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The Chartered Accountant Student

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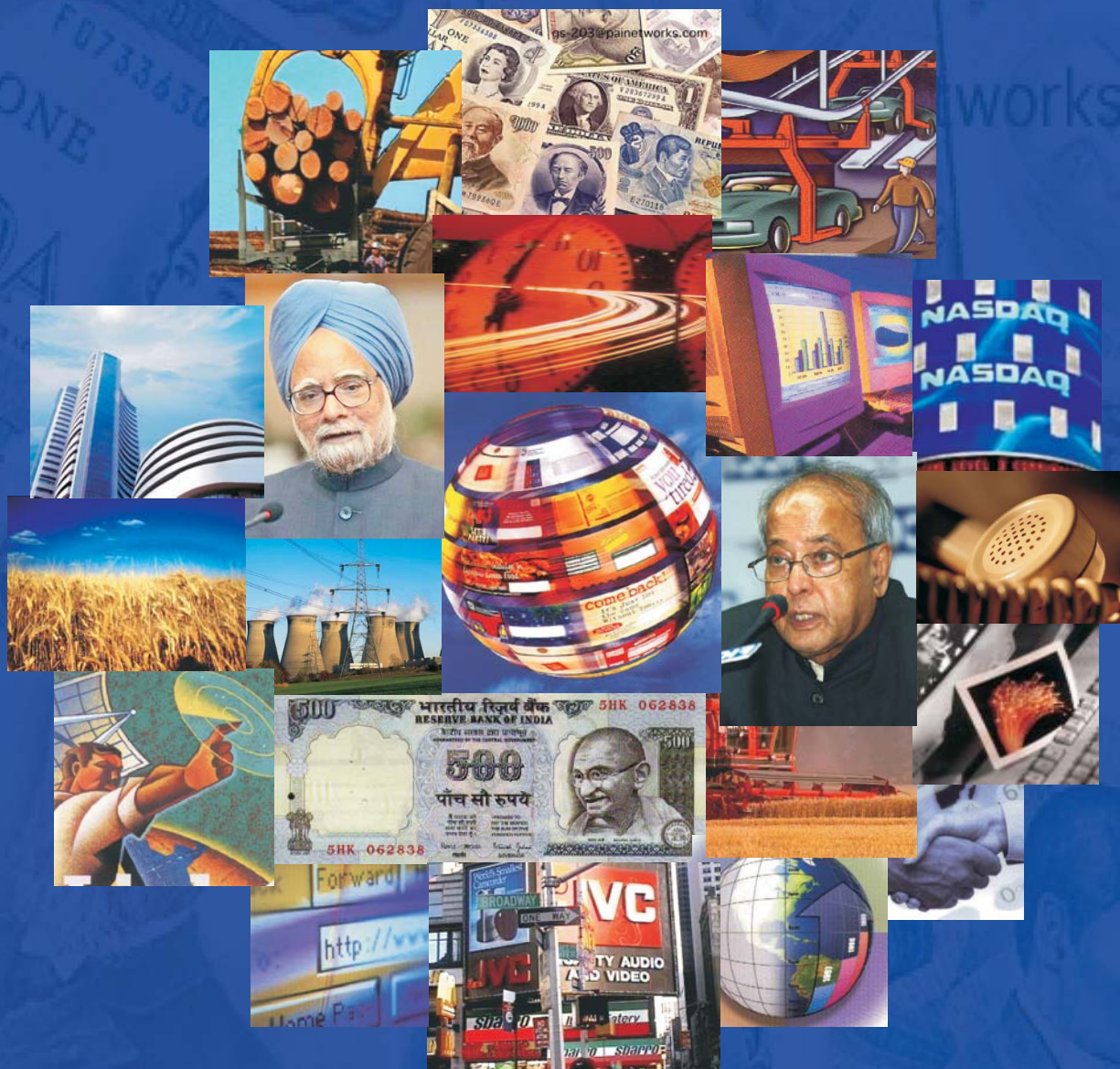
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Your Monthly Guide to the CA News, Information & Events

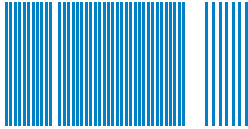
Your Monthly Guide to the CA News, Information & Events

STUDENT'S JOURNAL

April 2010 Vol SJ1 Issue 4 Pages 36



Union Budget 2010-11



PRESIDENT'S COMMUNICATION

Dear Students,

At the outset, I wish to extend my heartiest wishes to all those students who are toiling their labour day and night in the preparation of their May 2010 examinations. I am sure that you will swaddle the course syllabus in a holistic and systematic manner. As you are well aware that CA examinations are aimed not only to test theoretical skills but application skills as well for final students. Hence, I am very much confident that final students will outshine in both these facets and accomplish triumph with soaring heights.

Our Profession is very dynamic, demanding and rewarding. In this era of globalization, you are required to develop multi-dimensional skills to recognize your hidden traits and unleash them to widen your professional growth. Under such circumstances, our Institute's stimulated articleship training provides you a life time learning exposure to face practical situations. The completion of a well disciplined and organized articleship will certainly yield rich dividends in your professional growth. I personally consider that comprehensive practical

training imparted during chartered accountancy course is the foundation stone of any successful CA's career. In this regard, I would also like to draw your attention to provision of Secondment under Regulations as it may be fruitful for you to gain experience in diverse areas. I am confident that maximum students will avail the facility of secondment and gain comprehensive practical experience in diverse areas. Such a scheme enables to transform a rough diamond into a well-moulded professional.

Further, the transfer/termination of Articleship in terms of Regulation 56(1) of the Chartered Accountants Regulations, 1988 is permissible to an articulated assistant on satisfying certain specific conditions. In fact, various guidelines framed by the ICAI only aim to ensure the sanctity of the institution of practical training. In the compliance and pursuance of Articleship Training, I would like to make it very clear that non-compliance in this regard will be viewed seriously and proceeded against accordingly. But any genuine hardships in the transfer of articles, if any, shall be given due consideration. For complete details related to Articleship Rules and Regulation, I exhort our students to contact their nearest regional offices.

I am very optimistic that our students will continue the glory and age long historic tradition of our Accounting Profession in an exemplary manner.

With Best Wishes

Yours sincerely,

CA. Amarjit Chopra

President, ICAI, New Delhi



VICE-PRESIDENT'S COMMUNICATION

Dear Students,

I am highly delighted to convey my best wishes to you for your May 2010 Examinations. I understand and acknowledge the seriousness and hard work that is required to attain success in the professional examination of high quality like ours. My advice to all of you is that take up your examinations earnestly and take out the optimum benefits of the available educational inputs such as study material, revision test papers, suggested answers, supplementary study materials etc. that are exclusively designed and developed by our Institute to cater to your academic pursuits.

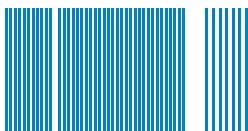
Our Institute is determined to provide a cutting edge to its generation next of CA's. We want to ensure the ultra-modern learning amenities for our students to excel in their professional life. Over the years, the Board of Studies of our Institute has galvanized its activities in multifarious ways to cater to your growing professional needs. To facilitate our students, it is our earnest desire to introduce regular classroom teaching at all important locations under the tutelage of the Board of Studies. I am pretty sure that these classes will provide our students complete guidance, covering each and every aspects of the courseware. Moreover, these classes will keep alive personal interaction between teachers and students wherein queries and doubts can be solved in an effective manner.

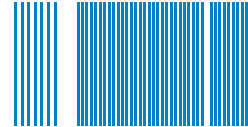
I am hopeful that our students will be successful in displaying their mettle in days to come.

Wishing you all the best for your future endeavours.

CA. G. Ramaswamy

Vice-President, ICAI, New Delhi





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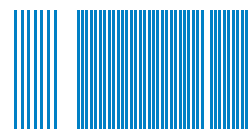
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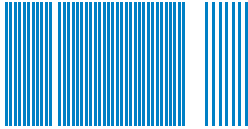
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Message From The Chairman, Board of Studies

Dear Students,

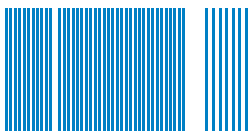
I am extremely happy to convey my best wishes to all of you for a successful appearance in examinations. I am very keen to ensure that the results for CA examination can be improved significantly and seek your wholehearted support in my endeavor. I can assure you that if you follow my guidelines diligently and with devotion, success will always be with you.

The chartered accountancy course is not tough, rather it is so simple to pass the examination provided you plan yourself and work effectively and efficiently towards achievement for the desired goal. The course appears to be very wide, when you start but you learn the technology as to how to prepare and present yourself the things are very easy and comfortable. Some of the important areas I would like to consider implementing will include:

- Regular and continuous study of about 2 hours a day and about 12 to 14 hours study per day during the period of examination leave.
- Do not study or depend on small booklets, abbreviated and brief notes prepared by some academic experts or the notes

prepared by some of the faculty. It is very important to study -

- ❑ At least one reliable textbook, which cover the entire syllabus;
- ❑ 2 or 3 Reference Books of Indian authors and / or international authors on specific subjects;
- ❑ ICAI Study Material;
- ❑ ICAI Publications -
 - (a) Compendium of Accounting Standards and Guidance Notes
 - (b) Compendium of Auditing Standards and Guidance Notes
 - (c) Compendium of Opinion (consisting of opinion of Expert Advisory Committee on complex accounting issues)
- In respect of taxation and legal subjects it is important to study the Bare Act i.e. Act passed by the Parliament, at least in respect of important sections.
- If you can remember all important sections and important case laws, it will add value to your memory and to your examinations.
- To enable you to improve your writing skills and analytical skills in respect of corporate laws and tax laws, it may be wise to study detailed text of some important judgments. It will be important to study these cases for proper understanding and to develop analytical ability of to answer all questions.
- It is also important to regularly study one of the economic newspapers out of Economic Times, Business Standards, Financial Express or Business Line.
- To regularly study at least one of the leading Business Journals out of Business India,



Harvard Business Review, Business Today or Business World.

- Develop a habit of solving all practical questions by hand.
- Improve your reading speed by conscious effort.

You may also please note that ICAI examinations are oriented towards testing practical knowledge and therefore, taking up your training very seriously, will be very important to ensure success in the examinations.

While preparing for your examinations, it is important to look after your health very carefully.

- Spend adequate time to sleep. Special care is necessary to be taken on the examination day to ensure a minimum of 7 hours sleep.
- Do not study continuously and give rest to your eyes for at least 5 minutes after every period of 2 hours.
- While you study, please eat adequately. Don't under-eat with a view to avoid sleep.
- If you get sleepy while you are studying, you can take a 5 minutes "power sleep" or alternatively stand up and read. Avoid to study near to your bed.
- While appearing the examination the following should be kept in mind :
 - ❑ Read all the questions carefully;
 - ❑ Reply to the point;
 - ❑ Initially attempt the question on which you are more confident;
 - ❑ Allocate time to various questions and keep some contingency;
 - ❑ Ensure that you have comprehensively

prepared every component of the syllabus to enable you to answer all the questions.

- ❑ If you are not able to complete all the questions, attempt to the extent you can. The examiners have been instructed to award marks for each step, working notes to be given in a fair manner to get the marks on working notes also.
- ❑ Quote important definitions and provisions and explain them by bullet points.
- ❑ Write legibly and keep adequate left margin and right margin on the paper book.
- ❑ Sufficient gap between various lines and paragraphs.
- ❑ Give heading and sub-heading to your answer and underline the same.

I can keep on going on to explain more and more to strengthen your capabilities as an examinee.

I will come back to you in the next few issues on further details as I have committed myself to ensure that I will, with your wholehearted support, improve the results at least by 100% in a very short period by improving the quality and capability of my students.

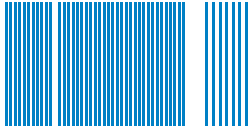
I sincerely look forward for your suggestions and experience. Please do write to me on chairmanbos@icai.org to give your feedback.

With Best Wishes,

Yours sincerely,



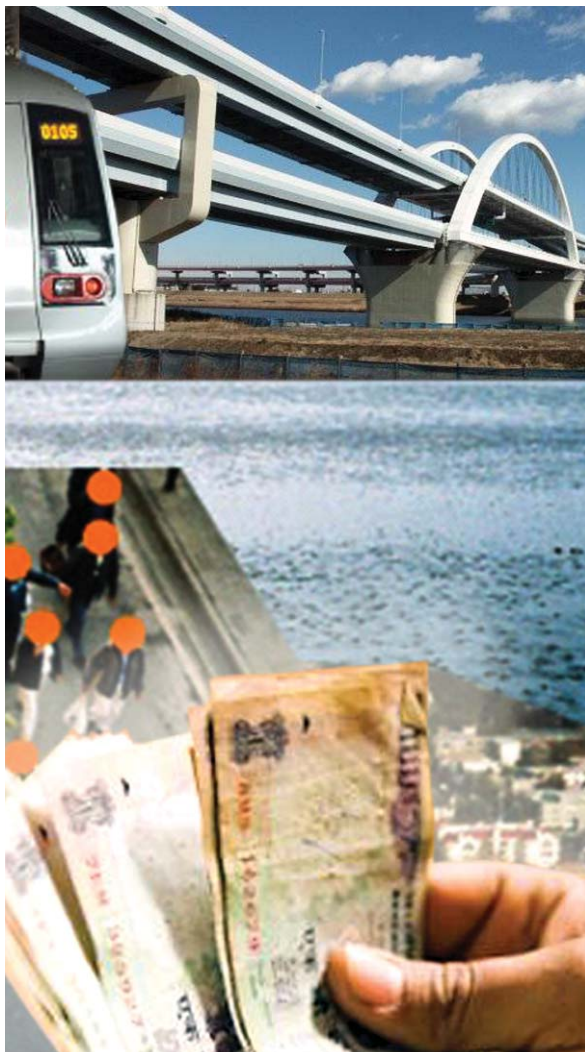
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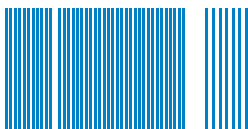
Highlights of Economic Survey - 2009-10

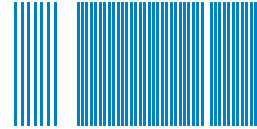
Prem Bhutani

The contributor is Deputy Director, ICAI.



- The global economy has been suffering from financial crisis since 2007. The world output declined by 0.8% in 2009. The individual governments responded to the crisis by giving monetary and fiscal stimuli to the various sectors. As a result, there are signs of recovery. According to the International Monetary Fund, world output will grow at 3.9% in 2010.
- The Indian economy could not remain immune to the global crisis. There was a significant slow down in the growth rate in 2008-09. The economy could grow only at 6.7% in 2008-09 after achieving a growth rate of around 9% in the preceding three years. However, after suffering a slowdown in 2008-09, the economy showed signs of turnaround in 2009-10. The economy is expected to grow at 7.2% in 2009-10 as compared to 6.7% growth rate in 2008-09.
- The per capita income growth also declined from a high of 8.1% in 2007-08 to 3.7% in 2008-09. It, however, recovered to 5.3% in 2009-10.
- The global slowdown impacted the industrial sector and it suffered a continuous decline in the growth for almost eight quarters since 2007-08. This slowdown was arrested at the beginning of 2009-10. The industrial sector is expected to grow at 8.2% in 2009-10. Manufacturing sector, with 8.9% growth rate in 2009-10 has been one of the key drivers of the transformation in the growth trajectory of the Indian economy witnessed very recently. Core industries and infrastructure services led by the robust growth momentum of telecom services and spread across power, coal and other infrastructure like ports, civil aviation and roads have also shown signs of recovery in 2009-10.
- Agricultural sector suffered a setback in



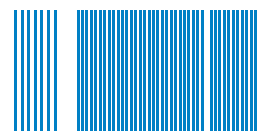


2009-10 as there was a decline of 0.2% in agricultural output which was the consequence of sub-normal monsoons. Production of food grains is estimated at 98.83 million tonnes which is lower than the target of 125.15 million tonnes set for the year 2009-10.

- The service sector which has been India's workhouse for well over a decade has continued to grow rapidly. As against a growth of 9.8% in 2008-09, it grew at 8.7% in 2009-10.
- Gross domestic savings in 2008-09 were 32.5% of Gross Domestic Product (GDP) as compared to 36.4% in the previous year. The gross capital formation was 37.7% of GDP in 2007-08 which declined to 34.9% in 2008-09.
- The Whole Sale Price Index (WPI) exhibited significant volatility during the financial year 2008-09 and varied from 12.82% in August 2008 to 1.2% in March 2009. The volatility continued in 2009-10. From 1.2% inflation in March 2009, it became negative during June-August 2009. It turned positive in September 2009 and accelerated to become 7.3% in December, 2009. For the period March - December, 2009 WPI inflation is estimated at 8%. There is, however, fundamental difference in the reasons for volatility observed last year and those seen this year. The volatility during first half of 2008-09 was due to increasing international fuel and commodity prices and the subsequent decline was due to falling prices of fuel and commodities. Fall in WPI inflation during the first half of 2009-10 was due to high base achieved last year during this period. From September, 2009 WPI inflation has been rising very fast largely because of increase in the prices of food items and non food agricultural items.
- Average food inflation which was 7.56%

during fiscal 2008-09 increased to 13.54% during April-December, 2009. Overall food inflation in December 2009 was 19.77%. Food inflation resulted mainly because of supply side bottlenecks in some of the essential commodities, precipitated by the delayed and sub-normal monsoons as well as drought like conditions in some parts of the country. Food inflation is likely to moderate herefrom on account of likely impact of several fiscal, monetary and administrative measures taken by the Government.

- As per the latest data for fiscal 2009-10, exports and imports showed substantial decline during April-September, 2009 vis-avis the corresponding period of 2008-09. However, due to higher net capital inflows and lower trade deficit, there has been an overall improvement in the balance of payments (BOP) situation over this period.
- Merchandise exports on a BOP basis posted a decline of 27% in April-September 2009 as against a growth of 48.1% in the corresponding period of the previous year.
- Import payments declined by 20.6% during April-September, 2009 as against a sharp increase of 51% in the corresponding period of the last year. The decline in imports is mainly due to decline in oil prices.
- Net capital inflows to India at US \$ 29.6 billion in April-September remained higher as compared to US \$ 12 billion in April-September 2008. Net inward Foreign Direct Investment (FDI) in India remained buoyant at US\$21 billion during April-September 2009 (US \$ 20.7 billion in April-September 2008) reflecting better growth performance of the Indian economy.
- During fiscal 2009-10, foreign exchange reserves increased by US \$ 31.5 billion from US \$ 252 billion in end March 2009 to US \$283.5 billion in end December 2009.





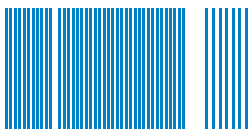
ECONOMY

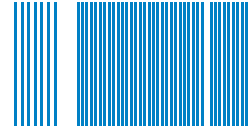
- The fiscal expansion undertaken by the Government as a part of the policy response to counter the impact of the global economic slowdown in 2008-09 was continued in fiscal 2009-10. The expansion took the form of tax relief to boost demand and increased expenditure on public projects to create employment and public assets. The net result was increase in fiscal deficit from 2.6% in 2007-08 to 5.9% of the revised GDP (new series) in 2008-09 and 6.5% of the GDP (advanced estimates) in 2009-10.
- Fiscal 2009-10 saw the strengthening of several public initiatives and programmes with a view to cushioning the impact of the global slowdown on the more vulnerable segments of the population in the country. Allocation to social sectors was increased and sector specific increases including in education, health and rural development were reinforced in the Budget allocations for 2009-10.
- An analysis of the performance of the economy over the last couple of years indicated that the economy's fundamentals are strong. First, the rates of savings (32.5%) and investment (34.9%) have reached levels that even ten years ago would have been dismissed as a dream for India. On account of this, India is now completely a part of the world's fast growing economies. Second, Indian exports have recorded impressive growth in November and December 2009. Further, infrastructure services, including railway, transport, power, and telecommunications have shown remarkable turnaround since the second quarter of 2009-10. The favourable capital market conditions with improvement in capital flows and business sentiments are also encouraging. Finally, the manufacturing sector has been showing buoyancy in recent months rarely shown before. Hence, it can be safely assumed that Indian GDP will grow by 8.5 +/- 0.25% in 2010-11 and will breach the 9% mark in 2011-12.

CROSSWORD

March-2010
solution

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CONVERSION OF UNLISTED COMPANY INTO LLP

A critical examination of modification proposed in the Finance Bill, 2010

Dr. Vinod K. Singhania

The author is a tax management consultant and faculty member of Shri Ram College of Commerce.



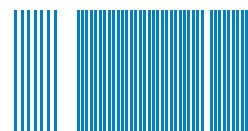
Capital gain exemption in the case of conversion of an unlisted company into LLP

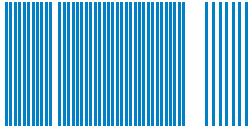
1. Clause (xiiib) has been inserted in section 47 with effect from the assessment year 2011-12 to exempt capital gain on transfer of assets at the time of conversion of a private limited company or unlisted public limited company into LLP.

Conditions for claiming exemption

2. This exemption would be available only when the conversion of private company or unlisted public company (hereinafter referred to as “company”) into limited liability partnership (LLP) takes place in accordance with the provisions of sections 56 and 57 of the Limited Liability Partnership Act, 2008. Besides, the conversion should satisfy the following six conditions -

- **Condition 1** - All assets and liabilities of the company immediately before conversion should become the assets and liabilities of the LLP at the time of conversion.
- **Condition 2** - All the shareholders of the company immediately before the conversion should become the partners of the LLP (however, it is not the requirement that all the partners should be the shareholders of the predecessor company). Shareholders of the predecessor company should become partners in LLP and their capital contribution and profit sharing ratio in the limited liability partnership are in the same proportion as their shareholding in the company on the date of conversion.
- **Condition 3** - No consideration would be paid by LLP to the company. The shareholders of the company do not receive any consideration or benefit (directly or indirectly) other than by way of share in profit and capital contribution in the LLP.
- **Condition 4** - The aggregate of the profit sharing ratio of the shareholders of the predecessor company in the LLP shall not be less than 50 per cent immediately after conversion and at the time during the period of five years from the date of conversion.
- **Condition 5** - The total sales, turnover or gross receipts in business of the company in any of the three previous years preceding





the previous year in which the conversion takes place should not be more than Rs. 60 lakh. For instance, if conversion takes place on March 1, 2011, the turnover of any of the three preceding previous years (i.e., 2007-08, 2008-09 and 2009-10) should not be more than Rs. 60 lakh. The quantum of turnover from April 1, 2010 to March 1, 2011 will not be considered.

- **Condition 6** - No amount is paid, either directly or indirectly, to any partner out of balance of accumulated profit standing in the accounts of the company on the date of conversion for a period of three years from the date of conversion.

If the above conditions are satisfied, capital gain, which arises on conversion of a company into LLP, will be exempt from tax.

When exemption will be revoked

3. Capital gain exemption is available only when the aforesaid 6 conditions are satisfied. These conditions should be satisfied at the time of conversion. Condition 4 requires that aggregate of the profit sharing ratio in the LLP of the shareholders of the predecessor company should not be lower than 50 per cent at any time during the period of 5 years commencing from the date of conversion. Similarly, Condition 6 requires that accumulated profit of the company should not be distributed to the partners in next three years. Suppose, a company takes the benefit of exemption under section 47(xiiib) by satisfying the aforesaid 6 conditions at the time of conversion into LLP and later on in a subsequent year, the LLP fails to comply with the Conditions 4 and/or 6, the amount of capital gain exemption given to the predecessor company will become income by way of capital gain of the LLP of the year in which non-compliance takes place.

Carry forward of losses

4. Section 72A has been amended to allow carry forward and set-off of business loss and unabsorbed depreciation of the predecessor company to the successor LLP which fulfills the above mentioned conditions. Accumulated loss and depreciation of the predecessor company will become accumulated loss and depreciation of the successor LLP of the previous year in which conversion takes place.

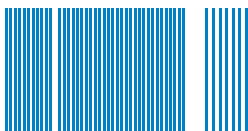
Fifth proviso to section 32(1)

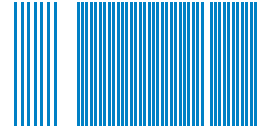
5. Fifth proviso to section 32(1) provides that the aggregate depreciation allowable to the predecessor and successor business entities in case of succession or amalgamation shall not exceed in any previous year the deduction allowable at prescribed rates as if the succession or amalgamation had not taken place and such deduction shall be apportioned between the two entities in the ratio of the number of days for which the assets were used by them.

The reference of conversion of private company/unlisted public limited company into limited liability company has been inserted in the fifth proviso to section 32(1) with effect from the assessment year 2011-12. Consequently, in case of succession of a private company or unlisted public company by limited liability partnership, the aggregate depreciation allowable to the predecessor company and the successor limited liability partnership shall not exceed, in any previous year, the depreciation calculated at the prescribed rate as if no succession has taken place.

Provisions illustrated - X Ltd. is a manufacturing company but its shares are not listed in any stock exchange. On April 1, 2010, it has a block of assets (depreciation rate: 15 per cent) consisting of plant A, B and C. Depreciated value of the block is Rs. 4,50,000. On October 6, 2010, the company purchases a new plant D (cost of acquisition being Rs. 2,00,000, rate of depreciation: 15 per cent). It is put to use on the same day. X Ltd. is converted into LLP on November 3, 2010. All assets are transferred to the LLP along with the above block of assets. This block of assets is transferred for a consideration of Rs. 9,00,000.

Computation of depreciation allowance on Plants A, B, C and D if there is no change in ownership during the previous year 2010-11 -





Depreciated value on April 1, 2010

Add: Actual cost of plant D acquired on October 6, 2010

Written down value in the hands of company if there is no change in ownership

Additional depreciation

Normal depreciation

Total depreciation if there is no change in ownership (a)

How many days the assets are used by X Ltd. and LLP during this previous year ending March 31, 2011 (b)

How many days the assets are used by X Ltd. (c)

How many days the assets are used by LLP (d)

Proportionate depreciation available to X Ltd. $[(a) \times (c) \div (b)]$

Proportionate depreciation available to LLP $[(a) \times (d) \div (b)]$

Block of assets		
Plants A, B and C Rs.	Plant D Rs.	Total Rs.
4,50,000	-	4,50,000
-	2,00,000	2,00,000
4,50,000	2,00,000	6,50,000
-	20,000	20,000
67,500	15,000	82,500
67,500	35,000	1,02,500
365 days	177 days	-
216 days	28 days	
149 days	149 days	
39,945	5,537	45,482
27,555	29,463	57,018

Actual cost

6. The actual cost of the block of assets in the case of the successor LLP shall be the written down value of the block of assets as in the case of the predecessor company on the date of conversion.

The cost of acquisition of the capital asset for the successor LLP shall be deemed to be the cost for which the predecessor company acquired it.

MAT credit

7. Credit in respect of tax paid by a company under section 115JB is allowed only to such company under section 115JAA. The tax credit under section 115JAA shall not be allowed to the successor LLP.

No capital gain exemption to shareholders

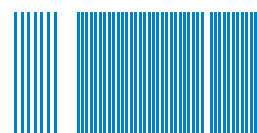
8. At the time of conversion, shareholders in the predecessor company will surrender their shares in lieu of becoming partners in the LLP. This will amount to “transfer” of shares under section 2(47) and shareholders will be chargeable to capital gain tax. No exemption is provided in such case under section 47.

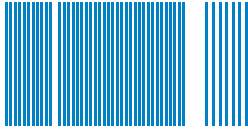
No amendment in section 2(22)(c)

9. If the company immediately before conversion has accumulated profit, then the distribution to the shareholders (in the form of share in the capital of LLP) will amount to “dividend” to the extent of accumulated profit. On this “dividend”, the company will have to pay dividend tax at the rate of 15 per cent (plus surcharge and education cess which effectively comes to 16.60875 per cent).

Capital gain on transfer of assets by LLP

10. LLP can transfer any of the converted assets at any time. There is no minimum period of holding for availing exemption under section 47(xiiib). However, capital gain will be calculated in the hands of LLP by taking cost of acquisition of the previous owner (i.e., company) by virtue of section 49(1)(iii)(e). This clause has been amended for this purpose. However, *Explanation 1* to section 2(42A) has not been amended. Consequently, period of holding of an asset by the company shall not be considered to find out whether (or not) the converted assets are long-term capital assets in the hands of LLP.





Highlights of Direct Tax Proposals in the Union Budget 2010-11 (Part-I)

CA.Priya Subramanian

The contributor is Sr.Asst.Director, ICAI.

This article is divided into two parts. In part -1, the Union Budget 2010-11 proposals are discussed in general. In part-2, the provisions relating to personal taxation are discussed in detail.

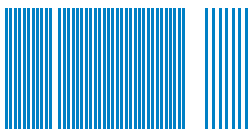


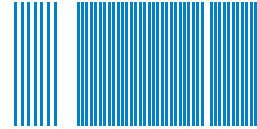
Personal Taxation

- The tax slabs have been rationalized. The proposed slabs are 10% for total income upto Rs.5 lakh, 20% for total income between Rs.5 lakh to Rs.8 lakh and 30% for total income above Rs.8 lakh. Basic exemption limit for senior citizens, women assesseees and other individuals to continue at Rs.2,40,000, Rs.1,90,000 and Rs.1,60,000, respectively.
- Deduction of 20,000 exclusively for investment in notified long-term infrastructure bonds is proposed under new section 80CCF. This would be over and above the deduction of upto Rs.1 lakh specified under section 80CCE in respect of investments/savings under sections 80C, 80CCC & 80CCD.
- Deduction under section 80D to be extended to contribution to Central Government Health Scheme, subject to the overall limits specified thereunder.
- The definition of “property” under section 56(2)(vii) to cover only capital assets and not assets held as stock-in-trade. Property to include “bullion” also.
- The provisions of section 56(2)(vii) to get attracted only in case of transfer of immovable property without consideration and not in the case of transfer of immovable property for inadequate consideration. However, in case of transfer of property, other than immovable property, without consideration as well as for inadequate consideration, the provisions of section 56(2)(vii) would continue to apply.
- The Explanation below section 9(2) is proposed to be substituted to clarify that income by way of fees for technical services, interest and royalty, from services rendered outside India, but utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income.
- A simplified two page SARAL-II form to be notified for facilitating filing of return of income by salaried individuals.

Business Taxation

- MAT rate is proposed to be increased from 15% to 18% (effective rate from 16.995% to 19.93%)
- Corporate surcharge is proposed to be





reduced from 10% to 7.5% for domestic companies.

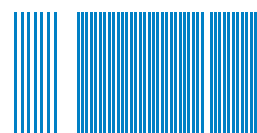
- No capital gains tax on conversion of small private companies and unlisted public companies into LLPs, subject to fulfillment of certain conditions. Further, the successor LLP to be allowed to carry forward and set-off the business loss and unabsorbed depreciation of the predecessor company. However, tax credit under section 115JAA for MAT paid by the company under section 115JB would not be allowed to the successor LLP.
- Substantial increase in percentage of weighted deduction for in-house research and development, and contribution to associations for scientific research as well as for social science and statistical research.
- Benefit of investment-linked tax incentives under section 35AD to be extended to the specified business of building and operating a new hotel of two-star category and above anywhere in India.
- The limits of turnover and gross receipts for tax audit under section 44AB to be increased from Rs.40 lakh to Rs.60 lakh and Rs.10 lakh to Rs.15 lakh, respectively, for business and profession. Consequently, the threshold limit of turnover/gross receipts for the purpose of presumptive taxation under section 44AD is also proposed to be increased from Rs.40 lakh to Rs.60 lakh.
- The transfer of unlisted shares without consideration or for inadequate consideration to attract the provisions of section 56(2), if the recipient is a firm or a company. However, the provisions of section 56(2)(viia) would not apply in the case of transfer of shares -
 - (i) of a company in which the public are substantially interested; or
 - (ii) to a company in which the public are substantially interested.
- The time limit for depositing tax deducted during the entire year is proposed to be extended upto the due date of filing return of income to ensure compliance with the statutory requirement to avoid disallowance of expenditure under section 40(a)(ia).
- The period for completion of housing projects to qualify for tax benefit under section 80-IB is proposed to be extended from 4 years to 5 years from the end of the financial year

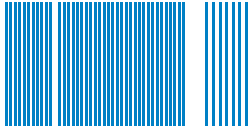
in which the housing project is approved by the local authority, in case of housing projects approved on or after 1.4.2005.

- In respect of housing projects approved on or after 1.4.2005, the permissible built-up area of shops and other commercial establishments included in the housing project is proposed to be increased from 5% of the aggregate built-up area or 3,000 sq. feet, whichever is lower, to 3% of the aggregate built-up area of the housing project or 5,000 sq. ft., whichever is higher.

Other Proposals

- Proceedings for assessment or reassessment resulting from search/requisition to fall within the definition of a “case” which can be admitted by the Settlement Commission. However, the additional amount of income-tax payable on income disclosed in the application should exceed Rs.50 lakh, for an application to be made before the Settlement Commission in such cases. In other cases, the additional amount of income-tax payable on income disclosed in the application should exceed Rs.10 lakh, for an application to be made before the Settlement Commission.
- “Advancement of any other object of general public utility” would continue to be a “charitable purpose”, if the total receipts from any activity in the nature of trade, commerce or business, or any activity of rendering any service in relation to any trade, commerce or business do not exceed Rs.10 lakh in the previous year.
- Threshold limits for attracting TDS provisions to be increased, in order to reduce compliance burden and provide for inflation adjustment.
- The rate of interest under section 201(1A) is proposed to be increased from 1% to 1.5% per month or part of a month on tax deducted but not deposited to ensure better tax compliance.
- Penalty under section 271B for failure to get accounts audited or file tax audit report before the specified date is proposed to be increased from Rs.1 lakh to Rs.1.50 lakh. The penalty would be ½% of total sales/turnover/gross receipts or Rs.1,50,000, whichever is less.





Part-II - Personal Taxation – An Overview



In the Union Budget for the year 2010-11, inclusive growth, embracing core sectors like agriculture, education, health care and infrastructure, continues to remain high on the agenda of the Government. Continuing the process of tax reforms, the Government is confident of implementing the new and simplified Direct Taxes Code as per schedule i.e. with effect from 1st April, 2011 and also hopes to implement the Goods and Services Tax from 1st April, 2011.

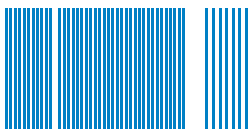
The Direct Tax proposals in the Finance Bill, 2010 apparently seem to be favourable to all classes of taxpayers, albeit, with the exception of companies which fall under the MAT net. The effect of some of the proposals on the personal taxation front are discussed hereunder -

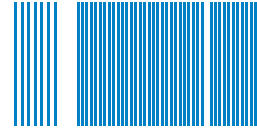
Widening of tax slabs

The rates of personal taxation are proposed to be rationalized significantly by widening the tax slab margins under the different tax brackets. Taxable income of upto Rs.5 lakh (over and above the basic exemption limit) would now fall under the 10% slab. Taxable income between Rs.5 lakh to Rs.8 lakh would fall under the 20% slab. Therefore, although the basic exemption limit remains untouched, the upper limit for the 10% and 20% slab would now be Rs.5 lakh and Rs.8 lakh, instead of 3 lakh and Rs.5 lakh, respectively. The maximum marginal rate of 30% (plus 3% education cess) would now apply for taxable income of over Rs.8 lakh. The tax savings for a person earning income of Rs.5 lakh would be Rs.20,600 and for a person earning Rs. 8 lakh would be Rs.51,500. The amount of tax savings would vary depending on the tax bracket under which a tax payer falls. Such tax savings would encourage higher spending and, consequently, promote economic growth.

Additional deduction for investment in infrastructure bonds

At present, there is cap of Rs.1 lakh on the savings qualifying for deduction from gross total income, and this embraces all forms of eligible savings through different instruments, whether it be contribution to provident fund, public provident fund, pension fund, subscription to ELSS, NSC or payment of life insurance premium. This ceiling is provided in section 80CCE for the investments/contributions





covered under section 80C, 80CCC & 80CCD.

In order to give a fillip to the infrastructure sector, the investment in this sector is to be encouraged by providing an additional deduction of Rs.20,000 exclusively for subscription to notified long-term infrastructure bonds. This incentive is proposed to be introduced by insertion of new section 80CCF.

Contribution to CGHS to qualify for deduction

Section 80D provides for deduction of upto Rs.15,000 for mediclaim premium paid by an individual to insure the health of self, spouse and dependent children. A further deduction of upto Rs.15,000 is provided for mediclaim premium paid by him to insure the health of his parents, whether or not they are dependent on him. If any of the persons mentioned above are senior citizens, the maximum deduction would be Rs.20,000 instead of Rs.15,000.

Government employees, including retired employees of the Government, and employees of certain autonomous bodies contribute every month to the Central Government Health Scheme (CGHS) to avail of medical benefits under such scheme. It is now proposed to include contribution to CGHS by such persons within the scope of section 80D, however, subject to the overall limits specified above.

Transfer of immovable property for inadequate consideration removed from the ambit of section 56(2)(vii)

Last year, transfer of property without consideration or for inadequate consideration was brought within the ambit of section 56(2). This amendment has resulted in genuine problems in case of certain immovable property transactions like builders' contracts, where there is a time gap of few years between the booking of property and its actual delivery. The price of the property generally appreciates over these intermittent years. Consequently, there is a considerable difference between the price at which the property was initially booked and the value of property at the time of possession. Such transactions also fell under the scope of section 56(2)(vii), since they were in the nature of transfer of immovable property for inadequate consideration. This resulted in undue hardship even in genuine cases of

transfer of immovable property. In order to mitigate this hardship, transfer of immovable property for inadequate consideration is now proposed to be removed from the scope of applicability of section 56(2)(vii).

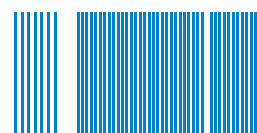
However, transfer of immovable property without consideration would continue to attract the provisions of section 56(2)(vii). Further, in respect of property other than immovable property, section 56(2)(vii) would apply to transfer without consideration as well as transfer for inadequate consideration.

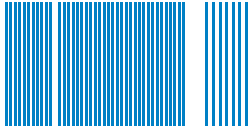
Definition of "property" for the purpose of section 56(2)(vii)

It has now been clarified that "property" for the purpose of section 56(2)(vii) would include only capital asset and not stock-in-trade. Therefore, only transfer of a capital asset, without consideration and transfer of a capital asset, other than immovable property, for inadequate consideration would attract the provisions of section 56(2)(vii). Further, with effect from 1st June, 2010, transfer of bullion would also fall within the scope of section 56(2)(vii), if its aggregate fair market value exceeds Rs.50,000 or in case of transfer for inadequate consideration, if the difference between the aggregate fair market value and the sale consideration exceeds Rs.50,000.

Period of holding in case of subsequent transfer of property received without consideration

In case of transfer of gifted property, capital gains has to be computed by taking the cost of acquisition as well as the period of holding of the previous owner. However, consequent to the introduction of section 56(2)(vii) last year, the cost, for the purpose of computing capital gains at the time of subsequent transfer by the recipient, would be the value taken into consideration for section 56(2)(vii), in case of transfer of property without consideration (i.e., gifted property). However, since there is no corresponding amendment in section 2(42A) regarding period of holding, it is not clear as to whether the period of holding of the previous owner has to be considered in such cases for determining whether the capital gain is long-term or short-term. This issue needs clarification.





Income deemed to accrue or arise in India to a non-resident when services are utilized in India

The Supreme Court, in *Ishikawajima-Harima Heavy Industries Ltd. v. Director of Income-tax (2007) 288 ITR 408*, observed that in order to tax the income of a non-resident assessee under section 9(1)(vii), relating to fee for technical services, the income sought to be taxed must have sufficient territorial nexus with India i.e., the fees paid for technical services provided by a non-resident cannot be taxed in India unless the services were utilized in India and rendered in India. Since this observation was not in consonance with the source rule spelt out in the law and stand taken by India in the bilateral treaties with different countries, the Finance Act, 2007 had clarified that such income by way of interest, royalty or fee for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1), shall be included in the total income of a non-resident, whether or not the non-resident has a residence or place of business or business connection in India.

However, even after insertion of the *Explanation* giving the clarification, the issue has not been resolved. Recently, the Karnataka High Court, in *Jindal Thermal Company Ltd. 182 Taxman 252*, observed that the criteria of rendering services in India and utilizing the services in India, as laid down by the above Supreme Court judgment would continue to hold good even after insertion of the *Explanation*.



Therefore, in order to clarify the true legislative intent, the *Explanation* below section 9(2) is proposed to be substituted. The new *Explanation*, to be made applicable retrospectively from 1.6.1976, provides that income of a non-resident shall be deemed to accrue or arise in India under clauses (v), (vi) and (vii) of section 9(1) and such income shall be included in his total income, whether or not, the non-resident -

- (a) has a residence or place of business or business connection in India; or
- (b) has rendered services in India.

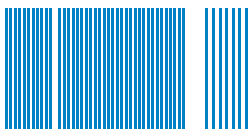
Introduction of Saral II form for filing of return of income of salaried employees

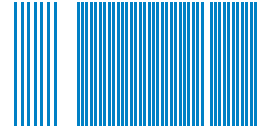
For income-tax return filing to be hassle-free, it is necessary that the tax return should be simple and user-friendly. With this aim, the Income-tax Department would be notifying SARAL-II form for individual salaried taxpayers for the coming assessment year. SARAL-II would be a two-page form enabling filling up of the requisite particulars in a simple format.

Increase in income vis-a-vis increase in cost of goods and services

Thus, the Finance Minister's Budget does offer a basket of proposals on the personal taxation front, by way of widening of tax slabs leaving more disposable income in the hands of taxpayers, opening of a new avenue for tax savings by providing additional deduction exclusively for investment in notified long-term infrastructure bonds, expanding the scope of deduction in respect of mediclaim premium to cover contribution to CGHS, excluding immovable property transactions for inadequate consideration from taxability under the head "Income from other sources" and introducing a simplified SARAL II form for filing of returns of salaried employees.

However, even though there would be a tax savings on the income-tax front, this would be offset by the rise in cost of goods and services on account of the increase in central excise from 8% to 10% on non-petroleum products and widening of the service-tax net to cover more services. The net impact has to be studied for determining the extent to which the Budget would put more money in the pockets of individuals.





HIGHLIGHTS OF BUDGET 2010-11- INDIRECT TAXES

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GOODS AND SERVICE TAX

- Finance Ministry along with the Empowered Committee is finalizing the structure of Goods and Service Tax as well as the modalities of its expeditious implementation so as to enable its introduction in April, 2011.

CENTRAL EXCISE

Rate of excise duty

- The standard rate of excise duty of 8% on non-petroleum products increased to 10% with few exceptions.

Amendments effective from February 27, 2010

- Removal of jigs, moulds, dies, fixtures, to vendors permitted without reversal of CENVAT credit. Earlier, this benefit was available only to job-workers.
- Lower percentage of CENVAT credit reversal required in case of used computers and computer peripherals cleared from the factory due to new accelerated depreciation rates.
- CENVAT credit admissible on the inputs and input services used in the manufacture of exempted goods supplied to specified mega power projects.

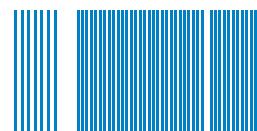
Amendments to be effective from April 1, 2010

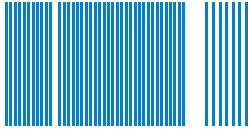
- Procedural relaxation by dispensing with the requirement of pre-authentication of invoices.
- SSI sector given following procedural reliefs/ relaxations:-
 - Full CENVAT credit for capital goods allowed in one installment in the year of receipt of such capital goods.
 - Payment of duty on quarterly basis rather than on monthly basis.

However, due date for filing quarterly return by an SSI unit advanced to 10th of the month following such quarter.

Amendments to be effective from the date of enactment of Finance Bill 2010

- Settlement of cases through Settlement Commission liberalized in the following manner:-





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- Removal of prohibition on filing of applications for the settlement of cases where an assessee admitting the short-levy has not maintained proper records in respect of the goods.
- Restriction of seeking only one-time settlement relaxed.
- Settlement Commission empowered to extend the time limit of 9 months for disposal of applications by another 3 months.
- Explanation inserted to section 11A(2B) to clarify that in case of voluntary payment of duty along with interest before the issuance of a demand notice by the Department, penalty shall not be imposed on the assessee.
- The Central Government empowered to make rules for withdrawal of facilities/ imposition of restrictions including restrictions on utilization of CENVAT credit on a manufacturer/exporter or suspension of registration of a dealer for dealing with evasion of duty or misuse of CENVAT credit.

Other amendments

- Benefit of allowing CENVAT credit reversal



on proportionate basis subject to the certification received from a Chartered Accountant/ Cost Accountant (in case of the inputs used in manufacture of both dutiable and exempted goods) being extended retrospectively for pending cases.

CUSTOMS

Rate of customs duty

- No change in the overall rate structure of basic custom duty.
- Peak rate of 10% and the lower rate slabs maintained with a few changes in respect of certain commodities/goods.

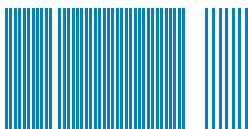
Amendment to be effective from the date of enactment of Finance Bill 2010

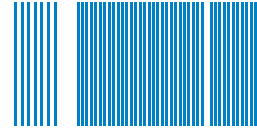
- Settlement of cases through Settlement Commission liberalized in the following manner:-
 - Removal of prohibition on filing of applications for the settlement of cases where an assessee admitting the short-levy has not maintained proper records in respect of the goods.
 - Restriction of seeking only one-time settlement relaxed.
 - Settlement Commission empowered to extend the time limit of 9 months for disposal of applications by another 3 months.
- Valuation of imported goods for the purpose of charging countervailing duty in respect of goods chargeable to excise duty on the basis of Maximum Retail Sale Price under Medicinal and Toilet Preparations (Excise Duties) Act, 1955 to be the retail sale price declared on such imported goods less the amount of abatement, if any.

SERVICE TAX

Amendments effective from a date to be notified upon the enactment of the Finance Bill 2010

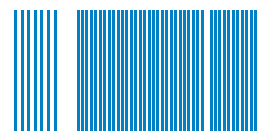
- New services introduced:-
 - Services of promoting, marketing or organizing of games of chance, including lottery. [Section 65 (105) (zzzzn)].
 - Health services, namely:

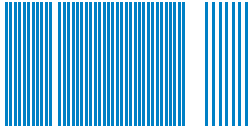




- ❖ health check up undertaken by hospitals or medical establishments for the employees of business entities; and
- ❖ health services provided under health insurance schemes offered by insurance companies

provided that payment for such medical check up or preventive care or treatment etc. is made directly by the business entity or the insurance company to the hospital or medical establishment [Section 65 (105) (zzzzz)]
- Services provided for maintenance of medical records of employees of a business entity [Section 65 (105) (zzzzp)].
- Services of promoting of a 'brand' of goods, services, events, business entity etc [Section 65 (105) (zzzzq)].
- Services of permitting commercial use or exploitation of any event organized by a person or organization [Section 65 (105) (zzzzr)].
- Services provided by Electricity Exchanges [Section 65 (105) (zzzzs)].
- Services related to two types of copyrights hitherto not covered under existing taxable service 'Intellectual Property Right (IPR)', namely, those on (a) cinematographic films; and (b) sound recording [Section 65 (105) (zzzzt)].
- Special services provided by a builder etc. to the prospective buyers such as providing preferential location or external or internal development of complexes on extra charges [Section 65 (105) (zzzzu)].
- **Alteration/expansion in the scope of existing services:-**
 - 'Air passenger transport service' to include domestic journeys, and international journeys in any class. Earlier, only travel in business class for international journey was covered.
 - Earlier, 'information technology software service' was liable to service tax only if such service was used for furtherance of business or commerce. The scope of the said service enhanced to further include information technology software service used for purposes other than furtherance of business or commerce.
 - 'Sponsorship service' to include the sponsorship of sports event. Earlier, it was specifically excluded.
 - The definition of taxable service under 'construction of complex service' and 'commercial or industrial construction service' amended thereby providing that unless the entire consideration for the property intended for sale is paid after the completion of construction (i.e. after issuance of completion certificate by the competent authority), the activity of construction would be deemed to be a taxable service provided by the builder/promoter/developer to the prospective buyer and the service tax would be charged accordingly.
 - Under 'renting of immovable property service', the definition of immovable property amended to include the vacant land, provided there is an agreement or contract between the lessor and lessee that a construction on such land is to be undertaken for furtherance of business or commerce during the tenure of the lease.
 - 'Airport service', 'port service' and 'other port service' amended as follows:-
 - ❖ Any service provided wholly within the airport/port premises covered irrespective of category.
 - ❖ Authorization of service not required from airport/port authorities.
 - In 'auctioneer's service', the term 'auction by Government' clarified to mean an auction involving sale of Government property by any auctioneer





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and not when the Government acts as an auctioneer for sale of the private property.

- Under 'management of investment under ULIP service', value of taxable service shall be:-

Actual amount charged by insurer from policy holder

or

Maximum amount fixed by IRDA as fund management charges

whichever is higher.

- 'Business entity' to include an association of persons, body of individuals, company or firm but to exclude an individual.

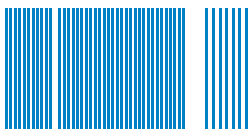
Amendments effective from February 27, 2010

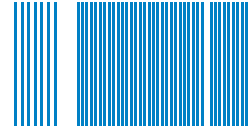
- Under 'air passenger transport service', statutory taxes charged by any Government on air passenger excluded from the taxable value.
- Exemption from service tax to erection, commissioning or installation of:-
 - mechanized food grain handling systems,
 - equipments for setting up or substantial expansion of cold storage or units for processing of products such as agricultural, dairy and poultry etc.
- Packaged I.T. software, pre-packed in retail packages for single use exempted from service tax subject to specified conditions.
- Transport of food grains and pulses by road by a goods transport agency exempted from service tax.
- Exemption from service tax to Indian news agencies under 'online information and database retrieval service' and 'business auxiliary service' subject to specified conditions.
- Exemption from service tax on 'technical testing and analysis service' and 'technical inspection and certification service' provided by Central and State seed testing laboratories, and Central and State seed certification agencies
- Exemption from service tax provided to the transmission of electricity.

- Service tax exemption available to vocational training institutes limited only to industrial training institutes or industrial training centres affiliated to National Council of Vocational Training (NCVT) and offering courses in the designated trades covered under Schedule I of the Apprentices Act, 1961.
- Exemption from service tax, presently available to Group Personal Accident Scheme provided by Govt. of Rajasthan to its employees, under 'general insurance service' withdrawn.
- The activities of construction and operation of installations, structures and vessels for prospecting/extraction/ production of mineral oils and natural gas in the Exclusive Economic Zone and the Continental Shelf of India and supply of any goods connected with these activities brought within the service tax purview. Consequently, the definition of 'India' appearing in the Export of Services Rules, 2005 and Taxation of Services (Provided from Outside India & Received in India) Rules, 2006 also amended accordingly.

Other amendments

- Explanation inserted in the definition of the taxable service 'commercial training or coaching services' clarifying that the term 'commercial' only means that such service being provided against consideration whether or not conducted with a profit motive. This change is retrospectively effective from 1st July, 2003.
- The definition of 'renting of immovable property service' amended to provide explicitly that the activity of renting itself is a taxable service. This change is retrospectively effective from 1st June, 2007.
- Explanation inserted to section 73(3) to clarify that in case of voluntary payment of service tax along with interest before the issuance of a demand notice by the Department, penalty shall not be imposed on the assessee. This change shall be effective from the date of enactment of Finance Bill, 2010.
- Service tax on transportation of goods by rail restored with abatement of 70% of the gross value of the freight charged on goods (other than exempted goods). This change shall be effective from 1st April, 2010.





Sources of Deficit Financing and their Impact on the Economy

Nidhi Singh

The author is Asst. Secretary, ICAI.



“Deficits do matter. But to know how and how much, you have to measure them correctly. And deficits can be good as well as bad.”

For the economic development of any country, the government makes use of various sources of finance. These sources of finance can be broadly divided into domestic and foreign sources. The domestic sources of finance for the government include taxation, public borrowing, dilution of government equity in PSU's and government savings, which consist of surpluses of public enterprises and deficit financing. The foreign finances consist of loans, grants and private investments. Both these sources of finance have their social costs and benefits. For the development of the economy of a country, the government does not rely on any single source of finance. It utilises a combination of various sources based on their limitations. Here we'll discuss about the sources of deficit financing, its benefits and its limitations; and their effect on the economy.

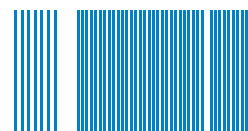
Economists from John Keynes to present day economists have propagated the idea of deficit financing for economic development. The definition of deficit financing is “It refers to the means of financing the excess of government expenditure over its revenue by either borrowing from the banking system of the country or by printing of currency.”

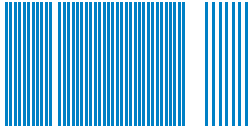
The concept of deficit spending is not limited to government use only. Businesses may also choose to spend more money in the hope of generating funds to pay off the investment at a later date. Even individuals employ this form of money management, although the role of deficit financing on an individual level may take a slightly different form as compared to businesses and governments.

Options of Deficit Financing and their Impact on the Economy

There are two major ways of financing budget deficit, one is monetary and the other is non-monetary financing. Monetary financing involves printing of new currency to finance the surplus of public expenditures and non-monetary financing employs the issue of debt i.e. public loans made by the government. Here we will discuss these forms of financing and other measures undertaken by the government.

(a) Printing of Currency Notes: This method involves printing of currency notes and putting into circulation more money than is normally necessary. An increase in the money supply results in fall in the value of money and leads to price





rise. If the resources as a result of additional money issued to cover budget deficit are employed to finance investment projects, then the increase in the level of prices will not be permanent in nature. On the other hand, if the additional resources are employed to finance those projects, which ultimately do not accelerate the growth of gross domestic product (GDP), then the increase in the price level will be of permanent nature and will lead to inflation. It is observed that governments usually use the additional money to finance unproductive expenses; therefore, financing the deficit by monetising generally leads to inflation. So, deficit financing should be kept low as it may lead to increase in prices and inflation. This is the reason why this method of budget deficit financing is forbidden in many industrial and some developing countries. Even European Union through its Treaty of Maastricht prohibits direct monetary financing of public deficit by Central banks.

(b) Selling of Bonds by Government: The selling of bonds by the government in the domestic market leads to increase in demand for private funds in the economy. If the deficit is more than the government requires more funds and less money remains for private investments. The excess demand for money in turn leads to rise in interest rates. Higher interest rates stimulate private sector and households to increase savings and shift some investments towards the future. This is known as the “crowding out hypothesis” wherein the government draws on the resources available for investment and private investment is crowded out.

Another aspect is that persistent budget deficits and permanent growth of public debt causes decrease in public confidence about the economy, inducing decrease in demand for government bonds and possible increase in interest rates. Further, if interest rate increases, the government is also liable to pay higher interest rates. This in turn increases the government budget expenditures that can further worsen the deficit position.

(c) External Borrowings: One form of external borrowings may be issue of government bonds to foreign investors. Usually, foreign investors are not interested in government bonds of developing countries as the financial markets of these countries are not much developed and such investment involves high investment risk. So in order to attract them sufficient risk premium must be included in the rate of interest. It is seen

that external borrowings usually cause appreciation of real exchange rate, deepening of current account deficit, increase of foreign debt and loss of foreign reserves and in extreme cases can result in currency crises.

(d) Disinvestment of Public Enterprises: Governments also resort to the policies of privatisation and disinvestment to raise finance. But it should be taken into consideration that the government assets are the resources of the nation. Therefore, government must disinvest judiciously in PSU's in order to increase public-private partnership. Positive effects of private participation are faster decision-making and implementation, responsiveness to changes in external environment and focus on productivity.

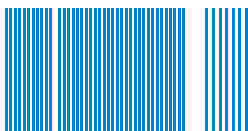
(e) Introduction of Additional Tax: Some countries finance budget deficits by resorting to inflation tax. It is one of the ways of financing deficit by the government. Improvements in tax collection, introduction of value added tax, reduction in subsidies and cracking down on tax evasion are some of the other measures adopted by the government in this regard.

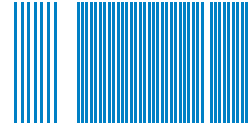
(f) Issue of Treasury Bills: The government can borrow from the Central bank in exchange of issuing treasury bills. Treasury Bills are money market instruments to finance the short term requirements of the government. These are discounted securities and thus are issued at a discount to the face value but are redeemed at par. The return to the investor is the difference between the maturity value and issue price. The government uses these funds to meet its expenditure commitments.

Indian Scenario

The government of India followed deficit financing as a policy during earlier years when its economy was underdeveloped. During those years the income levels, saving and taxable capacities of people were low. Due to the low saving capacity, the rate of capital formation was also low, which in turn caused slow rate of economic growth. Therefore, to accelerate the rate of economic development, need for deficit financing was felt by the government. But over a period of time, it led to inflationary conditions in the economy.

Therefore, keeping in mind the social costs and benefits of deficit financing, and emergence of new options of financing like privatisation, public-private partnership, and autonomous structures to take care of themselves financially; this trend of deficit financing is being curbed by





the government of India.

Thus, it can be said that developed economies where the level of private savings is high and financial markets are fully developed; long-term budget deficits can easily be managed.

But in less developed economies where private savings are less and financial markets are also not fully developed, such countries should try to reduce budget deficits so as to avoid possible macroeconomic problems.

Applicability of relevant Corporate Laws for the CA Final (Old & New Course) - May 2010 Examinations

Subject Matter	CA Final (Old) - Corporate Laws and Secretarial Practice	CA Final (New Course) - Corporate and Allied Laws
Companies Bill, 2009	Not applicable	Not applicable
Competition Act, 2002 including the Competition (Amendment) Act, 2007, 2009	Fully Applicable (Students are advised to refer to the Study Material & RTP, May, 2010)	Fully Applicable (Students are advised to refer to the Study Material and the RTP, May, 2010)
Prevention of Money - Laundering (Amendment) Act, 2009	Not prescribed in syllabus - Not applicable	Applicable (Students are advised to refer to the RTP, May, 2010)
SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009	Not Applicable (Students are advised to the study the SEBI, Act, 1992)	Not Applicable (Students are advised to the study the SEBI, Act, 1992)
SEBI (Disclosure and Investor Protection) Guidelines, 2000 (now rescinded)	Not applicable	Not applicable
Companies (Second Amendment) Act, 2002 [relating to Winding Up]	Not applicable [Students are advised to study the general provisions relating to winding up as given in the study material]	Not applicable [Students are advised to study the general provisions relating to winding up as given in the study material]
Provisions relating to Revival and Rehabilitation of Sick-Industrial Companies	Not applicable	Not applicable [Except definitions as given in study material]

Taxation papers for students appearing in May 2010 examination PE-II [Income-tax and Central Sales Tax], PCC/IPCC [Taxation],

Final (Old) Course [Direct Taxes] and Final (New) Course [Direct Tax Laws]

(1) Fringe Benefit Tax is not applicable from A.Y.2010-11 and hence, is not relevant for May 2010 examination.

(2) Consequential Notification of new perquisite rules on 18.12.2009 not to apply for May 2010 examination

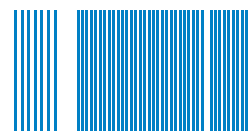
Consequent to abolition of fringe benefit tax, certain benefits taxed earlier as fringe benefits in the hands of the employer would now be taxable as perquisites in the hands of the employees. For this purpose, new perquisite valuation rules have been notified vide Notification No.94/2009/ F.No.142/25/2009-S.O.(TPL), dated 18.12.2009 with

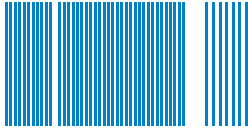
retrospective effect from 1.4.2009. However, the new perquisite valuation rules would be applicable only for November 2010 examination. They would not be applicable for May 2010 examination, since only notifications/circulars issued up to 31st October, 2009 are relevant for May 2010 examination.

(3) Applicability of erstwhile Rule 3 for May 2010 examination

(a) Therefore, the erstwhile Rule 3 would be applicable for May 2010 examination. All the perquisites which were earlier taxable in the hands of the employee, only if the employer was not liable to pay fringe benefit tax, would now be taxable in the hands of the employee in all cases, since no employer is liable to pay fringe benefit tax for A.Y. 2010-11.

(b) Rule 3(7), providing for valuation of "other fringe benefits and amenities", is based on the terms of the provisions contained in the erstwhile clause (vi) of section 17(2). The Finance (No.2) Act, 2009 has amended section 17(2) by including certain other perquisites under clauses (vi) and (vii) of section 17(2). Consequently, the residual clause, namely, clause (viii) of section 17(2), now provides for taxing the value of any other fringe benefit or amenity as may be prescribed. Therefore, the Rule 3(7), prescribing the fringe benefits or amenities in terms of the erstwhile clause (vi) [now clause (viii)] of section 17(2), have been given in the latest study material relevant for May 2010 examination.

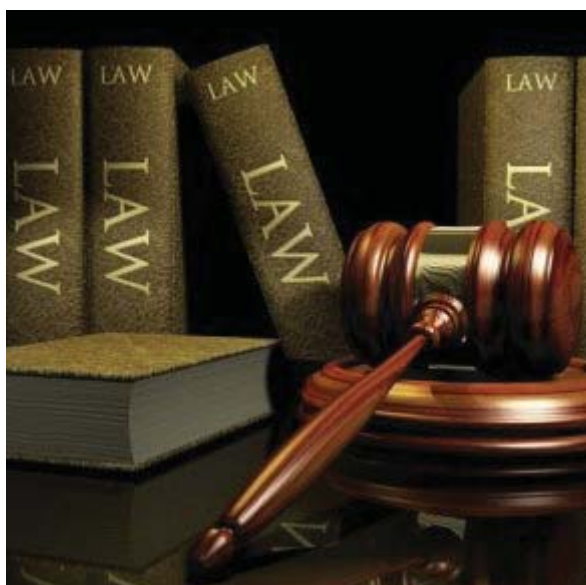




Recent Developments in Corporate Laws

Dr.P.T.Giridharan

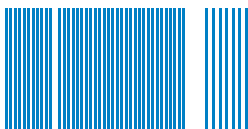
The contributor is Joint Director, ICAI.



A comprehensive, compact, complete and clarified corporate law is a *sine-qua-non* not only for the regulation of affairs of the corporate but also for the growth of the economy as a whole. The seeds of Liberalisation, Privatisation and Globalisation that were sown started yielding fruits for different countries around the globe however they may be big or small. Entrepreneurs, FIIs, Venture Capitalist prefer countries that have the simple laws, hassle-free procedures for starting business and parking funds in the capital market. Taking a cue of the holistic development that is taking place elsewhere, it might be strange to note that country like Rwanda has simplified its new company law paving way for an easier start of a company in its country within 3 days with 2 procedures as in comparison to 14 days with 8 procedures. Further, it has strengthened provisions relating to investor's protection and minority shareholders. The new U.K.Companies Act 2006, which came into effect from 1st October,2009, benefits the formation of private companies through simplified procedures. India too, has been taking steps in this front, though we have different pieces of legislation governing corporates. The mother of laws relating to regulation and administration of company affairs, namely the company law has been amended as many 26 times since its introduction in 1956 and many other allied laws are getting harmonized and integrated with one and another. The other area of concern which the Government has been again and again introspecting is the coordinated approach of the different regulators, their role and responsibilities. Time is not far, when, India will have a single-piece of corporate legislation catering to requirements of different entities including enabling foreign companies to set up their business here easily. The developments in the corporate laws are an on-going process and students at the Final level should constantly update their knowledge by keeping track of such changes. Let us have a glimpse of what are those changes are:

1. The Company Law

The much awaited amended law on the subject, the Companies Bill, 2009 is pending before the Parliamentary Standing Committee



on Finance, and it has been consolidated, simplified and pruned to meet the needs and requirements for fostering economic growth and a clean corporate environment. The new law is compact, clearly interpreted, addressing the concerns of various stakeholders and at the same promotes global competitiveness among Indian companies. Setting up of the National Company Law Tribunal (NCLT), speedy incorporation process, principles of good internal governance, etc. are some of the salient features of the New Bill, 2009. The new law will be rule based to enable flexibility in changing the procedural aspects. For full details of the Bill, students can visit www.mca.gov.in.

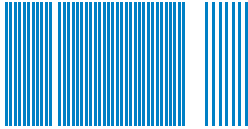
2. The Competition Law

The Competition Act, 2002, was enacted in view of global economic developments resulting in opening of Indian economy, removal of controls consequent upon liberalization and also allows the economy to allow competition in the market from within and outside the country. The law was subsequently amended in 2007. The Act, 2002 *inter alia* provided for the establishment of Competition Commission of India (CCI) as a regulator, advisor and advocator and the Competition Appellate Tribunal to dispose of the appeals against the order of CCI and also for passing order for the recovery of compensation from any enterprise for any loss or damage suffered as a result of any contravention of the provisions of the Act. Section 66 of the Act, 2002 (which came into force on 1st September, 2009) provided for repeal of the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969 and for dissolution of MRTP Commission, with a provision of sunset that they are allowed to continue for a period of 2 years from the date of commencement of the Act. Thereafter all cases (monopolistic or restrictive or unfair trade practices) pending before the MRTPC will be transferred to and be adjudicated by the Appellate Tribunal. Since MRTPC was non-functional due to vacancy of posts and Competitive Appellate Tribunal was without workload, it became imperative for the government to pass Competition (Amendment) Ordinance, 2009 on 14th October, 2009, which was finally repealed by the Competition

(Amendment) Act, 2009. The effects of the new amendment are:

- All cases pertaining to Monopolistic Trade Practices (MTP) or Restricted Trade Practices (RTP) or alleged Unfair Trade Practice (UTP) and all cases pertaining to UTP referred to in clause (X) of subsection (1) of section 36A of the MRTP Act, 1969 shall be transferred to the Competition Appellate Tribunal with immediate effect. [Sub-sections (3) and (5) of section 66 of the Act].
- All investigations or proceedings, other than those relating to UTP and all investigations or proceedings relating to UTP referred to in clause (X) of sub-section (1) of section 36A of the MRTP Act, 1969, pending before the Director General of Investigation and Registration [DG (I&R)], shall be transferred to the Competition Commission of India with immediate effect. [Sub-sections (6) and (8) of section 66 of the Act].
- All cases, investigations or proceedings pertaining to UTP defined under section 36A of the MRTP Act, 1969, except those referred to in clause (X) of subsection (1) of section 36A of the MRTP Act, 1969, shall be transferred to the National Commission constituted under the Consumer Protection Act, 1986 with immediate effect. [Sub-sections (4) and (7) of section 66 of the Act].





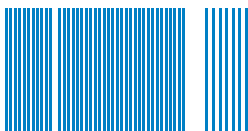
3. Prevention of Money-Laundering (Amendment) Act, 2009

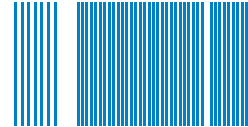
In order to further strengthen the existing legal framework and to effectively combat money laundering, terror financing and cross-border economic offences, an amendment Act, 2009 was passed by the Parliament which was notified on 3rd June, 2009. The new law seeks to check use of black money for financing terror activities. Financial intermediaries like the full-fledged money changer, money transfer service have been brought under the ambit of The Prevention of Money-Laundering Act. Consequently, these intermediaries, as also casinos, will be brought under the reporting regime of the enforcement authorities. It would also check the misuse of promissory notes by FIIs, who would now be required to furnish all details of their sources. The new law would check misuse of “proceeds of crime” be it from the sale of banned narcotic substances or breach of the Unlawful Activities (Prevention) Act. The passage of the Prevention of Money Laundering (Amendment), 2009 will enable India’s entry into Financial Action Task Force (FATF), an inter-governmental body that has the mandate to combat money laundering and terrorist financing. Apart from inclusion of many other Acts in the Schedule of Offences, the Amendment includes a definition of “payment system” which means a system that enables payment to be effected between a payer and a beneficiary, involving clearing, payment or settlement service or all of them. It includes the systems enabling credit card operations, debit card operations, smart card operations, money transfer operations or similar operations. The records referred to in clause (a) of sub-section (1) of Section 12 shall be maintained for a period of 10 years from the date of transaction between the clients and the banking company.

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

The new regulations which came into force with effect from 26th August, 2009 repeals the SEBI (DIP) Guidelines, 2000. The ICDR Regulations have been made primarily by conversion of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 (since rescinded) While incorporating the provisions of the

rescinded Guidelines into the ICDR Regulations, certain changes have been made by removing the redundant provisions, modifying certain provisions on account of changes necessitated due to market design and bringing more clarity to the provisions of the rescinded Guidelines. Further, the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 contained certain provisions, which were required to be complied with by an unlisted issuer at the time of making an initial public offer. These provisions have now been incorporated in the ICDR Regulations and consequently, removed from the SEBI (ESOS and ESPS). Some of the changes brought about in the new Regulations, 2009 vis-à-vis, then rescinded Guidelines, 2000 are: debarment from accessing capital market by issuers under an order of the Board, offer of sale by listed companies, book-building through 100% route only, allotment and refund period in case of public issues reduced from 30 days to 15 days both for public and book-build route, disclosure of price band not necessary in the draft prospectus, issue period in respect of infrastructure companies 10 days, provision of disclosure of the pledge of shares by promoters, 100% obligations in respect of underwriting, Minimum promoters’ contribution shall be brought in only by promoters whose identity, photograph, etc. are disclosed in the offer document, total issue period not to exceed 10 days, including any revision in price band, only check list to be attached with the due diligence certificate (no need of MOA, AOA Balance sheet, etc.). These regulations have been further amended up to 8th January, 2010. For full details on the matter, visit www.sebi.gov.in





Articleship Training My Experience



Kishen K. Warriier

The contributor is First Rank holder, November 2009 final examination



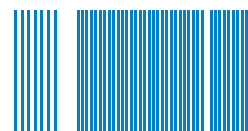
Chartered Accountancy is the highest professional qualification in India in the field of accounting and auditing. The course though being very tough is very interesting and covers subjects like Accountancy, Finance, Audit, Taxation, Economics and Information Technology also. A very important feature of Chartered Accountancy course is the rigorous compulsory Articleship training which a student has to undergo along with the theoretical instructions. The intensive articleship training not only develops one's stamina and appetite for work but also increases one's exposure to various industries. A sincere approach towards articleship training enables one to carve a niche for oneself in the professional world and expands one's knowledge horizons to perform as a global Chartered Accountancy Professional. In this write up, I am sharing my experience of Articleship training.

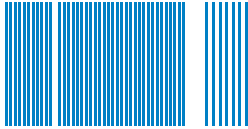
Looking Back to my Articleship Training(which I will be completing within the next 6 months),I have always made a deliberate attempt to combine my articleship with whatever we have to study and our whole Syllabi. Articleship helps us enormously in a majority of our subjects like Accounting (Financial and Management), Auditing, Corporate and Other Laws, Direct and Indirect Taxes. (The amount of exposure also depends on the type of firm in which one is doing articleship.)

In this article, I want to share with you some of my experiences during my articleship in the auditing field .In small and medium firms, articles have the opportunity to deal with audits from A to Z, and I had such an opportunity.

I joined my articleship during a tax audit period. Myself and another PCC Student, who had joined along with me were first a little bit scared of the hectic work and late hours put in (of course of our seniors)during the initial two months. I always remember the way our seniors guided us in our early days. In my opinion, in small and medium firms, where there is lack of established system for articleship training, the seniors can play a vital role in helping the new articles to understand about the whole work.

I was thrilled when I got my first audit work, which belonged to a Charitable Trust (Special Audit in PE-II terms.)Later we were





given exposure to a variety of audit works conventional and others. I have thoroughly enjoyed the various works that I have handled during my two years, Tax Audits, Bank Audits, Audit of Companies, Compilation Engagements, and Preparation of Project Reports etc.

As in the case of most firms, Tax Audits were the most hectic time for me as Articled Assistant. The time available is less. Many of the clients do not have good qualified accountants and it increases our workload. Lack of any Internal Controls in many auditees was also a challenge. Handling many works at a time was a new experience. Though Tax softwares make the work somewhat easy, I personally feel that softwares take away the learning experience from the articles.

I also have enjoyed my two bank audit seasons and is looking forward to the next one. It was a different experience where nothing can be checked within a span of 6 or 7 days, but still we raise our objections and give Memorandum of Changes (MoCs). The division of work between the partners and auditors also gives a practical feel of Management concepts like Delegation, span of control etc.

Besides these, I also had some experience with internal audits and stock audits, where the focus shifts from the legal compliance to what the management wants us to check.

My another wonderful experience was in Taxation, both Direct and Indirect Taxes. I had hands on experience in preparation of Income Tax and Service Tax Returns. We were asked to critically analyse the assessment orders for appeal purposes. A group discussion on assessment orders will help us to understand the practical aspects of Income Tax Assessments and its importance in Tax Audit system.

Considering my articleship experience and what many of my friends have shared, I have always felt that the whole scheme has to be made more students friendly. Chartered Accountants should also be given some training, on training Articled Assistants. While selecting the firm for articleship we have to consider how much the firm, the partners and the atmosphere help in our development as a Professional, rather than the brand image or amount of Stipend. I have also felt that the current scheme of Articleship training is mainly

helpful to a student who wants to practise, and in my opinion, Industrial Training should be encouraged more.

Articleship Training is one of the most memorable experiences in my whole life. It will be so for every CA student, provided you choose the right firm, have the right attitude and attempt to make it enjoyable. Good Luck.

Form IV (See Rule 8)

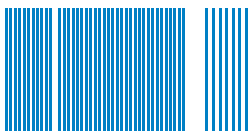
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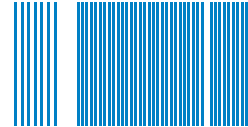
I, CA. R. Devarajan, hereby declare that the particulars given above are true to the best of my knowledge and belief.

Sd/-

Dated : March 26, 2010

Signature of Publisher





Innovating for Success



Srikant Parthasarathy.

The author is a student of ICAI. (Reg.No: SRO 0137870)



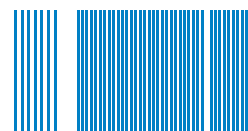
From the Industrial era to the modern economic times, once competition comes to the forefront or to take preemptive measures to tackle competition, innovation was the only resort. Some times, innovation is taken up as a one-time exercise and a company that has innovated seems to ride on the idea that it has innovated and the momentum is carried on for years. Is innovation really a one-off exercise or is it hidden deep inside the “Critical Success Factor” strategies. This article tries to address the same by obtaining the right mix and prescribing the long term strategy to keep innovation running alongside the Critical Success Factors.

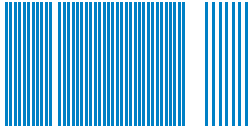
Innovation is a cliché in management. It is considered as the key element and this stems from the emphasis placed on innovation by companies that were or are successful. Companies that were innovative in their product, marketing, distribution etc strategy were eventually successful in some form or the other. One of the best examples in this regard is the upsurge of the “Rupees One lac car” in India compared to the normal start-up cars that range between rupees 2-3.5 lacs. The segment was quite unexplored and the company that tapped into that segment holds an upper hand. Quite obviously the “mantra” that the company resorted to was “Innovation”. But the key to understanding innovation is to transform it into “Critical Success Factors” that give Innovation the right form to hit the button called “Sustained Competitive Advantage”.

“Critical Success Factors” (CSF) is the term that is used quite frequently in strategic management. Critical success factors are those key factors that give the company its much-required competitive edge. A critical success factor takes an internal view of the organization which is built on the “external view”. In simple terms, Critical Success Factors analysis is a simple tool to analyze the internal factors that generate “Long term” Profitability. So, the key to this analysis is Long term profitability and rightly so CSF’s are the roadmap to sustained competitive advantage.

Now, the key question in this discussion is “What should the CEO concentrate on?” Is it Innovation or is it CSF’s .

Considering the turbulent times that we are in, some might argue that a company that





innovates certainly has the edge as the market is relatively free in that segment or the process may be so unique that the competitors may have a tough time imitating it (at least in the near future!)

But another school of thought would certainly point out that delivering the innovation to the consumers at the same time satisfying the stakeholders is the primary objective and the CSF's steer it in that direction.

Let us evaluate it with the help of an example. SYS(name changed), is an Indian Company, and it is a company that is in the prolific Information technology sector in India and is competing with many players having the technical expertise to out compete it in the market. As expected, the company was not spared in the turbulent times. So the CFO had to chip in his bit on Innovation, after all the turbulence can lead the company into a loss. He charged the clients on a project basis rather than an hourly billing. This not only resulted in higher profitability but also addressed the issue of employee efficiency as any inefficiency was clearly highlighted by the delay in the delivery. So the real question to be asked is "Was the CFO Innovative" or "His understanding of the CSF's led him to be innovative". For a stakeholder as long as the company is profitable it is immaterial that what brought in profitability. But to a management theorist this is a significant issue.

Value creation is driven by both Critical success factors and Innovation. But innovation need not always be profitable. The best example in this regard would be "Diet Coke" in India. Certainly the idea was to bring in lesser calories than the regular coke. The product clearly succeeded the checklist of Innovation. But quite contrary to the popular pre launch opinion, the product was a failure. So where did the company go wrong? The list runs for pages but one thing that caught the eye of strategists is non-recognition of the marketing strategy as a Critical Success Factor. Indians were poor in appreciating the difference between a Diet Coke and a normal Coke as it was their "thirst to be quenched". The consumers were largely ignorant and there was no effective strategy to educate them.

A totally different example in this regard would be a company called "Bajaj Auto". The company was a pioneer in Scooters and had

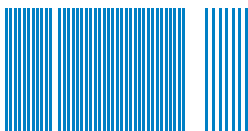
enjoyed sustained profitability in the Indian two-wheeler industry but sadly, the company's refusal to be innovative and adhere to market needs had paved way for other players who understood the potential that the Indian market carried. In my view, the Company had a *CSF Strategy* in place but failed in the domain of Innovation. Unsurprisingly, the market share was poached.

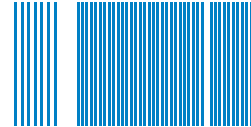
It is CSF's that drive the company into the domains of profitability but the point to be noted is that CSF's cannot be the sole factor doing it and the CEO has to obtain the right mix of CSF's and Innovation by understanding the market phenomenon. Ultimately it is the market or rather the consumer who sits on the Strategy of the company.

Now that brings us to another question. What is the right mix?

Right mix means nothing but fusing innovation and CSF's into one composite strategy. Let me explain this with a recommendation to the above-mentioned Bajaj Auto example. The company had the right critical success factor i.e. delivering the scooter that India wants. The right mix of Innovation would be constantly re-evaluating the CSF's by working closely with the Innovation (R&D) teams. Constant evaluation involves routine examination of its success strategies and understanding whether the success stemmed from innovation. Once the company finds out that innovation has not given rise to its current profitability, the company should start an alternate strategy in place to mitigate the loss of Innovation. The same is the case with "Truly Innovative Products", i.e., products that concentrate only on innovation. Constant evaluation is to be made for proving its success in the market. The Essence of this recommendation is *"Once the company realizes only one of the two (Innovation or Critical Success Factor) exists in its product it should have an alternate strategy in place or the company inevitably would find its market share poached"*

It is clear that the right mix is the right way towards sustained competitive advantage, neither innovation nor critical success factor can dominate over the other and understanding this, lies at the heart of heading the organization, and that requires the Chief Executive Officer to don the much mightier role of *Critical Executive Officer*.





List of Institute's Publications (Auditing) May 2010 Examination.

The following list of Institute's Publications (Auditing) is relevant for the forthcoming examination in May 2010.

Professional Education Course II (PE II) / Professional Competence Course (PCC)/ Integrated Professional Competence Course (IPCC)

I. Statements

1. Statement on Reporting under Section 227 (1A) of the Companies Act, 1956
2. Statement on the Companies (Auditor's Report) Order, 2003 (2005 Edition)

II. Standards on Auditing (SAs)

1. Basic Principles Governing an Audit (SA 200)
2. Objectives and Scope of the Audit of Financial Statements (SA 200A)
3. Agreeing the Terms of Audit Engagements (SA 210) **(Revised)**
4. Quality Control for Audit Work (SA 220)
5. Audit Documentation (SA 230) **(Revised)**
6. The Auditor's Responsibilities Relating Fraud in an Audit of Financial Statements (SA 240) **(Revised)**
7. Consideration of Laws and Regulations in an Audit of Financial Statements (SA 250) **(Revised)**
8. Communication with Those Charged with Governance (SA 260) **(Revised)**
9. Communicating Deficiencies in Internal Control to Those Charged With Governance and Management (SA 265) **(Newly Issued)**
10. Responsibility of Joint Auditors (SA 299)
11. Planning an Audit of Financial Statements (SA 300) **(Revised)**
12. Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment (SA 315) **(Newly Issued)***
13. Materiality in Planning and Performing an Audit (SA 320) **(Revised)**
14. The Auditor's Responses to Assessed Risks (SA 330) **(Newly issued)***
15. Audit Considerations Relating to Entities Using Service Organisations (SA 402) **(Revised)**
16. Evaluation of Misstatements identified During the Audit (SA 450) **(Newly Issued)**
17. Audit Evidence (SA 500) **(Revised)**
18. Audit Evidence - Additional Considerations for Specific items (SA 501)**
19. External Confirmations (SA 505)
20. Initial Audit Engagements - Opening Balances (SA 510) **(Revised)**
21. Analytical Procedures (SA 520)
22. Audit Sampling (SA 530) **(Revised)**
23. Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures (SA 540) **(Revised)**
24. Related Parties (SA 550) **(Revised)**
25. Subsequent Events (SA 560) **(Revised)**
26. Going Concern (SA 570) **(Revised)**

27. Written Representations (SA 580) **(Revised)**
28. Using the Work of another Auditor (SA 600)
29. Using the Work of an Internal Auditor (SA 610) **(Revised)**
30. Using the Work of an Expert (SA 620)
31. The Auditor's Report on Financial Statements (SA 700)
32. Comparatives (SA 710)
33. The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements (SA 720) **(Newly Issued)**

III. Guidance Notes/Study Guide/Monograph Guidance Notes on Auditing Aspects:

1. Guidance Note on Audit of Fixed Assets.
2. Guidance Note on Audit of Inventories.
3. Guidance Note on Audit of Debtors, Loans and Advances.
4. Guidance Note on Audit of Investments.
5. Guidance Note on Audit of Miscellaneous Expenditure.
6. Guidance Note on Audit of Cash and Bank Balances.
7. Guidance Note on Audit of Liabilities.
8. Guidance Note on Audit of Revenue.
9. Guidance Note on Audit of Expenses.

*Auditing and Assurance Standard (AAS) 6 "Risk Assessment and Internal Control", AAS 20 "Knowledge of the Business" and AAS 29 "Audit in a Computer Information Systems Environment" are replaced with Standard on Auditing (SA) 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment" and SA 330 "The Auditor's Responses to Assessed Risks"

** Applicable for Students of Professional Competence Course (PCC)/ Integrated Professional Competence Examination (IPCC)

Final Course (Old)

Paper 3: Advanced Auditing

I. Professional Topics/Subjects

1. Code of Ethics
(The Chartered Accountants (Amendment) Act, 2006 is applicable for November, 2008 Final Examination onwards.)

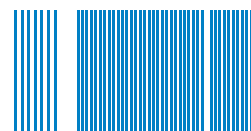
II. Engagements and Quality Control Standards on Auditing (SA/SRS/SRE/SAE)

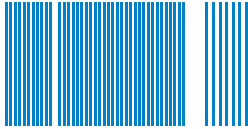
1. Framework for Assurance Engagements
2. Engagements and Quality Control Standards on Auditing (detail given as under)

S. Engagements and Quality Control

No. Standards on Auditing

1. Basic Principles Governing an Audit (SA 200)
2. Objectives and Scope of the Audit of Financial Statements (SA 200A)





ANNOUNCEMENT

3. Agreeing the Terms of Audit Engagements (SA 210) **(Revised)**
4. Quality Control for Audit Work (SA 220)
5. Audit Documentation (230) **(Revised)**
6. The Auditor's Responsibilities Relating Fraud in an Audit of Financial Statements (SA 240) **(Revised)**
7. Consideration of Laws and Regulations in an Audit of Financial Statements (SA 250) **(Revised)**
8. Communication with Those Charged with Governance (SA 260) **(Revised)**
9. Communicating Deficiencies in Internal Control to Those Charged With Governance and Management (265) **(Newly Issued)**
10. Responsibility of Joint Auditors (SA 299)
11. Planning an Audit of Financial Statements (300) **(Revised)**
12. Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment (SA 315) **(Newly Issued)***
13. Materiality in Planning and Performing an Audit (SA 320) **(Revised)**
14. The Auditor's Responses to Assessed Risks (SA 330) **(Newly Issued)***
15. Audit Considerations Relating to Entities Using Service Organisations (SA 402) **(Revised)**
16. Evaluation of Misstatements identified During the Audit (450) **(Newly Issued)**
17. Audit Evidence (SA 500) **(Revised)**
18. Audit Evidence - Additional Considerations for Specific items (SA 501)
19. External Confirmations (SA 505)
20. Initial Audit Engagements - Opening Balances (SA 510) **(Revised)**
21. Analytical Procedures (SA 520)
22. Audit Sampling (SA 530) **(Revised)**
23. Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures (SA 540) **(Revised)**
24. Related Parties (SA 550) **(Revised)**
25. Subsequent Events (SA 560) **(Revised)**
26. Going Concern (SA 570) **(Revised)**
27. Written Representations (SA 580) **(Revised)**
28. Using the Work of another Auditor (SA 600)
29. Using the Work of an Internal Auditor (SA 610) **(Revised)**
30. Using the Work of an Expert (SA 620)
31. The Auditor's Report on Financial Statements (SA 700)
32. Comparatives (710)
33. The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements (720) **(Newly Issued)**
34. Engagements to Compile Financial Information (SRS 4410)
35. Engagements to perform agreed - upon Procedures Regarding Financial Information (SRS 4400)

36. Engagements to review financial statements (SRE 2400)

37. The Examination of Prospective Financial Information (SAE 3400)

***Auditing and Assurance Standard (AAS) 6 "Risk Assessment and Internal Control", AAS 20 "Knowledge of the Business" and AAS 29 "Audit in a Computer Information Systems Environment" are replaced with Standard on Auditing (SA) 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment" and SA 330 "The Auditor's Responses to Assessed Risks"**

3. Statement on Reporting under Section 227 (1A) of the Companies Act, 1956

4. Statement on the Companies (Auditor's Report) Order, 2003 (2005 Edition)

III. Guidance Notes/Study Guide/Monograph Guidance Notes on Auditing Aspects:

1. Guidance Note on Independence of Auditors.
2. Internal control Questionnaire.
3. Guidance Note on Audit Reports and Certificates for Special Purposes.
4. Guidance Note on Audit of Fixed Assets.
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6. Guidance Note on Audit of Abridged Financial Statements.
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14. Guidance Note on Audit of Expenses.
15. Guidance Note on Sections 227(3)(e) and (f) of the Companies Act, 1956.
16. Guidance Note on Certificate of Corporate Governance (2006 Edition)
17. Guidance Note on Revision of Audit Report.
18. Guidance Note on Computer Assisted Audit Techniques (CAATs).
19. Guidance Note on Audit of Payment of Dividend.
20. Guidance Note on Audit of Capital and Reserves.

Final Examination (New Course)

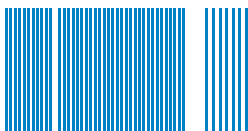
Paper 3: Advanced Auditing and Professional Ethics

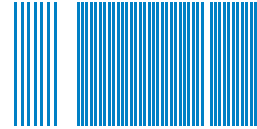
I. Professional Topics/Subjects

1. Code of Ethics
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II. Engagements and Quality Control Standards on Auditing (SA/SRS/SRE/SAE)

1. Framework for Assurance Engagements





2. Engagements and Quality Control Standards on Auditing (detail given as under)

S. Engagements and Quality Control

No. Standards on Auditing

1. Basic Principles Governing an Audit (SA 200)
2. Objectives and Scope of the Audit of Financial Statements (SA 200A)
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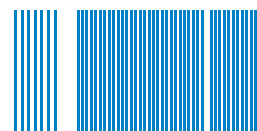
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ANNOUNCEMENTS

4th March, 2010
NO.13-CA(EXAMS)/UFM/IPCE/NOV./2009 /ROLL NO.24679/ (REGN. NO. WRO0277805):- IN EXERCISE OF THE POWERS CONFERRED BY REGULATION 41 READ WITH REGULATION 176 OF THE CHARTERED ACCOUNTANTS REGULATIONS, 1988, THE COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA HAS DECIDED THAT THE RESULT OF APPEARANCE OF THE CANDIDATE MR. NIRAV LALIT SHAH, G-12, GRAIN MERCHANT SOC., SECTOR-17, VASHI, NAVI MUMBAI-400703 VIDE ROLL NO. 24679 IN THE CHARTERED ACCOUNTANTS IPC EXAMINATION HELD IN NOVEMBER, 2009 BE CANCELLED AND THAT HE BE FURTHER DEBARRED FROM APPEARING IN THE IPC EXAMINATION TILL AND INCLUSIVE OF NOVEMBER, 2010 EXAMINATION.

(G. SOMASEKHAR)
ADDITIONAL SECRETARY (EXAMS.)

4th March, 2010
NO.13-CA (EXAMS)/UFM/IPCE/NOV./2009 /ROLL NO.35688/ CRO0152025 :- IN EXERCISE OF THE POWERS CONFERRED BY REGULATION 41 READ WITH REGULATION 176 OF THE CHARTERED ACCOUNTANTS REGULATIONS, 1988, THE COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA HAS DECIDED THAT THE RESULT OF APPEARANCE OF THE CANDIDATE MS. JAISHREE POL, 89, PRAGATI NAGAR, NEAR RAJENDRA NAGAR, INDORE-452012 VIDE ROLL NO. 35688 IN THE CHARTERED ACCOUNTANTS IPC EXAMINATION HELD IN NOVEMBER, 2009 BE CANCELLED AND THAT SHE BE FURTHER DEBARRED FROM APPEARING IN THE IPC EXAMINATION TILL AND INCLUSIVE OF NOVEMBER, 2010 EXAMINATION.

(G. SOMASEKHAR)
ADDITIONAL SECRETARY (EXAMS.)

4th March, 2010
NO.13-CA(EXAMS)/UFM/PCE/NOV./2009/ROLL NO. 30171/ ERO0128596 :- IN EXERCISE OF THE POWERS CONFERRED BY REGULATION 41 READ WITH REGULATION 176 OF THE CHARTERED ACCOUNTANTS REGULATIONS, 1988, THE COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA HAS DECIDED THAT THE RESULT OF APPEARANCE OF THE CANDIDATE MR. ROHIT SETHI, MAHABIR PHARMA & SURGICALS, SARMA COMPLEX, S. C., GOSWAMI ROAD, PANBAZAR, GUWAHATI (ASSAM)-781001 VIDE ROLL NO. 30171 IN THE CHARTERED ACCOUNTANTS PROFESSIONAL COMPETENCE EXAMINATION HELD IN NOVEMBER, 2009 BE CANCELLED AND THAT HE BE FURTHER DEBARRED FROM APPEARING IN THE PROFESSIONAL COMPETENCE EXAMINATION TILL AND INCLUSIVE OF NOVEMBER, 2010 EXAMINATION.

(G. SOMASEKHAR)
ADDITIONAL SECRETARY (EXAMS.)

4th March, 2010
NO.13-CA (EXAMS)/UFM/PCE/NOV./2009/ROLL NO. 35052/ ERO0113609 :- IN EXERCISE OF THE POWERS CONFERRED BY REGULATION 41 READ WITH REGULATION 176 OF THE CHARTERED ACCOUNTANTS REGULATIONS, 1988, THE COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA HAS DECIDED THAT THE RESULT OF APPEARANCE OF THE CANDIDATE MR. RUBAL KUMAR KEDIA, 42/2, TINCORE NATH, BOSE LANE SALKIA, HOWRAH, W. BENGAL-711106 VIDE ROLL NO. 35052 IN THE CHARTERED ACCOUNTANTS PROFESSIONAL COMPETENCE EXAMINATION HELD IN NOVEMBER, 2009 BE CANCELLED AND THAT HE BE FURTHER DEBARRED FROM APPEARING IN THE PROFESSIONAL COMPETENCE EXAMINATION TILL AND INCLUSIVE OF NOVEMBER, 2010 EXAMINATION.

(G. SOMASEKHAR)
ADDITIONAL SECRETARY (EXAMS.)

4th March, 2010
NO.13-CA(EXAMS)/UFM/PCE/NOV./2009 /ROLL NO. 55610/ NRO0196827 :- IN EXERCISE OF THE POWERS CONFERRED BY REGULATION 41 READ WITH REGULATION 176 OF THE CHARTERED ACCOUNTANTS REGULATIONS, 1988, THE COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA HAS DECIDED THAT THE RESULT OF APPEARANCE OF THE CANDIDATE MR. GOPAL MITTAL, A-57, 1ST FLOOR (F2), BRIJ VIHAR, GHAZIABAD (U.P.)-201011 VIDE ROLL NO. 55610 IN THE CHARTERED ACCOUNTANTS PROFESSIONAL COMPETENCE EXAMINATION HELD IN NOVEMBER, 2009 BE CANCELLED AND THAT HE BE FURTHER DEBARRED FROM APPEARING IN THE PROFESSIONAL COMPETENCE EXAMINATION TILL AND INCLUSIVE OF NOVEMBER, 2010 EXAMINATION.

(G. SOMASEKHAR)
ADDITIONAL SECRETARY (EXAMS.)

4th March, 2010
NO.13-CA (EXAMS)/UFM/PCE/NOV./2009 /ROLL NO. 46794/ CRO0178192 :- IN EXERCISE OF THE POWERS CONFERRED BY REGULATION 41 READ WITH REGULATION 176 OF THE CHARTERED ACCOUNTANTS REGULATIONS, 1988, THE COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA HAS DECIDED THAT THE RESULT OF APPEARANCE OF THE CANDIDATE MS. ARTI MALHOTRA, BAZAR BARADARI, OPP. BANK OF BARODA, NAGINA, DISTT. -BIJNOR-246762, U.P. VIDE ROLL NO. 46794 IN THE CHARTERED ACCOUNTANTS PROFESSIONAL COMPETENCE EXAMINATION HELD IN NOVEMBER, 2009 BE CANCELLED.

(G. SOMASEKHAR)
ADDITIONAL SECRETARY (EXAMS.)

4th March, 2010
NO.13-CA (EXAMS)/UFM/PCE/NOV./2009 /ROLL NO. 70035/ CRO0200349 :- IN EXERCISE OF THE POWERS CONFERRED BY REGULATION 41 READ WITH REGULATION 176 OF THE CHARTERED ACCOUNTANTS REGULATIONS, 1988, THE COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA HAS DECIDED THAT THE RESULT OF APPEARANCE OF THE CANDIDATE MR. KUNDAN KUMAR, 12/14, NAVJIVAN COMM., BLDG. NO-3, LAMINGTON ROAD, MUMBAI-400008, MAHARASTRA VIDE ROLL NO. 70035 IN THE CHARTERED ACCOUNTANTS PROFESSIONAL COMPETENCE EXAMINATION HELD IN NOVEMBER, 2009 BE CANCELLED.

(G. SOMASEKHAR)
ADDITIONAL SECRETARY (EXAMS.)

4th March, 2010
NO.13-CA (EXAMS)/UFM/PCE/NOV./2009 /ROLL NO. 54003/ NRO0190331 :- IN EXERCISE OF THE POWERS CONFERRED BY REGULATION 41 READ WITH REGULATION 176 OF THE CHARTERED ACCOUNTANTS REGULATIONS, 1988, THE COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA HAS DECIDED THAT THE RESULT OF APPEARANCE OF THE CANDIDATE MR. VIKAS GARG, B-4/18, SECTOR-8, ROHINI, DELHI-110085 VIDE ROLL NO. 54003 IN THE CHARTERED ACCOUNTANTS PROFESSIONAL COMPETENCE EXAMINATION HELD IN NOVEMBER, 2009 BE CANCELLED.

(G. SOMASEKHAR)
ADDITIONAL SECRETARY (EXAMS.)

4th March, 2010
NO.13-CA (EXAMS)/UFM/PE-II/NOV./2009 /ROLL NO. 11558/ CRO0201277 :- IN EXERCISE OF THE POWERS CONFERRED BY REGULATION 41 READ WITH REGULATION 176 OF THE CHARTERED ACCOUNTANTS REGULATIONS, 1988, THE COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA HAS DECIDED THAT THE RESULT OF APPEARANCE OF THE CANDIDATE MR. SUMIT KUMAR AGARWAL, M. L. AGARWAL, MILL AREA, PUNJAB BUILDING, NEAR HOTEL KARNEL, SAKCHI, JAMSHEDPUR-831001 VIDE ROLL NO. 11558 IN THE CHARTERED ACCOUNTANTS PROFESSIONAL EDUCATION-II EXAMINATION HELD IN NOVEMBER, 2009 BE CANCELLED.

(G. SOMASEKHAR)
ADDITIONAL SECRETARY (EXAMS.)

4th March, 2010
NO.13-CA (EXAMS)/UFM/PE-II/NOV./2009 /ROLL NO. 02749/ WRO0192583

:- IN EXERCISE OF THE POWERS CONFERRED BY REGULATION 41 READ WITH REGULATION 176 OF THE CHARTERED ACCOUNTANTS REGULATIONS, 1988, THE COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA HAS DECIDED THAT THE RESULT OF APPEARANCE OF THE CANDIDATE MR. KAPIL ASHOK KUMAR RATHOR, GAJANAN NIWAS, SHRI PADLE, MADHUKAR BABAR CHAWLE, NR. JAIN TEMPLE, PRADHIKARAN, NIGDI, PUNE-411044 VIDE ROLL NO. 02800 AND ROLL NO. 02749 IN THE CHARTERED ACCOUNTANTS PROFESSIONAL EDUCATION-II EXAMINATIONS HELD IN JUNE, 2009 AND NOVEMBER 2009 RESPECTIVELY BE CANCELLED AND FURTHER HE BE DEBARRED FROM APPEARING IN THE PE-II/IPCE/PCE EXAMINATION TILL AND INCLUSIVE OF NOVEMBER 2010 EXAMINATIONS.

(G. SOMASEKHAR)
ADDITIONAL SECRETARY (EXAMS.)

IMPORTANT ANNOUNCEMENT

Students appearing for the May 2010 Examination may please note that all questions will be compulsory in the examinations. Some questions relating to the same topic may carry internal options.

Study Tips and Examination Technique

We at Board of Studies have always endeavoured to provide plethora of useful educational services to the students. To strengthen your knowledge and further build confidence for examinations, we briefly outline some tips for effective study and preparation. The Chartered Accountancy examinations are aimed at testing your theoretical as well as practical knowledge. Passing exams is partly a matter of intellectual ability, but however accomplished you are in that respect you can improve your chances significantly by the use of appropriate study and revision techniques. Here we try to provide you general guidance as to how to study for your examinations. The guidance given herein is supplementary to the manner of study followed by you and is intended to improve your existing technique, and aims to give ideas on how to improve your existing study techniques, as it is essential that you adopt methods and techniques with which you feel comfortable.

Director, Board of Studies

Know your Syllabus

- Go through the syllabus carefully.
- Understand the linkages between chapters at macro-level.

Plan your Study

- Make a study plan covering the entire syllabus and then decide how much time you can allocate to the subject on daily/weekly basis.
- Allocation of time must be done keeping in view your office commitments as well as social needs and personal hobbies.
- Maintain the time balance amongst various subjects such as purely descriptive type and numerical-based papers. Allocate time in such a manner that your interest is well sustained and you are able to score well in the final examination as well.
- Always assess your preparation periodically, say, on monthly basis. If necessary, revise your plan and allocate more time for the subject in which you feel deficient.

Preparing Study Strategy

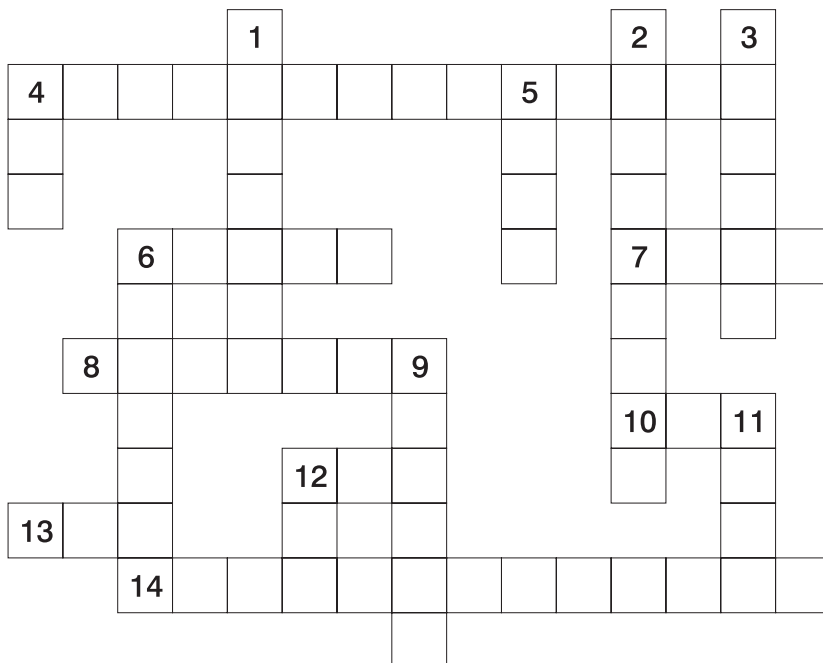
- Read, understand and assimilate each chapter.
- First of all, have an overview of the chapter to understand the broad contents and sequence of various sub-topics.
- Do the introspection while going through the chapter and ask various questions to yourself.
- Read each chapter slowly to ensure that you understand and assimilate the main concept. If need be, read once again with concentration and then try to attempt exercises at the end of the chapter.

- Recapitulate the main concept after going through each chapter by way of brief notes.
- Prepare notes in the manner you feel comfortable covering all key points. Use mnemonic form e.g. C V P denoting cost, valuation and price.
- One may use highlighter/underlining the significant points or writing down in the margin.
- The fact that how well you have understood the topic is your ability to attempt the questions given in the exercises as well as in the practice manual. Make a serious attempt at producing your own answers but at this stage do not be much concern about attempting the questions in examination based conditions. In particular, at initial stages, it is more important to understand and absorb the material thoroughly rather than to observe the time limits that would apply in the actual examination conditions.
- Always try to attempt the past year examination question paper under examination conditions.
- Revision of material should never be selective in any case. Because broad coverage of the syllabus is more important than preparing 2-3 chapters exhaustively.
- Read through the text along with notes carefully. Try to remember the definition and important formulae.

Examination Technique

- Reach examination hall well in time.
- Plan your time so that equal time is awarded for each mark. Keep sometime for revision as well.
- Always attempt to do all questions. Remember that six average answers fetch more marks than five best answers. Therefore, it is important that you must finish each question within allocated time.
- Read the question carefully more than once before starting the answer to understand very clearly as to what is required by the paper-setter.
- Always be concise and write to the point and do not try to fill pages unnecessarily.
- In case a question is not clear, you may state your assumptions and then answer the question.
- While writing answers in respect of essay-type questions, try to make sub-readings so that it catches the examiner's eye. In case of case-study, be very precise and write your conclusion in a clear manner.
- Reference to standards, guidance notes, section of various legislation, etc to be done in a clear-cut manner.
- Revise your answers carefully underline important points before leaving the examination hall.

Best of Reading and Luck!



CROSSWORD

ACROSS

4. Investment in these bonds to qualify for additional deduction of Rs.20,000 w.e.f. A.Y.2011-12.
6. Investment-linked tax incentive is proposed to be extended to the specified business of building and operating a
7. A fortune-500 company operating major refineries producing petroleum fuels.
8. It has also been included in the definition of "property", transfer of which would attract the provisions of section 56(2)(vii).
10. New tax proposed to be introduced from 1.4.2011.
12. Key on the computer keyboard to advance the cursor to the next stop.
13. Failure to furnish would attract very high rates of deduction of tax at source.
14. The limits of for tax audit is proposed to be increased from Rs.10 lakh to Rs.15 lakh.

Down

1. The definition of "property" for the purpose of attracting the provisions of section 56(2)(vii) to include only assets and not stock-in-trade.
2. It is proposed to be reduced from 10% to 7.5% for domestic companies.
3. These proceedings would henceforth fall within the definition of "case" which can be admitted by the Settlement Commission.
4. The discounted cash flow rate of return.
5. Contribution to this scheme would henceforth qualify for deduction under section 80D.
6. The period for completion of these projects is proposed to be extended from 4 to 5 years to qualify for tax benefit under section 80-IB.
9. An apex rural development bank providing refinance for agriculture, allied activities, small scale industries, cottage and village industries etc.
11. An acid ratio indicates whether a firm has enough short-term assets to cover its immediate liabilities without selling inventories.
12. Threshold limits of are proposed to be increased to reduce compliance burden.