (a) sub-regulation (3) shall be omitted;
 - (b) for sub-regulation (6), the following sub-regulation shall be substituted:

"(6) The total expenses of the scheme excluding issue or redemption expenses, whether initially borne by the mutual fund or by the asset management company, but including the investment management and advisory fee shall be subject to the following limits:-

- (a) in case of a fund of funds scheme, the total expenses of the scheme including the management fees shall be either:-
 - (i) not exceeding 0.75% of the daily or weekly average net assets, depending upon whether the NAV of the scheme is calculated on daily or weekly basis; or
 - (ii) it may consist of -
 - (A) management fees for the scheme not exceeding 0.75% of the daily or weekly average net assets depending upon whether the NAV of the scheme is calculated on daily or weekly basis;

(B) other expenses relating to administration of the scheme; and

(C) charges levied by the underlying schemes:

Provided that the sum total of (A), (B) and the weighted average of the total expense ratio of the underlying schemes shall not exceed 2.50% of the daily or weekly average net assets (depending upon whether the NAV of the scheme is calculated on daily or weekly basis) of the scheme.

(b) in case of an index fund scheme or exchange traded fund, the total expenses of the scheme including the investment and advisory fees shall not exceed one and one half percent (1.5%) of the weekly average net assets;

(c) in case of any other scheme-

(i) on the first ₹100 crores of the daily or average weekly net assets 2.5%;

(ii) on the next ₹300 crores of the daily or average weekly net assets 2.25%;

(iii) on the next ₹300 crores of the daily or average weekly net assets 2.0%;

(iv) on the balance of the assets 1.75%:

Provided that in respect of a scheme investing in bonds such recurring expenses shall be lesser by at least 0.25% of the daily or weekly average net assets outstanding in each financial year."

(v) in the Tenth Schedule, clause (e) shall be omitted.

(Source : www.sebi.gov.in)

Income Tax

Significant Notifications issued by the Central Board of Direct Taxes during the period 01.08.2010 to 31.08.2010

1. Notification No. 67/2010 dated 03-08-2010

Clauses (a) and (b) of section 80-IB(10) lays down certain conditions to be complied with by an undertaking developing and building housing projects for the purpose of claiming deduction under the said section. However, the conditions contained in these clauses would not apply to a housing project carried out in accordance with a scheme framed by the Central Government or a State Government for reconstruction or redevelopment of existing buildings in areas declared to be slum areas under any law for the time being in force and such scheme is notified by the CBDT in this behalf.

Accordingly, the CBDT has notified the Scheme contained in Regulation 33(10) of Development Control Regulation for Greater Mumbai 1991 read with the provisions of notification no. TPB-4391/4080(A)/UD-11(RDP) dated 3rd June, 1992, as a scheme for the purpose of the said section subject to certain exclusions mentioned in the said notification.

2. Notification No. 69/2010 dated 26-08-2010 Recognised Provident Fund: 8.5 percent rate notified under rule 6(b) of Part A of Schedule IV to the Income-tax Act, 1961

Rule 6 of Part A of the Fourth Schedule to the Income tax Act, 1961, provides, inter alia, that

interest credited on the balance to the credit of an employee participating in a recognized provident fund in so far as it is allowed at a rate exceeding such rate notified by the Central Government, shall be deemed to have been received by the employee in the relevant previous year and shall be included in his total income.

Accordingly, the Central Government has notified w.e.f. 1st September, 2010, in exercise of the powers conferred by Rule 6, 8.5 per cent as the rate of interest on annual contributions in a recognised provident fund. This implies that w.e.f. 1st September 2010 interest credited on the balance to the credit of the employee in excess of 8.5 percent shall be deemed to have been received by the employee in the previous year and shall be included in the total income of the employee. Prior to this date, the interest credited in excess of 9.5 percent was deemed to be the income of the employee.

Example: If interest @ 9.5% is credited in the provident fund account of the employee as on 31st March, 2011 for the year 2010-11, then, according to the above notification, the amount of interest credited upto 31.08.2010 (i.e. 9.5%) is exempt from tax and w.e.f. 01.09.2010 the interest credited @ 1% (i.e. 9.5%- 8.5%) is deemed to be the income of the employee for A.Y. 2011-12.

The complete text of the above notifications can be downloaded from the website of the Income-tax Department, www.incometaxindia.gov.in.

Indirect Tax laws

- 1. Whether the value of SIM cards sold by the mobile phone companies to their subscribers has to be included in value of taxable service under 'telecommunication service' or it is taxable as sale of goods under the Sales Tax Act?**

(CCE v. Idea Mobile Communications Ltd. 2010 (19) STR 18 (Ker.))

The High Court, while examining the functioning of a SIM card, admitted that SIM card is a computer chip having its own SIM number on which telephone number can be activated. SIM card is a device through which customer gets connection from the mobile tower. Unless the SIM card is activated, service provider cannot give service connection to the customer because signals are transmitted and conveyed through towers and through SIM card communication signals reach the customer's mobile instrument. Hence, it can be inferred that it is an integral part required to provide mobile service to the customer.

Further, SIM card has no intrinsic value or purpose other than use in mobile phone for receiving mobile telephone service from the service provider. Thus, the Court accepted the view that SIM cards were not goods sold or intended to be sold to the customer, but supplied as part of service. Consequently, it held that the value of SIM card supplied by the assessee would form part of the value taxable service on which service tax was payable by the assessee.

- 2. Whether service tax is chargeable on the buffer subsidy provided by the Government for storage of free sale sugar, under the category of 'storage and warehousing services'?**

(CCE v. Nahar Industrial Enterprises Ltd. 2010 (19) STR 166 (P & H))

The assessee was engaged in the manufacture of sugar. The Central Government directed him to maintain buffer stock of free sale sugar for the specified period. In order to compensate the assessee, the Government of India extended buffer subsidy towards storage, interest and insurance charges for the said buffer stock of sugar.

Revenue issued a show cause notice to the assessee raising the demand of service tax alleging that amount received by the assessee as buffer subsidy was covered within the definition of 'storage and warehousing services'.

The High Court noted that apparently, service tax could be levied only if service of 'storage and warehousing' was provided. Nobody can provide service to himself. In the instant case, the assessee stored the goods owned by him. After the expiry of storage period, he was free to sell them to the buyers of its own choice. He had stored goods in compliance to directions of Government of India issued under Sugar Development Fund Act, 1982. He had received subsidy not on account of services rendered to Government of India, but had received compensation on account of loss of interest, cost of insurance etc. incurred on account of maintenance of stock. Hence, the act of assessee could not be called as rendering of services.

The High Court upheld the Tribunal's decision that just because the storage period of free sale sugar had to be extended at the behest of Government of India, neither the assessee becomes 'storage and warehouse keeper' nor the Government of India becomes their 'client' in this regard. Therefore, the storage of specific quantity of free sale sugar could not be treated as providing 'storage and warehousing' services to the Government of India.

Inviting Articles for Students' Journal

As you are aware that Board of Studies has been bringing out special issues on contemporary topics relating to Chartered Accountancy course since April, 2010 issue. For the November, 2010 issue, the proposed topic is "Developments in Management Accounting". Please send your article

on this topic latest by 14th October, 2010.

All correspondence in this regard should be addressed to the Director, Board of Studies, ICAI, A-29 Sector 62, NOIDA-201301. Email: writesj@icai.org

International Conference of CA Students

The 2010 International Conference of CA Students is being organized by the Board of Studies and NIRC of ICAI jointly with the theme **INDIAN ACCOUNTANCY PROFESSION : MARCHING TOWARDS GLOBAL CENTRE STAGE**. This would be the largest annual gathering of CA students from all over the Globe. The main goal is to provide a forum for exchange of ideas on a number of topics of professional interest. The conference will present the tools a student needs to stay ahead, stay efficient and be prepared for the challenges posed by the changing economic environment. It is also a chance to meet with students from all over the Country and abroad and share knowledge and experiences.

The event will be comprised of presentations, keynote lectures and panel discussions. Students are invited to register* for the Conference at the earliest. Interested students are also invited to submit Paper of about 5-7 pages and/or a proposal to organize a Technical Session. All accepted papers will be published in the respective conference proceedings/Paper Book. Topics of interest include, but are not limited to, the following :

Technical Session 1 : Global Convergence	<ol style="list-style-type: none"> 1. Convergence to IFRS: Impact on Key Sectors 2. Accounting for Carbon Emission Credits 3. Convergence to IFRS: Need for Changes in Regulatory Requirements 4. Social Responsibility of Chartered Accountants in Converging World
Technical Session 2 : Ushering an Era of Taxation Reforms	<ol style="list-style-type: none"> 1. Direct Tax Code Bill, 2010 – Change in Conceptual Approach 2. Issues in Transfer pricing 3. Profit Linked Tax Incentives Vs Investment Linked Tax Incentives 4. Goods and Services Tax in India – Way Forward
Technical Session 3 : IT as a Tool to Simplify Audit Process in Chartered Accountancy	<ol style="list-style-type: none"> 1. Role of CA as IT Manager 2. Contours of eXtensible Business Reporting Language (XBRL) 3. Forensic Accounting using IT 4. IT Governance 5. Information Systems Audit – Salient Features
Technical Session 4 : Legal Reforms – Steering India Ahead	<ol style="list-style-type: none"> 1. Limited Liability Partnership : A Pragmatic Approach to Business 2. The Competition Law, 2002- Its Developmental Factors 3. Compounding of Contraventions under FEMA,1999 4. Employees Deposit Linked Scheme – A Boon for the Employees
Technical Session 5 : Present Global Financial Order	<ol style="list-style-type: none"> 1. Financial Crisis - Recession and Recoveries 2. Development of New Financial Order - G 20 Declaration 3. Towards Greener Accounting World 4. Role of CFO-Integrating Strategy and Finance 5. Globalisation of Capital Markets – Emerging Trends

Conference Dates : 28th – 29th December, 2010
Venue : Auditorium of Shri Ram College of Commerce, North Campus,
 University of Delhi, Delhi (India)

Cultural Evening : 28th December, 2010 by CA Parivaar followed by Dinner
Accommodation

Two Nights accommodation would be available for outstation students attending both days of the Conference ranging from Rs. 500/- to Rs. 2000/- per night including/excluding taxes.

Participation Fee:

For Students from India : Rs. 500/- per student
 For Overseas participants : US \$ 30 participants without accommodation
 US \$ 100 with accommodation for two nights

For Registration, sending Papers and for further queries, please contact:

NIRC of the ICAI ICAI Bhawan, Annexe, 5th Floor Indraprastha Marg, New Delhi-110 002, INDIA Contact Nos. 011-30100503/507/500 Email : nirc_seminar@icai.in ; nirc@icai.in	Conference Section Board of Studies of the ICAI ICAI Bhawan, A-29, Sector 62, NOIDA-201 301 (U.P.) INDIA Contact Nos. 0120-3045930/931 Email: bosconference@icai.org
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*The Registration Form can be downloaded from the Website : www.icai.org or www.nirc-icai.org

Illustrations from Published Accounts - Accounts

AS 15: Employee Benefits

Accounting Standard (AS) 15, Employee Benefits (revised 2005), issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after April 1, 2006 and is mandatory in nature from that date:

The objective of this Statement is to prescribe the accounting and disclosure for employee benefits. The Statement requires an enterprise to recognise:

- (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- (b) an expense when the enterprise consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

AS 15 deals with all forms of employee benefits (other than stock compensation for which a separate guidance note is promulgated) The Standard addresses only the accounting of employee benefits by employers. The Standard makes four things very clear at the outset: (i) the Standard is applicable to benefits provided to all types of employees (whether full-time, part-time, or casual staff); (ii) employee benefits can be paid in cash or in kind; (iii) employee benefits include benefits provided to employees and their dependents (spouses, children and others); and (iv) payment can be made directly to employees, their dependent or to any other party (e.g., insurance companies, trust etc.).

Employee benefits include short-term employee benefits (wages, salaries, paid annual leave and sick leave, bonuses etc.); Post-employment benefits (gratuity, pension, provident fund, post-employment medical care etc.); long-term employee benefits (long-service leave, long-term disability benefits etc.); and termination benefits (e.g. VRS payments).

The Standard lays down recognition and measurement criteria and disclosure requirements for the above mentioned four types of employee benefits separately.

Relevant extracts on AS 15 from the Notes on Accounts forming part of the Financial Statements of Housing Development and Infrastructure Ltd., taken from the Annual Report for the year ended 31st March, 2009

The Company has adopted Accounting Standard 15 (Revised 2005). Pursuant to adoption, the Company has determined the liability for gratuity and leave encashment in accordance with revised AS 15.

Gratuity Plan:

The AS-15 (Revised 2005) stipulates that the rate used to discount post employment benefit obligation (both funded and non-funded) should be determined by reference to market yields at the balance sheet date on government bonds. The currency and terms of the government bonds should be consistent with the currency and estimated terms of the post-employment benefit obligation. Estimated future salary increases on account of inflation, seniority, promotion and other retirement factors, such as supply and demand in the employment market.

The following table set out the status of the gratuity plan as required under AS - 15.

Reconciliation of opening and closing balance of the present value of the defined benefit obligation: (₹ in lacs)

	31-Mar 2009	31-Mar 2008
Obligations at period beginning	36.84	9.25
Interest cost @ 0.08	2.95	0.74
Current service cost	31.81	19.07
Benefits paid	-	-
Actuarial (gain) loss on defined benefits obligation	(3.96)	7.78
Obligation at period end	67.64	36.84
Amounts to be recognised in the Balance Sheet		
Present value of Defined benefits obligation as on	67.64	36.84
Fair value of plan assets	-	-
Liability recognised in balance sheet	67.64	36.84
Gratuity cost for the period		
Current service cost	31.81	19.07
Interest cost on obligation	2.95	0.74
Expected return on plan assets	-	-
Net actuarial (gain)/loss	(3.96)	7.78
Expense recognised in the statement of profit and loss	30.80	27.59

Leave encashment liability:

AS-15 (Revised 2005) stipulates that the rate used to discount post employment benefit obligation (both funded and non-funded) should be determined by reference to market yields at the balance sheet date on government bonds. The currency and terms of the government bonds should be consistent with the currency and estimated terms of the post-employment benefit obligation.

Estimated future salary increases take account of inflation, seniority, promotion and other retirement factors, such as supply and demand in the employment market.

Reconciliation of opening and closing balance of the present value of the defined benefit obligation:

The following table set out the status of the leave encashment plan as required under AS - 15.

(₹ in lacs)

	31-Mar 2009	31-Mar 2008
Obligations at period beginning	25.90	18.60
Interest cost @ 0.08	2.07	1.49
Current service cost	32.29	7.94
Benefits paid	-	-
Actuarial (gain) loss on defined benefits obligation	11.34	(2.13)
Obligation at period end	71.60	25.90
Amounts to be recognised in the Balance Sheet		
Present value of defined benefits obligation as on	71.60	25.90
Fair value of plan assets as on	-	-
Liability recognised in balance sheet	71.60	25.90
Leave Encashment cost for the period		
Current service cost	32.30	7.93
Interest cost on obligation	2.07	1.49
Expected return on plan assets	-	-
Net actuarial (gain)/loss	11.34	(2.13)
Expense recognised in the statement of profit and loss	45.71	7.29

Employees' retirement benefits

(i) Provident Fund: Retirement benefit in the form of Provident Fund is a defined contribution scheme and the contributions are charged to the Profit and Loss Account of

the year when the contributions to the respective funds are due.

- (ii) Gratuity: Retirement gratuity liability of employees is a defined benefit obligation and reflects the actuarial valuation of the future gratuity liability.
- (iii) Leave encashment: Short term compensated absences are provided for based on estimates. Long term compensated absences are provided for based on actuarial valuation as at the end of the year.
- (iv) Actuarial gains/losses: Actuarial gains/losses are immediately taken to the Profit and Loss Account and are not deferred.

Change of Timings for November-2010 Examinations

Students appearing in the next Professional Competence Examination (PCE), Integrated Professional Competence Examination (IPCE) and Final Examinations of the Institute to be held from 8th November-2010 to 22nd November-2010 may kindly note that the Examination Timings are from 02.00 PM to 05.00 PM (IST)

Similarly, Examination timings at Abu Dhabi and Dubai Centres will be 12.30 PM to 3.30 PM. UAE local time equivalent to 02.00 PM to 05.00 PM (IST). Examination timings at Kathmandu centre will be 02.15 PM to 05.15 PM Nepal local time equivalent to 02.00 PM to 05.00 PM (IST)

Further, to note that there will be no change in the examination schedule in the event of any day of the examination schedule being declared a Public Holiday by the Central Government or any State Government.

Additional Secretary (Exams)

Revised Structure of Question Papers

It has been decided to revise the structure of question papers for the PCE, IPCE and Final (old and new course) examinations as under, from November, 2010 examination onwards:

1. One question will be compulsory.
2. Among other questions, one choice will be provided uniformly in all the papers.
3. In addition, in one of the questions, one internal choice may be provided as far as possible

Secondment of Articles

Students may please note that there is a provision of Secondment in Chartered Regulations Act, 1988. Accordingly,

1. A Principal may, with the consent of the articled clerk, second from time to time the articled clerk to other member or members with a view to provide the articled clerk the opportunity of gaining practical experience in areas where the Principal may not be in a position to provide the same.
2. The articled clerk shall be seconded only to a member who is entitled to train one or more articled clerks in his own right or to a member in industry who is entitled to train one or more industrial trainees.
3. The member to whom the articled clerk is seconded will not be entitled to train more than two such clerks on secondment at a time.
4. The aggregate period of secondment shall not exceed one year provided that the period served on secondment with any one member or his partner shall not exceed six months.
5. Where an articled clerk is seconded to a member in industry, the total period spent in industry by the articled clerk including the period of industrial training under Chartered Accountants Regulations, shall not exceed one year.
6. During the period of secondment, the Principal shall pay the stipend as provided under Chartered Accountants Regulations.
7. The Principal shall keep a record of the training undergone during secondment and include its particulars in the report to the Council under Regulation 64.

Some useful Links of Institute's Website

Matter	Link
List of publications relevant for November 2010 examinations.	http://icai.org/post.html?post_id=6162&c_id=121
Suggested answers for May 2010 exams Final (Old and New) IPCC PCC	http://www.icai.org/post.html?post_id=4167 http://www.icai.org/post.html?post_id=5676 http://www.icai.org/post.html?post_id=2495
Summary of Examiners' comments on May 2010 exams Final (Old and New) IPCC PCC.	http://www.icai.org/post.html?post_id=6284 http://www.icai.org/post.html?post_id=6314 http://www.icai.org/post.html?post_id=6313
Revision Test Papers for November 2010 exams Final Old Final New IPCC PCC ATC	http://www.icai.org/post.html?post_id=1018 http://www.icai.org/post.html?post_id=3348 http://www.icai.org/post.html?post_id=5016 http://www.icai.org/post.html?post_id=2491 http://www.icai.org/post.html?post_id=5033
Announcement relating to Revised structure of Question Papers	http://www.icai.org/post.html?post_id=6367&c_id=219
Transfer/Termination of Articleship	http://icai.org/resource_file/19592announ10698.pdf

Live Virtual Classes

The Institute, in its endeavour to provide the students the best of education and learning experiences, is launching Live Virtual Classes for the CPT, IPCC and Final Courses. These are proposed to be started in the month of November 2010. To begin with, these will be started in major cities of Mumbai, Chennai, Kolkata, Delhi and NCR and later on these will be held in other cities also. Students are advised to make maximum use of this facility. An announcement giving further details of this initiative would be hosted on the Institute website shortly.

Global Pursuit of Bharti Airtel

*Shaleen Suneja

Bharti Group, founded in 1976 by Sunil Bharti Mittal, has grown from being a manufacturer of bicycle parts to one of the largest business groups in India. With entrepreneurial initiatives and risk taking capabilities, Bharti has entered into diverse fields such as financial services, insurance, retail, wholesale and agro-business. However, the group is known more for being in telecom with its brand Airtel. Share prices of its flagship company Bharti Airtel forms part of much coveted BSE Sensex and NSE Nifty.

Not far back in the history, Bharti started telecom services business by launching mobile services in Delhi in the year 1995. With in no time Bharti Airtel became leading telecommunication service provider in the country with presence in 22 telecom circles. The company had a very strong customer base of 130.69 million customers in India as on March 31, 2010. The company also has big plans in Wi-Fi and 3G services in the country.

Last couple of years were difficult for Telecom industry with increased competition and cut-throat tariff wars. Unperturbed by the competition Bharti continues to look for the opportunities within and outside the telecom sector. Bharti Airtel, after firmly establishing itself in India, is spreading its wings beyond geographical boundaries.

In the year 2007, its Sri Lankan arm - Bharti Airtel Lanka was granted license in the island. In January, 2009 the company commenced commercial operations and now has an aggregate of 1 million customers. It is Sri Lanka's fastest growing wireless operator. After the successful foray into Sri Lanka, the company entered the Bangladesh market by acquiring a majority stake in Warid Telecom in January, 2010.

The group was very keen in entering the African markets which the company believed to be one of the few high growth markets. In the first half of the year 2009, the company renewed its efforts for a partnership with MTN Group Limited. The envisaged partnership was expected to create a leading telecommunications service provider group aligning Bharti's market leading Indian business with MTN's market leading African and Middle Eastern operations. In the scheme of arrangement, Bharti was to acquire a 49% shareholding in MTN. MTN and its shareholders, in turn, were to acquire an approximate 36% economic interest in Bharti. In the scheme of arrangement it was contemplated that Bharti would have substantial participatory and governance rights in MTN. At the same time MTN will have economic interest in Bharti that would be equity oriented. MTN will also have representation on the Board of Bharti. Singapore Telecommunications, a major existing shareholder of Bharti, will continue to be a strategic partner and significant shareholder after the implementation of the potential transaction.

However, the deal fell apart by the end of September, 2009. Although, the deal was expected to bring significant synergistic benefits for both the companies and was also considered as a step towards cooperation between South Asia and South Africa by many, it could not materialise. This arrangement between the two commercial organisations required approval from the government of South Africa which was not granted considering the overall scenario.

Bharti Continued to explore international expansion opportunities with the focus on South Africa. Early 2010, Bharti Airtel Limited entered into an exclusive discussions for the acquisition of Zain's African unit (Zain Africa BV). A lot of groundwork was required for the deal. The process involved due diligence, regulatory approvals and signing of final documents. External financing was also required and Bharti was able to easily tie-up the entire financing requirement. Moving on war footing, the company entered into a legally binding agreement with Zain Group ("Zain") to acquire Zain Africa BV in the month of March 2010 at valuation of USD 10.7 billion.

With the deal the Indian company acquired Zain's African mobile services operations in 15 countries with a total customer base of over 42 million. At the time of agreement Zain was market leader in ten of these countries. It enjoyed number two position in four other countries. It was largest ever cross-border deal in emerging markets. The company also become a major Indian MNC with operations in 18 countries across Asia and Africa with a customer base of over 180 million.

However, Bharti has an insatiable desire to expand. In the month of August, 2010, the Board of Bharti Airtel approved the acquisition of 100 % of Telecom Seychelles Limited, the leading telecom operator of Seychelles, for an enterprise value of USD 62 million. Telecom Seychelles had begun operations in 1998 by launching mobile services. With the acquisition Bharti will expand to have presence in sixteen African countries with overall presence to 19 countries. It is felt that the acquisition of Telecom Seychelles will benefit by leveraging the efficiencies of scale in the African operations. Telecom Seychelles has state of art facilities with the presence in 3G services.

1. Do you approve with the pace of expansion plans of Bharti?
2. What precautions Bharti Airtel must take while entering global markets?
3. Do you think that organic growth is better for the company?
4. How far Governments should influence the decisions of commercial organisations?

(Students are requested to mail their answers to the questions to "prem@icai.org" latest by October 31, 2010. The best answers will be published in the December 2010 issue of the Students' Journal)

****The author is Senior Assistant Director, ICAI.***

On Line Articles Placement Portal for selection of Articled Assistants by CA Firms

The Board of Studies of the Institute has introduced an optional Campus Placement Scheme for selection of Articled Assistants by CA Firms. The Pilot Campus Placement Programme held at Delhi in August 2010 has been a great success with an overwhelming response from both CA Firms and Students. Considering the positive feedback and requests received from both CA Firms and Students, it has been decided to start an Online Articles Placement Portal to facilitate placement of Articles in CA Firms on pan India basis. Both eligible CA firms and candidates who are willing to avail of this facility shall have to register themselves online through the articles placement portal at <http://bosapp.icai.org>. The Portal would be operational from 5th October, 2010 at 11.00 A.M. onwards. The services on the Portal would be available for two months from the time of registration by the firm. Similarly the bio data of a student will also be available on the portal for a maximum period of 2 months from student's registration.

The Articles Placement Portal has been put into place to provide a platform to the firms of Chartered

Accountants having vacancies for Articled Assistants to shortlist eligible students for selection of articled assistants, and call them for Interview at their offices, as per date and time convenient to them. The candidates who have either (a) Passed Group-I or both Groups of the IPCC examination, or (b) Passed either of the Groups or both groups of PE-II examination; and are eligible for undergoing articled training for selection as articled assistants in the CA firms can register themselves on the portal, such that they can be considered for selection by the CA Firms. The candidates shortlisted by CA Firms would be automatically informed by e-mail through the Portal, to appear for interview at their respective Offices, at the designated date and time.

Please refer the detailed guidelines available at the institute's website www.icai.org under "Announcements" and on the Portal.

In case of any clarification, please contact the Board of Studies, ICAI Bhawan, A-94/4, Sector-58, Noida-201301, Tel. No. 0120-3045930/931; eMail: bosapp@icai.org

Director, Board of Studies

Applications are Invited for Visiting Faculty to impart 100 Hours Information Technology Training at ICAI - ITT Centres

The Institute of Chartered Accountants of India through its Board of Studies imparts compulsory 100 Hours Information Technology Training (ITT) to its students as a part of their education and training for the Chartered Accountancy Course at its 150 ITT Centres established at its Regional/Branch Offices all over the country.

The Board of Studies is currently in the process of forming a Panel of Visiting Faculty to provide excellent faculty support at one or more ITT Centres. Accordingly, applications are invited

from Chartered Accountants and Computer Professionals [MCA/ M. Tech. (Computer Science), M.Sc. (Computer Science)] through On-line form available at http://www.icai.org/ittvisiting_faculty.html

Hard copy of the application superscribing on the sealed envelope "Application for ITT Visiting Faculty" may also be sent to the Additional Director (ITT), Board of Studies, The Institute of Chartered Accountants of India, 'ICAI Bhawan', A-94/4, Sector - 58, Noida 201301 (U.P.) .

Director, Board of Studies

ICAI Seek Space and Infrastructure to run Teaching Classes

The Institute invites "Expression of Interest" from reputed Institutions (Colleges/ Schools)/ Chartered Accountants and others for Public - Private Partnership to provide furnished AC Classrooms, infrastructure and management resources including administrative staff, other facilities like reading rooms(s)/ Library and maintenance services for Live Virtual Classroom teaching to be organized by the Institute on pan India basis, with all modern facilities either on rental basis or per student fee sharing basis. Larger capacity Halls like theatres

and auditoriums can also be considered. The academic input for the Classroom teaching will be provided by the Institute. The details of the requirements, etc. are available at the Institute's website www.icai.org under "Tenders".

Those interested may send their "Expression of Interest for Teaching Classes" alongwith details of facilities available, within 15 days, to the undersigned at "The Institute of Chartered Accountants of India, 'ICAI Bhawan', A-29, Sector-62, Noida-201301."

Director, Board of Studies

SUMMARY OF EXAMINERS' COMMENTS: MAY - 2010 EXAMINATION

Professional Competence Course- Group- I

I. General Comments:

- (1) The performance of the candidates reflected their poor understanding of the Accounting Standards and Standards on Auditing. A meticulous reading of the basic text of the Accounting Standards, Standards on Auditing will help in getting a good grasp of these Standards.
- (2) Lack of systematic and logical approach while answering questions is another area of deficiency which the candidates need to overcome.
- (3) In the subject of Accounting, solutions to practical problems have not been supported with proper working notes. The candidates have ignored the theoretical aspects of the subject and therefore, they were not clear with the concepts.
- (4) In the subject of Law, Ethics and Communication, the candidates were not able to apply the provisions of law correctly in solving problems. The answers in the portion relating to ethics revealed want of understanding of the terminologies used. In the portion relating to Communication, the candidates have not been able to comprehend the formats of the legal deeds and reports.
- (5) The presentation of answers was also very poor in many cases. The major deficiencies were -
 - (i) not starting the answer to a new question on a fresh page;
 - (ii) answering the different sub-parts of the questions in different places instead of answering the same one after the other;
 - (iii) leaving blank pages in between the answers;
 - (iv) writing the question number outside the margin, which is intended for answers;
 - (v) not marking the questions answered in the cover page inspite of specific instructions to do so;
 - (vi) very poor handwriting;
 - (vii) lack of expression;
 - (viii) spelling mistakes; and
 - (ix) grammatical mistakes.

II. Paper-Wise Specific Comments :

PAPER 1 : ADVANCED ACCOUNTING

Question 1: Many candidates did not give the required answer for parts (iii), (iv), (v), (vi) and (vii).

Question 2. Few candidates failed to calculate the sales ratio and interest paid to vendors. Wrong allocation of expenses between pre and post incorporation periods was done by some of them.

Question 3. Some candidates erred in calculation of capital base and reasonable return. Consequently they could not prepare the correct statement showing disposal of surplus.

Question 4. Some candidates were not able to compute the

provision for unrealized profit, included in closing stocks of the departments given in the question. Some candidates were not able to correctly post the transfer of purchased goods and finished goods to correct department. This resulted in wrong calculation of gross profit.

Question 5.(a) Most of the candidates could not prepare the statement showing distribution of cash under maximum possible loss method. Most of them were not able to distribute cash to the partners in the accurate manner.

(b) Small number of candidates committed mistakes in calculation of amounts of cash flows from financing and investing activities. Therefore, they were not able to answer the question correctly.

Question 6.(a) Most of the candidates were not able to apply the provisions of AS 11 "The Effects of Changes in Foreign Exchange Rates" correctly, and were hence, not able to state the accounting treatment.

(c) Some of the candidates could not estimate the amount of contingent loss and were not able to give the accounting treatment of such loss in line with AS 29 "Provisions, Contingent Liabilities and Contingent Assets"

PAPER 2 : AUDITING AND ASSURANCE

Question 1.(v) Second part requiring approval of Central Government was not given correctly by most of the students.

(vi) Many students failed to answer the reporting requirement to regulatory authorities.

(viii) Reference of approval of CLB is not given by most of the Students.

(ix) Majority of the students failed to give proper reasoning.

Question 2.(a) Students had given correct provision of sec. 226 (3) but failed to give correct conclusion of the case.

(b) Many students failed to give correct treatment of sales return.

(c) Most of the students are not aware of provisions of AS - 2 as well as the case law. Hence the performance was very poor.

Question 3 Many of the students has failed to understand the question properly and tried to give the various reasons for reduction in gross profit instead of relevant steps such as study and evaluation of internal control system, vouching of purchase transactions and analytical procedure.

Question 4.(a) Majority of the students failed to understand the internal control in a CIS environment and explained as internal control in business and accounting environment and answered in a general way.

Question 5.(a) Some of the students had given general answer on the various aspects to be covered in an audit instead of the special audit requirement in the case of local bodies.

(b) Most of the students had given general answer on need of comparative and audit of previous year figure and failed to mention the provisions of the reporting requirement on the comparative as per SA 710.

Question 6.(b) Some students failed to answer that joint auditor can give his separate report in case of difference of opinion with majority of joint auditors.

PAPER 3 : LAW, ETHICS AND COMMUNICATION**PART I - LAWS**

Question 1. The first part of the question was with reference to Section 69 of the Indian Contract Act, 1872 and most of the candidates did not refer the said section in support of their answers. Though the answers given by them were correct, it was generalized one. In the given problem arrears of house tax were cleared by the lessee on behalf the lessor to the Municipal Corporation. Candidates did not underscore the point that the lessee in the given case is an interested party and paid the said sum on behalf of another who is bound to pay. Hence the lessee (W) is entitled to get reimbursed from the lessor (Z) for the arrears of tax paid to the Municipal Corporation.

In the second part of the question relating to given statements, whether they are correct or incorrect, candidates were able to state only correct or incorrect as the case may be, but reasoning was not with reference to the particular section dealt by the respective law(s) namely, the Payment of Bonus Act, 1965 and the Indian Contract Act, 1872. This suggests that candidates while reading the subject of law should understand the textual material with the help of the provision as given in the Bare Act.

In the third part of the question consisting of multiple choice questions, some candidates were not able to reason out the choice of their answers. In respect of question relating to Negotiable Instruments Act, 1881, candidates should equip themselves thoroughly the rudimentary and practicality of sections.

Question 2. The problem as stated in the question related to the consequences if there is reduction in the membership of a public company below the statutory minimum (i.e. 7) as prescribed in Section 45 of the Companies Act, 1956. The crucial part of the answer which candidates should have included in their answer is that the company should have carried on its business with reduced membership for more than 6 months and then members remaining who are aware of this fact will be personally and severally liable for all debts.

In the multiple objective type questions, performance in general were satisfactory, as questions were straight-forward.

Question 3. On the review of the candidates preparation in this subject in general, it is apparent that candidates are experiencing difficulty in consuming the subject of Negotiable Instruments Act, 1881 as it criss-crosses different types of instruments and their application in practical situations. May be due to the voluminous of the Act, numbering around 142 sections, candidates are feeling it heavy-weight on their load for understanding. The problem as given in the question was treated very generally as candidates were not able to spot the correct section which dealt with the situation. (i.e. rights of a holder-in-due course in a suit as stated by Section 120 of the Negotiable Instruments Act, 1881).

Question 4. The question was with reference to the applicability of the Payment of Bonus Act, 1965 to the establishment in Public Sector. This question required two explanations. On the first part, that establishment in the Public Sector is not covered by the provisions of the Act which is provided in Section 20. However, if the income from such sale or service or both is not less than 20% of its gross income, then the provisions of the Act shall apply in relation to such establishments. Candidates could not understand the intricacies and nuances of the said provision and hence wrote general answers with weak support.

Question 5. The question was with reference to Section 7F of the Employee's Provident Funds and Miscellaneous Provisions Act, 1952. In the instant problem, the question was whether a person who was appointed as a Presiding Officer of EPF Appellate Tribunal can resign from his office without handing over his charge to the incumbent. The answer is No. Some candidates have treated the question in a general way stating that it is prerogative of the Officer to resign as such and need not necessarily hand over the charge.

Question 6. From the review of analysis of the performance in the Law segment, it is understood, that candidates have not paid their attention and preparation in analyzing the various practical situations for which one has to resort to the guidance of section. How to categorize an establishment as an seasonal establishment was not known to many.

Question 7. The grounds on which the Chairman of a meeting can invalidate the casting of vote by a member were not known to many candidates. Section 181 of the Companies Act, 1956 lays down the grounds on which the right of a shareholder to vote at the meeting can be excluded.

Question 8. The question was with reference to the extent of the powers or objects of company can extend. The candidates overall did their fine part in the question by giving not only the correct answers but were also able to cite the case law on the matter i.e. Ashbury Railways Carriage Company vs. Riche). This is particularly encouraging and pleasing to see their performance and it is hoped that that they extend their knowledge to other parts of the subject as well to give an impression that they are totally prepared and equipped in answering the questions.

Question 9. The answer to the question is to be decided based on an English Case law, as the Companies Act, 1956 is apparently silent on the matter. Though it is difficult to pin point the exact case law on the matter ie. Cousins vs. International Brick Company Ltd, students used their commonsense approach in solving the problem correctly.

Question 10. It is quite important for the CA students that the programmes that are floated, implemented and in operation should be well within domain of their knowledge as it one who is in the profession is ultimately and closely associated with such programmes of the Government in one way or other. The question was with reference to the MCA 21 introduced by the Ministry of Corporate Affairs on e-governance which received an overall appreciation and acclamation from various quarters. Candidates were not able to do full justice to the question, though they could only outline or give sketchy answers based on general awareness.

PART II - ETHICS

Question 11. Ethics is one area where candidates are experiencing lot of difficulties, as it primarily deals with various concepts, terminologies and unless one has gone through the study material it could be difficult to write with crispness and clarity. Candidates could not explain the concept of green accounting system and most of the answers were vague and revealed complete out of reach area for them.

Question 12. The safeguards that should be adopted for overcoming threats faced by an accounting and finance profession are again an area for which they were not fully prepared and equipped. It should be remembered that those safeguards are only at an acceptable level and safeguards be classified into those at the profession, legislation or regulative

level and the other at the work environment level. Most of the answers were based on guess work and recollection of points here and there.

Question 13. Many candidates could answer this question based on correct or incorrect statement very well with one exception that reasons adduced to their answers were general and not logical. Many were not aware of what is sustainable development and they simple thought in layman's knowledge that it is closely linked to Corporate Social Responsibility (CSR). Similarly to statement whether a good environmental practice improves corporate performance, the obvious answer which many wrote was 'yes'. It is encouraging to note that the awareness has percolated among the students community.

PART III - COMMUNICATION

Question 14. This question splits into two parts, each part carrying 5 marks each.

(a) In this part, examinees were required to explain the functions of interpersonal communication. This question was answered by most of the students. However, some students provided meaning and principles of interpersonal communication which is not required. Students are advised to understand the language of the question and to remain specific in attempting such questions.

(b) Most of the examinees were unable to write the answer correctly. They failed to differentiate the difference between notice and minutes of a business meeting. Hence, wrote the Minutes of Annual General Meeting instead of Statutory Meeting. The significant number of the students approached the question from the perspective of Annual General Meeting. The students must read the actual words and deal with what was asked and not waste their time on writing unnecessary information.

Question 15. Most of the examinees attempted this answer but majority of them did not mention the schedule and witness that needs to be given towards the concluding part of the lease deed. The problem stemmed from a general lack of practical knowledge. The students are advised to be specific in mentioning only relevant terms and conditions of the lease deed as per the agreement given in the question.

Question 16. In general, the students were able to highlight the contents of annual report but a few examinees misunderstood the question and defined the meaning of annual report or mentioned contents of Audit Report rather contents of Annual Report of company. The students seemed to know and write a lot about what was irrelevant but not enough about what was relevant. In answering such a question, the students are expected to mention only important and relevant heads.

Professional Competence Course- Group - II

I. General Comments:

- (1) The most common deficiency observed in all the papers is the lack of conceptual understanding, resulting in lack of substance in the answers. An in-depth learning of the study material would help to build a strong conceptual base.
- (2) While solving practical problems, the answers have not been supported with appropriate working notes. Working notes are very important and they should form part of the answer.

- (3) In Paper 4: Cost Accounting and Financial Management, the candidates were found lacking in presentation skills. They had not given due emphasis to the theoretical part of the subject, and consequently, conceptual clarity was lacking in their answers.
- (4) In Paper 5: Taxation, it was observed that the candidates were not aware of the latest amendments. Their answers also reflected lack of conceptual clarity.
- (5) In Paper 6: Information Technology, it was observed that the candidates were not able to correctly understand the requirement of the questions and as a result, their answers were found to be irrelevant.
- (6) The presentation of answers was also very poor in many cases. The major deficiencies were -
 - (i) not starting the answer to a new question on a fresh page.
 - (ii) answering the different sub-parts of the questions in different places instead of answering the same one after the other
 - (iii) leaving blank pages in between the answers
 - (iv) writing the question number outside the margin, which is intended for answers.
 - (v) not marking the questions answered in the cover page inspite of specific instructions to do so.
 - (vi) very poor handwriting,
 - (vii) lack of expression
 - (viii) spelling mistakes and
 - (vi) grammatical mistakes.

II. Paper-Wise Specific Comments :

PAPER 4 : COST ACCOUNTING AND FINANCIAL MANAGEMENT

Question 1

- (i) This theory question related to 'Basic Concepts of Cost Accounting' invited the examinees to demonstrate their knowledge in the concept of Cost Accounting and stating its objectives. It was attempted by majority of the examinees. But most of them were unable to state the objectives of cost accounting precisely.
- (ii) This theory question requires a sound knowledge of overheads. This question related to 'Difference between Fixed Overheads and Variable Overheads' was attempted by the majority of the candidates. Many of them were able to answer it correctly. However examples of variable overheads and fixed overheads were missing from their answers in many cases.
- (iii) This practical question part related to 'Material' was attempted by majority of the students. But the examinees were confused about the concept of 'Re-order Quantity' and only a handful number of examinees were able to calculate it accurately.
- (iv) This theory question related to 'Marginal costing' was answered by many of the students. Many of the examinees were not clear about the concept of 'Key Factor'. Definition and examples of 'Key Factor' given by the examinees was not fully correct.

(v) This theory question part related to 'Non-Integrated Accounts' was answered by many of the students. But the advantages of the 'Integrated Accounts' mentioned by the candidates were very sketchy. Very few had mentioned as to how 'Integrated Accounts' could be economical for the organisation.

Question 2.

This numerical question was a multifunctional one and comprised of two parts. The part (i) asked the candidates to prepare contract A/c and do an analysis for 'Admissible Escalation Claim'. Part (ii) intended to test the candidates' capability to calculate 'Material and Labour Variances'. Speaking relatively, the candidates performed better in part (ii) than in part (i).

- (i) In this part, the majority of the candidates were not able to calculate the exact escalation amount and the final contract price.
- (ii) The second part of the question related to the calculation of material and labour variances was well attempted by the students. But many of the examinees had forgotten to give the verification for both material and labour variances.

Question 3.

The question was divided into two parts. Part (a) asked the candidates to demonstrate their knowledge in the area of 'Process Costing' by preparing 'Process Accounts' while calculating profit element at each stage. Part (b) tested the candidates' knowledge in the area of 'Operating Costing' in which examinees were required to calculate the bus fare to be charged from each passenger per kilometre.

Part (a) of this question was attempted by almost all the candidates. A handful number of the examinees had prepared the Process II and Finished Stock A/c. Moreover, many of them had not calculated the profit element at each stage of process.

In relation to part (b), which was answered by majority of the students, candidates failed to calculate per passenger kilometre cost. Many of them were confused about the fixed and variable charges.

Question 4.

- (i) This numerical question related to 'Marginal Costing' was answered by maximum number of candidates. The examinees were able to calculate 'P/V ratio', 'Total Fixed Cost' and 'Desired Sales' appropriately.
- (ii) This theory question part related to 'Overheads' was not correctly answered by majority of candidates. The examinees had not perfectly explained the treatment of over and under absorption of overheads in cost accounting.
- (iii) This theory question related to 'labour' is attempted by the maximum number of students. However, some of the examinees were not able to state precisely as to which is better plan out of Halsey 50 percent bonus and Rowan bonus scheme.

Question 5

- (i) Most of the candidates have just explained Capital Structure and could not differentiate it with Financial Structure.
- (ii) Many of the candidates explained the meaning of accounts receivables instead of writing on Accounts Receivable System.

(iv) Majority of the candidates only enumerated two or three Forms of Bank Credit. Some even mentioned maximum permissible banking finance (MPBF) as forms of bank credit.

(v) A large percentage of the candidates computed the Compound Value and Compound Interest by taking into consideration 8 percent compounded annually rather than semiannually as mentioned in the question.

Question 6.

(a) Majority of the candidates prepared the Balance Sheet on correct lines. However, few of the candidates could not compute Reserves and Surplus and Share Capital figures correctly.

(b) A large number of the candidates could not compute the provision for contingencies correctly. They straightaway calculated 10 percent of working capital before provision instead of one-ninth to arrive at the figure for working capital requirement.

Question 7.(a) A large percentage of the candidates did not arrive at the correct figures of discounted payback period and internal rate of return for the two machines and hence ended up giving wrong advice to the management.

(b) This part of the question was attempted by majority of the candidates. However, only few candidates could calculate amount collected from debtors, payment of wages and the amount of fixed deposit to be maintained on correct lines. Further, few candidates have also not presented their answers supported by proper working notes in preparation of cash budget.

Question 8.(ii) Most of the candidates limited the Role of a Chief Financial Officer (CFO) to procurement and effective utilization of funds only.

PAPER 5 : TAXATION

Question No.1.(i) Some of the candidates have explained the number of days of stay in India instead of scope of total income.

(iv) Most of the candidates were not conversant with the provisions of time limit for filing application seeking registration in the case of charitable trust/institution under section 12AA.

(v) Many candidates were not aware about the newly inserted concept of Limited Liability Partnership. Some of them have confused it with the company. Some others have written the provisions of section 40(b), remuneration and interest to partners as tax rate.

Question No. 2. Most of the candidates have not been able to compute total income and tax payable. Some common mistakes are:-

(a) Candidates have failed to observe that the profit is from the business of dealing in equity shares. The income has been incorrectly shown under the head capital gains. Most of them have also incorrectly dealt with the securities transaction tax paid and added the same to the Net Profit from the business of dealing in equity shares.

(b) Most of the candidates have treated the HUF as a senior citizen, since the karta is aged 70 years. Accordingly, the tax computation has been made as applicable to senior citizens. They were not aware that the karta is senior citizen is irrelevant to the tax computation of HUF.

(c) Majority of the candidates have claimed deduction under section 80CCC for payment to LIC Pension fund while computing the computation of total income of HUF, but this deduction is available only to individuals and not to HUF.

(d) Some of the candidates have restricted the statutory deduction under section 24 to ₹ 25,000, being actual amount of interest paid.

(e) Many candidates have not treated one unit as self occupied and the second one as deemed let out. They have treated both houses as self occupied.

(f) Most of the candidates have not computed tax on income from horse races at the special rate of 30% under section 115BB.

Question No. 3.(a) Most of the candidates were confused with clubbing provisions under section 64(1). They could not understand the treatment for gift from wife and its effect on business income of Mr. John. Most of the candidates have not separately computed tax on long-term capital gains. Candidates were also not aware about the provision that in case of capital gain, the advance tax liability arises on the installments falling after the date of transfer and not before that.

(b) Many candidates have taken the WDV of Plant X and Plant Y as on 1/4/2006 as ₹2,00,000 each and calculated depreciation on individual assets instead of block of assets. Very few candidates have correctly stated that depreciation is not allowable for assessment year 2010-11. Some of the candidates have not treated the excess of sale proceeds over the opening WDV and cost of new plant in the block as short term capital gain.

Question No. 4

(a) The candidates were not aware of the provisions of tax deducted at source (TDS). They were also not aware about the amendments applicable from 1st October, 2009 i.e. non-inclusion of education cess and secondary and higher education cess in the TDS rates and reduction of TDS rates in case of contract payments.

(b) Most of the candidates have taken gift from maternal uncle as taxable assuming it is not covered under the definition of relative. The candidates were not sure about their answers, as a result under profits & gains of business and profession and capital gains they simply put all figures and did not take the final figure in the outer column.

Question No. 5. (i) Most of the candidates were not aware of the definition of the term "Manufacture" under section 2(29BA) and instead, gave their own definitions.

Question No. 6. (i) The question is about the service tax liability on free services. Free services are services provided without consideration. However, some of the candidates misinterpreted free services as exempted services.

(v) Many candidates failed to notice that in the given question, the service provider was an individual and hence, service tax had to be remitted quarterly.

Question No. 7. Many candidates calculated the value of taxable services for the entire period of six months instead of computing it quarter wise as was required in the question. Most of the candidates solved the question assuming the receipts to be exclusive of service tax. Few candidates computed service tax at the rate of 12.36% instead of 10.30%.

Question No. 8.(a) Some of the candidates had not excluded the VAT element from the purchase price.

(c) Some candidates wrote income variant as the most widely used variant instead of consumption variant. Few candidates had confused the variants of VAT with the methods of computing VAT.

PAPER 6 : INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

SECTION - A : INFORMATION TECHNOLOGY

Question 1.(a) A short answer type question based upon the basic understanding of technical term, where examinees were required to discuss Definitions and Usages in two or three lines. However, they failed to answer properly and could not even write the full form of RISC, SCSI and WiFi. Most of them were not able to write the concepts of pointer while explaining Linked List.

(b) In this part, Most of the examinees were unable to explain the concepts of Open Source Software, Firewall and Multitasking. They explained definition of software instead of use of open source software. Intranet and Multitasking were confused with Internet and Multiprocessing respectively in most of the cases.

Question 2.(a) Most of the examinees explained about the Data Centre instead of Value Added Services provided by the Data Centre. They ignored study material and gave generalized answer explaining Data Centres and their Usages.

(b) In this part, Most of the examinees answered steps to create backup instead of core phases in developing a backup and recovery strategy. They wrote general answers about backup and recovery procedures.

Question 3.(a) Instead of explaining various attributes of LAN, most of the examinees explained either types or components of a LAN. Some of them wrote advantages and disadvantages of LAN.

(b) Only few examinees could explain the term ISDN. Most of them exhibited lack of technical knowledge and gave advantages of digital mode of data transmission.

Question 4. In this part, Examinees committed mistakes in calculating tax correctly. Few of them were unable to write the condition and also the formula for calculation. Some of the examinees did use appropriate flow chart symbols. The following mistakes were noted during design of flow chart.

- Instead of Taxable Income, Gross Income was taken for calculating tax.
- Full forms were not written for the terms used in flowchart.
- Arrows were not drawn & connectors were not given properly.
- Last employee? and CAWL condition were omitted by many examinees.

Question 5. (a) Most of the examinees explained meaning of Data Mining instead of stages of Data Mining. Very few could explain the stages of data mining point wise.

(b) Generalized answers were given by most of the examinees. The examinees were not aware of the fact that Bluetooth technology enables wireless connection. They exhibited lack of technical details about mobile communication devices.

SECTION - B : STRATEGIC MANAGEMENT

Question 6. Majority of the candidates were able to provide answers in terms of correctness or incorrectness of the

statements. However, they were not able to substantiate their answers with adequate and valid reasoning.

In part (a) a large number of examinees have explained globalization in economic and business terms. The other perceptions were not clearly brought out in their answers.

In part (b) most of the examinees failed to relate production strategy with the higher strategies.

Part (c) was found generally difficult to answer as only a few examinees were able to write with conceptual clarity of benchmarking.

Question 7.(a) The answers of the examinees reflected that most of them were not aware about the need of turnaround strategy. A good number of examinees have vaguely mentioned the meaning of turnaround in place of its need.

(b) The performance was extremely poor indicating that the candidates have not prepared well on the concept. Stability strategy is not clear to a large number of candidates.

(c) The concept of 'shared vision' and 'vision shared' were generally not known to the candidates. In a large number of cases answers were found to be wrong.

Question 8.(i) Majority of the candidates wrote answers in general manner and made them too simple. In many cases tips to write a 'right' mission statement was found superficial and tips that were given were not relevant.

(ii) Most of the candidates understood the concept of BCG matrix and gave good answers.

Question 9. A large number of candidates have done well. However, a few examinees have merely guessed and have wrongly mentioned other strategies/concepts such as expansion, stability, diversification, retrenchment, production and marketing. A good number of examinees could not write about the situations where the generic strategies of Porter can be used.

Question 10. There were five questions asked to the candidates at the end of the case study. Diverse answers were written by them. In part (a) some candidates found it difficult to write questions that can be asked to understand the nature of competition. The performance was fairly good in part (b) and **(c)**. In part (d) many candidates were not able to suggest ways to control the costs and improve footfalls and sales. Part (e) was incorrectly answered by a large number of candidates.

Integrated Professional Competence Course (Group - I) Examination

I. General Comments:

- (1) Generally, answers in all subjects have exhibited lack of systematic and logical approach and conceptual clarity. Intense learning of the study material will help to develop conceptual clarity.
- (2) In Paper 1: Accounting, knowledge of Accounting Standards is one area the candidates were found lacking. A thorough reading of the basic text of the Accounting Standards is required to strengthen their fundamentals. Lack of knowledge of the basic accounting concepts is another area of deficiency.
- (3) In Paper 2: Business Laws, Ethics and Communication, the candidates were found lacking in their ability to

apply the provisions of law correctly to solve practical problems. The candidates were also not able to comprehend the questions in the Ethics portion and hence their answers were general in nature. In the portion relating to Communication, the candidates were not able to understand the correct meaning of certain terms used, like notice and minutes.

- (4) In Paper 3: Cost Accounting and Financial Management, the performance of the candidates revealed lack of in depth knowledge and presentation skills.
- (5) In Paper 4: Taxation, the candidates were found lacking in the knowledge of the latest amendments in income-tax.
- (6) The presentation of answers was also very poor in many cases. The major deficiencies were -
 - (i) not starting the answer to a new question on a fresh page;
 - (ii) answering the different sub-parts of the questions in different places instead of answering the same one after the other;
 - (iii) leaving blank pages in between the answers;
 - (iv) writing the question number outside the margin, which is intended for answers;
 - (v) not marking the questions answered in the cover page inspite of specific instructions to do so;
 - (vi) very poor handwriting;
 - (vii) lack of expression;
 - (viii) spelling mistakes; and
 - (ix) grammatical mistakes.

II. Paper-Wise Specific Comments :

PAPER 1 : ACCOUNTING

Question 1. Few candidates did not give the required answer for parts (i), (ii), (iii), (v), (vi), (viii) and (x).

Question 2. Some of the candidates erred in calculation of credit sales, credit purchases and depreciation. Consequently, they could not prepare the trading and profit and loss account in the correct manner.

Question 3. Many candidates did not compute the correct amount of purchase consideration and the correct number of equity and preference shares issued by Careful Ltd. to Reckless Ltd. They were not able to give the required journal entries and ledger accounts.

Question 4.(a) Some candidates were not able to calculate the closing balance of instalments due and hence profit on hire purchase was wrongly computed. Few among them solved the problem under stock and debtors method which was not asked for in the question.

(b) Many candidates failed to work out the profit /loss on sale of investments. They could not prepare the investment account showing value of holdings at the year end.

Question 5.(b) Few candidates committed mistakes in calculation of cash flows from operating, investing and financing activities. Candidates erred in applying direct method for calculation of cash flow from operating activities.

Question 6.(b) Very few candidates did not answer the question in line with AS 10 "Accounting for Fixed Assets" as they treated 'partial replacement of parts of the machinery' as capital expenditure.

(d) Many candidates failed to arrive at the correct value of inventory by applying the provisions of AS 2 'Valuation of Inventories'.

PAPER 2 : BUSINESS LAWS, ETHICS AND COMMUNICATION

PART I - LAWS

Question 1. The first part of the question was with reference to Section 69 of the Indian Contract Act, 1872 and most of the candidates did not refer the said section in support of their answers. Though the answers given by them were correct, it was generalized one. In the given problem arrears of house tax were cleared by the lessee on behalf the lessor to the Municipal Corporation. Candidates did not underscore the point that the lessee in the given case is an interested party and paid the said sum on behalf of another who is bound to pay. Hence the lessee (W) is entitled to get reimbursed from the lessor (Z) for the arrears of tax paid to the Municipal Corporation.

In the second part of the question relating to given statements, whether they are correct or incorrect, candidates were able to state only correct or incorrect as the case may be, but reasoning was not with reference to the particular section dealt by the respective law(s) namely, the Payment of Bonus Act, 1965 and the Indian Contract Act, 1872. This suggests that candidates while reading the subject of law should understand the textual material with the help of the provision as given in the Bare Act.

In the third part of the question consisting of multiple choice questions, some candidates were not able to reason out the choice of their answers. In respect of question relating to Negotiable Instruments Act, 1881, candidates should equip themselves thoroughly the rudimentary and practicality of sections.

Question 2. The problem as stated in the question related to the consequences if there is reduction in the membership of a public company below the statutory minimum (i.e. 7) as prescribed in Section 45 of the Companies Act, 1956. The crucial part of the answer which candidates should have included in their answer is that the company should have carried on its business with reduced membership for more than 6 months and then members remaining who are aware of this fact will be personally and severally liable for all debts.

In the multiple objective type questions, performance in general were satisfactory, as questions were straight-forward.

Question 3. On the review of the candidates preparation in this subject in general, it is apparent that candidates are experiencing difficulty in consuming the subject of Negotiable Instruments Act, 1881 as it criss-crosses different types of instruments and their application in practical situations. May be due to the voluminous of the Act, numbering around 142 sections, candidates are feeling it heavy-weight on their load for understanding. The problem as given in the question was treated very generally as candidates were not able to spot the correct section which dealt with the situation. (i.e. rights of a holder-in-due course in a suit as stated by Section 120 of the Negotiable Instruments Act, 1881).

Question 4. The question was with reference to the applicability of the Payment of Bonus Act, 1965 to the establishment in Public Sector. This question required two explanations. On the first part, that establishment in the Public Sector is not covered by the provisions of the Act which is provided in Section 20. However, if the income from such sale or service or both is not less than 20% of its gross income, then the provisions of the Act shall apply in relation to such establishments. Candidates could not understand the intricacies and nuances of the said provision and hence wrote general answers with weak support.

Question 5. The question was with reference to Section 7F of the Employee's Provident Funds and Miscellaneous Provisions Act, 1952. In the instant problem, the question was whether a person who was appointed as a Presiding Officer of EPF Appellate Tribunal can resign from his office without handing over his charge to the incumbent. The answer is No. Some candidates have treated the question in a general way stating that it is prerogative of the Officer to resign as such and need not necessarily hand over the charge.

Question 6. From the review of analysis of the performance in the Law segment, it is understood, that candidates have not paid their attention and preparation in analyzing the various practical situations for which one has to resort to the guidance of section. How to categorize an establishment as an seasonal establishment was not known to many.

Question 7. The grounds on which the Chairman of a meeting can invalidate the casting of vote by a member were not known to many candidates. Section 181 of the Companies Act, 1956 lays down the grounds on which the right of a shareholder to vote at the meeting can be excluded.

Question 8. The question was with reference to the extent of the powers or objects of company can extend. The candidates overall did their fine part in the question by giving not only the correct answers but were also able to cite the case law on the matter i.e. Ashbury Railways Carriage Company vs. Riche). This is particularly encouraging and pleasing to see their performance and it is hoped that that they extend their knowledge to other parts of the subject as well to give an impression that they are totally prepared and equipped in answering the questions.

Question 9. The answer to the question is to be decided based on an English Case law, as the Companies Act, 1956 is apparently silent on the matter. Though it is difficult to pin point the exact case law on the matter ie. Cousins vs. International Brick Company Ltd, students used their commonsense approach in solving the problem correctly.

Question 10. It is quite important for the CA students that the programmes that are floated, implemented and in operation should be well within domain of their knowledge as it one who is in the profession is ultimately and closely associated with such programmes of the Government in one way or other. The question was with reference to the MCA 21 introduced by the Ministry of Corporate Affairs on e-governance which received an overall appreciation and acclamation from various quarters. Candidates were not able to do full justice to the question, though they could only outline or give sketchy answers based on general awareness.

PART II - ETHICS

Question 11. Ethics is one area where candidates are

experiencing lot of difficulties, as it primarily deals with various concepts, terminologies and unless one has gone through the study material it could be difficult to write with crispness and clarity. Candidates could not explain the concept of green accounting system and most of the answers were vague and revealed complete out of reach area for them.

Question 12. The safeguards that should be adopted for overcoming threats faced by an accounting and finance profession are again an area for which they were not fully prepared and equipped. It should be remembered that those safeguards are only at an acceptable level and safeguards be classified into those at the profession, legislation or regulative level and the other at the work environment level. Most of the answers were based on guess work and recollection of points here and there.

Question 13. Many candidates could answer this question based on correct or incorrect statement very well with one exception that reasons adduced to their answers were general and not logical. Many were not aware of what is sustainable development and they simple thought in layman's knowledge that it is closely linked to Corporate Social Responsibility (CSR). Similarly to statement whether a good environmental practice improves corporate performance, the obvious answer which many wrote was 'yes'. It is encouraging to note that the awareness has percolated among the students community.

PART III - COMMUNICATION

Question 14. This question splits into two parts, each part carrying 5 marks each.

(a) In this part, examinees were required to explain the functions of interpersonal communication. This question was answered by most of the students. However, some students provided meaning and principles of interpersonal communication which is not required. Students are advised to understand the language of the question and to remain specific in attempting such questions.

(b) Most of the examinees were unable to write the answer correctly. They failed to differentiate the difference between notice and minutes of a business meeting. Hence, wrote the Minutes of Annual General Meeting instead of Statutory Meeting. The significant number of the students approached the question from the perspective of Annual General Meeting. The students must read the actual words and deal with what was asked and not waste their time on writing unnecessary information.

Question 15. Most of the examinees attempted this answer but majority of them did not mention the schedule and witness that needs to be given towards the concluding part of the lease deed. The problem stemmed from a general lack of practical knowledge. The students are advised to be specific in mentioning only relevant terms and conditions of the lease deed as per the agreement given in the question.

Question 16. In general, the students were able to highlight the contents of annual report but a few examinees misunderstood the question and defined the meaning of annual report or mentioned contents of Audit Report rather contents of Annual Report of company. The students seemed to know and write a lot about what was irrelevant but not enough about what was relevant. In answering such a question, the students are expected to mention only important and relevant heads.

PAPER - 3 : COST ACCOUNTING AND FINANCIAL MANAGEMENT

Question 1.(i) This theory question related to 'Basic Concepts of Cost Accounting' invited the examinees to demonstrate their knowledge in the concept of Cost Accounting and stating its objectives. It was attempted by majority of the examinees. But the most of them had written the definition of cost accounting incorrectly.

(ii) This theory question requires a sound knowledge of overheads. This question related to 'Difference between Fixed Overheads and Variable Overheads' was attempted by the majority of the candidates. Many out of them were able to answer it correctly. However examples of variable overheads and fixed overheads were missing from the answers given by them in many cases.

(iii) This practical question part related to 'Material' was attempted by majority of the students. But the examinees were confused about the concept of 'Re-order Quantity' and only a handful number of examinees were able to calculate it accurately.

(iv) This theory question related to 'Marginal costing' was answered by many of the students. Many of the examinees were not clear about the concept of 'Key Factor'. Definition and examples of 'Key Factor' given by the examinees was not entirely correct.

(v) This theory question part related to 'Non-Integrated Accounts' was answered by many of the students. But the advantages of the 'Integrated Accounts' given by the candidates were very sketchy. Very few had mentioned that how 'Integrated Accounts' could be economical for the organisation.

Question 2. This numerical question was a multifunctional one and comprised of two parts. The part (i) asked the candidates to prepare contract A/c and do an analysis for 'Admissible Escalation Claim'. Part (ii) intended to test the candidates' capability to calculate 'Material and Labour Variances'. The candidates performed relatively better in part (ii) than in part (i).

(i) In this part, the majority of the candidates were not able to calculate the exact escalation amount and the final contract price. Many examinees had taken the figure of Contractee's A/c as 15, 00,000 instead of 15, 54,000 after adjusting 'Escalation Claim'.

(ii) The second part of the question related to the calculation of material and labour variances was well attempted by the students. But many of the examinees had forgotten to give the verification for both material and labour variances.

Question 3. The question was divided into two parts. Part (a) asked the candidates to demonstrate their knowledge in the area of 'Process Costing' by preparing 'Process Accounts' while calculating profit element at each stage. Part (b) tested the candidates' knowledge in the area of 'Operating Costing' in which examinees were required to calculate the bus fare to be charged from each passenger per kilometre.

Part (a) of this question was attempted by all most all the candidates. However, many of the examinees were not able to prepare all the Process A/c correctly. Candidates had also committed mistakes in the valuation of 'inter-process profit'.

In relation to part (b), which was answered by majority of the students, candidates failed to calculate the per passenger

kilometre cost. Some of the students had calculated the 'Salaries of Drivers and Diesel Cost' incorrectly.

Question 4. (i) This numerical question related to 'Marginal Costing' was answered by majority of candidates. The examinees were able to calculate 'p/v ratio', 'total fixed cost' and 'desired sales' appropriately.

(ii) This theory question part related to 'Overheads' was not correctly answered by majority number of candidates. The examinees had not perfectly explained the treatment of over and under absorption of overheads in cost accounting.

(iii) This theory question related to 'labour' is attempted by the large number of students. However, some of the examinees were not able to state precisely as to which is better plan out of Halsey 50 percent bonus and Rowan bonus scheme.

But the situation in which worker get the same bonus in both the schemes was correctly answered by the most of the students.

Question 5. (i) Most of the candidates have just explained Capital Structure and could not differentiate it with Financial Structure.

(ii) Many of the candidates explained the meaning of accounts receivables instead of writing on Accounts Receivable System.

(iv) Majority of the candidates only enumerated two or three Forms of Bank Credit. Some even mentioned maximum permissible banking finance (MPBF) as forms of bank credit.

(v) A large percentage of the candidates computed the Compound Value and Compound Interest by taking into consideration 8 percent compounded annually rather than semiannually as mentioned in the question.

Question 6. (a) Majority of the candidates prepared the Balance Sheet on correct lines. However, few of the candidates could not compute Reserves and Surplus and Share Capital figures correctly.

(b) A large number of the candidates could not compute the provision for contingencies correctly. They straightaway calculated 10 percent of working capital before provision instead of one-ninth to arrive at the figure for working capital requirement.

Question 7. (a) A large percentage of the candidates did not arrive at the correct figures of discounted payback period and internal rate of return for the two machines and hence ended up giving the wrong advice to the management.

(b) This part of the question was attempted by majority of the candidates. However, only few candidates could calculate amount collected from debtors, payment of wages and the amount of fixed deposit to be maintained correctly. Further, few candidates have also not presented their answers supported by proper working notes in preparation of cash budget.

Question 8. (ii) Most of the candidates limited the Role of a Chief Financial Officer (CFO) to procurement and effective utilization of funds only.

PAPER 4 : TAXATION

Question 1. Most of the candidates were not aware of the head of income under which salary received by a working partner is taxable. They have wrongly answered that the same is taxable under the head "Salaries". Some of the candidates have not aggregated agricultural income for computation of tax liability.

Further, they have not been able to explain applicability of provisions of section 234A and 234B. Some other common mistakes committed by the candidates are as under:

(i) Non-provision of deduction of 30% from arrears of rent while computing income under the head "Income of house property".

(ii) Non-deduction of advance tax and TDS while computing the tax payable.

(iii) Failure to disallow proportionate depreciation in respect of personal use of car.

(iv) Failure to compute additional depreciation

Question 2. (a) Most of the candidates have not applied Rule 7B of Income-tax Rules, 1962 in computing the income from composite business of growing and curing coffee. Rule 7B requires segregation of agricultural income (75%) and business income (25%), which the candidates were not aware of. Some of the candidates who have segregated the income have applied the wrong percentage for segregation.

(b) Most of the candidates were not aware of the provisions of section 50C. Many of them have not bifurcated long term capital gains on sale of land from short term capital gains on sale of building. Some candidates who have bifurcated the capital gains, have taken the benefit of indexation even in the case of short term capital gains on sale of building.

Question 3. The answers exhibited lack of clarity of the provisions of residential status and scope of total income. In some answers, the agricultural income and dividend from an Indian company have been taken as taxable in all the three cases, whereas these income are exempt under section 10.

Question 4. (a) Many of the candidates were neither aware of the amendment in section 40A(3) increasing the limit specified therein from ₹20,000 to ₹35,000 in case of payments to transport contractors nor of the amendment in section 194C exempting the application of the provisions of tax deduction at source in case of payments to transport contractors who have furnished their permanent account number. Their answers were instead based on the earlier provisions.

(b) Most of the candidates were not aware of the conditions to be fulfilled under section 12A for applicability of the exemption provisions contained in sections 11 and 12. Instead, they have written about charitable institutions in general, books of accounts to be maintained etc. which are totally irrelevant to the question asked.

(c) Majority of the candidates were not aware of the requirements of section 139(6) and their answers were general and vague.

Question 5. (a) Indian territorial waters extend up to 12 nautical miles from the Indian land mass. However, varied answers on the same were provided by candidates. For instance, few candidates wrote that Indian territorial waters extend up to 8 nautical miles while few others wrote that they extend up to 1,200 nautical miles.

Question 6. (a) Many candidates were not aware of the provisions relating to the service tax liability on the advances received from clients. Few candidates were not conversant with the concept that the service tax liability arises only on receipt basis irrespective of the system of accounting being followed.

Further, in order to arrive at the value of taxable services, TDS has to be added to the amount received. However, almost all the candidates had committed mistake in this point.

(b) (i) Few candidates were not even aware of the fact that there exists an option to pay service tax at a rate different from the general rate. Many candidates provided the incorrect special rate of service tax in the case of purchase and sale of foreign currency.

Question 7.(b) Few candidates provided the threshold exemption limit as 40 lakh or 50 lakh.

Question 8.(a) Few candidates applied same VAT rate on all goods namely A, B & C.

(b) (ii) Instead of writing the importance of VAT invoice, few candidates mentioned the importance of VAT.

**Integrated Professional Competence Course
(Group-II) Examination**

I. General Comments:

- (1) The most common deficiency observed in all the papers is the lack of conceptual understanding, resulting in lack of substance in the answers. An in-depth learning of the study material would help to build a strong conceptual base.
- (2) While solving practical problems, the answers have not been supported with appropriate working notes. Working notes are very important and they should form part of the answer.
- (3) In Paper 5: Advanced Accounting, the candidates were found lacking in their knowledge of Accounting Standards and even the basic accounting concepts. Some candidates have adopted a careless attitude and have not even given the total figures for the Profit and Loss Account and Balance Sheet.
- (4) In Paper 6: Auditing and Assurance, deficiency was noticed in the knowledge and application of Standards on Auditing, Accounting Standards and provisions of the Companies Act, 1956.
- (5) In Paper 7: Information Technology, it was observed that the candidates were unable to comprehend the meaning of the questions asked and gave their answer in a vague and general manner.
- (6) The presentation of answers was also very poor in many cases. The major deficiencies were -
 - (i) not starting the answer to a new question on a fresh page.
 - (ii) answering the different sub-parts of the questions in different places instead of answering the same one after the other
 - (iii) leaving blank pages in between the answers
 - (iv) writing the question number outside the margin, which is intended for answers.
 - (v) not marking the questions answered in the cover page inspite of specific instructions to do so.
 - (vi) very poor handwriting,
 - (vii) lack of expression

- (viii) spelling mistakes and
- (vi) grammatical mistakes.

II. Paper-Wise Specific Comments :

PAPER 5 : ADVANCED ACCOUNTING

Question 1. Many candidates did not give the required answer for parts (iii), (iv), (v), (vi), (viii) and (ix).

Question 2. Some of the candidates prepared revaluation account instead of realization account. They could not arrive at the correct figures of purchase consideration, profit on realization of assets and liabilities and balances in partners' capital accounts. Few among them gave journal entries which were not asked in the question. They failed to give required working notes.

Question 3. Very few candidates failed to compute the correct amount of transfer from capital reduction account to capital reserve account and consequently, they could not prepare the balance sheet of the company after reduction. .

Question 4(a): Most of the candidates could not ascertain the correct amount of branch profit and did not give the required ledger accounts in the books of head office.

(b) Many candidates were not able to give the required journal entries relating to unexpired risks reserve.

Question 5.(b) Large number of candidates erred in computation of liquidator's remuneration and final payment made to equity shareholders.

Question 6.(b) Many candidates failed to disclose the given ledger balances in the final accounts of DVD Bank as per the prescribed formats.

(c) Most of the candidates were not able to apply the provisions of AS 19 "Leases" and hence, were not able to answer the question correctly. They could not state the type of lease and also erred in computation of unearned finance income.

(d) Few candidates did not give the required journal entries in the books of electricity company.

PAPER 6 : AUDITING AND ASSURANCE

Question 1.(v) Second part requiring approval of Central Government was not given correctly by most of the students.

(vi) Many students failed to answer the reporting requirement to regulatory authorities.

(viii) Reference of approval of CLB is not given by most of the Students.

(ix) Majority of the students failed to give proper reasoning.

Question 2.(a) Students had given correct provision of sec. 226 (3) but failed to give correct conclusion of the case.

(b) Many students failed to give correct treatment of sales return.

(c) Most of the students are not aware of provisions of AS - 2 as well as the case law. Hence the performance was very poor.

Question 3 Many of the students has failed to understand the question properly and tried to give the various reasons for reduction in gross profit instead of relevant steps such as study and evaluation of internal control system, vouching of purchase transactions and analytical procedure.

Question 4.(a) Majority of the students failed to understand the internal control in a CIS environment and explained as internal control in business and accounting environment and answered in a general way.

Question 5.(a) Some of the students had given general answer on the various aspects to be covered in an audit instead of the special audit requirement in the case of local bodies.

(b) Most of the students had given general answer on need of comparative and audit of previous year figure and failed to mention the provisions of the reporting requirement on the comparative as per SA 710.

Question 6.(b) Some students failed to answer that joint auditor can give his separate report in case of difference of opinion with majority of joint auditors.

PAPER 7 : INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT

SECTION - A : INFORMATION TECHNOLOGY

Question 1.(a) A short answer type question based upon the basic understanding of technical term, where examinees were required to discuss Definitions and Usages in two or three lines. However, they failed to answer properly and could not even write the full form of RISC, SCSI and WiFi. Most of them were not able to write the concepts of pointer while explaining Linked List.

(b) In this part, Most of the examinees were unable to explain the concepts of Open Source Software, Firewall and Multitasking. They explained definition of software instead of use of open source software. Intranet and Multitasking were confused with Internet and Multiprocessing respectively in most of the cases.

Question 2.(a) Most of the examinees explained about the Data Centre instead of Value Added Services provided by the Data Centre. They ignored study material and gave generalized answer explaining Data Centres and their Usages.

(b) In this part, Most of the examinees answered steps to create backup instead of core phases in developing a backup and recovery strategy. They wrote general answers about backup and recovery procedures.

Question 3.(a) Instead of explaining various attributes of LAN, most of the examinees explained either types or components of a LAN. Some of them wrote advantages and disadvantages of LAN.

(b) Only few examinees could explain the term ISDN. Most of them exhibited lack of technical knowledge and gave advantages of digital mode of data transmission.

Question 4. In this part, Examinees committed mistakes in calculating tax correctly. Few of them were unable to write the condition and also the formula for calculation. Some of the examinees did use appropriate flow chart symbols. The following mistakes were noted during design of flow chart.

- Instead of Taxable Income, Gross Income was taken for calculating tax.
- Full forms were not written for the terms used in flowchart.
- Arrows were not drawn & connectors were not given properly.

- Last employee? and CAWL condition were omitted by many examinees.

Question 5. (a) Most of the examinees explained meaning of Data Mining instead of stages of Data Mining. Very few could explain the stages of data mining point wise.

(b) Generalized answers were given by most of the examinees. The examinees were not aware of the fact that Bluetooth technology enables wireless connection. They exhibited lack of technical details about mobile communication devices.

SECTION - B : STRATEGIC MANAGEMENT

Question 6. Majority of the candidates were able to provide answers in terms of correctness or incorrectness of the statements. However, they were not able to substantiate their answers with adequate and valid reasoning.

In part (a) a large number of examinees have explained globalization in economic and business terms. The other perceptions were not clearly brought out in their answers.

In part (b) most of the examinees failed to relate production strategy with the higher strategies.

Part (c) was found generally difficult to answer as only a few examinees were able to write with conceptual clarity of benchmarking.

Question 7.(a) The answers of the examinees reflected that most of them were not aware about the need of turnaround strategy. A good number of examinees have vaguely mentioned the meaning of turnaround in place of its need.

(b) The performance was extremely poor indicating that the candidates have not prepared well on the concept. Stability strategy is not clear to a large number of candidates.

(c) The concept of 'shared vision' and 'vision shared' were generally not known to the candidates. In a large number of cases answers were found to be wrong.

Question 8.(i) Majority of the candidates wrote answers in general manner and made them too simple. In many cases tips to write a 'right' mission statement was found superficial and tips that were given were not relevant.

(ii) Most of the candidates understood the concept of BCG matrix and gave good answers.

Question 9. A large number of candidates have done well. However, a few examinees have merely guessed and have wrongly mentioned other strategies/concepts such as expansion, stability, diversification, retrenchment, production and marketing. A good number of examinees could not write about the situations where the generic strategies of Porter can be used.

Question 10. There were five questions asked to the candidates at the end of the case study. Diverse answers were written by them. In part (a) some candidates found it difficult to write questions that can be asked to understand the nature of competition. The performance was fairly good in part (b) and (c). In part (d) many candidates were not able to suggest ways to control the costs and improve footfalls and sales. Part (e) was incorrectly answered by a large number of candidates.

NATIONAL CONVENTION - KOLKATA



Shri Kshiti Goswami, Hon'ble PWD Minister, West Bengal, lighting the lamp at the National Convention of CA Students in Kolkata. Also seen in picture, Sourav Ganguli, Former Captain, Indian Cricket Team, CA. Krishanu Bhattacharyya, Chairman, EIRC and other dignitaries.



Sourav Ganguly, Former Captain, Indian Cricket Team, releases the National Convention Book at the CA Students Convention in Kolkata.



Eminent Dignitaries and EIRC Officers and students humming the ICAI Motto on the occasion of the National Convention of CA Students in Kolkata.



A view of the dais at the Inaugural Session of the National Convention of CA Students in Kolkata. Seen in picture (L to R) CA. Sushil Kumar Goyal, Chairman EICASA, Mr. Sourav Ganguly, Former Captain, Indian Cricket Team, Shri Kshiti Goswami, Hon'ble PWD Minister, WB Govt., CA. Krishanu Bhattacharyya, Chairman EIRC, CA. T N Manoharan, Ex-President ICAI, CA. Sumantra Guha, Council Member and Mr. Vijay Kapur, Director, Board of Studies.



CA. Vinod Jain, Chairman Board of Studies, CA. Prasun Kumar Bhattacharyya, Council Member, EIRC and student speakers in third technical session of the National Convention for CA Students in Kolkata.



Mr. Vijay Kapur, Director Board of Studies, ICAI addressing the students at the National Convention for CA students in Kolkata.

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◀ CROSSWORD

ACROSS

3. Apex bank to provide financial assistance to small scale industries.
5. An allowance given by the employer to the employee to meet the cost of renting a home.
7. As per section 4 of the Central Excise Act, 1944, excise duty is chargeable on _____ value of the excisable goods.
8. Credit Rating Agency
9. In how many years the amount of unpaid dividend account should be transferred to Investor Education and Protection Fund
11. Section 80-ID of Income Tax Act provides five year tax holiday for the undertaking engaged in the business of hotel located in the _____.
12. Instrument by which the obligation to pay money is created expressly.
13. As per exposure draft of Ind AS 1(Corresponding to IAS 1) complete set of financial statements comprise of _____ statements.

DOWN

1. The Schedule to the Companies Act, 1956 dealing with managerial remuneration is _____
2. Unrealised _____ and losses arising from changes in foreign currency exchange rates are not cash flows.
3. Where the financial position of the company is such as to endanger its insolvency, Central Government may direct order for _____ Audit
4. As per exposure draft of Ind AS 4, if an entity declares _____ to holders of equity instruments after the reporting period, the entity shall not recognise it as a liability at the end of the reporting period.
6. _____ State purchases are not eligible for input tax credit under VAT system.
10. As per exposure draft of revised AS 2, the cost of inventories of a service provider does not include profit margins or _____ attributable overheads that are often factored into prices charged by service providers.