



The Institute  
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# The Chartered Accountant **STUDENT**

Your monthly guide to CA news, information and events



## EXAMINATION

## GLIMPSES ||



CA. M. Devaraja Reddy, President, ICAI lighting the lamp to inaugurate the Reading Room at Kalyan Dombivli branch of WIRC of ICAI. Vice President, CA. Nilesh Shivji Vikamsey, Vice Chairman, Board of Studies, CA. Dhiraj Kumar Khandelwal, Central Council Members, CA. Nihar Jambusaria, CA. Tarun Jamnadas Ghia, CA. Prafulla Chhajed and the Chairperson, WIRC, CA. Shruti Shah also seen in picture.



A group photo taken on the occasion of the inauguration of the Reading Room at Kalyan Dombivli branch of WIRC of ICAI. Seen in picture, ICAI President, CA. M. Devaraja Reddy, Vice President, CA. Nilesh Shivji Vikamsey, Vice Chairman, Board of Studies, CA. Dhiraj Kumar Khandelwal, Central Council Members, CA. Nihar Jambusaria, CA. Tarun Jamnadas Ghia, CA. Prafulla Chhajed, CA. Shruti Shah, CA. Mangesh Kinare, CA. Anil Bhandari and other dignitaries.



CA. Babu Abraham Kallivayalil, Chairman, Board of Studies, ICAI with Central Council Members, CA. Ranjeet Kumar Agarwal, CA. Sushil Kumar Goyal and faculty members at the Faculty Development Programme organized by the Board of Studies at Kolkata.



Vice Chairman, Board of Studies, CA. Dhiraj Kumar Khandelwal with the ICAI student delegates at the SAFA students' Conference held in Sri Lanka. Mr. Lasantha Wickremasinghe, President, Institute of Chartered Accountants of Sri Lanka also seen in picture.



My Dear Students,

**A**t the outset, I would like to convey my best wishes to all those who are appearing in the May 2016 Chartered Accountancy examinations. I sincerely hope that all the candidates will perform well in the examinations. My prayers are always with you. In the present competitive world many examinees take a lot of stress. It is natural that the stress level before and during the examinations will be on the higher side. However, at the same time you should not allow the anxiety and stress to unduly create health problems and also to reduce your performance in the examinations. Always remember there is positive side of stress too. With the positive response to stressful situations one may actually achieve superior results which are otherwise not possible in normal conditions. I would like to take you to the great sermon Lord Sri Krishna gave to Arjuna to overcome his depression and to motivate him to fight a righteous war:

*"karmany evadhikaras te  
ma phalesu kadachana  
ma karma-phala-hetur bhur  
ma te sango 'stv akarmani"*

Lord Krishna advised great warrior Arjuna to devotedly perform his duties without any expectations. You should also not allow the stress and strain to prevail upon you. You should not allow this to be an obstacle for you to become successful. You all would be taking the examination with a definite motive to crack it and become a Chartered Accountant soon, thereby making yourself and your family proud.

You can translate your dream into reality only if you remain so dedicated and hard working. As Norman Vincent Peale said "***Believe in yourself! Have faith in your abilities! Without a humble but reasonable confidence in your own powers you cannot be successful or happy.***

My sincere advice to you is to take your examinations very seriously and ensure that you not only study well but also take maximum advantage of the available educational inputs like study material, Revision Test Papers, Suggested answers, Practice Manuals and other supplementary study materials developed by the Institute on a regular basis. Senior, experienced and devoted faculty members prepare these materials. Their devotion and relentless efforts are well reflected in the study materials that are given to you. Our intention is that you excel in your examinations. The examinations would test your practical knowledge and not only your book or theoretical knowledge, so equip yourself accordingly.

How to judiciously utilize the allotted time is a common question every student asks. Time managing is all about making effective use of available time to do things that can assist you in achieving your short-term and long term goals. Without knowing the skills of effective goal oriented time management, it will be very difficult to you to accomplish the dream of your life. On the other side, people who live their lives by managing their time effectively have higher possibilities of achieving better results. Abraham Lincoln said "***That some achieve great success, is proof to all that others can achieve it as well.***

Always remain motivated in your life. Let enthusiasm and vigour be always there in your life and let you stay motivated in the face of challenges in life. Such an attitude will always keep away the negativity in your life. Do not have regrets in life and move on in all the situations, as with such an attitude you shall quickly go ahead in your career. Always feel good about yourself and never have negative thoughts in your life. Positive thoughts in life shall increase your self-esteem and that shall keep you motivated. Also enjoy a harmonious life at home and in society as it always keeps one's mind motivated in life. A motivated life shall let you accomplish much more and have greater success in life.

Wish you all the best.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "M. Devaraja Reddy".

**CA. M. DEVARAJA REDDY**  
**PRESIDENT,**  
**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

## VICE PRESIDENT'S COMMUNICATION ||



My Dear Students,

With the May 2016 examinations just a step ahead, I am confident that you all must be indefatigably busy with the preparations to reach the target and achieve the anticipated goal. This is a very crucial phase of your life, so get fully engrossed with your studies and cultivate an integrated approach to resolve the practical problems. You need to work on your strengths and work upon your weaknesses. Make sure that you particularly concentrate on your problem areas to sort out all the loose ends. Self-study and Self-confidence are the master keys to unfold the doors of success in any sort of examination.

Chartered Accountancy is one of the most revered professions in the country and elsewhere. It plays an important role in the overall dynamics of a country's economic, financial and commercial affairs. In the present era, when business is being carried out freely across borders, the CA profession has assumed greater importance. A high level of responsibility has been conferred upon the profession and a professional Chartered Accountant as well. Nowadays, business cannot run without the consultation and guidance of Chartered Accountants and the impact of having financial guidance can be felt in almost all the nook and corner of the world. The functions generally performed by the Chartered Accountants are unique and quite varied. Apart from traditional functions of accountancy, audit and taxation, the Chartered Accountants today have proved their expertise in the fields of management consultancy services, risk management, corporate governance, strategic management and many other areas. Being a part of this dynamic profession, you as a student require a well defined and a serious approach to achieve success. If you are passionate about your dreams and goals then nobody can stop you to walk the path of success. You have to make constant and sincere

efforts in your pursuit of academic excellence. Hard work, dedication and commitment to achieve your goals are the key ingredients that you require for sailing through the examinations successfully.

Chartered Accountancy is regarded as a very prominent and worthy profession in the Society. Our Institute plays a very vital role in giving good infrastructure, learning facilities and technical skills in the key areas of Accounting Profession. In the changing scenario, roles and responsibilities of Chartered Accountants are not only delimited to stereotyped job assignments but also expected to have a better understanding of theoretical subjects and practical experience in the arena of business finance, information technology, corporate management, etc. Remember, you are at the most important phase of your professional career, where you are expected to hone your skills and steer your career accordingly. On behalf of the Institute, I assure you that we will do our level best to provide opportunities to explore your horizons in the right perspective. Further, we would like to expand our academic and administrative activities to facilitate you with the value added professional services within the country and abroad as well.

*A dream doesn't become reality through magic,  
It takes sweat, determination and hard work.*

— by Colin Powell.

Stay committed and determined to achieve your desired goal in your life. Unless you cultivate these qualities, the accomplishment of your cherished desire will remain only as a dream. While you progress in the profession of Chartered Accountancy, you might encounter with complex situations and face with lots of challenges. In facing with different situations in life, you have to learn to practice equanimity and kindness. Equal-mindedness and a sense of oneness with all are the marks of a true human being.

Before I wind up this message, I wish you all good luck for your examinations. Keep your mind cool, so that you can deliver the best.

Yours sincerely,

A handwritten signature in black ink, appearing to read "N.S. Vikamsey".

**CA. NILESH SHIVJI VIKAMSEY**  
**VICE PRESIDENT**  
**ICAI, NEW DELHI**

## || CHAIRMAN'S COMMUNICATION



My Dear Students,

Glad that you all have opted for the most challenging and rewarding professional course and my best wishes.

### PROFESSIONAL APPROACH TO CA COURSE

Professionalism is not the job you do; it is how you do the job.

You should aim to become professionals. Professionals in accounting, finance, management or in any area you work. Attitude towards work, the way you work, and your response to results should tell it all to others.

**"The professional has learned that success, like happiness, comes as a by-product of work. The professional concentrates on the work and allows rewards to come or not come, whatever they like."**

Steven Pressfield.

It is time you all develop a professional approach towards chartered accountancy course. As students, you should start with developing a professional attitude towards your studies. Look at your course as a preparatory phase, moulding you into accounting and finance professionals.

Coming out of usual mould of casual students, you have to consider yourself as students of a professional course. Here the basic change should start with change in attitude. Learn to think, act and react like a professional. Put yourself in the shoes of a professional and check if you are conducting yourself like a professional.

### CA COURSE IS UNIQUE – A BLEND OF PRACTICAL TRAINING AND THEORETICAL EDUCATION

Chartered Accountancy course stands out only because of the reason that it is a blend of theoretical education and practical training. During your articleship training you get a unique opportunity to apply your theoretical knowledge into practice. During your practical training you may get an opportunity to prepare financial statements, cash flow statements, audit reports including CARO, tax audits, internal audit, revenue and concurrent audits, computation of taxable income, liability towards service tax, preparation of income tax and service tax returns, filing of various forms in MCA website so on and so forth. I would consider your three years articleship period is a golden opportunity to get exposed to real time situations, interactions with people of various walks of life, apply the theoretical knowledge to practical situations and build confidence in life.

Practical training and theoretical education are complementary to each other. One devoid of the other may not meet its purpose. Any amount of academic studies may not help you to come out as a competent professional. In fact, the articleship training is the backbone of our education. One may wonder which is more important, whether practical training or academic studies.

I would say it is the both sides of the same coin. Make best utilisation of your three years practical training, a period to learn, innovate and excel.

This is the time when you train yourself to combine work and study. During a working day you are expected to study five hours after office hours. On a holiday you are expected to put in ten hours of study. This is a training ground to combine work and knowledge accumulation, a prerequisite to be a successful professional, after you become a chartered accountant. This training helps you to be updated on all development in your profession along with completing your routine work.

In the office you will have senior article clerks and principals. You should train yourself to respect and learn from senior members in your profession. These are people who can guide and groom you to become excellent professionals. You should fulfil your part by proving worthy of it.

### PUNCTUALITY

Take punctuality as an example. A casual worker can come late and give excuses. Can a professional afford to do it? Punctuality requires planning and adhering to the plan. Do you reach for your classes ten minutes in advance, do you start and complete your studies at home as per schedule. If the answer is negative, you are not training yourself to become a professional. Better change now. **"Punctuality is not just limited to arriving at a place at right time; it is also about taking actions at right time."** — Amit Kalantri

Casual and professional, distinguish between the two and find out where you fit in. If you are causal, change and get into the professional mould.

As a student of chartered accountancy, analyse how you study. What is professional way of handling your studies? It is all about understanding the course, detailed planning and execution of the plan, review and corrective mechanism. This track trains and moulds you to become professional. No easy route, but the one you should surely take.

Here tune yourself to be a professional in the making. This should reflect in how you conduct yourself in the office. Start with punctuality. Make sure you communicate, dress and behave in a manner appropriate to a chartered accountant's office.

People skills, considered extremely important for success as a professional is developed over time. Starting can be from your first day in office. People skills centres around how you conduct yourself with your seniors, counterparts and juniors. This is more about your ability to get along well with people around you in a productive manner. These sets of skills are not acquired overnight, you have to learn and relearn continuously. And the best opportunity to develop these set of skills is when you are working as an article clerk. You go to different offices for audit and interact with wide range of people. This is the best training ground for developing people skills.

**"Think globally, act locally"** Paul McCartney. World is gradually getting integrated. Barriers in industry, trade and finance are gradually coming down or disappearing. Global opportunities are now open for those who are prepared for it. To know about development and opportunities there is nothing to substitute for focussed reading.

Get started, get moving.

**CA. BABU ABRAHAM KALLIVAYALIL**  
CHAIRMAN, BOARD OF STUDIES, NEW DELHI

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# Time Management



The Contributor is Past President of ICAI  
and Padmashri Awardee

## Introduction:

*"Time and tide waits for none" goes the adage implying that once time is lost one can neither regain it nor one can reuse it. All of us know that "time" is an important resource for shaping our life's journey and at the same time it is an important tool or unit for measuring our performance, growth, progress in the competitive scenario. Usage of time in a disciplined way, consistently, systematically and methodically would ensure that your inner potential would be tapped and the best would come out in any endeavour. Especially, in the case of a student pursuing chartered accountancy curriculum, time management is inevitable and assumes greater significance.*

## Invest your time

While knowledge, skill, talent etc., vary from person to person, time alone is equally bestowed to everyone. Everyone knows to spend time but only some learn how to invest time. That can be the game changer in life and lead to world of difference in scaling admirable heights and accomplishing aspirations. The quality of our life would invariably depend upon the quality of investment of our time. During the period of 4 to 5 years that you have embarked upon the task of successfully completing CA curriculum, use your time effectively for the following three priorities: 1. Academic preparation; 2. Practical training; and 3. Empowering yourself with

knowledge and skills that would shape you as a complete professional by the time you qualify. Acquire technological skill, linguistic and communication skill, managerial cum leadership skill and professional skill. Knowledge without skill to implement, execute with hands on exposure may not take us anywhere. Emerge out as an enviable service provider, consultant or advisor or an entrepreneur most sought after with unique ideas, skill and talent than being a person who is desperately looking for opportunities to deploy your time for making a living.



## Plan to invest time

Every student should plan and allocate time to the daily tasks on hand. Once we can prioritize the tasks on hand, allocation of time becomes easy. ABC analysis should be done at all times. A category is very important; B category less important and C category is considered unimportant and such categorisation would help us to know that A must be done; in case of B doing is optional and C shouldn't be done. Planning how time will be used on a week day and during the weekend when more time is at your disposal is essential. A long term road map needs to be prepared on how and when the subjects would be covered well before the eligible attempt of examination. Identification of a subject meant for self study and a subject for which one needs to attend classes is called for at the inception itself so that accordingly time utilization can be earmarked.



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The quality of our life would invariably depend upon the quality of investment of our time.



## Preparation for examination

Time management during the period of preparation for examination is critical. Considering the fact that the syllabus is voluminous and subjects are divergent, the effort to learn, study, take notes, solve problems and master the subject should be spread over several months for proper assimilation. Students should not commit the mistake of waiting for the study holidays for making preparation. Time management should be done in such a way that before study holidays one must have completed the preparation fully and during the study holidays only revision is done besides writing model examinations. This approach would enable a student to gain absolute grip over all subjects and become proficient in the presentation skills. Further, this would equip the student with confidence and strong will power to tackle any kind of a question paper. Passion, preparation, presentation skill and psychological endurance (confidence coupled with determination) contribute in equal measure for a student's success in the examination.

## No room for distraction or deviation

The benefit in your realizing the value of time, a scarce resource at your command, is that you will be restrained from distracting from your efforts to achieve the goal set or from deviating away from your chosen path. Whatever you are tempted to do by distractions such as watching a movie or an IPL match or getting engrossed in operating gadgets or accessing and posting in Face Book or WhatsApp, please remember that by doing so you are postponing the timeline within which you can achieve your goal which would in turn diffuse your confidence level and dilute your concentration. Realisation of value of time would provide a strong determination to stay on course and render the rest of the world non-existent till you accomplish your target. All those entertainments that you forego may appear to be a sacrifice but once you qualify you can cherish indulging in them with a sense of happiness and without a sense of guilt. Please don't belong to the category of students who while away the time recklessly on non-priority items and later look back and repent. Instead of being reactive, be proactive and remember that prevention is better than cure.

## Examination days

Time management during examination days, both inside as well as outside the examination hall, is vital for a student. First 15 minutes to read and decide the sequence of answering the questions and then next 180 minutes of non-emotional performance determines the result as a pass or a fail. Every minute is valuable and should not be unduly wasted. First answer questions which are "known and less time consuming"; then answer questions which are "known and more time consuming" and finally, attempt the rest to the best of your knowledge and ability. In case you are struck up at any stage, don't persist beyond a reasonable time. Leave space and then proceed to answer the next question. As and when the solution flashes or when every other question has been answered, you can go back to the incomplete answer and try to crack it again. After coming out of the examination hall, never discuss either about the question paper or about your performance with anyone. You just can't undo what has been done. So, focus on the next paper and give your best. The same approach and attitude should be adopted till the last minute in the last examination.



## Procrastination

Time management helps to avoid procrastination. Time lost can't be retrieved and hence should not be abused. Whenever you are tempted to postpone doing things, please warn yourself that you will be busier tomorrow than today and that there will be more pressure of work flowing in. Therefore, inculcate the habit of clearing the work on schedule as planned with no carry forward. Nil pendency, except in an emergency or unavoidable situation, is an ideal scenario one should aspire to achieve. If we are tough on ourselves, life would be easy on us. If we are easy on us, life would be tough on us. Being tough to oneself is nothing but being careful in the usage of time with utmost discipline and rigidity without giving room for any distractions or deviations. Dedication to the task and determination to implement the plan are critical for crossing the finishing line successfully.

## Health is everything

As you get busy with different responsibilities, there is a tendency to neglect health. The consequences of such indifference would be severe at a later stage in life. Whatever be the time saved by skipping daily exercise or walk would ultimately vanish in hospitals and medical treatment due to deterioration of health condition. The money earned by executing work in the slot meant for fitness schedule would be lost in restoring such health to normalcy. Daily spending one hour for doing yoga, meditation or an exercise that contributes to strengthening or toning up the body thereby securing



health will leave you competent and fresh for the rest of the day ensuring efficiency and productivity. Only a healthy body houses a healthy mind and a happy soul. Reward yourself periodically: Leisure and entertainment for a few hours should be a reward for ordained labour of 5 or 6 days. You should not be able to cherish any relaxation which is not

the by-product of hard work. Earn your vacation as a consequence of accomplished tasks, achieved goals or on crossing milestones. We should evolve a culture within us to respect our duties more than our rights. If we discharge our duties in a timely manner with devotion and sincerity, the rights would automatically flow unto us and will be protected. Rights that do not emanate out of our hard work are not worth preserving. After discharging your duties, you can pamper yourself with right to relax or entertain yourself but not otherwise.

## Reward yourself periodically

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## Ability to face an adverse situation

In life there are bound to be adverse situations when emotionally you feel depressed and shattered. Some can't accept or take to failure lightly. You should never allow an isolated event of failure define your personality or destroy your confidence. You must become stronger and bounce back to achieve success. Success introduces you to the world but remember that failure introduces the world to you. Success is the time when you have to redefine your goal. Failure is the time you have to redefine your methods. Failure is not denial of success but it is only deferment of success. If you have perseverance and sustain your efforts by putting your heart and soul, success will surely embrace you one day. In life success may not always come to you when you want it or the way you want it but if you have faith and continue to work hard it would certainly come and as and when it comes, it would be much better than what you wanted. Even if everything appears lost, remember that the future still remains at your disposal. With all the time at your command, you can build an empire that is far superior and brighter than what was lost.

## Challenging tasks

At every stage in life, there are certain tasks which are tough to handle or execute. Early morning two hours, preferably 5 to 7 am, when mind is fresh, gives enormous ability to digest any difficult subject or to work on any difficult assignment. During student days, there is atleast one subject in each group that poses pressure on a student to understand and master. During early morning hours, after a sound sleep, one can comprehend and assimilate the nuances of any subject and absorb the substance comfortably. Grasping ability and concentration would facilitate smooth accomplishment of any such challenge. Even after qualifying, effective utilization of two hours all through your life for any difficult task on hand would give you an edge over others and your achievements would look like as if you had additional time 10 years of time as compared to those who didn't use those precious morning hours.



**If we discharge our duties in a timely manner with devotion and sincerity, the rights would automatically flow unto us and will be protected.**

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# ARTICLE ||

## Profile of your activities

Periodically, say once in 3 years, review to add on a new activity or responsibility and also take care to eliminate a few activities to give you more room to do qualitative delivery of anything that you undertake. Giving up a few activities can be done either by delegating them to be done by others or alternatively by giving way to youngsters to be assigned with the respective position and responsibilities. Ability to say 'no' to what you can't undertake or deliver is more important than ability to say 'yes' to opportunities and positions for which you are most suited. "Time" is a scarce resource not to be lost in tasks not matching with your passion and skill or on non-priority activities. You can't please everyone in this world and don't unnecessarily lose time for such purposes. An idle mind is a devil's workshop. By keeping yourself busy with good tasks you can ensure that you don't flitter away your time. When you have leisure time, nurture the habit of reading good books or moving with good friends or listening to music or spending quality time with beloved ones.

## Conclusion

Greater the quality of investment of your time, higher would be the stature you can achieve in life. Similarly, higher the goal set by you, greater would be the drive to enhance the utilization of time to achieve meaningful outcome. Therefore, learn to dream big. Dream not just to pass but to qualify with a rank. Instead of belonging to the category of students who seek jobs from five companies, hoping to be selected by one of them, why not come out with a rank so that five companies invite you to join them and you are placed in an enviable position to choose from them. Aim to evolve as a celebrity whereby your signature becomes an autograph. Gone are the days when only film stars and sports persons were perceived as celebrities. Now, innovators, opinion makers for the society, inventors, knowledge providers and contributors to the policy making can all emerge out as celebrities. Become one such personality. Believe that you ultimately become what you want to be. Instead of being a mere history reader, turn out to be a creator of history by effective time management. Investment of time can not only build you for the future but also would build a future for you! ■

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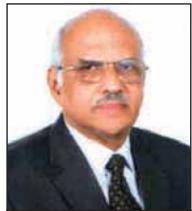
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# Corporate Governance – Issues, Regulations and Compliance



The Contributor is a member of the Institute.  
(M.No.007230)

## Significance

As Accountants and Auditors, Chartered Accountants are seriously concerned with ensuring a very effective and purposeful Corporate Governance system in vogue in companies with which they are professionally associated. It is therefore quite important to know all aspects of Corporate Governance - the concept, its evolution, varying practices, successful models, quality assurance, efficacy, processes for effective implementation, etc.

In India, good Corporate Governance practices are sought to be established by well defined measures under the Company Law and SEBI guidelines.

## Concept and the Process

Corporate Governance in simple terms is the system that shall ensure transparent and efficient system of Governance for Corporates. All over the developed industrial world, from early nineties, serious studies, research and efforts are carried out to ensure the best possible Corporate Governance practices.

Sir Adrian Cadbury Committee appointed by the London Stock Exchange, being the pioneer body set up to address the serious issue of Corporate Governance, defined it as - "a system by which companies are directed and controlled". Some of the leading authorities have given the meaning/ objectives to Corporate Governance as under:

- ◆ A process by which corporates are made responsive for the rights and wishes of the stake-holders- Ada Demp and F Neu Bauer.
- ◆ Relationship among various participants in determining the direction and performance of corporations- Monks & Minow.
- ◆ Promoting corporate fairness, transparency and accountability- James Wilfren Sohn, former President, World Bank.
- ◆ Connotes a blend of Rules, Regulations, Laws and Voluntary practices that enable companies attract finance and human capital, perform efficiently and thereby maximize long term value for shareholders, multiple stakeholders including those of society- Dr. Bansal, New Delhi.

Elaborate studies were undertaken both at International and National levels on the impact, incidence and importance of Corporate Governance, the most important amongst which, are as follows:

## International Level

Cadbury Committee, UK	:	1992
Vienot Report, France	:	1995
King's Report, South Africa	:	1995
Peter's Report, Netherlands	:	1995
Tokyo Stock Exchange	:	1995
Hong Kong Society of Accountants	:	1996
Greenbury Committee	:	1996
Blue Ribbon Commission	:	1996
OECD (Guidelines)	:	1998
Hampel Committee, UK	:	1998

## National Level

CII Voluntary Code	:	1998
Kumaramangalam Birla Committee	:	2000
Narayananmoorthy Committee	:	2003
Naresh Cahndra Committee	:	2003

## Governance vs. Management

Corporate Governance is not corporate management, *per se*. Governance is direction and control at a higher level; and management, signifies looking after functional operations including supervision and coordination, which is subject to overall Governance.

## Objectives

The principal objectives of Corporate Governance are to put in place:

- ◆ Properly structured and balanced Board of Directors
- ◆ Adoption of transparency in procedures and practices.
- ◆ Effective and regular monitoring of management functions
- ◆ Material disclosure to shareholders impacting the company
- ◆ Effective control of corporate affairs by Board.

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## Fundamental Principles

As outlined above, Corporate Governance is woven around basic principles of the need to introduce, install and ensure adherence to corporate and social values, ensure equity, efficacy and fairness at all levels.

Corporate Governance is not a straight jacket system or procedure to be introduced with reference to any specific model, formula or process as such. It has to be evolved by drawing on the basic corporate tenets including its philosophy, commitment, values, objectives, principles, and strengthening the in-house systems of setting goals, targets, performance-evaluation, control, management, and reporting.

## Global Failure

In spite of the fact that well defined Corporate Governance systems and procedures were reportedly put in place in most of the advanced countries by the late nineties under the requirements of the corporate laws as also regulations of the Security Commission/Stock Exchanges of the respective countries, there have been serious instances of corporate frauds such as ENRON, World Com, Paramalatt, etc. to name a few, involving several billions of dollars, in the West. As a consequence, not only that these giant corporations failed resulting in heavy losses to the stakeholders, also, one of the then Big audit firms in the world, Arthur Anderson, who had audited the accounts of ENRON, had to close down.

After such instances of major corporate failures, frauds and non-adherence to Corporate Governance norms came to light, several serious legal and regulatory measures were taken in the US, Europe and other countries including the much acclaimed enactment of Sarbanes Oxley Act in US, containing severe provisions of penalty and punishment for acts of misfeasance, frauds, misstatement and other financial irregularities, on the part of management, auditors, etc. Despite such measures the massive sub-prime loans-crisis involving major fraudulent practices in advancing housing/personal loans by banks and financial/credit institutions in the US (around 2007/08) had its devastating economic impact all over the world, engulfing the economies of most of the nations into disaster. The world economy had to suffer terrible global economic shock and set back, out of which many nations are yet to recover. In recent times, India also had seen a few major corporate frauds, which sent shock waves all through the economy, leading to very heavy losses to large many stakeholders.

## Quality of Governance

Quality of Corporate Governance in vogue depends on several factors which constitute the broad framework of the corporate entity.

Corporate Governance as a concept and system, is essentially the responsibility of the top management to implement and ensure effective as also tangible

systems of Governance and depends on the quality of performance of the Board of Directors and the top managerial personnel.

The core elements of quality assurance in Corporate Governance consist of:

- ◆ Board skills and performance
- ◆ Board Committees
- ◆ Risk Management system
- ◆ Financial and Operational Reporting.

Further, to a great extent, the role of shareholders in devising and overseeing the functioning of the Board within the permissible limits of law, will also go to ensure the successful system of Corporate Governance.

## Issues on Governance

On an overall review of the systems and methods of functioning prevalent in Multi-national as also leading Indian corporates, the scenario in relation to Corporate Governance - the role of each group responsible for ensuring good Governance and the issues that arise-, could be seen to be as under:

### i) Shareholders:

Generally not active and not involved in matters of governance over which members have onerous responsibility to lay broad policy parameters for implementation by the Board. There are however a few companies with active shareholder participation at Annual and Extra-ordinary General meetings of companies contributing to their growth.

### ii) Board of Directors:

In India by and large, in the private sector, the Boards of Directors are controlled by the family promoter groups and in the public sector, by the functionaries of the Government. However, there are a fair number of companies which have professional management.

“ Corporate Governance has to be evolved by drawing on the Basic Corporate Tenets including its Philosophy, Commitment, Values, Objectives, Principles, and Strengthening the In-House Systems of Setting Goals, Targets, Performance-Evaluation, Control, Management, and Reporting.”

Independent directors chosen often by the Boards themselves are not in many cases functioning with the level of independence required to properly guide and advise the owner managed Board. We have to go a long way in ensuring a system of competent Board Management.

### **iii) Independent Directors:**

The greatest challenge for Corporate Governance arises from the need to ensure fair degree of independence from the side of independent directors. In most of the cases, the independent directors are found to get close to the management and though they may be well qualified in their own rights, often they tend to be guided by the views of the owner groups and do not use their professional knowledge, expertise and experience in rendering the right and timely advise to Management.

### **iv) Board Committees:**

The Committees of the Board, more importantly, the Audit Committee and the Remuneration Committee, in a large number of cases do not exercise their functions with the due professionalism required. In practice, these Committees are also guided by the views of the family management in private sector companies and of the Government in Government companies. There have been many instances where Audit Committees have not exercised their rightful duties and responsibilities with due professionalism as needed. Also, in many private sector companies, Remuneration Committee has endorsed unjustifiably huge remuneration to Key Managerial Personnel. The true measure of Corporate Governance implies the need for fair degree of

independence and professionalism on the part of these important Board Committees.

### **v) Audit Committee:**

Audit Committee – a very important Committee, especially on matters on finance and accounts -, to be effective, must have competent professionals and independent public men with experience and knowledge of business and finance, as members. Unless they also spend substantial time in assessing the performance independently and critically the Audit Committee will not serve the desired purpose. The system calls for substantial improvement.

### **vi) Independent Auditors:**

The question of independence of statutory/internal auditors is also a matter of concern these days. There is a feeling arising from the fact that, in practice, auditors are chosen by the management and over the years the Auditors develop closeness and trust in Management, the Audit function often does not measure up to its role in ensuring proper accountability and transparency on transactions by Management. There is the school of thought gaining force that to be truly independent, Auditors have to be appointed by the Government/regulators and not by the company ownership/management. This is a matter relating to exercise of professional independence and integrity in each case and cannot be generalized.

### **vii) CEO/CFO:**

The operational success of a company depends largely on the efficiency/integrity of the Chief Executive and Chief



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Financial Officer. Appointment and remuneration of such senior managerial personnel have to be handled very carefully and added importance needs to be focused on the professional quality and competence of the persons concerned. The Board of Directors must ensure that an appropriate environment is provided to key management personnel, to perform and report in a manner that would serve the best interest of the company.

## Governance Laws and Regulations

### Company Law requirements:

The Companies Act 2013 has introduced far reaching provisions to ensure that corporates have sound and efficient governance systems in vogue. These could be broadly grouped under:

- i) Measures relating to functioning of Directors
- ii) Requirements on Audit and Auditors
- iii) Compliance/other measures

### Directors

- (i) Under section 165 of the Act, the maximum number of Directorship that can be held by a person is restricted to 20, of which a sub limit of 10 directorship in Public companies has been provided for. The said limit shall include alternate directorship also. This measure is intended to ensure that an independent director gets the minimum time needed to attend to the affairs of a company.
- (ii) under section 149(4) of the Act, every listed company shall have at least one third of the total number of directors as independent directors. There is also the requirement for every company to have one resident director. Certain classes of companies shall have also one woman-director on the Board.

The criteria/norms for selection of an independent director are provided elaborately under section 149(6) of the Act and which *inter-alia* includes the personal qualities, qualifications, experience, expertise, etc. required and excludes relatives, persons with pecuniary relationship, holding office of profit, shareholding in the company etc, as provided therein.

Further, Schedule IV to the Act has laid down a complete set of code for independent directors which elaborately makes provisions in respect of:

- ◆ Guidelines for professional conduct
- ◆ Role and functions
- ◆ Duties
- ◆ Manner of appointment and re-appointment
- ◆ Resignation or removal
- ◆ Holding separate meetings, and
- ◆ Mechanism for performance evaluation

These provisions are to ensure that independent directors have the required qualities, independence, integrity etc, to advise and guide the company properly and usefully. There are unique provisions for independent directors to evaluate the performance

“ SEBI Regulations, have also brought out a sea-change of improvement in the Corporate Governance scenario, particularly through the Corporate Governance Code under Clause 49 of the Listing Agreement, as amended from time to time, laying down clearly the guidelines. ”

of Non-independent directors and vice versa at their separate meeting and provide the requisite information to the Board appropriately.

Section 178 of the Act provides for setting up a Nomination and Remuneration Committee consisting of three Non-executive directors of which not less than one-half shall be independent directors. The committee will decide procedure for recruitment and formulate the remuneration policy for directors and key managerial personnel.

Section 177 of the Act provides for Audit Committee consisting of minimum three directors of which majority shall be independent directors. The duties and responsibilities of the Audit Committee have been well laid down, which include apart from recommendation for appointment, remuneration and terms of auditors, important functions such as review and monitoring independence and performance of auditors, evaluation of internal financial controls and risk management systems, examination of the financial statement and auditors report, etc.

### Audit & Auditors:

Provisions have been introduced in the Act, for rotation of individual auditor in every five years and of audit firms in every 10 years in listed companies and other classes of prescribed companies.

Also under section 144 of the Act, statutory auditors of a company are prevented from rendering various other services to the company, as stipulated, such as Internal audit, Accounting, Actuarial valuation, Investment advisory/Banking, Management services etc.

These measures are intended to ensure independence of auditors in all respects.

### Compliance:

Section 204 of the Act has introduced provisions for Secretarial audit by a Company Secretary in practice for larger companies as prescribed and the companies are

required to annex with its Board's report, a Secretarial Audit Report made in terms of Section 134(3) of the Act. The powers and duties as applicable to a statutory auditor would apply to the secretarial auditor also. The annual return of such companies also have to be certified by a Company Secretary in practice stating that the annual return discloses the facts correctly and adequately and the company has complied with all the provisions of the Act.

These measures are intended to ensure that companies adhere fully to the requirements and practices of governance specified under the Act.

In addition, the Act also has made provisions for class action suit by requisite number of members and deposit holders against directors, auditors, consultants etc(u/s 245), strengthening the whistle blowing policy for reporting frauds, malpractices, non-compliances etc, which applies to statutory auditor, cost auditor and Secretarial audit, establishing a Serious Fraud Investigation Office (SFIO) to investigate cases of serious frauds against companies, etc., which are well meaning provisions.

These measures are intended to render effective supervision and implementation of good governance systems in corporates.

#### **SEBI Regulations:**

SEBI Regulations, have also brought out a sea-change of improvement in the Corporate Governance scenario, particularly through the Corporate Governance Code under Clause 49 of the Listing Agreement, as amended from time to time, laying down clearly the guidelines as regards:

- ◆ Composition of Board of Directors
- ◆ Remuneration for Directors and disclosures
- ◆ Constitution and functioning of Board Committees particularly the Audit Committee (its Role and Powers)
- ◆ Code of Conduct for management
- ◆ Disclosure of related party transactions
- ◆ Management Discussion and Analysis Report
- ◆ CEO/CFO certification
- ◆ Reporting on Corporate Governance and Certification, etc.

The provisions of SEBI guidelines as above are sought to be aligned with those in the Companies Act, 2013.

#### **Compliance:**

There has been some degree of improvement in the quality and standards in Corporate Governance as also in compliance in recent times. This could be seen from the emergence of the following developments:

A perusal of the published Annual reports of many of the large companies would reveal that managements have taken increasingly to identifying and reporting to the shareholders, valuable information and data on

various important matters relating to the governance of the companies, which are critical to proper assessment of the state of affairs of the company. These have been made possible both by statutory requirements under the Company Law, Banking/Insurance and other allied laws as also the disclosure requirements of the market regulator SEBI, discussed above.

Some of the important Disclosures made by large corporates that could be seen in their annual reports now and which are note-worthy, relate to Risk Management regarding Regulatory risks/government policies, Operational risks (market concentration, input risk, credit risk), Financial risks (currency risk, liquidity risk), Legal and statutory risk (contractual liabilities, Statutory compliance Environmental risk, etc.) Portfolio Performance, Domestic Brand formulations (core brand analysis, brands portfolio expansion) Management discussions and Analysis, Opportunities (infrastructure, market penetration) Threats (international competition, global competition, fuel price, input cost, inflationary trends, Government regulations), Risks and concerns (interest rates, exchange rates, domestic market, overseas market, manufacturing, new competition, new projects), and Improvement in Quality of Annual report (with disclosures on return on investment, asset management, financial markets, policy advisory, human resources, information technology, risk management, internal controls, etc.).

As seen from the above, the Report of Directors, Management Discussions and Analysis Report, Corporate Governance Report, Chairman's Report to shareholders, etc. have all been upgraded substantially over the years to provide useful information in the hands of the shareholders, with higher quality and increased transparency. These point to improvement in the level of compliance on Governance.

#### **Way Forward:**

Corporate Governance is not a static concept or a one-time laid system. It has to be a process of continuously evolving well-groomed, nurtured and sound corporate philosophy, objective and commitment that ensures growth with justice, equity, efficiency and fairness for the benefit of all stakeholders. It cannot be yet said that Indian companies are now well run with good governance system in vogue. They have a long way to go in terms of quality of Board management, quality of independent directors, quality of audit, quality of legal compliances, etc. A good deal of professionalism has to be still injected into the corporate system. There is the strong case for continuous research and improvement by companies in systems/methods, as they go further with experiments and the knowledge gained out of the experiences from time to time. ■

# AS 10 (2006) and AS 10 (2016): A Comparative Study



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The Ministry of Corporate Affairs, Government of India has issued Notification No. G.S.R. 364(E) dated 30th March 2016 to amend the existing Accounting Standards. These Standards were originally notified as Companies (Accounting Standard) Rules 2006. The amendment has come into force on the date of publication of the Official Gazette i.e. 30th March 2016. The amendments are by way of notification of the rules which are called Companies (Accounting Standards) Amendment Rules, 2016.

The significant amendment is to the existing Accounting Standard (AS) 10 Accounting for Fixed Assets. This Standard has been substituted by the

new Accounting Standard (AS) 10 Property, Plant and Equipment. This new Accounting Standard is in accordance with Ind AS-16. This new Standard includes principles for Accounting of Fixed Asset and also for Depreciation thereon. The existing Accounting Standard (AS) 6 Depreciation Accounting has, therefore been omitted.

Some of the significant differences between the existing Accounting Standard (AS) 10 for Accounting of Fixed Asset and the New Accounting Standard (AS) 10 for Property, Plant and Equipment are tabulated as under –

S. NO.	Basis	Accounting of Fixed Asset (AS) 10 (Notified in 2006)	Property, Plant and Equipment (AS) 10 (Notified in 2016)
1.	<b>Scope</b>	This Standard contains principles for Accounting of Fixed Asset.	This Standard contains principles for Accounting of Fixed Asset and Depreciation.
2.	<b>Definition</b>	Fixed Asset is an asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.	Property, plant and equipment are tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than a period of twelve months.
3.	<b>Unit of Measurement</b>	The concept of Unit of Measurement is not discussed in this standard.	This Standard doesn't prescribe the Unit of Measurement for recognition i.e. what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to specific circumstances of an entity.
4.	<b>Criteria for Initial Recognition</b>	The item which meets the definition of a fixed asset should be recognised as a fixed asset.	The following criteria should be satisfied for recognition of items of property, plant and equipment: (a) it is probable that future economic benefits associated with the item will flow to the entity, and (b) the cost of the item can be measured reliably.

S. NO.	Basis	Accounting of Fixed Asset (AS) 10 (Notified in 2006)	Property, Plant and Equipment (AS) 10 (Notified in 2016)
5.	<b>Subsequent Expenditure</b>	Subsequent expenditures related to an item of fixed asset are capitalised only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance, e.g. an increase in capacity.	This Standard requires Initial costs as well as the subsequent costs are evaluated on the same recognition principles to determine whether the same should be recognised as an item of property, plant and equipment.  This could result in some of the expenditure which was being classified as Repairs and Maintenance may be capitalized as property, plant and equipment.
6.	<b>Major Spare Parts</b>	Stand-by equipments and the servicing equipments are normally capitalized. This Standard requires that only those spares are to be capitalised which can be used only in connection with an item of fixed asset and their use is expected to be irregular.	This Standard requires that spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Standard when they meet the definition of property, plant and equipment.  The effect of this will be that some of the Spares which were hitherto being classified as Spares may be required to be classified as property, plant and equipment.
7.	<b>Component Approach</b>	This Standard does not mandatorily require full adoption of the component approach. It recognizes the said approach in Para 8.3 by stating that accounting for a tangible fixed asset may be improved if total cost thereof is allocated to its various parts. Apart from this, neither existing AS 10 nor existing AS 6 deals with the aspects such as separate depreciation of components, recognizing the cost of replacement, etc.	This Standard is based on Component approach. Each major part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. As a corollary, cost of replacing such parts is capitalised, if recognition criteria are met with consequent derecognition of carrying amount of the replaced part. The cost of replacing those parts which have not been depreciated separately is also capitalised with the consequent derecognition of the replaced parts. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.  It may be noted that the concept of component accounting has already been introduced in the Companies Act, 2013. Note 4(a) below Schedule II states that the useful life specified is for the whole of the asset and where a cost of a part of the asset is significant to the total cost of the asset and useful life of that part is different from the useful life of the remaining asset, useful life of the significant part shall be determined separately.
8.	<b>Cost of Major Inspections</b>	This Standard does not deal with this aspect.	This Standard requires that the cost of major inspections should be capitalised with consequent derecognition of any remaining carrying amount of the cost of the previous inspection.
9.	<b>Cost of Dismantling and Removal of the Item of property, plant and equipment and Restoring the Site</b>	This Standard does not contain any such requirement.	This Standard requires that the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located should be included in the cost of the respective item of property plant and equipment.

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S. NO.	Basis	Accounting of Fixed Asset (AS) 10 (Notified in 2006)	Property, Plant and Equipment (AS) 10 (Notified in 2016)
10.	<b>Cost Model or Revaluation Model as its Accounting Policy</b>	This Standard recognises revaluation of fixed assets. However, the revaluation approach adopted therein is ad hoc in nature, as it does not require the adoption of fair value basis as its accounting policy or revaluation of assets with regularity. It also provides an option for selection of assets within a class for revaluation on systematic basis.	This Standard requires an entity to choose either the cost model or the revaluation model as its accounting policy and to apply that policy to an entire class of property, plant and equipment. Under revaluation model, revaluation be made with reference to the fair value of items of property plant and equipment and also revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. This is a major change as presently there is no guidance regarding the frequency with which the revaluation is to be carried out.
11.	<b>Transfers from Revaluation Surplus</b>	Neither existing AS 10 nor existing AS 6 deals with the transfers from revaluation surplus. To deal with this aspect, the Institute issued a Guidance Note on Treatment of Reserve Created on Revaluation of Fixed Assets. The Guidance Note provides that if a company has transferred the difference between the revalued figure and the book value of fixed assets to the "Revaluation Reserve" and has charged the additional depreciation related thereto to its profit and loss account, it is possible to transfer an amount equivalent to accumulated additional depreciation from the revaluation reserve to the profit and loss account or to the general reserve as the circumstances may permit, provided suitable disclosure is made in the accounts. However, the said Guidance Note also recognises that it would be prudent not to charge the additional depreciation arising due to revaluation against the revaluation reserve.	This Standard provides that the revaluation surplus included in owners' interests in respect of an item of property, plant and equipment may be transferred to the revenue reserves when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However; some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on its original cost. Transfers from revaluation surplus to the revenue reserves are not made through the statement of profit or loss.  This change will impact the calculation of the EPS of the company.
12.	<b>Restatement with Reference to Observable Market Data</b>	This Standard does not require any reference to observable market data.	This Standard requires that when the carrying amount of asset is adjusted to the revalued amounts then gross carrying amount may be restated with reference to observable market data or restated proportionately to the change in the carrying amount.
13.	<b>Abnormal amount of wasted material in Self-constructed Assets</b>	This Standard while dealing with self-constructed fixed assets does not specifically mention the same.	This Standard states that the cost of abnormal amounts of wasted material, labour, or other resources incurred in the construction of an asset is not included in the cost of the assets.
14.	<b>Discounting in Case Payment is Deferred Beyond Normal Credit Terms</b>	This Standard does not contain this requirement.	This Standard provides that the cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with AS 16 Borrowing Cost.

S. NO.	Basis	Accounting of Fixed Asset (AS) 10 (Notified in 2006)	Property, Plant and Equipment (AS) 10 (Notified in 2016)
15.	<b>Review of Depreciation Method</b>	In existing AS 6, change in depreciation method can be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements.	This Standard requires that the depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern.
16.	<b>Review of Residual Value and Useful Life</b>	Under existing AS 6, such a review is not obligatory as it simply provides that useful life of an asset may be reviewed periodically.	This Standard requires that the residual value and useful life of an asset be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) should be accounted for as a change in an accounting estimate in accordance with AS 5.
17.	<b>Change in Depreciation Method</b>	In existing AS 6, it is considered as a change in accounting policy and treated accordingly.	This Standard requires that change in depreciation method should be considered as a change in accounting estimate and treated accordingly.
18.	<b>Compensation from Third Parties for Items of property, plant and equipment that were Impaired, Lost or Given up</b>	This Standard does not specifically deal with this aspect.	This Standard requires that compensation from third parties for items of property, plant and equipment that were impaired, lost or given up should be included in the statement of profit and loss when the compensation becomes receivable.
19.	<b>Gains on De-recognition of Items of property, plant and equipment</b>	This Standard is silent on this aspect.	This Standard specifically provides that gains arising on derecognition of an item of property, plant and equipment should not be treated as revenue as defined in Accounting Standard (AS) 9 Revenue Recognition.
20.	<b>Subsequent Sale of property, plant and equipment Held for Rental to Others, in Ordinary Course of Business</b>	This Standard does not specifically deal with this aspect.	This Standard deals with the situation where entities hold the items of property, plant and equipment for rental to others and subsequently sell the same.
21.	<b>Property, plant and equipment acquired in Exchange for a Non-monetary Asset</b>	The existing standard requires that when a fixed asset is acquired in exchange for another asset, its cost is usually determined by reference to the fair market value of the consideration given. It may be appropriate to consider also the fair market value of the asset acquired if this is more clearly evident. Existing AS 10 also prescribes an alternative accounting treatment that is sometimes used for an exchange of assets, particularly when the assets exchanged are similar, is to record the asset acquired at the net book value of the asset given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration.	It requires that if property, plant and equipment are acquired in exchange for a non-monetary asset, it should be recognised at its fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable.

# Business Law, Ethics and Communication

## The Negotiable Instruments (Amendment) Act, 2015

The Negotiable Instruments (Amendment) Act, 2015 promulgated by the president in the 66th Year of the Republic of India has been notified in the Official Gazette on 29<sup>th</sup> December, 2015 by the Ministry of Law and Justice.

This is an Act further to amend the Negotiable Instruments Act, 1881 and shall be deemed to have come into force from June 15, 2015.

The N. I. Act 1881, defines promissory notes, cheques and specifies penalties for bouncing of cheques, and other violations. It does not however specify the jurisdiction of courts where cheque bouncing cases may be filed.

The Amended Act, 2015 modifies the definition of a cheque in electronic form, and clarifies the appropriate area of jurisdiction of courts, where cases of cheque bouncing can be filed.

**Key features of the Negotiable Instruments (Amendments) Act, 2015 include:**

**Amendment of section 142 (Cognizance of offences)-** In the case of a cheque being dishonoured under section 138 the jurisdiction of court for the trial of offence can be decided on the following basis:

- (i) If the cheque is delivered for collection to the account of the payee (person who receives the cheque), the jurisdiction of courts lies over the area of the bank branch where the payee or holder in due course maintains an account, or
- (ii) If the payee presents a cheque to a bank in any other way, the jurisdiction lies in the area of the bank branch where the drawer (person who writes the cheque) maintains an account.

**With respect to validation for transfer of pending cases -** Section 142A is the new insertion in the Act. All cases of cheque bouncing which were pending in any court, before the Act came into force, will be transferred to a court with the appropriate jurisdiction.

**With respect to filing of subsequent complaints-** The payee/holder in due course has filed a complaint against the drawer in a court with the appropriate jurisdiction, all subsequent complaints against that person regarding cheque bouncing will be filed in the same court. This will be irrespective of the mode of presentation of cheque.

**More than one case filed by the same payee against the same drawer before different courts-** If more than one case is filed by the same payee/holder in due course against the same drawer before different courts, the case will be transferred to the court with the appropriate jurisdiction before which the first case was filed.

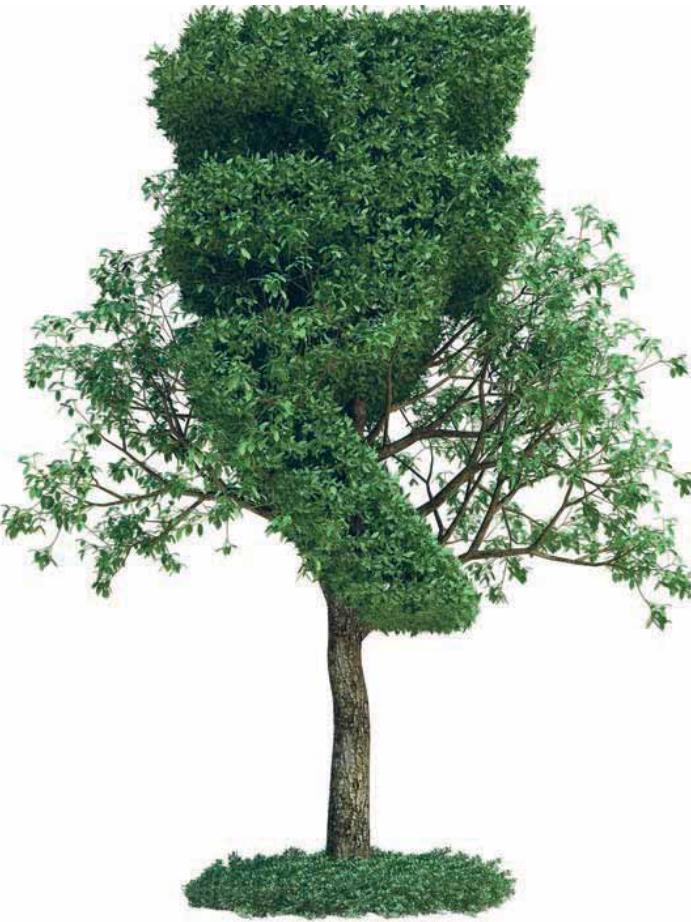
**The Act also amends the definition of cheque given under section 6 of the N. I. Act, 1881**

**“Cheque in the electronic form”-** Under the N. I. Act, 1881, this was defined as a cheque containing the exact mirror image of a paper cheque and generated in a secure system using a digital signature.

The definition has been amended to mean a cheque drawn in electronic form using any computer resource, which is signed in a secure system with a digital signature and asymmetric crypto system (pair of a public key and private key to create a digital signature), or electronic system. The definitions of ‘computer resource’, ‘digital signature’, ‘electronic system’ and ‘asymmetric crypto system’ are amended to be the same as those assigned to them in the Information Technology Act, 2000. ■

**Note: The Negotiable Instruments (Amendment) Act, 2015 is applicable for Intermediate (IPC) students appearing in May 2016 examination. For reference visit: [www.iba.org.in/Documents/NI-Act-gazette-notification-26.12.2015.pdf](http://www.iba.org.in/Documents/NI-Act-gazette-notification-26.12.2015.pdf)**

# If Money Could Grow on Trees



You would have often heard people saying that if they had a tree that produced money, life would have been very easy. They could easily pluck money and spent it on the things they wanted to possess. Put it in another way, since the country is free to print any number of notes it wants, why doesn't it produce billions of rupees and distribute it among people and end all the poverty in one go? Have you ever wondered if everyone had a money tree or money making machine, or the country produced unlimited money what would happen? Would life become easy for everyone as nobody would be poor in the world? But this is easier said than done. There would be more chaos in the world. Too much money and too few goods could lead to only one thing: Inflation. There would be hyper inflation everywhere because people would be having money but there would not be sufficient goods to buy. This exactly happened in Germany way back after World War I. It borrowed heavily to pay its war costs. And in order to pay

off its debts, it suspended the standard of backing cash with gold and started printing more and more money. This led to inflation in the economy. In 1914, at the start of World War I, the dollar was worth 4.20 marks. From then on, the German currency steadily declined, and in the fall of 1922 it went into a freefall. By November 1923 the dollar was at 4.2 trillion marks. Millions of the German people found that their life's savings would not even buy a postage stamp. Of late, Zimbabwe faced a similar situation and experienced 3.5 million percent monthly inflation rate in 2008 with an egg costing 50 billion Zimbabwean dollars. A loaf of bread then cost as much as 12 new cars could have cost 10 years before.

It is to be noted that money doesn't have any intrinsic value of its own. It is just a proxy to the available resources in a country. A hypothetical example would make it clear. Suppose in a family, there are five members and it has 50 kilograms of silver. It is decided to distribute the silver equally among all members of the family. One member would get 10 kgs of silver. Now suppose, instead of giving silver, it is decided to give everyone a coupon that one could get 10 kgs of silver in exchange for. So 1 coupon = 10 kgs of silver; 5 coupons =  $5 \times 10$  kgs of silver = 50 kgs of silver.

Now, suppose each of the members marries and brings a spouse into the family. Now, there are 10 members. However, the silver is still 50 kgs. In order to divide the silver equally among all 10 members, the family decides to print 5 more coupons and hand them over to the new members of the family, while informing everyone that a coupon now can only be exchanged for 5 kg of silver. Therefore, after spouses come in: 1 coupon = 5 kgs of silver; 10 coupons =  $10 \times 5$  kgs of silver = 50 kgs of silver. It should be noted that 'wealth' of the family has not increased: it is still 50 kgs of silver. Only more coupons have been printed. However, if somehow the family acquires more silver, the family's wealth would increase.

A country also functions in the same manner where the currency note functions as a coupon. Merely printing more currency notes will not make a country wealthy. The value of currency notes increases only when the 'wealth' of the country increases. And the wealth of the country increases when more goods and services are produced in the country. The more wealth a country creates and accumulates, the more valuable its currency notes become.

## KNOWLEDGE UPDATE ||

It is to be noted that here, we are assuming that there is full employment in the country and people spend whatever they get, while in actual situation this may not be true. If the country is operating at less than full employment, increased money supply will lead to more production, employment and income etc. Another assumption being made here is that whatever money is printed by the government, it automatically reaches the common people. However, this is not so. When the central bank prints money, it buys securities of private sector banks and gives them money in return. This expands the base of what we'll call high-powered money. Now, private sector banks are required to keep a certain proportion of this money in the form reserves and give out the rest to the borrowers etc. Suppose they have money worth ₹ 100, they are mandated to keep a reserve of say, 10% of this i.e. ₹ 10. That means ₹ 90 can be released by banks in the form of loans etc. The entrepreneur or business person now finds that banks are willing to give more loans; he goes to the bank, takes out a loan, uses the money to pay his workers, his suppliers etc. This is how money makes its way to the people. The central bank's increase of high-powered money provides the incentive for banks to make more loans.

This is what India's Central Bank - Reserve Bank of India (RBI) does as well. Now, the question is that how RBI or for that matter any country's monetary authority determines this amount? There was a time when countries used to follow Gold Standard i.e. they based their currency on the amount of gold reserves they had. Over a period of time, this was given up by most of the countries. Now most of the countries have their own system of printing currency. In India, for printing currency, the RBI

“ Merely printing more currency notes will not make a country wealthy. The value of currency notes increases only when the ‘wealth’ of the country increases. And the wealth of the country increases when more goods and services are produced in the country. ”

considers the economic growth of the country, or simply India's Gross Domestic Product (GDP). Although GDP is also not the exact measure of growth, for simplicity it is assumed that GDP is the exact measure of growth for any country. In addition to this estimated demand due to growth in economy, the amount of money that needs to be printed also includes replacement of damaged notes, reserve requirements, circulation purposes, etc. While making the decision as regard the amount to be printed, the RBI has to carefully consider various economic and non economic variables. Depending upon the conditions in the national and international economies, the monetary authority could have any of the goals - stable prices, gradual rise in prices or fall in prices - with regard to prices in the economy. Apart from this, the objectives of Exchange-rate Stability, Attainment of Full Employment, Rapid Economic growth or Social Justice could become important and define or alter the monetary decisions of the RBI. ■

### ANNOUNCEMENT

#### Online Mentoring Sessions Recordings Now Available

The Board of Studies is pleased to announce availability of Recordings of topic-wise Online Mentoring Sessions taken by BOS Faculty on ICAI Cloud Campus (<http://cloudcampus.icai.org>) through the tab “Recorded Online Mentoring” to enable students to view these sessions even after the event date and time, at their convenience.

The Online Mentoring sessions provide topic specific guidance to the students for better preparation for their examinations and also answer their relevant questions/ queries. The students who missed the LIVE sessions at the designated date and time, may also take benefit of the queries answered.

Students are encouraged to make good use of this facility to have a better understanding of the subjects and enhance preparation for their forthcoming examinations.

Director  
Board of Studies

## Business Laws, Ethics and Communication

# The Payment of Bonus (Amendment) Act, 2015

### INTRODUCTION:

The Payment of Bonus Act, 1965 is an Act to provide for the payment of bonus to persons employed in certain establishments on the basis of profits or on the basis of production or productivity and for matters connected therewith. It came into force from September 25, 1965. The Payment of Bonus Act, 1965 has undergone several amendments. The last amendment was made on 12th December, 2007 with an intent to further amend the Payment of Bonus Act, 1965 by legislating of the Payment of Bonus (Amendment) Act, 2007.

**Coverage of the Act:** This Act extends to the whole of India and shall apply to every factory and every other establishment in which twenty or more persons are employed on any day during an accounting year. Also Appropriate Government by notification in the Official Gazette apply the provisions of this Act to any establishment or class of establishments including factory. The provision of this Act shall also apply to certain public sector establishments as given in Section 20(1) of the Payment of Bonus Act, 1965.

**Object of the Act:** The Payment of Bonus Act, 1965 provides for the annual payment of bonus to employees of certain establishments (including factories and establishments employing 20 or more persons). Under the Act, bonus is calculated on the basis of the employee's salary and the profits of the establishment.

### The Payment of Bonus (Amendment) Act, 2015

Recently Ministry of Law and Justice notified the Payment of Bonus (Amendment) Act, 2015 on 1st January, 2016. The Act received the assent of the Honourable President on 31st December, 2015. This amendment Act has been ordained further to amend the Payment of Bonus Act, 1965. It shall be deemed to have come into force on the 1st day of April, 2014.

### Following are the highlights to the Payment of Bonus (Amendment) Act, 2015

**1. Amendment in Section 2(13)**—Section 2(13) of the Payment of Bonus Act, 1965 states the definition of "employee" who is eligible for bonus.

As per the Principal Act, Employee means any person (other than an apprentice) employed –On a salary or wage **not exceeding ₹10,000 per mensem** in any industry, to do any skilled or unskilled, manual, supervisory, managerial, administrative, technical or clerical work, for hire or reward, whether the terms of employment be express /implied.

As per the **Payment of Bonus (Amendment) Act, 2015**, the eligibility limit for payment of bonus has been enhanced from **₹10,000 to ₹21,000 per mensem**.

**2. Amendment in Section 12**—Section 12 of the Payment of Bonus Act, 1965 deals with the calculation of bonus with respect to certain employees. According to the Principal Act, where the salary or wage of an employee exceeds **₹3,500 per mensem**, the bonus payable to such employee under Section 10 or, as the case may be, under Section 11, shall be calculated as if his salary or wage were only **₹3,500 per mensem**.

This section have been incorporated by the Payment of Bonus (Amendment) Act, 2007 w.e.f. from 1.04.2006.

As per the **Payment of Bonus (Amendment) Act, 2015**, calculation ceiling for the bonus has been raised. For the words "**3,500 rupees**" at both the places where they occur, the words "**7,000 rupees or the minimum wage for the scheduled employment, as fixed by the appropriate Government, whichever is higher**" shall respectively be substituted;

Further, **Explanation** have been inserted at the end of this section, namely:—

**Explanation.**—For the purposes of this section, the expression "**scheduled employment**" shall have the same meaning as assigned to it in clause (g) of section 2 of the Minimum Wages Act, 1948.'

**3. Amendment in section 38**—Section 38 of the Payment of Bonus Act, 1965 deals with power to make rules. The Principal Act empowers the Central Government to make rules for the purpose of giving effect the provisions of this Act. Since the said section does not provide for the previous publication of the rules.

As per the **Payment of Bonus (Amendment) Act, 2015**, an enabling provision providing for the previous publication for the purpose of inviting objections and suggestions in tune with the other legislations pertaining to welfare of labour have been inserted.

As of that, section 38 of the principal Act, for sub-section (1), the following sub-section shall be substituted, namely "(1) The Central Government may, subject to the condition of previous publication, by notification in the Official Gazette, make rules to carry out the provisions of this Act." ■

[Note: This amendment is not applicable for May 2016 examination]

# Finance Updates

## **Banks asked to price 3-year fixed rate loans based on MCLR**

The Reserve Bank of India has widened the ambit of marginal cost of funds-based lending rate (MCLR), asking banks to price their fixed-rate loans of up to three years' tenure with reference to the MCLR. For more details please read at:  
<http://www.livemint.com/Industry/fHfr0pRtbKS1gzl2v9K78K/Fixed-rate-loans-up-to-3-years-to-be-based-on-marginal-cost.html>

## **Reserve Bank allows firms, NBFCs in infra space to raise funds overseas**

The Reserve Bank of India, in consultation with the Centre, has revised the external commercial borrowings (ECBs) framework, allowing companies and non-banking finance companies in the infrastructure sector to raise resources from overseas markets with minimum average maturity of five years. For more details please read at:  
<http://www.thehindubusinessline.com/money-and-banking/reserve-bank-allows-firms-nbfcs-in-infra-space-to-raise-funds-overseas/article8414462.ece>

## **Taiwan Stock Exchange launches three Nifty-based ETFs**

The three ETFs — the Fubon Nifty ETF, Fubon Nifty 2X Leveraged Index ETF and Fubon Nifty-1 Inverse Index ETF were issued by Fubon Asset Management. They track the indices Nifty 50, Nifty PR 2X Leverage and Nifty PR 1X Inverse, respectively. The launch of the three Nifty-based ETFs in TWSE will provide investors with more strategic options to hedge risk and enrich their investment portfolio. For more details please read at:  
<http://www.thehindubusinessline.com/markets/stock-markets/taiwan-stock-exchange-launches-three-niftybased-etfs/article8409985.ece>

## **Blackstone to buy HPE stake in Mphasis for ₹7,071 crore**

In one of the biggest deal of this century the Private equity firm Blackstone has entered into a definitive agreement with Hewlett Packard Enterprise to buy a majority stake in Mphasis Ltd, an Information Technology services provider offering Applications, Business Process Outsourcing and Infrastructure Services. For more details please read at:  
<http://www.thehindubusinessline.com/info-tech/blackstone-to-buy-hpe-stake-in-mphasis-for-rs-7071-cr/article8432345.ece>

## **IFC's ₹200-cr Masala bond issue debuts on London Stock Exchange**

International Finance Corporation's 15-year Masala Bonds opened for trading on the London Stock Exchange on 4 April 2016. The issuance is the longest-dated offshore rupee bond ever issued. The bond raised ₹200 crore (or nearly \$30 million), highlighting long-term investor confidence in India. For more details please read at:  
<http://www.thehindubusinessline.com/markets/stock-markets/ifcs-200cr-masala-bond-issue-debuts-on-london-stock-exchange/article8433601.ece>

## **Towards a tamper-proof rupee reference rate**

Based on the recommendation of the Committee on Financial Benchmarks set up under Vijaya Bhaskar, the RBI has now said the process for setting the reference rates for the rupee against the dollar, euro, pound and yen, which is published daily at 1.30 pm, will be based on actual transactions and not on a random poll. This change will take effect from May 2.

<http://www.thehindubusinessline.com/economy/towards-a-tamperproof-rupee-reference-rate/article8438084.ece>

# Accounting

## **Clarification on applicability of Ind AS to disclosures in offer documents under SEBI (ICDR) Regulations, 2009 - 31 March 2016**

SEBI has issued circular to align the disclosure requirements for financial information in the offer document as specified under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 ("SEBI (ICDR) Regulations, 2009") with the requirements of Ind AS specified under Ministry of Corporate Affairs (MCA)'s roadmap. The circular, *inter alia*, provides:

- ◆ Relevant disclosure requirements of financial information for issuer companies to which Ind AS is applicable in phase 1 (i.e. beginning from FY 2016-17) and phase 2 (i.e. beginning from FY 2017-18) of MCA's Roadmap;
- ◆ Disclosure of Interim period to be made in line with

the accounting policies followed for latest financial year;

- ◆ The issuer company may voluntarily choose to present all five year periods using Ind AS framework, instead of accounting standards otherwise applicable for such period(s);
- ◆ Issuer company to disclose the fact that the financial information has been disclosed as per Ind AS, while suitably; explaining the difference between Ind AS and the previously applicable accounting standards, and the impact of transition to Ind AS. ■  
*(Link : [http://www.sebi.gov.in/cms/sebi\\_data/attachdocs/1459418165606.pdf](http://www.sebi.gov.in/cms/sebi_data/attachdocs/1459418165606.pdf))*

# Revised Scheme of Education and Training for Chartered Accountancy Course

## Revised Scheme: Route I - Foundation Course#

**Under the Foundation Course Route, the following steps are required:**

- ◆ Register with Board of Studies (BoS) after appearing in Class XII examination till June 30/Dec 31.
- ◆ Be eligible to appear for Foundation examination after passing Class XII examination. The first Foundation examination can be taken in November/May, as applicable, following passing of Class XII examination.
- ◆ Qualify Foundation Course.
- ◆ Register with the BoS for the Intermediate Course.
- ◆ Complete 8 months of study course.
- ◆ Appear and Pass in either or both Groups of Intermediate Course.

Successfully complete Four Weeks Integrated Course on Information Technology and Soft Skills (ICITSS) before commencement of the Practical Training.

- ◆ Register for Three years Practical Training of passing either or both the Groups of Intermediate Course.
- ◆ Register for the Final Course after qualifying both the Groups of Intermediate Course.
- ◆ Successfully complete Four Weeks Advanced ICITSS during the last two years of Practical Training.
- ◆ Complete Practical Training.
- ◆ Appear in Final examination after completion of Practical Training and Advanced ICITSS.
- ◆ Become Member.

**#Note:**ICAI has decided in principle the above mentioned Scheme. However, the scheme will be notified in the official Gazette in due course.

## Revised Scheme: Route II – Direct Entry Route#

The ICAI allows Commerce Graduates/Post-Graduates (with minimum 55% marks) or Other Graduates/Post-Graduates (with minimum 60% marks) and Intermediate level passed students of Institute of Company Secretaries of India and Institute of Cost Accounts of India to enter directly to its Intermediate Course. The following steps are required to be undertaken by the eligible Graduates and Post Graduates under this route:

- ◆ Register with the BOS for the Intermediate Course (provisional registration allowed to the students doing Final year of graduation).
- ◆ Successfully complete Four Weeks Integrated Course on Information Technology and Soft Skills (ICITSS) before commencement of the Practical Training.
- ◆ Register for Three Years Practical Training.
- ◆ Appear in Intermediate Examination after Nine months of Practical Training.
- ◆ Qualify Intermediate Course.
- ◆ Register for the Final Course after qualifying both Groups of Intermediate Course.
- ◆ Successfully complete Four Weeks Advanced ICITSS during the last two years of Practical Training.
- ◆ Complete Practical Training.
- ◆ Appear in Final examination after completion of Practical Training and Advanced ICITSS.
- ◆ Become Member

**Note:** Candidates who have passed Intermediate level examination of ICSI or ICWAI and enter the CA Intermediate course directly shall be treated at par with Foundation passed students and shall have to undergo the CA course in the manner akin to the Foundation passed students.

# NEW CURRICULUM ||

## FOUNDATION COURSE

**Number and Name of Papers**

**Number of Papers – 4**

**Paper 1:** Principles and Practices of Accounting (100 Marks)

**Paper 2:** Mercantile Law & General English (100 Marks)

Part I: Mercantile Law (60 Marks)

Part II: General English (40 Marks)

**Paper 3\*:** Business Mathematics and Logical Reasoning & Statistics (100 Marks)

Part I: Business Mathematics and Logical Reasoning (60 Marks)

Part II: Statistics (40 Marks)

**Paper 4\*:** Business Economics & Business and Commercial Knowledge (100 Marks)

Part I: Business Economics (60 Marks)

Part II: Business and Commercial Knowledge (40 Marks)

\*Paper 3 and Paper 4 will be Objective type papers.

### Note

- ◆ Passing percentage: Aggregate- 50% and Subject-wise- 40% at one sitting.
- ◆ Objective type question of 1 or more marks.
- ◆ Examination: In the month of November and May after passing Class XII.

## INTERMEDIATE COURSE

**Number and Name of Papers**

**Number of Papers – 8**

### Group I

**Paper 1:** Accounting (100 Marks)

**Paper 2:** Corporate Laws & Other Laws (100 Marks)

Part I: Corporate Laws (60 Marks)

Part II: Other Laws (40 Marks)

**Paper 3:** Cost Accounting (100 Marks)

**Paper 4:** Direct Tax Laws & Indirect Tax Laws (100 Marks)

Part I: Direct Tax Laws (60 Marks)

Part II: Indirect Tax Laws (40 Marks)

### Group II

**Paper 5:** Advanced Accounting (100 Marks)

**Paper 6:** Auditing and Assurance (100 Marks)

**Paper 7:** Financial Management & Business Economic Environment (100 Marks)

Part I: Financial Management (60 Marks)

Part II: Business Economic Environment (40 Marks)

**Paper 8:** Information Technology & Strategic Management (100 Marks)

Part I: Information Technology (60 Marks)

Part II: Strategic Management (40 Marks)

## Four Weeks Integrated Course on Information Technology and Soft Skills (ICITSS)

- ◆ Duration: 4 weeks (2 weeks for soft skills and 2 weeks for IT)
- ◆ When to complete: Students registering for the Intermediate Course shall be required to successfully complete ICITSS before commencement of Practical Training.

## Practical Training

- ◆ Duration of Practical Training : Three Years
- ◆ Commences after completing Integrated Course on Information Technology and Soft Skills (ICITSS) and passing either or both Groups of Intermediate Examination.
- ◆ For direct entrants coming through Graduation and Post Graduation route, the Practical Training commences immediately after they complete four weeks ICITSS.

## Advance Four Weeks Integrated Course on Information Technology and Soft Skills (AICITSS)

**Duration:** 4 weeks (2 weeks for soft skills and 2 weeks for Advance IT)

**When to complete:** Students undergoing Practical Training shall be required to do AICITSS during the last 2 years of Practical Training but to complete the same before appearing in the Final Examination.

## FINAL COURSE

**Number and Name of Papers**

**Number of Papers – 8**

### Group I

**Paper 1:** Financial Reporting (100 Marks)

**Paper 2 :** Strategic Financial Management (100 Marks)

**Paper 3 :** Advanced Auditing and Professional Ethics (100 Marks)

**Paper 4 :** Corporate Laws and other Economic Laws (100 Marks)

### Group II

**Paper 5 :** Advanced Management Accounting (100 Marks)

**Paper 6 :** Financial Services and Capital Markets & Information Systems Control and Audit (100 Marks)

Part I: Financial Services and Capital Markets (50 Marks)

Part II: Information Systems Control and Audit (50 Marks)

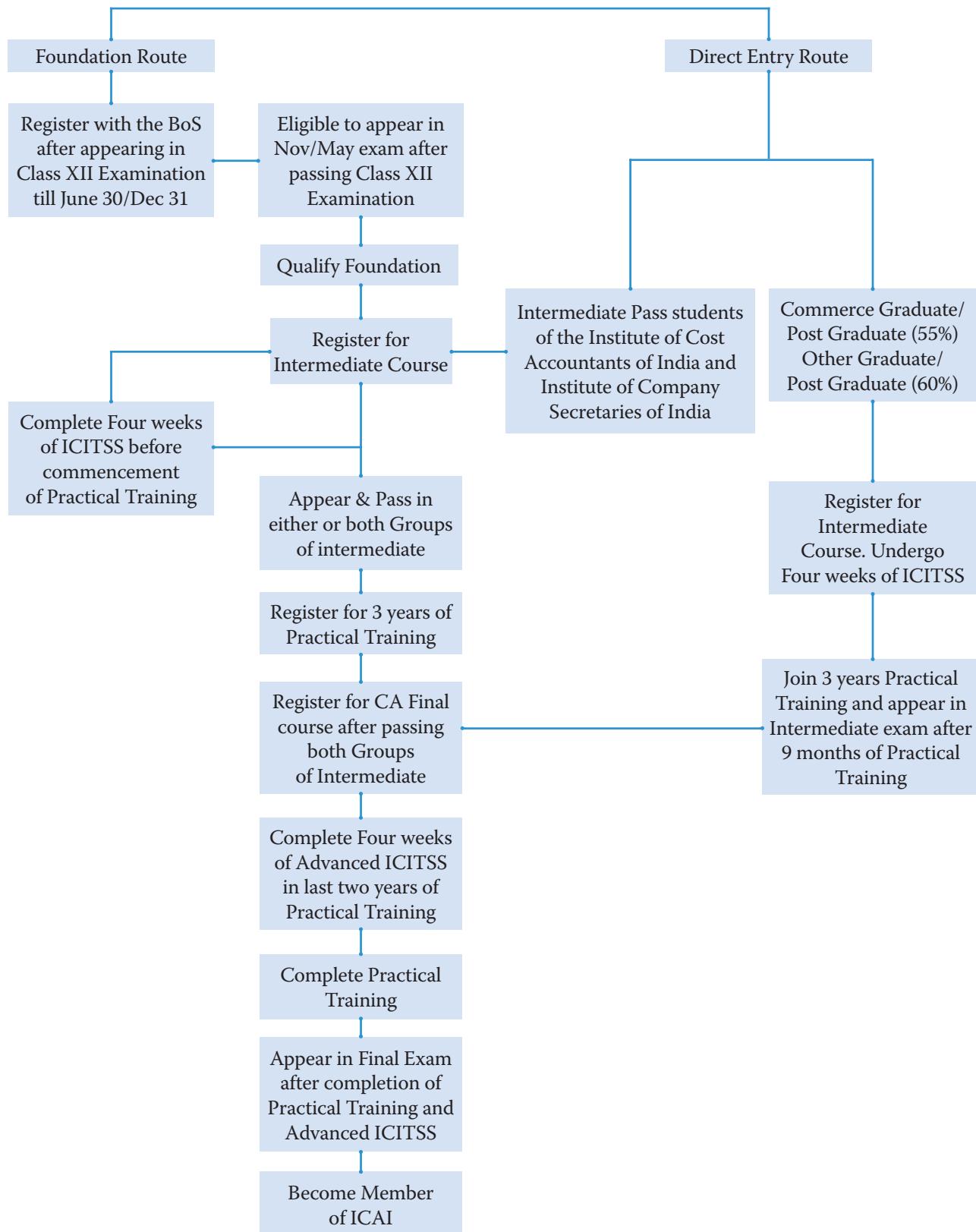
**Paper 7:** Advanced Direct Tax Laws & International Taxation

Part I: Advanced Direct Tax Laws (70 Marks)

Part II: International Taxation (30 Marks)

**Paper - 8:** Advanced Indirect Tax Laws (100 Marks)

## Revised Scheme of Education and Training AT A GLANCE





**The Institute of Chartered Accountants of India**  
[Set up by an Act of Parliament]  
Post Box No. 7112, 'ICAI BHAWAN', Indraprastha Marg  
New Delhi – 110002

## NOTIFICATION - INVITING PUBLIC COMMENTS ON THE DRAFT AMENDMENTS IN THE CHARTERED ACCOUNTANTS REGULATIONS, 1988 ARISING OUT OF REVISED SCHEME OF EDUCATION AND TRAINING. - (21-04-2016)

21<sup>st</sup> April, 2016

### **Sub: Notification - inviting public comments on the draft amendments in the Chartered Accountants Regulations, 1988 arising out of Revised Scheme of Education and Training.**

The Central Government has accorded its in-principle approval to the draft amendments in the Chartered Accountants Regulations, 1988 arising out of the Revised Scheme of Education and Training approved by the Council of the Institute. In terms of the requirement of sub-section (3) of Section 30 of the Chartered Accountants Act, 1949, the notification containing draft amendments has been published in Part III Section 4 of the Gazette of India, Extraordinary, dated 18th April, 2016 seeking comments from the persons likely to be affected thereby. The said Notification has also been hosted on the website of the Institute. The link to reach the same is <http://resource.cdn.icai.org/41945draftcreticai.pdf>. The Revised Scheme of Education and Training has also been hosted on the main page of the Institute's website i.e. <http://www.icai.org/> under the heading "**Most Important**".

The stakeholders may send their suggestions/objections in regard to the aforesaid draft amendments within 45 days from the date, the copies of the aforesaid Gazette are made available to the public. The suggestions/objections can be sent at [cret@icai.in](mailto:cret@icai.in); with a copy at [prem@icai.in](mailto:prem@icai.in) for the consideration of the Council.

(V. Sagar)  
Secretary

### ANNOUNCEMENT

#### Election to the Managing Committee of WICASA

The 51st Annual General Meeting of the Students of the Western India Chartered Accountants Student's Association (WICASA) will be held on **5<sup>th</sup> June, 2016, Sunday at 05.00 p.m.** at Khimji Kuvarji Vikamsey Auditorium, The Institute of Chartered Accountants of India, ICAI Tower, Plot No. C-40, 'G' Block, Opp. MCA Ground, (Adjacent to Standard Chartered Bank), Bandra - Kurla Complex, Bandra (East), Mumbai - 400 051.

Elections to the Managing Committee of the Association for the year 2016-17 would be held from 8.00 am to 12.00 Noon on the same day. For details, students may visit [www.wirc-icai.org](http://www.wirc-icai.org)

# Performance Measurement Through - Monitoring Procedures of Budgetary Control

## Achieving Objectives Through Fixation of Responsibilities

As we know that every organisation has its own Mission, Vision, Objectives and Goals. Some organisations may run to earn profit and some others may have charitable objectives. Any objective can only be achieved if it is *properly monitored* and *clearly defined*. To make the objectives achievable the organisation sets long-term and short-term Goals. Goals are quantified in clear, logical and justifiable terms, after considering the external and internal factors affecting the organisation. To accomplish these goals, management use to delegate responsibilities against the set target to monitor and measure the performance.

The assignment of responsibilities and measurement of performance against set targets are popularly known as Responsibility Accounting. The Responsibility Accounting establish responsibility to each identifiable business units which are commonly known as Responsibility Centres and classified as Cost Centre, Profit Centre and Investment Centre based on the nature of operations and autonomy vested in them for decision making.

## Measuring Performance Using KPIs & CSFs

To control the cost and to achieve the goal, performance of a Responsibility Centre is measured against the Key Performance Indicators (KPI) which are linked to Critical Success Factors (CSF) for the fulfilment of organisational objectives.

Based on the Critical Success Factors, Key Performance Indicators are decided that in turn becomes the yardstick against which the performance of a Responsibility Centre is judged. But while fixing the Key Performance Indicators, weightage should be given to the factors which are *controllable*. Responsibility Centre should not be held responsible for the factors which are *beyond its control*. Hence, the two major conditions which should be kept in consideration while setting standards are (a) Controllability and (b) Flexibility. The later part i.e. flexibility in the set standard or KPI here needs to be adjusted for the events which were not present at the time of setting performance standard. Standards need to be revised and accordingly performance is benchmarked. The yardstick of performance measurement should be flexible and dynamic to the changes of the environment, as *change is the only static thing in the world*.

Given below is a hypothetical case of Tourism

Industry which describes- *How performances are monitored and measured through Budgetary Control?*

## Hypothetical Case of Great Bus Tours Co. Ltd. (GBTCL)

### *History of the Company*

Great Bus Tours Co. Ltd. (GBTCL) is an open top double-decker bus sightseeing company, particularly identified with its special red and cream-colored buses. It commenced operating in a small town of Meghalaya in June 2011 with four buses and as of 2015 operated over 44 buses in north east region of India. GBTCL operates five routes with stops at tourist destinations. The company runs hop-on, hop-off bus tours of various hills, with one 24-hour ticket valid for unlimited journeys on the route.

### *Budget Process/ Incentive Plan*

As a part of management performance control and incentive scheme it has been following participative budgeting approach. In GBTCL, budgeting is a joint process in which functional divisions develop their plans in conformity with corporate goals for the next financial year. Based on these plans, divisions prepare functional budgets and send to the appropriate management for review and approval. The budgets after the incorporation of the feedback and suggestions received from the said management, are finalised for the implementation. Then, finalised budgets are used as yardstick for performance measurement. Comparing the actual performance with the yardstick, bonus and other performance related incentives are considered. The higher management believe that this performance control and incentive scheme is very helpful to measure the performance and fixing responsibilities for the responsibility centres.

### *Budgeted Income Statement*

	(₹ '000)
Revenue	1,13,800
Less:	
Variable Costs-	
Direct Material (Fuel, Lubricants and Sundries)	13,600
Direct Labour	40,500
Variable Overheads	7,700
Fixed Costs-	
Operating Overheads (Buses, Garage, Salaries)	18,100
Marketing and Administration	10,700
Profit/ (Loss) before taxes	23,200

Table-1

# CASE STUDY ||

## Current Year's Income Statement

	(₹ '000)
Revenue	93,500
Less:	
Variable Costs-	
Direct Material (Fuel, Lubricants and Sundries)	19,600
Direct Labour	37,700
Variable Overheads	6,200
Fixed Costs-	
Operating Overheads (Buses, Garage, Salaries)	20,150
Marketing and Administration	10,100
Profit/ (Loss) before taxes	(250)

Table-2

## Other Information

Surprisingly, above given current year's actual results were not up to the mark. Actual results were clearly showing adverse performance in comparison with budgeted figures.

Managers of GBTCL were upset because they did not receive the bonus. Ms. Maggie, Tour Manager of Route No. 3, said –

*"We lost 2 months revenue and fuel prices are almost doubled. We did our best but these circumstances were beyond our control and we should not penalize at all."*

In support of her statement, Ms. Meggie provided following additional information –

- (a) Rain is common in Northern Region. But, the past year set a record in numbers. In July, the expected average was 1,577 mm and received was 1,810 mm, In August, the expected average rain was 990 mm and actual received was 1,535 mm. Heavy rain in these two months disrupted normal life of the region.
- (b) The fuel prices have risen almost continuously since last year due to surge in global crude prices.
- (c) Additional operational expenses ₹22,00,000 also incurred to remove the milky appearance and give the stainless a nice new look effected by heavy rain.

She claimed that –

*"Revised budget with consideration of the above factors would give different results and lead to different conclusions"*

## Analysis of Case

It appears that GBTCL has been badly hit by the weather – high rain in July and August have led to a slump in business. Revenue have seen a fall of 18% over the budgeted figure. Direct Material (most of the fuel) is 21% of the Sales (compared to 12% of budgeted level) because of hike in fuel price. Variable Overheads are almost same. However, interestingly, there is a saving of ₹1,50,000 in Operating Overheads as compared to the budgeted figure after catering additional Operational Expenses of ₹22,00,000 (for removal of milky appearance etc.). Furthermore, there is reduction in Marketing & Administration Cost. The ratio of Salary to Sales rose to 40% in 2015 from 36% (as budgeted). This appears to be atypical. Instead, there

should be a cut in this ratio due to slump in business.

*Award of bonus* in case of losses is not justified and managers should be held accountable for their operations. However, they should not be held accountable for the events beyond their control. A manager cannot control movements in fuel price, yet he/ she is supposed to have the most information and he/ she is expected to correctly forecast movements in the prices of fuel. Managers shouldn't be penalized for the *uncontrollable events*.

Accordingly, in GBTCL, there should be revision in the budget to account uncontrollable events. Refer Table-3.

## Revised Budgeted Income Statement

	(₹ '000)
Revenue	94,833
Less:	
Variable Costs-	
Direct Material (Fuel, Lubricants and Sundries)	19,879
Direct Labour	33,750
Variable Overheads	6,417
Fixed Costs-	
Operating Overheads (Buses, Garage, Salaries)	20,300
Marketing and Administration	10,700
Profit/ (Loss) before taxes	3,787

Table-3

\*10 months revenue; \*\* at actual price levels

The Revised Profit Margin has come down to 4% as against the Target Profit Margin of 20%. This clearly indicates that the performance was benchmarked against the higher target. If original budget figure is used to measure the performance, it will punish employees for the reason which are beyond their control.

GBTCL is not too far away from Revised Profit Margin. Therefore, at least some bonus may be considered to be awarded to the employees which may create more *employee loyalty* and may be beneficial for long term.

Further, *continuous* monitoring of Budget Performance (achievement/failure) in GBTCL is essential to overcome this situation. This helps to identify where *revisions* are required in the budget to account changing conditions, errors, modification to company's plan etc. Monitoring of Budget Performance should be the responsibility of the managers in GBTCL. The essence of the effective monitoring of Budget Performance is that the managers should provide *accurate, relevant, actionable* information on time to the appropriate management level so that budget can give a realistic target to measure the performance.

It is also important to note that at the time of revising the budget, the primary budget as well as past information should not be ignored as they are the basis for preparing all budgets.

*Contributed by*

Dr. N. N. Sengupta, Deputy Director

CA. Deepak Kr. Gupta, Assistant Director

CA. Sanjeet Lal Sharma, Sr. E.O. ■

# EXAMINATION



**The Institute of Chartered Accountants of India**  
[Set up by an Act of Parliament]  
Post Box No. 7112, 'ICAI BHAWAN', Indraprastha Marg  
New Delhi – 110002

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

### NOTIFICATION

5<sup>th</sup> April, 2016

No.13-CA(Exam)/M/2016/II: In partial modification of the Institute's Notification No. 13-CA(Exam)/M/2016 dated 19<sup>th</sup> January, 2016, it is notified for general information that in view of the General Election to the Legislative Assemblies of Kerala, Tamil Nadu and Puducherry, the Chartered Accountants Intermediate (IPC) (Group – II), Examination - 7, Information Technology and Strategic Management and Final (Group II), Examination, Paper – 8, Indirect Tax Laws scheduled to be held on 15<sup>th</sup> & 16<sup>th</sup> May, 2016 at Alappuzha, Ernakulam, Kannur, Kollam, Kottayam, Kozhikode, Malappuram, Palakkad, Thiruvananthapuram and Thrissur centre(s) (In the State of Kerala), Chennai, Coimbatore, Erode, Kumbakonam, Madurai, Salem, Sivakasi, Tiruchirapalli, Tirunelveli, Tirupur, Tuticorin and Vellore centre(s) (In the State of Tamil Nadu) and Puducherry (Pondicherry) centre(s) stand postponed and the examination in the said paper(s) shall now be held on 21<sup>st</sup> & 22<sup>nd</sup> May 2016 at the same venue(s) and at the same timing(s) i.e. 2.00 PM to 5.00 PM (IST). Admit Cards already issued would remain valid.

However, it is clarified that the schedule of examinations notified vide Notification No.13-CA(Exam)/M/2016 dated 19<sup>th</sup> January 2016 in respect of all other cities shall remain unchanged.

(V. Sagar)  
Secretary

**The Board of Studies has planned the following Conventions/Conferences for CA students as of April, 2016.**

**For further details, please contact the respective Regional Council/Branch/  
Decentralised Office.**

S.N	Branch	Name of the Programme	Dates	Contact Details
1.	Jaipur	National Convention	14 <sup>th</sup> & 15 <sup>th</sup> June, 2016	<b>Ph:</b> 0141-3044200, 3044214 <b>Email:</b> jaipur@icai.org
2.	Guwahati	National Convention	25 <sup>th</sup> & 26 <sup>th</sup> June, 2016	<b>Ph:</b> 0361-2207660 <b>Email:</b> guwahati@icai.org
3.	Indore	National Convention	2 <sup>nd</sup> & 3 <sup>rd</sup> July, 2016	<b>Ph:</b> 0731-4298198, 2570052/53 <b>Email:</b> indore@icai.org
4.	Baroda	National Convention	8 <sup>th</sup> & 9 <sup>th</sup> July, 2016	<b>Ph:</b> 0265- 2680593, 2681 115 <b>Email:</b> baroda@icai.org
5.	Nagpur	National Convention	8 <sup>th</sup> & 9 <sup>th</sup> July, 2016	<b>Ph:</b> 0712- 2443968,2441196 <b>Email:</b> nagpur@icai.org
6.	Kolkata	National Convention	16 <sup>th</sup> & 17 <sup>th</sup> July, 2016	<b>Ph:</b> 033- 39893989, 30211140/41 <b>Email:</b> eirc@icai.org
7.	Lucknow	National Convention	27 <sup>th</sup> & 28 <sup>th</sup> August, 2016	<b>Ph:</b> 0522- 2301524 , 3941932 <b>Email:</b> lucknow@icai.org
8.	Goa	National Conclave	30 <sup>th</sup> Nov. & 1 <sup>st</sup> Dec., 2016	<b>Ph:</b> 0832-2438516, 6642216 <b>Email:</b> goa@icai.org
9.	Ernakulam	All India Conference	16 <sup>th</sup> & 17 <sup>th</sup> Dec., 2016	<b>Ph:</b> 0484-2396238/58, 2372953 <b>Email:</b> ernakulam@icai.org
10.	Mumbai	National Convention	30 <sup>th</sup> & 31 <sup>st</sup> Dec., 2016	<b>Ph:</b> 022- 39893989, 33671400/1500 <b>Email:</b> wro@icai.org
11.	Chennai	National Convention	31 <sup>st</sup> Dec, 2016 & 1 <sup>st</sup> Jan, 2017	<b>Ph:</b> 044- 39893989, 30210300 <b>Email:</b> sirc@icai.in
12.	Hyderabad	International Conference	7 <sup>th</sup> & 8 <sup>th</sup> Jan, 2017	<b>Ph:</b> 040-23317026, 23393182 <b>Email:</b> hyderabadco@icai.org, coehyd@icai.in

## Video Lectures for Practical Problem Solving Subjects

Chapter Wise Video Lectures for Practical Problem solving subjects for all levels of CA Course available at ICAI Cloud Campus



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Board of Studies

The Institute of Chartered Accountants of India



Further Details: e-Mail: StudentLMS.Support@icai.in. Tel.: 0120-3876859

## ANNOUNCEMENT

### Online Mentoring on ICAI Cloud Campus - <http://cloudcampus.icai.org>

The ICAI Cloud Campus enables Students to learn anytime and from anywhere using e-Learning, Audio Lectures, Video Lectures and Online Mentoring. Students can even learn through Mobile Enabled e-Learning facility on the Students Learning Management System (LMS) on their Mobile Phones/ Smart Phones/ Tablets. Online Mentoring is one of the major value added features on the Cloud Campus. The schedule of online mentoring sessions for May, 2016 is as follows:

#### Online Mentoring Schedule

Date	Course	Paper	Topic	Faculty	Time
May 2	CPT	Sec-A Fundamentals of Accounting	Amendments applicable for June 2016, Examination	CA. Seema Gupta and CA. Asha Verma	3 pm - 5 pm
May 4	CPT	Sec-D Quantitative Aptitude	Statistics	Dr. N.V. Ravi	3 pm - 5 pm
May 11	CPT	Sec-C General Economics	Demand Analysis and Markets	Ms. Prem J. Bhutani	3 pm - 5 pm
May 17	CPT	Sec-B Mercantile Laws	The Indian Contract Act, 1872	Ms. Nisha Gupta and Ms. Megha Goel	3 pm - 5 pm
May 18	CPT	Sec-C General Economics	General Queries	Ms. Prem J. Bhutani	3 pm - 5 pm
May 19	CPT	Sec-D Quantitative Aptitude	Mathematics	Dr. N.V. Ravi	3 pm - 5 pm
May 25	CPT	Sec-A Fundamentals of Accounting	General Queries	CA. Seema Gupta and CA. Asha Verma	3 pm - 5 pm
May 27	CPT	Sec-B Mercantile Laws	General Queries	Ms. Nisha Gupta and Ms. Megha Goel	3 pm - 5 pm

Students are advised to register for Online Mentoring Sessions on the ICAI Cloud Campus and provide specific questions/ queries that they need to be discussed at least 48 working hours before the session. Links to access the aforementioned Online Mentoring Sessions are also available on the <http://cloudcampus.icai.org> under Online Mentoring.

Director  
Board of Studies

## ANNOUNCEMENT

### Four Weeks Residential Programme on Professional Skills Development organised by Board of Studies at Centre of Excellence, (CoE), Hyderabad

The Board of Studies is pleased to announce the next two batches of ICAI Four Weeks Residential Programme as below:

Venue	Participant	Fees	Date	Links for Registration
Centre of Excellence (CoE), Hyderabad	Men	₹40,000/-	23rd May, 2016 to 19th June, 2016	<a href="http://220.227.161.86/36975bos26354main.pdf">http://220.227.161.86/36975bos26354main.pdf</a>
Centre of Excellence (CoE), Hyderabad	Women	₹40,000/-	27th June, 2016 to 24th July, 2016	<a href="http://220.227.161.86/36975bos26354main.pdf">http://220.227.161.86/36975bos26354main.pdf</a>

The programme aims to help the Chartered Accountancy students and newly qualified Chartered Accountants in imbibing the professional skills required for effective functioning in business organisations and the profession. The Programme environment focuses on development of communication skills, personal qualities, interpersonal and teamwork skills, problem solving skills and leadership skills.

#### Salient Features of the Programme:

- Emphasis on Soft Skills, Communication Skills and Personality Development.
- Exemption from payment of Fees to Top 10 Rank holders.
- Part of Articleship Training.
- No need for Separate GMCS/GMCS II
- Special Session on Group Discussion & Interview.
- Preparation of Project and Presentation Skills.
- Building Team Spirit.

Students who have passed Chartered Accountancy IPCC/ PCC/ PE- II examination and pursuing last year of article training or completed Articleship training are invited to join the course for this batch. Recently qualified Chartered Accountants are also welcome to join the course.

For online registration, further details visit the Board of Studies Announcements under the Students Icon on the Home Page of ICAI website [www.icai.org](http://www.icai.org).

For upcoming batches, please regularly visit [www.icai.org](http://www.icai.org) or refer to the Chartered Accountant Student Journal. For any query, you can also call at 0120-3045935.

Director  
Board of Studies

## ANNOUNCEMENT

### Introduction of Practice Manual and e-Learning DVD with Background Material Kit for Adv. ITT Course

The Board of Studies is pleased to announce the introduction of (a) Practice Manual and revised (b) e-Learning DVD along with the Study Material Kit for Advanced ITT Course to provide greater practical coverage as a part of the course.

The Lab Practice Manual aims to provide greater practical hands-on training as a part of the course by providing 140 Case Studies and exercises to be covered as a part of the course. The e-Learning DVD now contains (1) e-Learning Modules on (a) Financial Analysis using MS-Excel, (b) Using CAATs, and (c) Using MS-Excel as an Audit Tool, (2) Practice Manual soft copy, (3) Video Lectures and (4) Exercise/ Case Study Files.

The Study Material Kit with Practice Manual and updated e-Learning DVD are now available at the Regional Offices/ Branches of the ICAI organising the Advanced ITT Course.

Students are advised to make good use of these resources to enhance their knowledge and practical problem-solving skills using computers. Members and Students are welcome to send feedback, views/ suggestions and Case Studies for inclusion in the next edition.

Director, Board of Studies



# The Chartered Accountant Student - A Profile

## Objective

"The Chartered Accountant Student", a monthly Journal of the Institute of Chartered Accountants of India seeks to serve as a regular and distinct channel of communication with the students pursuing or intending to pursue the Chartered Accountancy course. The objectives of the Journal are as follows:

- ◆ To inform about latest developments in diverse fields such as Accounting, Auditing, Taxation and Corporate Laws relevant to the Chartered Accountancy Course curriculum.
- ◆ To disseminate knowledge by publication of useful, thought provoking and focussed articles on relevant topics.
- ◆ To provide practical orientation through real life situations, case studies, illustrations, etc.
- ◆ To further sharpen the understanding of various theoretical concepts included in the study material.
- ◆ To develop communication skills.
- ◆ To improve examination skills.
- ◆ To inculcate professional values and attitudes.
- ◆ To provide a forum to share experiences in resolving contentious issues.

*Indeed this would serve as an essential supplement to the academic input provided by the Board of Studies.*

## Features

The Journal will contain the following features:

- ◆ Articles contributed by members of the profession, academicians, faculty members of the Institute and students.
- ◆ Updates on recent amendments and judicial pronouncements in taxation and Corporate Laws.

- ◆ Accounting and Auditing Standards and Statements and Guidance Notes in related areas.
- ◆ Academic guidance supplementing the study material.
- ◆ Useful tips for success in the Examinations and for developing Communication Skills, Personality Development, Public Speaking.
- ◆ Announcements relating to Education, Training and Examinations.
- ◆ Summary of Examiners' Comments.
- ◆ Case Studies, Quiz Contests.
- ◆ Additions to Lists of Recommended Books/ Scholarship Schemes/Accredited Institutions.
- ◆ Other matters relevant and useful to the Students.

## Subscription Rates

All those students who have completed their articles and others interested are welcome to subscribe to the Journal at the following rates:

Inland Subscribers	:	₹200 p.a.
Members & others	:	₹500 p.a
Overseas Subscribers	:	U.S. \$ 100 p.a.

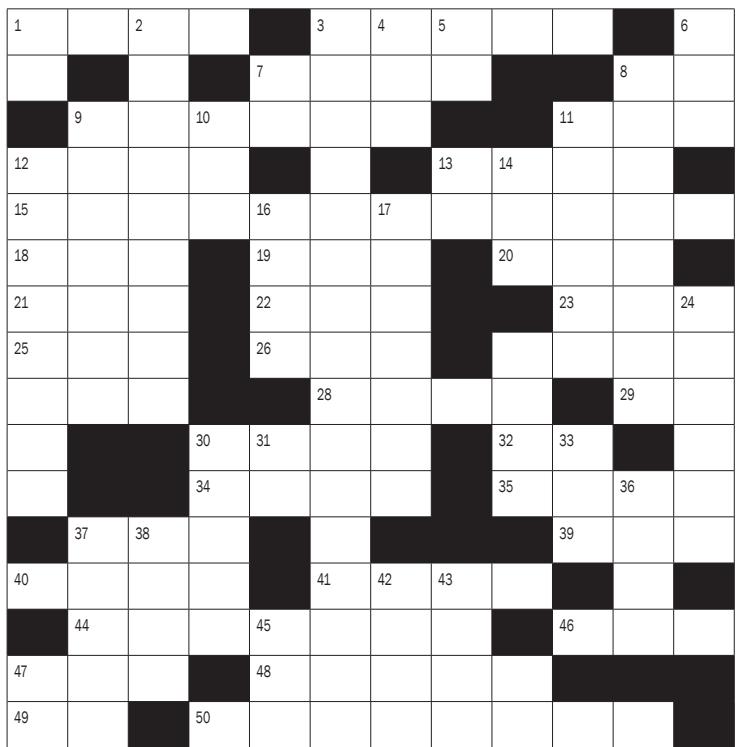
## Invitation to Write Articles

We invite articles, useful to the budding Chartered Accountants. Case-studies and quiz contests are also welcome.

Apart from professional satisfaction arising from the contribution, the contributor of an article published in the Journal would be entitled to an honorarium of ₹2500. Every year, we select two best articles published in the Journal and award Certificates and Cash Prize at the annual function of the Institute.

**We welcome your valuable views/suggestions for enhancing the quality and usefulness of the Students' Journal.**

## CROSSWORD PUZZLE



### ACROSS

- An instrument in writing purporting to effect some legal disposition.
- Bad conscience over responsibility
- \_\_\_\_\_ - benefit analysis is a systematic approach to estimating the strengths and weaknesses of alternatives that satisfy transactions, activities or functional requirements for a business.
- A politico-economic union of 28 member states those are located primarily in Europe.
- Fruitless
- A \_\_\_\_\_ is a coding error in a computer program.
- \_\_\_\_\_\_ proprietorship is a type of business entity that is owned and run by one natural person and in which there is no legal distinction between the owner and the business.
- Cats \_\_\_\_\_ from contentment and pleasure.
- New plant and machinery installed by assesses engaged in the business of..... of power to be eligible for additional depreciation from A.Y.2017-18.
- In telecommunications, the \_\_\_\_\_ is the length of time it takes for a signal to be sent plus the length of time it takes for an acknowledgment of that signal to be received.
- \_\_\_\_ a type of legal certificate issued by any agency, organization, institute stating that it does not object to the covenants of the certificate.
- A financial institution, consisting of 67 members, that is mainly Asian in character and foster economic growth and cooperation in the regions in the world.
- 1/100 of a hectare is called -----.
- CENVAT credit on inputs can be taken within \_\_\_\_\_ year(s) of the date of invoice.
- The \_\_\_\_\_, officially known as the Union Government was established by the Constitution of India, and is the governing authority of the union of 29 states and seven union territories, collectively called the Republic of India.
- A digital storage directly attached to the computer accessing it.
- Plead
- Transmit
- Assignment
- 501 in Roman numeral.
- An institution of higher technical education in India, affiliated to University of Delhi.
- \_\_\_\_\_ is a curve which shows all those combinations of two goods which give equal satisfaction to a consumer.
- Seep
- To present or introduce (any point, subject, project, etc.) for discussion.
- To cast (in) one's ----with means to share the life and fortunes of.
- He missed the \_\_\_\_\_ when he applied too late to get into college.
- \_\_\_\_\_, Liril, Pears, Lifebuoy, Dettol, Lux, Medimix, Cinthol are examples of products in a monopolistic market.
- A laborious task
- AS 10 (Revised) "Property, plant and Equipment" does not deal with \_\_\_\_\_ assets.
- Act 2005 mandates timely response to citizen requests for government information.
- One of the keys in your PC.
- A scoundrel or rascal.
- A salutation for a person who has done PH.D.
- \_\_\_\_\_ are the quantitative records of stores.

### DOWN

- \_\_\_\_ unto others as you would have them \_\_\_\_ unto you. (same words)
- Imitates
- The Finance Bill, 2016 proposes to exempt interest on deposit certificates issued under the \_\_\_\_\_ Scheme, 2015.
- Benefit
- \_\_\_\_ Training is one of the important

trainings in ICAI's CA course.

- To pull the \_\_\_\_\_ out from under someone's feet means to abruptly leave someone in a problematic or difficult situation.
- Roman numeral for 101.
- Bonds issued in any currency other than the currency of the country where they are issued are called -----.
- \_\_\_\_\_ is the first high-level language.
- An oligopoly is a market form in which there are two to \_\_\_\_\_ sellers.
- In telecommunications, the data Frames from one LAN can be transmitted to another LAN via the device "\_\_\_\_\_".
- An option strategy in which the investor holds a position in both call and put with same strike price and expiration date is called -----.
- One of important Trade partners of India.
- Arrogant
- Portal that provides e-filing services to the trade and cargo carriers and other clients of Customs Department.
- Jerks
- \_\_\_\_\_ through means to read through something hastily.
- If dividends are declared after the balance sheet date but before the financial statements are approved for issue, then such dividends are disclosed in the \_\_\_\_\_.
- Ergo
- Harvester
- Expel
- Inferior
- Elliptical
- A Flagship company of India involved in exploration and production of oil & gas and related oil-field services.
- An extinct lizard found in Gobi desert.
- A numerical prefix meaning three.

If undelivered, please return to: The Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, New Delhi-110104