



# The Chartered Accountant Student

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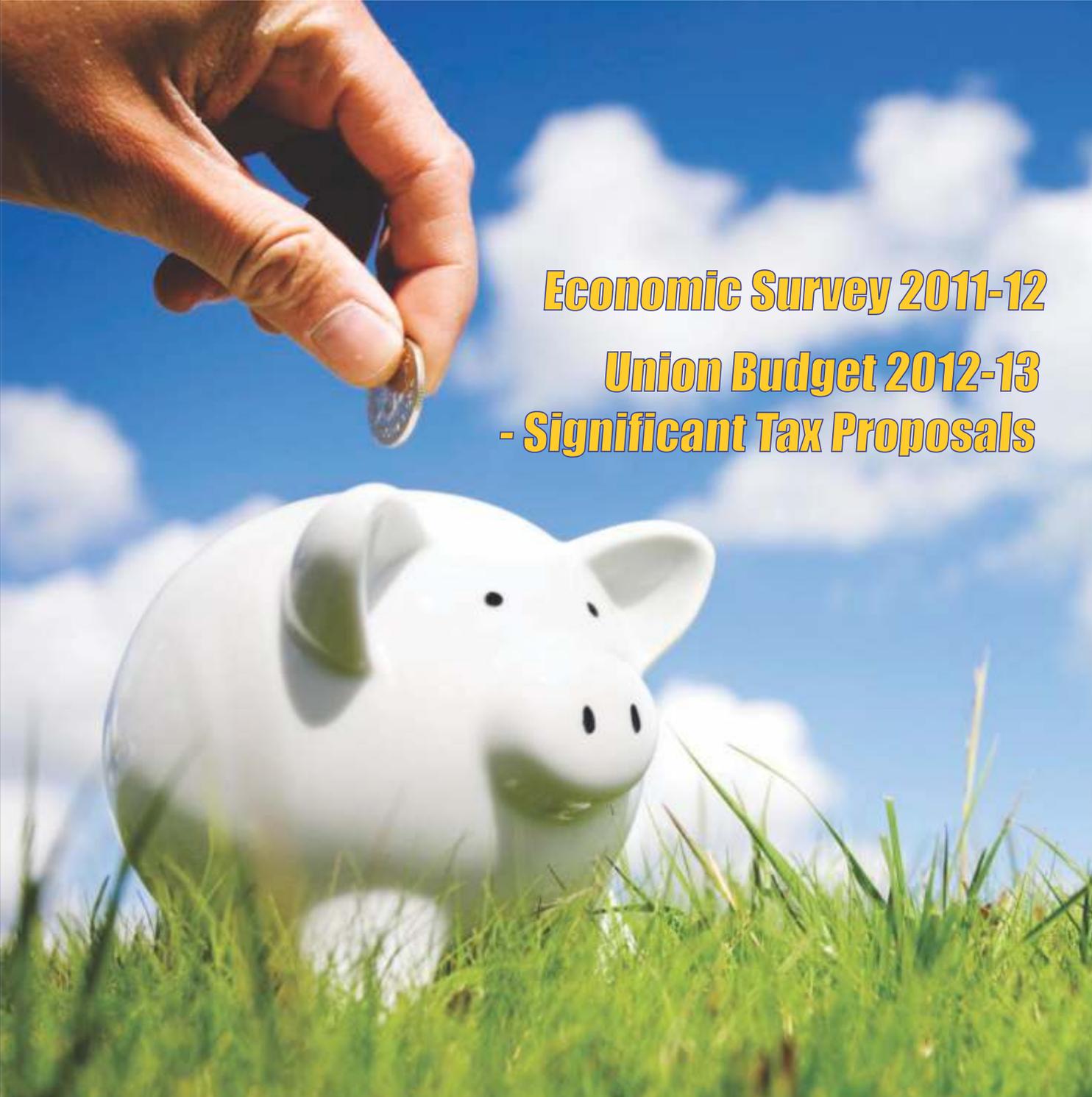
The Institute of Chartered Accountants of India  
(Set up by an Act of Parliament)

Your Monthly Guide to the CA News, Information & Events

STUDENTS' JOURNAL

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Pages 36



***Economic Survey 2011-12  
Union Budget 2012-13  
- Significant Tax Proposals***



## President's Communication

Dear Students,

Recently, Economic Survey - 2011-12 was presented in the Parliament. With rich physical and human resources our country is doing fairly well. In spite of all odds such as crisis

of euro zone, near recessionary conditions prevailing in Europe, sluggish growth in many other industrialised nations, hardening international prices of crude oil, our economy is doing fairly well. The Indian economy is estimated to grow by 6.9% during the year. This is by and large a reasonable rate of the growth. India remains among the front-runner in any cross-country comparison. Although, there is weakening in industrial growth, agriculture and services continue to perform well. With the worry of rising inflation over, measures can be taken to boost the industrial growth in the year 2012-13.

The Union Budget for the Financial Year 2012-13 was presented by Shri Pranab Mukherjee, Hon'ble Finance Minister in the Parliament on March 16, 2012. Measures have been taken to generate more revenues for better fiscal position. Some respite has been also been given to the income tax-payers. The crucial measures unleashed in the Budget by the Finance Minister will definitely help to bring back the economy back to track. The reform measures announced in the Budget would go a long way in establishing success and create a sustainable momentum in our economy.

As a student, it is very important that you keep yourself updated with the amendments proposed in the Union Budget in Direct and Indirect Taxes. As you all may be aware, the tax proposals in the Union Budget are contained in the Finance Bill. The Finance Bill is enacted when it is passed by both Houses of the Parliament and receives the assent of the President. The amendments by the Finance Act of a particular year go to amend the various tax legislations i.e. Income-tax Act, 1961, Wealth-tax Act, 1957, Central Excise Act, 1944, Customs Act, 1962 etc. Since taxation is a dynamic subject, it is very crucial that you keep yourself abreast by staying current on the latest amendments.

Many of you should be busy in sharpening your skills to face the May 2012 CA Examinations. I convey my best wishes to all of you who are appearing for the same. You will agree that the Chartered Accountancy examination is certainly not impossible to get through, although a bit tough. I am sure that if you prepare for

the examinations in a systematic and thorough manner, you will come out with flying colours. Further, as you all would be aware that the Institute, in order to bring down stress and anxiety in our students, has **allowed 15 minutes of reading time** to all students with effect from May 2011 examinations, i.e. students are given question papers 15 minutes before the scheduled time of commencement of examination. I would advice you all to utilize this time by going through question papers thoroughly and strategize your answers accordingly.

As aptly said by Peter Drucker, "**time is the scarcest resource available.**" So, we should well utilize this crucial time in the most optimum manner. We should prioritize our studies in a way that all the topics which we find tough should be taken up and understood first and the relatively understood topics subsequently. We should avoid rote learning and cramming. Logical and practical grip over the basics backed with thorough and strong base of theory can help us beat all odds of twists and turns in the questions.

I would recommend you all to take the maximum advantage of the resources which Institute provides to the students through its **BoS Knowledge Portal**. As success is the sum of small efforts, repeated day in and day out, do make it a part of your daily agenda to surf through the Institute's website and this portal and be updated on the latest on standards, publications, practice manuals, developments and amendments, suggested answers, etc. The aim is to provide clarity and remove any confusion with regard to the applicability of a particular standard or amendment for the examination.

The inherent strength of a Chartered Accountant lies in his professional competence. In addition, you should have strong process and analytical skills and broad business knowledge to stay on successful in your chosen profession. I have full faith in your potential to arm yourself with knowledge and technology and in your capability to make a mark wherever you go and whatever you do. I would like to conclude this message with the mindful thought:-

**"I'm not telling you it is going to be easy - I'm telling you it's going to be worth it"**

Best wishes for all your future endeavours.

Yours sincerely,

CA. Jaydeep Narendra Shah  
President, ICAI, New Delhi



## Vice-President's Communication

Dear Students,

The May, 2012 examinations are fast approaching. Chartered Accountancy examinations are a way for assessing the professional knowledge and skills acquired by the students. It is important for the students to study well, assimilate the concepts, write appropriate answers in the examinations to score good marks.

With about a month left for the examinations, it is time for the students to gear up their efforts. Continue to work hard with eyes well set towards your goals. **"To succeed in your mission, you must have single-minded devotion to your goal."** - Dr. A.P.J. Abdul Kalam. I am quite sure that with the hard work and dedication you will not only pass the examination, but will also secure good marks. I take this opportunity to convey best wishes to all the students who are taking the ensuing examinations being organised in the month of May, 2012.

I would like to suggest you to follow a systematic and well-planned time table for your regular studies. Passing the Chartered Accountancy examinations cannot be achieved merely through rote learning. Concentrate on your studies and develop an integrated approach to learn the practical aspects. Success in CA exams requires clear understanding of applicability of theoretical concepts in real life situations. The Articleship training is a golden opportunity for you to understand the practical niceties of theoretical concepts. You can sharpen your technical and analytical skills with the help of Articleship training.

The Board of Studies provides a wide range of resources designed for your respective subjects including study materials, Practice Manual, Compilation of Suggested Answers, Revision Test Papers and so on. The study materials, are Sine qua non for performing well in the examinations. The importance of the study material and other inputs provided by ICAI has been often highlighted by the meritorious students in our interaction with them. Their feedback has only reinforced the importance of the material provided for the preparation. Study materials can be supplemented by the textbooks but the latter cannot replace the former. For holistic learning, you should also read a few standard business magazines and at least one financial newspaper.

Especially go through the matters related to corporate and tax laws, information technology and business environment.

I hope that by this time you must have acquired copies of the Revision Test Paper for May, 2012 examinations and Suggested Answers to previous examinations. If not you must get them at the earliest. They are also hosted on the website of the Institute. It would also be rewarding for you to attempt self examination/assessment tests based upon previous question papers. Compare your answers with the suggested answers. This exercise would definitely help you to boost up your confidence level and morale.

For the subject specific suggestions you may go through the Handbook **"How to Face CA Examinations - A Matrix for Winning Strategies"**. The booklet has been recently revised and contains detailed guidance on each subject at IPCC and Final levels.

You must also go through the Summary of Examiner's Comments of previous examinations. This will help you in identifying the common mistakes committed by the students in the examinations. Remember - **"A Wise Man Learns by the Mistakes of Others, a Fool by His Own."** You can avoid the slip-ups made by the students in earlier examinations and improve your answers.

During the examinations days and particularly in the examination hall, you should maintain your cool. Fear of examinations, tension, stress and anxiety can spoil your performance. While some anxiety is helpful in enhancing the efforts, too much of stress and tension can hamper your ability to do well. You may tend to forget, your mind can get blank while writing the answers. Yoga and meditation can help you in reducing the stress. Practice them to have improved mental and physical health. But first and foremost is that you should believe in yourself and your abilities. You should remember that the students like you not only pass the examinations but secure very good marks. **"Believe in yourself! Have faith in your abilities! Without a humble but reasonable confidence in your own powers you cannot be successful or happy."** - Norman Vincent Peale.

Wish you all the best

Yours sincerely,

CA. Subodh Kumar Agrawal  
Vice President, ICAI, New Delhi.



## Chairman's Communication

### My Dear Students,

At the outset, I extend my heartiest Best wishes to all students who are appearing in May, 2012 examinations. I agree that since the quality and standard of CA course is very high, it is little tough to achieve success with inadequate efforts. It is imperative for you to dream high and to turn your dreams into realities. Let me assure you that the Board of Studies (BOS), is always there to give you support in achieving your cherished goal of becoming a Chartered Accountant. In this direction, it has recently brought out the revised version of the booklet "How to Face CA Examinations". The lucid, easy to comprehend guide gives you practical pointers on how to study, sharpen your learning skills, how to judiciously use the three hours given to you and tips on presentation at the exams. The detailed subject specific guidance will surely help you in understanding how to tackle different papers differently. Do grab a copy of the booklet from your nearby Branch or Regional Office and refer it to take on your examinations in a systematic and holistic manner.

Another important step taken by the BOS in the direction of assisting students to sail through the examinations smoothly is the preparation of Mock Test Papers. Two sets of Mock Test Papers based on the pattern of actual examinations have been prepared for all the subjects of IPCC/PCC and Final. These tests are being conducted by the Regions and their Branches. You have to register with your nearby Branch or Regional office if you wish to take these tests. It is my earnest advice that you appear for these Mock Tests seriously as they will not only help you in revising your syllabus and give you a taste of actual examination conditions but also give you an idea of shortcomings in your preparations and presentations which you can rectify before the actual examinations.

I would like to draw your attention to the Gazette Notification containing Draft amendments in the Chartered Accountants Regulations, 1988 issued for public comments. As per the proposed scheme in the Notification, Graduates and Post Graduates with specified percentage of marks and Intermediate level passed out students of the Institute of Cost Accountants of India and the Institute of Company Secretaries of India will be exempted from Common Proficiency Test. Kindly go through and give your comments thereon. The new proposed scheme will come into effect once the Amendments in the Chartered Accountants Regulations, 1988 are notified.

The Institute treasures its students and endeavours to provide them effective learning environment. One such facility is the facility of Reading Rooms. The Institute already has Reading Rooms in metropolitan cities like

Mumbai and Delhi. But their numbers are few. In order to extend this facility to cover more students including in moffusil areas, the BOS is initiating a proposal to encourage branches / Regional offices to set up or Tie up with existing reading rooms / libraries in the above mentioned and other cities as well. Once opened / Tied up, these will greatly help students as they will get conducive environment to study and prepare for the examinations.

The BOS organises multitude of activities in order to groom students into all rounded personalities in addition to providing regular Academic Material in the form of Study Material, Suggested Answers, Revision Test Papers etc. These activities range from conducting One day seminars, National Conventions, International Conventions, Counseling Sessions, Quiz and Elocution Contests, Youth Fests and Sports activities. It is my firm belief that by attending and taking lead / participating in these activities, you emerge with better communication and inter-personal skills, greater comprehension and knowledge, loaded with invaluable human insights that come out of practical experience and Camaraderie which cannot be found in a text book. A number of such programmes are already lined up in the coming months - an International Convention at Nagpur, an All India convention at Baroda and National Conventions at Hyderabad, Vijaywada and Vasai. Many more are in the pipeline. It is my sincere advice to you to participate actively in these activities and get fruitful, enlightening and educative experiences.

In today's professional world, effective communication skills are keys to unlock the doors of success. We are pretty sure that our General Management Communication Skills (GMCS) course is enabling students to hone their hidden potentials in a better manner. In view of the greater need to make the courseware of the GMCS course more contemporary, the syllabus of GMCS is being thoroughly revamped and widened. Now, the GMCS will be conducted at two levels - GMCS I and GMCS II. GMCS I will have to be completed during the first year of articleship and GMCS II will have to be completed during the third year of articleship. I am confident that our students will be highly benefited by such initiatives.

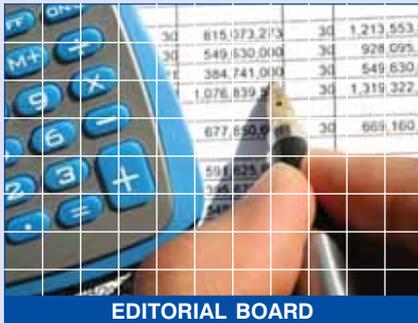
The Great Emperor Alexander Said:

***'For Any Success, If There Is A WAY, I Will FIND It And If There Is NO Way, I Will MAKE IT..!'***

Wishing you the Best for your ensuing examinations,

Yours sincerely,

**CA Nilesh S. Vikamsey,  
Chairman, BOS**



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# Highlights of Economic Survey 2011-12

Following are the Highlights of Economic Survey 2011-12.

## Global Slowdown

The financial crisis in Europe, along with certain exogenous shocks like the Japanese nuclear disaster, has resulted in a sharp global economic slowdown during 2011-12.

## Overall Growth

The Indian economy is estimated to grow by 6.9 per cent in 2011-12, after having grown at the rate of 8.4 per cent in each of the two preceding years. This indicates a slowdown compared not just to the previous two years but 2003 to 2011 (except 2008-9). But despite the low growth figure of 6.9%, India remains one of the fastest growing economies of the world as all major countries including the fast growing emerging economies are seeing a significant slowdown. The global economic environment which was tenuous at best throughout the year, turned sharply adverse in September, 2011, owing to the turmoil in the euro-zone countries. While a large part of the reason for the slowing of the Indian economy can be attributed to global factors, domestic factors also played role. Among these are the tightening of monetary policy owing to high and persistent headline inflation and slowing investment and industrial activity.

## Agriculture

Agriculture, including allied activities, accounted for 13.9 per cent of GDP at 2004-5 prices in 2011-12 as compared to 14.5 per cent in 2010-11. Although the agriculture's share in GDP is declining, it is still a very important sector of the economy because of its share in employment and in terms of its criticality for macroeconomic stability. The average annual growth in agriculture and allied sectors realized during the Eleventh Plan Period was 3.3 per cent against the targeted growth rate of 4 per cent. The sector recorded slightly lower average growth than targeted in the Eleventh Plan period due to severe drought experienced in most parts of the country during 2009-

10 and drought/ deficient rainfall in some states, namely Bihar, Jharkhand, eastern UP, and West Bengal in 2010-11. However, timely and corrective measures taken by the government helped boost agricultural production and growth in the sector reached 7.0 per cent in 2010-11, the highest growth rate achieved during the last six years. In 2011-12 agriculture and allied sectors are estimated to achieve a growth rate of 2.5 per cent. In 2010-11 a significantly high level of 244.78 million tonnes of food grains production was achieved. As per the estimates, production of food grains during 2011-12 has been estimated at 250.42 million tonnes.

## Industry and Infrastructure

Industrial growth, measured in terms of the index of industrial production (IIP), shows fluctuating trends. Growth had reached 15.5 per cent in 2007-8 and then started decelerating. Initial deceleration in industrial growth was largely on account of the global economic meltdown. There was, however, a recovery from 2.5 per cent in 2008-9 to 5.3 per cent in 2009-10 and 8.2 per cent in 2010-11. Fragile economic recovery in the US and Europe and moderately subdued expectations at home affected the growth of the industrial sector in the current year. Overall growth during April-December 2011 reached 3.6 per cent compared to 8.3 per cent in the corresponding period of the previous year. Growth moderated in the manufacturing sector, from 9.0 per cent in April-December 2010 to 3.9 per cent in April-December 2011. In terms of use-based classification of the IIP, in the current year (April-December), basic goods with a growth of 6.1 per cent and consumer non durables with a growth of 6.1 per cent had relatively better growth compared to the corresponding period of the previous year. There was moderation in growth in other segments of the IIP and negative growth was observed in capital goods and intermediates.

There was a contraction in production in the mining sector, particularly the coal and natural gas segments. Contraction in output also resulted in its contribution to growth turning negative. The electricity sector

witnessed an improvement in growth in the current year. Electricity generation by power utilities during 2011-12 was targeted to grow by 5.4 per cent to reach 855 billion units. Growth in power generation during April-January 2011-12 was 8.6 per cent as compared to 5.2 per cent during April-January 2010-11. The telecom sector continues to grow, with the total number of telephones increasing from 206.8 million on 31 March 2007 to 926.95 million on 31 December 2011. Tele-density is an important indicator of telecom penetration in the country. It has increased from 18.2 per cent in March 2007 to 76.8 per cent in December 2011.

### Services Sector

The share of services in India's GDP at factor cost (at current prices) increased from 33.5 per cent in 1950-1 to 55.1 per cent in 2010-11 and 56.3 per cent in 2011-12. The services sector growth rate at constant prices has always been above the overall GDP growth rate since 1996-7 except for 2003-4. The compound annual growth rate (CAGR) of the services sector at 10.2 per cent for the period 2004-5 to 2010-11 has been higher than the 8.6 per cent GDP growth rate during the same period. In the years 2009-10 and 2010-11, the services sector registered a growth rate of 10.5 per cent and 9.3 per cent respectively. In 2011-12, as per the Advance Estimates, the growth rate of services has been placed at 9.4 per cent. While agriculture continues to be the primary employment-providing sector, the services sector is the principal source of employment in urban areas. As per the National Sample Survey Organization's (NSSO) report on the 'Employment and Unemployment Situation in India, 2009-10', for every 1,000 people employed, 679 and 75 people are employed in agriculture sector in rural and urban areas respectively (measured in terms of usually working persons in the principal status and subsidiary status). On the other hand, the services sector accounted for 147 and 582 of every 1,000 persons employed in rural and urban areas respectively.

### Price Situation

Headline WPI inflation remained persistently high and relatively sticky at around 9 per cent during 2011. Though inflation remained high throughout the year, it has shown signs of moderation lately. The major contributory factors to headline inflation during the current financial year include (a) higher primary articles prices driven by vegetables, eggs, meat, and

fish due to changing dietary pattern of consumers; (b) increasing global commodity prices especially metal and chemical prices which ultimately led to higher domestic manufactured prices; and (c) persistently high crude petroleum prices. Among individual product groups, inflation in food products, beverages, textiles, chemicals, and basic metals remained elevated mainly on account of high global commodity prices.

Consumer price index (CPI) inflation for the major indices declined to below 7 per cent in December 2011. In the current financial year (2011-12), the gap between WPI and CPI inflation has significantly narrowed due to a fall in food inflation. The year-on-year inflation released recently by the CSO for CPI (urban), CPI (rural), and CPI (combined) was 8.25 per cent, 7.38 per cent, and 7.65 per cent respectively in January 2012.

### Monetary Management

Reining in inflation and containing inflationary expectations were the dominating objectives of monetary policy during 2011-12. The RBI hiked the repo rate 13 times between March 2010 and January 2012, cumulatively by 375 basis points. Sustained rate increases have, to an extent, impacted growth negatively. Of late, the cash reserve ratio (CRR), however, has been reduced from 6.0 to 5.5 per cent in order to ease the liquidity situation and aid revival of growth.

### Financial Management

The weak global economic prospects and continuing uncertainties in the international financial markets have had their impact on emerging market economies like India. Sovereign risk concerns, particularly in the euro area, affected financial markets for the greater part of the year, with the impact of Greece's sovereign debt problem spreading to India and other economies by way of higher-than-normal levels of volatility. Indian banks however remain robust, notwithstanding a decline in the capital to risk weighted assets ratio and spurt in non-performing asset levels in the recent past. Capital adequacy levels remain above the regulatory requirements. Subdued foreign institutional investor (FII) inflows into the country led to a decline in Indian markets and contributed to the sharp depreciation of the rupee in the forex market. Moderation in the growth rate of the economy has also affected market sentiments. This moderation in

growth is on account of several factors, including uncertainty in the global environment and the lag effect of monetary policy tightening.

### International Trade

The resilience of India's trade can be seen from the fact that the growth of exports and imports, which was (-)3.5 per cent and (-)5 per cent respectively in 2009-10 as a result of the 2008 global economic crisis, rebounded to 40.5 per cent and 28.2 per cent in 2010-11. India not only reached pre-crisis levels in exports but also surpassed pre crisis trends in export growth rate, unlike many other developing and even developed countries. India's share in global exports and imports also increased from 0.7 per cent and 0.8 per cent respectively in 2000 to 1.5 per cent and 2.2 per cent in 2010. During the first half of 2011-12, India's exports witnessed a high growth of 40.6 per cent. However, since October 2011 there has been a deceleration as a result of the crisis in the euro area. In November 2011, export growth was at (-) 0.5 per cent and in December 2011 and January 2012, it was positive but low at 6.7 per cent and 10.1 per cent respectively. Imports in 2011-12 (April-January) at US\$391.5 billion registered a growth of 29.4 per cent. During this period, POL imports at US \$ 118 billion grew by 38.8 per cent. Non-POL imports at US \$ 273.5 billion grew by 25.7 per cent.

India has made progress in diversifying its export and import markets. The share of Asia and the Association of South East Asian Nations (ASEAN) in total trade increased from 33.3 per cent in 2000-1 to 57.3 per cent in the first half of 2011-12, while that of Europe and America fell from 26.8 per cent to 19 per cent. This has helped India weather the global crisis emanating from Europe and America. The USA has been displaced by the UAE as India's largest trading partner, followed by China, since 2008-9.

### Foreign Exchange Reserves

In fiscal 2010-11, foreign exchange reserves increased by US\$ 25.7 billion from US\$ 279.1 billion at end March 2010 to US\$ 304.8 billion at end March 2011. In the current fiscal, foreign exchange reserves rose and then declined. The reserves reached an all-time high of US\$ 322.0 billion at end August 2011. However, they declined to US\$ 311.5 billion at end September 2011. At end December 2011, reserves stood at US\$ 296.7 billion and at end January 2012 at

US\$ 292.8 billion, indicating a decline of US\$ 12.0 billion from US\$ 304.8 billion at end March 2011. The decline in reserves is partly due to intervention by the RBI to stem the slide of the rupee against the US dollar.

### External Debt

India's external debt stock stood at US\$ 326.6 billion at end-September 2011, recording an increase of US\$ 20.2 billion (6.6 per cent) over end March 2011 estimates of US\$ 306.4 billion. This increase was primarily on account of higher commercial borrowings and short-term debt, which together contributed over 80 per cent of the total increase in the country's external debt. India's external debt has remained within manageable limits as indicated by the external debt to GDP ratio of 17.8 per cent and debt service ratio of 4.2 per cent in 2010-11. This has been possible due to an external debt management policy of the government that emphasizes monitoring of long- and short-term debt, raising sovereign loans on concessional terms with long maturities, regulating ECBs and rationalizing interest rates on NRI deposits.

### Fiscal Development

Following two years of purposeful fiscal expansion, the Budget for 2010-11 resumed fiscal consolidation with a partial rollback of the stimulus. The outcome was substantial, with fiscal deficit declining to 4.8 per cent of GDP in 2010-11 from 6.5 per cent in 2009-10. The Budget for 2011-12 sought to carry forward the process of fiscal consolidation through a reduction in the fiscal deficit to 4.6 per cent of GDP. The Medium Term Fiscal Policy Statement indicated that this would be further continued, underscoring the commitment to fiscal consolidation for sustaining macroeconomic outcomes.

### Human Development

India is passing through a phase of unprecedented demographic changes. The 'demographic dividend' provides India greater opportunities but also poses a challenge. India still has a great distance to go in terms of human development indicators, especially those pertaining to health and education. However, an analysis of the trends during 1980-2011 shows that although lower in HDI ranking, India has performed better than most countries in terms of average annual HDI growth rate.

The Eleventh Five Year Plan (2007-12) aimed at generation of 58 million work opportunities. The NSSO quinquennial survey has reported an increase in work opportunities to the tune of 18 million under the current daily status (CDS) between 2004-5 and 2009-10. However, the overall labour force expanded by only 11.7 million. In all likelihood this is an indication of improving economic conditions. As a result, unemployment in absolute terms declined by 6.3 million. The lower growth in the labour force is not expected to continue, as educated youth are expected to join it in increasing numbers during the Twelfth Plan and in the years beyond. This means that the pace of job/livelihood creation has to be greatly accelerated. The Twelfth Plan Approach Paper therefore lays greater stress on skill building which can be viewed as an instrument for improving the effectiveness and contribution of labour to overall production. The Employment Situation in 2010-11 as per Quarterly Survey Reports (July to September 2011) indicates that the upward trend in employment generation since July 2009 has been maintained.

### Prospects

Thanks to India's rapid growth over the last two decades and growing integration with the world, it can no longer be impervious to global developments. Not surprisingly, the Indian economy has also been adversely affected and its GDP growth is likely to decline to 6.9 per cent during the current year, somewhat mirroring what happened in 2008-9, when growth was 6.7 per cent; and the pressure is on for the nation to improvise policies to revive growth. There is no doubt that a part of India's slowdown is rooted in domestic causes. The persistent inflation that remained over 9 per cent for much of the year and needed to be tamed played a role. Calculations based on tracking several statistical indicators and projections of incremental capital-output ratios lead to a forecast of the growth rate of real GDP for 2012- 13 to be 7.6 (+/-0.25) per cent.

Thanks to 15 years of robust growth and nearly a decade of over 30 per cent investment rate, the economy now has enough resilience for an optimistic view that India can be the leading engine of global growth. The main reason for a gradual recovery is the decline in overall investment rate. Gross capital formation during the third quarter of 2011-12 as a ratio of GDP was at 30 per cent, down from 32 per cent one year ago. As fiscal consolidation gets back to track, savings and capital formation should begin to rise; moreover, with the easing of inflationary pressures in the months to come, there could be a reduction in policy rates by RBI, which should encourage investment activity and have a positive impact on growth. Preliminary calculations suggest that the growth rate of GDP in 2013-14 will be 8.6 per cent. These projections are based on assumptions regarding factors like normal monsoons, reasonably stable international prices, particularly oil prices, and global growth somewhere between where it now stands and 0.5 per cent higher. ■

# Union Budget 2012-13 - Significant Proposals relating to Income tax

## I Anti-Avoidance Measures

### • Introduction of GAAR

- ♦ General Anti-Avoidance Rules (GAAR) are proposed to be introduced in the Income-tax Act, 1961 to enunciate the doctrine of "substance over form" and check aggressive tax planning. Earlier, the Direct Taxes Code Bill, 2010 introduced in the Parliament in August, 2010 had proposed to introduce GAAR.
- ♦ Four tests are proposed for determining whether an arrangement can be treated as an "impermissible avoidance agreement", namely, whether the arrangement -
  - creates rights, or obligations, which are not ordinarily created between persons dealing at arm's length;
  - results in misuse or abuse of provisions of the Act;
  - lacks commercial substance or is deemed to lack commercial substance; or
  - is carried out in a manner which is not ordinarily employed for *bona fide* purposes.
- ♦ An arrangement whose main purpose or one of the main purposes is to obtain a tax benefit and which also satisfies at least one of the four tests mentioned above, can be declared as an "impermissible avoidance agreement", to invoke the provisions of GAAR.

### • Gains from offshore transactions to be taxed if underlying assets are located in India

- ♦ Clarificatory amendments in sections 2(14), 2(47), 9(1)(i) and 195(1) in the context of judicial decisions to tax gains from off-shore transactions where the value is attributable to the underlying assets located in India.
- ♦ These amendments reassert the source rule of taxation wherein the state where the actual economic nexus of income is situated has a right to tax the income irrespective of the place of residence of the entity deriving income.
- ♦ These provisions are proposed to be introduced retrospectively with effect from 1.4.1962.

### • Requirement of Tax Residency Certificate to prevent "Treaty Shopping"

- ♦ Tax Residency Certificate, containing the prescribed particulars, to be submitted by the tax payer to claim the benefit of DTAA's under section 90 or section 90A.
- ♦ This is a necessary but not sufficient condition for availing the benefits of the DTAA.
- ♦ This condition is intended to prevent treaty shopping i.e., prevent the resident of a third country from taking advantage of the provisions of the DTAA entered into between two contracting countries.

### • Mandatory filing of ROI by a resident having any asset located outside India

- ♦ Every resident having any asset (including financial interest in any entity) located outside India is required to file return of income compulsorily, even if he does not have taxable income.
- ♦ Extended time limit of 16 years for issue of notice for reopening an assessment, in respect of persons whose income in relation to such assets located outside India has escaped assessment.
- ♦ Further, income shall be deemed to have escaped assessment where a person is found to have any asset located outside India.

## II Measures to prevent generation and use of unaccounted money

### • Additional onus on closely held companies

- ♦ Closely held companies would now be required to explain, to the satisfaction of the Assessing Officer, the source of sum credited as share application money, share capital and share premium in their accounts in the hands of the resident shareholder.

Otherwise, provisions of section 68 would be attracted in the hands of the company.

However, such provisions would not apply if the shareholder is a Venture Capital Fund (VCF) or a Venture Capital Company (VCC) registered with SEBI.

- ♦ The consideration received in excess of fair

market value of shares is to be treated as the income of a closely held company under section 56(2), where consideration received for issue of shares exceeds the face value of shares.

However, these provisions would not be attracted where consideration for issue of shares is received by a Venture Capital Undertaking (VCU) from a VCF or VCC.

- **Unexplained money, investments etc. to attract maximum marginal rate of tax @30%**

- ♦ Unexplained money, investment, cash credits to be taxed at the maximum marginal rate of 30%,
- ♦ No basic exemption or allowance for expenditure to be allowed.

- **Penalty on undisclosed income based on stage of admission by the tax payer**

- ♦ Undisclosed income found during the course of search and admitted at the stage of search to attract penalty@10%;
- ♦ Undisclosed income not admitted at the stage of search but disclosed in the return of income filed after the search to attract penalty @ 20%;
- ♦ In other cases, penalty to range between 30% to 90% of undisclosed income.
- ♦ In effect, later the stage of admission, higher would be the penalty.

- **Prosecution mechanism to be strengthened by providing for -**

- ♦ Constitution of Special Courts for trial of offences;
- ♦ Application of summons trial for offences; and
- ♦ Appointment of public prosecutors.

### III Transfer Pricing

- **Transfer pricing provisions to be extended to specified domestic transactions**

- ♦ Transfer pricing provisions, including procedural and penalty provisions, are proposed to be extended in respect of specified domestic transactions, exceeding a monetary threshold of ₹ 5 crores in aggregate, entered into by an assessee during the year.
- ♦ The transfer pricing provisions would be made applicable to transactions entered into by domestic related parties or by an undertaking with other undertakings of the same entity for the purposes of section 40A(2), Chapter VI-A and section 10AA.

- **Advance Pricing Agreements (APA)**

- ♦ Board to be empowered to enter into an APA with any person undertaking an international transaction;
- ♦ APA to determine the arm's length price (ALP) of an international transaction or specify the manner in which ALP shall be determined.
- ♦ APA to be valid for the period, not exceeding five consecutive previous years, as specified in the agreement.
- ♦ APA to be binding on the person and the Commissioner and his subordinate authorities in respect of the specific transaction.
- ♦ However, APA will not be binding if there is any change in law or facts having a bearing on the APA.

- **Powers of TPO expanded with retrospective effect**

- ♦ Transfer Pricing Officer (TPO) to be empowered, retrospectively with effect from 1.6.2002, to examine international transactions noticed by him in the course of proceedings before him and determine the ALP of such transactions, in cases where the tax payer has not furnished the report under section 92E.
- ♦ However, the Assessing Officer is not empowered to assess or reassess under section 147 or pass an order enhancing the assessment or reducing a refund already made or otherwise increasing the liability of the assessee under section 154 for any assessment year in respect of which proceedings have been completed before 1.7.2012.

- **Other proposals relating to Transfer Pricing**

- ♦ Due date for filing return of income in case of non-corporate tax payers who are required to file transfer pricing report under 92E also proposed to be extended to 30th November of the assessment year.

Due date for filing tax audit report in all such cases for both corporate and non-corporate tax payers to be aligned with the due date for filing return of income i.e., 30th November of the assessment year.

- ♦ Definition of international transaction to be further amplified to -
  - clarify the scope of "intangible property" included therein; and

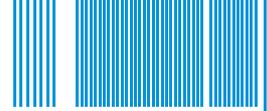
- include a transaction of business restructuring or re-organisation, entered into by an enterprise with an associated enterprise, whether or not it has a bearing on the profits, income, losses or assets of such enterprises at the time of the transaction or at any future date.
- **Amendments relating to Dispute Resolution Panel (DRP)**
  - ♦ Provision for appeal by the Assessing Officer before the ITAT against an order passed in pursuance of directions of the DRP;
  - ♦ Provision for deeming the power to enhance the variation to include power to consider any matter arising out of the assessment proceedings relating to the draft assessment order, whether such matter was raised by the eligible assessee or not.

**IV Business Taxation**

- **AMT levy to be extended to all persons, other than companies**
  - ♦ Alternate Minimum Tax (AMT) levy @18.50% to be extended to all persons claiming profit linked deduction, other than companies. At present, only limited liability partnerships are subject to AMT.
  - ♦ However, if the adjusted total income does not exceed ₹ 20 lakh for individuals, HUFs, AOPs, BOIs and Artificial Juridical Persons, the provisions for levy of AMT would not be applicable.
- **Increase in threshold for mandatory tax audit under section 44AB**
  - ♦ The turnover limit for compulsory tax audit of accounts as well as for presumptive taxation under section 44AD is proposed to be raised from ₹ 60 lakhs to ₹ 1 crore, in the case of persons carrying on business.
  - ♦ In case of persons carrying on profession the limit for gross receipts to attract compulsory tax audit is proposed to be raised from ₹ 15 lakhs to ₹ 25 lakhs.
- **Non-applicability of presumptive tax scheme under section 44AD**

Provision to be introduced to clarify that presumptive taxation scheme under section 44AD is not applicable to -

  - ♦ a person carrying on profession;
  - ♦ a person earning commission or brokerage income; and
  - ♦ a person carrying on any agency business.
- **Beneficial provisions, including weighted deductions, for assessee engaged in certain businesses or incurring certain expenditure**
  - ♦ Expenditure on agricultural extension project and expenditure on skill development project to qualify for weighted deduction @ 150%.
  - ♦ Scope of definition of "specified business" to qualify for investment-linked tax deduction is proposed to be expanded to include setting up and operating an inland container depot or a container freight station, bee-keeping and production of honey and beeswax and warehousing facility for storage of sugar.
  - ♦ Provision of weighted investment-linked tax deduction@150% of the capital expenditure in respect of certain specified businesses like setting up and operating a cold chain facility, a warehousing facility for storage of agricultural produce, production of fertilizers in India, etc.
  - ♦ Weighted deduction@200% of expenditure (other than cost of land or building) for in-house scientific research and development to be extended for a further period of five years.
  - ♦ Extension of sunset date for tax holiday for power sector undertakings by one more year.
  - ♦ Benefit of initial depreciation @ 20% of actual cost of new machinery or plant acquired and installed in the year to be extended to assessee engaged in the business of generation or generation and distribution of power.
- **MAT provisions rationalised**
  - ♦ Net profit as per the profit and loss account prepared in accordance with the provisions of the regulatory statute to be considered for computing book profit for levy of Minimum Alternate Tax under section 115JB in case of Banking, Electricity, Insurance companies etc which do not maintain accounts as per Schedule VI of the Companies Act, 1956.
  - ♦ Further, reference to Part III of Schedule VI is proposed to be removed since Revised Schedule VI does not contain Part III.
- Daily tonnage income of Shipping Companies calculated on presumptive basis proposed to be increased.
- Disallowance under section 40(a)(ia) for non-deduction tax at source in respect of certain payments not to be attracted where the assessee is not deemed to be an assessee in default under section 201(1) on account of payment of the taxes by the resident payee.



## V Personal taxation

- Personal income-tax rates rationalized. Basic exemption limit to be increased to ₹ 2 lakhs for both women and men, thereby removing gender discrimination. 30% rate of tax to be attracted in respect of total income above ₹ 10 lakhs.
- Deduction of up to ₹ 10,000 in respect of interest on savings account in bank, post office or co-operative society engaged in the business of banking.
- Deduction of up to ₹ 5,000 in aggregate for preventive health check-up of the assessee, his family and parents. This is within the overall limit specified under section 80D. However, payment for preventive health check-up can also be made in cash to qualify for deduction.
- Senior citizens not having business income to be exempted from payment of advance tax.
- Age of senior citizen for availing higher deduction for medical insurance premium, medical treatment of a specified disease or ailment, etc. to be aligned with the reduced age of 60 years for availing higher basic exemption limit of ₹ 2,50,000 applicable to senior citizens.
- Deduction under section 80C in respect of life insurance premium paid to be allowed for only so much of premium as does not exceed 10% of the actual capital sum assured, in respect of policies issued on or after 1st April, 2012. Currently, the limit is 20% of actual capital sum assured.
- Further, exemption under section 10(10D) in respect of any sum received under a life insurance policy issued on or after 1st April, 2012, would be available only where the premium payable for any of the years during the life of the policy does not exceed 10% of actual capital sum assured.

## VI Capital Gains

- Long-term capital gains tax on sale of residential property to be exempt if the sale consideration is used for subscription in equity of a new start-up manufacturing SME company for purchase of new plant and machinery.
- Reduction in STT rate from 0.125% to 0.1% in respect of delivery based purchase and sale of equity shares and units of equity oriented fund entered into through a recognized stock exchange in India.
- Benefit of exemption under section 54B in respect of capital gains on transfer of agricultural land, which is reinvested in purchase of new agricultural land within two years, to be extended to HUFs also.

- In cases where consideration for transfer of a capital asset is not attributable or determinable, then, for the purpose of computing taxable capital gains, fair market value of the asset is to be taken as the full value of consideration.
- Assessing Officer enabled to make reference to the Valuation Officer, if he is of the opinion that the value taken by the assessee as on 1.4.1981 is higher than the fair market value of the asset as on that date.

## VII Proposals relating to TCS and TDS Provisions

### • Scope of TCS expanded

- ♦ Tax to be collected at source@1% of sale consideration by the seller from the buyer, where the sale of jewellery or bullion is in cash and the sale consideration exceeds ₹ 2 lakh, irrespective of the purpose of its use, whether for manufacturing or trading or for personal use.
- ♦ Tax to be collected at source@1% by the seller from the buyer of certain minerals, namely, coal, iron ore and lignite. However, no tax is to be collected at source if the minerals are purchased for personal consumption of the buyer or are to be utilized by the buyer for manufacturing, processing or producing articles or things.

### • Scope of TDS widened

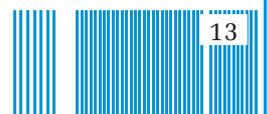
- ♦ TDS@1% of consideration for transfer of certain immovable properties (other than agricultural land), if consideration exceeds specified threshold (i.e. ₹ 50 lakhs in specified urban agglomerations and ₹ 20 lakhs in other areas).

Stamp duty value to be deemed as the consideration for transfer, in cases where such value exceeds the consideration for transfer. Accordingly, in such cases, the specified threshold to be determined as regards stamp duty value and not the actual consideration.

- ♦ TDS@10% under section 194J on remuneration or fees or commission, by whatever name called, credited or paid to a director. However, such remuneration which is in the nature of salary, on which tax is deductible under section 192, is to be excluded.

### • Threshold for attracting provisions for TDS increased

- ♦ Threshold for applicability of TDS under section 194LA on compensation or consideration for compulsory acquisition of



immovable property (other than agricultural land) to be increased from ₹ 1 lakh to ₹ 2 lakhs.

- ♦ Threshold for applicability of TDS on payment of interest on debentures (of a company in which public are substantially interested) to a resident individual or HUF to be increased from ₹ 2,500 to ₹ 5,000 and this limit would be applicable in respect of the aggregate interest paid to an individual or HUF during the financial year on both listed and unlisted debentures. The payment should be by way of account payee cheque.

**VIII Other proposals**

- **Concessional rate of tax on interest on borrowings in foreign currency by specified companies**

- ♦ Interest paid by a specified company to a non-resident in respect of borrowing made in foreign currency from sources outside India between 1.7.2012 and 1.7.2015 to be subject to tax at a concessional rate of 5%.
- ♦ To avail this concessional rate, the borrowing should be made under an agreement approved by the Central Government, specifying the rate of interest payable.
- ♦ Specified company to mean an Indian company engaged in the business of construction of dam, operation of aircraft, manufacture or production of fertilizers, construction of port including inland port or road, toll road or bridge or ships in a shipyard, generation, distribution and transmission of power and developing and building an affordable housing project.
- ♦ Such interest income to be subjected to TDS@5% under section 194LC.

- **Removal of cascading effect of DDT in multi-tier corporate structure**

- ♦ Dividend liable for dividend distribution tax (DDT) in case of a domestic company is to be reduced by the dividend received by the company from its subsidiary in the same year, provided the subsidiary company has paid DDT on such dividend.
- ♦ The condition that the holding domestic company liable to pay DDT should not be a subsidiary of any other company is proposed to be deleted, thereby removing the cascading effect of DDT under section 115-O in a multi-tier corporate structure also.

- **Taxability of income of VCCs/VCFs in the hands of the investor on accrual basis and removal of sectoral restrictions on VCUs**

- ♦ Income accruing to VCCs and VCFs to be taxable in the hands of the investor on accrual basis;
- ♦ Tax to be deducted on income credited or paid by a VCF/VCC to investors;
- ♦ Sectoral restriction on business of VCUs to be removed and VCUs to be governed by conditions imposed by SEBI/RBI.

- **Clarification of "royalty" under section 9(1)(vi)**

- ♦ Consideration for use or right to use of computer software is royalty and therefore, such income is deemed to accrue or arise in India by virtue of section 9(1)(vi);
- ♦ Royalty to include and always have included consideration in respect of any right, property or information, whether or not -
  - the possession or control of such right, property or information is with the payer;
  - such right, property or information is used directly by the payer
  - the location of such right, property or information is in India

- **Parity in tax treatment of non-resident sportsmen and non-resident entertainer**

- ♦ Income arising to a non-citizen non-resident entertainer (such as theatre, radio or television artists or musicians) from performance in India to be subject to tax@20% of gross receipts.
- ♦ The rate of tax to be increased to 20% of gross receipts for a non-citizen non-resident sportsmen and non-resident sports association.
- ♦ This is to bring parity between a non-resident sportsman and a non-resident entertainer. Such parity exists internationally and in DTAAAs, as well.

- **Concessional rate of taxation @ 15% of gross dividends received by an Indian company from specified foreign company (in which it has a shareholding of 26% or more) to be extended in respect of dividend received in F.Y. 2012-13 also.**

- **Any sum or property received without consideration or for inadequate consideration by a HUF from its member to be excluded from the purview of taxation under section 56(2)(vii).**

*(Compiled by CA. Priya Subramanian/  
CA.Nidhi Agarwal, BoS)*

# Union Budget 2012-13 Highlights-Indirect Tax Laws

## SERVICE TAX

### 1. Changes effective from a date to be notified by the Central Government

- Union Budget 2012-13 has proposed a paradigm shift in the taxation of services. Accordingly, taxation of services will be based on the concept of "Negative List of Services". The word "service" is defined in clause (44) of the newly inserted section 65B. If an activity meets the characteristics of a "service", it is taxable unless specified in the Negative list (comprising of 17 heads listed in proposed new section 66D), or otherwise exempted by a notification issued under section 93 of the Act.
- As per the newly proposed approach, the provisions contained in sections 65, 65A, 66, 66A will cease to apply from the date the new provisions come into force and new sections- 65B, 66B, 66C, 66D, 66E, 66F and 67A will be inserted.
- Newly inserted section 65B contains the relevant definitions including the definition of service.
- Section 66B is the new charging section. It levies taxes on all services, other than those in the negative list, provided or agreed to be provided in the taxable territory by one person to another.
- Section 66C empowers the Central Government to make rules for determination of place of provision of service. Under these provisions, the Place of Provision of Services Rules, 2012 have been drafted and released for comments and feedback. The new rules will replace the existing Export of Services Rules, 2005 and the Taxation of Services (Provided from Outside India and Received in India) Rules, 2006.
- The negative list of services is contained in section 66D of the Act.
- Section 66E contains a list of services termed as declared services. Such activities are taxable services provided they are carried out by one person for another in the taxable territory for a consideration.
- Section 66F lays down the principles for interpretation wherever services have to be treated differentially for any reason and also

for determining the taxability of bundled services.

- Section 68(2) is proposed to be amended to put the onus of payment of service tax on reverse charge basis partly on service provider and partly on service receiver. The scheme is proposed to be made applicable **with effect from the date on which section 66B of the Finance Act, 1994 shall come into effect** on three specific services i.e. hiring of means of transport; construction and man power supply vide **Notification No. 15/2012 -ST dated 17.03.2012.**

### 2. Changes effective from the date of enactment of the Finance Bill, 2012

- Section 67A prescribes the relevant date for the application of rate of exchange, valuation or rate of service tax.
- Special audit provisions, presently applicable to service tax by way of section 83, are proposed to be replaced by a new section 72A, giving comprehensive powers for such audit relevant for service tax purposes.
- Provisions relating to Settlement Commission and Revision mechanism are proposed to be made applicable to the service tax by amending section 83 of the Finance Act, 1994.
- Section 73 is to be amended to raise the period for issue of demands in normal situations from 12 months to 18 months and to bring other procedural changes.
- The periods for filing appeals in service tax are to be aligned with Central Excise by proposing the relevant amendments in sections 85 and 86.

### 3. Changes effective from April 01, 2012

- Rate of service tax has been increased from 10% to 12%. [**Notification No. 02/2012 -ST dated 17.03.2012**]  
[**Notification No. 03/2012 -ST dated 17.03.2012**]
- **Significant amendments in the Service Tax Rules, 1994**
  - (a) Rule 2(cd) has been inserted to define "partnership firm". As per the definition, partnership firm includes limited liability partnership.

## BUDGET

- (b) Rule 4A has been amended to increase the time period for issuance of invoice from 14 days to 30 days. For banks and financial institutions providing banking and other financial services, this period has been increased to 45 days.
- (c) Earlier, as per rule 7 of the Point of Taxation Rules, 2011, in case of export of services and eight specified services provided by individuals or partnership firms, the point of taxation would be the date of payment. The said provision has been shifted to the Service Tax Rules, 1994 with a view to provide certainty in the application of rate of tax while retaining the benefit of payment of tax until payment is received.
- (d) The restrictions in rule 6(4B) have been omitted allowing unlimited amount of permissible adjustments.
- (e) **Changes in the composition rates [rule 6]**

**(i) In case of insurer carrying on life insurance business [Sub-rule (7A)]**

Where the entire premium is not towards risk cover:-

	Rate of service tax	
	Prior to amendment	After amendment
First	1.5% of the gross amount of premium charged	3% of the gross amount of premium charged
Subsequent year	1.5% of the gross amount of premium charged	1.5% of the gross amount of premium charged

**(ii) In case of sale/purchase of foreign currency including money changing [Sub-rule (7B)]**

S.No.	For an amount	Rate of service tax	
		Prior to amendment	After amendment
1.	Upto ₹100,000	<b>0.1 %</b> of the gross amount of currency exchanged or ₹25 whichever is higher	<b>0.12 %</b> of the gross amount of currency exchanged or ₹30 whichever is higher
2.	Exceeding ₹1,00,000 and upto ₹10,00,000	₹100 + <b>0.05 %</b> of the gross amount of currency exchanged	₹120 + <b>0.06 %</b> of the gross amount of currency exchanged
3.	Exceeding ₹10,00,000	₹550 + <b>0.01 %</b> of the gross amount of currency exchanged or ₹5,000 whichever is lower	₹660 + <b>0.12 %</b> of the gross amount of currency exchanged or ₹6,000 whichever is lower

**(iii) In case of Distributor or Selling Agents of Lotteries [Sub-rule (7C)] :**

Guaranteed lottery prize payout	Amount of service tax payable on every ₹10 Lakh (or part of ₹10 Lakh) of aggregate face value of lottery tickets printed by the organising State for a draw	
	Prior to amendment	After amendment
More than 80%	₹6000/-	₹7000/-
Less than 80%	₹9000/-	₹11000/-

**[Notification No. 03/2012-ST dated 17.03.2012]**

• **Significant amendments in the Point of Taxation Rules, 2011**

- (a) Definition of continuous supply under rule 2(c) has been amended to include the entire dimension of the concept, i.e., recurrent nature of services and the obligation for payment periodically or from time to time.
- (b) Date of payment has been defined under rule 2A.
- (c) Rule 6 relating to continuous supply of service has been omitted and merged with rule 3. Further, rule 4 and 5 relating to change in effective rate of tax and taxation of new services shall be applicable to continuous supply of services also.

- (d) New rule 8A has been inserted to ascertain the point of taxation in cases where the same cannot be ascertained by the other rules prescribed.

**[Notification No. 04/2012-ST dated 17.03.2012]**

- Notification No. 06/2005-ST dated 01.03.2005 granting the small service providers' exemption has been amended recognizing that the first clearances up to ₹10 lakh will be in terms of invoices and not mere payments received. **[Notification No. 05/2012 -ST dated 17.03.2012]**
- The dual rate structure of maximum service tax of ₹150 and ₹750 in case of economy class travel has been replaced by an ad valorem rate of 12% with abatement of 60% subject to the condition that no credit on inputs and capital goods is taken. **[Notification No. 06/2012 -ST dated 17.03.2012]**
- The optional composition rate of service tax in case of works contract service has been raised from 4% to 4.8%. **[Notification No. 10/2012 -ST dated 17.03.2012]**

**4. Changes effective from the date on which Section 66B of the Finance Act, 1994 comes into effect**

- Significant amendments in the Service Tax (Determination of Value) Rules, 2006
  - (a) Rule 2A has been substituted to provide that the value of works contract shall be determined as follows:-
    - Value of works contract would be the total amount charged for the contract less the value of property transferred in goods for State VAT purpose.
    - If value of goods is not intimated to State VAT, the assesseees can still calculate the actual value of goods and the same will be relevant to deduce the value of the service involved in the works contract.
    - If the value is not so deduced, and not merely as an option:-

In case of	the value shall be _____ of the total value
(i) original works	40%
(ii) other contracts	60%
(iii) contracts involving construction of complex or building for sale where any part of the consideration is received before the completion of the building	25%

- (b) New rule 2C has been inserted for determination of value of taxable service involved in supply of food and drinks in a restaurant or as outdoor catering.
- (c) Rule 3 has been amended to make it applicable only in the cases where valuation is not ascertainable.

**[Notification No. 11/2012 -ST dated 17.03.2012]**

- In the context of the negative list of services approach, a list of new services has been exempted from the service tax. For instance, services provided by the United Nations/international organisation, health care services, business exhibitions held outside India, etc. **[Notification No. 12/2012 -ST dated 17.03.2012]**
- Abatement in relation to specified services has been prescribed. **[Notification No. 13/2012-ST dated 17.03.2012]**

**5. Changes effective from July 01, 2012**

Notification No.	Amendment	Effect of amendment
07/2012-ST dated 17.03.2012	Has amended Notification No. 7/2010 -ST dated 27.02.2010	Withdrawal of exemption from service tax on service provided in relation to 'transport by rail' shall now be effective from 1st July, 2012 instead of 1st April, 2012.
08/2012-ST dated 17.03.2012	Has amended Notification No. 8/2010 -ST dated 27.02.2010	Restoration of exemption provided to transport of specified goods by rail shall now be effective from 1st July, 2012 instead of 1st April, 2012.
09/2012-ST dated 17.03.2012	Has amended Notification No. 9/2010 -ST dated 27.02.2010	Abatement of 70% of the gross value of the freight charged on goods (other than exempted goods), in case of transportation of goods by rail, shall now be effective from 1st July, 2012 instead of 1st April, 2012.

## 6. Change effective retrospectively from June 16, 2005

- Exemption provided for the setting up of common facilities for treatment and recycling of effluents and solid wastes to an association of dyeing units has been extended to an association including registered cooperative societies. *[Notification No. 1/2012-ST dated 17.03.2012]*

### EXCISE

#### 1. General

- Peak rate of excise duty for non-petroleum products has increased from 10 percent to 12 percent.
- Concessional rate of excise duty of 5 percent has also increased to 6 percent.
- Concessional rate of excise duty of 1 percent imposed on 130 items in last Budget has increased to 2% (except on coal, fertilisers, jewellery and mobile handsets).
- The aforesaid rate changes are effective from 17th March 2012.

#### 2. Changes effective from March 17, 2012

- Rule 14 of CENVAT Credit Rules, 2004 has been amended to provide that penalty shall be imposed only where credit has been taken and utilized wrongly. *[Notification No. 18/2012-C.E.(N.T.) dated 17.03.2012]*
- Rule 3(5) and 3(5A) of CENVAT Credit Rules, 2004 has been amended to prescribe that in case the capital goods on which CENVAT credit has been taken are cleared after being used then the amount payable shall be either the amount calculated on the basis of CENVAT credit taken at the time of receipt reduced by a prescribed percentage or the duty on transaction value whichever is higher. *[Notification No. 18/2012-C.E.(N.T.) dated 17.03.2012]*

#### 3. Changes effective from the date of enactment of the Finance Bill, 2012

- Offences punishable with imprisonment of three years or more are proposed to be cognisable.
- Search to be carried out according to the procedures laid down under the Code of Criminal Procedure.
- The provisions of the Central Excise Act relating to offences and penalties are being aligned with those under the Customs Act. In terms of section 9(1)(i) of the Act, offences involving excisable goods where the duty leviable exceeds ₹ 1 lakh are punishable with imprisonment for a term which may extend

to seven years and with fine. It is proposed to enhance this duty amount to ₹ 30 lakh.

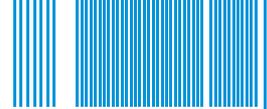
## 4. Amendments to CENVAT Credit Rules, 2004 (Effective from 1 April 2012)

- Motor vehicles (except those of heading nos. 8702, 8703, 8704, 8711 and their chassis, which are only allowed in certain services) to be included in the definition of 'capital goods'. *[Notification No. 18/2012-C.E.(N.T.) dated 17.03.2012]*
- Rule 4 is amended to allow a service provider to take credit of inputs or capital goods on their delivery, irrespective of whether they are brought to the premises of the output service provider or not. *[Notification No. 18/2012-C.E.(N.T.) dated 17.03.2012]*
- Simplified scheme for refunds are introduced for service exporters which will not require any correlation between exports and input services used in such exports. Refund to be granted in the ratio of export turnover to total turnover. *[Notification No. 18/2012-C.E.(N.T.) dated 17.03.2012]*
- In case of payment under Rule 6(3) on account of provision of exempt services, where separate books of accounts are not maintained, rate is increased from 5 to 6 percent. *[Notification No. 18/2012-C.E.(N.T.) dated 17.03.2012]*
- Rule 7 for input service distributors is amended to provide that
  - credit of Service tax attributable to service used wholly in a unit shall be distributed only to that unit and
  - credit of Service tax attributable to service used in more than one unit shall be distributed pro-rata on the basis of the turnover of the concerned unit to the sum total of the turnover of all the units to which the service relates. *[Notification No. 18/2012-C.E.(N.T.) dated 17.03.2012]*
- Rule 9(1)(e) is amended to allow availment of credit on the basis of tax payment challan in the case of payment of Service tax by the service receiver under the reverse charge mechanism. *[Notification No. 18/2012-C.E.(N.T.) dated 17.03.2012]*
- Rule 10A is being inserted to permit transfer of unutilized credit of SAD lying in balance at the end of each quarter to another factory of the manufacturer. *[Notification No. 18/2012-C.E.(N.T.) dated 17.03.2012]*

### CUSTOMS

#### 1. General

- Peak Basic customs Duty (BCD) rates remain unchanged.



- Excise duty increase from 10 to 12 percent increases the corresponding Countervailing Duty (CVD) on imports.

## 2. Changes effective from the date of enactment of the Finance Bill, 2012

### Amendments in the Customs Act, 1962

- Sections 2 and 7 are proposed to be amended to include "airfreight stations?".
- A new section 28AAA is to be inserted to provide for recovery of duties, from the person to whom the instrument such as duty credit scrips was issued, where the instrument was obtained by means of collusion or wilful mis-statement or suppression of facts by the such person without prejudice to any action that may be taken against the importer. Section 28BA is to be amended to make the provisions relating to provisional attachment of property applicable to the proposed Section 28AAA.
- Section 47 is to be amended to insert a new proviso therein to provide that the Central Government may, by notification in the official gazette, specify the class or classes of importers who shall pay customs duty electronically.
- Section 104 is to be amended to provide that notwithstanding anything contained in the Code of Criminal Procedure, 1973, all offences under the Act (except an offence punishable with term of imprisonment of three years or more under section 135) shall be non-cognizable and bailable. It also provides that all offences punishable with a term of imprisonment of three years or more under section 135 shall be cognizable.
- Section 104A is to be inserted to provide that bail in the case of offences punishable with a term of imprisonment of three years or more under section 135 shall not be granted by a Court or Magistrate without an opportunity being given to the Public Prosecutor to present his case. However in the case of minors, infirm and women the Magistrate may grant bail. It also excludes the jurisdiction of police officers to initiate investigation in cases under the Customs Act, unless authorized in this behalf by the Central Government by a special or general order.
- Section 122 is to be amended to enhance the monetary limits for adjudication of cases involving confiscation of goods and imposition of penalty from Rupees two lakh

to Rupees five lakh for Deputy/ Assistant Commissioners and from ₹10,000 to ₹50,000 for Gazetted officer lower in rank to Assistant/ Deputy Commissioner.

- Section 138 deals with summary trial of offences. This section is to be amended to exclude offences punishable with term of imprisonment of three years or more under section 135 since it is proposed that such offences shall be cognizable.
- Section 153 is to be amended to bring "courier services? within its ambit for the purpose of serving any order/decision/summons/notice by the Commissioner.

### Amendment in the Customs Tariff Act, 1975

- The Central Government to be empowered to continue levy of safeguard duty on imports from China, irrespective of the amount of import.

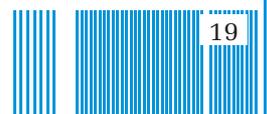
## 3. Changes effective from March 17 2012

- The duty-free allowance under the Baggage Rules has been increased from ₹25000 to ₹35000 for passengers of Indian origin and from ₹12000 to ₹15000 for children upto 10 years of age. [**Notification No.21/2012-Customs (N.T.) dated 17.03.2012**]
- The Customs (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 1996 has been amended to further liberalize and simplify the procedure. The important changes are as under:
  - Eligibility Certificate can be obtained for a period not exceeding a year instead of consignment wise or quarterly certificate at present;
 

[**Notification No. 22 /2012 Custom (N.T.) dated 17.03.2012**]
  - Rule 7A has been newly inserted permitting re-export of unused/ rejected goods imported at concessional duty under the said Rules with the prior permission of the jurisdictional Assistant Commissioner or Deputy Commissioner of Central Excise, as the case may be, subject to the condition that-
    - Such re-export takes place within six months from the date of importation
    - The re-export value should not be less than the value of the imports.

[**Notification No. 22 /2012- Customs (N.T.) dated 17.03.2012**]

(Compiled by CA. Shefali Jain/  
CA. Swati Aggarwal, BoS)



# Importance of Revision in Studies

CA. Madhukar N Hiregenge

All of us have goals in life. The student's goal is to complete the curriculum and come out as a very capable professional. In CA all of us work hard but some work smart.

Planning is a key in being able to cover the vast course without much anxiety and worry. Breaking up a big task into smaller components is a time tested methodology. For many of us remembering what we have studied after some time is a challenge. In such cases proper revision is the key. Let us look at some of the possible revision methodologies:

- a. In the time schedule at the outset allocating sufficient time [ 1 month at least] for revision is imperative.
- b. The focus on understanding the concepts and imagining the practical usage/ application would ensure that one never forgets. Teachers have found use of examples/ case studies enhances understanding and retention.
- c. At the time when studying underlining key words and phrases allows one to come back and re read in a short time.
- d. An alternative could be to make short notes while studying.
- e. If one were to be going for tuitions then listening in a focused manner without allowing mental or physical disturbances would ensure higher absorption.
- f. At the end of the day allocating 15- 30 minutes to revise what was covered either in self study or tuitions has been found to be a sure shot method.
- g. At the end of the week allocating 2-3 hours to

revise what was covered in the week has also been found useful.

- h. The working out of the problems in the Practice manual could also be a great method of revision.
- i. Self assessment can be done by using old test papers [ RTP or Suggested Answers], written in examination condition alone or with friends. Evaluation/ comparison with model answers, preferably by each other would provide vital guidance on where we are short.
- j. The ICAI has 2 mock tests conducted at all branches in March and again in April, which is like a preliminary examination. The same test is also available on the web site for self assessment after a couple of weeks.
- k. For CPT students CA- Shiksha is a free web site which provides online learning and assessment.
- l. There is a question bank on the ICAI web site also wherein you could log on and take the tests as per your convenience.



Note: How to Face CA Examination / How to Face CPT are publications of BOS available in branches and on web site which provide tips subject wise.

Prove Thomas Alva Edison right when he says- " if we did the things we are capable of doing, we would astound ourselves." All the best for your preparation for the CPT, IPCC and Final examination.

*(The contributor is Vice Chairman, Board of Studies)*

## Pursue B.Com. / B.B.A. / M.Com. /M.B.A

The Institute of Chartered Accountants of India has entered into a Memorandum of Understanding (MoU) with the following Indian Universities to provide an opportunity to all those students who have registered for the Chartered Accountancy course and also the Members to pursue Graduate Degree / Post Graduate Degree viz.B.Com, M.Com, BBA and MBA wherein they would be given exemptions from certain papers.

### 1. Indira Gandhi National Open University

Indira Gandhi National Open University offers B.Com with major in Accountancy and Finance and M.Com with specialization in Finance and Taxation.

### 2. Netaji Subhas Open University

Netaji Subhas Open University, Kolkata offers B.Com Course.

### 3. Bharathiar University

Bharathiar University, Coimbatore offers Undergraduate & Postgraduate courses viz. B.B.A., B.Com., M.Com. & M.B.A

### 4. University of Madras

University of Madras offers Undergraduate & Postgraduate courses viz.B.B.A., B.Com., M.Com. and M.B.A.

For further details relating to admission and exemptions kindly refer the link [http://www.icai.org/new\\_post.html?post\\_id=5721&c\\_id=315](http://www.icai.org/new_post.html?post_id=5721&c_id=315) or follow the "students" icon on the Home page of ICAI website [www.icai.org](http://www.icai.org)

*Director, Board of Studies*

# Accounting

## Maintenance of Cash Reserve Ratio at 4.75 per cent

The Reserve Bank vide notification DBOD.No.Ret.BC.74 /12.01.001/2011-12 January 24, 2012 reduced the Cash Reserve Ratio (CRR) of Scheduled Commercial Banks by 50 basis points from 6.00 per cent to 5.50 per cent of their Net Demand and Time Liabilities (NDTL) with effect from January 28, 2012.

However, the RBI further reduced the Cash Reserve Ratio (CRR) of Scheduled Primary (Urban) Co-operative Banks by 75 basis points from 5.50 per cent to 4.75 per cent of their Net Demand and Time Liabilities (NDTL) vide Cir.No.3/12.03.000/ 2011-12 March 9, 2012, on reviewing the current and evolving liquidity conditions.

Therefore, Cash Reserve Ratio (CRR) will be 4.75 per cent of their Net Demand and Time Liabilities (NDTL) with effect from March 10, 2012.

(Source: [www.rbi.org.in](http://www.rbi.org.in))

## Amendment to para 46 of Accounting Standard 11 of the Companies (Accounting Standards) Rules, 2006

Ministry of Corporate Affairs vides its notification number G.S.R 913(E), dated 29th December, 2011, made the following amendment in the para 46 of AS 11 of the Companies (Accounting Standards) Amendment Rules, 2011. Through this notification, the MCA has extended the option (for the enterprises) to capitalize the exchange differences arising on reporting of long term foreign currency monetary items till 31st March 2020 instead of 31st March 2012.

(Source: [www.mca.gov.in](http://www.mca.gov.in))

## Insertion of para 46A in Accounting Standard 11 of the Companies (Accounting Standards) Rules, 2006

Ministry of Corporate Affairs vides its notification number G.S.R 914(E), dated 29th December, 2011, inserted under-mentioned para 46A in AS 11 of the Companies (Accounting Standards) Rules, 2006, now known as Companies (Accounting Standards) (Second Amendment) Rules, 2011.

"46A. (1) In respect of accounting periods commencing

on or after the 1st April, 2011, for an enterprise which had earlier exercised the option under paragraph 46 and at the option of any other enterprise (such option to be irrevocable and to be applied to all such foreign currency monetary items), the exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital assets, can be added to or deducted from the cost of the assets and shall be depreciated over the balance life of the assets, and in other cases, can be accumulated in a "Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortized over the balance period of such long term assets or liability, by recognition as income or expense in each of such periods, with the exception of exchange differences dealt with in accordance with the provisions of paragraph 15 of the said rules.

(2) To exercise the option referred to in sub-paragraph (1), an asset or liability shall be designated as long-term foreign currency monetary item, if the asset or liability is expressed in a foreign currency and has a term of twelve months or more at the date of origination of the asset or the liability.

Provided that the option exercised by the enterprise shall disclose the fact of such option and of the amount remaining to be amortized in the financial statements of the period in which such option is exercised and in every subsequent period so long as any exchange difference remains unamortized."

**Note:** The principal regulations were published in the Gazette of India Extraordinary, Part II, Section 3, Sub Section (i) vide G.S.R 739(E), dated the 7th December, 2006 and amended vide notification number G.S.R. 212(E), dated the 27th March, 2008 and subsequently amended by No. G.S.R. 225(E) dated 31st March, 2009 and No. G.S.R. 378(E), dated 11th May, 2011.

(Source: [www.mca.gov.in](http://www.mca.gov.in))

(Compiled by CA. Shilpa Agrawal, BoS)

## Income-Tax

- (1) Can the provisions of section 41(1) be invoked both in respect of waiver of working capital loan utilized for day-to-day business operations and in respect of waiver of term loan taken for purchasing a capital asset?**

***Rollatainers Ltd. v. CIT (2011) 339 ITR 54 (Del.)***

The assessee, a sick company under the provisions of the Sick Industrial Companies (Special Provisions) Act, 1985, approached the Corporate Debt Restructuring Cell for settlement of outstanding dues of various financial institutions/banks. The Cell approved the reworked restructuring package, pursuant to which financial institutions and banks waived part of their respective dues, comprising principal and interest. The Commissioner (Appeals) held that the principal amount of loans waived by the banks, including the waiver of the principal amount against the working capital loans in the form of cash credit limits did not constitute taxable income. The Tribunal held that the waiver of the working capital loan utilized towards day-to-day business operations resulted in manifest in the revenue field and hence was taxable in the year of waiver.

The High Court observed that the Tribunal had found as a fact that the term loans were taken for the purchase of capital assets from time to time. Therefore, as regards term loans, the Tribunal had come to a conclusion that since the monies did not come into the possession of the assessee on account of any trading transaction, the receipts were capital in nature, being loan repayable over a period of time along with interest. Therefore, on writing off of the loans, no benefit or perquisite arose to the assessee in the revenue field. The liability in question, i.e. the term loan for purchase of capital assets, was not a trading liability. Therefore, the provisions of section 41(1) are also not attracted in this case since the waiver was in respect of a term loan taken for a capital asset and hence, cannot be treated as remission or cessation of a trading liability. Thus, the waiver of such term loans cannot be treated as income of the assessee.

However, in the case loan is written off in the cash credit account, the benefit is in the revenue field as the money had been borrowed for day-

to-day affairs and not for the purchase of capital asset. These loans were for circulating capital and not fixed capital. Therefore, the writing off of these loans on the cash credit account which was received for carrying out the day-to-day operations of the assessee amounted to remission of a trading liability and hence, has to be treated as income in the hands of the assessee by virtue of section 41(1).

**Note:** *The crux of the High Court decision is that the provisions of section 41(1) are attracted in respect of waiver of the working capital loan utilized for day-to-day business operations, since it amounted to remission of a trading liability. However, in the case of waiver of term loan for purchasing capital assets, the provisions of section 41(1) are not attracted since it cannot be treated as remission or cessation of a trading liability.*

- (2) What is the nature of expenditure incurred on demolition and re-erection of a cell room and expenditure incurred on purchase of pumping set, mono block pump and two transformers, which were parts of a bigger plant - revenue or capital?**

***CIT v. Modi Industries Ltd. (2011) 339 ITR 467 (Del.)***

On the issue of allowability of expenditure on demolition and re-erection of a cell room, the High Court referred to the Supreme Court ruling in *CIT v. Saravana Spinning Mills P. Ltd. (2007) 293 ITR 201*, wherein it was observed that "current repairs" under section 31 refer to expenditure effected to preserve and maintain an already existing asset and the object of expenditure must not be to bring a new asset into existence or to obtain a new advantage. In that case, it was held that since the entire machine had been replaced, the expenditure incurred by the assessee did not fall within the meaning of "current repairs" in section 31(i).

Applying the rationale of the Apex Court ruling, the Delhi High Court observed that if a part of a structure becomes dilapidated and repairs/reinforcement of some parts of the structure is required, it would be treated as "current repairs". However, on the other hand, if a part of the building is demolished and a new structure is

erected on that place, it has to be treated as capital expenditure, as in that case, a totally new asset is created even if it may be a part of the building.

In this case, it was clear that after completely demolishing the old cell room, an entire new cell room was erected. The money spent was not merely on repairs of the cell room, but for constructing a new cell room. Even the nomenclature of the entry, as given by the assessee, was "fabrication and erection charges of cell room". Thus, it was nothing but a complete demolition of the old cell room and construction/erection of a new cell room in its place. The expenditure incurred on the cell room was capital expenditure.

However, so far as purchase of pumping set, mono block pump with HP motors and two transformers were concerned, they were not stand alone equipment, but were part of the bigger plant. Therefore, it would be treated as replacement of those parts and the expenditure would be eligible for deduction under section 37(1).

*Note: The Explanation in section 31 inserted by the Finance Act, 2003 w.e.f. 01.04.2004 clarifies that the amount paid on account of current repairs shall not include any expenditure in the nature of capital expenditure. Therefore, as per this clarification also, expenditure on demolition and re-erection of a cell room cannot be treated as current repairs.*

- (3) Can the payment made to contractors for hiring dumpers, by an assessee engaged in transportation of building material, be treated as rent for machinery or equipment to attract provisions of tax deduction at source under section 194-I?**

***CIT (TDS) v. Shree Mahalaxmi Transport Co. (2011) 339 ITR 484 (Guj.)***

In this case, the assessee was engaged in the business of transportation of building material, salt, black trap, iron, etc. During the relevant previous year, the assessee made payment for hiring of dumpers and deducted tax at source at the rate under section 194C applicable for sub-contracts which, according to the Assessing Officer, was not correct as the assessee had taken dumpers on hire and such payments were governed under section 194-I. The Assessing

Officer, accordingly, held that the assessee had short deducted tax at source and passed an order under section 201(1) holding the assessee to be an assessee-in-default.

The High Court observed that the assessee had given contracts to the parties for the transportation of goods and had not taken machinery and equipment on rent. The Court observed that the transactions being in the nature of contracts for shifting of goods from one place to another would be covered as works contracts, thereby attracting the provisions of section 194C. Since the assessee had given sub-contracts for transportation of goods and not for the renting out of machinery or equipment, such payments could not be termed as rent paid for the use of machinery and the provisions of section 194-I would, therefore, not be applicable.

*Note: Similar ruling was pronounced by the Gujarat High Court on an identical issue in CIT (TDS) v. Swayam Shipping Services P. Ltd. (2011) 339 ITR 647.*

- (4) Can an industrial undertaking engaged in manufacturing or producing articles or things treat the persons employed by it through agency (including contractors) as "workers" to qualify for claim of deduction under section 80-IB?**

***CIT v. Jyoti Plastic Works Private Limited (2011) 339 ITR 491 (Bom.)***

One of the conditions to be fulfilled by an industrial undertaking engaged in manufacturing or producing articles or things to qualify for claim of deduction under section 80-IB is that it should employ ten or more workers in a manufacturing process carried on with the aid of power or twenty or more workers in a manufacturing process carried on without the aid of power. The issue under consideration in this case is whether the persons employed by such industrial undertaking through agency (including contractors) can be treated as "workers" for fulfillment of the above condition.

In this case, the Assessing Officer rejected the assessee's claim for deduction under section 80-IB on the grounds that -

- (1) the assessee was not a manufacturer as the goods were not manufactured at the factory premises of the assessee but at the factory premises of the job workers; and

(2) the total number of permanent employees employed in the factory being less than ten, the assessee had not fulfilled the condition stipulated in section 80-IB(2)(iv).

The Commissioner (Appeals) allowed the claim of the assessee and the Tribunal upheld the order of the Commissioner (Appeals).

The High Court observed that the Tribunal had found on the basis of the material on record that manufacturing activity was carried out at the factory premises of the assessee. Though the workers employed by the assessee directly were less than ten, it was not in dispute that the total number of workers employed by the assessee directly or hired through a contractor for carrying on the manufacturing activity exceeded ten.

The expression "worker" is neither defined under section 2 of the Income-tax Act, 1961, nor under section 80-IB(2)(iv) of the Act. Therefore, it would be reasonable to hold that the expression "worker" in section 80-IB(2)(iv) of the Act is referable to the persons employed by the assessee directly or by or through any agency (including a contractor) in the manufacturing activity carried on by the assessee. The employment of ten or more workers is what is relevant and not the mode and the manner in which the workers are employed by the assessee.

The High Court, therefore, held that the Tribunal was justified in holding that the condition of section 80-IB(2)(iv) had been fulfilled and therefore, the deduction under section 80-IB is allowable.

**(5) Can unabsorbed depreciation be allowed to be carried forward in case the return of income is not filed within the due date?**

***CIT v. Govind Nagar Sugar Ltd. (2011) 334 ITR 13 (Delhi)***

On this issue, the Delhi High Court observed that, the provisions of section 80 and section 139(3), requiring the return of income claiming loss to be filed within the due date, applies to, *inter alia*, carry forward of business loss and not for carry forward of unabsorbed depreciation. As per the provisions of section 32(2), the unabsorbed depreciation becomes part of next year's depreciation allowance and is allowed to be set-off as per the provisions of the Income-tax Act, 1961, irrespective of whether the return of the earlier year was filed within due date or not.

Therefore, in the present case, the High Court held that the unabsorbed depreciation will be allowed to be carried forward to subsequent year even though the return of income of the current assessment year was not filed within the due date.

*(Compiled by CA. Priya Subramanian/  
CA.Nidhi Agarwal, BoS)*

**CROSSWORD**

March, 2012

Solution

			1	A	I	2	R	C	3	R	A	4	F	T		5	S	B	6	U		
7	R	8	T	I			I			O							I			T		
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13	S	T	T			O										14	U			I		
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# Examiners' Comments on the Performance of Candidates- November 2011 Examination

## ACCOUNTING (PAPER - 1: IPCC)

### Specific Comments

**Question 1.(a)** Most of the candidates could not correctly ascertain effective capital and remuneration payable to the managing director. Some candidates misunderstood monthly maximum permissible managerial remuneration as yearly maximum permissible managerial remuneration and hence wrongly concluded their answer.

**(d)** Some candidates failed to calculate new profit sharing ratio after admission of a new partner and some erred while ascertaining the amount to be brought in or withdrawn by the old partners.

**Question 2.** Satisfactory performance of the candidates has been observed in this question. However, few candidates made mistake while passing journal entries for arrears of preference share dividend and transfer to capital reserve. Though the entries passed were correct but many candidates have not written narrations for the journal entries. Few candidates were not able to calculate correct cash at bank after reconstruction.

**Question 3.** Many candidates were not able to calculate bar trading profit, depreciation on premises and car correctly. However, most of the candidates made a mistake in adjusting 'cheque issued but not presented' to 'bank balance as per pass book' to arrive at 'bank balance as per cash book'. Candidates were also not able to draw all working notes.

**Question 4.(a)** Some of the candidates did not present their answer in a sequential manner while some of the candidates erred in calculating net profit made during the year. However, overall performance of the candidates was good.

**(b)** Few candidates were not able to allocate pre and post incorporation expenses correctly.

**Question 5.(a)** A number of candidates were unable to calculate the correct amount of closing stock. Many candidates did not segregate between normal and abnormal items.

**Question 6.(a)** Candidates erred in issuing bonus shares from cash profit only. They had taken non-cash profit also into consideration for capitalizing bonus shares. Some candidates failed in calculating

authorised share capital after bonus issue. Extracts of balance sheet, after bonus issue, was also not correctly drawn by some of the candidates.

**(b)** Some candidates took base date, different from the base date required to be taken as per the question.

**Question 7.(a)** Many candidates had not supported their answer with the provisions of relevant AS 10.

**(b)** Answers of large number of candidates reflected their confusion on recognition of dividend either on proposed date or declaration date. They were not able to apply the provisions of AS 9 in the given situation.

**(c)** Candidates failed to give disclosure requirements at the time of amalgamation. They explained types of amalgamation instead of disclosure requirements on amalgamation.

**(d)** Majority of the candidates failed to take into account the current year loss along with the estimated loss on the contract.

## BUSINESS LAWS, ETHICS AND COMMUNICATION (PAPER - 2: IPCC) (Paper 3: PCC)

### Specific Comments

**Question 1.(a)** Performance of the students was highly satisfactory as most of the students answered correctly. Some of the students were confused and did not understand the question properly and rather than answering on the grounds for the discharge of a contract they answered the essentials of a contract. They mixed the discharge of contract with void contract.

**(b)** Students' performance is not satisfactory. Majority of the students not referred the relevant provisions i.e., Section 84(2) and 84(4) of the Companies Act, 1956 and even not written the law and procedure for issuing the duplicate share certificate as asked in the question.

**(c)** Performance of majority of students has been highly satisfactory.

**(d)** Performance of the students is below the average. Majority of students failed to explain the meaning of Ethical Communication and no mention of relevant information of the elements of Ethical Communication. In fact, students explained meaning, types and modes of communication.

**Question 2.(a)** Performance of the students in both the parts (i) and (ii) of the question is satisfactory. In respect to part (i) of the question, some of the students missed age bifurcation for the payment of bonus and failed to mention that minimum bonus is payable even if employer suffers losses during the accounting year. Whereas in respect to part (ii) of the question, students concept on the law relating to recovery of amount of gratuity along with the interest as per Section 8 of the Payment of Gratuity Act, 1972 was not clear. In fact some of the students made a guess that an employee may file a suit in court against an employer to recover gratuity.

**(b)** Performance of the students in this part is quite satisfactory. Some of the students were not able to differentiate the points in a proper manner as they were found to be bit confused in both the two terminologies, the moral and the ethics.

**(c)** In respect to this part of the question students' performance is quite satisfactory. Most students answered on active listening rather than focusing on the significance of the active listening on interpersonal communication skills.

**Question 3.(a)** Performance of the students has been highly satisfactory, though only few students explained relevant Sections 15 & 16 of the Indian Contract Act, 1872.

**(b)** In respect to this part of the question student performance is average. Most of the students laid incomplete answer and not referring to the core points and thus answer seems to be given in general.

**(c)** Students performance in relation to this part of the question is average. Most of the students mentioned the types of grapevine rather than pointing the factors that lead to grapevine communication as asked in the question. Some students intermingled the definition and the factors of the grapevine communication.

**Question 4.(a)** Students performance in respect to this part of question is below average. Majority of the students failed to lay down the legal provision related to the procedure for shifting of the Registered Office as per Section 17 of the Companies Act, 1956. Many students were also confused between Registered Officer and ROC and missed to answer the importance of Registered Office of a company. Overall answer was not up to the expected level of the students.

**(b)** Students performance in respect to this part of the question is satisfactory, though some of the candidates were not clear about the concept.

**(c)** This part of the question found to be satisfactory

but most of them did not give the features of "Group" and also instead of focusing their answer on the features of group they mentioned the advantages and types of groups like formal and informal.

**Question 5.(a)** Students' performance in respect to this part was highly satisfactory. Though most of the students mentioned only three to four grounds of dishonor of cheques, not justifying the weightage of marks allotted for the answer.

**(b)** Performance of the students was satisfactory. Many students could not properly interpret the difference between pre-incorporation and post-incorporation contracts.

**(c)** Students' performance to this question was below average. Students lack the drafting skill and drafted like a layman and no professional touch as is expected from the students of this level.

**Question 6.(a)** Respect to this part of question, students performance found to be unsatisfactory i.e. below average because of conceptual haziness as regards to the legal position of minor for the membership in a company as per the Companies Act, 1956. Mostly students focused their answer on the basis of the Indian Partnership Act, 1932.

**(b)** Students performance in concern to this part of the question was average. Majority of the students gave answer in general. They were unable to understand the question as to parameters to Competition Law and thus failed to answer well.

**(c)** Pertaining to this part of the question, students performance was highly satisfactory. Almost all the students replied the question correctly.

**Question 7.(a)** In respect to this part of the question, students performance was unsatisfactory. As the students not updated themselves on the amended law of the Employees' Deposit Linked Insurance (Amendment) Scheme, 2010, majority of the students didn't make an effort to attempt the question.

**(b)** In concern to this part of the question students' performance found to be unsatisfactory because of lack of knowledge of the provisions of the Companies Act, 1956 related the commencement of business by a public company. Many of the students laid the procedure for incorporation and issue of certificate of incorporation and some answered the requirements for formation of a Public Company.

**(c)** Students' performance in relation to this part of the question was unsatisfactory. Majority of the students lack legal knowledge relating to criminal liability for mis-statement in the prospectus as per

the provision given under Section 63 of the Companies Act, 1956. Most of the students missed quantum of penalties.

(d) Performance of the students pertaining to this part of the question found to be unsatisfactory. Answers given were too general. Answer of the students lacked the benefits of Social Accountability-8000, an international standard improving the working conditions.

(e) Student's performance to this part of the question found to be unsatisfactory. Students were not able to properly elaborate the meaning of semantic barriers.

**COST ACCOUNTING AND FINANCIAL  
MANAGEMENT (PAPER - 3 : IPCC)  
(PAPER-4 : PCC)**

### General Comments

The overall performance of the examinees was average. Lack of conceptual clarity of the examinees was observed. The explanation and logic given by the examinees was not of a very high standard. All examinees need to understand all basic concepts of Cost Accounting and Financial Management and to practice practical questions in examination condition to perform better in the subject.

### Specific Comments

**Question 1.** It is a compulsory question divided into four numerical subparts:

(a) It is a practical question related to calculation of break-even point and desired sales on expected level of profit. Most of the students correctly calculated the break even point but some of them failed to calculate the desired sales correctly.

(b) This practical problem related to calculation of wages under Rowan plan and Emerson Efficiency plan was attempted by many examinees. Average performance of the candidates was observed.

(c) It is practical question relating to management of debtors. Most of the candidates could not correctly work out the Opportunity Cost of Investment in Receivables for evaluation of the proposal.

(d) It is a practical question relating to calculation of weighted average cost of capital. The question is well attempted by most of the students. However, a few of the candidates could not work out the exact Cost of Equity figure resulting into wrong computation of Weighted Average Cost of Capital.

**Question 2.(a)** This is a practical question relating to treatment of under/over absorption of over heads. Satisfactory performance of the examinees was observed.

(b) It is practical question relating to calculation of ratios. It was well attempted by most of the candidates. However, most of the candidates wrongly computed the figure of Quick Assets resulting in incorrect calculation of Quick Ratio. Some of them were not able to compute Debt-Equity ratio and Return on Capital Employed.

**Question 3.(a)** It is practical question relating to calculation of equivalent production and cost per unit as per average method of equivalent production. Performance of the examinees was satisfactory in this question.

(b) This is a practical question relating to calculation of earning per share and combined leverage. Most of the candidates were able to compute the values of Earnings per share and Combined Leverage on correct lines.

**Question 4.(a)** It is a practical question relating to calculation of working capital as per operating cycle method. Majority of the candidates did not work out the problem as per the requirement of the question. They failed to compute the working capital on the basis of operating cycle method.

(b) It is practical question relating to preparation of cost ledger control accounts. It was well attempted by most of the examinees.

**Question 5.(a)** This question comprises of four theoretical parts.

- i. Question relating to difference between cost control and cost reduction. It was not well attempted by the examinees as some of them were confused between the two concepts.
- ii. Question regarding difference between fixed and flexible budget was well answered by the examinees.
- iii This part was on Differences between operating lease and financial lease. Though it was well attempted by most of the candidates, however, few of them answered Financial Leverages versus Operating Leverages instead of Financial Leases versus Operating Leases.
- iv This part of the question was on Differences between Net Present Value and Internal Rate of Return. Candidates were not able to fully bring out the differences with clarity and gave vague answers.

**Question 6.(a)** It is a practical question relating to capital budgeting. Majority of the candidates solved it correctly. However, few of them computed depreciation on incorrect lines while many candidates applied Net Cashflows in computation of ARR and also calculated Net Present Value instead of P.V. Index.

(b) It is a practical question relating to calculation of variances. It was well attempted by most of the students.

**Question 7.** This question comprises five theoretical parts and the candidates were required to answer any four.

- (a) Most of the candidates explained the responsibilities of Chief Financial Officer (CFO) correctly. They were clearly able to bring out the different responsibilities of a CFO.
- (b) Question relating to relevance of time value of money was not well answered by most of the candidates. The candidates lacked clarity and displayed lack of knowledge about this concept. Majority of the candidates explained the concept of time value of money instead of its relevance.
- (c) Question relating to ABC analysis as the students very well answered a system of inventory control.
- (d) Question relating to notional profit and retention money was well answered by the students.
- (e) This part was related to bridge finance and essentials of budget. Average performance was observed.

#### TAXATION (PAPER 4 : IPCC )

##### Specific Comments

**Question 1(a)** The question seeks computation of book profits under section 40(b) applicable to partnership firms. Also, the allowable working partner salary is to be computed. Candidates did not know the concept of book profit. Most of them were unaware of the provisions of section 40(b).

(b) This question on clubbing of income and computation of tax liability was not answered well by many candidates. Even the basic exemption limit for woman tax payer was not stated correctly. Candidates were not able to apply clubbing provisions to calculate Income from house property correctly. Some candidates have failed to apply the flat rate of 20% in respect of tax calculation on long-term capital gain.

(c) This question on computation of value of taxable services was answered reasonably well by the candidates.

(d) This question on computation of value of taxable services was answered reasonably well by the candidates.

**Question 2.(a)** Some candidates were not aware of the value of perquisite of motor car owned by the employer and provided to the employee for both

official and personal use. They have also not mentioned the correct reason for exemption of leave travel concession.

(b) The first part of the question on e-payment of service tax on mandatory basis was not answered well by the candidates. Most of the candidates did not mention that limit of ₹10 lakh for e-payment is inclusive of CENVAT credit. As regards due date for e-payment, it was answered well by candidates.

(c) This question on the role of Chartered Accountant in proper compliance of VAT was answered on general lines by many candidates. The performance of the candidates was average for this question.

**Question 3.(a)** Very few candidates were able state the reason for non availability of exemption under section 54EC correctly. Further, in the second part of the question the candidates were not able to compute short-term capital gain on sale of house property in March 2012.

(b) This question intending to test chargeability to service tax on services rendered at various points of time vis a vis different locations was answered reasonably well by many candidates. However, few candidates ignored the word "Gross Receipt" mentioned in question resulting in computation of wrong amount of service tax.

(c) This question on the benefits and drawbacks of composition scheme was answered well by many candidates.

**Question 4.(a)** This question on taxability and deductibility of various items was not answered well by many candidates. Most candidates were not aware of the taxability or deductibility of certain payments or expenditure, especially in parts (iv), (v), and (vii) of the question.

(b) Most of the candidates were confused and answered the composition scheme under VAT instead of mentioning composition scheme under service tax for distributor or selling agents of lotteries.

(c) This question intending to test the conceptual knowledge of candidates was answered very briefly by them. Although the question specifically required reasons to support the answer, majority of candidates did not provide the same.

**Question 5.(a)** This question involving computation of presumptive income, treatment of brought forward business loss and depreciation and computation of deductions under Chapter VI-A was not answered well by many candidates. Some candidates were not aware of the presumptive tax provisions under section 44AE. Others were not aware of the conditions for claiming deductions under section 80C and section 80E.

(b) Most of the candidates wrongly mentioned the features of service tax return instead of providing the contents of service tax return.

(c) This question on VAT liability, where a part of raw material was used for manufacture of exempt goods, was answered well by candidates. However, few candidates wrongly claimed full input tax credit of raw material 'A' instead of taking 60% credit.

**Question 6.(a)(i)** This part of the question was on residential status. Most of the candidates did not assign proper reasons (i.e. provisions for section 6) correctly for answering this part of the question.

(ii) This part of the question was not answered well by majority of candidates indicating that they were not abreast with the latest amendments. Most of the candidates were not aware of the provisions of section 56(2)(viii) and section 57(iv) and were not able to calculate the interest on enhanced compensation chargeable to tax correctly.

(b) The question on service tax code number and objective was answered very poorly by many candidates. It only exhibited lack of preparation.

(c) This question on cross checking under VAT system was answered very poorly by the candidates.

**Question 7.(a)(ii)** This question on applicability of TDS provisions was not answered well by many candidates. They lacked knowledge of TDS provisions and hence were not able to apply the provisions of section 194-J and section 194-I correctly.

(iii) This question on signing of return/filing of return was not answered impressively by the candidates. The answers exhibited lack of preparation by them.

(b) This question on computation of taxable value of cargo handling service was answered reasonably well by the candidates.

(c) This question on gross product and consumption variant was answered well by many candidates.

### ADVANCED ACCOUNTING (PAPER 5: IPCC )

#### Specific comments

**Question 1.(a)** Many candidates wrongly capitalized interest on purchase of machinery. Many candidates explained the provisions of AS 16 but had not applied it in the given situation.

(b) Very less number of candidates attempted this part of the question. They got confused in determining the lease as operating or finance lease. The answer to this question reflected lack of conceptual clarity of the candidates on AS 19.

(c) Interest on own debentures, payable on 30th September, 2010, was wrongly calculated by most of the candidates.

(d) Narrations for journal entries were not given by most of the candidates. Some candidates showed their lack of conceptual clarity by writing 'Branch Account' in the journal entries passed in the books of the Branch.

**Question 2.** Some candidates did not pass the entry of bringing cash by the solvent partners to make realization loss good. Many candidates also erred in calculating capital ratio of solvent partners to share the deficiency of R.

**Question 3.** Many candidates, while solving the problem ignored the fact that contingent liability has been turned as an actual liability in the case of X Ltd.

**Question 4.** Candidates reflected lack of practice of such type of questions. Most of the candidates made mistake in calculation of capital base and reasonable return. Some candidates also erred in calculation of surplus available for disposal and final disposal of surplus.

**Question 5.(a)** Few candidates failed to correctly calculate stock reserve/unrealized profit. Some candidates apportioned the general expenses among the departments and some showed stock reserve in the Departmental Trading Account.

(b) Few candidates made mistake in calculation of amount of discount transferred to Profit and Loss Account of the current year.

**Question 6.(a)** Some of the candidates included 'P' in the B List of Contributories and made him liable for payment to creditors.

(b) Few candidates committed mistake in calculation of net premium and reserve for unexpired risk.

**Question 7.(b)** Most of the candidates wrongly adjusted exchange fluctuation against cost of raw material instead of creditors and were also not aware of the treatment of exchange gain in the subsequent year.

(b) Candidates reflected lack of understanding of ESOP and its accounting treatment. Many candidates have not given narration inspite of correct entries.

(d) Candidates were not able to state correct accounting treatment in case of refund of government grant in the nature of Promoter's contribution.

(e) It has been observed that candidates do not study this topic and had given vague answers.

### AUDITING AND ASSURANCE (PAPER - 6: IPCC) (PAPER-2 : PCC)

#### Specific Comments

**Question 1.(a)** Majority of the candidates mentioned irrelevant points like appointment of new auditor,

change in remuneration of auditors & reconstitution of auditor's firm instead of elucidating the audit engagement letter in recurring audits.

**(b)** Most of the candidates explained the examination of the payment of advance tax and reference to receipted challan only however, they failed to discuss other relevant points pertaining to vouching of the payment of taxes.

**(c)** Most of the candidates failed to narrate the auditor's independence and the notice requirement in the situation of the removal of auditor before the expiry of his term.

**(d)** In general, the candidates have an average understanding of writing the adequate programme for testing the authenticity of cash at bank.

**Question 2.(b)** Most of the candidates narrated irrelevant points like issue of debentures at par, premium or discount, interest rate, types of debentures and terms of repayment.

**Question 3.(b)** Some of the candidates did not have an idea of the reduction of the shares. They mystify it with Buy Back of shares.

**Question 4.(a)** Most of the candidates explained only CAATs and failed to mention important requirements in CIS environment. Some of the candidates also mentioned audit around the computer and through the computer.

**Question 5.(b)** Most of the candidates discussed about the role of the CAG rather than the propriety aspect of expenditure.

**Question 6.(a)** Most of the candidates failed to mention AS - 1. Some of the candidate discussed about basic accounting concepts only.

**(b)** Most of the candidates mentioned different kinds of audits under Companies Act, 1956 and failed to discuss audit required under other statutes. They, in general, fail to reach the essence of the question.

**(c)** Candidates, in general have covered only classification by age and provision for doubtful debts, rest of the points were not mentioned at all.

**Question 7.(b)** Some of the candidates discussed the types and methods of obtaining audit evidence rather than describing reliability aspect of various sources.

**(c)** Most of the candidates failed to mention AS - 13 and other relevant points.

**(d)** Most of the candidates failed to mention AS -19 and other relevant points.

**(e)** Candidates in general have no idea of the topic

and mentioned only various types of sampling and the benefits of test checking in audit.

## INFORMATION TECHNOLOGY AND STRATEGIC MANAGEMENT (PAPER 7: IPCC) (PAPER-5: PCC)

### SECTION - A: INFORMATION TECHNOLOGY

#### General Comments

The overall performance of the examinees in general, was found to be good. However, there is a scope for improvement. The question paper was well balanced. The examiners were of view that the study material of Information Technology is well prepared and has wide coverage of all the topics. However, Thorough and in-depth reading of the study material was lacking on the part of some examinees. Except a few, most of the examinees have answered the questions with adequate preparation. In fact, examinees should answer the questions based on the conceptual understanding of the topics.

#### Specific Comments

**Question 1.(a)** Being a mathematical question on conversion from one number system to another number system, most of the examinees were able to do the necessary conversion with proper working notes. However, some of them failed to calculate the final answer at the end. The overall performance was good for this part.

**(b)** This part of the question has three sub-parts. Examinees were required to define/explain Information Technology related terms in appropriate manner.

(i) The question on 'Smart Card' was well attempted by most of the examinees explaining the use in electronic purchases, EFTs between accounts, health care industries and security services etc. Hence, the performance was good for this part.

(ii) Most of the examinees failed to define 'VSDL' connection and could not even write the full form of said term. In fact, it appeared that some of them were not even aware of such term. They were unable to describe the technological aspects why these connections are required for fast data transfer using analog telephone services. Hence, the performance was very poor.

(iii) Except a few, most of the examinees were not able to differentiate between the Parallel Port and Serial Port. They were not clear about the concept of transfer of data usually 1 byte (8 bit) using parallel port and 1 bit using serial port. Thus, the answers given by them were confusing and showed lack of conceptual clarity on their part. Hence, the performance was very poor.

**Question 2.(a)** This part of the question was well attempted by most of the examinees explaining the use of database in solving the problems faced with traditional file systems in the organisation. However, some of them gave generalized answer instead of discussing main benefits of DBMS. Hence, the performance was average.

**(b)** Being a general question in nature, most of the examinees could answer this question well by discussing main benefits and utility of Internet in day to day business environment. However, some of them exhibited lack of technical knowledge about usage of Internet in business and commerce. In fact, few of them were not clear about the word 'intrinsic'. However, the overall performance was good.

**Question 3.(a)** Most of the examinees gave correct answer to this question. Some of them got confused and discussed synchronous/asynchronous and parallel/serial transmission of data. Instead of explaining transmission mode of data transfer in network environment. Few of them gave vague answer to this question. However, the performance was found to be good.

**(b)** This part of the question was attempted by most of the examinees and exhibited good understanding of programming software and their utilities in computer systems. Hence, the performance was good on their part.

**Question 4.(a)** Very few examinees attempted this question in desired manner. Most of the examinees showed lack of knowledge. Those who have attempted this part were confused with features of centralized database and gave generalized answer. The overall performance was satisfactory.

**(b)** This part of the question could be answered by most of the examinees. Instead of explaining reporting tools in Data Warehousing, they discussed about various components and types of Data warehouse. This could be due to lack of conceptual knowledge about the Data warehouse. The overall performance was very poor.

**Question 5.(a)** Most of the examinees showed lack of knowledge while explaining expert systems and their benefits. They gave answers based on their general knowledge. The overall performance was average on their part.

**(b)** In this part, most of the examinees got confused with OMR/MICR while answering the advantages of OCR and wrote answers accordingly. Some of them gave definition and general use of OCR technology instead of explaining advantages point-wise. The overall performance was average for this part.

**Question 6.** In this part, most of the examinees drew the correct flowchart as per the expectations. Few of them failed to write the condition and also formula for calculating total charge/amount to be paid for no. of units consumed. However, some of the examinees did not use appropriate flow chart symbols. The overall performance was satisfactory.

**Question 7.** This question consists of five parts. The examinees were required to attempt any four parts describing Information Technology related terms in appropriate manner.

**(a)** Most of the examinees could not answer to this question because lack of knowledge about the Data Warehouse. Hence, the performance was below satisfactory for this part.

**(b) to (d)** All three parts of the question was very well attempted by most of the examinees. They explained the use of such technologies in networked and business environment. Hence, the overall performance was satisfactory for this part.

**(e)** Most of the examinees answered this question based upon general knowledge acquired by them from various sources. They exhibited lack of technical knowledge. Hence, the overall performance was below average for this part.

## SECTION - B : STRATEGIC MANAGEMENT

### General Comments

- The question paper was based on concepts and superficial reading is not enough for attempting the paper. In-depth knowledge is required for properly attempting the question paper. Analytical and planned presentation was also missing in several cases.
- Many candidates gave vague and irrelevant answers. It is suggested that the candidates should first clearly understand the question and then provide specific answers with proper explanation.
- Handwriting of many examinees was illegible.

### Special Comments

**Question 8.** The overall performance of the examinees in this question was average to satisfactory. This question was divided into five parts. In part (a), majority of the candidates wrote steps in decision making instead of characteristics of business environment with reference to decision making. Part (b) was related to the five areas of competitive pressures given by Porter which was not attempted

well by the examinees. In part (c), candidates gave vague and irrelevant answers without any substance. In part (d), most of the examinees were able to explain the sources of funds but unable to reveal their impact on financial strategy. Candidates, in general avoided answering part (e) of the question.

**Question 9.** Although majority of the candidates were able to provide answers in terms of correctness or incorrectness of the statements, they were not able to substantiate their answers with adequate and valid reasoning. Problems were more in part (b) related to fill in the blanks where students were unable to find appropriate word for the blank of the statement.

**Question 10.** This question was divided into seven parts of one mark each. Majority of the candidates attempted this question and the performance was satisfactory.

**Question 11.** Although, the candidates attempted both the parts of the question; they could not write good answers and accordingly secured less marks. The answer of the examinees reflected that most of them were not aware about the situations under which the strategic options were suitable in BCG matrix. The examinees were also not fully conversant with the concept of strategic role of human resource manager in different areas.

**Question 12.** The overall performance of the examinees in this question was poor. Majority of the candidates attempted both parts of this question but only a few of them were able to explain dimensions of strategic decisions correctly. Part (b) related to requirements for the implementation of supply chain management system was not attempted well by the examinees.

**Question 13.** Both the parts were well attempted by the students. Majority of the candidates were able to write satisfactorily the differences between micro and macro environment as well as between concentric and conglomerate diversification. Overall students secured good marks in this question.

**Question 14.** Most of the examinees were able to explain correctly the role of IT in business process reengineering. At the same time, a few candidates gave vague and incorrect answers. In the second part of the question they have not been able to explain the importance of corporate culture.

### ADVANCED ACCOUNTING (PAPER 1: PCC)

#### Specific Comments

**Question 1.(a)** Some of the candidates erred in calculation of revalued amount and some had not

taken into consideration the revised useful life for calculation of depreciation for the fourth year.

**(b)** Few candidates failed to include three days of grace while calculating the due date of the bills.

**(d)** Some of the candidates did not deduct CENVAT credit from purchase price of the material and hence arrived at wrong cost of inventory. Some mistakenly added CENVAT credit to cost of material. Few candidates erred in the allocation of material cost as per AS 2 "Valuation of Inventory."

**Question 2.** A number of candidates made mistake in calculation of correct sales and time ratio. While few candidates went wrong in allocation of bad debts and gross profit to pre and post incorporation period.

**Question 3.** Overall performance of the candidates was fairly good in this question. Some candidates could not provide correct accounting treatment of penalty on cancelled contract. Some were not able to draw correct bank account to know cash at bank after implementation of reconstruction scheme.

**Question 4.(a)** Few candidates got confused and recorded the balance of Debtors Ledger Adjustment account on credit side instead of debit side. Similar was the case with the balance of Creditors Ledger Adjustment account. Therefore, they ended up by posting all the entries on the wrong side. Some erred on accounting treatment of cash purchases, cash sales, bad debts recovered and provision for doubtful debts by adjusting the same in the required self balancing ledgers.

**(b)** Average performance of the candidates has been observed in this part of the question. Many candidates were unable to calculate 'gross profit on sales generated by additional expenses' which lead them to wrong calculation of gross claim.

**Question 5.(a)** Candidates made mistake in accounting treatment of goodwill as per the accounting standard. Few candidates did not pay due attention to the requirements of the questions and erred in calculating bank balance for working capital requirement of the firm at the year end. Candidates also made mistake in drawing correct Revaluation account and Partners' Capital accounts.

**(b)** A number of candidates committed error on account of computing claim on reinsurance business whether paid or received.

**Question 6.(a)** Most of the candidates were unable to calculate shares required for conversion of debentures and bonus shares to be kept aside for them. Only few candidates arrived at correct figure of authorized share capital. Candidates did not lay due emphasis on the

SEBI guidelines that securities premium collected in cash can only be utilized for bonus issue.

(b) Most of the candidates could not arrive at correct figure of sports equipments purchased during the year, interest on loan and insurance paid during the year.

**Question 7.** In part (a) and (c), answers provided by the candidates were very general and not to the point. Answers to accounting standard based questions (b) and (d) were not supported by the provisions of relevant accounting standards and candidates tried to answer them in a vague manner. In part (e), hire purchase price has been taken as cost of asset by some of the candidates. Depreciation was calculated on the amount of the asset after adjusting installments.

### TAXATION (PAPER 5 : PCC)

#### Specific Comments

**Question 1.(a)** Some of the candidates have not calculated the capital as on 1.04.2010 correctly and hence they could not calculate the amount to be clubbed in the hands of Mrs. Vaishaly correctly.

(b) Some of the candidates have not set-off loss from house property against income from salary. They have not mentioned that balance unabsorbed loss of textile business could not be carried forward to next year as the time limit of 8 years had expired. Some of the candidates have not mentioned losses to be carried forward to next year separately as required in the question.

(c) In few cases, maximum limit of deduction available under section 80CCE was worked out wrongly by including exemption available under section 80CCF. Some of the candidates had not limited deduction of LIC premium upto 20% of policy value and wrongly given full deduction for premium paid.

(d) Most of the candidates failed to apportion the expenses to PVC Cans (75%) and PVC Pipes (25%).

**Question 2.(a)** Majority of candidates have not attempted this question. Those who attempted this question, answered this question incorrectly. They have failed to understand the question properly. Candidates were unable to compute business income and capital gain correctly. Hence, they were not able to compute total income and tax liability correctly.

(b) Few candidates did not take into account the small service providers' exemption while computing the value of taxable services.

**Question 3.(a)** Most of the candidates were not able to compute the perquisite value of concessional accommodation taken on hire correctly. Some of the candidates have wrongly treated the house property as self occupied.

(b) Many candidates have not classified the capital gain as short term and long term and hence have not computed tax liability correctly. Some of the candidates have wrongly deducted securities transaction tax from sale consideration. Few candidates have not given the benefit of higher basic exemption limit available to senior citizen while calculating tax liability.

**Question 4.(a)** In many cases, the perquisite value of transfer of car, taxable leave encashment and taxable value of commuted pension have not been worked out correctly.

**Question 5.(a)** In many cases, reasons for allowability or otherwise of expenses were not explained properly. Few candidates have not given any reasons at all. Some of the candidates did not know that payment for purchase of oil seeds from the farmer is covered under exception in Rule 6DD and therefore, wrongly disallowed payment made to farmers. Few candidates were not aware that the limit for attracting disallowance under section 40A(3) in case of payment to transporters has been increased from ` 20,000 to ` 35,000 and therefore, they have wrongly disallowed the same.

(b) Many candidates have not excluded income from house property and income from agriculture in Pakistan from the gross total income of Mr. David. In fact, they have failed to bring out that since Mr. David is a non-resident, income received/accrued outside India is not includible in his gross total income.

**Question 6.(a)** Majority of candidates have answered this question without giving proper reasons. Many candidates were not aware that as per section 194J, limit of ₹ 30,000 should be considered individually for fees for technical services and royalty. Few candidates were not aware that the enhanced limit of ₹ 30,000 instead of ₹ 20,000 should be considered for the applicability of section 194J.

(b) Most of the candidates have not given proper reasons for allowability or otherwise of expenses. Some of the candidates have wrongly disallowed interest on bank loan.

**Question 7.(a)** Though many candidates have computed the correct amount of depreciation, they failed to calculate additional depreciation correctly.

(b)(ii) Many candidates wrote generally about service tax instead of providing specific points to be kept in mind while paying service tax.

(c) The second part of the question requires the date by which the defect in return of income has to be rectified. Only few candidates have mentioned the correct time limit to rectify the defect. ■

## Attention - May 2012 Examinations Appearing Students

Students may please note that with a view to encourage the students to evaluate their preparation for the forthcoming May, 2012 examination, the Board of Studies has prepared Two Mock Test Papers in each subject for the students of IPCC, PCC and Final level. These Mock Test Papers would be conducted by each Region and its Branches. Students have to register with the respective Region/Branch beforehand to sit in these Test Papers.

First series of Mock Test Papers has already been conducted in March 2012. These Papers and their

Solutions are now available on Institute's website. It is advised that if some students have not been able to appear in these Tests, they may attempt them now. It is also advised that students attempt these mock test papers under examination conditions.

The Second series of Mock Test Papers will be conducted by the respective Regions and Branches in April, 2012. Contact your Regional Office/Branch for the exact date, venue and further details.

*Director, Board of Studies*

## Admit cards to candidates appearing in May 2012 Chartered Accountants Examinations

Candidates who have applied for May 2012 Chartered Accountants exams are requested to note that admit cards with photographs and signatures of the candidates will be hosted on <http://www.icai.nic.in> generally 21 days prior to the commencement of the examination. Candidates may print their admit cards from the website, which will be valid for admission to the examination.

For downloading/printing of the admit cards from the website, candidates will be required to enter the following:

- Student registration number or the bar code on the examination form and
- Personal Identification Number (PIN) indicated by them in their application form.

Upon printing of admit cards, candidates are advised to verify the name, registration number, centre, medium, Group opted for accuracy.

In case of difficulty in printing of admit cards or any discrepancy in the data on the admit card so printed, candidates are advised to contact the Helpline of the Examination Department immediately, quoting their registration number, bar code number of their examination form and receipt number issued by the regional office(s), centre opted (with zone, if applicable), telephone number, fax number etc.

Help Line Telephone numbers: 0120 3054 851, 852, 853 or 835

Fax 0120 3054 841, 843

E-mail:

PCE candidates: [pce\\_examhelpline@icai.in](mailto:pce_examhelpline@icai.in)

IPCE candidates : [ipce\\_examhelpline@icai.in](mailto:ipce_examhelpline@icai.in)

Final candidates : [final\\_examhelpline@icai.in](mailto:final_examhelpline@icai.in)

CPT candidates : [cpt\\_exam@icai.in](mailto:cpt_exam@icai.in)

Errors if any, reported to the examination dept., in the data on the admit card, printed from the website, will be rectified and a letter by speed post/courier/

email indicating the relevant change/correction etc will be sent to the respective candidates. However, such candidates may note that such corrections will not appear in the website.

It is seen that some candidates who submitted their exam forms on-line, did not send a print-out of their online exam forms, with their photographs and signatures duly affixed thereon. Admit cards of such candidates, hosted on the website, will not contain their photographs and signatures.

Such candidates are required to carry a photo identification i.e. voter's card, driving licence, passport, identity card issued by College etc, failing which they will not be allowed entry into the examination centre. In case they do not have any of the abovementioned photo identity cards, they may get their photos attested by a Chartered Accountant or a Gazetted Officer and carry the same to the examination centre, as proof of their identity.

**However, candidates may note that physical admit cards for May 2012 examination will also be sent to the candidates, by post. In case a candidate does not receive the physical admit card by post, for whatsoever reason, they can carry the admit card printed from website, which is also equally valid.**

*Examination Department*

### Corrigendum in the Suggested Answer of 'Paper 1 - Financial Reporting' of November, 2011 at Final level

The term 'Deferred Tax Liability' used in Note 4 of Answer 3 given before 'Working Notes' at page 13 of the Suggested Answer of 'Paper 1 - Financial Reporting' of November, 2011, should be read as 'Deferred Tax Asset'. Typographical error committed therein is deeply regretted.



CA. Jaydeep Narendra Shah, President, ICAI, CA. Subodh Kumar Agrawal, Vice President, ICAI and CA. C.J.S.Nanda, Central Council Member in a meeting with Shri Pranab Mukherjee, Hon'ble Union Finance Minister on February 24, 2012 in New Delhi.



CA. Jaydeep Narendra Shah, President, ICAI, CA. Subodh Kumar Agrawal, Vice President, ICAI and CA. C.J.S.Nanda, Central Council Member in a meeting with Hon'ble Union Finance of Corporate Affairs, Dr. M. Veerappa Moily on February 24, 2012 in New Delhi.



CA. Jaydeep Narendra Shah, President, ICAI inaugurates the two day Branch Orientation program organized by WIRC of ICAI on 3rd & 4th March, 2012 in Mumbai in the presence of CA Nilesh Vikamsey, Chairman, Board of Studies, ICAI and CA Rajkumar Adukia, Central Council Member and other dignitaries.



CA. Subodh Kumar Agrawal, Vice President, ICAI being felicitated by the Guwahati Branch of EIRC of ICAI on February 28, 2012.



CA. Subodh Kumar Agrawal, Vice President, ICAI being welcomed at the inaugural function of the Public Enterprise Orientation Programme in Guwahati on February 28, 2012.



CA. Subodh Kumar Agrawal, Vice President, ICAI addressing the students in Guwahati on February 28, 2012.



CA Nilesh Vikamsey, Chairman, Board of Studies, ICAI addressing the two day Orientation program organized by WIRC of ICAI on 3rd & 4th March, 2012 in Mumbai



CA. Madhukar N. Hiregenge, Vice Chairman, Board of Studies, ICAI addressing the two day Orientation Program organized by the SIRC of ICAI on 9th & 10th March, 2012 at Bangalore.

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**Across**

1. \_\_\_\_-notch means excellent.
3. \_\_\_\_ is responsible for evolving and maintaining statistical standards in India.
6. A measure of the rate of return on the ownership interest (shareholders' equity).
8. Banking companies in India are regulated by ----- Bank of India.
10. An integer is \_\_\_\_ if dividing by two does not yield an integer.
11. The concept of ..... let out property for taxing income from house property is proposed to be done away with in the Direct Taxes Code.
14. An asset becomes \_\_\_\_ when it ceases to generate income for the bank.
15. Litigation for the protection of the public interest.
17. The average interest rate that leading banks in London charge when lending to other banks.
19. A financial ratio used in Capital budgeting which does not take into account the time value of money.
20. A group of autonomous engineering and technology-oriented institutes of higher education in India.
21. Profit linked tax incentives is proposed to be replaced by \_\_\_\_ linked tax incentives under the DTC.
22. The company can continue its business for \_\_\_\_ months under section 45 of the Companies Act, 1956.
26. \_\_\_\_ is a mathematical notation wherein every operator follows all of its operands.
27. Financial asset is an asset which may be an \_\_\_\_ instrument of another entity.
30. In MS-Word 2010, a \_\_\_\_ is a series of commands that we can use to automate a repeated task, and can be run whenever we have to perform the task.
31. Monochrome monitors display \_\_\_\_ color(s).
32. A furnace for baking, burning or drying.

**Down**

2. The cheque which is not crossed is called as \_\_\_\_ cheque.
3. Coal is one of the \_\_\_\_ industries in India.
4. The amounts to be transferred in Investor Education and Protection Fund should have been unclaimed and unpaid for a period of \_\_\_\_ years.
5. Turquand Rule is related to Doctrine of \_\_\_\_ management.
6. The \_\_\_\_ Cross Society is a voluntary humanitarian organization providing relief in times of disasters/emergencies and promotes health & care of the vulnerable people and communities.
7. In MS-Excel 2010, \_\_\_\_ function is used to return the remainder after a number is divided by a divisor.
9. Income from salaries is referred to as income from \_\_\_\_ under the proposed DTC.
12. An integration framework to enable integration of systems and applications across the enterprise.
13. Under the proposed DTC, stores, raw materials etc. are classified as business \_\_\_\_ assets.
15. In the case of retail sales offering a guarantee of "money back if not completely satisfied" it may be appropriate to recognise the sale but one should make a suitable \_\_\_\_ for returns based on previous experience as per AS 9.
16. A contractual arrangement calling for the user to pay the owner for use of his asset.
18. To leave out.
20. The \_\_\_\_ of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.
23. Caveat Emptor means let the \_\_\_\_ beware.
24. A rate of return used in capital budgeting to measure and compare the profitability of investments.
25. To disclose secret.
28. An organization set up in 1997 jointly by the Government of India and the Indian Industry to promote quality through National Quality Campaign.
29. \_\_\_\_ is a specific character string that constitutes a reference to an Internet resource.


**CROSSWORD**