



The Institute
of Chartered
Accountants of
India
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The Chartered Accountant **STUDENT**

Your monthly guide to CA news, information and events



GLIMPSES ||



National Convention for CA Students, Vijayawada: ICAI President, CA. M. Devaraja Reddy, Andhra Pradesh Higher Education Minister, Shri G. Srinivasa Rao, Chairman, Board of Studies, CA. Babu Abraham Kallivayalil and Managing Committee Members of Vijayawada Branch paying respect to the ICAI Motto Song.



National Convention for CA Students, Lucknow: Shri Alok Ranjan, Chief Advisor to Uttar Pradesh Chief Minister, Chairman, Board of Studies, CA. Babu Abraham Kallivayalil, Central Council Member, CA. Manu Agarwal, Branch Chairman, CA. Hemant Kumar and Managing Committee Members of Lucknow Branch at the inaugural session.



Orientation Programme at Ernakulam: ICAI President, CA. M. Devaraja Reddy with the newly qualified Chartered Accountants. Central Council Members, CA. G. Sekar, CA. Mukesh Singh Kushwaha, CA. Ranjeet Kumar Agarwal, CA. Rajesh Sharma and Federal Bank Chief Operating Officer, Ms. Shalini Warriar also seen.



Expert Group Meeting on proposed new curriculum of accounting education: ICAI Past President, CA. R. Bhupathy, Vice President, ICAI, CA. Nilesh S. Vikamsey, Chairman, Board of Studies, CA. Babu Abraham Kallivayalil, Vice Chairman, CA. Dhiraj Kumar Khandelwal, Central Council Members, CA. Dhinal Shah, CA. Madhukar N. Hiregange, CA. Mukesh Singh Kushwaha, CA. S. B. Zaware and CA. M. P. Vijay Kumar with the Expert Group Members.



ICAI President, CA. M. Devaraja Reddy with the participants of the Four Weeks Residential Programme on Professional Skills Development at the Centre of Excellence, Hyderabad.



My Dear Students,

The month of October marks beginning of festival season. It also reminds that your examinations are round the corner. With only about a month to go for, those who are appearing in the forthcoming examinations, must put in best efforts. Ideally, by now you should have completed learning subjects, so that you can practice and revise. The professional course of Chartered Accountancy require exhaustive learning and understanding real life implications of theoretical concepts. Read and prepare all the subjects and topics covered in your syllabus. Selective or partial preparation can be a major bottleneck in your performance in the examinations. Keep testing yourself by writing in exam conditions at home or at mock test organized by the branches and regional councils which not only give you fair idea of your preparation but also help in answering effectively in the examinations.

An effective approach will enable you to enter the examination room with realistic expectations of the type of questions, possess ability to use your time judiciously and demonstrate the knowledge that you have acquired. Remember, your fate lies in what you do now. Buddha said – *“I do not believe in a fate that falls on men however they act; but I do believe in a fate that falls on them unless they act.”* Chartered Accountancy is essentially a course of self-study, and requires a disciplined approach with structured, systematic and detailed preparation.

The Board of Studies is providing you with enough material for your preparation. Read the study material and practice manual. To help you in your efforts we have already published the Suggested Answers to the questions set in May 2016 Examinations and the Revision Test Papers (RTPs) for November 2016 Examinations.

In this issue, we are also publishing the Examiner's Comments on the performance of examinees who have appeared in the May 2016 Examinations. These are based on the actual performances of the examinees and accordingly can help you to identify common mistakes committed and avoid them. You should definitely read them. With proper planning and execution, the examination is not hard to crack.

Success in the CA course opens doors to vistas that are very exciting in terms of professional challenges and global reach. ICAI is helping in creating new opportunities for the members and helping them with placement. In the August-September, 2016 campus placement programme, nearly 100 organisations are participating to select newly qualified Chartered Accountants. I am sure with the emerging opportunities all Chartered Accountants will certainly attain their professional goals and realize their dreams.

New opportunities are also available with the changes in the professional environment. The process of IndAS adoption has already started from April this year. The work paving way to GST implementation from April 2017 is also progressing very fast. It is inspiring that the Hon'ble President of India Shri Pranab Mukherjee recently gave assent to the much-awaited Constitution Amendment (GST) Bill after it was ratified by more than half of the States across the nation. These developments will create more and more opportunities for the accounting professionals including the new pass outs.

Before I conclude, I, on behalf of the Institute, would like to pay rich tributes to the Father of the Nation, Mahatma Gandhi, on his 147th birth anniversary on October 2, 2016. Mahatma Gandhi was a great soul who inspired the world with his faith in truth and justice for all mankind. He was loved even by those who fought against his ideals to bring about peace with non-violence. **Dr. Martin Luther King, Jr. rightly said, “If humanity is to progress, Gandhi is inescapable. He lived, thought, acted and inspired by the vision of humanity evolving toward a world of peace and harmony.”**

Yours sincerely,

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

VICE PRESIDENT'S COMMUNICATION ||



My Dear Students,

As the nation pays tribute to Father of the Nation, Mahatma Gandhi on his 147th birth anniversary on October 2, we must sit back and ponder at the values and principles that he stood for all his life. Truth, non-violence, austerity, minimalistic and simple life style, perseverance, strength of character was his hallmark. He is one of the greatest leaders who have shaped and influenced world's history. With his unshakable faith in himself and the people, humility, conviction and love for the nation, he showed the world that true strength lies not in brawn but brain, not in controlling but serving the people, not in revenge but forgiveness and not in changing the world but changing yourself. He once said: ***"I claim to be an average man of less than average ability. I have not the shadow of a doubt that any man or woman can achieve what I have, if he or she would make the same effort and cultivate the same hope and faith."*** The message is loud and clear that even a person with average skills can achieve amazing feats provided he is committed and makes consistent efforts towards his goal. As a student, you must imbibe these qualities to achieve success in all your endeavors; this only would be a worthy tribute to the revered leader.

It is time again for you to gear up for studies. You must read the study material thoroughly and other publications from the Board of studies like 'How to face CA Examinations' to take valuable cues and hints for exhaustive preparation. Apart from publications, you must go through online resources like 'Suggested Answers' for the May 2016 exam, 'Revisionary Test papers' and 'Practice Manual' for all the subjects, online lectures, e-learning modules and interactive mentoring sessions by the in house faculty. Do not forget to go through 'The Examiner's Comments' on students' performance in the last exam, published in the latter pages of this issue. To get the ball rolling, devise a daily regimen for studies so that you utilize your time most productively, as each day counts. Remember, meticulous planning and its judicious execution can only guarantee success.

As a student, you must be aware of your capabilities, strengths and weaknesses. You must decide in the beginning itself whether you intend to attempt both groups or single group. You must realize that you cannot model your preparation on someone else's study regime. You have to customize the schedule as per your own capabilities. Based on the same, you must set daily and weekly targets and strive to achieve them so that you have ample time for revision towards the end of the month. As a reality check, you must attempt mock tests organized by the regional councils and branches, as there is no better way to assess your preparation. The exercise would help to identify gaps in your preparation that you can rectify during revision.

You must remember that extensive preparation alone will not see you through, you have to write effectively to communicate the answers to fetch good marks. Many a times, students despite making best efforts are not able to qualify, reason being poor expression and lack of planning to utilize the given time of three hours and fifteen minutes during examination. As a student, you have to realize that your answer represents your knowledge therefore good writing skill is imperative for a good score. You must train yourself to write extensively by practicing revisionary test papers in the given time stipulation of three hours. The exercise not only exhorts you to complete your paper but also prepares you psychologically for the exam.

Most importantly, you must take care of your physical and mental health. Eat healthy and take liquids at regular intervals while studying. Although a little stress is good for preparation but fretting too much will be detrimental. Take proper rest as this helps to de-stress your mind and stimulates retention. Lastly, have a positive attitude, believe in yourself and do your best. Remember: ***"If you focus on result, you will never change; If you focus on change, you will get result"***

October is the month of festivities and celebrations. My heartiest warm wishes to all of you, your family members and friends on the occasion of forthcoming Dussehra, Deepawali and Govardhan Puja. This year, on the festival of lights let us resolve to light the *Diya of Knowledge* and brighten everybody's life.

Best Wishes,

Yours sincerely,

A handwritten signature in black ink, reading "N. S. Vikamsey". The signature is fluid and cursive, with a long horizontal stroke at the end.

CA. NILESH S. VIKAMSEY
VICE PRESIDENT
ICAI, NEW DELHI



My Dear Students,

Let us all together offer our rich tributes to the Father of the Nation, Mahatma Gandhi, on his 147th birth anniversary on October 2, 2016. Mahatma Gandhi inspired the world with his faith in truth and justice for all Mankind. He was a great soul who loved even those who fought against his ideals to bring about peace with non-violence. Gandhiji transformed the minds of millions to fight against injustice with peaceful means and non-violence. His message was as transparent to his enemy as it was to his followers.

We take this opportunity to convey our best wishes to those preparing for the November 2016 Examinations. Since the exams are fast approaching, you all should intensify your preparations. The period just before the exams is really tough. *"It's always darkest before dawn"*. However, you should not allow the pressures of study, preparation and examinations to deter you. You must remain calm, focused and motivated.

Gone are the days when only hard work could get you somewhere in life. Today, everyone is looking for people who work diligently, in a smart manner. Hard work may help you to complete your tasks but you may not be able to do so efficiently, and that's where smart work comes into play.

Sometimes, we may see smart workers getting better grades than hard workers and this is because smart workers know how to prioritize their work and manage their time effectively and efficiently. Many students have the misconception that the more number of hours they put into their studies, the better grades they will get. This may not be the case all the time. It is not the number of hours you put in for your studies but how you grasp the concepts and how you present your answer, helps you to ace the exams too..

The Board of Studies of the Institute supplies a wide range of resources designed for your respective

subjects including Study Materials, Practice Manual, Compilation of Suggested Answers, Revision Test Papers etc. If you constantly study the study materials, you can definitely have good scores in the examinations. In case you have not acquired a copy of the latest Revision Test Papers or Suggested Answers, you must get them at the earliest. For your convenience the same are already available at the various branches and regions.

The chartered accountancy course is not tough; if you plan yourself and work effectively and efficiently. According to **Arthur Ashe** *"Start where you are, Use what you have, Do what you can."* What is more important is your commitment, determination and your dedication. Now-a-days, what is haunting the students especially during examination time is anxiety and fear. This state of mind needs to be dealt with very carefully. We would suggest the following simple tips for tackling exams and getting good results.

Make a plan and stick to it: Allocate study time for each paper. Make sure you evenly distribute your time across all your subjects, as you will naturally want to spend time studying the subjects you enjoy rather than the ones you do not. Include a break in your schedule to give your mind a rest. *"Action is the foundational key to all success."* – **Pablo Picasso**

Always arrive early well prepared: The stress of being late, on top of your exam stress can completely ruin your performance. Make sure you arrive sufficiently early to exam centre and with all required materials for exam.

Practice positive thinking: Do not let negative thoughts get in the way of your exam preparation. Once the exam is over, avoid the 'post mortem'. Stay focused and continue with your studies without any gap.

Make time for relaxing: After each exam, give yourself a little bit of time to relax. Even if you have another exam the next day, take a short break. This could be something as simple as spending some time with your siblings or parents. This will help you feel refreshed to prepare for the next exam.

Wish you all the best

CA. BABU ABRAHAM KALLIVAYALIL
CHAIRMAN, BOARD OF STUDIES, ICAI

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SWACHH BHARAT - A STEP TOWARDS CLEANLINESS

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Goods and Service Tax (GST) – An Overview



CA. Kamlesh Vikamsey
Past President, ICAI

Goods and Service Tax (herein after referred to as “GST”) is a major step in the history of the country’s indirect tax regime moving towards one country one tax. This much awaited tax reform seeks to tackle India’s present indirect tax structure which is quite complex in terms of multiplicity in number of taxes, tax rates, exemptions, abatements, threshold limits, filings, assessments, administration etc.



The Constitutional (One Hundred and Twenty Second Amendment) Bill, 2014 introducing GST received the assent of the President on 8th September, 2016 and the same has been notified as the Constitution (101st Amendment) Act, 2016 (hereinafter referred to as “The Constitutional Amendment Act”). This Act amends the Constitution to introduce the goods and services tax (GST) by empowering the Parliament and state legislatures to make laws on GST.

GST Subsumes Multiple Indirect Taxes

GST proposes to subsume the following indirect taxes currently levied by the Central Government (“CG”) and the State Governments (“SGs”)

Central Taxes to be subsumed	State Taxes to be subsumed
◆ Central Excise Duty	◆ State VAT/Sales Tax
◆ Central Sales Tax	◆ Purchase Tax

◆ Additional duties of excise	◆ Entertainment Tax (not levied by the local bodies)
◆ Excise duty under Medicinal & Toiletries Preparation Act	◆ Luxury Tax
◆ Additional duties of customs (CVD & SAD)	◆ Entry Tax (All forms including octroi)
◆ Service Tax	◆ Taxes on lottery, betting & gambling

Goods And Services Covered

GST will be levied on supply of goods and service.

- ◆ All goods and services are covered under GST except Alcoholic liquor for human consumption. Excise duty would be levied by the SGs on production and VAT would be levied by the SGs on sale of liquor for human consumption.
- ◆ Five Petroleum Products, namely, petroleum crude, natural gas, motor spirit (petrol), high speed diesel and aviation turbine fuel would be brought under GST from date to be notified on recommendation of GST Council. These five petroleum products continue in the Union list of article 246 of the constitution of India for excise duty & State List for VAT. Other Petroleum products like LPG, Naphtha, Kerosene, fuel oil, etc. would be covered under GST.
- ◆ Tobacco Products are covered under GST and the CG is empowered to levy Excise duty on the same over and above GST.

Dual GST Having Two Concurrent Components

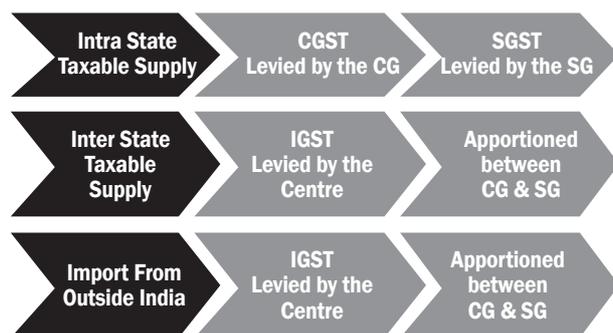
Parliament and state legislatures will have concurrent powers to make laws on GST. Only the Centre may levy an integrated GST (IGST) on the inter-state supply of goods and services, and imports.

- ◆ In case of intra-state supply of goods and services, the CG would levy Central Goods and Service Tax (Hereinafter referred to as “CGST”) and the

ARTICLE

state governments would levy State Goods and Service Tax (Hereinafter referred to as “SGST”). Such CGST and SGST would subsume the existing central excise duty and service tax levied by CG as well as VAT and certain other state level taxes currently levied by the SGs.

- ◆ In case of inter-state supply of goods and services, the CG would collect IGST and it shall be apportioned between the union (CG) and state governments in the manner recommended by the GST Council. This subsumes the existing CST levied by the CG.
- ◆ In case of import of goods and services into India, the CG would collect IGST and it shall be apportioned between the Union (CG) and SGs in the manner recommended by the GST Council. This subsumes the existing additional customs duty i.e. CVD and SAD levied by the CG.



Destination Based – Supply Based Tax

- ◆ GST shall be levied on “supply” of goods or services or both as against the existing multiple points of indirect taxation on manufacture of goods, sale of goods or provision of service

GST Rates

- ◆ The rate of GST for various goods and services would be based on the recommendation of the GST council.
- ◆ It is proposed that the rates of tax would be broadly categorized into:
 - ❖ NIL rate
 - ❖ Merit rate for essential goods and services
 - ❖ Standard rate for goods and services in general
 - ❖ Demerit rate for undesirable goods & services
 - ❖ Separate Tax rate for precious metals.
- ◆ They propose **Revenue Neutral Rates (RNR)** i.e. rate/s that will give at least the same level of revenue, which the CG & SGs are presently earning from Indirect taxes and that will enable to compensate the revenue loss to states.
- ◆ The CG will compensate the SGs for 100% of their revenue losses for first 5 years from the implementation of GST.
- ◆ Chief Economic Advisor (CEA) Panel had hinted at band of 16.9%-18.9% whereas the National

Institute of Public Finance and Policy (NIPFP) had hinted at a rate of around 22%. These were however based on 2013 data. The Finance Minister and the Revenue Secretary have in a recent press meet stated that:

- ❖ This will depend on calculations of revenue base of Centre & States based on updated data of tax collected in past 2 years & compensation of loss to States
- ❖ 85% revenue of Centre comes from standard rated items (i.e. 12.5% excise duty) and 62% revenue of States comes from their standard rates (i.e. 14.5% VAT). In all, about 65-70% revenue of Centre & State come from those items where total tax incidence is 27%. To what extent this rate can get down due to efficiency gain of GST is something that the GST Council will decide
 - ★ This is a question of calculation
 - ★ Media report of 18% - Premature calculation
- ❖ Service tax, currently levied @ 15%, cannot bear a sudden rise in rate
- ❖ Revenue Neutrality to be kept in mind
- ❖ There is a need to balance.

Seamless Input Tax Credit

- ◆ GST seeks to levy tax on value addition at each stage of the value chain and remove the cascading effect of tax and possibility of double taxation by providing seamless input tax credit across the country.
- ◆ Input tax credit on account of IGST shall first be utilized towards payment of IGST and the amount remaining, if any, may be utilized towards the payment of CGST and SGST.
- ◆ Input tax credit on account of CGST shall first be utilized towards payment of CGST and the amount remaining, if any, may be utilized towards the payment of IGST.
- ◆ The input tax credit on account of CGST shall not be utilized towards payment of SGST.
- ◆ The amount of input tax credit on account of SGST shall first be utilized towards payment of SGST and the amount remaining, if any, may be utilized towards the payment of IGST.
- ◆ The input tax credit on account of SGST shall not be utilized towards payment of CGST.

Input Tax Credit	Order of utilization	Allowed against output tax	Not Allowed against
IGST	↓	IGST CGST SGST	-
CGST	↓	CGST IGST	SGST
SGST	↓	SGST IGST	CGST

“ **The Government is in process of setting up robust IT based systems for GST encompassing simple e-registration, e-payments, common e-Return for CGST, SGST & IGST, system based validations / consistency checks on the Input Tax Credit (ITC) availed, tax refunds, etc.** ”

Integrated IT-Based Compliance and Administrative System

The Government is in process of setting up robust IT based systems for GST encompassing simple e-registration, e-payments, common e-Return for CGST, SGST & IGST, system based validations / consistency checks on the Input Tax Credit (ITC) availed, tax refunds, etc.

◆ E-Registration under GST

The Government has already initiated the process of collecting data of the existing registered dealers under the VAT, Excise and Service tax laws so as to auto register the assessee under the GST law without any further compliance.

The key features of the registration process for the new dealers under GST would be as follows:

- ❖ A simple PAN based registration procedure
- ❖ A GST identification number will be allotted to the applicant assessee
- ❖ Deemed registration in case no query is raised within 3 days
- ❖ A verification may be initiated post registration by the department in certain cases.

◆ E>Returns with auto-population and auto-validations of Input Tax credit

The key features of the returns proposed for the dealers under GST are as under:

- ❖ The dealers would file a common return for CGST, SGST and IGST
- ❖ The dealers submitting returns under GST would be categorized into:
 - ★ **Business to Consumer (B – C) dealers** having intra-State transactions will have to file:
 - A Simple return
 - No transaction-wise details would have to be provided – dealers are required to provide only basic details such as turnover, etc.
 - ★ **Business to Business (B – B) dealers** with inter-State & intra-State transactions will have to file four returns, namely:
 - **Sales register** stating transaction-wise

- sales to be filed by 10th of next month.
- **Purchase register** stating transaction-wise purchase details will be auto-populated by 15th of next month based on the sales register filed by sellers (similar to Form 26AS as in case of TDS). In case any purchases are not auto picked the same can be modified and filed by the assessee.
- **Monthly return** that is required to be submitted by the assessee in GST will be auto populated.
- **Annual Return** that is required to be submitted by the assessee in GST will also be auto populated.

★ Small Taxpayers can opt for Composition Scheme – Quarterly Returns

- ❖ The supplier’s and recipient’s invoice details will be matched by the system and ITC will be confirmed only after matching of such information. The entire scheme of filing returns will enable auto-validation of input tax credit and in the process check revenue leakages, if any.

Audit & Assessments

The Revenue Secretary in a recent press meet stated that they do not propose dual empowerment and that only one authority would handle a case - either Centre or State. This would involve cross empowerment i.e. if one authority selects a return for audit / assessment, the other will empower the first to assess his part of the tax also. He suggested the following methodology for the same:

- ◆ Both CG & SGs will prepare a list of risk parameters for cases to be picked up for scrutiny, say, 1% or 5% of all the cases. The same can be decided at the beginning of the year or by the GST council
- ◆ Accordingly, the CG & SGs can prepare a list of cases to be picked up for scrutiny for a year at beginning of each year and they can segregate the cases amongst them
- ◆ If one Government (Say CG) is handling a scrutiny case then the other Government (respective SGs) will empower the government assessing the case (i.e. CG) to assess its part of the tax

The Way Ahead For Implementation of GST

The government has three important areas to cover before implementing GST by the target date of April 1, 2017:

◆ Establishment of Legal Framework

The government has crossed the initial hurdle of amending the Constitution by passage of The Constitutional Amendment Bill in both the houses of the parliament which has received the assent of The President after being ratified by more than 50%

of the Indian state legislatures. The GST council has also been set up with the following members - Finance Minister as the Chairperson, Union Minister of State in charge of Revenue or Finance as its member and Finance or Taxation or another minister nominated by each SGs as its member.

Now the GST council has to accomplish the mammoth task of making recommendations to CG & SGs on—

- ❖ taxes, cesses and surcharges subsumed in GST
- ❖ goods and services to be subject to or exempted in GST
- ❖ model GST Laws, principles of levy, apportionment of IGST
- ❖ principles that govern the place of supply
- ❖ threshold limit of turnover
- ❖ GST rates including floor rates with bands of GST
- ❖ special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand
- ❖ or any other related matter.

The following quorum and weightage of votes shall be required for decisions to be taken by the GST council:

- ❖ **Quorum:** 50% of total number of Members of GST council
- ❖ **Voting in GST council:** Every decision requires at least 3/4th of weighted votes of members present as per following principle
 - ★ vote of CG - weightage of 1/3rd of total votes cast
 - ★ votes of all SGs taken together - weightage of 2/3rd of total votes cast

Based on recommendations of the GST council, the parliament will have to pass CGST & IGST laws and the State legislatures will have to pass their respective SGST laws.

- ❖ **Setting up robust IT infrastructure**
A strong IT backbone would be the essence

“ **The Revenue Secretary stated that they do not propose dual empowerment and that only one authority would handle a case - either Centre or State. This would involve cross empowerment i.e. if one authority selects a return for audit / assessment, the other will empower the first to assess his part of the tax also.** ”

for smooth implementation and functioning of GST. For this purpose, government has initiated the process of setting up a sound front-end and back-end IT infrastructure as under:

- ★ **Front-end infrastructure:** Development of front-end infrastructure has been given to a non-profit private company named Goods and Service Tax Network (“GSTN”). The company is ready with 3 software modules for Registration, Return filing & Payment of GST.
- ★ **Backend-end infrastructure:** The CBEC and the SGs (VAT departments) are in the process of setting up their back-end infrastructure. Some SGs have given this to GSTN while others would be developing their own back-end infrastructure

❖ **Change in management**

In this direction, the government has already started -

- ★ Training officers of CBEC & State Government
- ★ Outreach program for business communities – explaining GST provisions to them

Challenges For Implementation of GST

Following are the major challenging areas in the way of implementing GST:

- ◆ Calculation of revenue base of Centre & States to decide RNR rates
- ◆ Requirement of compensation to States
- ◆ List of exemptions and tax-holidays
- ◆ Forming consensus in GST Council on provisions of Model GST Bill after which the Bill will be ready for Parliament & State assemblies
- ◆ Threshold limits
- ◆ Compounding Limits
- ◆ Cross empowerment to mitigate ill effects of dual empowerment

This is a mammoth task before the government to be achieved within the target date of April 01, 2017 which will take our country into a new indirect tax regime and be instrumental in paving way for the following benefits:

- ◆ 1 Nation 1 tax - Development of common national market
- ◆ Reduction in multiplicity of taxes
- ◆ Mitigation of cascading/ double taxation
- ◆ Simpler tax regime & systems
- ◆ Plugging revenue leakages - Improved compliance & revenue collections (tax booster)
- ◆ Broadening of Tax base
- ◆ Ease of doing business in India
- ◆ Reduction in tax rates and cost of goods & services in long run
- ◆ Benefit to business communities, general public & government & thereby boosting economy in the long run ■

Place of Effective Management



CA. Nihar Niranjana Jambusaria
Central Council Member, ICAI

The report on BEPS Action 6 - 'Prevent Treaty Abuse' identifies treaty abuse as one of the most important sources of BEPS concerns. The Report includes proposed changes to ensure prevention of treaty abuse. The Report provides for PoEM Rule as an alternative, but however, it prefers Competent Authority Rule over POEM Rule. Read on



◆ Background

- ❖ The scope of income which is subject to tax depends upon the residential status of a taxpayer. Every jurisdiction has a test of residence which is defined in its domestic tax law. Different methods as per the tax laws in their respective jurisdiction are applied to determine the residential status of different taxpayers (individuals, firm, company, etc.).
- ❖ Generally, for a company, the place of incorporation of a company determines its residency. For example, USA regards test of

incorporation as the test of residency. However, many companies "artificially escape" the residential status by incorporating in a low tax jurisdiction while it continues to be virtually controlled from another jurisdiction. In order to tackle this, the concept of 'control and management (C&M)' or the 'place of effective management (POEM)' of a company is evolved. Under this test, a company which is controlled and managed in a country may be considered to be a resident of that country irrespective of where the company is actually incorporated.

- ❖ Prior to the substitution of section 6(3) of the Income-tax Act, 1961 by the Finance Act, 2015, a company was regarded as resident in India, if it is incorporated in India or whole of the control and management is situated in India during the relevant previous year. The Finance Act, 2015 has substituted the said section w.e.f. AY 2016-17 and provides that a company is resident in India, if it is incorporated in India or its Place of Effective Management (POEM) is in India in that particular previous year. It further defines the term 'POEM' to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made.
- ❖ Once a company is treated as an Indian resident, the consequence would be that its global income will be subject to tax in India. Many overseas subsidiaries are created for the purpose of facilitating business activities like fund-raising and do not have any operations of their own. Such companies may be especially impacted as a consequence of the said amendment.

- ❖ Internationally, the concept of PoEM for determining residency of a company is not new. For instance, countries like Switzerland, Germany, China, South Africa, Italy, Russia etc. have PoEM as one of the criteria for determining residency of a company. The OECD and UN commentary have also provided clarification and definition on the concept of PoEM.

◆ Draft PoEM guidelines

- ❖ The CBDT has issued draft guidelines on PoEM. These guidelines will be effective after public comments are considered by the CBDT and the final guidelines are issued.
- ❖ The concept is one of substance over form.
- ❖ The draft norms also distinguish between active business outside India and passive income for the purpose of determination of PoEM.
- ❖ An entity may have more than one place of management but it can have only one POEM at any given point of time.
- ❖ PoEM needs to be determined on a year on year basis for determining residence.
- ❖ If during the previous year PoEM is in India as also outside India PoEM shall be presumed to be in India if it was mainly/ predominantly in India.
- ❖ Day to Day routine operational decisions undertaken by junior and middle level management shall not be relevant for the purpose of determination of PoEM.
- ❖ A company is said to be engaged in Active Business Outside India (ABOI) if it fulfils the cumulative conditions of:
 - ★ Its **passive income** is 50% or less of its total income; and
 - ★ In respect of each of the following, the threshold is less than 50%:
 - Its total assets situated in India.*
 - Total number of employees situated in India or residents in India.*
 - Payroll expenses incurred on such employees compared to total payroll expenditure.*

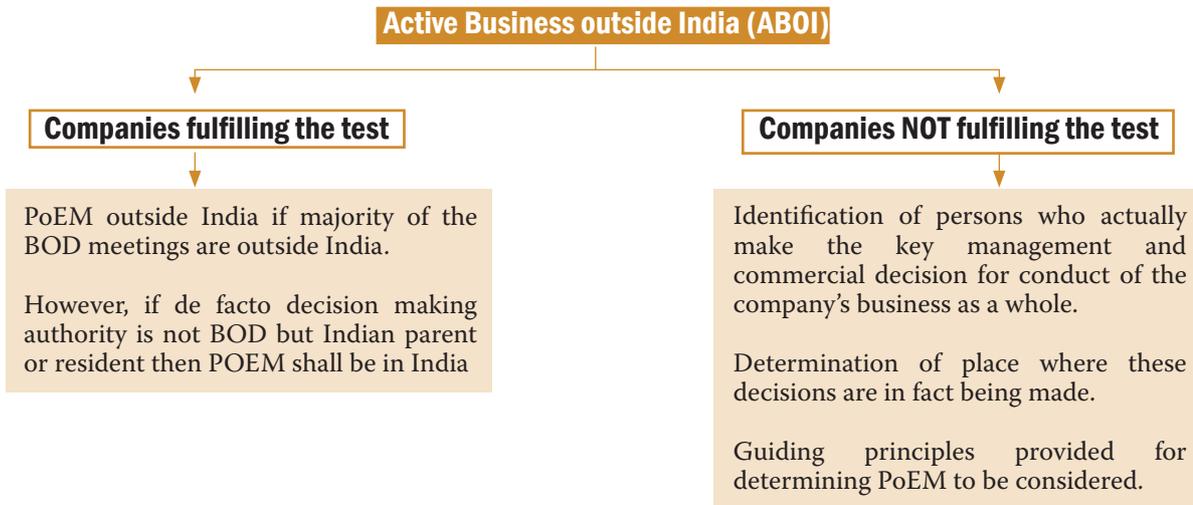
An average of the above data of the previous year and two years prior or shorter period for which company has been in existence needs to be taken into account for the ABOI test.
- ❖ The passive income of a company is the aggregate of –
 - ★ Income from the transactions where both, the purchase and sale of goods, is from or to its AEs.
 - ★ Income whether or not involving AEs by way of –

“ In case the Assessing officer (AO) proposes to hold a company incorporated outside India, on the basis of its PoEM, as being resident in India then any such finding shall be given by the Assessing officer after seeking prior approval of the Principal Commissioner or the Commissioner, as the case may be, in this regard. ”

- Royalty
- Dividend
- Capital gains
- Interest
- Rental income

- ❖ If the foreign company qualifies the ABOI test, its POEM is presumed to be outside India if majority Board of Directors (BOD) meetings of the company are held outside India.
- ❖ However, if the facts and circumstances establish that the BOD is not the de facto decision-making authority but such powers are being exercised either by the Indian parent or any other person resident in India then PoEM shall be considered to be in India.
- ❖ For companies other than those engaged in ABOI, determination of PoEM is a two-stage process:
 - ★ Identification or ascertaining the person or persons who actually make the key management and commercial decision for conduct of the company’s business as a whole.
 - ★ Determination of place where these decisions are being made.
- ❖ PoEM cannot be considered to be in India merely because-
 - ★ The foreign company is completely owned by an Indian company.
 - ★ One or some of the directors of a foreign company reside in India.
 - ★ Local management in India is in respect of activities carried out by a foreign company in India.
 - ★ There exists in India support functions that are preparatory and auxiliary in character.
- ❖ In case the Assessing officer (AO) proposes to hold a company incorporated outside India, on the basis of its PoEM, as being resident in India

then any such finding shall be given by the Assessing officer after seeking prior approval of the Principal Commissioner or the Commissioner, as the case may be, in this regard. The Principal Commissioner or the Commissioner shall provide an opportunity of being heard to the company before deciding the matter.



- ❖ The concept is new to our country. Based on the understanding of the concept under tax treaties and its interpretation in other countries, keeping in view the space constraint, illustrative do's and don'ts in genuine cases are listed below.

Do's	Don'ts
❖ Documents relating to incorporation of the entity should give power to Board to control and manage company.	Parental control should be as shareholder. The authority should be limited to the statutory role to the extent possible.
❖ Veto powers to parent or the promoter should be avoided in respect of matters which are key to the control and management of the entity.	
❖ Directors should be persons who are competent and independent.	Directors should be privy to acting as per instructions which are furnished by Groups without consulting the BOD.
❖ Majority of the directors should be from jurisdiction of company residence.	
❖ The directors must preserve their travel records and other select documents appropriately.	
❖ Preferably, physical meeting in the jurisdiction and at the registered office or the Board room.	In respect of occasional meetings outside the jurisdiction, avoid listing of significantly sensitive and important items having long term policy impact on the company, on the agenda.
❖ The Board meeting should be well announced.	
	Avoid routine and repetitive minutes of the Board meeting for meet after meet.

❖ The agenda of the Board meeting should be properly circulated together with supporting documents.	Delegation and grant of discussion should be well controlled and supervised.
❖ There should be proper review of the significant policy items, critical items and its relevance/significance to the company.	
❖ The matters in the Board meeting should be well debated and the minutes should capture the discussion which transpires at the meetings. The minutes should corroborate and reflect that the decisions are taken on an informed basis.	
❖ The company must have a fixed address or premises under its exclusive domain.	Mail trail/ documents must not contradict the claim.
❖ The company secretary should preferably belong to the jurisdiction of residence.	
❖ The registered office should be in the country of residence. The corporate records, minute books, books of account, etc. should be kept at the corporate office in the jurisdiction.	
❖ The corporate records, minute books, books of account, etc. should be kept at the corporate office in the jurisdiction.	
❖ The custody of assets should be with the officials of company.	
❖ There should be proper compliance with the procedure eg. dispatch of the notice convening the meeting, maintenance of the minutes, audit of accounts, etc.	
❖ There should be business assets and operations in the jurisdiction.	
❖ Obtain Tax Residency Certificate from the jurisdiction of residency.	
❖ All commercial decisions must be taken from the country of jurisdiction.	

However, the above mentioned points are only illustrative safeguard measures. Specific course of action would depend on the facts of each case.

◆ **Base Erosion and Profit Shifting (BEPS) and PoEM**

❖ The report on BEPS Action 6 - 'Prevent Treaty Abuse' identifies treaty abuse as one of the most important sources of BEPS concerns. The Report includes proposed changes to ensure prevention of treaty abuse. The Report provides for PoEM Rule as an alternative, but however, it prefers Competent Authority Rule over POEM Rule.

PoEM Internationally perspective

❖ The United Nation (UN) Model Convention also provides the tie breaker rule for determining residence of a dual resident company which is based on the PoEM of that company in a particular jurisdiction. As per

the UN commentary, factors which may help in determining PoEM of a company are as under:

- ❖ Place where a company is actually managed and controlled,
- ❖ Place where the decision-making at the highest level on the important policies essential for the management of the company takes place,
- ❖ Place that plays a leading part in the management of a company from an economic and functional point of view, and
- ❖ Place where the most important accounting books are kept.
- ❖ Though UN Model commentary does not provide meaning to the term PoEM, it provides illustrative list of factors which may establish a PoEM of a company.

◆ **Conclusion**

As per the guidelines, a company is said to have a POEM where the BOD controls the management and commerce of a company. The challenge lies in establishing the same. ■

GST Guide for Revising Supply Chain



Dhrumil Shah

Student of ICAI. Reg.No. WR00492134

Ending all the speculation about the fate of GST, finally the 122nd Constitutional Amendment after being passed by both the Houses of Parliament and ratified by the required number of States, has received the assent of the President of India. This passage in itself is a very big leap which India has taken after discussion for almost a decade on viability of GST. Prime Minister Narendra Modi has described GST as Great Step towards Transformation.

The need and importance of GST lies in the inefficiencies of present indirect taxes. The present tax structure has emerged with the introduction of various levies at different point of time having different taxable events. Dual governance structures of Central and State bodies have added more difficulties in complying the indirect taxes. All these have lead us to a complicated, inefficient and a cascading tax structure. The idea of GST has been emerged to subsume most of the indirect taxes into GST to make comprehensive, simple and fully integrated tax structure with only one taxable event. The prime goal of the GST is to make the country as a single unified market, regardless of the State boundaries.

Introduction of GST will have far reaching impact on the trade and industries. The major impact appears to be on supply chain aspect of businesses. Structures which are designed to avoid the tax will require re-look in light of the change in taxable events in GST regime.

Presently, on the intra-state sale of goods local VAT is leviable and on inter-state goods Central Sales Tax is leviable. Normally, the credit of VAT paid on purchase is available with the purchaser. However, CST paid on purchase would form part of the cost. The taxable event for both VAT and CST levy is sale. To mean, supply by factory to warehouse or branch is not liable to VAT or CST as there is no transfer of property by one person to other.

In light of the above background of present taxes, businesses prefer to purchase the goods in local VAT instead of buying them on payment of CST. To cater such preference, it has been very common practice to establish a branch in all such States where an entity has a substantial business. Nevertheless, various costs are associated with this model of sale through a branch such as

- ◆ Cost of establishment of branch
- ◆ Cost of loading unloading of goods at the branch and additional transportation
- ◆ Maintenance cost

- ◆ Input Credit reversal in the State from where the goods are supplied on stock transfer basis

In the GST regime, the taxable event will be supply. This shift in taxable event has significant implication on supply chain as the existing supply chain has been established considering 'sale' as a taxable event. In order to assess the broad level impact on supply chain, it would be pertinent to understand the scope of supply in view of the GST Model Law.

Model GST Law ('model law') specifies the meaning and scope of term supply. From review of the provision, it could be observed that the scope of supply covers all forms of supply of goods / services such as sale, transfer, barter, exchange, license, rental, lease or disposal made or agreed to be made for consideration in the course of or furtherance of business. The scope further encompasses deemed supplies as well as supplies without consideration. One of the entries relevant for the discussion which has been deemed as supply without consideration reads as follows;

“Supply of goods and / or services by a taxable person to another taxable person or non-taxable in the course or furtherance of business”

Though the above entry does not capture stock transfer transaction explicitly, if we analyze the entire model law, it is the only entry which can possibly cover the stock transfer transaction into the ambit of supply. Since the registration under GST would be based on PAN and is also State specific, assessee having presence in multiple States would have to obtain all different registration for each State. Therefore, assessee supplying goods from one State to its branch located in other State would be considered as supply of goods by a taxable person to another taxable person and in turn would be liable to GST. Not only that, an option has been given to assessee to take different registration in the same State if operating in multiple verticals. In that case, it would be vital to analyze

“ Introduction of GST will have far reaching impact on the trade and industries. The major impact appears to be on supply chain aspect of businesses. ”

whether the Intra-State supply by one business vertical to other business vertical would also be chargeable to GST.

Having determined the taxability, it would be pertinent to understand the valuation mechanism for payment of GST in case of branch transfer. The model law provides that value of goods supplied shall be the transaction value. Nevertheless, if the supplier and receiver are related, the value must be determined in terms of valuation rules, which have also been published as a part of model law. As per GST Valuation Rules, when goods are transferred from one place of business to another place of the same business, the value of such supplies would be the ‘transaction value.’ Normally, stock transfer does not involve any consideration to be paid by one branch to other. In such case, ambiguity may exist on how to value the stock transfer for the purpose of payment of GST and hence value will be required to be determined in light of the valuation methods.

Additionally, the prescribed valuation methods are likely to give rise to unending litigation and disputes as the authorities are given indefinite power to reject the value declared or determined by assessee. Since the model law has been put up for public comment, we would suggest to remove the ambiguity prevailing in the method

to be adopted for the stock transfer cases, and prescribe a suitable and practical method of valuation like cost plus method.

Though, it is to be kept in mind that the GST paid on supply to a branch would be fully creditable and therefore stock transfer would not involve any additional cost except the cost of working capital blockage for the time being.

From the discussion enumerated above, it could be observed that GST will eliminate the need to have state wise branches to avoid CST and the associated paperwork. In view of this, organizations having presence across the country would be advised to reduce the number of warehouses for various reasons, some of which are listed below for clarity.

- ◆ State wise warehouses / branches will no longer be required to save CST Cost
- ◆ Costs saving associated with the branches
- ◆ Improving efficiencies
- ◆ Having better control on inventory movement
- ◆ Reduction of the unnecessary blockage of working capital, which would otherwise happen by way of payment of GST on Stock transfer

Nevertheless, it is very important to understand that the major factor behind the design of the supply chain of any organization will not be tax but business strategy. And therefore, no company can afford to consolidate all its warehouses due to various business constraints. To what extent the revision will be required under GST regime will depend on case to case basis. In a nutshell, it could be concluded that GST is a golden opportunity to optimize the supply chain purely on the basis of business strategy. ■

CROSSWORD SOLUTION - SEPTEMBER 2016											
1F			2L	3I	4N	E			5J	O	6B
7O	8D	9D		10N	O		11I	12C	I	C	I
13N	R	I		K		14O	R	A	L		D
15T	A	V	E		16A	D	E	P	T		S
	W	I		17D				A			
18I	N	D	19E	F	20I	N	I	T	21E	22L	23Y
F		24E	X	I	M			25I	A	G	O
26S	27I	N	E		F		28O	V	R		G
29C	C	D	M			30U	A	E			A
	D		31P	32O	33I	N	T		34N		
	S		35T	F	P			36J	O	B	S
			37F	O	R	W	O	R	D		

Some Essentials for Preparation: November, 2016 Intermediate (IPC) Examination Paper 4: Taxation

In order to ensure clarity as regards the applicability of provisions of income-tax and indirect taxes for November, 2016 Intermediate (IPC) Examination, as well as the BOS publications relevant for the said examination, the details regarding the same are briefed hereunder:

I-Applicability of Finance Act, Assessment Year etc. for November, 2016 Examination

- (1) The amendments made by the **Finance Act, 2015** in income-tax and indirect taxes;
- (2) The provisions of income-tax law as applicable for the **assessment year 2016-17**;
- (3) The significant **notifications and circulars issued upto 30th April, 2016** (income-tax and indirect taxes).

II- BOS Publications relevant for November, 2016 Examination

	Publication	Edition	Objective & Content
1	Study Material (and Practice Manual) on Paper 4 : Taxation		
	Study Material (Part I: Income-tax & Part-II: Indirect Taxes) (Modules 1, 2 & 3) (Tax laws as amended by the Finance Act, 2015) (Thoroughly revised and updated)	September, 2015	<p>The Study Material for Part I: Income Tax is based on the provisions of the Income-tax Act, 1961, as amended by the Finance Act, 2015 and applicable for A.Y.2016-17. It is divided into three modules.</p> <p>The Study Material for Part-II: Indirect Taxes is based on the indirect tax laws as amended by the Finance Act, 2015.</p> <p>Study each topic of your syllabus thoroughly for conceptual clarity. The aim of the Study Material is to build a strong conceptual base by explaining the complex tax laws in a lucid manner.</p>
	Practice Manuals (Part I: Income-tax and Part II: Indirect Taxes) (Thoroughly revised and updated) (Questions adapted/ modified and solved on the basis of the provisions of law as amended by the Finance Act, 2015)	Part-I: Income Tax (October, 2015 edition) and Part II: Indirect Taxes (September, 2015 edition)	<p>Each question/problem on income-tax contained in the Practice Manual of Part I: Income Tax has been adapted/modified and solved on the basis of the provisions of law applicable for A.Y.2016-17. The amendments made by the Finance Act, 2015 have been taken into account.</p> <p>The Practice Manual has also been grouped chapter-wise and contains a variety of questions and problems in each topic for the better understanding and application of the concepts explained in the Study Material.</p> <p>In the Practice Manual of Part-I: Income tax, questions set at the past PE-II, PCC, and IPCC level examinations of chartered accountancy course have been modified/adapted and answered on the basis of the provisions of law applicable for A.Y.2016-17. All questions/problems of the Practice Manual on Indirect Taxes have been answered/ solved on the basis of the provisions of law as amended by the Finance Act, 2015.</p>

	Publication	Edition	Objective & Content
			<p>After reading each chapter in the Study Material, try to work out the problems in the corresponding chapter of the Practice Manual on your own, and thereafter compare your answers with the answers given therein. This would help you to identify your mistakes and also learn from your mistakes. Further, this process would help in revision of the concepts and principles contained in each chapter of the Study Material and application of the same in problem solving.</p> <p><i>Note – After you complete study of the entire syllabus content, solve all the questions in the Practice Manual once again to make sure that there are no grey areas</i></p>
2	Supplementary Study Paper - 2015 (Taxation) [A discussion of amendments made by the Finance Act, 2015 in income-tax and indirect taxes]	July, 2015	<p>This publication explains the amendments made in income-tax and indirect taxes by the Finance Act, 2015 as well as by way of significant circulars and notifications issued between 1.5.2014 and 30.4.2015.</p> <p>It is especially relevant in case you have the earlier edition of the Taxation Study Material (i.e., the October 2014 edition), which is based on the provisions of law as amended by the Finance (No.2) Act, 2014.</p> <p>However, even if you have the latest edition (i.e., September, 2015 edition) of the Study Material, you are still advised to read the Supplementary Study Paper - 2015 for a better understanding of the statutory amendments.</p>
3	Revision Test Paper (RTP) for November, 2016 Examination [Revision material for self-assessment and updation]		<p>In Supplementary Study Paper – 2015, the amendments made by the Finance Act, 2015 and significant notifications and circulars issued upto 30.4.2015 have been discussed. However for November, 2016 examination, the circulars and notifications issued upto 30.04.2016 are relevant.</p> <p>The RTP for November, 2016 examination, therefore, contains the significant notifications and circulars in income-tax and indirect taxes issued after the date up to which they are covered in the Supplementary Study Paper-2015 i.e., the significant amendments made by way of notifications and circulars issued between 1st May, 2015 and 30th April, 2016.</p> <p>The RTP would also help you self-assess your preparation by solving the questions contained therein independently and comparing the same with the answers given.</p>
<p><i>Note: All the publications mentioned above have also been hosted at the BOS Knowledge Portal on the Institute's website www.icai.org.</i></p>			

III - Ideal Study Pattern

Steps in Preparation	Objective of study	Relevant Publication
Step I	Study each topic of your syllabus thoroughly for conceptual clarity	Study Material, as amended by the Finance Act, 2015 [September, 2015 edition]
Step II	Understand the rationale and impact of amendments made by the Finance Act, 2015 and significant amendments made by way of notifications and circulars issued between 1.5.2014 and 30.4.2015	Supplementary Study Paper – 2015
Step III	Work out the problems and solve the questions after completing study of each chapter in the Study Material to test your level of understanding of concepts explained in the said chapter. <i>Note – After you complete study of the entire syllabus content, solve all the problems in the Practice Manual once again to make sure there are no grey areas.</i>	Practice Manual [October, 2015 edition – Part I: Income-tax & September, 2015 edition – Part II: Indirect Taxes]
Step IV	Update yourself with the latest developments on the legislative front and self-assess your preparation.	Revision Test Paper (RTP) for November, 2016 examination
Step V	Test your level of preparation by solving the Mock Test Papers hosted on the Institute’s website. Mock Tests are also held at the various regional offices and branches of the Institute.	Mock Test Papers

Forthcoming Conventions/ Conferences for CA students

S. No	Branch/RC	Name of the Programme	Region	Approved Dates
1.	Aurangabad	National Convention	West	25 th -26 th Nov, 2016
2.	Goa	National Conclave	West	30 th Nov-1 st Dec, 2016
3.	Vishakhapatnam	National Convention	South	2 nd - 3 rd Dec, 2016
4.	Ahmedabad	All Regional Students Conference	West	2 nd - 3 rd Dec
5.	Kota	Sub Regional Conference	Central	3 rd - 4 th Dec, 2016
6.	Nashik	National Convention	West	3 rd - 4 th Dec, 2016
7.	Surat	National Convention	West	3 rd - 4 th Dec, 2016
8.	Tirupur	Regional Conference	South	9 th - 10 th Dec, 2016
9.	Bikaner	Sub Regional Conference	Central	9 th - 10 th Dec, 2016
10.	Bangalore	National Convention	South	10 th -11 th Dec, 2016
11.	Gurgaon	National Convention	North	10 th -11 th Dec, 2016
12.	Rajkot	National Conclave	West	11 th -12 th Dec, 2016
13.	Jalgaon	Sub Regional Conference	West	11 th -12 th Dec, 2016
14.	Ernakulam	All India Conference	South	16th-17th Dec, 2016
15.	Bhopal	National Conclave	Central	18 th -19 th Dec, 2016
16.	Mumbai	National Convention	West	30 th -31 st Dec, 2016
17.	Chennai	National Convention	South	31 st Dec, 2016 - 1 st Jan, 2017
18.	Hyderabad	International Conference	South	07th- 8th Jan, 2017
19.	Udupi	National Convention	South	13 th -14 th Jan, 2017
20.	Calicut	Sub Regional Conference	South	14 th -15 th Jan, 2017
21.	Trivandrum	National Convention	South	20 th -21 st Jan, 2017
22.	Pune	National Convention	West	21 st - 22 nd Jan, 2017
23.	Bhilai	National Conclave	Central	21 st - 22 nd Jan, 2017

EXAMINATION ||

Examiners' Comments on the Performance of the Candidates- Intermediate (IPC) Examination- May 2016

Paper – 1: Accounting

Specific Comments

Question 1.

- (a) Few examinees could not ascertain the state of completion and state the revenue and profit to be recognized for the year as per AS 7 “Construction Contracts”.
- (b) Handful of the examinees showed lack of understanding of AS 13 “Accounting for Investments” and they could not answer this part of the question.
- (c) Some examinees failed to compute the surplus on revaluation of shop and depreciation to be charged in the Profit and Loss account for the year ended on 31st December, 2015 in accordance with AS 6 “Deprecation Accounting.”
- (d) The treatment of VAT by most of the examinees was incorrect while calculating cost of inventory. Few among them did not consider the allocated administrative costs in the computation of inventory cost. Consequently, they failed to show the correct allocation of cost as per AS 2 “Inventory Valuation”.

Question 2.

Most of the examinees failed to arrive at the correct amount of net goodwill when new company was formed after acquiring assets of A Limited and B Limited. Many among them failed to prepare the initial Balance Sheet of AB Ltd. as required by Schedule III to the Companies Act, 2013.

Question 3

- (a) Most of the examinees were not able to calculate the amount of Purchases and Sales of current year correctly. Hence they did not prepare correct Trading, Profit and Loss Account, Trade Debtors and Trade Creditors Account for the year ending 31.03.2016.
- (b) Some examinees erred in calculation of depreciation of furniture for the year and consequently, they did not give the correct opening and closing balance sheets of the club.

Question 4.

- (a) Majority of the examinees could not compute the correct amount of loss at the time of repossession of two e-rickshaws by NCR Motors and erred in calculation of interest amount for the 3rd year.
- (b) Most of the examinees failed to arrive at the correct amount of cost of debentures converted, loss on sale of debentures and value of closing balance of debentures. Few of them did not give required working notes.

Question 5.

- (a) Most of the examinees could not answer the question.
- (b) Answers of many examinees exhibited lack of basic awareness of Debit and Credit side of the account and

closing balances were incorrectly drawn. They could not calculate the correct product amount and therefore arrived at the wrong interest amount.

Question 6.

Many examinees erred in calculation of goodwill, adjustment for goodwill among partners and computation of proportionate capital of partners. Consequently, they could not give the correct Capital accounts of partners after giving effect to the above adjustments and Balance Sheet of the firm after admission of a partner.

Question 7.

- (a) Few examinees failed to compute the correct amount of purchase consideration as per AS 14 on Accounting for Amalgamations.
- (b) Most of the examinees wrote a short note on Spread Sheet instead of explaining its disadvantages as an accounting tool.
- (c) Few examinees could not calculate the date when payment may be made in one installment resulting in no loss of interest to either party assuming the given base date.
- (d) Some of the examinees could not classify the purchase of business as per AS 3 “Cash Flow Statements” and could not answer whether netting off of aggregate cash flows from disposal and acquisition of business units is possible or not.
- (e) Many examinees were not able to draw up the Debtors Ledger Adjustment Account in the General Ledger from the information available from the books of a trader.

Paper – 2: Business Laws, Ethics and Communication

Specific Comments

Question 1.

- (a) The question deals with liability of a promoter for an offence under section 138 of the Negotiable Instruments Act, 1881. Performance of the examinees in this question was average. Majority of the examinees did not explain the law relating to liability under Section 138 of the Negotiable Instruments Act, 1881. Most of the examinees answered the question with respect to the liability of Mr. Bean without explaining the provisions relating to liability under section 138 of Negotiable Instruments Act, 1881. The answer of the examinees was general in nature and could not understand the question properly.
- (b) Examinees performance was good. Barring a few exceptions, most of the examinees explained the procedure of alteration of Memorandum of Association of the company under Section 13 of the Companies Act, 2013 with the presumption that the company in question was an unlisted company.
- (c) The question dealt with Sustainable Development. Performance of the examinees was above average.

Most of the examinees correctly explained the concept of sustainable development. They also stated the positive approach to environment to be incorporated in development programmes.

- (d) Performance of the examinees in this question was below average. Most of the examinees did not correctly explain the meaning of “Indemnity Bond”. The drafting of the “indemnity bond” was not up to the mark.

Question 2.

- (a) Performance of the examinees was average. The answer of most of the examinees was correct but barring a few exceptions they did not explain correctly the law laid down in Section 27 of the Indian Contract Act, 1872.
- (d) Performance of the examinees was below average. They did not highlight the guidelines for drafting press release i.e. “journalistic style”.

Question 3.

- (a) Examinees’ performance in this part was Poor. They did not state the condition applicable for acceptance of deposits by a company from its members under Section 73 of the Companies Act, 2013. In fact, majority of examinees avoided to attempt this part under choice given in the Question Paper.
- (c) Performance of the examinees in this part was average. They did not explain the concept of “Iron Law of Responsibility”. They also did not state the resulting benefits thereof.

Question 4.

- (a) Examinees’ performance in this part was average. They did not explain properly the differences between “Fraud and Mis-Representation” under Sections 17 and 18 of the Indian Contract Act, 1872.
- (c) Performance of the examinees in this part was average. Barring a few cases, most of the examinees did not explain the law relating to registration of “Dormant Company” under Section 455 of the Companies Act, 2013.
- (d) Performance of the examinees in this part was below average. They did not correctly state the safeguards to be created to eliminate or reduce the threats relating to unethical behavior. The answers of most of the examinees were of generic in nature.

Question 5.

- (b) Examinees’ performance was below average. Barring a few cases, the examinees did not correctly state the submission of documents / information for the purpose of registration of “One Person Company” under the Companies Act, 2013 read with Companies (Incorporation) Rules, 2014.

Question 6.

- (a) Barring few cases, the performance of the examinees was below average. They did not correctly state the guidelines for managing ethics and prevention of whistle-blowing. The answers of most of the examinees were generic in nature.
- (b) Performance of the examinees was good. They correctly answered that Under Section 16 of the EPF & MP Act,

1952, the provisions of the Act are not applicable to the co-operative society in question.

- (c) Apart from a few cases, the performance of the examinees was poor. They have not satisfactorily stated the cases wherein special notice is required under Section 115 of the Companies Act, 2013.
- (d) Performance of the examinees was poor. Barring a few cases, the answers of the examinees were of generic in nature in relation to term “paralanguage”.

Question 7.

- (b) Performance of the examinees, barring a few cases, was above average. Most of the examinees correctly answered both the questions regarding liability on mis-statement in the prospectus under Section 35 of the Companies Act, 2013 but without reasoning.
- (c) Performance of the examinees was poor. The examinees have not correctly stated the rights of consumers in relation to Competition Law.
- (d) Examinees’ performance in this part was below Average. Most of the examinees did not correctly state the functions of interpersonal communication. The answers of most of the examinees were generic in nature.
- (e) Performance of the examinees was poor. Barring a few cases, the examinees did not explain the factors that influence ethical communication.

Paper – 3: Cost Accounting and Financial Management

Specific Comments

Question 1.

- (a) It was a numerical question from the topic Overheads. In this question examinees were asked to calculate ‘Machine hour rate’. In this question average performance of the examinees was observed.
- (b) It was a numerical question from the topic Marginal Costing. Examinees were required to calculate ‘Break-even volume in units’. Performance of the examinees in this question was not satisfactory as most of them failed to understand the meaning and implications of ‘shelf life’ of the product correctly while calculating break-even volume.
- (c) This question was from the topic Time Value of Money, divided into two parts. The first part required the examinees to explain the term ‘Sinking fund’ with its calculation. The second part required the examinees to determine the amount to be deposited to earn a specified rate of interest. This question was well attempted by the examinees and the performance was satisfactory.
- (d) It was a numerical question from the topic Leverages. In this question examinees were asked to calculate all three leverages and EPS. The performance of the examinees in this question was satisfactory as most of the examinees were able to answer the question correctly.

Question 2.

- (a) This numerical question was from the topic Non-integrated Accounts. In this question examinees were required to

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prepare various control accounts under non-integrated accounting system. Performance of the examinees in this question was satisfactory.

- (b) It was a numerical question from the topic Ratio Analysis. In this question examinees were asked to prepare 'Trading and Profit & Loss Account and Balance Sheet' with the help of information provided in the question. Overall performance of the examinees was satisfactory.

Question 3.

- (a) This numerical question was from the chapter Standard Costing with the application of 'Equivalent production unit' concept learnt in Process Costing method. Examinees were required to calculate 'Equivalent units of performance, Actual cost of return, Standard cost of return, Labour cost variances and Overhead variances' for a firm that operates in service sector. Performance of the examinees in this question was very poor as majority of examinees could not solve this question correctly.
- (b) It was a numerical question from the topic Management of Receivables from the chapter Working Capital Management. In this question examinees were required to recommend best credit policy to an entity from three credit policy options studied by a management consultant. The performance of the examinees was not satisfactory as most of the examinees were not able to calculate opportunity cost of investment in receivable correctly.

Question 4.

- (a) This numerical question was from the topic Joint Products & By-Products; examinees were required to apportion joint costs between the two products and calculate cost of production for each product. Most of the examinees were not able to find out selling and distribution cost correctly.
- (b) This numerical question was from the topic Investment Decisions. In this question examinees were required to calculate 'Annual cash flow, Cost of capital, NPV and Discounted payback period'. In this question the performance of the examinees was satisfactory as most of them were able to calculate the above figures correctly.

Question 5.

- (a) It was a theoretical question from the topic Basic Concepts where examinees were required to differentiate between 'Cost control and Cost reduction'. Performance of the examinees in this question was average.
- (b) It was also a theoretical question requiring examinees to write treatment of various costs associated with purchase of material. This question was well attempted by the examinees and the performance was good.
- (c) This was again a theoretical question requiring examinees to distinguish between 'Operating lease and Finance lease'. An average performance of the examinees was observed in this question.
- (d) This theoretical question required examinees to describe three 'Principles relating to selection of marketable securities'. An average performance of the examinees was observed in this question.

Question 6.

- (a) (i) This numerical problem was related to the topic Marginal Costing. In this question examinees were required to suggest the 'Process to be chosen under different process capacities'. Most of the examinees could not answer the complete question. Overall performance of the examinees was average.
- (ii) In this theoretical part of the question, examinees were required to differentiate between 'Fixed budget and Flexible budget'. Performance of the examinees in this part of the question was satisfactory.
- (b) This was a numerical question from the topic Cost of Capital. In this question examinees were required to calculate 'Cost of new debt, preference shares and equity shares, Marginal cost of capital and Amount of capital investment'. An average performance on the part of examinees was observed as very few examinees could answer all requirements of the question correctly.

Question 7.

- (a) In this theory question examinees were asked to explain the 'Cost plus contract with its advantages'. An average performance was observed in this question.
- (b) In this theory question examinees were asked to narrate the 'Objectives of cost accounting'. This question was correctly answered by most of the examinees.
- (c) This was a theoretical question on the topic Fund flow analysis. In the question examinees were required to identify the transactions which would result in inflow/outflow of funds. Performance of the examinees was average in this question as very few of them could identify the all transactions correctly.
- (d) This was a theoretical question requiring examinees to state the principles that should be followed while designing the capital structure of a company. An average performance was observed in this question.
- (e) (i) In this question examinees were asked to explain the meaning of Leveraged lease. The performance of the examinees was not satisfactory in this question.
- (ii) In this question also examinees were asked to explain the meaning of Profit centres. In this part also the performance of the examinees was not satisfactory.

Paper 4: Taxation

General Comments

Overall performance of the examinees in the paper was found to be below the expected level. Their answers depicted poor knowledge of tax laws as well as poor application of statutory provisions. The communication and writing skills of the examinees were also found to be extremely poor.

Specific Comments

Question 1.

- (a) Some common mistakes in this part are –
- (i) Pension being wrongly brought to tax under the head "Income from other sources" instead of "Salaries";
- (ii) Long-term capital gain on sale of listed shares being wrongly considered as chargeable to tax, when the

same is actually exempt under section 10(38);

- (iii) Not providing for exemption of ₹ 3,500 under section 10(15) in respect of interest on post office savings account;
 - (iv) Deduction under section 80C in respect of life insurance premium being allowed in full instead of restricting the same to 10% of actual capital sum assured; and
 - (iv) Deduction under section 80D being wrongly restricted to ₹ 25,000, without considering the higher limit of ₹ 30,000 applicable in case of a resident senior citizen;
- (b) Most of the examinees were not aware of the exemption available to services provided in SEZ unit and thus did not allow deduction of the amount of ₹ 1,50,000 for bill raised for the services provided in SEZ from the total bills raised amounting to ₹ 17,50,000. Further, they wrongly deducted the amount of ₹ 2,00,000 for bill raised but not received from the total bills amounting to ₹ 17,50,000.
- (c) Few examinees wrongly added the VAT paid on local purchases in the cost of raw material instead of taking the same for the purpose of Input tax credit benefit. Also, they committed mistake by wrongly availing the benefit of Input tax credit on purchases liable to CST.

Question 2.

- (a) In sub-part (ii), the examinees, instead of defining the term “assessee” under section 2(7) as per the requirement of the question, have confused the same with the definition of “person” under section 2(31) and mentioned the various categories of persons.
- (b) Few examinees wrongly treated the services provided to UNICEF as chargeable to tax instead of exempt resulting into incorrect amount of taxable services as well as tax payable.

Question 3.

- (a) Sub-part (i) requires the examinees to state the conditions required to be fulfilled by the political party for enjoying exemption of income specified in section 13A. Some examinees have not understood the question properly and have wrongly written the conditions specified in section 12A to be fulfilled by a charitable trust for claiming exemption under section 11 and 12.
In sub-part (ii), some examinees wrongly provided for deduction under section 10AA in respect of Unit B set up in DTA also.
- (c) Though the transaction value of the machinery was correctly worked out by majority of the examinees, few of them wrongly added the installation and erection expenses and value of optional bought out accessories in the price of the machinery while computing transaction value.

Question 4.

- (a) Sub-part (iii) requires the examinees to discuss the taxability or otherwise of house property, transferred without consideration by a member of a HUF to the HUF, in the hands of the recipient, namely the HUF. Some examinees have wrongly applied the provisions of section 47 instead of applying the provisions of section 56(2)(vii) in

answering the question.

- (b) The substantive law relating to the benefit of SSP exemption was correctly explained by a large number of examinees but they failed to mention the two situations in which such SSP exemption is not available.

Question 5.

- (a) Some examinees have applied the wrong rate of depreciation for computers. Further, a few examinees have failed to restrict depreciation to 50% in respect of assets put to use for less than 180 days.
- (b) Though the composition rates applicable to the Air travel agents for the domestic travel and international travel were correctly mentioned by majority of the examinees but invariably it was not stated that such rates would be calculated as a percentage of the basic fare.
- (c) Examinees simply stated the services given in the question to be liable to service tax or not without giving the reasons thereof.

Question 6.

- (a) Some examinees have wrongly set-off loss from specified business covered under section 35AD and loss from speculative business against income from trading business. Hence, their total income calculation was incorrect and they showed only loss from the activity of owning and maintaining race horses as an item eligible for carry forward to A.Y. 2017-18.
- (b) Examinees rightly mentioned the rate of interest payable for delayed payment of service tax, but the period for which such rates are to be applied was not correctly specified by few of them.
- (c) Some examinees misconstrued the due dates for filing of service tax returns with the filing of excise returns. However, the other part for the late fee payable on delayed filing of return was correctly answered by most of the examinees.

Question 7.

- (a) Sub-part (ii) required the examinees to briefly discuss the provisions of section 234B of the Income-tax Act, 1961 for short-payment or non-payment of advance tax. Some examinees were not aware of the provisions of section 234B and hence, their answers were vague and not based on the correct provisions of law.
- (c) Most of the examinees were ignorant of the provisions relating to storage of inputs outside the factory and answered wrongly in a vague manner.

Paper 5: Advanced Accounting

Specific Comments

Question 1.

- (a) Majority of the examinees classified the type of given events as contingencies, adjusting events or non-adjusting events occurring after balance sheet date correctly but failed to elaborate or specify the reasons for the classification in line with AS 4 “Contingencies and Events Occurring after the Balance Sheet Date.”
- (b) Most of the examinees were not able to arrive at the correct

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amount to be provided for in the accounts of the company. They could not give the required treatment for amount of sales tax paid under protest in the final accounts.

- (c) Few examinees could not pass required journal entries for the second year when grant becomes refundable. They were also not able to calculate correct WDV of the fixed asset and depreciation amount to be transferred to the Profit and Loss Account at the end of the year.
- (d) Almost all the examinees were able to calculate amount of total loss but only handful of them could recognize the correct amount of proportionate loss on forward contract to be charged for the current year in the books.

Question 2.

Few examinees could not compute the amount of purchase consideration and cash to be brought in by the partners or to be paid off among the partners. Consequently, they could not prepare the Balance Sheet of new firm and capital accounts of the partners in the books of old firms.

Question 3.

- (a) The answers exhibited lack of knowledge on buy back of shares with respect to different Tests viz. Resources Test and Debt Equity Ratio Test. Hardly few examinees answered the question correctly. Most of them did not comment, whether buy back of shares by the Company was within the provisions of the Companies Act, 2013 or not. They were unable to prepare Balance Sheet after buyback as per Schedule III to the Companies Act, 2013.
- (b) Small number of examinees could not mention the ways by which Redeemable Debentures may be redeemed under the Companies Act, 2013.

Question 4.

Most of the examinees failed to prepare a Statement of Affairs for submission to official liquidator. They were not able to compile and present correct items of Deficiency Account and did not give Statement of Affairs and Deficiency A/c in prescribed formats.

Question 5.

- (a) Few examinees could not calculate the amount of Interest Earned and Provisions and consequently, they failed to prepare Profit & Loss Account of the Banking Company.
- (b) Most of the examinees gave generalised answer instead of writing, could not write short notes on terms of Insurance Business asked in the question.

Question 6.

- (a) Few examinees could not calculate unrealized profit of the department's and manager's commission correctly and hence were not able to calculate correct departmental profits.
- (b) Many examinees could not apply the correct Conversion rate per US \$ for the items of Bangalore Branch Trial Balance in (US \$) and as a result, could not prepare the revenue statement (in US dollars) for the year ended 31st March, 2015 and the balance sheet as on that date of

Bangalore branch as would appear in the books of New York head office of ABC & Co.

Question 7.

- (a) Most of the examinees were able to mention only one or two differences correctly between an Ordinary Partnership Firm and a Limited Liability Partnership (LLP).
- (b) Without explaining definitions of Provisions, Liability, Contingent Asset and Present Obligation as per AS 29, many examinees gave generalized answer.
- (c) Some of the examinees could not write short note on classification of advances in case of Banking Company.
- (d) Most of the examinees correctly mentioned the basis of allocation of common expenditures amongst different departments except the expenditure on PF / ESI contribution.
- (e) Some of the examinees mixed 'Suspension of Capitalization' with 'Cessation of Borrowing Costs' and wrote irrelevant answers.

Paper – 6: Auditing and Assurance

Specific Comments

Question 1.

- (a) **Identification of significant related party transaction outside business** – Examinees generally explained meaning of related party transactions or arm's length transactions but did not mention what an auditor would do when there was an identified significant related party transaction. Instead of writing about inspecting the underlying contracts or agreements, examinees wrote about related parties, fraud etc.
- (b) **Audit Sampling – SA 530** Most of the examinees correctly mentioned the meaning of audit sampling but did not discuss requirements relating to sample design, size and selection of items for testing. Instead of writing about sampling, sample design, sample size and selection of items for testing, examinees explained random sampling, cluster sampling etc. which was not required.
- (d) **Risk related to internal control in IT environment** – Instead of explaining the specific risks related to internal control in an information technology environment, some examinees wrongly discussed about inherent risk, control risk and detection risk.

Question 2.

- (a) **Scope of work of an internal auditor** – Many examinees gave general reasoning and did not discuss the areas other than financial accounting.
- (c) **Evaluating responses to enquiries** – Most of the examinees explained the term inquiry instead of need of evaluating responses to inquiry.
- (e) **Cluster sampling vs Random sampling** – Many examinees did not explain meaning of cluster sampling and random sampling correctly and thus gave wrong conclusion.
- (f) **Error of duplication** Most of the examinees explained meaning correctly but did not mention that error of duplication is a type of error of commission.
- (g) **Substantive procedures do not test account balances**

– Many examinees did not explain that substantive procedure comprises of tests of details and substantive analytical procedures.

- (i) **Auditor's duty to send audit report to members** – Examinees in general have fair idea of the topic but some of them did not mention that sending audit report to members is the responsibility of company.
- (j) **Appointment of CA as tax consultant** – Examinees have fair knowledge of the concept but some of them could not distinguish between tax consultant and auditor.

Question 3.

- (a) **Preliminary Expenses** – Most of the examinees correctly discussed writing off, board's resolution, supporting documents but did not explain that these expenses should be written off in the year of incurring and not to be carry forward for writing off in future years.
- (c) **Floating Assets** Examinees in general have no knowledge of the floating assets and did not discuss vouching of floating assets. Many of them mentioned about floating charge which was not required.
- (d) **Recovery of bad debts written off** – Examinees in general explained few general points related to receipt issued to debtors, review internal control etc., but did not mention special aspects relating to verification of recovery of bad debts written off.

Question 4.

- (a) **Disclosure requirement of current investment** – Most of the examinees did not have any idea of the topic. They only discussed valuation of current investment. Many examinees explained Schedule VI of the Companies Act, 1956 instead of Schedule III Part I of the Companies Act, 2013.
- (b) **Significant matters to be recorded in Audit Note Book** – Many examinees mentioned few general points only. Some examinees wrongly mentioned about permanent audit file and current audit file.
- (c) **Use of flow chart in evaluation of internal control** – Examinees did not discuss important points that are useful to auditor in evaluating internal control.

Question 5.

- (a) **Audit of books of accounts of Partnership Firm** – Examinees discussed only the general points like examination of partnership deed, internal control, goodwill, assets and liabilities etc. Only few examinees emphasized the matters which should be specially considered in the audit of accounts of a partnership firm.
- (b) **Audit programme of a Local Body** – Most of the examinees have no idea of audit programme of Local Body and mentioned irrelevant points like verification of income, expenses, assets and liabilities. Also, some examinees wrote about general audit programme instead of audit program of local body.
- (c) **Precautions to be taken while applying test check technique** – Examinees did not narrate the precautions

to be taken while applying test check technique. They discussed about internal control, classification of transaction, sampling techniques etc. which was not required.

Question 6.

- (a) **Matters to be included in Director's Responsibility Statement** – Examinees discussed few matters only and did not discuss about internal control, going concern, adequate record maintenance etc.
- (b) **Authentication of Financial Statements** – Very few examinees answered this question and those attempted gave general answer.
- (c) **Validity of any transaction** – Examinees mentioned irrelevant points like examine date, period, vouchers of transaction etc.

Question 7.

- (b) **Prohibition on buy-back of own shares** – Examinees in general discussed provisions of buy back of shares i.e. section 68 instead of prohibition on buy back of own shares i.e. section 70 of Companies Act, 2013.
- (c) **Advantages of CAAT** – Examinees did not discuss examples how CAAT will improve audit effectiveness in obtaining and evaluating audit evidence.
- (d) **Changes in accounting policy** – Examinees discussed when changes in accounting policies can be made but discussed in general the disclosure requirements of changes in accounting policy.
- (e) **Recognition of interest on deposit** – some examinees discussed AS - 9 and recognition of interest on deposit on accrual basis but did not discuss all other relevant points.

Paper 7: Information Technology and Strategic Management

Section – A: Information Technology

Specific comments

Question 1.

Being a compulsory question, almost all the examinees answered this question.

- (a) Most of the examinees could explain only one advantage of E-R Diagram. Few explained E-R Diagram instead of mentioning its advantages.
- (b) Most of the examinees attempted this question correctly which was based on examples that utilize Bluetooth technology.
- (c) Only few examinees could write this answer on 'Transmission mode' correctly. Some examinees mentioned about 'Client –Server architecture' and few explained about 'Transmission Media'.
- (d) Most of the examinees explained the 'Components of the Executive Information System'; however few could not explain them.
- (e) In general, examinees attempted this question based on 'Cryptographic Controls'; however concept clarity was lacking. The performance in this sub-part was below average.

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Question 2.

- (a) This question was based on 'Documentation of Information Systems.' Examinees wrote in general about the Documentation, but conceptual clarity was poor. Only few examinees well attempted this question.
- (b) Most of the examinees explained correctly the 'Components of Data Flow Diagram', but could not explain correctly the 'Types of DFD'.

Question 3.

- (a) Most of the examinees could not attempt this question on 'Information Systems Control procedures covering the access safeguards over computer programs' due to lack of conceptual clarity. Only few examinees could answer it well.
- (b) The performance of the examinees in this question based on 'Cloud Computing Architecture' was good. However, some mentioned either about the 'Characteristics of Cloud Computing' or some discussed about the 'Cloud Computing environment' instead.

Question 4.

- (a) This sub-part was based on 'Star Network, its advantages and disadvantages.' Performance of examinees in this question was moderately well.
- (b) The examinees could not understand the concept and very few examinees attempted this question. This part was based on 'Network Security' and 'Major functions and service performed by Physical Layer of OSI Model of Network Architecture'.

Question 5.

- (a) This question was having two parts. First part of the question was based on 'Frame based Expert Systems' in which the performance of the examinees was below average. However second part of the question was on the 'Components of Executive Information Systems' that was the same as Question 1(d) of the question paper. Examinees did attempt this later part well.
- (b) Understanding of the concept on 'Dashboards' and 'Scorecards' was lacking and only few examinees could explain them correctly. The performance was below average.

Question 6.

- (a) Many examinees attempted this question which was based on 'Information Systems Management Controls usually performed by Top Management' but could not write the complete answer. Very few examinees could explain the major functions of the top management.
- (b) The question was based on 'Constraints that need to be taken into consideration while developing a secured Grid Architecture.' It was attempted by many examinees but in most of the cases performance was an average.

Question 7.

- Most of the examinees attempted all parts except in parts (c), (d) and (e); the conceptual clarity was missing.
- (a) This part was based on 'Six Sigma' and the performance of the examinees was average in this.

- (b) Examinees were able to explain 'i-Pod' and the performance was satisfactory.
- (c) This part was based on 'Secure Socket Layer (SSL) and the performance of the examinees was not upto the mark. The conceptual clarity was lacking in this.
- (d) Examinees were not able to perform well in this question which was based on 'Nucleus FinnOne'.
- (e) There was lack on the technical clarity in this question based on 'Storage Virtualization.' The performance was below average.

Section - B: Strategic Management

General Comments

The performance was generally poor as the examinees were not able to provide proper answers with right explanations. The answers reflected under preparation of the subject and lack of conceptual clarity. Some of the examinees have done guesswork to give irrelevant and vague answers. Unnecessary long paragraphs were also written by some examinees without focus on relevant points. There were also issues in communication and presentation skills. Some of the examinees have also left unnecessary spaces in their answers. Issues in spellings, grammar, illegible handwriting and wrong question numbers were also noticed.

Specific Comments

Question 8.

- (a) A substantial number of examinees were not able to explain the areas to be considered while developing logistics strategy. Accordingly, the performance was below average.
- (b) The performance of a majority of examinees was good as the examinees were able to show reasonable understanding of the concept of Total Quality Management.
- (c) A large number of examinees were able to correctly explain benefits of using Strategic Business Units. However, there were also a few examinees who gave incorrect and vague answers.
- (d) Most of the examinees were not able to give proper answers as they lacked clarity on the concept of objectives and goals. Examinees were not able to explain how objectives and goals provide sense of direction to organizational endeavors.
- (e) The performance of most of the examinees was poor as the examinees were not able to explain the concepts of opportunities, influences and constraints while taking strategic decisions.

Question 9.

- (a) Majority of the examinees were able to provide the answers in terms of correctness or incorrectness of statement. Both the parts related to BCG growth share matrix and E-commerce were attempted well by the examinees.
- (b) The performance was below average as many examinees were confused and have provided irrelevant answers.

Question 10.

Examinees were not able to provide expected answers as they lacked proper knowledge. The answers given by them

were very vague. They failed to elaborate the problems that businesses face while changing their culture to adapt to emerging globalized scenario.

Question 11.

- (a) The performance was below average as most of the examinees were not able to properly explain the objectives of pricing strategy for a new product.
- (b) The question was found comparatively tough by the examinees. They lacked conceptual clarity on the role of Enterprise Resource Planning in strategic implementation. The performance was dismal.

Question 12.

- (a) Majority of the examinees were able to present good answers in this simple and straightforward question. Overall the performance was good.
- (b) Most of the examinees had little knowledge of the concept of General Electric Model. They were not able to give proper answers.

Question 13.

- (a) The difference between concentric and conglomerate diversification was not properly brought out by most of the examinees as answers lacked substance.
- (b) The examinees in general were able to distinguish between market development and product development. Performance was good.

Question 14.

- (a) Examinees were not able to explain 'Kieretsus' as a cooperative network.
- (b) Examinees were not clear about the concept of driving forces. Accordingly, answers to the first alternative were vague and ambiguous. However the examinees who chose to explain strategy being partly proactive and partly reactive were able to do reasonable justice to their answers.

Examiners' Comments on the Performance of the Candidates- Final Examination- May 2016

Paper – 1: Financial Reporting

Specific Comments

Question 1.

- (a) Majority of the examinees did not know the difference between capital expenditure and capitalisation of expenses. They mentioned that the capital expenditure (incurred for all phases) should be capitalised. Further, regarding phases I and II, most of the examinees mentioned that since phases I and II became operational during the year, interest should be expensed out, without discussing the impact of time for capitalisation.
- (b) Most of the examinees were not aware of the treatment of negative minority interest. They failed to correctly calculate the amount of minority interest in each of the 5 years.
- (c) Some of the examinees did not know the treatment of Excise Duty/CENVAT credit and allocation of fixed overhead in case of valuation of inventory. While some failed to make distinction between the term 'Replacement cost' and the 'net realisable value'. Few of the examinees while calculating the closing stock, left out the value of raw material and valued only the finished goods.
- (d) A small number of the examinees erred in the calculation of share exchange ratio and the number of shares to be issued by Aqua Ltd. which resulted in their wrong calculation of EPS of amalgamated company.

Question 2.

A few examinees were not able to calculate correctly the purchase consideration on account of mistake in the calculation of equity shares to be issued and hence led to consequential mistakes in drawing the balance sheet.

Question 3.

Most of the examinees erred in the analysis of reserves & surplus of either or both the subsidiary companies resulting into incorrect calculation of cost of control, minority interest and other figures required for preparation of balance sheet. Many also faulted in the adjustment of unrealised profit on sale of inventory among holding and minority interest and in the treatment of proposed dividend.

Question 4

- (a) A few examinees were not able to calculate "expected yield on equity shares" which lead to wrong answer while making valuation of an equity share.
- (b) Most of the examinees had not given correctly the book value of loan at the end of 8th year hence leading to incomplete answer.
- (c) Few of the examinees were only able to classify the nature of transaction/arrangement between 'AXE Ltd' and 'BXE Ltd'. Therefore, majority of the examinees passed wrong journal entries.

Question 5.

- (a) Examinees were not able to calculate the capitalisation rate correctly and so the value of business while some failed in doing the correct adjustment for non-recurring items.
- (b) Majority of the examinees muddled premium paid and premium received, hence could not ascertain provision correctly.
- (c) Some of the examinees passed correct journal entry but could not give the relevant working note to arrive at the figure.

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Question 6.

- (a) Some of the examinees erred in deriving the 'net sales value' and 'raw material consumed value'.
- (b) A few examinees were unable to calculate the revised number of units and new Net Asset Value (NAV) of the fund.

Question 7.

- (a) Most of the examinees failed to arrive at correct capital base, which was instrumental for calculation of the target profit.
- (b) Examinees have given general observation and not accounting provision in support of their answers as to why and when an issue of a preference share is a financial liability or an equity instrument.
- (d) Only few examinees could solve this question correctly. They were confused in explaining the change in depreciation as to change in accounting policy or change in accounting estimate.
- (e) Only some of the examinees answered with reference to Schedule III, while others provided general opinion without substantiating it.

Paper 2: Strategic Financial Management

Specific Comments

Question 1.

- (a) Although performance was very good in this question but some candidates omitted step-wise calculations and also interchanged the formula. Even some candidates could not give proper ranking.
- (b) In this question, overall performance was good. However, some candidates committed mistake in using Present Value Factors.
- (c) In this question, overall performance was above average. Most common mistake was error in the calculation of FCFE, even though correctly calculated the EPS and Cost of Equity. In some cases lack of knowledge of formula for computation of share price was also noticed.
- (d) Overall performance in this question was below average as majority of candidates could not compute the loss/ gain because of confusion in call and put option prices. Even in some cases, question could not be assimilated and broken down for arriving at correct solution.

Question 2.

- (a) In this question, based on the concept of risk in capital budgeting, overall performance was average as some candidates could not calculate correctly the RADR and even some candidates gave decision based on Profitability Index (PI).
- (b) In this question, overall performance was above average. However, some candidates committed mistake in dividing total net asset value by wrong number of units and went wrong for final answer.

Question 3.

- (a) In this question, overall performance very average. Some of the common mistakes were as follows:

- ◆ Cash flow net of taxes was not done.
- ◆ Consideration of release of FD and Tax on Depreciation of terminal year cash inflow not understood.
- ◆ 100% depreciation could not be understood by some candidates.

- (b) Overall performance in this question was of average level as majority of candidates have been able to calculate different share prices but failed to calculate the number of shares to be sold to achieve target income.

Question 4.

- (a) In this question, overall candidates have performed well. However some candidates have failed to calculate the terminal value and have could not computed the correct intrinsic value of stock.
- (b) Although majority of candidates have performed well but some candidates have committed mistake in calculating revised CAPM. Even in some cases, decision on existing scenarios was also found missing.

Question 5.

- (a) In this question, overall performance was average. The most common mistakes found in answers are as follows:
 - (i) Calculation of arbitrage profit without showing proper calculation.
 - (ii) Using the trial and error method to arrive at gain.
 - (iii) Even some candidates answered only in theory without supporting calculations.
 - (iv) Even some candidates were unable to interpret the concept of arbitrage.
- (b) In this question, overall performance was poor. The common mistakes observed in the majority of candidates were as under:
 - (i) Not understood the changes in spot rate and consequent gain/loss as against forward hedging.
 - (ii) Inability to intercept appreciation/depreciation of currency and as a result could not address the issue.

Question 6.

- (a) Overall performance in this question was poor due chain of error some of which are as follows:
 - (i) Errors in calculating PAT and cash flows
 - (ii) Directionless working notes.
 - (iii) Failed to calculate addition to fixed assets and increase in current assets.
 - (iv) Negative operating cash flows could not be arrived at.
- (b) In this question, overall performance was average as most of candidate scored full marks in the first part of question i.e. upto finding the exchange ratio. However, some common mistakes observed in the remaining part of answer are as follows:
 - (i) Some candidates could not be able to calculate the exchange ratio.
 - (ii) "How much should offer" was understood as the number of shares.
 - (iii) Numerator/Denominator interchanged in calculation of exchange ratio and could not solve the required equation.

Question 7.

- (a) In this question, overall performance was average as most of candidates know the concept but some candidates could not differentiate between these two terms.
- (b) Some candidates were analogues as to the terms horizontal and vertical mergers.
- (c) Overall candidates have performed well in this part of question on difference between money market and capital market.
- (d) Overall performance was found of average level as some candidates were confused between 'Risk' and 'Exposure' concepts.
- (e) Only a very few candidates could explain the interface between financial policy and strategic management.

Paper 3: Advanced Auditing and Professional Ethics

Specific Comments

Answer 1.

- (a) **Factors to be considered while Designing Confirmation Request:** Candidates, in general, failed to state all the important factors to be considered while designing the confirmation request and to explain the effect of positive confirmation.
- (b) **Indications of Non compliance with Laws and Regulations:** Candidates failed to mention all the important indications correctly. Some of them discussed the reporting requirement by the auditor in the case of non-compliance instead of indications.
- (c) **Procedure for Forming an Opinion on Audit of Summary Financial Statement:** Majority of the candidates failed to explain the relevant procedure that the auditor may consider necessary as a basis to form an opinion on summary financial statement and instead explained the procedure to audit the same.
- (d) **Considerations for Planning and Performing Audit in case of Special Purpose Framework:** Most of the candidates lacked knowledge of the relevant SA and the factors to be considered in audit in case of Special Purpose Framework and discussed mainly about general audit procedure.

Answer 2.

- (c) **General Steps in the Conduct of Risk Based Audit:** Candidates lacked conceptual knowledge of the topic and instead of explaining the steps in conducting Risk based audit, mentioned and explained types of risk.
- (d) **Auditing Standard of Public Company Accounting Oversight Board:** Very few candidates attempted this question and those attempted lacked knowledge about requirement of the question and discussed only irrelevant points of Sarbanes Oxley Act.

Answer 3.

- (a) **Prospective Financial Information and Underlying Assumptions:** Most of the candidates failed to explain the relevant consideration in assessing the examination of prospective financial information. Some candidates related it to liability of the auditor under professional misconduct also.

- (c) **Plan for Internal Audit:** Candidates, in general, failed to explain the areas to be covered in drawing an internal audit plan and rather discussed about role of internal auditor, internal control and internal check.
- (d) **Decision to rescind the recommended dividend:** Most of the candidates failed to explain the valid reason for rescinding the dividend.

Answer 4.

- (a) **Criminal Liability of an Auditor under the Companies Act, 2013:** Candidates lacked knowledge of the section 447 and 448 of the Companies Act, 2013 and mainly discussed about quantum of punishment and the amount of fine rather than the provisions leading to arising of criminal liability.
- (b) **Non-Compliance of Laws and Regulations & Reporting Requirements:** Most of the candidates failed to explain reporting requirement both as per SA 250 and clause (vii) (a) of Para-3 of CARO, 2015. Some of the candidates explained such non-compliance as per Section 43B of Income-tax Act, 1961.
- (c) **Factors to be considered while planning the Performance Audit:** Most of the Candidates failed to highlight important factors while planning the performance audit, instead treated this to be covered as internal audit of sugar industry and discussed only general points.
- (d) **Stock Exchange Membership Rights:** Few candidates related it to AS -10 also with wrong conclusion.

Answer 5.

- (b) **Sharing and Accepting of part of profits with an Advocate:** Handful of candidates failed to mention the exception and concluded wrongly.
- (c) **Providing private tutorship:** Some of the candidates failed to differentiate specific and general permission and thus concluded wrongly.
- (d) **Submitting false information to the Institute:** Most of the candidates failed to mention the correct clause and explain the same properly.

Answer 6.

- (a) **Employee Benefits:** Candidates, in general, failed to relate the applicability of AS-15 and related it to AS-29, actuary valuation.
- (b) **Provision for Claim by insurance company:** Very few candidates related it to Section 64VB of the Insurance Act, 1938 and explained in a general manner.
- (c) **Reporting for receipt of share:** Candidates, in general, were not aware of the Section 56(2)(viiia) of the Income Tax Act, 1961 and clause 28 of Form 3CD. Quite a few treated it as capital gain instead of "income from other sources".
- (d) **Reporting Requirement Under Clause (4) of Form 3CD:** Most of the candidates failed to visualize the requirement of the question and answered about reporting requirement due to non-payment of service tax under clause 41 instead of service tax registration number under clause 4.

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Answer 7.

- (c) Advantage of Cost audit: Some of the candidates failed to mention benefits to various stakeholders and answered in general way.
- (d) Auditor's Report of Non-Banking Financial Company (NBFC) not accepting deposits: Most of the candidates failed to highlight the main aspects to be covered in the audit report and lacked knowledge of the topic.

Paper 4: Corporate and Allied Laws

Specific Comments

Question 1.

- (a) Performance of the candidates was satisfactory. Most of the candidates correctly stated the provisions of Section 403 of the Companies Act, 2013 along with the provisions of Section 137(3).
- (b) Performance of the candidates was below average. The candidates have answered logically but the important provision relating to obtaining permission from Special Court for seizure was not mentioned by most of the candidates.
- (c) Performance of majority of candidates was below average. Candidates did not know the relevant provisions of FEMA, 1999.
- (d) Performance of the candidates was average. Most of the Candidates were unaware of the functioning of the two types of Front Office in accessing MCA 21 portal.
- (e) Performance of majority of the candidates was below average. They did not know the relevant provision of the Securities Contracts (Regulations) Act, 1956 in this regard.

Question 2.

- (a) (i) Performance of the candidates was good. Most of the candidates answered correctly the provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.
- (ii) Performance of the candidates was satisfactory. Most of the candidates correctly stated the provisions of SEBI relating to the protection of interest of investors.
- (c) Performance of the candidates was satisfactory. Most of the candidates have correctly attempted the provisions for calling meeting at shorter notice as prescribed under the Companies Act, 2013.

Question 3.

- (a) (i) Performance of the candidates was upto the mark. Most of them have correctly stated the provisions relating to amalgamation.
- (ii) Almost all the students attempted this question properly. They answered correctly the provisions of section 184 of the Companies Act, 2013 relating to the disclosure of interest by directors.

Question 4.

- (a) Performance of the candidates was not satisfactory in the question. Drafting of Boards' resolution to constitute an Audit Committee was not upto the mark.
- (b) Performance of the candidates in this part was very good. The candidates correctly stated the minimum and

maximum number of independent directors to be appointed in unlisted and listed companies.

- (c) Performance of the candidates in this part was below average because most of them could not answer correctly the purpose and constitution of Tariff Advisory Committee.

Question 5.

- (a) Performance of the candidates in all the part of the question was satisfactory. The provisions relating to managerial remuneration were correctly stated by the candidates.
- (c) Candidates' performance in this part was average because they could not specifically analyze the effect of takeover on certain rights of the shareholders of the company.

Question 6.

- (a) Performance of the candidates was very good in this part. The candidates answered all the aspects of working of a producer company as per the provisions of the Companies Act, 1956 correctly.
- (c) Performance of the candidates was average. Most of the students stated the provisions of the prevention of Money Laundering Act, 2002 pertaining to the appeal against order attaching certain properties alleged to be involved in money laundering by the Adjudicating Authority.

Question 7.

- (a) Performance of the candidates was very good. They have answered all the parts relating to the appointment of small shareholders' director correctly as per provisions of the Companies Act, 2013.
- (b) Performance of the candidates in this part was below average. Most of them could not clarify the jurisdiction of the competent court in case of failure of the company to make payment of the dividend declared in the Annual General Meeting. They were also lacking knowledge about cognizable and non-cognizable offences under the Companies Act, 2013.

Paper 5: Advanced Management Accounting

Specific Comments

Question 1.

- (a) This was a practical question relating to topic '**Target Costing**'. It was required to *calculate the target labour time require to achieve the target profit*. Most of the examinees answered well.
- (b) This was a practical question on '**Incremental Cost/Benefit Analysis**'. Performance of the examinees was average in this question.
- (c) This was a practical question on basic concepts of '**Service Costing**'. Most of the examinees answered well.
- (d) This was a practical question relating to topic '**Transportation Problem**'. Most of the examinees answered well.

Question 2.

- (a) This was a practical question relating to topic '**Total Quality Management**'. It was required to *prepare a statement of expected quality costs using the four recognized quality costs heads*. Majority of the examinees failed to answer it on correct lines.

- (b) This was a practical question relating to topic '**Pricing Decision**'. It was required to *calculate selling price of a product in various given scenarios*. Majority of the examinees failed to answer the question on correct lines.

Question 3.

- (a) This was practical question related to topic '**Transfer Pricing**'. Most of the examinees have answered part (i) very well but could not answer part (ii) correctly.
- (b) This was a practical question relating to topic '**Budget and Budgetary Control**' in which examinees were required to *prepare a budget of production and find optimum order quantity*. Most of the examinees answered well.

Question 4.

- (a) This was a practical question relating to topic '**Standard Costing**'. Performance of the examinees was above average in this question.
- (b) This was a practical question relating to topic '**PERT & CPM**' on project updating. Overall performance of the examinees was average in this question.

Question 5.

- (a) This was a practical question relating to topic '**Learning Curve**'. Most of the examinees could not calculate the *average selling price of the final 500 units*. Overall performance of the examinees was below average in this question.
- (b) This was a practical question relating to topic '**Decision Making**'. Most of the examinees failed to *work out impact on profitability at company level*. Performance of the examinees was below average in this question.

Question 6.

- (a) This was a practical question relating to topic '**Decision Making**'. It was required to *calculate amount of extra contribution after introduction of new machine*. Performance of the examinees was above average in this question.
- (b) This was a practical question from the topic '**Linear Programming**' on graphical method. Examinees performance was good in this question.

Question 7.

- (a) to (e) This question comprises five questions and examinees were required to answer any *four*.
- (a) This was a conceptual question from the topic '**Assignment**'. Majority of the examinees answered well.
- (b) This was a conceptual question from the topic '**Balanced Scorecard**'. Performance of the examinees was above average in this question.
- (c) This was a theoretical question relating to topic '**Simulation**'. Performance of the examinees was poor in this question.
- (d) This was a conceptual question from the topic '**Activity Based Costing**'. Performance of the examinees was below average in this question.
- (e) This was a straight forward theoretical question from the topic '**Pricing Decisions**'. Examinees' performance was good in this question.

Specific Comments

Question 1.

This was a compulsory case study based question. Most of the examinees attempted this question.

- (a) This sub-part was based on 'Key Management Practices for Aligning IT Strategy with Enterprise Strategy'. Most of the examinees attempted this question and their overall performance was average in this part.
- (b) This sub-part was based on 'Critical IT Tools for business growth'. Most of the examinees answered this question but their overall performance was poor. Some examinees, in addition to listing out general IT tools, explained ERP and DSS packages elaborately.
- (c) This sub-part was based on 'System Control under IS Audit as per Requirement of RBI'. In this part of the question; examinees' performance was very poor. Even though many examinees attempted this question, most of them did not answer correctly and discussed classification of IS Controls viz., Preventive, Corrective, Detective Controls etc. instead.
- (d) This sub-part was based on 'Components of BCM Process'. Very few examinees performed well in this question, but most of them could not present the five stages or components in order. This was mainly due to the poor understanding of the concepts involved in the BCM process.

Question 2.

- (a) Many examinees attempted this question based on 'Operating System Access Controls', but few of them answered well. Many of them could not mention other than any access control except Password.
- (b) Most of the examinees performed well in this question on 'Various types of Cloud Computing Service Models and listed out all the five models correctly. However, some discussed Types of Cloud Computing instead.
- (c) Even though many examinees attempted this question on 'Factors to be considered to validate vendors' proposal', only some of them answered satisfactorily. There were many examinees who described in details about "Methods of validating vendors' proposal" viz., Check list, Point Scoring Analysis etc.

Question 3.

- (a) This part was based on 'Various categories of System Maintenance'. Many examinees attempted this question and performed well. However, some of them could not list out all categories perfectly.
- (b) This part was based on 'Skill sets and competence requirements of Information System Auditor'. Many examinees answered this question and performed well in this part. However, few examinees narrated skill sets and competence in generic ways.
- (c) This part was based on 'IT Act 2008 for Retention of Electronic Records' wherein many examinees did not point out the relevant portion of the Act. Instead, they

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gave description of 'Digital Signatures' and 'Maintenance of records in electronic form and their duration'. Only a few could write the valid facts of each point correctly.

Question 4.

- (a) This part was based on 'Categorization of Application Controls and their Audit Trail'. Few examinees performed well and could write application controls well. Most of them failed to mention the types of Audit Trail viz., Accounting Audit Trail and Operation Audit Trail.
- (b) Many examinees answered the first part of the question based on 'Prototype Model of System Development' well. However, some explained only the second part of this question viz., 'The generic phases of this model' and could not attempt the first part.
- (c) Many of the examinees attempted this question which was based on 'Major components of Web 2.0 for social networks' and scored well.

Question 5

- (a) This question was based on 'Type of information that can be collected through SCRAF Technique'. In general, many examinees attempted this question and their overall performance was good.
- (b) Many examinees attempted this question on 'Benefits of Mobile Computing' and performed well. Some examinees wrote generic answers such as usages of the mobile technology like mobile banking etc.
- (c) Most of the examinees attempted this question which was based on 'Feasibility Study of a System' and answered well. The performance of the examinees was good.

Question 6.

- (a) This part was based on 'Issues involved in performance of evidence collection and understanding the reliability of controls'. Many examinees attempted this question and performed well. However, few examinees listed out only the headings but did not elaborate the same. However, the overall performance was good.
- (b) This question was attempted by many examinees but only some of them did well. The question was based on 'BCP/DRP Audit Steps to be followed by IS Auditor in Auditing of IT'. Many examinees elaborated the general BCP Audit steps, instead of correctly answering BCP Audit steps with respect to information Technology. Some of them explained various kinds of plans for BCP like Emergency Plan, Backup Plan and Recovery Plan etc. as answer to this question.
- (c) This part was based on 'Advantages of electronic door locks over bolting and combination locks'. This question was attempted by many examinees but most of the answers were based on general knowledge about the topic such as means of Controlling Physical Access viz., PIN, Plastic Cards, Video Cameras etc.

Question 7.

- (a) Many examinees attempted this question which was based on 'Issues to be addressed by Information Security Policy'.

Some examinees performed well; however, most of them provided a generic description of the Information Security Policy.

- (b) In this part, the overall performance of the examinees was good. The question was on 'Major impacts of Technology on Internal Controls' in which the examinees could write and score well. Very few, however, explained the points given under "Effect of Computers on Audit".
- (c) Many examinees attempted this question based on 'Benefits of GEIT' and many demonstrated good performance. Some of them, instead of answering "Benefits of GEIT", discussed the points relevant to "Benefits of IT Governance".
- (d) Most examinees performed well in this part based on 'Risk Management Strategies'. The overall performance of the examinees was found to be good.
- (e) Many examinees attempted this part on 'Components of ERP' and answered well. The overall performance was good.

Paper 7: Direct Tax Laws

Specific Comments

Question 1.

- (a) The common mistakes committed by examinees while answering this question are:
 - (i) Computation of total income and tax liability as per the normal provisions also, when the question required only computation of minimum alternate tax under section 115JB.
 - (ii) Adding back interest to financial institution and penalty for infraction of law while computing book profit.
 - (iii) Deducting long-term capital gains for which exemption was available under section 54EC while computing book profit.
- (b) Some examinees were not aware that indexation benefit is not available while computing long term capital gain in case of slump sale. Further, many examinees have not added surcharge @12% (applicable where total income of a firm exceeds ₹ 1 crore) while computing the tax liability.

Question 2

The common mistakes committed by examinees while answering this question are –

- (i) not distinguishing between employer's contribution to EPF and employees' contribution to EPF, indicating that they were not aware of the difference in tax treatment in both cases.
- (ii) incorrect tax treatment in respect of payment to sub-contractor where tax deducted last year was remitted on 31.10.2015
- (iii) not adding surcharge at the applicable rate while computing tax liability.

Question 3.

- (a) Some examinees were not aware of the exclusions from the scope of "regular workmen". Hence, their calculation of additional wages went wrong and consequently, the deduction computed under section 80JAA was also incorrect.
- (c) Sub-part (iv) requires the tax treatment in respect of interest on enhanced compensation, which includes

interest pertaining to an earlier previous year. Some examinees were not aware of the tax treatment under section 56(2)(viii) read with section 57(iv) in respect of interest on enhanced compensation and were hence, not able to answer this sub-part correctly.

- (d) Most examinees were not aware of the provisions of section 192A requiring deduction of tax at source@10% in respect of amount withdrawn from EPF account without rendering a continuous service of five years, where such payment is ₹ 30,000 or more.

Question 4.

There are five sub-parts in this question based on interpretation of case laws and examinees were required to answer any four. Some examinees were not aware of the relevant judicial decisions and hence, were not able to answer these sub-parts correctly. Even the examinees who were aware of the relevant judicial decisions seemed to be under the wrong impression that merely by giving the name of the parties involved in the judgments; they could secure sufficient marks for the sub-division. Examinees should take care to write the answer to such questions by identifying the issue involved, discussing the relevant provision of law, explaining the rationale of the relevant court ruling and applying the same to the case on hand and stating the proper conclusion, which would make their answer complete and help them score good marks. Mentioning the name of the parties involved would certainly add value to the answer but that alone is not sufficient to score good marks.

Question 5.

- (a) (i) This question is on whether liaison office maintained in India to explore the opportunity of business in India constitutes business connection. Though the examinees gave the correct conclusion, they were not able to give proper reasons for their conclusion.
- (ii) This question was on whether transfer pricing adjustments can be made while computing book profit under section 115JB. Here again, though the examinees gave the correct conclusion, they were not able to explain why such adjustments cannot be made while computing book profit for levy of MAT.
- (d) Most of the examinees were not aware of the CBDT Circular explaining the reason why TDS certificate has to be issued even in a situation where payment is made “net of tax” and hence, were not able to answer the question correctly.

Question 6.

- (b) Many examinees were not aware of the recent amendment in the definition of “Case” and were hence, not able to state that the best remedy available to A Ltd. was to approach the Settlement Commission.
- (c) Many examinees have explained the relevant clubbing provisions but have failed to mention that the notice of demand can be served on Mrs. Ravi for payment of that portion of tax levied on Mr. Ravi attributable to the income derived [by virtue of section 27(i)] from the share of house property transferred to Mrs. Ravi, and standing in her name.

- (d) The examinees were not able to apply the clubbing provisions under section 64(1A), to include the income accruing to the trust, as is used for meeting the education and maintenance expenses of minor daughter, Pallavi, in the hands of Sachin. Even those who did apply section 64(1A) failed to mention the exemption available under section 10(32).

Question 7.

- (a) Some of the examinees have not added education cess @ 2% and secondary and higher education cess@1% while mentioning the rate of tax to be deducted in respect of payment of income on investments in the securities to the Foreign Institutional Investor.
- (b) For sub-part (iii), many examinees had not spelt out in their answer, the differential rates of TDS under section 194-I for building and machinery rentals. For sub-part (iv), some examinees were not aware that no tax deduction was required under section 194LA, if the aggregate payments in a year does not exceed ₹ 2 lakhs.

Paper – 8: Indirect Tax Laws

Specific Comments

Question 1.

- (a) Many candidates were not conversant with the method of determining the cost of production as per ‘Cost Accounting Standard (CAS)-4: Cost of Production for Captive Consumption’ issued by Institute of Cost Accountants of India vide CBEC Circular No. 692/8/2003 dated 13.02.2003.

A few candidates wrongly considered cost of production of entire 8,000 units produced, for computing assessable value as per rule 8 of Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 instead of taking the proportionate cost of 6,000 units which were actually used for captive consumption.

- (b) Although in the given question, the sculpture making activities (being activity in still art form) and western dance performance (not being a performance in classical art form) are not exempted under mega exemption *Notification No. 25/2012 ST dated 20.06.2012*, some candidates wrongly treated such services as exempted services.
- (c) Many candidates were not aware that small service provider’s (SSP) exemption under *Notification No. 33/2012 ST dated 20.06.2012* is not available in respect of services provided under the brand name of another person, and thus wrongly provided SSP exemption in respect of services provided under the brand name of ‘Tonogram’.
- (d) A few candidates erroneously included the charges of vendor inspection on the goods carried out by foreign supplier on his own and not required for making the goods ready for shipment, in the assessable value of the imported goods.

Question 2.

- (b) Most of the candidates committed mistakes in computing the room days and gross amount received for renting of deluxe rooms and were not aware of the correct percentage of abatement for renting of hotel rooms available under *Notification No. 26/2012 ST dated 20.06.2012*.

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(d) Candidates lacked the knowledge of the provisions relating to safeguard duty imposed section 8B of the Customs Tariff Act, 1975.

Question 3.

- (b) Although many candidates correctly inferred that the Department was justified in charging service tax in the given case, they failed to discuss the significant High Court observations on the basis of which the relevant principle was elucidated in the *Indian Coffee Workers' Co-operative Society Ltd.* case.
- (c) Most of the candidates did not discuss the BSNL and *Rashtriya Ispat Nigam Ltd.* cases based on which the circular was issued.

Question 4.

(b) Most of the candidates were not aware of the amendment made by the Finance Act, 2015, in section 73 of the Finance Act, 1994.

Question 5.

- (a) Many candidates were not aware of the circumstances in which assessee is barred from making an application for settlement of cases under section 32E of the Central Excise Act, 1944.
- (d) Very few candidates were aware of the Export obligations

under Export Promotion Capital Goods Scheme of FTP 2015-2020.

Question 6.

- (a)(2) Since most of the candidates were not conversant with the provisions relating to the time period allowed to rectify the defect in information return filed under section 15A of the Central Excise Act, 1944, they wrote general answers.
- (c) Many candidates were familiar with the concept that the services provided by a person (unincorporated association) to oneself (its members) are also taxable in view of the provisions of explanation 3(a) to section 65B(44). However, they were not clear about the treatment of capital contributions made by the members.

Question 7.

- (a) Some candidates did not know that assessee is not required to intimate to the Central Excise Officer about availing credit of excess service tax as per the provisions of rule 6(3) of the Service Tax Rules, 1994.
- (d) Many candidates were not aware of the provision that in case where both duty and penalty are in dispute, pre-deposit is computed as a specified percentage of only disputed duty amount. They wrongly considered the penalty amount also for computing pre-deposit. ■

Residential Programme on Professional Skills Development : Centre of Excellence, 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	Women	₹ 40,000/-	25 th November, 2016 to 22 nd December, 2016	http://resource.cdn.icai.org/43269bos32976main.pdf
Centre of Excellence (CoE), Hyderabad	Men	₹ 40,000/-	27 th December, 2016 to 23 rd January, 2017	http://resource.cdn.icai.org/43271bos32977main.pdf

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
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- ◆ 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.

For upcoming batches, please regularly visit 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



The Institute of Chartered Accountants of India (ICAI)

World/National Commerce Education Day

Organised By: Career Counseling Committee, ICAI

10th November, 2016

Expanding Horizons of Commerce Education

National/World Commerce Education Day will be celebrated on 10th November, 2016 with the theme "Expanding Horizons of Commerce Education" will be conducted by the Career Counselling Committee of the Institute of Chartered Accountants of India in India as well as Abroad.

Objectives of Celebrating National/World Commerce Education Day

National/World Commerce Education Day will be celebrated every year with the following objectives

- To widely spread a message about the significance of Commerce Education in the daily life of the people.
- To display all the activities, efforts and achievements in the field of Commerce for human welfare.
- To discuss all the issues and implement innovative strategies for the development of the Commerce education.
- To give an opportunity to showcase the talents of Commerce students in the country. To encourage the people as well as popularize the Commerce education.

The Commerce Carnival is going to be an event with a series of activities and programs involving school and college students, eminent Educationists and faculties of the state, country & abroad. We want to provide a real platform for the budding students to make their career and profession in Commerce.

10th November - National/World Commerce Education Day - 2016. Why.

On November 10, 1494, a book titled Summa de Arithmetica, Geometria, Proportioni et Proportionalita (Everything About Arithmetic, Geometry and Proportion) was published in Venice. This was the first book that aimed to summarize the mathematical knowledge of those days. One of the tractatus of the Summa, entitled "Particularis de computis et scripturis" (About accounts and other writings) provides a detailed description of Venetian book-keeping. This was the first printed essay on double entry bookkeeping - called "Method of Venice" - and was direct base of some widespread works on mercantile accounting. The author of the book was Italian mathematician and Franciscan friar Luca Bartolomeo de Pacioli. Although double-entry bookkeeping had been around for centuries, Pacioli's 27-page treatise on the subject has earned him the title "The Father of Modern Accounting." The system he published included most of the accounting cycle as we know it today.

Commemoration of World/National Commerce Education Day

- The World/National Commerce Education Day will be expected to celebrate in capital cities of each state as well as in more than 125 other cities and in 28 abroad destinations
- Career Counselling/Mega Career Counselling Programme will be organized to promote the Commerce Education in each Branch/ Regional Councils/Chapter Abroad.

- Mega Career Counselling Programme cum Exhibitions will be organized to promote the Commerce Education in Branch/ Regional Councils/Chapter Abroad.

Activities to be organized during the Commerce Education Day in the Branches/ Regional Councils/ Chapter Abroad on 10th Nov., 2016

- Career Counselling Programme /Mega Career Counselling Programme
- Press Conference
- Radio/TV talk shows
- Public speech
- Commerce exhibitions
- Debate Competition
- Quiz competitions
- Elocution Competition
- Essay Writing Competition
- Marathon race/ Human Chain
- Variety of other programmes

The aforesaid programmes will be organized to popularize the Commerce education in the country as well as abroad amongst the student community & other stakeholders.

Chairman

Career Counseling Committee, ICAI



The Institute of Chartered Accountants of India (ICAI)

ICAI Commerce Wizard-2016: A Talent Search Test

Organised By: Career Counseling Committee, ICAI

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please visit the
Exclusive Website for
ICAI Commerce Wizard, 2016:
icaicommercewizard.com

The Commerce Talent Search Test called as Commerce Wizard -2016 is a diagnostic test that measures the concept understanding ability of a student. Unlike regular tests which try only to find out how much a child knows, this test measures how well a student has understood the concepts.

Eligibility: Students appearing in class IX/X/XI/XII examination

Registration Fees
After Due Date

: ₹ 100/- each
: ₹ 150/- each

The Commerce Wizard will be conducted in English language at two levels for Students studying in Class IX & X and XI & XII separately:

Class	Test Level	No. of Questions	Duration	Subjects	Mode	Negative Marking	Max. Marks	Pattern
IX & X	Level-1	100	1 Hrs 15 Min	Business Studies, Mathematics, Current Economic affair & Aptitude	online	0.25	100	Objective - type (Multiple Choice) questions
	Level-2	100	1 ½ hour		Pen & Pencil	0.25	100	
XI & XII	Level-1	100	1 Hrs 15 Min	Business Mathematics, Economics, Fundamentals of Accounting & Aptitude	online	0.25	100	
	Level-2	100	1 ½ hour		Pen & Pencil	0.25	100	

Important Dates for the aforesaid test:

Date & Timing of the Test (First Level)	Date: 11 th December, 2016 (Sunday), Timing: I. 10.45 a.m. to 12.00 Noon for Class IX & X Students II. 4.15 p.m. to 5.30 p.m. for Class XI & XII Students
Date & Timing of the Test (Second Level)	Date: 8 th January, 2017 (Sunday), Timing: 2.30 p.m. to 4.00 p.m.

Prizes for Participants

Level 1 Test

- Every candidate appeared for the First level test will get a participation certificate

Level 2 Test- for Class IX & X and Class XI & XII students separately

- 1st Rank holder will be awarded with ₹ 1,00,000/- , if multiple winners are there, the prize amount will be shared by them. If more than 50 joint rank holders for the same, the awardee will at least awarded with the cash prize of Rs 2,000/- along with a certificate.
- 2nd Rank will be awarded with ₹ 50,000/-, if multiple winners are there, the prize amount will be shared by them. If several joint rank holders for the same are there, the awardee will at least awarded

with the cash prize of Rs 1,000/- along with a certificate.

- Next Top 1000 will be awarded with consolation Award will be awarded worth Rs 500/- along with a certificate.
- Participation Certificate will be given to each participant appeared for the second level test.

Other Important Dates:

Award Ceremony: Award Ceremony will be held at Delhi NCR tentatively in the month of January/ February, 2017

Chairman

Career Counseling Committee, ICAI

ICAI/Test Management Committee reserves the right to change in any of the modalities cited above.

For any Query please contact:

Secretary, Career Counselling Committee, The Institute of Chartered Accountants of India
ICAI Bhawan, A-29, Sector 62, Noida (U.P.) - 201309, Mobile No. 09312085025, Telephone (O): 0120-3876871
Email: ccc.events@icai.in, ccc.secretary@icai.in

CROSSWORD - OCTOBER 2016

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ACROSS

- _____ costs are compared with actual costs, to determine variances.
- Services provided by Government to a business entity with turnover up to Rs. Lakh in preceding FY is exempted from service tax.
- Much mature.
- Curve in Economics which represent combinations of two goods which give equal satisfaction to the consumer.
- Also
- Some vowels
- Service tax on services provided by mutual fund agent to mutual fund is payable under _____ charge.
- He was just a small _____ in the large wheel of organised crime.
- _____ is the allotment of whole item of cost to a cost centre or cost unit.
- Cap
- Division II of Schedule III to the Companies Act, 2013, is applicable to a company whose financial statements are drawn up in compliance with _____
- A student of CA course is required to do two _____ trainings.
- _____ costs are associated with the purchase and sale of goods.
- _____ is an analytical method of problem-solving and decision-making that is useful in the management of organizations.
- _____ A multidisciplinary Internet institute based devoted to the study of the impact of the Internet on society.

- A person's sense of self-esteem or self-importance.
- Keyboard, mouse, Disk Drive, USB Drive are the _____ devices.
- _____ : A pioneer institution in the field of distance education in India.
- _____ is a group or department within a business, agency or enterprise that defines and maintains standards for project management within the organization.
- Abominable Snowman that is said to inhabit the Himalayan region of Nepal.

DOWN

- To _____ in the hornet's nest means to create a lot of trouble.
- Private investigator.
- When one _____ shuts, another opens means when you lose one opportunity, you often find a different one.
- Ablaze
- Investigation into new products.
- Very close in relationship: Near and _____
- Cut through _____ tape means to eliminate bureaucratic rules and procedures.
- Lome is the capital of _____.
- _____ is used to organize files.
- 151 in Roman numerals.
- We use _____ before vowels.
- One who has many different skills is called Jack of _____ trades.
- _____ in Roman numerals.

- _____ under the National Pension System is exempted under service tax.
- The _____ section of ICAI looks into technical aspects of the profession.
- The _____ section of ICAI looks into global aspect of the profession.
- _____ is a conceptual model that characterizes and standardizes the communication functions of a telecommunication or computing system without regard to their underlying internal structure and technology.
- _____ in computer science means a way to make a computer do the same thing (or similar things) over and over.
- A programming _____ is a computer program that software developers use to create, debug, maintain, or otherwise support other programs and applications.
- Being clean and in good order.
- _____ District is the tenth least populated district of India.
- Examination
- The Union Government, Central Government or _____ are often used in an official and unofficial capacity to refer to the Union Government of India.
- A rolling stone gathers _____ moss.

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