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THE CHARTERED ACCOUNTANT JOURNAL

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

SET UP BY AN ACT OF PARLIAMENT

YOUNG MEMBERS' EMPOWERMENT

MOVING TOWARDS NEW FRONTIERS

Advertisement

Young Members' Empowerment

For 2014-15, the ICAI constituted a new Committee, the *Young Members' Empowerment Committee*, with an objective to anticipate and work on the requirements of the young members, to prepare and gear them up for the vibrant global economy and to explore professional opportunities and develop new employment avenues for them. The ICAI has responded quite timely; take note of our demography, where the average age is 28 and 74% of our population is under 40. Besides, the ICAI has accelerated the pace of its capacity-building measures for the young alumni, with the aim to create a strong line of socially responsible chartered accountants for the nation. The day is not far away, when we will have one of the largest forces of competent accountancy professionals who will be ready to serve the profession irrespective of geographical boundaries.

Empowerment of our young members is a structural and educational process whereby they gain an aptitude for decision-making and implementation of changes in their profession in view of the national development; thus, they are able to perform their professional duties to the public at large with utmost care. In the last five years, more than 80,000 members have joined the profession, which is the reason why the ICAI should think of serving their interests exclusively. It is a high priority agenda. Today, the major challenge before the profession is, of course, to ensure a well-supported professional guidance to them. It demands a collaborative effort to help improve their career prospects.

The young usually are the backbone, be it of a family, society, nation, or for that matter a profession. They are torchbearers responsible for taking our profession's name to the future generations. In a recently published report, *40 under 40* in The Economic Times, of the listed country's most intense young CEO-level executives, most of them have some academic training in finance. Over time, the industry has realised that understanding finance should be a mandatory requirement for top executives' job. With an affirmative business environment, India Inc. has got ample opportunities at present as well as in the pipeline for the young, the talented and qualified. Furthermore, the diversity of our national culture adds another feather to our professionals' competence, raising the bar of their human and organisational understanding. With technological advancement, young professionals today are getting technology-savvy and they know how to use technology in communicating their ideas. Capable of taking risks, they are generally curious to grasp anything new and not averse at all to try out anything different. Transformation of the energy called *youth* will create an edge for our economy. Accountancy profession too will tap this energy.

Being a partner in nation-building, we will have to connect with our times and act on our vision to contribute to the agenda of our national growth. Senior members will have to ensure that their juniors are on the right path. Plus, they should understand as one of the most important 19th German language writers, the Austrian novelist, Marie von Ebner-Eschenbach put it, "*One remains young as long as one can still learn, can still take on new habits, can bear contradictions.*" Plus, the ICAI will ensure a contemporary and quality guidance and support to them. In its Action Plan (2014-15), it has created a special section to build up initiatives for its young members.

The *Young Members Empowerment Committee* of ICAI will soon launch a portal dedicated to them, so as to provide them information on professional changes and developments including networking and employment opportunities. Soon, the ICAI will launch a mentoring programme as a hand-holding exercise supporting the young accountants, using its resource pool of successful member-professionals and institutional faculty members. This will in fact, build strong relationship between the two generations; hopefully, the synergy thus developed will give new dimensions to the profession. Let us consider the golden words of the maverick Mae West, "*You're never too old to become younger.*" Specialised low-cost workshops and training sessions will be launched on topics like IFRS, international taxation, accounting standards and GST. Workshops will also be held on soft-skills to hone their communicative competence. The *Committee* will also organise special story-telling sessions by successful senior members relating to their professional journey.

With its sincerest concerns and initiatives, ICAI is committed to its objective in the interests of its young members and it will keep up with the time, as far as the training and technology is concerned. ■

-Editorial Board ICAI – *Partner in Nation Building*

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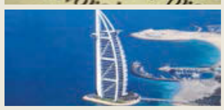

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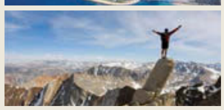

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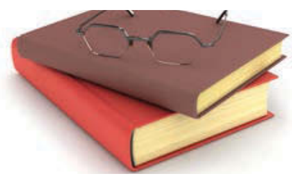

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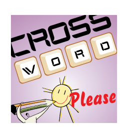

From the President

CA. K. Raghu, President, ICAI

> 'The young members in our fraternity symbolise enthusiasm, energy and enterprise. Given their professional upbringing by their alma mater, the power of practical training and insightful multi-purpose knowledge & skills, our young members dreaming big and daring newer heights is well justified. I, for one, can feel the tidal surge of creative energy in their heads and hearts. I have committed myself to empowerment of young members and am very much alive to their dreams and changing expectations.'

Dear Professionals,

Warm Greetings to you.

The verdict is clear—the entire nation has voted for 'a change for better.' It is a mandate for stability and growth. I, on behalf of the Indian accounting fraternity, welcome this phenomenon and collectively commit ourselves to the growth agenda of the new government in line with our tradition of being 'partners in nation building'.

In fact, I feel that a key game-changer in these polls has been our youth churning for change. The enthusiastic turnout of youth has not only raised the poll percentage but also the level of expectations from the new government. As such, in addition to the top agenda of *fighting inflation, reviving economic growth* and *ensuring good governance*, the need of the hour is also to fulfil the dreams and aspirations of our youth for better job opportunities, better quality of life and brighter future. The young members among the CA fraternity have similar expectations in this new scenario.

Young CAs: Being Progressive and Staying Relevant

The accounting profession in this country has been very progressive and has stayed relevant in this fast changing and complex world. The young members in our fraternity symbolise enthusiasm, energy and enterprise. Given their professional upbringing by their alma mater, the power of practical training and insightful multi-purpose knowledge and skills, our young members dreaming big and daring newer heights is well justified. I, for one, can feel the tidal surge of creative energy in their heads and hearts. I have committed myself to empowerment of young members and am very much alive to their dreams and changing expectations. To fulfill the expectations of young members, which constitute almost half of the ICAI membership, we have formed the first ever 'Young Members Empowerment Committee'.

We have already activated the Action Plan of this Committee and are helping them chase their dreams, scale newer heights of success, and move towards new professional frontiers. My idea is to empower them and turn the tide of their aspirations, yearnings and energy to the favour of our profession and the nation. To this effect, we are helping them specialise in newer areas of ever widening professional realms. Further, an initiative is afoot wherein our young members will be mentored by successful practitioners, industry leaders and other eminent professionals.

We are also coming out with 'Young Members Practioner Kit' and developing a 'Young Members Portal' to provide a single window of information on new practice opportunities, networking, employment avenues and new areas of specialisation. We will soon launch specialised Certificate Courses and workshops for the new entrants to our profession and also introduce the 'Young CFO Award' to recognise top performers.

Tapping the Growing Opportunities in the Gulf

Borders are no bar to knowledge professionals and our members, especially the young, are proving that right. Although their outbound destinations include different parts of the world, one of their most favourite destinations is the Gulf region, comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates. The resurgent Gulf region offers excellent growth opportunities to thousands of our members serving there. They constantly need our guidance and support to perform better and advance their careers. As part of our drive to achieve this objective, I had the opportunity of interacting with our members in Dubai, Doha and Kuwait recently.

I am happy to note that the Indian Chartered Accountants are highly respected for their commitment and hard-working attitude there. With the aim to accentuate that feeling and empower young members to take up global careers, we have launched country specific ICAI Global Career e-Kit focusing on UAE and Kuwait. During these visits, I also had the opportunity of meeting women and young members of our profession. I also visited the Consul General of India at Dubai besides the Dubai Chambers of Commerce and Industry to facilitate new opportunities and to support our members serving in the region. A detailed report on my visit to the region is published elsewhere in this issue.

Pushing Professional Agenda in SAARC

I am happy to share with you that we have a strong presence at SAFA (South Asian Federation of Accountants) which is a forum of professional accountancy bodies committed to positioning and developing accountancy profession in the countries of SAARC region. It has been my endeavour to utilise the SAFA platform to further our professional interests. With this objective, I recently attended the meeting of the *32nd SAFA Board* and chaired *SAFA Committee on Education, Training and CPD* in Islamabad. On the sidelines, I also met the leadership of the Institute of Chartered Accountants of Nepal (ICAN), Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Chartered Accountants of Bangladesh. We have initiated discussions with them for MoUs on knowledge sharing and mutual recognitions.

Helping Government to Move towards GST

You would agree with me that one of the biggest taxation reforms in India—the Goods and Service Tax (GST)—will integrate State economies and boost overall growth. GST will create a single, unified Indian market to make the economy stronger besides boosting tax collections. It is estimated that India will gain $15 billion a year by implementing GST as it would promote exports, raise employment and boost growth. As such, implementation of GST is high on the new government's agenda. The Indian accountancy profession is convinced about the immense benefits of GST and is committed for its smooth roll-out and implementation.

In a recent meeting with the CBEC Chairperson Ms. J. M. Shanti Sundharam, we offered our support to the Government in clearing the path for implementation of GST in India. We proposed to organise training and awareness programmes for Excise and Service Tax officials across the country. She appreciated our concerns and asked us to conduct awareness programmes on GST in various states.

We also submitted a representation to introduce Service Tax Audit to ensure better compliance by the tax payers.

Bank Branch Audit: Our Concerns

Of late, there has been an increase in the number Non-Performing Assets (NPAs) in Public Sector Banks (PSBs). These are being reported not only at the bigger branches but also at the smaller ones. ICAI, as a partner in nation building, is deeply concerned about safeguarding the Government & public interest in PSBs. Keeping this in mind, we are strongly opposing the increased threshold limit of branch statutory audits at every level of Indian polity. In a series of our representations, we have made out a strong case for reducing the threshold limit of advances for audit of branches of public sector banks to ₹ 10 crore. We recently met Dr. Gurdial Singh Sandhu, Secretary of the Department of Financial Services, in this regard.

In this context, it is worth mentioning that smaller branches of PSBs normally deal with the unorganised sector of the Indian economy, such as the agriculture and priority sector advances wherein the concerns relating to security and documentation are quite pertinent and are more exposed to risk of resulting into NPAs. We feel that phasing out of statutory audit in such a scenario would be akin to removing an experienced guard from the treasure.

Accrual Accounting—Role of ICAI

I see accrual-based accounting as an important initiative to reform the system of accounts and financial reporting in Government. A transition from cash to accrual-based accounting would make financial reporting more transparent and meaningful, leading to financial statements of Government bodies reflecting the full economic impact of the decisions taken. Through this reform, our Central and State governments can demonstrate their commitment to achieving greater transparency and accountability, and also to producing better information for decision-making—which in turn should lead to the better use of public resources.

We at ICAI not only support this move but are also deeply involved in taking this reform initiative forward in various government entities and departments. We are working as an enabling arm of Government Accounting Standards Advisory Board (GASAB) of the Comptroller and Auditor General (CAG) of India which is spearheading the transition from the cash-based to accrual-based accounting system in India. In line with that role, we recently participated in 30th meeting of GASAB and discussed pilot studies conducted by us in the Department of Post and certain units of Central Public Works Department.

The meeting acknowledged and appreciated our role in this reformatory initiative and requested us to guide other governmental entities to shift to Accrual Accounting. We have already initiated discussions with the Ministry of Railways and the Ministry of Defence in this regard. I am also happy to share with you that we will soon be part of the GASAB process for formulation of Government Accounting Standards and development of template for introduction of Accrual Accounting.

Reaching out to Members with the first *Google Hangout*

I believe in leveraging technology to reach out to the members and students spread across the country. Taking this drive forward, we recently had an interactive live session on 'Google Hangout' with our tech-savvy members—yet another first in our history. The Google Hangout is a free system of video-conferencing done using the Google+ platform. I am happy to note that the interactive live session with the members across the world was a great success. In case you have missed this event, the archived Google Hangout is available on our website. You may look forward to more such professional Hangouts in future.

Big Data—Opportunity for Members

Big Data has emerged as the next big opportunity for the profession. Big Data Analytics is here to stay and Chartered Accountants with the ability to analyse Big Data can play important roles in strategy and decision making. I foresee a great future in this emerging knowledge domain and call upon the tech savvy professionals to plunge into Big Data Analytics and leverage the huge opportunities available around the world.

ICAI Re-Connect—Membership Revival Campaign

I am pleased to inform the members that we have launched a new membership revival campaign--*ICAI Reconnect*, to re-connect the members back to the Institute. It has been noticed that a sizable number of CAs in industry are not renewing their membership as a result of which they are disconnected with the Institute. I appeal to all such members to join the professional mainstream and take advantage of wide array of our initiatives.

Some Significant Student-Friendly Initiatives

I believe that our students are our future. Their welfare and capacity building will ultimately translate into a brighter future of our profession. In line with that spirit, we have recently taken many student-friendly initiatives. Let me share with you some very important ones here.

- ***Three New Examination Centres:*** For the convenience of our students, we have approved three new examination centres at Tirunelveli (Tamil Nadu), Ongole (Andhra Pradesh) and Dhule (Maharashtra), effective from November 2014 examinations.

- ***Online Answer Books:*** As a green initiative, students are now provided certified copies of their answer books in soft copies. Through a secure login identity and password intimated to them, they can visit the particular site and view their answer books at their convenience.

- ***Online Correction Post-Submission:*** Even after submission of examination forms, students have another opportunity to correct the particulars online, *i.e.*, at http://icaiexam.icai.org, including change of examination centre, group and medium, *etc*. This link called Correction Window will enable them to communicate online with our Examination Department for making corrections in the examination forms.

- ***Help to Differently-abled Students:*** We will now provide services of a writer/scribe to our differently-abled students in some cities, *i.e.*, 15 cities to be precise, to begin with, effective with May 2014 examinations. A city-wise panel of eligible writers/scribes is already there on our website. Effective from November 2014, we will extend the facility of providing computers to our differently-abled students for writing their answers with suitable safeguards.

Before I conclude, I wish to re-emphasise that a Chartered Accountant must be committed to lifetime of learning, and to change with times. In a time of drastic change it is the learners who inherit the future. In today's integrated world, information is the gateway to success. Let's be 'information and decision specialists' and help our stakeholders take enlightened decisions.

Best wishes,

K. Raghu

CA. K. Raghu
President, ICAI
New Delhi, May 24, 2014

Reader's Write

Look and Feel of the Journal is Impressive and Motivating

I am impressed by your approach and style of work-analysis. You have to be complimented for setting up CRET, HRTC, IDC and TDC. Your messages are touching and inspiring like a live wire. The format and look of our popular journal feels good and it motivates all readers. The content and themes are sure to inform and provoke thoughts of members and students alike. Bravo! I appreciate the outstanding job done by all staff members. A Leader is truly the one who *Knows, Shows* and *Goes* the way, you are truly the one. Good luck and good wishes.

-CA. Vijay Shrivastava

Journal Information Packed

It has been my monthly routine to read the CA Journal since 1970 which has been giving lots of information for Chartered Accountants, students at large and other readers. The May 2014 issue *"Leadership and Influence"– Bench Marking Excellence* was very informative and knowledge enhancing. The key aspects of this issue were well explained and highlighted. Knowledge packed Articles on IFRS Convergence, Companies Act, 2013, Taxation, Information Technology were all worth reading while providing valuable updates, besides regular updates line Legal Updates, National Updates, International Updates and other features. The Editorial Titled "Leadership and Influence" for inclusive, sustainable growth too also very well written and explained. It is to be specially noted that From The President has become further impressive with brief and to the point information for the readers. Overall, the journal is getting more impressive month after month.

-CA. Subhash Chandra Podder

e-Journal and Highlights- A Wonderful Initiative

The e-journal and highlights of the journal is a wonderful initiative. Read it and liked it much. I take this opportunity to wish you all the very best.

-CA. Jagadheesh Kumar

Fantastic Initiative

The e-journal is appreciable. Thank you so much for introducing the e-journal. The arrangement of topics in the journal is planned in a good way. I congratulate the team for the good work.

-CA. B. S . Narayan

Journal-Lighter and Brighter!!

I take this opportunity to place my words of appreciation for nice and visible changes made in the Chartered Accountant Journal for May, 2014. Extremely authentic cover--- although I just wondered had the shadow of the red ball been too red! Very potent and relevant theme. This time, the journal was lighter and brighter. Thumbs up. I always make it a point to read communications such as 'From The President' and 'Editorial' which are always to the point and relevant which concerns the entire profession. In this issue, timing of the articles focused on 'The Companies Act, 2013' is perfect and more particularly those by CA. Abhijit Bandyopadhyay and CA. Anil Sharma are impressive. Back Page, for me, is the 'first page'. I open that first and that gives me reasons to smile and think. Formatting of articles has improved too. Photo page gives us ideas about developments in our profession. Thank you, Sir! ICAI Knowledge Gateway is a good step to bring the profession closer, especially those employed in industry. Once again, I congratulate your journal team for giving us quality time!

-CA. Rajiv Jain

May 2014 issue, a Benchmark in Itself

The May 2014 issue of the journal that focused on the theme *'Leadership and Influence'* justified one of the strategic focus area of the ICAI Action Plan for the year very well. The theme was thoroughly highlighted through the inspiring President's message and the editorial. The articles on 'The Companies Act, 2013' and 'IFRS convergence' were knowledge enhancing. The Cover page cannot go without a mention which was brilliantly designed and was very thematic. The paper quality with its newly achieved glossy finish added to the look, feel and appeal of the journal to the best standards. I would like to congratulate the President for reaching out its members in the best and most user friendly way through the e-version of the President's Message in a drive to leverage the technology to its best.

-CA. Ved Vrat Sharma

EDITOR

For the Attention of Readers

Readers' attention is specifically invited to the fact that the views and opinions expressed or implied in The Chartered Accountant journal are those of the respective authors only, and not of the ICAI. The ICAI bears no responsibility of any sort whatsoever in case of any action taken by any reader based on any article published in the Journal.

Write to Editor

'Information is Power' and our ever-evolving profession needs more and more of that today than ever before. Do you have any relevant points to make, experiences to share, and views to spread among the CA fraternity? If yes, e-mail us at eboard@icai.org/nadeem@icai.org or write to:
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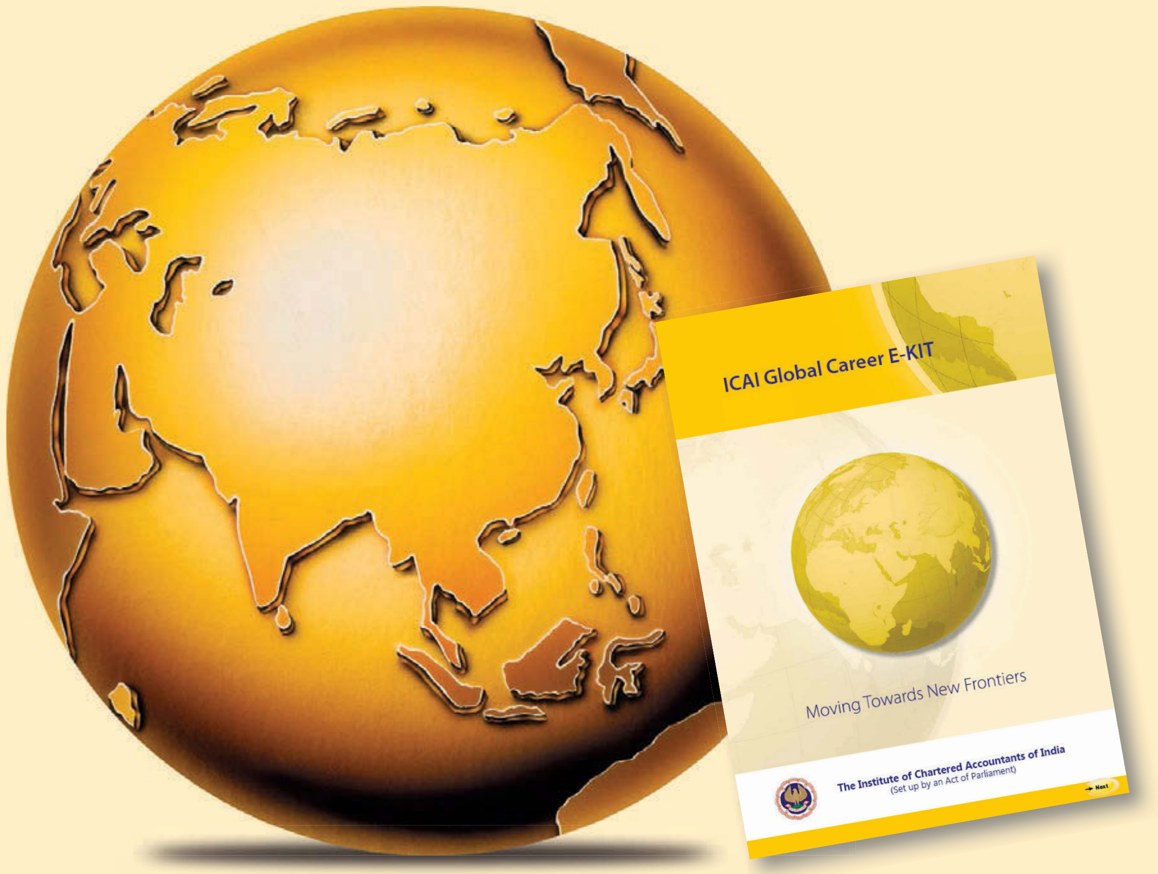

ICAI introduces Global Career E-kits to facilitate members to leverage global opportunities

Chartered Accountants from India are well known globally for their analytical abilities, skills and experience to cater to the specific and customized requirements of the clients. With the world operating in newer dynamics, CAs too are exploring the emerging opportunities at the global front. To assist such Chartered Accountants and help them establish a firm foothold in the country of their choice, ICAI would be launching handy guides -'ICAI Global Career E-Kit' for various countries. These kits will provide primary information of a country for the members intending to go abroad for professional forays.

The E-Kit covers general information of related jurisdiction such as demographic details, economic environment, useful business information, visa requirements etc. In addition, useful information such as contact details of local Chapter, information on MoU/MRA and FAQs for members abroad is also included.

Recently "ICAI Global Career E-Kit" was launched for UAE and Kuwait respectively. In order to enable ICAI members to capitalize on opportunities abroad, more such country specific modules will be introduced soon.

For more information on E-Kits log on to www.icai.org

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

www.icai.org

ICAI - Setting benchmarks of professional excellence

Photographs

Meeting with Financial Services Secretary

ICAI President CA. K. Raghu greets Dr. Gurdial Singh Sandhu, Secretary, Department of Financial Services, with a bouquet, along with Central Council members CA. Anuj Goyal, CA. Vijay Kumar Gupta, CA. Charanjot Singh Nanda and CA. Shyamlal Agarwal (May 7, 2014)

Meeting with ICAEW Head of New Business Operations

ICAI President CA. K. Raghu greets ICAEW Head of New Business Operations Mr. Justin West with a bouquet, along with Vice-President CA. Manoj Fadnis (April 22, 2014)

Meeting with CBEC Chairperson

ICAI President CA. K. Raghu greets CBEC Chairperson Smt. J. M. Shanti Sundharam with a bouquet, along with Vice-President CA. Manoj Fadnis and Central Council member CA. Atul Kumar Gupta (May 8,2014)

Meeting with the then Union Minister of Environment & Forests, Petroleum & Natural Gas

ICAI President CA. K. Raghu greets the then Union Minister of Environment & Forests, Petroleum & Natural Gas Dr. M Veerappa Moily with a bouquet, along with ICAI Secretary Shri. T. Karthikeyan (May 7, 2014)

Meeting with West Bengal Chief Secretary

ICAI President CA. K. Raghu greets West Bengal Chief Secretary Shri Sanjay Mitra, along with Central Council member CA. Sumantra Guha and EIRC Chairman CA. Subhash Chandra Saraf (April 25, 2014)

ICAI's *Google Hangout* Show

ICAI President CA. K. Raghu and Vice-President CA. Manoj Fadnis address the participants at the first Google Hangout show (May 13, 2014)

Photographs

Visit to Dubai Chapter of ICAI

Launching Global e-Kit

ICAI President CA. K. Raghu launches the Global e-Kit while Counsel-General of India in Dubai Shri Anurag Bhushan and ICAI Vice-President CA. Manoj Fadnis, among others look on (May 1, 2014)

Meeting with Dubai Chamber Officials

ICAI President CA. K. Raghu, Vice-President CA. Manoj Fadnis and Chapter Chairman CA. Nandkumar A. along with the Officials of Dubai Chamber during the visit (May 1, 2014)

Members' Meet at Kuwait Chapter of ICAI

ICAI President CA. K. Raghu, Vice-President CA. Manoj Fadnis, Chapter Chairman CA. Gaurav Dokania and ICAI Addl. Director Shri Rakesh Sehgal, along with members of the ICAI at the Chapter (May 4, 2014)

SAFA Committee on Education, Training and CPD

ICAI President and Committee Chairman CA. K. Raghu along with other members and participants during the meeting (May 2, 2014)

32nd SAFA Board Meeting in Islamabad

ICAI President CA. K. Raghu with SAFA President (ICAI past-President) CA. Subodh Kumar Agrawal, among other members of the Board at the meeting (May 3, 2014)

Photographs

Meeting Women Members and Young Members in Gulf Region

Doha Chapter

ICAI President CA. K. Raghu and Chapter Chairman CA. Hatim Hussain with women members and young members of ICAI at the Chapter (May 9, 2014)

Kuwait Chapter

ICAI President CA. K. Raghu, Vice-President CA. Manoj Fadnis and Chapter Chairman CA. Gaurav Dokania along with women members of ICAI at the Chapter (May 4, 2014)

Dubai Chapter

ICAI President CA. K. Raghu, Vice-President CA. Manoj Fadnis and Chapter Chairman CA. Nandkumar A. along with women members and young members of ICAI at the Chapter (May 1, 2014)

SAFA BPA Award Function in Islamabad

ICAI President CA. K. Raghu presents memento to SAFA Board member Mr. Zia ul Mustafa, while SAFA President (and ICAI past-President) CA. Subodh Kumar Agrawal and other SAFA Board members Mr. Suresh C. Mohanty and Prof. Lakshman Watawala, among others, applaud (May 3, 2014)

Visit to Bangalore Branch of SIRC

Bangalore Branch Chairman CA. Babu K. Thevar greets ICAI President CA. K. Raghu with a bouquet, in the presence of Central Council member CA. M. Devaraja Reddy, among others (April 24, 2014)

Photographs

Inauguration of Two SIRC Branches

Anantapur Branch of SIRC

ICAI President CA. K. Raghu and Branch Chairman CA. B. Sreenivasa Kumar display the ICAI notification, in presence of Central Council members CA. J. Venkateswarlu and CA. M. Devaraja Reddy, among others (April 27, 2014)

Kurnool Branch of SIRC

ICAI President CA. K. Raghu lights the lamp to inaugurate, while his better half, Central Council members CA. J. Venkateswarlu and CA. M. Devaraja Reddy, and SIRC Chairman CA. P. V. Rajarajeswaran, among other members, share the moments (April 27, 2014)

Visit to EIRC of ICAI

ICAI President Greeted

EIRC Chairman CA. Subhash Chandra Saraf welcomes the ICAI President CA. K. Raghu with a garland (April 25, 2014)

Extended Welcome of ICAI President

EIRC Chairman CA. Subhash Chandra Saraf along with the officials of the Regional Council and members shares the space with the ICAI President CA. K. Raghu on his visit (April 25, 2014)

MBF Residential Certificate Course in Hyderabad

ICAI President CA. K. Raghu and Central Council member CA. M. Devaraja Reddy stand together with all the participants of the Certificate Course (March 5, 2014)

Know Your Ethics

Ethical Issues in Question-Answer Form

Q. What are the measures available to a Professional Accountant in case a conflict of interest arises?

A. A professional accountant in public practice should take reasonable steps to identify circumstances that could pose a conflict of interest. Such circumstances may give rise to threats to compliance with the fundamental principles.

A Professional Accountant should evaluate the significance of any threats. Depending upon the circumstances giving rise to the conflict, safeguards should ordinarily notify the client/all known relevant parties.

The additional safeguards *e.g.,* the use of separate engagement teams, clear guidelines for members of the engagement team on issues of security and confidentiality, regular review of the application of safeguards by a senior individual not involved with relevant client engagements should also be considered.

Q. What are the safeguards available to a Professional Accountant in Public Practice in respect of Custody of Client Assets?

A. A professional accountant in public practice entrusted with money (or other assets) belonging to others should:

(a) Keep such assets separately from personal or firm assets;

(b) Use such assets only for the purpose for which they are intended;

(c) At all times, be ready to account for those assets, and any income, dividends or gains generated, to any persons entitled to such accounting;

(d) Comply with all relevant laws and regulations relevant to the holding of and accounting for such assets.

Q. What is Independence?

A. Independence requires:

Independence of Mind-The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

Independence in Appearance-The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's integrity, objectivity or professional skepticism had been compromised.

Q. What is the Conceptual Framework to Independence?

A. It is to be applied to specific circumstances and relationships. It gives various examples about the threats to independence that may be created by specific circumstances and relationships and also provides how professional judgment is used to determine the appropriate safeguards to eliminate threats to independence or to reduce them to an acceptable level depending on the characteristic of the individual assurance engagement.

Q. What is Engagement Period?

A. The Engagement Period starts when the assurance team begins to perform assurance services and ends when the assurance report is issued, except when the assurance engagement is of a recurring nature.

Q. What is the meaning of Direct Financial Interest?

A. Direct Financial Interest means

- Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or
- Beneficially owned through a collective

* Contributed by the Ethical Standards Board of the ICAI

investment vehicle, estate, trust or other intermediary over which the individual or entity has control.

Q. What is the meaning of Indirect Financial Interest?

A. Indirect Financial Interest means a financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control.

Q. What are the examples of Close Business Relationships giving rise to conflict of interest?

A. Examples of Close Business Relationships giving rise to conflict of interest are
- (a) Material financial interest in joint venture
- (b) Arrangements to combine one or more services or products of the firm with one or more services or products of the assurance client and to market the package with reference to both parties.
- (c) Business relationships involving an interest held by the firm, a network firm or a member of the assurance team or their relative(s) in a closely held entity when the audit client or a director or officer of the audit client, or any group thereof, also has an interest in that entity.
- (d) The purchase of goods and services from an assurance client by the firm (or from a financial statement audit client by a network firm) or a member of the assurance team, *etc.*

Q. When conflict of interest arises, what are the options available to a firm/network firm when the firm/network firm has a direct financial interest/indirect financial interest in a Financial Statement Audit Client or a client that is not a Financial Statement Audit client?

A. When conflict of interest arises, the options available to a firm/network firm when the firm/network firm has a direct financial interest/indirect financial interest in a Financial Statement Audit Client/or a client that is not a Financial Statement Audit client are:
- (a) Dispose off the interest;
- (b) Dispose off a sufficient amount of the interest so that the remaining interest is no longer material; or
- (c) Withdraw from the audit.

Q. Whether a loan, or a guarantee of a loan to the professional accountant/any partner of the firm/firm from an assurance client, or deposits made by, or brokerage accounts of a firm or a member of the assurance team with an assurance client, creates any threats to Independence?

A. A loan, or a guarantee of a loan to the professional accountant/any partner of the firm/firm from an assurance client or deposits made by, or brokerage accounts of a firm or a member of the assurance team with an assurance client creates threats to Independence unless;
- (a) Made within the terms of statutory provisions and guidelines/guidance notes issued by the Council.
- (b) When assurance client that is a bank or a similar institution, provided the loan, or guarantee/deposit or brokerage account is made under normal procedures, terms and requirements.

Q. What is Financial Statement Audit Client?

A. Financial Statement Audit Client means an entity in respect of which a firm conducts a financial statement audit engagement. When the client is a listed entity, financial statement audit client will include its related entities, wherever applicable.

Q. What are the safeguards available when the same senior personnel have been engaged over a long period of time by an Assurance Client in an Assurance Engagement?

A. The following safeguards are available, using the same senior personnel on an assurance engagement over a long period of time:
- Rotating the senior personnel of the assurance team;
- Involving an additional professional accountant who was not a member of the assurance team to review the work done by the senior personnel or otherwise advise as necessary; or
- Independent internal quality reviews, *etc.*

Q. Whether a person who is an officer or employee of an entity shall be qualified for appointment as auditor of that entity?

A. As per Section 290.148 of Part – A of the Code of Ethics, 2009, no person who is an officer or employee of an entity shall be qualified for appointment as auditor of that entity. ■

Advertisement

Circulars/Notifications

Given below are the important Circulars and Notifications issued by the CBDT, CBEC, MCA, RBI , SEBI and IRDA during the last month for information and use of members. Readers are requested to use the citation/website or weblink to access the full text of desired circular/notification. You are requested to please submit your feedback and suggestions on the column at **eboard@icai.in**

(Matter on Direct Taxes has been contributed by the Direct Taxes Committee of the ICAI)

I. CIRCULARS

1.Clarification regarding treatment of expenditure incurred for development of roads/highways in BOT agreements under the Income-tax Act, 1961

The Central Board of Direct Taxes has, *vide* this circular clarified the issue relating to the tax treatment of expenditure incurred on development and construction of Infrastructural facilities like roads/ highways on Build-Operate-Transfer (BOT) basis with right to collect toll whether such expenditure is entitled for depreciation under Section 32(1)(ii) of the Act or the same can be amortised by treating it as an allowable business expenditure under the relevant provisions of the Income-tax Act, 1961.

The CBDT has clarified that the cost of construction on development of Infrastructure facility of roads/highways under BOT projects may be amortised and claimed as allowable business expenditure under the Act. The amortisation allowable may be computed at the rate which ensures that the whole of the cost incurred in creation of infrastructural facility of road/highway is amortised evenly over the period of concessionaire agreement after excluding the time taken for creation of such facility.

Where some deduction out of initial cost of development of infrastructure facility of roads/ highways under BOT projects has already been claimed in earlier years, the total deduction so claimed for the Assessment year prior to the Assessment year under consideration may be deducted from the initial cost of infrastructure facility of roads/highways and the cost 'so reduced' shall be equally amortised over the remaining period of toll concessionaire agreement.

This circular is applicable only to those infrastructure projects for development of roads/ highways on BOT basis where ownership is not vested with the assessee under the concessionaire agreement.

[Circular No. 9/2014 dated 23-04-2014]

The complete text of the above mentioned circular can be downloaded from the link below: http://law.incometaxindia.gov.in/DIT/File_opener.aspx?page=CIR&schT=&csId=819cd823-0956-4d58-a0dd d7bffac76901&crn=&yr=ALL&sch=&title=Taxmann%20-%20Direct%20Tax%20Laws

2. Clarification on eligibility of deduction under section 80IA for unexpired period in case of an undertaking or enterprise developing an infrastructure facility, inductrial park, SEZ and transferring the same to another enterprise or undertaking for operation and maintenance

Section 80-IA of the Income-tax Act, 1961 deals with deduction in respect of profits & gains derived by an undertaking or enterprise engaged in developing, operating and maintaining any infrastructure facility, industrial park etc. The undertakings or enterprises eligible for availing deduction under this Section have been specified under sub-Section (4) of the said Section and can broadly be classified as under:-

(i) Enterprise carrying on the business of developing or operating & maintaining or developing, operating & maintaining infrastructure facilities [80-IA(4)(i)];

(ii) undertaking providing basic or cellular telecommunication services [80-IA(4)(ii)];

(iii) undertaking which develops, develops & operates or maintains & operates an industrial park or SEZ [80-IA(4)(iii)];

(iv) undertaking set up for generation/generation & distribution of power or laying of network/ renovation or modernisation of network of transmission/distribution lines [80-IA(4)(iv)] or set up for reconstruction or revival of power generation plant [80-IA(4)(v)].

The provisions of Section 80-IA of the Act also include conditions which are necessary to be met for being eligible for deduction. The *proviso* to clause (i) and clause (iii) of sub-Section (4) of Section

80-IA deal with the situation where operation & maintenance of infrastructure facility or operation & maintenance of industrial park/SEZ, respectively, is transferred to another enterprise in the manner provided therein and the transferee undertaking can avail deduction for the unexpired period.

Section 80-IA(12A) provides that where the enterprise or undertaking of an Indian Company entitled to the deduction under the said Section is transferred on or after 01.04.2007 in a scheme of amalgamation or demerger, no deduction shall be available to the amalgamated or the resulting company.

The vital factor in determining the eligibility criteria for availing deduction u/s 80-IA would be verification of factual issues so as to ascertain whether

(a) there has been splitting up or reconstruction of a business already in existence,

(b) transfer is in accordance with the proviso to clause (i) or clause (iii) of sub-Section (4) of Section 80-IA, or

(c) transfer of an enterprise or undertaking is in a scheme of amalgamation or demerger.

The Board, has through this circular, clarified that if an enterprise or undertaking develops an infrastructure facility, industrial park or special economic zone, as the case may be, and transfers it to another enterprise or undertaking for operation and maintenance in accordance with the proviso to clause *(i)* or clause *(iii)* of sub-Section (4) of Section 80-IA and this transfer is not by way of amalgamation or demerger, the transferee shall be eligible for the deduction for the unexpired period. It has been further clarified that profit for the purposes of deduction in the case of transferee shall also be computed in accordance with sub-Sections (5) to (10) of section 80-IA of the Act.

[Circular No. 10/2014 dated 06-05-2014]

The complete text of the above mentioned circular can be downloaded from the link below: http://220.227.161.86/33433dtcmay9.pdf

II. PRESS RELEASE

1. Instructions issued by the CBDT to all the Assessing Officers laying down a Standard Operating Procedure (SOP) for verification and correction of demand by the AOs

Detailed instructions have been issued by the CBDT to all the Assessing Officers laying down a Standard Operating Procedure (SOP) for verification and correction of demand by the AOs. As per this SOP, the taxpayers can get their outstanding tax demand reduced/deleted by applying for rectification along with the requisite documentary evidence of tax/ demand already paid. The SOP also makes special provisions for dealing with the tax demand upto ₹1,00,000/- in the case of Individuals and HUFs in order to accommodate certain extraordinary situations.

The CBDT has further noted that many taxpayers are committing mistakes while furnishing their tax credit claims in the return of income. As a result of these mistakes, the tax credit cannot be allowed to the taxpayers while processing returns despite the tax credit being there in 26AS statement. The CBDT has thus required the taxpayers to verify if the demand in their case is due to tax credit mismatch on account of such incorrect particulars and submit rectification requests with correct particulars of TDS/tax claims for correction of these demands. The rectification requests have to be submitted to the jurisdictional Assessing Officer in case the return was processed by such officer, or the taxpayer is informed by CPC, Bangalore that such rectification is to be carried out by Jurisdictional Assessing Officer. In all other cases of processing by CPC, Bangalore, an online rectification request can be made by logging into e-filing website http://incometaxindiaefiling.gov.in as per the procedure given in detail in its Help Menu.

[Press Note, dated 17-04-2014]

The complete text of the above mentioned circular can be downloaded from the link below: http://220.227.161.86/33159dtc22879.pdf

2. Declaration on Automatic Exchange of Information in Tax Matters adopted by 46 countries, including India, besides the European Union, meeting under the auspices of the OECD

46 countries, including India, besides the European Union, met under the auspices of the OECD on 6th May, 2014 to adopt a Declaration on Automatic Exchange of Information in Tax Matters. The Declaration recognises that investments kept offshore by tax payers should not go untaxed. It stresses that a key aspect of cooperation between tax administrations is effective exchange of information on automatic basis subject to appropriate safeguards.

[Press Statement, dated 12-05-2014]

The complete text of the above mentioned circular can be downloaded from the link below: http://220.227.161.86/33473dtcann1.pdf

(Matter on FEMA has been contributed by CA. Manoj Shah and CA. Hinesh Doshi)

A. Foreign direct Investment

1. FDI in LLP

A.P. (DIR Series) Circular No. 123 dated 16th April, 2014

RBI has notified the guidelines in relation to the FDI in LLP *vide "Notification No. FEMA 298/2014-RB dated March 13, 2014".* These guidelines were long overdue since FDI in LLP was permitted vide Press Note 1 of 2011 Series by Department of Industrial Policy and Promotion (DIPP) but there was no corresponding reference in the Foreign Exchange Management Act (FEMA).

The instructions issued in this circular shall be effective from 20th May, 2011. However, reporting requirement of FDI in LLP shall come into force from the date of issue of instructions by the Reserve Bank in this regard. The LLP which have received foreign investment in terms of FIPB approval between 20th May, 2011 to the date of this circular, shall comply with the reporting requirement in respect of FDI within 30 or 60 days, as applicable, from the date of this circular. For detailed conditions, please refer the said circular on RBI website at– http://rbidocs.rbi.org.in/rdocs/Notification/PDFs/APDIR1704214NT.pdf

2. Clarifications on FDI in pharmaceutical sector

Notification No. FEMA 296/2014-RB dated 3rd March, 2014 and A.P. (DIR Series) Circular No.124 dated 21st April , 2014

The Department of Industrial Policy and Promotion (DIPP) had *vide* Press Note No. 1 (2014 series) dated 8th January, 2014, reviewed paragraph 6.2.18 of the Consolidated FDI policy relating to pharmaceuticals sector and had decided that the existing policy would continue with the condition that 'non-compete' clause would not be allowed except in special circumstances with the approval of the Foreign Investment Promotion Board (FIPB) of the Government of India (GOI).

Consequently, RBI has amended Schedule 1 of the Notification No. FEMA 20/2000-RB incorporating the above mentioned change in the existing entry 25 of 'Annexure B' of the Schedule 1 vide Notification No. FEMA 296/2014-Rb dated 3rd March, 2014.

3. Reporting mechanism for transfer of equity shares/ fully and mandatorily convertible preference shares/ fully and mandatorily convertible debentures

A.P. (DIR Series) Circular No. 127 dated 2nd May, 2014

RBI vide A.P. (DIR Series) Circular No. 127 dated 2nd May, 2014 decided that in cases where the NR investor including an NRI acquires shares on the stock exchange in terms of A. P. (DIR Series) Circular No. 38 dated 6th September, 2013, the investee company would have to file form FC-TRS with the AD Category-I bank.

In order to facilitate operational convenience, it has been decided that the AD Category-I bank may approach regional office concerned of RBI, Foreign Exchange Department to regularise the delay in submission if any of form FC-TRS, beyond the prescribed period of 60 days and in all other cases, form FC-TRS shall continue to be scrutinised at AD bank level as per the extant practice.

4. Amendments in the Consolidated FDI Policy

Consolidated FDI Policy Circular 1 of 2014 dated 17th April, 2014 issued by DIPP and Ministry of Commerce and Industry of the GOI

The GOI has, *vide* Circular 1 of 2014 series issued the Consolidated FDI Policy incorporating the changes made over the last year, which shall come into force with immediate effect.

The changes made in the aforesaid Policy *vis-à-vis* the previous Policy issued by the GOI on 5th April, 2013 are outlined below:

(a) The definition of the term 'Control' has undergone a change to now not only include the power to appoint a majority of directors, but also the ability to control the management or policy decisions by virtue of shareholding, management rights, shareholder agreements, or voting agreements.

(b) FDIs in case of Commodity Exchanges, Power Exchanges, Courier services, Test Marketing and Petrol Refining by Public Sector Undertakings have been brought under the Automatic route which were earlier under the Government Approval route subject to their respective FDI caps. Also, henceforth FDI in Commodity Exchanges shall be subject to the guidelines of the Central Government/ Forward Markets Commission from time to time.

(c) FDI & FII in Asset Reconstruction was earlier allowed upto only 74% under the Government route. Now, it is allowed under the Automatic route upto 49% and beyond 49% upto 100% under the Government route.

(d) FDI in Telecom services sector is now allowed upto 100% which was earlier restricted only to 74% under the Government route.

(e) In the case of Defense Production, FDI upto 26% is now allowed under the Automatic route and beyond 26%, it is allowed under the Government route.

(f) FDI under Automatic route in Insurance sector is now allowed to cover Insurance Company, Insurance Broker, Third Party Administrators and Surveyors and Loss Assessors up to 26% which would include FDI, FII and NRI investment subject to certain conditions specified therein. For detailed conditions, please refer the said Circular available on DIPP website at- http://dipp.nic.in/English/Policies/FDI_Circular_2014.pdf

(g) FDI incase of Single Brand retail trading is now allowed under the Automatic route upto 49% and under the Government route beyond 49%. Also, while previous FDI policy only permitted 1 non-resident entity with ownership of a brand (or rights to a brand) to invest in Indian companies engaged in the retail trading of that brand, policy changes now allow multiple non-resident entities, whether owner of the brand or otherwise, to invest in Indian entities, either directly or through a legally tenable agreement.

(h) With respect to Multi Brand Retail Trading, it has now been clarified that at least 50 % of the first US$100 million invested must be in 'back end infrastructure.

B. Cross Border Wire Transfers

1. In case of Authorised persons, who are India agents under Money transfer Service Scheme (MTSS)

A.P. (DIR Series) Circular No.125 dated 25th April, 2014

Government of India *vide* Notification No. 12 of 2013 dated 27th August, 2013 made amendments to Prevention of Money laundering (PML) rules, thereby requiring every reporting entity to maintain record of all the transactions including record of all cross border wire transfers of more than ₹5 lakh or its equivalent in foreign currency. FIU-IND had advised that the information of all such transactions may be furnished to Director, FIU-IND by 15th of the succeeding month.

In this regard RBI *vide* A.P. (DIR Series) Circular No. 125 dated 25th April, 2012 advised all authorised persons to report cross border wire transfers in "Transaction Based reporting format" already developed by FIU-IND.

The format along with sample data filled in as an illustration is available in the 'Downloads' section of the FIU-IND website (http://fiuindia.gov.in).

2. In case of Authorised persons

A.P. (DIR Series) Circular No.126 dated 25th April 25, 2014

Government of India *vide* Notification No. 12 of 2013 dated 27th August, 2013 made amendments to Prevention of Money laundering (PML) rules, thereby requiring every reporting entity to maintain record of all the transactions including record of all cross border wire transfers of more than ₹5 lakh or its equivalent in foreign currency. FIU-IND had advised that the information of all such transactions may be furnished to Director, FIU-IND by 15th of the succeeding month.

In this regard RBI *vide* A.P. (DIR Series) Circular No. 126 dated 25th April, 2012 advised all authorised persons to report cross border wire transfers in "Transaction Based reporting format" already developed by FIU-IND.

The format along with sample data filled in as an illustration is available in the 'Downloads' section of the FIU-IND website (http://fiuindia.gov.in).

(Matter on Corporate Laws has been contributed by corporatelaws.taxmann.com)

MCA (www.mca.gov.in)

1. Companies (Registration Offices and Fees) Amendment Rules, 2014 - Amendment In Rules 8 And 9

MCA has issued Notification [F. No.1/5/2014-CL-V], dated 28-4-2014 whereby Central Government in exercise of the powers conferred by Sections 396, 398, 399, 403 and 404, read with sub-Sections (1) and (2) of Section 469 of the Companies Act, 2013, Companies (Registration Offices and Fees) Amendment Rules, 2014. The rules would come into force with effect from the 28.04.2014. Amendment have been made in rules 8 and 9 of the Companies (Registration Offices and Fees) Rules, 2014. In Rule B, sub-Rule has been inserted that companies (excluding small companies and one person companies) shall be pre-certified by the Chartered Accountant or the Company Secretary or as the case may be the Cost Accountant, in whole-time practice.

2. Certification of e-forms/Non e-forms under The Companies Act, 2013 by the Practicing Professionals

MCA has issued General Circular No. 10/2014 [F. No. MCA21/28/2014-e-Gov], dated 07-05-2014 where it has allowed registered Members of the professionals bodies (the ICAI, ICSI and the ICOAI) to authenticate correctness and integrity of documents being filed by them with the MCA in electronic mode. Registrar under the Companies (Registration Offices and Fees) Rules, 2014 is to examine e-forms or non e-forms attached and filed with general forms on MCA portal *viz.* to verify whether all the requirements have been complied with and all the attachment to the forms have been duly scanned and attached in accordance with the requirement of above said rules.

It has been clarified that where any instance of filing of documents, application or return or petition *etc.* containing false or misleading information or omission of material fact or incomplete information is observed, the Regional Director or the Registrar as the case may be, shall conduct a quick inquiry against the professionals who certified the form and signatory thereof including an officer in default who appears prima facie responsible for submitting false or misleading or incorrect information pursuant to requirement of above said Rules; 15 days notice may be given for the purpose.

The RD or the Registrar will submit his/her report in respect of the inquiry initiated, irrespective of the outcome, to the E-Governance cell of the Ministry within 15 days of the expiry of period given for submission of an explanation with recommendation in initiating action u/s 447 and 448 of the Companies Act, 2013.

The E-Gov cell of the Ministry shall process each case so referred and issue necessary instructions to the RD/Registrar of Companies for initiating action u/s 448 and 449 of the Act wherever prima facie cases have been made out. The E-Gov cell will thereafter refer such cases to the concerned Institute for conducting disciplinary proceedings against the errant member as well as debar the concerned professional from filing any document on the MCA portal in future.

SEBI (www.sebi.gov.in)

1. INFRASTRUCTURE FACILITIES AND SUBMISSION OF PERIODIC REPORTS

SEBI has issued Circular No. IMD/FIIC/09/2014, dated 28-04-2014 whereby it has been has decided in order to ensure proper functioning of the Foreign Portfolio Investor ("FPI") regime, it is imperative that Designated Depository Participants ("DDPs") should have adequate infrastructure facilities and appropriate systems and controls in place. and accordingly, it has been decided: (i) Every DDP shall maintain arms length distance from other businesses carried out by it (ii) Every DDP shall have necessary infrastructure (iii) Every DDP shall have a complete manual, setting out the systems and procedures to be followed for the effective and efficient discharge of its functions as DDPs. (iv) Every DDP shall have adequate mechanisms for the purposes of reviewing, monitoring and evaluating its controls, systems, procedures and safeguards. (v) Every DDP shall submit periodic reports to SEBI.

The provisions of this circular would be applicable upon commencement of the Foreign Portfolio Investor ("FPI") regime.

RBI (www.rbi.gov.in)

1. Fund/Non-Fund Based Credit Facilities to Overseas Joint Ventures/Wholly Owned Subsidiaries/Wholly Owned Step-Down Subsidiaries of Indian Companies

RBI through Circular DBOD.NO.BP. BC.107/21.04.048/2013-14, dated 22-04-2014 has clarified that banks including overseas branches/ subsidiaries of Indian banks, shall not issue standby letters of credit/guarantees/letter of comforts etc. on behalf of overseas Joint Ventures (JV)/Wholly Owned Subsidiaries (WOS)/Wholly owned Step-down Subsidiaries (WoSDS) of Indian companies for the purpose of raising loans/advances of any kind from other entities except in connection with the ordinary course of overseas business. Further, it is advised that while extending fund/non-fund based credit facilities to overseas JV/WOS/WoSDS of Indian companies in connection with their business, either through branches in India or through branches/subsidiaries abroad, banks should ensure effective monitoring of the end use of such facilities and its conformity with the business needs of such entities.

In terms of circular A.P. (DIR Series) Circular No.134 dated 25th June, 2012, Indian companies in the manufacturing and infrastructure sector were allowed to avail of external commercial borrowings (ECBs) for repayment of Rupee loans availed of from domestic banking system and/or for fresh Rupee capital expenditure, under the approval route, subject to satisfying certain conditions. However, if the ECB is availed from overseas branches/subsidiaries of Indian banks, the risk remains within the Indian banking system. It has, therefore, been decided that repayment of Rupee loans availed of from domestic banking system through ECBs extended by overseas branches/ subsidiaries of Indian banks will, henceforth, not be permitted.

The exporter borrowers using export advances, received on the strength of guarantees issued by Indian banks, for repayment of loans availed of from Indian banks is a clear violation of RBI instructions except in cases where banks have received approvals under FEMA and banks are advised to desist from such practices.

2. Uniform Accounting Standards at ARCs

RBI vide its Circular DNBS (PD) CC. NO.38/ SCRC/26.03.001/2013-14, dated 23-04-2014 has advised the Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003 on uniform accounting standard for Asset Reconstruction Companies (ARCs) in relation to a) Acquisition Cost (Pre and Post acquisition) b) Revenue Recognition, c) Valuation of Security Receipts (SRs) d) Applicability of 'Operating Cycle Concept' under Schedule VI. The accounting guidelines would be effective from the accounting year 2014-15.

3. Opening of Bank Accounts in the Names of Minors

RBI has issued Circular DBOD. NO. LEG. BC. 108 /09.07.005/2013-14, dated 06-05-2014 as regards opening and operating minors' accounts, and accordingly banks have been advised as under:

A) A savings/fixed/recurring bank deposit account can be opened by a minor of any age through his/her natural or legally appointed guardian.

B) Minors above the age of 10 years may be allowed to open and operate savings bank accounts independently.

C) On attaining majority, the erstwhile minor should confirm the balance in his/her account and if the account is operated by the natural guardian/legal guardian, fresh operating instructions and specimen signature of erstwhile minor should be obtained and kept on record for all operational purposes.

Banks are free to offer additional banking facilities like internet banking, ATM/debit card, cheque book facility *etc.*, subject to the safeguards that minor accounts are not allowed to be overdrawn and that these always remain in credit.

4. Operations of Foreign Branches and Subsidiaries of the Indian Banks-Compliance with Statutory/ Regulatory/Administrative Prohibitions/Restrictions

RBI has issued Circular DBOD.NO.BP. BC.111/21.04.157/2013-14, dated 12-05-2014 whereby, it has been decided that if foreign branches/ subsidiaries of Indian banks propose to offer structured financial and derivative products that are not specifically permitted by the Reserve Bank in the domestic market, they may do so only at the established financial centers outside India like New York, London, Singapore, Hong Kong, Frankfurt, Dubai, etc. Banks should ensure that their foreign branches/subsidiaries, dealing with such products in foreign jurisdictions, have adequate knowledge, understanding, and risk management capability for handling such products. At other centers, banks may offer only those products that are specifically permitted in India.

The products that foreign branches/subsidiaries of Indian banks offer at overseas location should be in compliance with host country regulations, with prior approval from their Board and appropriate authority in these foreign jurisdictions. In particular, banks should ensure that the suitability and appropriateness policy is strictly adhered to as mandated by the Reserve Bank and the host regulators. It is reiterated that for undertaking activities by Indian banks' branches and subsidiaries abroad which are not permitted under the Banking Regulations Act, 1949/ respective Statute of the Public Sector Banks, banks should obtain from the RBI/Government of India necessary permission under Section 6(1)(m) or 19(1) (c) of the Banking Regulations Act, 1949, as the case may be, for undertaking such activities. ■

Legal Decisions[1]

DIRECT TAXES

Income-tax Act

LD/62/75

Mrs. Smita Anand, China, In re
19th February, 2014 (AAR)

Section 6 of the Income-tax Act, 1961 – Residential Status

When the applicant resigned from her employment in China, the reason for return to India does not seem to be only for a visit in absence of proof that the applicant left India thereafter for any employment; in such a case Explanation (a) to section 6(1)(c) will not be applicable and that being so the total stay in India of the applicant for the preceding four years is for a period amounting to more than 365 days and total stay in India for the current year is for a period amounting in all to 119 days which is more than 60 days, requirements of sub-section (c) of section 6(1) is met by the applicant to become a resident in India

The applicant is an Indian citizen and a person of Indian origin. She was working with Hewitt Associates (India) Private Limited from April, 2002 till September, 2007. On 22nd September, 2007, the applicant left India for the purpose of employment with Hewitt Consulting (Shanghai) Company Limited, which is a company incorporated in China. The applicant's employment with Hewitt (Shanghai) commenced on 1st October, 2007. During her employment in China, she visited India and her stay in India in a particular year never exceeded 182 days. She returned to India on 12th February, 2011 after resigning from her employment in China with effect from 31st January, 2011. During the financial year 2010-11 which is the relevant year in this application, her total stay in India was 119 days. The applicant continues to enjoy status of non-resident as per domestic tax laws of India during the financial year 2010-11.

Submission of the applicant is that in terms of *Explanation* (a) and/or (b) to Section 6(1), the period of stay in India should be 182 days

[1] *Readers are invited to send their comments on the selection of cases and their utility at eboard@icai.in. For full judgment, write to eboard@icai.in*

or more and the applicant's total stay in India during the period is 119 days and therefore, her residential status is non-resident during the relevant previous year. The Revenue's contention is that *Explanation* (a) or (b) to Section 6(1) is not applicable in the applicant's case and her total stay in India during the previous year being more than 60 days, the applicant's status is resident in India and the amount received during the previous year from any source is taxable in India.

The Authority for Advance Rulings held as follows: *Explanation* (a) to Section 6(1)(c) is applicable only in a particular year when a person leaves India. In the context of the application and the arguments made by the applicant, *Explanation* (a) read that the assessee being a citizen of India, who leaves India in any previous year for the purpose of employment outside India, the provision of sub-clause (c) shall apply in relation to that year as if for the words "60 days", occurring therein, the words "182 days" had been substituted. "In relation to that year" relates to the previous year in which a person leaves India. In effect, if a person leaves India in any particular year for the purpose of employment outside India and if his/her stay in India in that particular year is for a period or periods amounting in all to 182 days, his/her status will be resident in India.

This is not the case in the present applicant's case. The relevant FY in which the applicant left India for the purpose of employment was therefore 2007-08 which is not the subject matter in this case. Besides the applicant left India in September, 2007 and come back to India on 12th February, 2011 after resigning from her employment in China effective on 31st January, 2011. In the decision of the ITAT Bangalore Bench in the case

of *Manoj Kumar ReddyNare vs. ITO [2009] 132 TTJ 328* it was held that the assessee has come to India after leaving his employment outside India, the *Explanation* (a) to Section 6(1)(c) will not be applicable. That being so, the total stay in India of the applicant for the preceding four years is for a period amounting to more than 365 days and total stay in India for the FY 2010-11 is for a period amounting in all to 119 days which is more than 60 days, requirements of sub-Section (c) of Section 6(1) is met by the applicant to become a resident in India.

Regarding the arguments relating to *Explanation* (b) to Section 6(1)(c), the test is whether the applicant had come on a visit to India in the previous year 2010-11 as a non-resident. There is no denying of the fact that the applicant had come to India from China after resigning from her employment. It cannot be said that the applicant is a non-resident in that particular year as this is the point in dispute now. If she is not a non resident, one limb of the *Explanation* falls. The other issue is whether she came to India only for a visit. The applicant argued that was so and the Revenue submitted that she did not come to India only for a visit as her return to India is after resigning from her employment in China. The facts and circumstances of the case make one to believe that the applicant did not come to India only for a visit. The assessee's argument that the applicant's employer card was valid upto 31.03.2012, the applicant was considerably exploring possibility of job outside India, the residential house property owned by the applicant jointly with her husband had been let out till June, 2011, the applicant visited her friends and relatives in different parts of India and also travelled different locations on holidays, the children of the applicant were staying abroad at the time when applicant came to India etc., are not sufficient to conclude that the applicant came to India on a visit only. The applicant could very well resign even during the validity period of the employer's card and that is what she has done. The activities mentioned by the assessee need not be necessarily proof of a visit, even a person staying permanently in India also does those activities. If a person returns to India after a long period of absence there is all the more reason he or she will like to go to visit relatives and friends in different places. Those activities are not necessarily indicators of a visit. When the applicant resigns from her employment in China, the reason for return to India does not seem to be only for a visit. The assessee could not give information whether the applicant left India thereafter for any employment. In such circumstances it cannot be said that the applicant came to India only for a visit. On facts and circumstances of the case it is to be held that *Explanation* (b) to Section 6(1)(c) of the Act is also not applicable in the applicant's case.

Thus, the applicant's case does not fall under *Explanation* (a) or (b) to Section 6(1)(c) and having fulfilled the requirements of Section 6(1)(c) of the Act her status will be resident in India. Consequently, the amount of proceeds received in India on conversion of ESOPs and RSUs awarded to her by her employer in China will be taxable in India.

LD/62/76

Booz & Company (Australia) Pvt. Ltd., Australia, In re

14th February, 2014 (AAR)

Section 9 read with Section 44DA and 115A of the Income-tax Act, 1961 – Income - Deemed to accrue or arise in India

The essential features of "business connection" is that (a) a real and intimate relation must exist between the trading activities carried on outside India by a non-resident and the activities within India; (b) such relation shall contribute, directly or indirectly, to the earning of income by the non-resident in his business; (c) a course of dealing or continuity of relationship and not a mere isolated or stray nexus between the business of the non-resident outside India *and the activity in India, would furnish a strong indication of 'business connection' in India.*

Ten applications involve identical disputes concerning Double Tax Avoidance Agreement of different countries. Ten applicants are members of same group but incorporated in different countries. All of these companies provided Indian Group Company different services.

The expenses recovered from Booz India being on account of reimbursement of expenses like air ticket cost, freight charges, courier charges, travel expenses, communication expenses, etc. on the personnel deputed to India and borne by the applicant are part of service provisioning and thus do not have any element of income embedded therein.

The basic issues raised before AAR are (1) whether the amount payable is to be treated as Fees for Technical Services (FTS) or business income? (2) whether the amount payable would be chargeable to tax as FTS u/s 115A read with Section 9(1)(vii) as well as Section 44DA or as business income? (3) and whether payment by Booz India to the respective applicant is subject to withholding tax @ 10% as per Article 12?

The Authority for Advance Rulings held as follows:

Aspect of "Permanent Establishment"

Under the Double Tax Conventions, right of the contracting States to tax the business profits of an enterprise of other contracting State arises only if the enterprise carries on its business in the first mentioned State through a "Permanent Establishment" ('PE') situated therein. PE is generally classified into five categories:

i. Fixed place PE;
ii. Construction PE;
iii. Installation PE;
iv. Service PE:
v. Dependent Agency PE

One of the *sine qua non* of a fixed place PE is that the fixed place of business through which the business is carried on should be 'at the disposal'.

It is of significance, that Organisation for Economic Co-operation and Development (in short "OECD') does not expressly define what constitutes the place to be 'at the disposal' of the taxpayer and instead gives examples wherein it may or may not tantamount to 'right of disposal'. Conducting trading operations generally require a fixed place which the taxpayer uses on a continuous basis. However, taxpayers rendering service usually do not require a place to be at their constant disposal and therefore application of 'disposal test' is generally more complex in such cases. In some jurisdictions the 'disposal test' is satisfied by the mere fact of using a place. In some other jurisdictions it is stressed that something more is required than a mere fact of use of place.

A taxpayer who is obliged to perform independent personal services without having a PE of his own, is deemed to have a PE where he performs his services.

Various factors have to be taken into account to decide a 'Fixed place PE' which *inter alia includes a right of disposal over the premises.* No strait jacket formula applicable to all cases can be laid down. Generally, the establishment must belong to the Employer and involve an element of ownership, management and authority over the establishment. In other words the taxpayer must have the element of ownership, management and *authority over the establishment.*

On the issue of Agency PE the relevant question is "business connection"

A perusal of provisions of Section 9(1)(i), shows that all income accruing or arising whether directly or indirectly through or from any business connection in India or from any property in India or through any assets or source of income in India or through transfer of capital assets situated in India, shall be deemed to accrue or arise in India. The mandate contained in Clause (a) of the *Explanation* is that for the purpose of the aforementioned clause, where the business of which all the operations are not carried out in India, the income of the business deemed under this clause to accrue or arise in India shall be only such part of the income as is reasonably attributable to the operations carried out in India. The other clauses of the *Explanation* are not relevant. The expression "business connection" was not defined

for the purpose of the aforementioned provisions, before 31st March, 2003. By the Finance Act, 2003, two Explanations were inserted after the then existing *Explanation* which are numbered as *Explanation* 1 and 2 to sub-Section (1) of Section 9 w.e.f. 1st April, 2004.

It may be seen that *Explanation* 2 contains an inclusive definition; it brings in the business activities specified in Clauses (a) to (c), within the fold of the expression "business connection" which has to be understood in its ordinary meaning.

The essential features of "business connection" may be summed up as follows:

(a) a real and intimate relation must exist between the trading activities carried on outside India by a non-resident and the activities within India;

(b) such relation shall contribute, directly or indirectly, to the earning of income by the non-resident in his business;

(c) a course of dealing or continuity of relationship and not a mere isolated or stray nexus between the business of the non-resident outside India and the activity in India, would furnish a strong indication of 'business connection' in India.

Apart from the fact that requirements of *Explanation* 2, are satisfied, the facts of the instant case would also fulfill the aforementioned essential features of business connection.

Having held that the applicants have Permanent Establishment in India, the incomes received by them from the Indian Company are taxable as business profit under Article 7 of the Tax Agreement of India and the respective countries.

LD/62/77

Director of Income Tax (International Taxation)

vs.

M/s Nisso Lwai Corporation, Japan

4th February, 2014 (AP)

[Assessment Year 1991-92]

Section 9 of Income-tax Act, 1961 – Income – Deemed to accrue or arise in India

Where Tribunal found that the amounts was received by the assessee Japanese company for supply of design and engineering drawings, since there has been no accrual of income in India and this accrual of income has taken place in Japan, as such, the Income Tax Act cannot be made applicable to the assessee company

In *M/s. Nissho Iwai Corporation vs. ACIT [ITA No. 372/Vizag/2002 dated June 22, 2010]*, the Visakhapatnam Income Tax Appellate Tribunal held that the amount received by the assessee for supply of design and engineering drawings is in the nature of plant and since the preparation and delivery has taken place outside Indian territories, the same cannot be subjected to tax in India.

In that case the assessee is a non-resident company. The assessee company has provided design and engineering services, manufacture, delivery, technical assistance through supervision of erection and commissioning *etc.*, to establish compressor house for a steel manufafturer. The payments were made by the steel manufafturer separately for each of the services/equipments provided/supplied by the assessee. It, *inter alia,* included payment made towards supply of design and engineering drawings. The assessee company claimed the said payment is not taxable under the Indian Income Tax Act as it was a transaction of sale of goods that has taken place outside India. The said claim was rejected by the AO and his order was confirmed by CIT (A).

The Visakhapatnam Income Tax Appellate Tribunal held that as per the original contract that the supply of design and drawing documents had to take place outside India. The relevant clauses dealing with the Supply of drawing and documentation stated that the Prime Contractor would transfer, deliver and impart the designs and drawing to the representative designated for that purpose by Purchaser in Japan or at the request of the Purchaser by transmitting the same either by surface mail or air mail or through a carrier in which case the post office or such carrier in Japan would be the agent of the Purchaser. Property in the designs and drawings shall vest with the Purchaser on the same being transferred, delivered and imparted to the representative of the Purchaser in Japan or when the packet containing the design and drawings is delivered either to the post office or to a carrier designated by the Purchaser in Japan as the case may be.

According to the clauses cited above, the preparation and delivery of design and drawings have to take place in Japan. Since the contract was entered into between the parties prior to the commencement of construction of the impugned project, in the absence of any other contrary evidence, it has to be accepted that the preparation and delivery of the said documents have taken place in Japan.

In the instant case also, all the parts of the transactions have taken place outside the Indian soil and hence the impugned transaction falls outside the purview of Indian taxation.

The amount received by the assessee for supply of design and engineering drawings was in the nature of plant and since the preparation and delivery has taken place outside Indian territories, the same could not be subjected to tax in India.

The Andhra Pradesh High Court held as follows: Where Tribunal found that the amounts was received by the assessee Japanese company for supply of design and engineering drawings, since there has been no accrual of income in India and this accrual of income has taken place in Japan, as such, the Income Tax Act cannot be made applicable to the assessee company.

LD/62/78

CIT- Tax-VII, New Delhi

vs.

Punjab Stainless Steel Industries

5th May, 2014 (SC)

Section 80HHC of the Income-tax Act, 1961 – Deductions – Profits from Export Business

Where respondent-assessee was not primarily dealing in scrap but was a manufacturer of stainless steel utensils, only sale proceeds

from sale of utensils would be treated as his "turnover"

When a recognised body of Accountants (The Institute of Chartered Accountants of India), after due deliberation and consideration publishes certain material for its members (Guidance Note on Tax Audit Under Section 44AB of the Income Tax Act), one can rely upon the same

The assessee is a manufacturer and exporter of stainless steel utensils. In the process of manufacturing stainless steel utensils, some portion of the steel, which cannot be used or reused for manufacturing utensils, remains unused, which is treated as scrap and the respondent-assessee disposes of the said scrap in the local market and the income arising from the said sale is also reflected in the profit and loss account. For the purpose of availing deduction under Section 80HHC for the relevant Assessment Year, the assessee was not including the sale proceeds of scrap in the total turnover but was showing the same separately in the Profit and Loss Account.

According to the Revenue, the sale proceeds from the scrap should have been included in the 'total turnover' as the respondent-assessee was also selling scrap and that was also part of the sale proceeds.

The Supreme Court of India held as follows:

Ordinarily a businessman by word "turnover" means the sale proceeds of the goods (the things in which he is dealing) that is sold by him.

So far as the scrap is concerned, the sale proceeds from the scrap may either be shown separately in the Profit and Loss Account or may be deducted from the amount spent by the manufacturing unit on the raw material, which is steel in the case of the respondent-assessee, as the respondent/assessee is using stainless steel as raw material, from which utensils are manufactured. The raw material, which is not capable of being used for manufacturing utensils will have to be either sold as scrap or might have to be re-cycled in the form of sheets of stainless steel, if the manufacturing unit is also having its re-rolling plant. If it is not having such a plant, the manufacturer would dispose of the scrap of steel to someone who would re-cycle the said scrap into steel so that the said steel can be re-used.

When such scrap is sold, the sale proceeds of the scrap cannot be included in the term 'turnover' for the reason that the respondent-unit is engaged primarily in the manufacturing and selling of steel utensils and not scrap of steel. Therefore, the proceeds of such scrap would not be included in 'sales' in the Profit and Loss Account of the respondent-assessee.

The situation would be different in the case of the buyer, who purchases scrap from the respondent-assessee and sells it to someone else. The sale proceeds for such a buyer would be treated as "turnover" for a simple reason that the buyer of the scrap is a person who is primarily dealing in scrap. In the case on hand, as the respondent-assessee is not primarily dealing in scrap but is a manufacturer of stainless steel utensils, only sale proceeds from sale of utensils would be treated as his "turnover".

The Institute of Chartered Accountants of India (hereinafter referred to as the 'ICAI') has published some material under the head "Guidance Note on Tax Audit Under Section 44AB of the Income Tax Act". The said material has been published so as to guide the members of the ICAI. When a recognised body of Accountants, after due deliberation and consideration publishes certain material for its members, one can rely upon the same.

The meaning given by the ICAI clearly denotes that in normal accounting parlance the word "turnover" would mean "total sales" as explained hereinabove. The said sales would definitely not include the scrap material which is either to be deducted from the cost of raw material or is to be shown separately under a different head. There is no reason for not accepting the meaning of the term "turnover" given by a body of Accountants, which is having a statutory recognition.

If all accountants, auditors, businessmen, manufacturers etc. are normally interpreting the term 'turnover' as sale proceeds of the commodity in which the business unit is dealing, there is no reason to take a different view than the view normally taken by the persons who are concerned with the said term.

In addition to the above factors, which has been considered for understanding the meaning of the term "turnover", none should miss the purpose with which the said term has been incorporated in Section 80 HHC.

The intention behind enactment of Section 80HHC was to encourage export so as to earn more foreign exchange. For the said purpose the Government wanted to encourage businessmen, traders and manufacturers to increase the export so as to bring more foreign exchange in our country. If the purpose is to bring more foreign exchange and to encourage export, it is to be held that the legislature would surely like to give more benefit to persons who are making an effort to help our nation in the process of bringing more foreign exchange. If a trader or a manufacturer is trying his best to increase his exports, even at the cost of his business in a local market, it is sure that the Government would like to encourage such a person. In our opinion, once the Government decides to give some benefit to someone who is helping the nation in bringing foreign exchange, the Revenue should also make all possible efforts to encourage such traders or manufacturers by giving such business units more benefits as contemplated under the provisions of law.

Therefore, the proceeds generated from the sale of scrap would not be included in the 'total turnover'.

Note: Judgment of Delhi High Court in ITA No. 520 of 2006 dated 19-01-2007, Upheld.

LD/62/79

AT & T Communication Services India (P) Ltd. vs. CIT-I

21st February, 2014 (DEL)

Section 142 of the Income-tax Act, 1961- Assessment – Inquiry, Prior to

Where the accounts including the documents, records and other material before the AO did make the issues for his decision complex requiring a special audit, contention of the assessee that the books of account were not called for and examined by the AO could not be accepted

Sub-Section (2A) of Section 142 does not require the "books of account" to be examined by the Assessing Officer It empowers the Assessing Officer, with the previous approval of the Chief Commissioner or Commissioner of Income Tax, to direct the assessee to get the accounts audited if he is of the opinion that it is necessary to do so *"having regard to the nature and complexity of the accounts of the assessee and the interests of the revenue........"* It has been held by a Division Bench of this Court in *Rajesh Kumar, Prop. Surya Trading vs. Dy.CIT (2005) 275 ITR 641*, that the expression "accounts" used in the section does not refer merely to "books of account" of the assessee; it could include the books of account, balance sheets and all other records which are available to the Assessing Officer during the assessment proceedings. It refers to the other records available with the Assessing Officer not only in the course of the assessment proceedings but also at any stage subsequent thereto. It was held that the expression "accounts" cannot be confined to books of account as submitted by the assessee, as it would amount to giving an interpretation which completely defeats the very object of the section. It was further held that the fact that the accounts of the assessee are subject to audit under some other statute is also no ground to hold that in such a case the Assessing Officer cannot direct a special audit. It was observed that in addition to the books of account, the Assessing Officer may also take into consideration such other documents related thereto and which would be part of the assessment proceedings. This judgment was followed by another Division Bench of this court in *Central Warehousing Corporation vs. Secretary, Department of Revenue & Ors (2005) 277 ITR 452 (DEL)*. In the light of these authorities, it is not possible to accept the contention that the Assessing Officer cannot direct a special audit unless he examines the books of account.

In the instant case, the Assessing Officer has taken the view that there is complexity in the accounts of the assessee. He has referred to the three segments or sources of revenue of the petitioner and has held that it is required to identify the method and the relevant accounting standard applicable for recognition of income from these revenues and also to ascertain the correctness of the income recognised. The profit and loss account, balance sheet and the computation of the income were before the Assessing Officer. It can hardly be disputed that the profit and loss account and the balance sheet fit the description of "accounts". The complexity arising out of such accounts is the difficulty in allocating the expenses incurred by the petitioner against the three segments of revenues namely; (i) market research, administrative support and liaison services; (ii) network connectivity services and (iii) managed network services. The Assessing Officer further proceeds to state in the impugned order that the allocation of costs/expenses impacts the profit and loss account (and the ultimate profit figure) and the method and the basis for such allocation is required to be verified and examined by the special auditor. The other complexity adverted to by the respondent is the plea taken by the petitioner that the overseas payments cannot be characterised as fees for technical services but represented purchase price of goods and services and therefore there was no obligation on its part to deduct tax under Section 195. Yet one more complexity is the nature of the other costs debited in the profit and loss account which include infrastructure costs, last mile charges and inter group charges. The precise nature of these costs is required to be ascertained not only from the legal aspect but also from the accounting aspect, to determine the applicability of Section 40(a)(ia). One more important issue which according the Assessing Officer is quite complex is the "last mile charges". Noting that this is a heavily capital intensive project and the capitalised infrastructure is eligible for depreciation, the respondent has observed that the assessee has deducted the entire last mile charges from the services revenue thereby nullifying any income on this score. According to him the inclusion of the last mile charges in the profit and loss account as a debit, when the capitalised infrastructure cost is eligible also to depreciation, may amount to double deduction. Whether this would amount to double deduction is an aspect which the special audit was required to examined.

The question whether the accounts and the related documents and records available with the Assessing Officer present complexity is essentially to be decided by the Assessing Officer and in this area the power of the court to intrude should necessarily be used sparingly. It is the Assessing Officer who has to complete the assessment. It is he who has to understand and appreciate the accounts. If he finds that the accounts are complex, the court normally will not interfere under Article 226. The power of the court to control the discretion of the Assessing Officer in this field is limited only to examine whether his discretion to refer the accounts for special audit was exercised objectively, as far as the accounts, records, documents and other material present before the Assessing Officer would permit. There must be valid material before the Assessing Officer from which he apprehends that there is complexity. As to what material would make the accounts complex is essentially for the Assessing Officer to determine and unless his decision can be attacked on the ground of perversity or absolute arbitrariness or *mala fide*, it should not be interfered with. In the present case, the accounts including the documents, records and other material before the Assessing Officer did make the issues for his decision complex requiring a special audit. Accordingly, the contention of the assessee could not be accepted.

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LD/62/80

LS Cable & System Ltd., Korea Hyderabad Project, In re

14th February, 2014 (AAR)

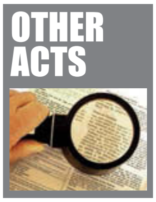
Section 245R, read with section 143 of the Income-tax Act, 1961 – Advance Ruling – Procedure on receipt of application

Where return of income was filed before filing of the application before the Authority of Advance Rulings and notice u/s 143(2) was issued after the application was filed, the question cannot be said to be already pending before the Income-tax Authority, the application is admitted u/s 245R(2)

When returns are filed under Section 139 or in response to a notice under sub-Section (1) Section 142, they are processed under Section 143(1). While processing the return under Section 143(1) the total income or loss are computed after making the following adjustments i.e. (i) any arithmetical error in return; or (ii) an incorrect claim, if such incorrect claim is apparent from any information in the return. It is also provided that no intimation under that Section shall be sent after the expiry of one year from the end of the financial year in which the return is made. In *Explanation* to Section 143(1) of the Act, the expression "incorrect claim apparent from any information in the return" is also defined. The Revenue does not have any jurisdiction to examine or adjudicate any issue other than those mentioned in Section 143(1) of the Act. There is no scope for examining or adjudicating any debatable issue that requires long drawn arguments. Again only in those cases where the Assessing Officer has reason to believe that any claim of losses, exemption, deduction, allowances or relief made in the return is inadmissible or if he considers it necessary or expedient to ensure that the assessee has not under-stated the income or has not computed excessive loss or has not under-paid the tax in any manner, he can serve notice under Section 143(2). Before or without issuing notice under Section 143(2) or notice under Section 142(1) in cases whether return is not filed, there is no jurisdiction to examine or adjudicate debatable issue claimed or shown in the return of income.

Only when the issues are shown in the return and notice under Section 143(2) is issued, the question raised in the application will be considered as pending for adjudication before the Income-tax Authorities. The Revenue's contention that notice u/s 143(2) was issued within the stipulated time will not affect the stated position because without issuance of the notice, the Assessing Officer does not have jurisdiction to examine and adjudicate the issues raised in the question. Pending proceeding in general and question already pending for adjudication are not the same. For example, when a return of income is filed, it can be said that proceeding is pending till it is processed or deemed to have been processed u/s 143(1) of the Income-tax Act. However, that does not mean the issues raised in the questions filed before this Authority is already pending for adjudication by the Income-tax Authorities. Only when notice u/s 143(2) or 142(1) of the Income-tax Act is issued, the Income-tax Authority assumes jurisdiction to adjudicate the issues that may consist of issues raised in the questions before this Authority. The question cannot be said to be already pending for adjudication before the Income-tax authority unless notice u/s 143(2) is issued before the application is filed. In this case, though return of income was filed before filing of the application before this Authority, notice u/s 143(2) was issued after the application was filed and hence the question cannot be said to be already pending before the Income-tax Authority irrespective of the notice u/s 143(2) being issued subsequently within the prescribed time limit under the Act.

The application is admitted u/s 245R(2) of the Act.



Competition Act

LD/62/81

Grasim Industries Ltd.
vs.
Competition Commission of India
17th December, 2013 (DEL)

Section 26, read with sections 4, 3 and 19, of the Competition Act, 2002 – Procedure for inquiry under Section 19

The Director General has no powers to carry out investigation into an information which, in the first instance, was not considered by the Commission while forming its opinion with respect to existence of a prima facie case of contravention of the provisions of the Act by an enterprise; however, he is at liberty to report contravention of Section 4 only when investigating the information or reference which the Commission had considered while forming its prima facie case and not by entertaining and investigating altogether different information during the course of investigation by the Director General

The report of the Director General to the extent he reported contravention of the provisions of Section 4 by an enterprise by abusing its dominant position as the manufacturer of certain product, cannot be forwarded to the parties in terms of sub-section (4) of Section 26 nor can the Commission hold further inquiry into it in terms of sub-section (8) of Section 26 or proceed to pass order on its basis in terms of Section 27; the Commission may, however, is at liberty to treat the aforesaid part of the report of the Director General as information under Section 19 and proceed accordingly in terms of the procedure prescribed under Section 26

An Information was received by the Competition Commission of India (hereinafter referred to as the 'Commission') that the manufacturers of Man Made Fibres (for short 'MMF') i.e. Polyester Staple Fibre (PSF), Acrylic Staple Fibre (ASF), Viscose Staple Fibre (VSF) & Nylon Staple Fibre (NSF) had imposed several restrictions on Indian Textile Industry, which are their customers for purchase of MMF, and such restrictions constitute anti-competitive actions. The Commission, *vide* order dated 22.06.2011, on consideration of the information submitted by the informant, formed a *prima facie* opinion that there existed a case to direct the Director General to cause an investigation into the matter. The Director General was accordingly instructed to conduct an investigation into the matter. The allegations against MMF manufacturers, who were alleged to be contravening the provisions of Section 3(3)(a)(b)(c). During the course of investigation by the Director General, the informant alleged that Grasim Industries Limited (GIL), which is the petitioner before this Court and is the only manufacturer of Viscose Staple Fibre (VSF) in the country on account of its dominant position in the market of VSF, was indulging into various anti-competitive practices. Different anti-competitive practices were attributed to GIL. The Director General, therefore, decided to investigate. According to the Director General, the petitioner was found to have abused its dominant position in the VSF market, thereby contravening Sections 4(2)(a) & 4(2)(b).

The petitioner was seeking *inter alia* quashing and setting aside of the Director General's report to the extent it pertains to the alleged violation of Section 4 on the ground that investigation into the alleged violation of Section 4 of the Act was beyond the scope of the powers of the Director General, who, in view of the order of the Commission, could have carried out investigation only into the alleged contraventions of Section 3(3)(a)(b)(c).

The High Court of Delhi held as follows:

The scheme of the Act does not permit investigation by Director General into any information which was not considered by the Commission, while forming opinion under sub-Section (1) of Section 26. The formation of opinion by the Commission and direction to cause an investigation to be made by the Director General being a pre-requisite condition for initiation of investigation, the Director General would have no power to undertake investigation in respect of the complaint which the Commission did not consider while forming an opinion and directing investigation by the Director General. If the Director General investigates an information which the Commission did not consider in the first instance, while forming opinion with respect to existence of a *prima facie* case, such an act on his part shall be *ultra vires* his power under the Act and, therefore, clearly illegal. It is settled legal proposition that when the provisions of a Statute requires an act to be done in a particular manner, such an act can be done only in the prescribed manner and not otherwise. Since the Act requires the Director General to investigate only such information which was considered by the Commission, while forming its opinion with respect to existence of a *prima facie* case, it cannot, of its own carry out investigation based upon an information which was not available to the Commission. It would be appropriate to note here that though MRTP Act, 1969 empowered the Director General to exercise *suo motu* power of investigation, the said power has been expressly denied to him under the Competition Act. In clause (5) of the State of Objects and Reasons for enacting the Competition Act, it is clearly stated that "the Director General would be able to act only if so directed by the Commission, but will not have any *suo motu* power for initiating investigation". If the Director General, is directed by the Commission to cause an investigation to be made into information 'X' and he, besides investigating information 'X' also investigates information 'Y', which was not considered by the Commission, while directing investigation by him, that would amount to conferring *suo motu*, power of investigation upon the Director General which would clearly contravene the scheme of the Act, as far as investigation into complaint 'Y' is concerned.

It is quite understandable if the Commission, on consideration of an information forms an opinion that there exists a *prima facie* contravention of Section 3 and the Director General, while investigating the said information, reports contravention of Section 4 or Section 3 as well as Section 4. Such a report, in my opinion, will not be contrary to the provisions of the Act, since the information which is investigated by the Director General was considered by the Commission, before it formed an opinion in terms of sub-Section (1) of Section 26. If, however, the investigation by the Director General is based upon an altogether different information which the Commission did not consider, while forming its opinion with respect to existence of a *prima facie* case, his action would be contrary to the scheme of the Act and the powers conferred upon him.

Clause (4) of Regulation 18 of the Competition Commission of India (General) Regulations, 2009 requires the Director General to give report containing his findings on each of the allegations made in the information or the reference as the case may be. This is yet another indicator that the report of the Director General is to be confined to the allegations made in the information or the reference received by the Commission and he is not competent to travel outside the said information or reference.

If the Director General carries out investigation into an information which was not considered by the Commission while forming opinion in terms of sub-Section (1) of Section, 26, the Commission is entitled to either reject that part of the report which pertains to such an investigation or it may in its discretion treat the said information as an information under Section 19 and if the Commission, on examining that part of the report, is of the opinion that there exists a *prima facie* case of contravention of the provisions of the Act, it has to direct the Director General to cause an investigation to be made into that opinion. In the case before this Court, admittedly, the information alleging abuse of its monopolistic position by the petitioner and thereby contravention of the provisions of Section 4, was not considered by the Commission when it recorded a prima facie view that there existed a case to direct the Director General to cause an investigation into the matter. Therefore, the report of the Director General, to the extent he reported contravention of the provisions of Section 4 by the petitioner by abusing its dominant position as the manufacturer of Viscose Staple Fibre, cannot be forwarded to the parties in terms of sub-Section (4) of Section 26 nor can the Commission hold further inquiry into it in terms of sub-Section (8) of Section 26 or proceed to pass order on its basis in terms of Section 27 of the Act. The Commission may, however, is at liberty to treat the aforesaid part of the report of the Director General as information under Section 19 and proceed accordingly in terms of the procedure prescribed under Section 26.

There is no quarrel with the proposition of law that the *prima facie* opinion recorded by the Commission does not bind the Director General which after investigation is at liberty to report that no contravention of the provisions of the Act is made out. That, however, does not enable the Director General to initiate investigation into the information which was not considered by the Commission, while recording its *prima facie* opinion. The Director General is at liberty to report contravention of Section 4 even if the *prima facie* opinion recording by the Commission makes out a case of contravention of Section 3, but this can be done only while investigating the information or reference which the Commission had considered while forming its *prima facie*

case and not by entertaining and investigating an altogether different information during the course of investigation by the Director General.

Violations of provisions of Section 3 may also result in violation of Section 4 as well. What is material in this regard is as to what was the information which was considered by the Commission, while forming its opinion and not whether such an information constituted violation of the provisions of Section 3 or Section 4.

The scheme of the Act and the regulations provide an opportunity to the enterprise against whom an information or a reference is received by the Commission to defend itself firstly before the Director General during the course of investigation and then before the Commission during the course of inquiry, if any, conducted by the Commission, whereas the petitioner before this Court got no opportunity to defend itself before the Director General as far as the information alleging contravention of the provisions of Section 4 is concerned.

Therefore, the report of the Director General, to the extent he has reported contravention of the provisions of Section 4 by the petitioner by misuse of its dominant position as a VSF manufacturer, shall not be subjected to the procedure prescribed in sub-Section (8) of Section 26 nor shall the Commission be entitled to pass order on the said report, in terms of the provisions of Section 27. The Commission, however, shall be entitled to treat the aforesaid part of the report of the Director General as an information in terms of Section 19 and proceed accordingly in terms of the provisions of the Act, if the Commission on consideration of the aforesaid part of the report of the Director General, is of the opinion that there exists a *prima facie* case of contravention of the provisions of Section 4 by the petitioner. ■

Treatment of Commission Cost Paid to Agent in Relation to Projects

The following is the opinion given by the Expert Advisory Committee of the Institute in response to a query sent by a member. This is being published for the information of readers.

A. Facts of the Case

1. A company is involved in the business of designing, engineering and erection of ethanol, brewery, water and waste water treatment plants. The company caters to both domestic and international markets. The revenue recognition of the company, as per the querist, is governed by Accounting Standard (AS) 7, 'Construction Contracts', for the above-mentioned line of business. The company has raised this query in relation to inclusion of certain costs as contract cost in terms of paragraphs 15 to 20 of AS 7.

2. The querist has stated that the company executes projects in international and domestic markets for the above-mentioned business. In certain cases, the company appoints agents to undertake the following activities:
   (i) Generate enquiry from prospective customers.
   (ii) Support in obtaining the order from the customer and facilitating the execution of the agreement.
   (iii) Support in technical and commercial discussions and communications with the customer.
   (iv) Project co-ordination and support, procurement support and local assistance.
   (v) Overall updation about the status and completion of the project.
   (vi) Facilitate and arrange advance payment from customer and ensuring timely collections from customer.

   The above services rendered by the agent form an integral part of the project right from inception of project till the timely execution and completion of the project. The querist has also clarified that different agents are not deployed for undertaking the above-mentioned activities. Only one agent undertakes all the activities for a particular project right from receipt of order to recovery of last money from the customer for that particular project. The activities of the agent are not limited only to finding the prospective customer and obtaining the contract. The activities involved are right from inception of project till the timely execution and completion of the project. The agent provides various services in the nature of procurement support, vendor short listing, and technical services *etc*., which are an integral part in the execution work of the project and as such, according to the querist, the costs towards sales commission are specific for that contract and essential for smooth execution of the project. These costs would be incurred only where the project activity is carried out for that particular contract. These are specifically identified for each project and considered in the total estimated cost of the project.

3. The querist has further stated that the company presently pays compensation to these agents for the services rendered in the form of 'sales commission' by entering into individual agreements with them. The sales commission is decided as a percentage of contract value and the same is accrued in the books of account in proportion to contract revenue of respective project. Payment terms are directly linked with specific contract and receipt of amount from customer for the said project. As per normal payment terms, the sales commission is paid to an agent, in proportion to amount received for the project from the customer. In simple words, the commission becomes due (accrued as expense) on the basis of contract revenue and would become payable as and when the company receives money from the customer for the respective project. The querist has also separately clarified that commission for a particular project is payable only on receipt of order from the customer and no commission is payable if the order from the customer does not materialise. In other words, the commission becomes due only when the company receives order for the project. In case, the company does not receive the order for the project, no commission becomes payable to the agent.

4. The querist has also informed that although the commission costs are not explicitly charged to the customer as a separate cost, these form part of the total project cost and are considered while deciding the order value. As such, they are not specifically reimbursable from the customer on one-to-one

basis and there is no separate mention of these costs in the contract entered into with the customer, but the commission cost is included in total order value.

5. The commission paid to the agent is treated as direct cost of the project and included in the total estimated cost of the project as sales commission cost. These costs are included in the project cost as these are directly related to the project and can be separately identified and allocated to the project. For revenue recognition as per AS 7, the sales commission cost is included in the actual cost of project as well as budgeted cost of project to arrive at the percentage of completion. Based on the percentage completion so arrived, the revenue is recognised in the books of account.

B. Query

6. From the above background, the querist has sought the opinion of the Expert Advisory Committee on the following issues:
   (i) Whether the treatment adopted by the company, of including the commission cost as part of project cost, as explained above is correct.
   (ii) If the treatment adopted is correct, whether the cost would be classified as direct cost of the project or cost allocable to the project.
   (iii) If the treatment adopted is not correct, under what head these costs can be classified under indirect expenses.
   (iv) Whether the treatment adopted by the company to calculate percentage of completion including the sales commission cost and thus complying the revenue recognition as envisaged under AS 7 is correct.

C. Points considered by the Committee

7. The Committee notes that the basic issues raised in the query relate to whether commission paid to agents for the service rendered in relation to projects should be included in contract costs for revenue recognition under AS 7 and if included, whether it should be treated as direct cost or as allocable expenses to the project. Accordingly, the Committee has examined only these issues and has not examined any other issue that may arise from the Facts of the Case, such as, correctness of using nomenclature 'sales commission' for compensation paid to agents, timing of recognition of commission cost in respect of various nature of activities, *etc.*

8. The Committee notes paragraphs 15, 19 and 20 of Accounting Standard (AS) 7, 'Construction Contracts', notified under the Companies (Accounting Standards) Rules, 2006 (hereinafter referred to as the 'Rules'), as stated below:

"15. Contract costs should comprise:
(a) costs that relate directly to the specific contract;
(b) costs that are attributable to contract activity in general and can be allocated to the contract; and
(c) such other costs as are specifically chargeable to the customer under the terms of the contract."

"19. Costs that cannot be attributed to contract activity or cannot be allocated to a contract are excluded from the costs of a construction contract. Such costs include:
(a) general administration costs for which reimbursement is not specified in the contract;
(b) selling costs;
(c) research and development costs for which reimbursement is not specified in the contract; and
(d) depreciation of idle plant and equipment that is not used on a particular contract."

"20. Contract costs include the costs attributable to a contract for the period from the date of securing the contract to the final completion of the contract. However, costs that relate directly to a contract and which are incurred in securing the contract are also included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained. When costs incurred in securing a contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period."

From the above, the Committee notes that contract costs include the costs directly related to a specific contract as well as the costs that are attributable to contract activity in general and can be allocated to the specific contract. However, as per paragraph 19 of AS 7, general administration costs that are not specifically reimbursed in the contract and selling costs are excluded from the costs of a construction contract since these can neither be attributed nor allocated to the 'construction activity'. As per paragraph 20 of AS 7, the costs which are incurred in securing the contract are included as part of the contract costs only if they can be separately identified and measured reliably and its probable that the contract will be obtained. Accordingly, the Committee is of the view that whether commission payable to agent is a contract cost or not depends on the nature of activity for which commission is being paid.

9. The Committee notes from the Facts of the Case that so far as the activities of the agent related to execution of the contract activity, such as procurement support, project coordination and other technical services are concerned, the Committee is of the view that these activities are directly related to the construction contract and therefore, costs pertaining to these activities should be treated as costs that relate directly to the specific contract. Similarly, activities of the agent related to finding the prospective customer and obtaining the contract, *etc.* can also be treated as directly related to the contract as in the extant case, the costs pertaining to these activities are payable only on obtaining the contract. The Committee further notes that since commission payable in respect of such activities can be identified separately and can also be measured reliably (commission being charged as a specified percentage of contract value), it can be included as part of contract costs. However, the Committee notes from the Facts of the Case that the agent, in the extant case, not only provides services in relation to securing of the contract, procurement support and other technical services relating to execution of the project, but also facilitates and arranges advance payments from the customer and ensures timely collections from them. The Committee is of the view that activities relating to the facilitation and arrangement of advance payments and final collections from the customer and other similar activities are of the nature of administration costs, which cannot be considered as attributable to construction activity and accordingly, cost of these activities should not be treated as the cost directly related or that attributable to a construction contract as per the principles of AS 7. Therefore, the Committee is of the view that if the commission cost paid to the agents is a composite commission, the company should assess whether the latter activities and the cost in respect thereof are material and if it is so, attempt should be made to estimate the cost pertaining to these activities considering the factors, such as, the cost that would have been incurred had the agent performed only these activities, *etc.* Accordingly, the cost incurred on selling and administration activities should not be included in contract cost.

10. As regards including the commission cost for determining the stage of completion, the Committee notes paragraph 30 of AS 7, notified under the 'Rules', which is reproduced as below:

> "30. When the stage of completion is determined by reference to the contract costs incurred upto the reporting date, only those contract costs that reflect work performed are included in costs incurred upto the reporting date. Examples of contract costs which are excluded are:
>
> (a) contract costs that relate to future activity on the contract, such as costs of materials that have been delivered to a contract site or set aside for use in a contract but not yet installed, used or applied during contract performance, unless the materials have been made specially for the contract; and
>
> (b) payments made to subcontractors in advance of work performed under the subcontract."

From the above, the Committee is of the view that only those contract costs that reflect work performed should be included in costs incurred upto the reporting date. However, as per the Facts of the Case (paragraph 3 above), related commission is accrued in proportion to contract revenue. In other words, such costs are not being recognised considering the performance of related service rather the same is being recognised on the basis of contract revenue. Accordingly, the Committee is of the view that inclusion of commission on this basis is not correct; rather, it should be recognised considering the performance of related service provided the commission so determined is 'contract cost', as discussed in paragraph 9 above.

D. Opinion

11. On the basis of the above, the Committee is of the following opinion on the issues raised in paragraph 6 above:

(i) The treatment adopted by the company of including the commission cost as part of project cost would be correct only in respect of the commission cost paid to the agents to the extent it is directly related to contract and such activities are in relation to construction activity and further, it is not in the nature of administration and selling cost, as discussed in paragraph 9 above. Commission cost to the extent it is incurred on selling and administration activities, if material, should not be included in contract cost.

(ii) and (iii) Subject to (i) above, the cost may be classified as direct cost of project, as discussed in paragraph 8 above. However, if it does not meet the criteria as laid in (i) above, it cannot be treated as a contract cost. The nature of such expense should be considered to determine the head of the expense.

(iv) Subject to (i) above, the treatment adopted by the company to calculate percentage of completion would be correct provided the commission cost is recognised considering the performance of related service as per the principles of AS 7, as discussed in paragraph 10 above.

1	The Opinion is only that of the Expert Advisory Committee and does not necessarily represent the Opinion of the Council of the Institute.
2	The Opinion is based on the facts supplied and in the specific circumstances of the querist. The Committee finalised the Opinion on 3rd September, 2013. The Opinion must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of Opinion by the Committee.
3	The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in thirty two volumes. A CD of Compendium of Opinions containing thirty two volumes has also been released by the Committee. These are available for sale at the Institute's office at New Delhi and its regional council offices at Mumbai, Chennai, Kolkata and Kanpur.
4	Recent opinions of the Committee are available on the website of the Institute under the head 'Resources'.
5	Opinions can be obtained from EAC as per its Advisory Service Rules which are available on the website of the ICAI, under the head 'Resources'. For further information, write to eac@icai.in.

Opportunities and Challenges for Young ICAI Members: International Perspective

We are now having young members qualifying at the tender age of early and mid-twenties who are full of knowledge acquired by staying in our great profession and ready to apply this knowledge. The sky is the limit when it comes to opportunities available to them internationally. But these opportunities come with a fair share of challenges. Global opportunities are aplenty for them in Banking, Insurance and Real-Estate, Non-Banking Financial Institutions, Public Sector Enterprises, Professional Practices, Teaching, Corporate Entities, Family Businesses, Joint Ventures, Branch Companies of International Conglomerates, Compliance to Code of Corporate Governance, XBRL Reporting, etc. Read on to know more…

Don'ts

Let us first look at some of the DON'Ts when a young member intends to undertake an international assignment:

(1) Please do not have any political ambitions when you intend to work abroad,

(2) Please do not accept an under-employment position *viz.*, a position much lower to your qualification and experience,

(3) Please do not expect short time carrier ambitions &

(4) Should not try to disobey the culture of the country/region.

CA. Kishor Rabi

(The author is a member of the Institute and Past Chairman, ICAI Muscat Chapter. He can be reached at kishorrabi@hotmail.com.)

Good Things About International Opportunities

(1) You get exposed to multi-cultural, multi racial and multi-linguistic environments,

(2) Living conditions generally are good except the weather conditions where in some parts of the world, it is sub-zero temperatures whereas in some regions it is very warm,

(3) You family members also shall enjoy life.

Now let us look at the opportunities and challenges, especially professional challenges for the young members:

(1) Opportunities in Banking, Insurance and Real-Estate, Non-Banking Financial Institutions

(i) These sectors value qualified Indian Chartered Accountants. But you should be

Starting an independent professional firm abroad may not be easy due to local legal requirements. However, one can join an existing Audit and/or Consultancy firm of reputation. Many opportunities are available to be in their external audit wing, internal audit practices, IT Consultancy if one is also having additional IT expertise, management consultancy practice which includes M & A, company formations, restructuring, liquidations *etc.*

able to demonstrate your talent and prove your mantle against other professionals like CPAs, ACCAs, CAs from other countries, MBAs from our country, other qualified professionals who may be even non-finance professionals with relevant experience as well as other nationalities *etc.*

(ii) Our members are accepted as Finance Professionals, Internal Audit Professionals, Corporate/Retails bankers, Risk Management Professionals, Compliance Officers, IT Auditors, Corporate Banking executives *etc.* These assignments are very challenging and one should be willing to put in extra efforts to sustain it, since most of the countries prefer their own nationals.

(iii) Literally, the sky is the limit since, as of now, some of these entities have our members as CEOs, CFO, CIAs, General Managers, Vice -Presidents, Board members, Advisors to the Board of Directors, Advisors to Senior Government officials *etc.*

(2) Opportunities in Public Sector Enterprises

Public sector companies (listed companies) abroad irrespective of the region, depend heavily on the expertise of our members especially due to the professional integrity, to support their Finance, Internal Audit, Compliance departments, Risk Management department, Corporate Social Responsibly Compliance, Compliance to Code of Corporate Governance, *etc.*

Incidentally, for all the above positions including in banking and allied industries, some relevant post qualification experience, say at least five years, is mandatory to get into the right level.

(3) Professional Practices:

Starting an independent professional firm abroad may not be easy due to local legal requirements. However, one can join an existing Audit and/or Consultancy firm of reputation. Many opportunities are available to be in their external audit wing, internal audit practices, IT Consultancy if one is also having additional IT expertise, Management Consultancy practice which includes M & A, company formations, restructuring, liquidations *etc.*

However, extreme care should be taken to ensure that the host countries visa regulations are complied with while accepting the job offer.

Though Taxation is not on the high agenda like in the Gulf countries, there are also opportunities to get attached to the Income Tax practices of the audit firms globally.

In these lines as a young member, one can start the career as an Auditor or at a similar level to move up to become the Manager, Director, Partner and even the Managing Partner in due course.

(4) Teaching as a Profession

Teaching is a very noble profession. We also undertake various coaching before becoming a professional from our childhood. There are opportunities for our members to accept teaching in Universities, Colleges, Vocational Training Institutions, In-House Training centres of multinational corporations, *etc.* However, prior relevant teaching experience shall be mandatory.

(5) Corporate Entities, Family Businesses, Joint Ventures, Branch Companies of International Conglomerates, *etc.*

In foreign countries, one can find well managed propriety concerns, one man companies, family concerns, joint ventures *etc.* All these entities shall need our members to support their finance, banking, audit departments, *etc.*

Incidentally now, family concerns are also operating from various countries considering "Global Village" concept. Hence, they will need to comply with the various regulations of these countries including IAS, IFRS, US GAAP *etc.* Who else has the expertise in all these areas or able to acquire these knowledge with very little effort than our members especially the young talented members?

(6) Compliance to Code of Corporate Governance (Code):

As of date, hundreds across the world have adopted the Code of Corporate Governance. Details of these countries and the Codes of these countries can be viewed at the website of

The Organization for Economic Co-operation and Development (OECD) *viz.*, www.oecd.org, European Corporate Governances Institute *viz.*, www.ecgi.org etc.

One of the important requirements of the Code is the appointment of Board-Level Audit Committee with stipulated roles and responsibilities. Some countries in the world have amended their Corporate/Company Laws to provide for the appointment of the Audit Committees. The Code of Corporate Governance is adopted by countries by regulations equivalent to the Rules in India.

Our young members can augment their knowledge by specialising in the Code and the role of Audit Committee. This will give them additional avenues especially when looking for opportunities in foreign countries.

(7) XBRL Reporting:

Our young members may be aware that the Ministry of Corporate Affairs have already decided that certain classes of companies need to file their balance sheet and profit and loss account from the year 2011-2012 using XBRL Taxonomies. Members should also be aware of the fact that The Institute of Chartered Accountants of India is a member of M/s. XBRL India. There are certain countries which have made reporting in XBRL Taxonomies mandatory. Therefore, this is a nascent area where our young members can be experts, especially since these taxonomies are very easy to work with.

Incidentally, certain conglomerates and even some of the family concerns which operate in different territories of the world, need to file their balance sheet and profit and loss account in XBRL Taxonomies if the countries where they operate have already adopted XBRL. This is an additional arena open to young members.

(8) Need for Having the Sixth Sense:

To sustain abroad as well as grow further, our professionals needs to shed the name of 'number crunchers'.

One should:

(i) Be able to establish a standing which calls for acceptability especially when you are among people from various nations,

(ii) Improve skill-sets regularly by attending seminars, reading current publications *etc.*,

(iii) Acquire soft skills including practicing yoga, Reiki, Pranic-healing, Neuro-linguistic programming (NLP), Conflict Management principles, practice Stress Management *etc.*

(iv) Develop networking by being part of professional and social bodies which help to establish oneself.

(9) Acceptability of our Members

Western countries do not accept our qualification and one needs to equip oneself by taking certain additional local qualifications to be able to work in those countries. However, with more and more Mutual Recognition Agreements (MRAs) been executed with professional accounting bodies by the ICAI, and our members are offered membership according to these MRAs. With this, the gap shall slowly vanish.

(10) Sources of Information:

(i) It is extremely important to get information about the organisation which is offering one a position. This can, nowadays, be acquired easily by searching the Internet as well as by looking at the website of that organisation.

(ii) Information about the country where one intend to go can also be found from the internet,

(iii) It is also possible that the member has a friend, relative or known person in that country or working abroad who can also give valuable inputs about the company, country *etc.*

(iv) Go through the ***ICAI Internationally*** portal at our website www.icai.org and source relevant information,

(v) Seek the assistance of local regional office or the branch, contact detail of which are available at ***Regional Offices Websites*** portal of our website www.icai.org

(vi) ICAI have chapters in more than 21 countries. Contact these chapters and Managing Committee members to obtain valuable information about a country which one intend to make your domicile,

(vii) Check with the Central Council members or Regional Council members *viz.*, through email, with personal contact or through phone conversation if they can give information or link to get information about a foreign country or your prospective employer.

(viii) Also enquire about the standing of the currency of the country which one intend to make the new home by approaching your bankers or banking friends, through internet *etc.*

(ix) Without having these detailed information do not try to accept an offer from an employer abroad. ■

Challenges and Opportunities for Young Chartered Accountants in UAE

Over the last two decades, the business environment has expanded the horizon of professional services; and the ascent of globalisation has brought into fold the emergence of global professionals. Globalisation, throughout the world, has created world-class economies and has dramatically changed the landscape as we know it in terms of export/import opportunities. It has opened a whole vista of opportunities for young professionals and Indian Chartered Accountants are no exception to this. Initiatives toward unifying accounting standards globally have significantly contributed toward this. Without doubt, the Middle East has become an increasingly desirable location for global business and employment opportunities in recent years. However, moving into the region hasn't been without its challenges. This article seeks to provide a perspective on the opportunities and challenges for young members of the profession in the Middle East and the United Arab Emirates (UAE) in particular. Some of the underlying themes discussed herein would equally be applicable to any part of the world.

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Cultural awareness and knowledge of business considerations is necessary for professionals interested in building a more successful career and productive business relationships with colleagues and clients in the UAE. Hopefully, being aware of these considerations, opportunities and challenges; young members would be better prepared when venturing out in unexplored territories.

About the UAE

The UAE comprises seven emirates, which occupy the southeastern corner of the Arabian Peninsula. With its liberal business environment, impressive infrastructure, high standard of living, sunny climate, affordable facilities and hospitable locals, the UAE continues to attract expats from around the world. Driven by the nation's promise to diversify away from its dependence on hydro-carbons for the last two decades, the UAE has been developing the infrastructure required to achieve its aim, creating an attractive environment for investment across a range of sectors and services.

CA and the Accounting Profession in the UAE

The accounting profession in the UAE has been growing remarkably with the growth of the UAE. Accounting service as a profession has come a long way in the UAE and Indian Chartered Accountants are highly regarded for their professional integrity and knowledge. The profession has constantly endeavored to keep pace with the ever-growing business needs stemming from the significant growth in the economy witnessed over the years. From being perceived as a peripheral service, the profession has evolved to become pivotal, in the line of services. Many international accounting firms have their presence in the UAE either directly or through their affiliates.

Opportunities and the Drivers

A number of areas are driving the recent job and business growth. Firstly, the UAE has come out of the global financial crisis faster than other parts of the world, which means that the companies are again feeling positive about the future. Secondly, the recent announcement about the UAE winning the 'EXPO 2020' has given some real 'buoyancy' in areas like construction and infrastructure. Moreover, the imminent prospect of an upgrade to the coveted emerging market status will add dynamism to the economy that is already on an upward trajectory. Of course, the price of oil always affects UAE and the region as a whole and whilst oil prices have not returned to the heights of 2008, they are still strong, which helps to drive the economy and investment.

The accounting profession in the UAE has been growing remarkably with the growth of the UAE. Accounting service as a profession has come a long way in the UAE and Indian Chartered Accountants are highly regarded for their professional integrity and knowledge. The profession has constantly endeavored to keep pace with the ever-growing business needs stemming from the significant growth in the economy witnessed over the years.

The UAE has spent a considerable number of years building an economy that is not reliant on oil. For example, the growth of the aviation industry in the UAE through privately held world class airlines combined with the investment in defense, aerospace, heavy metals, manufacturing, nuclear and renewable energy, railways, ports and industrial zones has added a new dimension to the economy. In addition, the hospitality industry continues to grow with new hotels opening almost every month and the desire to keep the UAE as a destination for major sporting events and exhibitions also helps with this sector. The retail sector, particularly in the area of luxury goods, has also continued to flourish. The real estate market has come back to the fore – property prices are rising and there has been much investment in the market from local, regional and international investors. According to a recent survey, an astounding nine in ten (90%) UAE finance executives are more confident in the UAE's growth prospects compared with last year, the strongest level of confidence expressed worldwide.

This worthy growth ambition requires skilled professionals be it accountants, engineers, technocrats, international partners or investors. In terms of job opportunities the Emirates is refocusing on its traditional strengths: ***trade, logistics and tourism***. But professional services and advice is also sought by other sectors including banking and financial services, real estate, leisure and hospitality, retail construction, telecoms and energy.The country's free trade and industrial zones welcome foreign investment and business, thus creating further job opportunities. According to a recent report:

"Confidence levels are high amongst executives who are looking for highly strategic and commercially-focused professionals to help leverage business growth opportunities. Workloads persist and additional M&A activity is resulting in increased demand for skilled finance professionals."

Unfortunately, demand outweighs supply and the CFOs are reporting difficulties in locally sourcing the talent they require, particularly in the finance and compliance functions. As the Middle East region is witnessing growth across sectors, the companies are looking to hire more finance professionals that can direct strategic development. However, there is a definite lack of professionals with the right mix of skills and local awareness. Functional areas where it can be challenging to locally find skilled professionals include financial management and control, accounting, accounts payable and receivable, tax and treasury, and business or financial analysts, internal auditing *etc*. Companies are looking for a mix of solid education, experience and technical skills, supplemented with effective soft skills, such as collaboration and communication capabilities, as well as a strong sense of commerciality.

The Challenges

So, what are the challenges faced by expats and Indian CAs in the UAE and are there any specific reasons for this? In order to be able to address this question, mining out some of the challenges faced by the expat community based in UAE and around the Gulf area is necessary.

Expat *vs*. Local Talent

One of the many confounding ironies of the labour market in the UAE is that whilst the job market is buoyant, many companies, keen to support the ongoing growth and development of the UAE nationals, ideally try to find suitably qualified local citizens. The expat or local talent question is one we often hear. Where talent is being recruited from overseas it is important to understand motivations and manage expectations to avoid any disappointment at a later date. As such, a candidate from overseas must have skills which cannot be found locally in order to really thrive. Added to this, pressure from local governments for organisations to meet a certain quota or fill a particular percentage of their workforce with local talent; be they be Emirati, Qatari, Kuwaiti, Omani or Saudi nationals, is increasing.

Knowledge and Competition

Although there is no specific financial reporting framework required to be followed by the law, the International Financial Reporting Standards (IFRS) is widely used and accepted. The Central Bank of UAE has made it mandatory for banks to prepare financial statements based on IFRS. Subjects such as Indian Companies Law, Taxation and Indian Accounting Standards that young professional would be conversant with has limited application in the UAE. Moreover, Indian CAs in the UAE are in direct competition with professionals from Europe, USA and other Asian countries such as CIMA, CPA, CFA, CMA, ACCA etc. in addition to other professionals from India *e.g.*, Cost Accountants and Company Secretaries.

Entry Barriers

In terms of establishing an accounting practice in UAE, auditors need a license from the Ministry of Economy. One of the eligibility criteria is that an individual needs to be a qualified professional accountant in addition to a graduate or post graduate and at least three years of auditing experience with a professional accounting firm within UAE which restricts newly qualified CAs to setup accounting practices in UAE. There is also a need to have a local partner to establish business, unless the business is established in one of the free trade zones.

There are also a number of regional challenges which are partly dependent on the type of role for a vacancy. For example, more front office related positions require candidates who have access to client relationships in the region often coupled with bilingual (English and Arabic) speaking skills. Whereas with more technically specific roles the key challenge is in not only having the required specific technical knowledge but also the regional experience to match. The challenge then is the ability to adapt to the local and corporate culture.

Cost of Living

The UAE and the Middle East once attracted foreign white-collar workers in droves – attracted by high salaries and appealing perks and fringe benefits. Expats who have previously worked in the region or who have known people working here have the perception that it's the land of milk and honey. But new realities in a globalised economy, pressure on cost cutting and the high cost of living have changed all that. Job seekers need to have realistic expectations when it comes to salaries, but provided they accept this and the benefits of the tax regime – or lack of it - they can have a good life.

Finances are obviously a major concern to anybody looking for a new life overseas and cost of living takes in the vast majority of expenditure. One issue which is becoming more and more apparent is the fact that too many people automatically assume that they are moving to a like-for-like situation with regards to the cost of living. In reality the cost of living in the UAE will be significantly higher than the vast majority of countries around the world purely and simply because it is a relatively expensive country to live in. As a rule of thumb, it really pays off to start your financial planning before moving abroad, as you can save yourself not just time and money, but unexpected disappointments.

It is very often the things which you take for granted in your homeland which may well cost the earth in your new homeland, and while UAE as a whole is very much at the top end of the technology curve it is not a cheap place to live. They may have the latest telecoms, the best Internet systems, very impressive public transport network and other such facilities at the end of the day you do pay for these. These are all issues which need to be addressed and investigated well before you seriously contemplate a move to the UAE, or indeed any other part of the world. There are literally hundreds if not thousands of comparison websites which will help you with the task of comparing the cost of living in the UAE to any other country in the world. You need to make full use of these services to ensure that you are fully briefed and fully ready for the challenges ahead – challenges which will in some cases push you to the limit in the early days.

Sustainability of the No Tax Regime

When the initial boom began in the UAE over 10 years ago, the authorities were very keen to keep any potential tax liabilities down, for those moving to the region. However, after the boom and bust scenario materialised in the region, the authorities were forced to go cap in hand to bailout fellow Emirates and effectively secure the reputation of the region. As a consequence, it is unlikely that the authorities will be able to maintain the relatively non-existent taxation system in the UAE in the medium to long term. This is not to say that business and employment opportunities will not be forthcoming in the future or will not be attractive compared to the other parts of the world, but the authorities will need to be self-financing at some point.

Cultural Difference and Home Sickness

The old saying "when in Rome do as the Romans" is certainly one to be kept in mind when moving abroad. This is not to say that any overseas country should not be compassionate and accommodating for other cultures but the truth is that, if you choose to move to a region of the world which has a very different culture then you will need to adapt first and foremost. However wrong this may feel, however reluctant you are to make changes to your lifestyle truth is that it is your choice to move to the region and your choice to accommodate and compromise or else move on.

Many people are tempted to move 'lock, stock, and barrel' to a new country purely and simply because of business or employment opportunities and money. However, while those who have employment in the region may well be able to integrate into a new social circle and network almost immediately, it is those left to look after children and the home who very often suffer serious bouts of loneliness. How these issues are overcome is up to the individuals and the group themselves. It is vital that you "get out and about" at a very early stage as there will be fellow expats in the region who can assist with the "settling down" period. The local Chapter of the ICAI in the region is very active and always eager to assist and provide fellow professionals with a platform to network.

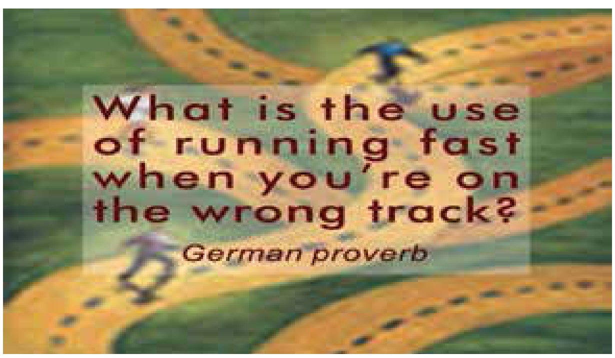
Conclusion

The Middle East and in particular the UAE, have been very much at the forefront of the minds of many expats over the last decade. While there are a number of challenges to overcome, overall there is definitely a positive sentiment around talent attraction in the region. All this being said, it is important to note that the Middle East remains a fascinating business and social hub with huge growth potential. There is no doubt that the UAE has much to offer, is fairly underdeveloped with regards to the economy and has the potential for significant growth in the future. For high-skilled expatriates, the UAE has long enjoyed a reputation as a posting with a good quality of life.

Although western business culture has been embraced in the professional environment, the social and business cultures and expectations in the UAE may surprise and alienate an unprepared traveller. When planning a posting to the UAE, it is critical to familiarise yourself with the country's professional customs, culture and social expectations. Developing effective and appropriate communication is a key factor in the development of successful and productive business strategies and working relationships in the UAE. ■

Opportunities and Challenges for Young Chartered Accountants in Practice

While most are still dreaming of success, seizing the right opportunity can help you achieve it. Over the last few decades, post liberalisation of our economy, the demand from Industry for young Chartered Accountants has increased manifold. Attractive remuneration packages tempt most young CAs to choose employment over Practice. However, opportunities for young CAs have opened up significantly in practice in the recent years, not just due to the globalisation of economies, but also because of new regulations and laws being introduced in the country. There are endless career opportunities for practicing young CAs, especially those who specialise in specific fields, be it International Taxation, IFRS, Corporate Laws or Service Tax, to name a few, which offer a significant upside on the remuneration front as well. This article attempts to briefly examine those areas and offers the young ICAI members an overview of an alternative career path in Practice, which challenges their ability and provides them an opportunity to prove their worth.



'Survival and Success depend on Speed and Imagination.' These words by Shri N. R. Narayana Murthy, Chairman Infosys group, are apt for any professional, especially relevant in today's scenario while discussing various professional opportunities for Chartered Accountants in Practice. Even though a lot has been written and spoken about on this topic, still, discussing this subject with specifically the young members of our Profession in mind brings out a whole new dimension.

Young members, particularly from Tier 1 & 2 cities, are hungry to excel and their enthusiasm is indomitable. There are endless opportunities for a young member in Practice. This article groups these into those opportunities that have emerged due to the globalisation of economies and those that come under traditional areas of practice. The list is only indicative in nature and not exhaustive.

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Globalisation of Economies

GLOBALISATION = 

1. International Taxation:

With the advent of globalisation and cross border transactions, transfer pricing and double taxation avoidance agreements (DTAA) have come into sharp focus. Revenue authorities across the globe are very keen to ensure that their respective countries are not deprived of their legitimate share of taxes on these cross border transactions. Companies operating in multiple countries are now subject to intense reviews and scrutiny of transactions with their related parties. This calls for companies to be equipped and well prepared to address any questions the revenue authorities may have in terms of their international business. Young members with deep knowledge and understanding of the DTAA, Transfer Pricing regulations can play a key role in an advisory capacity and assist these companies in preparation of transfer pricing reports and other aspects of international taxation. It may be noted that this is needed for all sizes of companies from SME's to large multinationals and this involves a detailed analytical skill on part of the expert to understand and expostulate several aspects of the external environment in which the entity operates and its own internal structure to be effectively able to communicate to the authorities the justifications relevant for the posture adopted by the company in various taxable jurisdictions.

2. Inbound and Outbound Investments:

Foreign entities planning to invest and start their business operations India are required to comply with a host of regulations. Similarly Indian corporates who plan to invest and start business operations outside India need guidance on various regulatory framework that affects such investments.

The current state of the Indian Economy has to an extent impacted in attracting Foreign Direct Investments (FDI) into the country. However FDI is bound to gain momentum in the near future once there is certainty and stability on the Indian political front. In case the expected further liberalisation in the FDI policy materialises, foreign investors could tap into many sectors that have currently opened up for investment with minimum or no government inference. Similarly, Indian companies will continue to tap into resources and opportunities available overseas.

Young members with deep knowledge and understanding of the DTAA, Transfer Pricing regulations can play a key role in an advisory capacity and assist these companies in preparation of transfer pricing reports and other aspects of international taxation.

Opportunities include:

- Advisory services FEMA regulations
- Representing clients under the FEMA regulations (adjudication proceeding and appeals) before the special director appeals
- Certification work: borrowing and lending in foreign exchange, deposits, remittance of Indian assets by NRIs, export/import of goods and services, to name a few
- FEMA compliance audit
- Financial and legal due diligence
- Advise on Private Equity Financing and Structuring
- Advisory of Debt Structuring and other financial options
- Advisory and analysis on financial options
- Regulatory approvals before competent authorities, for example RBI/SIA/FIPB
- Setting up of SEZ/EOU/STP
- Formation of Subsidiary Companies of foreign companies, including branches and liaison offices
- Valuation of shares for regulatory purposes governed by the Central Bank circulars

3. Cross Border Mergers and Acquisitions:

M&A as we know is a strategy adopted by Corporates to expand their operations with a view to: a) increase their profitability; b) access new technology; c) access a skilled talent pool; d) access capital and new markets; f) Diversify, and so on. With the easing of restrictions on cross border M&A *vis-a-vis* capital, there is a tremendous increase in international investments. The Companies Act, 2013 has opened up mergers of Indian companies with foreign companies subject to RBI approvals in specified jurisdictions.

Opportunities include:

- Advisory services
- Investment banking
- Financial and legal due diligence
- Advise on Private Equity Financing and Structuring.
- Business valuations
- Regulatory approvals before competent authorities like RBI/SIA/FIPB

4. Knowledge Process Outsourcing (KPOs):

In the era of globalisation many companies have undertaken outsourcing as part of their business strategies. As more and more companies are joining the outsourcing bandwagon, this phenomenon is gaining enormous corporate attention. Recent market surveys indicate that almost 80 % of companies expect to increase their investment in outsourcing. More recently however, outsourcing of F&A functions have been growing rapidly.

KPO calls for a high degree of quality in deliverables, investment in quality infrastructure and the talent pool, enhanced risk management, controls and maintenance of confidentiality.

F&A outsourcing is not just restricted to transaction accounting. It is increasingly covering complex and high-end F&A activities like year-end finalisation, statutory compliance and management reporting. Small to mid-sized business offer fantastic opportunities for outsourcing F&A.

Other KPO related areas include market analysis, equity research, financial modeling, business process reengineering, etc.

5. Shared CFA Services:

Many small to medium businesses require CFO services to help manage their growing businesses. However, with constraints on financial resources, affordability becomes a challenge. SMEs cannot afford a full time CA, nor can they afford not to have one. Young CAs with a reasonable degree of experience and exposure will be able to fill this GAP. The concept is growing of late.

Opportunities include:

- Defining entry strategy
- Incubations Services such as Company incorporations, office set and initial team for accounting, reporting and compliance
- Relationship management with investors, lenders and bankers
- Managing government authorities
- Review and analysis of management reports
- Statutory Compliance Management and Advisory

6. IFRS:

The worldwide acceptance of the IFRS has established a common platform globally for this profession. It has naturally created a great demand for IFRS professionals with knowledge and experience of these standards. India too adopted them, converging them with our existing accounting standards, and renaming them the Indian Accounting Standards (IND-AS).

Opportunities include:

- Offering independent advisory services in IFRS, including conversion of financials as per Indian GAAP to IFRS compliant ones
- Tie ups with large audit firms and professional advisory services companies who need IFRS professionals, as these firms support companies in successful implementation of international standards as part of the accounting structure.

7. Business Valuation:

With the globalisation and liberalisation of economies, M&A and Strategic Partnerships have increased manifold. The objective of Business Valuation is to determine the fair market value of the business, *i.e.*, the price the buyer and seller negotiate at arms length. It is an evolving field and there are very little developed doctrines relating to the application of the specific method amongst various valuation methods. Many factors drive the valuation of the business such as the nature of the business, specific industry scenario, economic outlook, the company's financial position, etc. There are many methods to value a business such as, Asset Approach, Income Approach or Market Approach. Further, valuation is required under various statutes like FEMA, the Companies Act 2013 and several such laws.

8. Corporate Governance:

This is generally understood as a systematic process by which companies are directed to ensure they are managed to meet stakeholder aspirations and societal expectations. It leads to corporate governance philosophies of trusteeship, transparency, empowerment and accountability, and controlled and ethical corporate behaviour. The Companies Act 2013 lays special emphasis on corporate governance.

Opportunities include:

- Designing code of conduct governance,
- Designing risk management frameworks,
- Designing internal control frame works,
- Designing whistle blower policies,
- Audit of corporate governance,
- Audit on internal control functions.

9. Extensible Business Reporting Language (XBRL):

The XBRL reporting system has transformed financial reporting and the use of these reports by various stake holders. Interactive data has enabled investors and external users to make informed decisions. This has enabled CAs to prepare error free accounts as the accounting data is being mapped into a recognised taxonomy and helps errors to be addressed at this stage. This has given great flexibility to CAs in the preparation of different types of management reports. The Companies Act requires a certain class of companies to file their financial statements in XBRL.

Opportunities include:

- Extracting financial statements from accounting packages (Tally, ERP).
- Mapping of financial statements
- Review of mapping
- Actual conversion
- Validation of XBRL files
- Advisory services
- End-to-end project implementation, including preparing complete XBRL documents on a fully outsourced basis

10. The Companies Act 2013:

The enactment of the much awaited the Companies Act, 2013 has marked the beginning of a new era in the Indian Corporate World. The Corporates in this evolving regulatory and economic environment need dependable and skillful professionals with specialised knowledge in the intricacies of the Act.

Outsourcing opportunities include maintaining of Corporate Law Records.

11. Direct Tax Code:

The Government of India is in the process of revising, consolidating and simplifying the language and structure of the direct tax laws into a single legislation – the Direct Taxes Code (DTC). The new DTC proposes substantial changes to the current direct tax legislation and is likely to have significant impact on the business community. It is widely expected that the proposed DTC would be referred to a Parliamentary Committee for further deliberations and the Committee would have one more round of public consultation. It offers tremendous scope for young members to specialise and distinguish themselves in the profession

12. Goods and Services Tax (GST):

As we are all aware, the proposed GST aims to replace multiple indirect taxes in India, such as central excise, additional excise, value-added tax and service tax. The introduction of GST is a key reform measure that could have immense macro implications for India's growth potential. The biggest positive from the introduction of GST would be higher revenue for the government that would come from broadening the tax base and increasing compliance.

Opportunities includes:

- Record keeping
- Advisory services
- Departmental audit
- External audit of GST records
- Certifications for tax credits and special audits, if any

13. Forensic Accounting:

Forensic Accountants are often engaged by companies when litigation is anticipated or suspected. A Forensic Accountant often utilises his understanding of business information & financial reporting systems, accounting standards and procedures to investigate some form of economic crime.

14. Other Areas one can Explore

- Faculty assignments in professional institutions
- Nominee directors for foreign companies setting up offices in India
- Business structuring assignments/consulting
- Drafting and conveyance;
- Contract tendering (negotiation) areas of consulting
- Setting up practice in the areas of minor Acts – such as PF/ESI/Luxury Tax/Entertainment Tax/ Stamp duty laws, etc.

Traditional Areas of Practice

1. Taxation:

In traditional areas of practice, Direct and Indirect taxation have always been a major area of focus by CAs.

- Direct taxation covers areas like Advisory Services, Tax Filings & Compliance, Appeals & Proceedings
- Indirect Tax helps one develop expertise in niche areas like Excise & Customs, Service Tax, VAT and provide services as Consultant, Tax filings, Appeals & Proceedings, etc.

One can examine an industry specialisation in all the above fields.

2. Internal Audit:

This important activity helps the management of companies with an insight into several areas of improvement: systems and processes, effectiveness of internal controls, performance and risk management, statutory compliance management, reduction in costs, revenue enhancement opportunities, and more.

Opportunities include audits in the areas of:

- Operations
- Finance
- Compliance
- Information Systems (IS)
- Investigation
- Management

Internal audit has fast become an integral part of Board proceedings and audit committees are expected to review various findings and take adequate steps to address issues mentioned therein. Hence internal auditors of listed or other large companies now have high visibility and lot of expectations ride on them.

3. Bank Audits:

It includes inventory and receivables audit, concurrent audit, information system (IS) audit, statutory audit and revenue audit.

4. Insurance Sector:

It includes advisory, Actuary, Broker, Surveyor/loss assessor, arbitration, concurrent auditors, certifications required under IRDA, Insurance investigations and consultancy in Insurance laws.

It may be noted that for each specialisation area mentioned above, young practicing members may have to undertake specialised courses post their qualification – either through ICAI or respective World Bodies. Many of these courses are available online.

Challenges that Young Members Face

A few of the many challenges young members have to deal with include:

- Increased infrastructure cost of setting up an office and ongoing rents and maintenance
- Reaching out to potential clients, *i.e.,* marketing their services
- Clients' unwillingness to increase professional fees despite the increased level of compliances expected under various statutes
- Lack of effective communication and presentation skills
- Absence of informal networking forums such as a CA club to facilitate interaction with professional colleagues and help build networks
- Limited access to advice from senior professionals, especially for those working in Tier 2 cities
- Limited access to affordable technology to help build consistent standards across the profession, *eg*, audit tools

It may be noted that the Institute is seized of most of these challenges and is working steadfastly in addressing them.

Expectations by Our Young Members

Given the host of opportunities now available to our young members, here are some of their needs and expectations from the ICAI, which is already doing some outstanding work for our profession. To help them rise to the challenge what is needed include:

- More online ICAI certification programs to help build specialisation in subjects like FEMA, RBI, foreign trade policies and procedures, strategic management and decision making skills, leadership programs, business valuations and business verticals specialisation to help build domain knowledge.
- Tie-up with universities abroad to help widen their horizons. *E.g.,* Leadership and liberal arts from University of Pennsylvania; Harvard university, Stanford university to help understand and appreciate global best practices
- More intense programs to hone their communication and presentation skills through courses delivered by top management schools
- Mentoring programs. Access to senior and successful professionals/role models
- More brand building for our profession.
- A "Knowledge Panelists Team" to help face academic and practical challenges in the profession
- Active ICAI alumni for networking – this may open a few business opportunities
- More emphasis on research in various professional avenues
- Facilitation of international exposure to young members through short term visits abroad and interactions with members of accounting bodies in other countries like ICAEW, CPA Australia, and CPA Singapore.

Opportunities are aplenty. Challenges can be addressed and managed. It's best to choose an area of interest one is passionate about and willing to go that extra mile to be a specialist in. The great spiritual guru Swami Sivananda had rightly said: *"Put your heart, mind, and soul into even your smallest acts. This is the secret of success."*. ■

Challenges & Opportunities for Young Members in Industry

The profession of accountancy is highly regarded as one of the most prestigious and sought-after professions in the country in general and industry in particular. The society has increasingly recognised the services of Chartered Accountants in the entire gamut of services to the industry including management accounting, management information and control system, international finance, financial services etc. There is no dearth of opportunity for CAs in the Industry and the greatest challenge for young CAs is to fulfil the expectations of the Industry from the profession.

"Life does not get better by chance, it gets better by change." - *Jim Rohn*

Introduction

The profession of Chartered Accounts have been regarded as one of the most prestigious and sought after profession in the industry. The society has increasingly recognised the services of Chartered Accountants in the entire gamut of services to the industry including management accounting, management information and control system, international finance, financial services *etc.* The Chartered Accountants are entrusted with substantial responsibility under various legislations like Companies Act, Income-tax Act, Service Tax, Indirect Taxes *etc.* This shows the confidence and trust reposed by the Government and society in the profession. With sheer dedication, integrity, domain knowledge and competence, Chartered Accountants have always proved their worth as per the expectations and responsibilities entrusted by the Regulators, Industry and Society.

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The recent changes in the legislations which have already taken place like the Companies Act, 2013 or changes which are expected to happen in near future like Direct Tax Code are bringing numerous opportunities for our young members of the profession.

Opportunities and Challenges

Change is the law of life and this is the era of change in which the pace of change is bewildering. Every change in life creates new opportunities and also brings new challenges. With every change, the business process and regulations are becoming more and more complex and stringent. Therefore, in order to run any industry, it requires expertise in every area like Financial Management, Taxation, Accountancy, Management, Banking, Capital Market, Information Technology *etc.* Chartered Accountants having expertise in the above areas, remain the most desirable professional in the Industry. The recent changes in the legislations which have already taken place like the Companies Act, 2013 or changes which are expected to happen in near future like Direct Tax Code are bringing numerous opportunities for our young members of the profession. But at the same time, these changes are also posing challenges. The young members have to gear up to cope up with these challenges.

In the recent years, there is an exponential growth of opportunity for Chartered Accountants in the Industry particularly in Information Technology and Knowledge Process Outsourcing (KPO). The opportunity and challenges in the industry is attracting young members, particularly towards multinationals due to high starting salary and global opportunities. In the IT sector, there is a huge opportunity for young members having good analytical skills in the areas like designing Computer Aided Audit Tools (CAAT), establishing and customising the ERP system, SAP, XBRL, designing the system of Internal control *etc.* In the last few years, the KPO industry is also gaining its momentum as many companies and organisations are making the choice to focus on core competency areas and outsource all other non-core areas. India, with its large pool of talented professionals and specialised domain workers, is becoming the central hub for KPO and there is great opportunity for young Chartered Accountants in the KPO Industries involved in providing accountancy services, compliance services *etc.*

In today's times, capital market indices are said to be the barometer of financial health of any country and sensex is parameter of a country's growth and progress. Being an expert of finance, there is no limit for CA's in the financial sector as research analysts, advisors, merchant bankers, credit rater's, portfolio managers, investment advisors, foreign exchange hedging and fund managers.

With globalisation, the geographical boundaries have only political significance, for economic transactions, these boundaries are fading rapidly and the world is becoming an integrated market place. But at the same time, with multiple cross border trade and tax treaties, custom & foreign exchange regulations *etc.*, the cross border transactions are becoming more and more complex. Chartered Accountants with in-depth knowledge of international taxation, foreign exchange regulations are in great demand in the Industry.

The Companies Act, 2013

The dawn of this financial year happened with the new Companies Act, 2013. The Companies Act, 2013 is a holistic legislation, enacted with intention to strengthen Corporate Governance in the Indian corporate sector. In recent times, the industry has witnessed some major corporate frauds, which were the consequences of mismanagement and gross neglect of compliance requirements by certain companies, have affected the image of the corporate sector and professionals. These could have been avoided if proper due diligence and compliance procedures had been followed. The new Companies Act has initiated the era of self-governance and the onus of governance is on Directors and professionals. The Companies Act, 2013 (Act) will have a major impact in various areas including accounting, financial reporting, Internal Control, Corporate Social Responsibility and Governance. The various provisions of the Act aim to bring in more transparency and make corporate and those associated with the corporate, accountable to the stakeholders. The new Act have categorised the Chief Financial Officer

CAs need to keep improving/updating their professional competencies, be responsive to changes and with a zest to excel in the dynamic business environment.

(CFO) of the company, which in most of cases are Chartered Accountants, as 'Key Managerial Person' of the Company and also entrusted him significant responsibility. As CFO, Chartered Accountants are expected to play a critical role in the changed environment. Now, each company belonging to the prescribed class is required to have a CFO on a full-time basis and to be appointed and removed only through a board resolution. The new act will further strengthen the employment opportunity for young members. But, at the same time, various responsibilities like preparation of accounts, compliance of enhanced disclosure requirements, ensuring effective internal controls, formulating a strong vigil mechanism for reporting of frauds, timely approval for related party transactions *etc.* have been imposed by the Act on the CFO. The new Act will further add to the demand of Chartered Accountants in the Industry. But, it must also be noted that non-compliance attracts a huge penalty for CFO under Section 129 and there is also provision for imprisonment.

After the enactment of the Companies Act, 2013, there is going to be spurt of expenditure in the area of Corporate Social Responsibility (CSR), as a specified category of companies are required to spend 2% of average net profit of the company made during the three immediately preceding financial year on CSR activities. The CSR activities can be carried out by the Company by itself or though trust or through company registered under Section 8 of the Companies Act, Society *etc.* The compliances and control for CSR activities will open another area of opportunity for members.

IFRS

The convergence of IFRS is also coming as a boon for our profession as it will enable us to align our financial reporting norms with International Financial Reporting norms. The gained expertise after convergence of IFRS will open a great opportunity for Chartered Accountants globally. Post convergence, members having expertise knowledge in the IFRS will be in great demand.

Professional Responsibilities

It has to be remembered that nothing comes free in this world. Along with all the importance given under various acts, there are provisions for huge penalties and/or prosecution for non-compliance.

The new members should also start thinking out of the box and start looking beyond the traditional domain areas of accountancy to take advantage of broadening professional horizon in changing scenario.

Therefore, after joining the profession, every member has to be very cautious while discharging their professional responsibilities.

Competitiveness in the Industry

Increasing competitiveness in the Industry, is also emerging as an opportunity for CAs as in order to remain competitive in the industries, companies are seeking services of Consultancy Organisations in devising framework for Risk Management, Cost Control, Supply Chain Management, financial controls *etc.* To cater to the the need of the Industry, consultancy organisations are hiring young Chartered Accountants having a methodological and an investigative approach for designing the systems for the clients.

Direct Tax Code

Income tax has always been a domain area for our profession. Direct Tax Code is now set to replace existing Income-tax Act, 1961. The draft of DTC has already been released. The definition of "Accountant", proposed under draft DTC, required our budding members to continue to excel in our professional skills, competence and knowledge so that Income Tax will continue to remain our domain area.

Conclusion

The opportunities and challenges mentioned above are just a gist, the sky is the limit. There is no dearth of opportunity for CAs in the Industry and the greatest challenge for young CAs is to fulfil the expectations of the Industry from the profession. For this, CAs need to keep improving/updating their professional competencies, be responsive to changes and with a zest to excel in the dynamic business environment. The new members should also start thinking out of the box and start looking beyond the traditional domain areas of accountancy to take advantage of broadening the professional horizon in the changing scenario. So, we ourselves should be prepared to face all challenges and grab every opportunity. ■

Global Professional Opportunities in IFRS

Spreading its jurisdiction across 130 countries in the world, the International Financial Reporting Standards (IFRS) a uniform set of Global Accounting Standards, has created a whole new lot of opportunities for professionals across the world. The jurisdictions include all the G20 Countries and 110 others. The 130 jurisdictions referred to above include all of the 31 member states of the European Union (EU) and the European Economic Area (EEA). Securities of close to 8,000 IFRS companies are traded on a regulated market in Europe. In 76 countries across the world, an auditor's report is required to refer to conformity with the IFRS. Read on to know an overview of IFRS and the global opportunities these offer to accounting professionals.

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The IFRS

The Standards in Accounting are prescribed to guide and regulate the accounting of various transactions pertaining to business. These International Financial Reporting Standards (IFRS) have been adopted across several countries offering the application of uniform standards for recognising, measurement and disclosure of items of financial statements.

What Comprises IFRS?

Preface to International Financial Reporting Standards which sets out IASB's mission and objectives, the scope of International Financial Reporting Standards (IFRS), due process for developing IFRS and Interpretations, and policies on effective dates, format, and language for the IFRS. *Conceptual Framework 2010* which serves as a guide to resolving accounting issues that are not addressed directly in a standard. Along with the above Constitution of IFRS Foundation, Due Process Handbook issued by the IASB & IFRS Interpretations Committee (2013), IFRS and SME IFRS standards consolidate to the applicable literature on IFRS.

Total number of IFRS (effective as on 1st January 2014) = 66
(IFRS - 13, IAS - 28, IFRIC Interpretations – 17, SIC Interpretations – 8)

Application of IFRS across the Globe

Spreading its jurisdiction across 130 countries in the world, the International Financial Reporting Standards (IFRS) a uniform set of Global Accounting Standards has created a whole new lot of opportunities for professionals across the world.

The jurisdictions include all the G20 Countries and 110 others. Almost 81% of the jurisdictions require IFRS for all or most domestic publicly accountable entities. The IFRS is a requirement for all companies whose securities are trade in a regulated market. The 130 jurisdictions referred to above include all of the 31 member states of the European Union (EU) and the European Economic Area (EEA). Securities of close to 8,000 IFRS companies are traded on a regulated market in Europe.

In 76 countries across the world, an auditor's report is required to refer to conformity with the IFRS standards. While in other 21 countries the auditor's report refers to conformity with the national standards.

With regard to IFRS standards for SMEs out of the 130 jurisdiction where IFRS has been adapted, 63 jurisdictions require or permit IFRS for SMEs while an additional of 16 jurisdictions are under consideration.

'Preparation and Reporting' is one of the most required IFRS services in India and abroad. It includes 'First time adoption of IFRS Standards,' 'Offering model financial statements, checklists and questionnaires,' 'Preparing Financial or Regulatory Reports as per IFRS,' 'Prepare Financial Statements as per IFRS,' and 'Setting up systems and processes and contributing to the establishment of a control and assurance framework for the data for the Company's Financials, IFRS and Regulatory Reporting.'

Scope of IFRS

- IFRS sets out recognition, measurement, presentation and disclosure requirements of transaction and events in general purpose financial statements.
- IFRSs apply to the general-purpose financial statements and other financial reporting by profit-oriented entities *i.e.,* those engaged in commercial, industrial, financial, and similar activities, regardless of their legal form.
- Entities other than profit-oriented business entities may also use the IFRS with certain changes in terminologies.
- General purpose financial statements are intended to meet the common needs of shareholders, creditors, employees, suppliers, government and the public at large for information about an entity's financial position, performance, and cash flows.

- IFRS apply to consolidate as well as separate financial statements.
- If an IFRS allows both a 'benchmark' and an 'allowed alternative' treatment none of them is preferred treatment. However, in developing Standards, IASB intends not to permit choices in accounting treatment. Further, IASB intends to reconsider the choices in existing IASs.
- IFRS presents fundamental principles in bold face type and other guidance in non-bold type (the 'black-letter'/'grey-letter' distinction). Paragraphs of both types have equal authority.
- IFRS does not prescribe as who should apply IFRS. It is left to upon the national standard setters to decide which entities would be bound to comply with IFRS.

Components of Financial Statements

IAS 1 defines a complete set of Financial Statements to be comprised of the following:

A statement of financial position as at the end of the period;

A statement of comprehensive income for the period

A statement of changes in equity for the period

A statement of cash flows for the period

- A statement of comprehensive income for the period;
    - Components of profit or loss may be presented either as part of a single statement of comprehensive income or in separate income statement
    - When an income statement is prepared it should be displayed immediately before the statement of comprehensive income
- Notes to Accounts, comprising a summary of significant accounting policies and other explanatory information, and
- A statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

Features of Financial Statements

- Fair presentation and compliance with the IFRS:
- Compliance should be in totality *i.e.,* all IFRSs, IFRICs, SICs and Framework including disclosure requirements specified.
- An *explicit and unreserved* statement of compliance must be given in notes.
- Information should be relevant, reliable, comparable and understandable.
- Presentation and disclosures should not be misleading.
- The titles and captions used should be consistent with the definitions used in the standards.
- The financial statements may be supplemented by additional disclosures beyond IFRS if required but those statements would be considered out of scope of the IFRS.
- Complete set of financial statements should be presented at least annually though shorter or longer period may be permitted with some disclosures.
- Comparative figure for corresponding previous period must be given.

Broad Based Principles of IFRS

a. Substance over Form:

The IFRS gives the priority to the substance of the transaction rather than its legal form. Some of the instances of the transaction and events to support these would be:

- ➢ debt equity classification
- ➢ operating lease and finance lease demarcations
- ➢ sale contracts with rights to re-purchase
- ➢ sale with retention of risk and rewards

b. Fair Value Oriented

IFRS includes a variable blend of both historic cost and fair value measurement. For example:

- ➢ HTM, Loans and Receivables assets and financial liabilities other than those measured at FVTPL are measured at amortised costs whereas financial assets and liabilities at FVTPL and available for sale

Audit of the IFRS Financial Statements requires in depth understanding of the IFRS standards. Internal Audit seems to gain ground in the wake of steady adoption of the IFRS convergence and compliance. It is essentially required to make sure the to-do list of IFRS compliance can be fairly complied with.

financial assets are subsequently measured at amortised costs.

- Both cost and fair valuation approach is permitted for investment property, PPE and intangible assets.
- Biological assets are carried at fair value.
- Fair value model is also used in business combinations, employee benefits and some other standards.

c. Principle based not Rule based

The IFRS are basically principle-based standards as it prescribes basic principles of accounting the transactions. There are many things which have been left to the judgment of the preparers. It also contains many subjective terms like 'significant', 'more than significant', 'impractical', 'reliably', *etc*. In the absence of any specific guidance on the measurement of Fair value, the application of fair value method is also matter of subjectivity.

d. Predominance of Statement of Financial Position

The IFRSs are balance sheet predominant. In other words, more emphasis has been given to the entities financial position at the end of the reporting period than the entities performance during the year. This is evident by the fact that the income and expenses under the IFRS are recognised corresponding to increase or decrease in assets and liabilities which leads to increase/decrease in the equity of the entity other than from contribution from the equity participant.

First Time Adoption of IFRS

The IASB has dedicated a whole standard IFRS 1 for the understanding the process of first time adoption of IFRS. A novice if *IFRS may find IFRS 1 First-time Adoption of International Financial Reporting Standards very difficult to understand*. Therefore, one should attempt to understand this standard only after a thorough understanding of all other IFRSs.

Classification of IFRS Standards

The IFRS standards can be classified as follows for better understanding

I. Presentation of Financial Statements
II. Financial Reporting by Group Entities
III. Recognition, Measurement, Presentation & Disclosure of Assets
IV. Recognition, Measurement, Presentation & Disclosure Of Income
V. Recognition, Measurement, Presentation & Disclosure Of Expenses & Liabilities
VI. Financial Instruments
VII. Industry Based Standards
VIII. Disclosure Standards
IX. First Time Adoption Of IFRS [IFRS 1]

Reading the IFRS is undoubtedly a herculean task. Understanding the logical application of 66 standards definitely requires a systematic approach towards the subject.

Global Opportunities in IFRS

Some of the most required IFRS services in India and abroad are as follows

1. Preparation and Reporting

- First-time adoption of IFRS Standards
- Offering model financial statements, checklists and questionnaires
- Preparing Financial or Regulatory Reports as per IFRS
- Prepare Financial Statements as per IFRS
- Setting up systems and processes and contributing to the establishment of a control and assurance framework for the data for the Company's Financials, IFRS and Regulatory Reporting
- Closing and Reporting in IFRS
- Preparation of accounting manual for group with multiple entities/jurisdictions IGAAP or IFRS
- Preparing IFRS reports for banking industry

2. Consultancy Service

An in-depth understanding of the concept of International Financial Reporting Standards is sure to offer a great deal of scope in offering consultancy services in accounting

- Assessment and application of the IFRS
- Recommendation of IFRS accounting policy
- Consultation on the application and interpretation of the IFRS standards in reference to specific transactions

3. Convergence

While understanding the application of IFRS is seen as a big challenge, the first baby step towards acceptance is convergence. Even though the Indian Accounting Standards are based on the IFRS, convergence points out to fairly clear acceptance of International standards adapted to Indian conditions.

- Conversion of financial statements from other country GAAP to IFRS.
- Reverse conversion for overseas acquisition IFRS to National GAAP wherever applicable
- Accounting support for client when selecting new consolidation system for example, elimination entries required or multi-currency reporting.

4. **Advisory Roles**
Expertise in the field of the IFRS accounting offers scope for senior advisory roles in organisations which are fairly new to the IFRS convergence in the first hand and compliance consequently
- Impact Assessment for change of GAAP (from country based GAAP to IFRS)
  - o Defining and recommending changes in system requirements
  - o Quantification of Impact on shifting to IFRS
  - o *Pro forma* the IFRS Financial Statements
  - o Capital and Tax Positions on adopting of the IFRS Standards
  - o Trial on Financial Reporting under the IFRS
- The IFRS impact assessment for cross-border acquisition.
- EBITDA impact of acquisition.
- Accounting policy alignment pre- or post-acquisition
- Opinion – Offering opinion on the concept and principles of Accounting under IFRS. Given the multifarious issues a discussed under IFRS, offering clarity on their application becomes as essential function

5. **Internal Control System Services**
Evaluation and Implementation of Internal Controls related to IFRS accounting standards

6. **Taxation Services - Direct and Indirect Tax Reporting on IFRS**
Regulatory update, Tax and required reporting followed byaccounting solutions in IFRS related to tax planning/structuring.

7. **Training**
Given that IFRS compliance is a key requirement for better compliance, not only the auditors but even the preparers of accounts should be aware of the IFRS requirements. Those who were hitherto experts in compliance of accounting standards have a need to update themselves with the latest requirements. Auditors can be the best trainers. Training amounts to not just a professional opportunity, instead it also simplifies the process of compliance.

8. **Audit**
Audit of the IFRS Financial Statements requires in depth understanding of IFRS standards. Internal Audit seems to gain ground in the wake of steady adoption of the IFRS convergence and compliance. It is essentially required to make sure the to-do list of the IFRS compliance can be fairly complied with.

9. **Other Services**
Other services include
- Writer of Technical Material
- Training for IPSAS in UN bodies and other NPO
- Research work for various trade bodies like IBA/IRDA/RBI
- To become Trustees or assist other countries

Indian Accounting Standards (Ind As)

Converged IFRS or Indian Accounting Standards (Ind AS) are the near final Indian Accounting Standards issued by Institute of Chartered Accountants of India and notified by the Government of India. While the draft of 36 standards issued by ICAI, are converged with IFRS, only 35 standards have been notified. The date of implementation of the Ind AS will be notified by the Ministry of Corporate Affairs at a later date. Ind AS standards are still not notified under Companies Accounting Standard Rules, 2006 therefore the hitherto accounting standards are still applicable. These standards do not resemble IFRS. Both by presentation and measurement principles they are new set of accounting standards developed in the line of IFRS. ■

Challenges & Opportunities for Young Members in Industry: Future Perspectives

There have always been two traditional routes for a qualified Chartered Accountant – to practice as an auditor, or to join the industry. Both routes have their share of attractions and challenges, and the question of which is the better option has always been hotly debated. Today, more than ever before, the industry needs qualified and competent chartered accountants, not just to do the accounting, book keeping and control functions in the company, but indeed to serve as partners to the business, helping their growth strategies, and ensuring good governance in all that the company's management sets out to do. This shift brings with it its own share of exciting opportunities, and challenges for the young professional.

Let's have a look at the evolution of the finance structure in the industry and what it means for the young member who chooses to take this fascinating career path.

Evolving Finance Structures

The traditional view of a finance professional's role in industry was quite predictable. Accounting, controls, MIS, audit and tax were considered his/her domain. It fundamentally involved telling the business how much they could spend, where the spent money went and what processes they had to follow.

However, today's world is volatile, uncertain, complex and ambiguous, wherein the talents of the finance professional are underutilised if we only used him/her as a book keeper.

One of the biggest challenges volatility brings is that resource allocation can become redundant very quickly. The expectation now is that a finance professional will help the business to understand the return on investment of resources allocated, not just for traditional large investments like capital expenditure, but even for revenue expenditure like advertising, staffing decisions, trade terms *etc.* At the same time, it's imperative that he/she guides the business towards sharpening the choices on resource allocation and making it far more dynamic.

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Identifying pockets of the business that are high growth-high profit to be able to disproportionately invest in them is another key enabler for business benefit.

Increasingly, many companies are making commitments to enable sustainable business practises. Finance will need to allocate, measure and analyse results with this new business dimension where the business benefits of sustainable practises are not immediately evident.

While doing this, he/she should constantly look at simplifying existing processes to help the business react to market developments with speed. This will also free up the time spent by his/her team in managing processes or churning out various MIS from multiple sources. Simplification also helps the organisation to focus on the truly important goals around growth.

With these evolving expectations in mind, it is not surprising that finance structures in many companies are also evolving to be able to cater to these needs. Finance structures are evolving around the following key themes

- Partnering the businesses, in Brands, Customer Development, R & D and Supply Chain
  - o Driving return on investment (brands, trade, capex)
  - o Sharpening choices on resource allocation
  - o Educating the business partners to reduce dependence for basic requirements
- Expertise functions in Finance (Treasury, Banking, Tax, Audit)
  - o Outstanding cash management
  - o Strong controls, which will help the business focus on growth
  - o Ensuring compliances reducing in minimal liabilities – statutory and legal
  - o Embed risk management
- Transactions (Accounting, finance processes)
  - o Simplification of processes to release time
  - o Best in class practises for effective and transparent reporting
  - o Implement necessary IT framework for automated transactions and controls

In addition to the basics around controls and the expertise that the Chartered Accountancy program teaches, the new world capabilities those are crucial to members shining in industry are:

1. Understanding of the fundamental drivers of business performance
2. Solution driven mindset rather than process driven mindset
3. Digital appreciation, where more and more consumers and transactions are converging.
4. Continuing to build on a solid controls framework, so that the business can go ahead with the business of growing
   a. Controls as an "accelerator" for the business rather than "brakes"
5. Investing in finance teams so they see change as a positive, whilst not letting go of the fundamentals.

Opportunities for Members in Industry

Members in industry usually have a few opportunities that are different from practising members. The fast changing role of finance in industry amplifies some of these opportunities for young enthusiastic professionals. Some of them are:

1. Exposure to different industries, and different verticals within the same company. The learning opportunities are huge as the members get exposed to different areas within the business.
2. Close working with professionals in different fields–marketing, supply chain, engineering, Human Resources *etc,* giving members exposure to top class high quality talent, which in turn helps in the development of managerial skills.
3. Close view of and involvement in shaping the future strategic direction of many new businesses. In today's times, this can be a hugely exciting opportunity to be at the helm of changes that are typical of growing economies.
4. Companies are very keen to engage high quality expertise, particularly in the areas of accountancy, audit and taxation, and this is even more relevant with the extent of changes we are seeing in legislature and governance requirements.
5. Working in the industry also helps greatly in developing one's leadership abilities, and equips members to be able to take senior leadership positions as they rise up in the organisation.
6. From a theoretical understanding of concepts, working in the industry provides a shift to

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practical application of learning, and seeing immediately the results of the practical application to real life problems.

Challenges

There are a few challenges as well, which need to be overcome by the members consciously.

1. From a typical accounting and controls mindset, the big change is to move to a business mindset, where the focus is not just about recording transactions and ensuring processes are followed, but also being more market focused and adding value in helping the management understand what is good for the business, and what the implications of the various choices can be.
2. Typically, compared to their business school counterparts, fresh chartered accountants are not as comfortable in analysing business situations, or in presentation and articulation of a bigger vision and strategy. This is a learning curve that the young members will need to go through in order to bring to organisations not only subject matter expertise, but a broader managerial capability in terms of working together, communication and presentation.

Some of the common ways to overcome the challenges and make the most of the opportunities are:

1. The member should choose the industry and company with care. In the case of a sunrise sector, it is advisable to do some research on the prospects of the sector before taking the plunge. Similarly, it is prudent to check for any governance related red flags on the individual company itself.
2. As far as possible, members should aim to get exposure to corporate working before actually deciding on the career direction. While audits in various kinds of companies will give a good insight, the ICAI has a very effective programme in the form of Industrial training for the last year of articleship. This is a great way for members to first hand understand the different situations in corporate working *vis-a-vis* audit firms.
3. Industrial training also hones many skills related to communication, presentation, strategic thinking, team working *etc*, as all of these are seen in practise in the organisation which is providing the training, in the form of real life situations.
4. Companies which offer a holistic onboarding programme find it much easier to get the best out of their young chartered accountants, and help them perform to the maximum of their ability. This is also true of companies that give independent responsibility at an early stage of the finance career.
5. The chances of adding to the repertoire of skills and competencies increases significantly in companies where job rotation across various sub functions within finance is a norm.

Rotations around the various sub-functions also provide a holistic experience to young finance managers and groom them for leadership positions. What was earlier considered as a boring book-keepers job is now transformed into a well rounded professional experience covering the full career cycle. Increasingly, the finance function in industry is playing a crucial role in helping the business:

- understand the implication of various choices and allocate resources where the return is maximum,
- deciding on the strategic direction of the business,
- capitalise on the opportunities caused due to consumer behaviour changes or legislatures,
- pick up latest trends externally and convert them into advantages for the business,
- reassuring the business that key controls are in place and functioning,
- ensuring good governance in all the decisions & actions of the management, and
- Simplifying processes that give the organisation the energy to focus on growth.

It is indeed an interesting phase for members in industry, and the emergence of the various sectors in the economy, including the digital economy, has added to the attractiveness of what was already a good career option. Truly, the finance function in the industry is changing with an increasing diversity of roles across the function and members choosing to work in the industry have some exciting times ahead of them! ■

Challenges and Opportunities for Young Members in Insurance Industry

Insurance is the fastest growing sector in India and it has huge potential of growing further and further in future. As per an estimate, approximately 21 lakh insurance professionals will be required by 2025. The insurance industry employs a wide array of professionals. Privatisation of the insurance sector has opened many opportunities for Chartered Accountants in this sector. A Chartered Accountant may explore these opportunities as an independent consultant, practicing professional, in actuarial services, product development, surveyor and loss assessor, arbitrator, investigator, regulatory compliance services, third party claim administrator, reinsurance management services, portfolio management services, etc., by joining as an employee of the insurance company. Read on...

The Insurance sector, which is one of the fastest growing sectors in India, is brimming with opportunities for young professionals. Increase of FDI limit from 26% to 49% will further boost foreign investments in India in this sector and open the gates for new entrants.

According to the recent survey conducted by the Confederation of Indian Industries (CII), the estimated number of insurance professionals required by 2025 will be approximately 21 lakh.

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Given the complex product design, distinctive processes, unique valuation techniques for reserves, liability, provisioning and industry specific financial reporting, it is challenging for young Chartered Accountants to get hold of these quickly. Despite this, there are some jobs that can be taken up by the newly qualified chartered accountants with no prior industry experience but still there are some jobs that requires an expert or a specialised knowledge for which a host of professional courses are available. The post qualification diploma course 'DIRM' can be taken up by aspiring chartered accountants willing to enter this industry.

Opportunities for Young CAs in Insurance sector

Actuarial Services

The role of an Actuary requires specialised knowledge to assess the financial impact of a future uncertain event. They use advance statistical and financial models to solve complex financial problems which further helps in designing and determining pricing of an insurance product. The role includes Statutory Valuations and Reporting, calculation of Statutory Reserves, Embedded Value Reporting, Experience Analysis, Reinsurance Pricing Model and Capital Modelling.

A Chartered Accountant with sound knowledge of statistics and mathematics can take up this profession. This is a statutory profile in the insurance company and requires excellent technical and analytical skills for which Chartered Accountants are well known in the industry.

Insurance Advisory Services

Insurance Advisory Services plays an important role in designing and implementing an insurance programme for a business entity in alignment to its overall insurance objective and risk mitigation strategies.

A Chartered Accountant having complete information of the financial position of the client and its associated risk can further add value in devising an insurance strategy for effective risk management. He can advise his client/employer regarding the selection of policy, need, adequacy and legal requirement of insurance, cost benefit analysis of different plans of different companies.

A Chartered Accountant in practice is permitted to render Insurance Financial Advisory Services as prescribed under "The Insurance Regulatory and Development Authority (Insurance Brokers) Regulations, 2002" only in the Corporate form.

Product Development

One of the most important objective of an insurance company is to provide a comprehensive suite of products that fulfil all the customer needs. The quality and diversity in the portfolio of products and services that is offered to the customers and its profitability, measures a company's effectiveness and sustainability in the market.

A Chartered Accountant as a product development professional can design insurance products by matching product specification to the needs of the target customer segments and pricing it accurately with a bias towards objective of long term savings and protection to increase overall profitability from the product while reducing risk and cost.

A Chartered Accountant having complete information of the financial position of the client and its associated risk can further add value in devising an insurance strategy for effective risk management. He can advise his client/employer regarding the selection of policy, need, adequacy and legal requirement of insurance, cost benefit analysis of different plans of different companies. A Chartered Accountant in practice is permitted to render Insurance Financial Advisory Services as prescribed under "The Insurance Regulatory and Development Authority (Insurance Brokers) Regulations, 2002" only in Corporate form.

Surveyor & Loss Assessor

Surveyors and Loss Assessors (SLAs) assess the losses in the general insurance business when contingency insured under the contract of insurance arises.

A Chartered Accountant with thorough knowledge of business, financial and valuation technique can act as surveyor and loss assessor. He evaluates liability of an insurance company in respect of a an insurance claim.

Arbitrator

Arbitration is alternative dispute resolution mechanism through which parties can resolve their dispute without filing case in the court. In arbitration, there is no strict rule of procedures or law of evidence but still it is legally binding like court order.

A Chartered Accountant can act as an arbitrator between insurance company and policyholder to resolve dispute about the eligibility of claim and quantum of losses.

Investigator

An investigator examines the facts of the insurance claim, determines its authenticity & assesses the liability of the insurance company. He ensures that the claim is not fraudulent by gathering background information about the claimant and loss in question.

A Chartered accountant can act as an investigator in commercial claims arising in general insurance business as he possess sound knowledge of business and associated risks.

It is permissible for a Chartered Accountant in practice to accept an investigation assignment as the work of investigation is akin to audit.

Third Party Claim Administrator

A third party administrator is an outsourced arrangement by the health insurance company to process claims on its behalf. A third party administrator evaluates the claim, assess the liability of insurance company under the contract and settle the claim of the policyholder.

A Chartered Accountant can play the role of third party administrator for the insurance company to process the insurance claims.

Regulatory Compliance Services

Regulatory compliance services enable the insurance company to comply with the regulatory requirements by assisting the company to design its compliance policy, periodic assessment of the processes to ensure there is no non compliance to the regulatory requirements.

A Chartered Accountant posseses sound knowledge of applicable laws and his ability to interpret the intention of regulation makes him suitable for this profile. He can also support the creation and implementation of comprehensive compliance policies in line with the regulatory requirement. Further, he can also provide support in establishing a comprehensive and robust risk based due diligence process to identify any trends or patterns and highlight any red flags so that corrective action can be taken.

Reinsurance Management Services

Reinsurance is an arrangement with reinsurance company, which takes on all or part of risk covered by a insurance company in consideration of premium. Through this arrangement insurance company safeguards its capital, reinforces financial stability, enable to cover larger risks and guarantees timely settlement of claims.

A Chartered Accountant can play an important role in the administration of reinsurance treaties, calculation of premium payable and & evaluation of liability of reinsurance company basis claims submitted.

Insurance Broker

An insurance broker is an independent insurance agent who represents the buyer instead of the insurance company and works with many insurance companies to find the best available policies for his clients.

A Chartered Accountant can work as an insurance broker in corporate form. However, he is not permitted to do any work relating to the insurance agency either individually or in partnership/ proprietorship form or in corporate form

Portfolio Management Services

A Portfolio manager advises or undertakes on behalf of the client, the management or administration of a portfolio of securities or the funds of the client.

A Chartered Accountant can undertake portfolio management service of an insurance company either as an independent consultant or as a employee of an insurance company. However, a practicing Chartered Accountant is not allowed to undertake these services.

Financial Planning and Budgeting

Financial planning and budgeting activities in an insurance company involves preparation and continuous monitoring of a company's annual operating and capital budgets. On the revenue side, sales volume is projected basis the company's revenue targets, external market conditions *etc.*

A Chartered Accountant having sound knowledge about the cost structure of the company can play role in the planning & budgeting exercise.

Expense Management & Cost Rationalisation

Cost management is the process by which companies control and plan the costs of doing business. With proper implementation, this process translates into reduced costs of operations for products and services, as well as increased value being delivered to the customer.

A Chartered Accountant well versed with cost environment in the insurance industry can work towards implementing the three "E"s - Economy, Efficiency and Effectiveness and thereby achieve cost rationalisation.

Technology-Innovation for Growth

Rapid changes in Information Technology (IT) have resulted in rapid changes to the ways in which businesses are operated. Those companies which take advantage of technology as key driver for innovation always achieve competitive advantages over the competition.

A Chartered Accountant can drive changes in the business model, product and services through innovation and can play a pivotal role in enabling innovation by demonstrating willingness to accept risk while supporting and rewarding innovative ideas and approaches. ■

Call of Liquid Gold: Petroleum Industry Beckons Finance Professionals

The health of our nation's economy depends to a large extent, on the health of the energy sector in which the Petroleum Industry plays a vital role. Oil and gas resources form a dominant part of our primary energy mix and touch our lives in more ways than one. In all sectors of the vibrant Petroleum Industry, right from Upstream (Exploration & Production), Midstream (Pipeline transportation) through Downstream (Refining, Petrochemicals, Marketing) activities, there is a crying need for sound finance professionals. The Petroleum Industry provides great opportunities laced with challenges for CA's as their professional hunting grounds. Finance professionals play a vital role all along the value chain across all hierarchical levels right up to CFO/ CEO positions in this energy sector industry. There is an ever increasing need of efficient Chartered Accountants who understand the complexities of this sector. Read on to know more…

A qualification as a Chartered Accountant (CA) is a passport for a young person's entry to the vast world of industry and business. CAs, by dint of their professional knowledge and sound background in financial management, have created an indelible mark of excellence in the corporate world. Many CAs hold influential positions in various industrial sectors, including all branches of the Petroleum Industry–upstream, midstream and downstream sectors.

CAs, as finance professionals, earn qualifications that transcend industries. They are trained to possess sound commercial judgement with an ability to analyse, to spot trends and variances and understand the factors causing them in a complex universe of huge volumes of data. These multifarious skills are developed through a judicious mix of extensive theoretical lessons and rigorous practical training. The Institute of Chartered Accountants of India has deservedly earned laurels for raising the bar to world class level of excellence in the overall conduct and management of the Chartered Accountancy course.

CA. Rupshikha Saikia Borah

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It is heartwarming to see that keeping in tune with the changing times, the Institute has also given more emphasis now on the development of soft attributes like communication skills and managerial leadership. Armed with such holistic development, the talent pool of today's young finance professionals are well prepared to face the myriad challenges of the changing dynamics of business and industry in a globalised environment.

The slowdown of the global economy in the recent years has triggered a crisis of confidence in the universe of business and industry. Our country, too, has not been immune to this global downturn in the economic growth. It is, however, recognised that India's economy has a fundamental strength and resilience to stay on course for long-term sustained growth. The health of our nation's economy depends, to a large extent, on the health of the energy sector in which the Petroleum Industry plays a vital role. Oil and gas resources form a dominant part of our primary energy mix and touch our lives in more ways than one. In all sectors of the vibrant Petroleum Industry, right from Upstream (Exploration & Production), Midstream (Pipeline Transportation) through Downstream (Refining, Petrochemicals, Marketing) activities, there is a crying need for sound finance professionals.

The Petroleum Industry provides great opportunities laced with challenges for CAs as their professional hunting grounds. The industry is global in its reach, deals with cutting edge, state-of-the-art technology in all its activities and thrives on multidisciplinary teamwork. Finance professionals play a vital role all along the value chain across all hierarchical levels right up to CFO/CEO positions in this energy sector industry. There is an ever increasing need of efficient Chartered Accountants who understand the complexities of this sector. The oil and gas industry contends with a great amount of uncertainty and risk, and yet, the companies have to take a prudent call on the future growth to ensure operational and financial success. Against a backdrop of such a complex interplay of a multitude of factors, the industry provides huge challenges and opportunities to CAs in all aspects of financial management with excellent avenues for professional satisfaction, compensation package and career growth. Such career opportunities can cover a wide spectrum-right from traditional specialised roles in areas of Accountancy, Auditing, Budgetary & Cost control, Reporting, Taxation, Treasury & Wealth Management to the newly expanding universe of Advisory services in Corporate Governance and Risk Management, Business Development, Mergers & Acquisition, Strategic planning, Climate Change & Carbon Credit Mechanism *etc.* Thus, in terms of career opportunities for finance professionals in the Petroleum Industry, the sky is the limit !

Such career opportunities can cover a wide spectrum - right from traditional specialised roles in areas of Accountancy, Auditing, Budgetary & Cost control, Reporting, Taxation, Treasury & Wealth Management to the newly expanding universe of Advisory services in Corporate Governance and Risk Management, Business Development, Mergers & Acquisition, Strategic planning, Climate Change & Carbon Credit Mechanism etc.

Our country has a huge and growing energy demand to sustain a desired level of economic growth, and, oil and gas will continue to be a vital element in the energy mix in the foreseeable future. This is where the job and career opportunities for finance professionals, especially Chartered Accountants, come into prominence. With their multifaceted knowledge and expertise, the CAs can contribute immensely to the growth of this vibrant industry. Today's finance professionals must not view their roles as limited to the traditional silo of Finance & Accountancy, *per se*, but extend it to the field of Strategic Management for Organisational Growth. The Petroleum Industry beckons and lays the red carpet to welcome young finance professionals to its fold. They can make a huge impact if they are passionate, they care and they are willing to put in hard work, and they work with a clear ethical and moral compass. Someone put it very aptly, "Study C.A. and the World is your oyster !" ■

Today's finance professionals must not view their roles as limited to the traditional silo of Finance & Accountancy, per se, but extend it to the field of Strategic Management for Organisational Growth. The petroleum industry beckons and lays the red carpet to welcome young finance professionals to its fold.

Banking – An Exciting Career Opportunity for Young Chartered Accountants

Chartered Accountancy is a comprehensive programme in the financial discipline and opens up a wide range of career options. Banking is one of the most sought after careers for enthusiasts in the field of finance and accounts. It is an entry into a well paid, relatively secure and status career. Though it may appear that the top jobs in banking are for management graduates from premier institutions, the fact is that a large number of successful bankers are qualified Chartered Accountants. Some of the CAs leading in banking are Deepak Parekh – Chairman of HDFC, Aditya Puri - CEO of HDFC Bank, Naina Lal Kidwai - Country Head of HSBC and Amit Mimani, Director M & A, Standard Chartered Bank. This article provides an insight into one of the most exciting and rewarding careers opportunities and a platform for honing your skills. Read on to know more…

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New Trends in Banking Sector

Supported by the latest technology, banks are working to identify new business niches, to develop customised services, to implement innovative strategies and to capture new market opportunities. The modern banking industry has brought greater business diversification. Some banks in the industrialised world are entering into investments,

Employers in the Banking fraternity value the analytical skills and the training in the latest financial methods and technology that the Chartered Accountancy course provides. CAs can leverage their knowledge and financial skills into lucrative positions in the Banking sector. Banking provides the widest range of opportunities for practical implementation of all the aspects covered in the CA curriculum.

underwriting of securities, portfolio management and the insurance businesses. Taken together, these changes have made banks an even more important entity in the global business community.

Banking Careers and Job Information

Today's banking professionals assume a broad range of responsibilities involving capital budgeting, risk management, project analysis and evaluation, and short-term and long-term financial planning.

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Banking provides the widest range of opportunities for practical implementation of all the aspects covered in the CA curriculum. Some of the major career options for the CAs, particularly the young, in banking include:

Corporate Finance

In Corporate finance you would work for a company to help it find various sources to raise finance, grow the business, make acquisitions, plan for its financial future, manage any cash in hand and ensure future economic viability.

Syllabus: Financial Reporting - analysing financial statements including group companies and financial reports of various entities thereby develops skills to solve financial reporting and valuation cases. Also, some topics covered in Strategic Financial Management provide insights to financial policy and Corporate Strategy come useful to the the banking industry.

Job Options: The following are just a few of the job options available for professionals seeking a career in corporate finance:

(1) ***Treasurer:*** Responsible for capital raising, financial planning, cash and asset management. Impeccable analytical abilities as well as management and motivation skills are essential in this upper level administrative position.

(2) ***Payment Manager:*** Responsibilities consist of establishing rules for credit collection as well as for the securitisation of receivables. Must be able to analyse accounting data and know a lot about their customers.

(3) ***Investor Relations Officer:*** Responsible for publishing corporate financial information and events through press releases, coordinating with investors and replying to investor inquiries. You are in close contact with top management officials and the job demands that you understand both finance as well as public relations.

(4) ***Controller:*** Responsibilities include accounting, cost analysis, financial planning and reporting, creating costing systems, and transfer pricing issues. The requirement is of CA/Cost Accountant with experience in the field.

Investment Banking

Investment Banks help companies and governments issue securities, help investors purchase securities, manage financial assets, trade securities and provide financial advice.

Syllabus: Capital Budgeting covers Evaluation of Risky Investment Proposals, Risk and Return analysis, Simulation and decision tree analysis, Sensitivity analysis, Capital Rationing, Adjusted Net Present Value, Replacement decisions, Application of Real Options in capital budgeting, Impact of inflation on capital budgeting decisions.

Job Options: Initially, you may start as an analyst and be responsible for writing reports, maintaining spreadsheets, trading stock options,

In Investment Banking, initially, you may start as an analyst and be responsible for writing reports, maintaining spreadsheets, trading stock options, research, etc. You will need to involve yourself in an intensive study to find out opportunities to invest in profitable shares, debentures and other financial instruments. You need to have in-depth knowledge of money markets, the state of the economy and business and industry in general.

Young Members Empowerment

research, *etc*. You will need to involve yourself in an intensive study to find out opportunities to invest in profitable shares, debentures and other financial instruments. You need to have in-depth knowledge of money markets, the state of the economy and business and industry in general. Moreover, you will need to continuously involve yourself in extensive research on these subjects, and be up-to-date with the latest information.

Commercial Banking

Commercial banks serve large corporations, small businesses, as well as the general public. Despite the recent consolidation in commercial banking, the industry continues to provide more career opportunities in finance than any other sector in the financial services industry.

Syllabus: Advances Management Accounting covers various management accounting techniques to all types of organisations for planning, decision making and control purposes in practical situations and ability to apply quantitative techniques to business problems.

Job Options: The opportunities at commercial banks are more numerous today than they have ever been. With entry-level tellers, leasing agents, international finance officers, trade credit specialists, and credit card banking specialists, the options in commercial banking are seemingly endless. As a mortgage banker, the responsibility is to supply potential homeowners and businesses with loan opportunities.

Forex Management

Indian Companies have been increasingly attracting foreign capital either through listing on the international stock exchanges or through private equity placements. Companies that wish to access markets for capital or that wish to become the leading global suppliers to corporations in the developed markets have to hedge forex exposure.

The opportunities at commercial banks are more numerous today than they have ever been. With entry-level tellers, leasing agents, international finance officers, trade credit specialists, and credit card banking specialists, the options in commercial banking are seemingly endless. As a mortgage banker, the responsibility is to supply potential homeowners and businesses with loan opportunities.

Syllabus: Foreign Exchange Exposure and Risk Management covers foreign currency market, Forex derivatives-Forwards, futures, Swaps, Options, Management of transaction, translation and economic exposures and Hedging currency risk.

Job Options: The Forex Treasury division in banks offers a full range of vanilla and derivative products in forex, interest rates and commodities. These include spot, forward, swaps, currency options, interest rate derivatives, commodity futures and options in addition to high yield structured deposits linked to currencies, interest rates and commodities. Several companies are looking for professionals who understand the nuances of international finance, international capital markets and risk management. CAs may seek careers in the following areas: overseas fund mobilisation, risk management, forex dealing or forex consultancy.

Financial Planning

Financial planning helps people make advance provision for financial needs that may arise in the future. You can draw parallels between the family doctor and a financial planner. The family doctor takes care of your physical health and the financial planner takes care of your financial health, ensuring orderly and systematic achievement of your financial goals.

Syllabus: Topics such as insurance creation, budgeting, cash flow management, debt management and financial plan construction come in useful in managing this portfolio.

Job Options: The job options in this important area of banking include:

(1) ***Financial Planner:*** On the technical side, strong attention to detail is required as you analyse all types of financial options, including their tax implications and legal restrictions.

Generally, banks look for candidates with good communication skills, sound interpersonal skills, working computer knowledge, ability to deal with customers, and basic knowledge on economic environment and industry. However, in order to join foreign or private sector banks at a higher than entry level, expertise in specific areas such as project analysis, credit appraisal skills, managing large loan portfolios, and dealing in foreign exchange could be really helpful.

Financial computing skills are recommended for performing mathematical calculations quickly and accurately. You must also have the ability to communicate somewhat complex financial concepts and strategies to clients in a non-technical, easy-to-understand terms.

(2) ***Audit & Compliance:*** Audit & Compliance Team evaluates and provides reasonable assurance that risk management, control, and governance systems are functioning as intended and will enable the organisation's objectives and goals to be met.

Auditing and Assurance

Syllabus: Auditing and Assurance helps to gain working knowledge of generally accepted auditing procedures and of techniques and skills needed to apply them in audit. Business Laws, Ethics & Communication help to test the working knowledge of business laws and company law and their practical application in commercial situations.

Job Options: The job options in this realm of banking include:

(1) ***Compliance Officer:*** Reports risk management issues and internal controls deficiencies that are identified directly to the audit committee and provides recommendations for improving the organisation's operations, in terms of both efficient and effective performance, evaluates information security and associated risk exposures, evaluates regulatory compliance programme with consultation from legal counsel, evaluates the organisation's readiness in case of business interruption, maintains open communication with management and the audit committee, teams with other appropriate internal and external resources and engages in continuous education and staff development and

provides support to the company's anti-fraud programmes.

Job Requirement

Generally, banks look for candidates with good communication skills, sound interpersonal skills, working computer knowledge, ability to deal with customers, and basic knowledge on economic environment and industry. However, in order to join foreign or private sector banks at a higher than entry level, expertise in specific areas such as project analysis, credit appraisal skills, managing large loan portfolios, and dealing in foreign exchange could be really helpful.

How to Get Entry to Banking

The hiring in foreign/private banks is undertaken through campus placement in premier institutes, online job portals, consultants and references. These banks have their own aptitude tests and interview process to recruit at the entry level.

Public sector banks in India recruit at entry-level through a selection process. A total of 19 public sector banks have come together to participate in the Common Written Exam (CWE) conducted by the Institute of Banking Personnel Selection (IBPS). Banks use CWE scores to shortlist candidates for Clerical Cadre, Probationary Officers (PO) and Specialist Officers. Shortlisted candidates are called for a group discussions and personal interviews and the final selection is done on the basis of the combined scores of both the stages. The State Bank of India and its associates conduct written test and interview separately for their recruitment of the Clerical Cadre and PO posts. ■

Challenges and Opportunities for Young Members in IT Industry

Information Technology (IT) to India means growing opportunities and has transformed India's image on the global platform from a snail's pace economy to a land of innovative entrepreneurs. The sector is generating major avenues of direct employment which has helped India to develop into one of the biggest IT capitals of the contemporary world where all the major players of international level IT sector are present. Such scorching and fast paced growth has not been felt in any other industry than in the IT industry. This IT revolution has affected the Chartered Accountancy profession in a big way. There are more job opportunities in the IT sector for Chartered Accountants who want to be in service. Also new opportunities for practicing Chartered Accountants in emerging areas like IT audits have landed in. In view of this scenario it has become imperative for Chartered Accountants both in practice and in service to invest in improving their IT expertise to make them "industry ready." A Chartered Accountant having strong functional expertise as well IT knowledge can play a unique role of bridging IT professionals and business people, and add tremendous value to IT system design and development. An all pervasive IT has created manifold opportunities for chartered accountants. To know how, read on...

In the new era of globalisation, post-economic reforms in 1991, Indian IT industry has grown swiftly. According to NASSCOM, the sector aggregated revenues of $100 billion in 2012, where export and domestic revenue stood at $69.1 billion and $31.7 billion respectively, growing by around 11-14%. The IT sector's contribution to India's GDP has grown from 1.2% in 1998 to 7.5% in 2012.

On the other hand, the use of IT in India has grown exponentially in the recent past. According to a report by the Internet and Mobile Association of India (IAMAI), India is expected to become world's second-largest online community after China with 243 million Internet users by June, 2014. Further, out of 900+ million mobile users, the IAMAI expects the number of mobile Internet users to touch 185 million by June, 2014, accounting for about 76 % of the internet user base in the country.

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In addition to this, India's total IT industry's (including hardware) share in the global market currently stands at 7 %; in the IT segment, the share is 4 % while in the ITeS space the share is 2 %. Moreover, India plans to spend around $3.9 billion on cloud services during 2013-2017, of which $1.7 billion will be spent on software-as-a-service (SaaS), according the latest outlook by Gartner.

With increasing awareness about the benefits that IT can bring into their operations, various ministries and departments of Governments across India are focused on and have geared up for a greater role for IT in their day-to-day workings.

Leading from the front are the Central Government ministries, which are largely focused on the automation and streamlining of their processes. For example, MCA has embarked upon the magnificent task of totally reengineering the process of corporate governance across India. MCA had placed this assignment to a large Indian IT company for country-wide implementation of the e-Governance project.

Income-tax Department's Central Processing Centre (CPC) project which has been given to one of the top three IT companies is government's pet project and is being used to process all electronic returns filed from across the country as well as all the paper returns filed throughout India. It is also processing TDS returns besides other returns of income. Statutory regulators have also accelerated reporting deadlines and imposed mandatory reporting in eXtensible Business Reporting Lanuage (XBRL)—adding to the pressure on the finance function. Gartner reports that IT spending by the Government of India is projected to reach $6.4 billion in 2013.

While new opportunities are opening up, as organisations grow and expand into multiple geographies, and enter new industry verticals in order to achieve business objectives reliably, they are required to comply with complex mandatory legal requirements too. In the face of growing transaction volumes and business complexity, the finance function is becoming almost totally reliant on technology to deliver business insight and process efficiency as well as compliance and control.

What does this mean to a young Chartered Accountant?

The past few decades have witnessed significant growth in the expectations from finance professionals, particularly as they have become central to helping their organisations navigate through an increasingly complex business world. Traditionally, the main emphasis of the CA's role was typically the guardian of the financial health of an organisation, overseeing and implementing adequate financial controls infrastructure, accounting, auditing the financial statements *etc.* Over the years, the range of responsibilities of the CAs has expanded manifold, driven by complexity as a result of globalised markets, dynamic regulatory and business scenario and most importantly growth in information technology.

IT revolution has affected the chartered accountancy profession in a big way with more job opportunities in the IT sector for Chartered Accountants focusing on service, and new opportunities for practicing Chartered Accountants in emerging areas like IT audits.

With IT gaining more acceptance among business as a tool to enhance productivity, cut costs, generate more revenues and gain competitive advantage, and various ministries and departments of governments across India are focusing and gearing up for a greater role for IT in their day-to-day workings, it has become imperative for Chartered Accountants in practice as well as in service to invest in improving their IT expertise.

These IT skills can be categorised into 'IT user' skills and 'IT Provider' skills. IT user skills would be expertise in MS Office products such as MS Excel, PPT, Access, how to use ERP, etc. and IT provider skills would include knowledge such as system designing, SQL, Visual Basic, Business Objects, etc.

Such an investment, not only makes them 'industry ready', but also opens up new gates of opportunities. While IT has proved to be a boon for various corporates, any lapse in controls, system and security could prove disastrous. Considering this, a Chartered Accountant having strong functional expertise as well IT knowledge can play a unique role to bring together the best of IT professionals and business people and add tremendous value to the IT system design and development.

Opportunities

As IT has become all pervasive, it has created manifold opportunities for chartered accountants. Some of the key areas where the Chartered Accountants are playing or can play an important role are discussed below:

- Enterprise Resource Planning (ERP)
- Information Systems
- Information System Audit
- Governance, Risk and Compliance (GRC)
- IT Security
- Business Consulting
- Other areas

Let us have a look at the opportunities for CAs in each of these areas.

1. Enterprise Resource Planning (ERP)

With increased IT usage, ERP has become the backbone of any large company. In addition to just being a user of ERP or an auditor of an ERP-enabled organisation, a Chartered Accountant can also play a significant role in the implementation of the ERP package. The domain knowledge of various process of finance, accounts, MIS, *etc.* enables him/her to contribute in this area.

As a functional consultant in ERP implementation team, a Chartered Accountant can perform various activities like requirement analysis, process mapping, configuration, user acceptance testing, *etc.* and represent business users more effectively. By being a proficient ERP consultant, CAs prove indispensable to the business world and modern Management Information Systems.

In a global complex environment, IT division of an enterprise, responsible for development, maintenance and implementation of all software/applications which are required to run the company business, have to align themselves to the growing business needs as well as keep them agile in order to address today's competitive market conditions. These applications can be in any domain like HR, Sales & Marketing, Finance & Accounts and Administration, *etc.* Typically, this division consists of technical as well as business analysts. A CA can be a very good business analyst.

Chartered Accountants can perform following responsibilities in this division.

- Proactively understand the need of IT systems.
- Proactively advise management about areas of improvement.
- Bullet proof requirement analysis, process mapping, business process re-engineering (BPR).
- **Justification of IT cost/Business value analysis:** Chief Information Officers (CIOs) are being asked to justify the IT spending in the current cost cutting scenario. A CA can help the CIO to do such analysis and calculate the quantitative value of business benefits and ROI of IT expenditure.
- **Evaluation and selection of software tools:** CAs can contribute in identification of tools, vendor negotiations, functional and technical feasibility, ROI & Gap analysis, customisation/configuration, dealing with support issues, scalability and performance issues, integration feasibility with existing applications, *etc.*
- **Valuable Inputs in software designing:** This includes inputs about various IT controls, business rules which need configuration, business logic, audit trail.
- **Testing, implementation and training:** A Chartered Accountant can be responsible for system testing, making proper training plans, organise training, prepare implementation plan, data migration strategy, risk mitigation plan, *etc.* Implementation is not an easy task and requires a good change management process knowledge.

CA students must seriously undergo IT training conducted by the ICAI. CA final's paper, Information Systems Control and Audit (ISCA), covers basics of IT skills.

2. Information System (IS) Audit

The overall objective of the IS Audit is to ensure the appropriate controls are implemented in IT as designed and envisaged by the senior management. IS Audit is expected to provide reasonable assurance to management that appropriate controls are designed and implemented in the information systems supported by Information Technology. IS Auditors have to understand the key concepts of IS risks, its management, IS security, Controls, Control objectives and the methodology of IS Audits. As businesses are becoming more and more dependent on Information Technology, the IT auditors need to keep aware of Software Development life cycle (SDLC) and other aspects of software engineering. Various system controls are under scrutiny due to SOX 404 compliance. Data, Network security, digital signature, Electronic Data Exchange (EDI), encryption/decryption protocols, *etc.* have made the role of the auditor more critical.

3. Governance, Risk and Compliance

Governance, Risk, and Compliance (GRC) are highly related but distinct activities that solve different problems for different sets of constituents of an organisation. Risk Management is no longer an *ad hoc* distinct activity; it is an integral part of the day-to-day operations of organisations. External and internal risk management requirements are becoming increasingly complex and intrusive, while the demand for more comprehensive and actionable governance, risk and compliance (GRC) information continues to increase.

The historic approach of managing risk in silos across different functions, processes, methods and infrastructure cannot keep up with these requirements; and, in many cases, risk management has become a growing operational and financial burden, limiting the organisations' ability to keep pace with essential business growth and transformational initiatives.

In order to manage these challenges, leading organisations are driving technology-enabled and automated GRC transformation programs that can:

- Create improved visibility of enterprise risks and how these are mitigated,
- Lower the cost of risk management through the reduction of manual processes and controls,
- Increase efficiencies through standardisation, simplification, automation and end-to-end process centralisation.

CAs with logical thinking, good management and leadership skills are highly valued in an IT organisation considering its unique nature of work.

Widespread interest in GRC was sparked by the US Sarbanes-Oxley Act (SOX) and the need for US listed companies to design and implement suitable governance controls for SOX compliance, but the focus of GRC has since shifted towards adding business value through improving operational decision-making and strategic planning. CAs expertise in process audit and compliance makes them the natural candidate for implementation, monitoring and functional maintenance of GRC tools.

4. Information Security

Nowadays everything has been transformed into bits and bytes. However, there are threats of theft, fraud, *etc.* The wealth that is now targeted is information. This reiterates the importance of information security in an organisation. Multiple users connecting to corporate networks, mobile users, suppliers, customers, investors, public, e-business and new technologies have made organisations more vulnerable to security issues. Hacking is no longer rocket science. In addition to the outside threats; threats from insiders are also on the rise. Ignorance, lack of education, improper security process and malicious intent could be the factors for security breach by an insider. Virus attacks are becoming routine affairs these days. Cases of unauthorised use of computer systems resulting in financial loss have been reported many times.

The Information System Security for any organisation is not merely the IT department's concern, but a business issue. An organisation should have proper laid down policy for Information security. The following steps should be followed to ensure information security:

- Identification of important information asset, classification and categorisation thereof,
- Collect vulnerability information for identified assets,
- Analyse threats and risk for these assets with respect to vulnerabilities,
- Assess administration and management procedures and process,
- Compliance with IS regulations,
- Security and Risk mitigation plan.

Information Security is one of the fastest growing segments in the Information Technology market. This growth has fuelled the demand for various specialised security professionals. A Chartered Accountant can be a very good IS security practitioner because of his/her strong knowledge of business process, understanding of internal controls, process and technical knowledge.

5. Fraud Risk Assessment and investigation

With high IT penetration and complex system, frauds have also become more sophisticated. To unearth any fraud in the organisation, the person should have good understanding of internal processes, systems, various statistical models which can be used to find out abnormal behavior. CAs can play important role in such assignments.

6. Business Consulting

Many Chartered Accountants with experience in the IT industry are venturing into business consulting and also setting up their own start-up enterprises. As part of business consulting, CAs advise clients about process improvements, productivity enhancement, cost optimisation, IT solution to their business problem.

As part of these start-up ventures, CAs can deliver cost-effective, safe and practical solutions to their client's business needs. Typically, such ventures strive to understand specific business needs/requirements of their clients by studying their business processes and offer innovative technological solutions that can generate more profit to their business and mitigate business, compliance and IT risks. Some of the examples where CAs can provide business consulting services are compliance management tools, GRC solutions, ERP solutions *inter alia.*

7. Other areas

There are several other areas where CAs can contribute and look for career opportunities such as BPOs, Banking and Insurance Software, *e.g.*, Finacle, e-Governance Projects *etc.* CAs also play important role in various finance, tax and accounting functions of IT organisations.

Challenges

As mentioned above there are numerous opportunities for young chartered accountants in the field of Information Technology but this comes with its own set of challenges which must be dealt with by the young CA professionals in order to make the best out of the IT sector. Some of these challenges are discussed below.

• **Technical Knowledge**

As IT is a non-core area for CAs, it might be a challenge to possess such knowledge to enter this field. These IT skills can be categorised into 'IT user' skills and 'IT Provider' skills. IT user skills would be expertise in MS Office products such as MS Excel, PPT, Access, how to use ERP, *etc.* and IT provider skills would include knowledge such as system designing, SQL, Visual Basic, Business Objects, *etc.*

However, such challenges should not demotivate young professionals as many IT companies nowadays provide in house training and also there are ICAI and external courses available where CAs can gain required knowledge and skills. CA students must seriously undergo IT training conducted by the ICAI. CA final's paper, Information Systems Control and Audit (ISCA) covers basics of several such areas discussed above.

To gain more knowledge, CAs can opt for post qualification courses offered by the ICAI to give them an edge over others such as Information System Audit and CPE Course on Computer Accounting and Auditing Techniques (CAAT), ICAI also offers ERP Courses on SAP FI & MM Module.

• **Obsolescence**

Information Technology is growing at a rate beyond anyone's expectations. This means that the CA professionals in the field need to constantly be improving their skills. New technologies are always appearing, leading to previous information becoming obsolete. New concepts such as Cloud Computing, Big Data Analytics, etc. are some of the fast developing technologies which required the CA community's attention. The ICAI as part of the CPE trainings recently organised a national conference on "Cloud Computing: Opportunities and Challenges for CAs" in Bangalore and New Delhi. This conference gave a detailed insight into the cloud basics and developments in the Cloud Computing and how CAs can contribute to its advancement and add value to the industry using Cloud Computing.

• **End to End business process knowledge**

Many CAs with their expertise in specific areas such as Income-tax, Accounting may find it challenging to possess end-to-end knowledge of various business processes. Acquiring this knowledge is a basic threshold requirement in the IT field as the Industry looks upon CAs as business process specialists and a clear end-to -end process knowledge is the need of the hour. Internal Auditors, Corporate Finance Professionals in the industry, Information System Auditors and Fraud Auditors are some of the experts who naturally possess this knowledge and can be some of the potential candidates to grow in the IT fields as discussed above.

• **General Management and Communication Skills**

IT being a service industry which requires exposure to global cross-culture environment as it not only involves working for foreign clients from India but also on many occasions, CAs are required to work on site at client's location outside India. With this background it becomes extremely important to possess good communication skills and soft skills. CAs with logical thinking, good management and leadership skills are highly valued in the IT organisation considering its unique the nature of work. Learning a foreign language can be a very useful addition to a young CA's resume and should be pursued by young CAs.

The ICAI is continuously taking several steps to ensure that these CAs acquire such skills before completing the CA. 15 day's mandatory GMCS skills and three month residential GMCS batches are some of the great initiatives of the ICAI and is getting a very good response from the students and is being appreciated by the industries as well.

Conclusion

Chartered Accountants cannot distance themselves from Information Technology. It is equally important for both members in practice as well as in service. Today's CA professional has to pick up IT skills through appropriate courses or on-the-job training to seek opportunities in many IT companies in India.

IT is one the highest paid fields for Chartered Accountants. IT industry hires significant number of members' in ICAI's campus placements. Average starting salaries typically range between ₹5 lakh to ₹10 lakh depending on the competence of the candidate. Moreover, there are frequent international travels to countries in North America, Europe and Middle East as many of the IT projects in these countries are being implemented by Indian IT Companies. The IT sector in India has crossed $ 100 billion mark and is growing at 11 % to 14% per annum, creating thousands of job opportunities for CAs.

The ICAI has taken many steps to ensure that young professionals are upto date with the technological advancements through various courses and seminars which young professionals must actively participate and make use of such initiatives to their advantage. ■

Challenges and Opportunities for Young CAs in Medicine/Healthcare Industry

The healthcare segment in India is fast growing and it is an exciting period for the healthcare industry. The Indian Pharmaceutical market is forecast to grow at a CAGR of 12% between 2012 and 2017 and reach to ₹1,321 billion by 2017 from the current level of around ₹840 billion. Developments in the pharmaceutical industry consisting of approximately 1,000 players with over 60,000 brands gives the confidence of bright prospects of this industry and in turn, promising prospects and career opportunities it offers to Chartered Accountants. Many Indian Pharmaceutical companies are now operating in the US and other International markets. This gives opportunities to the members to learn accounting treatment both as per the Indian and the US GAAP. International Finance is another area of opportunities as Indian companies operate globally. Read on to know more…

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India has embarked on a journey of healthcare system transformation. The government introduced important structural reforms in the last decade and had re-emphasised its vision of creating access to a minimum set of healthcare services to all.

Young Members Empowerment

Accountants are generally trained in the internal controls aspects and therefore, they become a ready fit for jobs on compliance to the Sarbanes & Oxley Act which is applicable to all companies listed on US stock exchange and their subsidiaries. So, compliance is another major area where our members can play a significant role.

The healthcare segment in India is fast growing and it is an exciting period for the healthcare industry. The Indian Pharmaceutical market is forecast to grow at a CAGR of 12% between 2012 and 2017 and reach to ₹1,321 billion by 2017 from current level of around ₹840 billion. It is expected to grow at even faster space thereafter. The total spending on healthcare, which is estimated to be 6% of GDP is rising at double digit rates and will still remain low by the international standards. The Government's contribution to the total healthcare spending has risen gradually over the past decade, but still accounts for less than one-third of the total. Around 25% of the population has some form of health insurance coverage, according to World Bank estimates. The proportion of the population with access to some form of health insurance will increase significantly over the next five years with an estimated 630 million people expected to have coverage by 2015. The efforts to strengthen and expand public infrastructure will continue.

Growth Drivers of Healthcare Sector in India

Growth Drivers of the Healthcare Sector in India are:

1. Increase in population,
2. Increase in lifestyle related health problems,
3. Faster diagnosis leading to early treatment – health awareness & prevention,
4. Increase of disposable incomes in Indian households,
5. Better penetration of health insurance,
6. Medical tourism,
7. Medical insurance and compulsory wellness checkups by companies,
8. Government programmes and focus on PPP (Public Private Partnership) models in healthcare to reach deeper into rural areas,
9. Rising literacy and growing awareness,

The above background and developments in pharmaceutical industry consisting of approximately 1,000 players with over 60,000 brands gives confidence in the bright prospects of this industry and in turn, the promising prospects and career opportunities it offers to Chartered Accountants.

Opportunities

The healthcare segment is well organised and highly regulated as well as compliance oriented.

India is one of the top three countries where companies plan to spend the most R & D dollars over the next three years. The key advantage here is cost effective operations. India has maximum number of GMP approved plants outside USA. India is seen as a major hub by many companies to manufacture the active pharma ingredients needed for their global requirement. Infrastructure and Technology are rapidly improving. The strong IT industry is an added advantage. All these factors make India an attractive investment destination. India being one of the key emerging markets, there is a high focus from all multinational companies also. Domestic companies as well as MNCs are expanding their operations in India. This creates plenty of opportunities for the young chartered accountants.

Many Indian Pharmaceutical companies are now operating in the US and other International markets. This gives opportunities to members to learn accounting treatment both as per the Indian and US GAAP. International Finance is another area of opportunities as Indian companies operate globally. Chartered Accountants are generally trained in the internal controls aspects and, therefore, they become a ready and fit for jobs on compliance to the Sarbanes & Oxley Act which is applicable to all companies listed on the US stock exchange and their subsidiaries. So compliance is another major area where our members can play a significant role.

With the implementation of the 2012 National Pharmaceutical Pricing Policy (NPPP), 30% of

The pharma sector uses traditional trade channel of Carry & Forwarding Agents, Wholesalers and Retailers since medicines need to reach each and every corner of the country. This will provide a very good insight to the finance professional on the supply chain management and its complexities. This experience will also be very useful in the FMCG sector as it also uses a similar distribution network.

market is estimated to be subject to price control. The product pricing is very critical to the Pharma sector as it needs to meet the requirements of regulators as well as the various Chemist & Druggist Associations with respect to the margins provided to wholesalers and retailers. The Chartered Accountants with strong analytical powers and understanding of numbers play vital role in the product pricing.

The pharma sector uses traditional trade channel of Carry & Forwarding Agents, Wholesalers and Retailers since medicines need to reach each and every corner of the country. This will provide a very good insight to the finance professional on the supply chain management and its complexities. This experience will also be very useful in the FMCG sector as it also uses a similar distribution network.

Since the pharma sector is highly regulated and subject to price control, there is a tremendous pressure on margins. With very steep generic competition and availability of cheap branded generics, the cost containment is very essential in order to deliver profitability targets and reasonable return to shareholders. A lot is expected from finance professionals to exercise effective and efficient cost control measures.

Further, the pharma segment is in the consolidation mode wherein many mergers and acquisition activities are seen in the recent past and also expected in the coming period. This will give Chartered Accountants very good exposure in the areas of valuation, financial integration, joint ventures, tax planning and so on.

Challenges

Coupled with opportunities, there are also particular challenges that finance professionals have to face in this segment. Apart from accounting and technical knowledge, in order to succeed in this segment, Chartered Accountants need to put extra efforts to gain knowledge of the business operations. This should include distribution model, manufacturing model, R&D advantages *etc.*, so that they could apply the financial skills to make meaningful business decisions.

The key pressure for most Pharma companies has been to maintain the profitability. On one hand, due to price control regulations and generic competition, there is pressure on realisations and on the other hand, in view of inflation and very high standard of compliances, the operational costs

Coupled with opportunities, there are also particular challenges that finance professionals have to face in this segment. Apart from accounting and technical knowledge, in order to succeed in this segment, Chartered Accountants need to put extra efforts to gain knowledge of the business operations. This should include distribution model, manufacturing model, R&D advantages etc. so that they could apply the financial skills to make meaningful business decisions.

are increasing. This puts a lot of pressure on the CFOs and finance professionals who have the prime responsibility to deliver profit targets.

Due to the high expectations from emerging markets, there is a high pressure for topline growth and therefore it is a challenge for the finance professionals to maintain appropriate balance between business growth and compliance. With cost control measures and restriction on man power, the workload is expected to be much higher. In the time of consolidation where more and more mergers are expected, talent will be very crucial for survival and growth.

Another critical point is that particularly young chartered accountants need to remember in this current time of job-hopping is the need to be stable in a company and pass through a cycle to gain knowledge, contribute to the company's growth and make a meaningful career. One needs to have patience as learning is a process and does not happen overnight and it takes time to get fruits of your investment in terms of experience and hard work.

Last but not the least, never be complacent. Acquiring qualification is the only entry ticket to the industry. Rest all is about learning, performing and delivering what is expected. ■

Challenges and Opportunities for Young CAs in Indian Automobile Industry

This article appraises the readers on challenges and opportunities for the young Chartered Accountants in the Indian Automobile Industry. It puts into a professional perspective the status of the Indian Automobile Industry and future prospects, job role/task of finance/accounting function in auto industry and career related aspects. A finance professional gets the opportunity to participate in various functions in the Automobile Companies, which gives him enough scope to use his professional skills and enhance his capability.

Status of Indian Automobile Industry and Future Prospects

The Indian Auto Industry is in a very interesting phase. Almost all major global players have already arrived in India. Exhibit 1 depicts details of Auto Companies in India.

Details of Sale Nos./Turnover *etc.* of the Indian Auto Industry of F.Y. 2013-14 are in Exhibit – 2.

Indian Automobile Industry (2013-14)

Domestic Sales Numbers

- 2 Wheelers : 14.8 Mn
- 3 Wheelers : 0.47 Mn
- Passenger Vehicles : 2.5 Mn
- Commercial Vehicles : 0.63 Mn

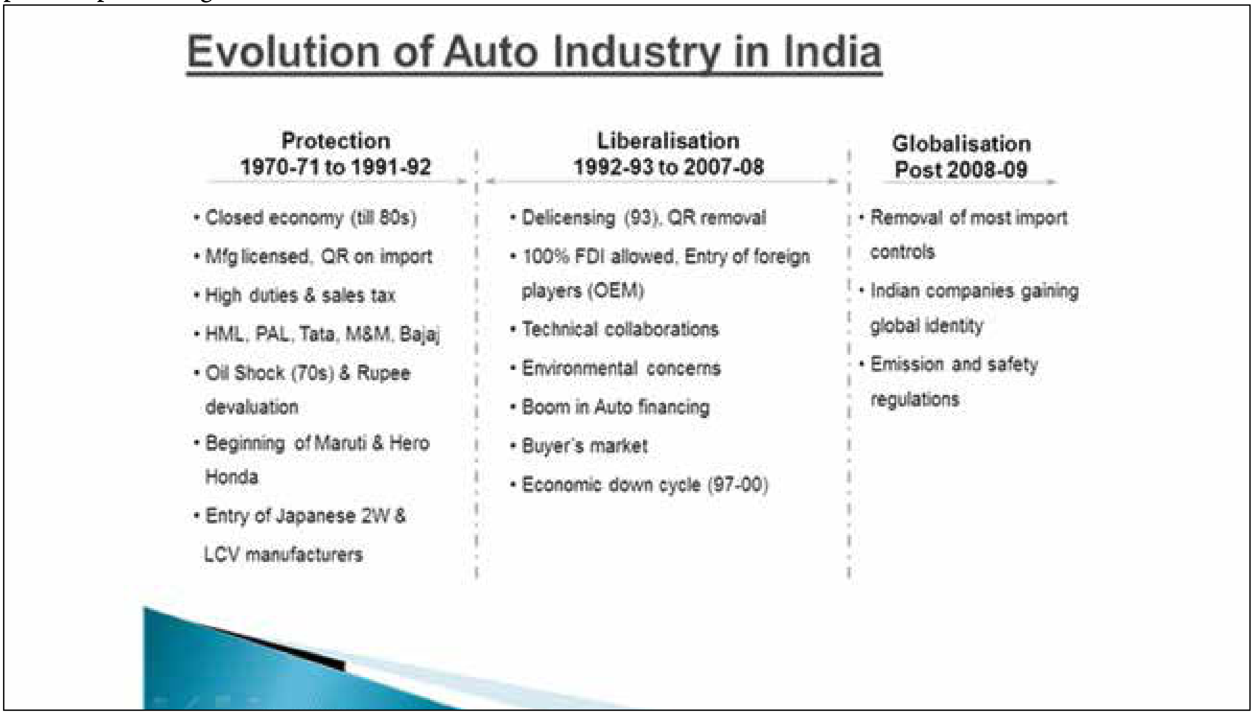
Industry Estimates

- Vehicle Industry Turnover : 46 bill USD
- Vehicle Exports : 6.5 bill USD (14% of Turn Over)
- Employment (Direct+Indirect) : 1 Mln+18 Mln

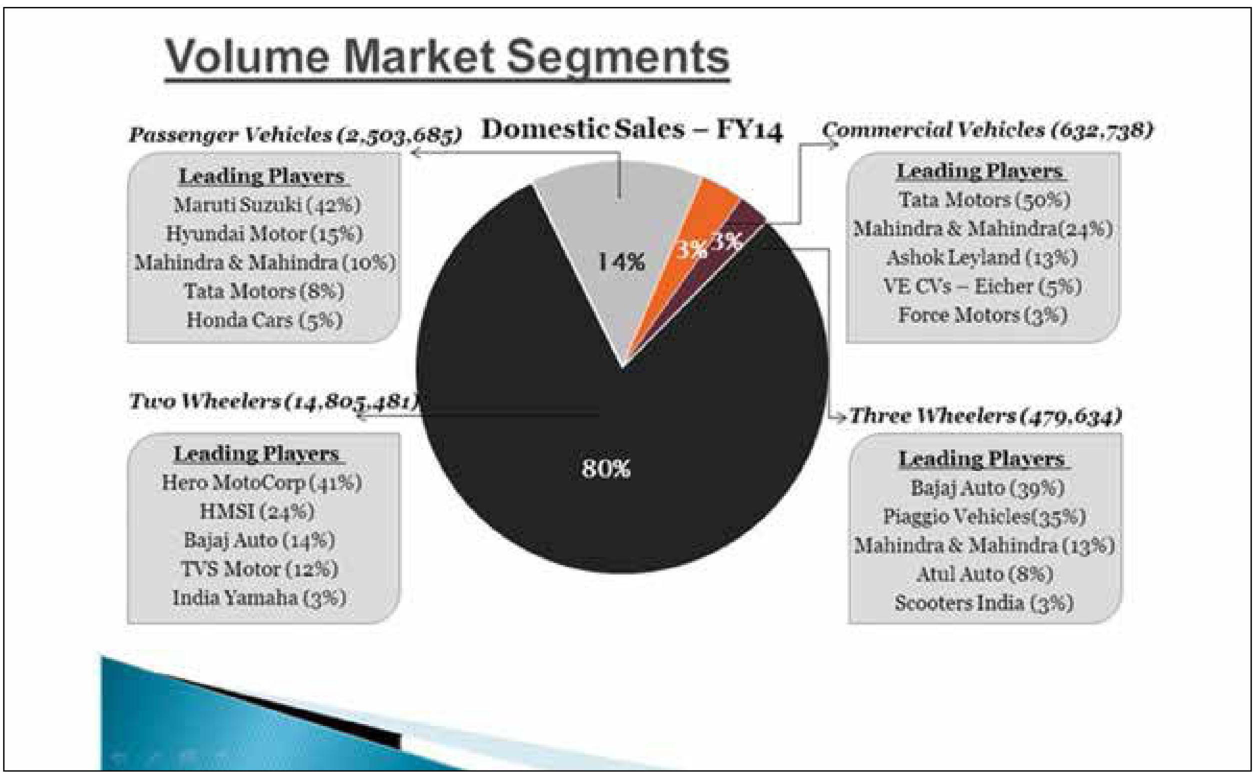
CA. D. D. Goyal

(The author is a member of the Institute and winner of the ICAI's 'CA Professional Achiever (Engineering & Capital Goods sector) Award 2009.' He can be reached at ddgoyal1350@gmail.com.)

Exhibit 3 shows the evolution of the Auto Industry in India from the initial phase of production to the present phase of globalisation.



Details of the market segment and the major suppliers are in Exhibit 4.

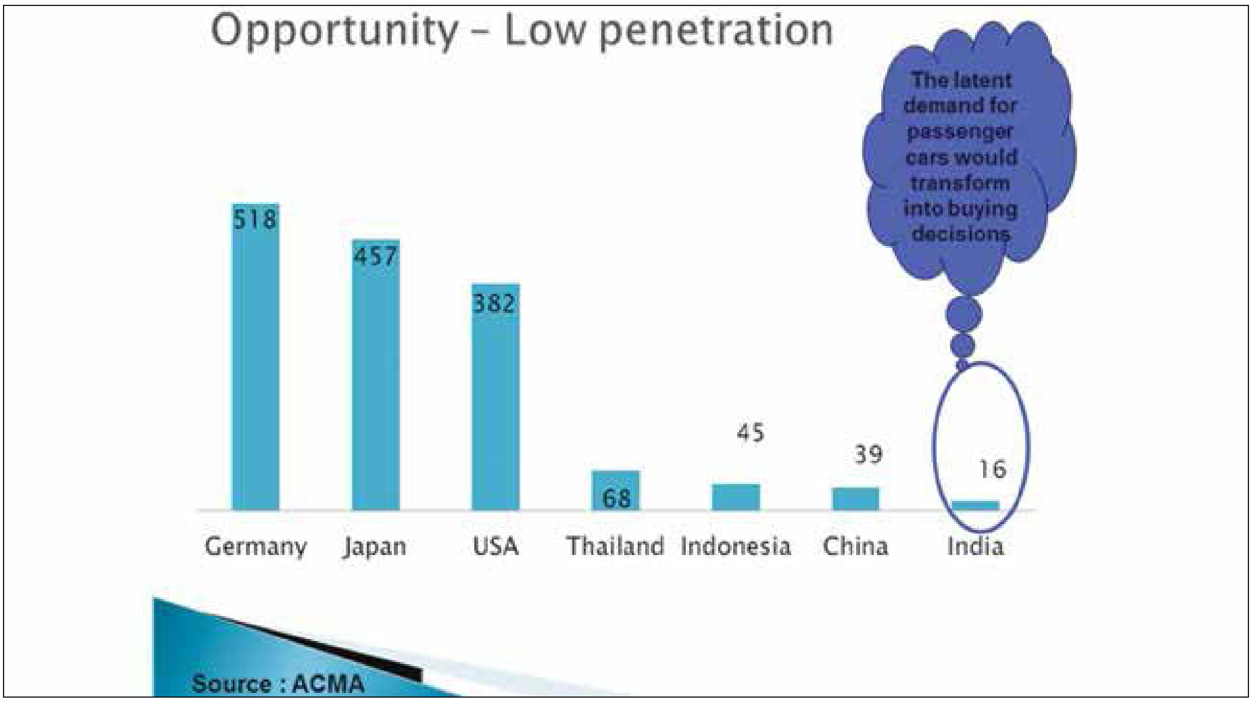


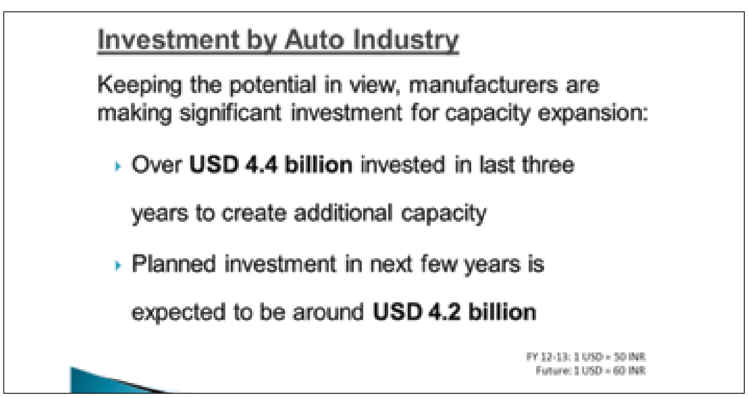
Young Members Empowerment

The Indian Automobile Industry has a very prominent role to play in the world. Details are in Exhibit 5.

Future Growth Potential

The common man may have some apprehension about the future potential after looking at the traffic congestion in metros or the lukewarm growth in the last 1-2 years. However, I am of the view that this is a temporary hiccup. The number of people who "have got" vehicles are lesser than the people who "have not got" a vehicle. This is reflected in the vehicle penetration data which is in Exhibit 6.





Keeping the potential in view, the manufacturers are making a significant investment for capacity expansion. As per the informal estimate by SIAM, the planned investment in the next few years is expected to around US$ 4.2 billion. All of the above clearly indicates that there is enough latent demand for vehicles in India and there is going to be substantial growth and prosperity in the Indian Auto Industry.

Accounts and Finance Function

The Accounts and Finance function is as under:

Role of Accounts/Finance Function:

Front-line Roles:

a) Fund Management
b) Tax Management

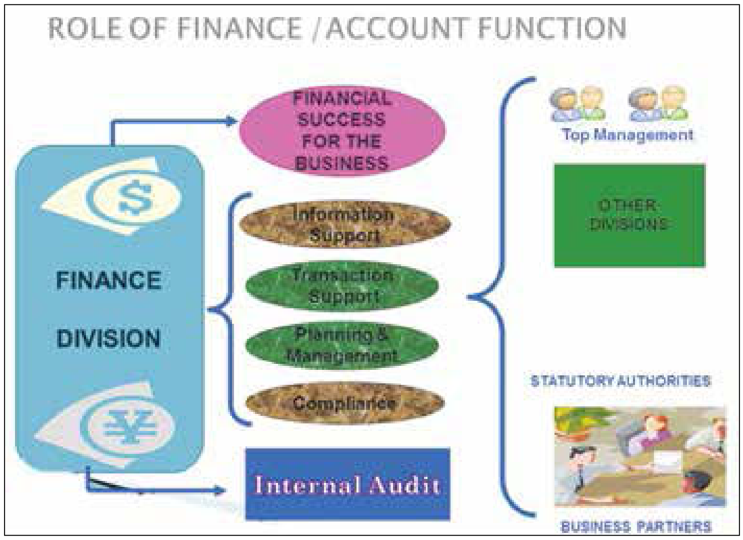
Support Role:

a) Information Support
b) Receipts & Payments

Front-line Role, *i.e.,* fund management and tax management, which is a specialised function. Each chartered accountant possesses professional skills to carry out this function.

The Support Role *i.e.,*jobs and tasks performed by these professionals as a support to the main business activity being carried out and other functions such as purchasing, production, marketing & sales, *etc.* These roles are performed at different levels on the basis of nature of the transaction. It may be performed at the top management level or at operating level, etc.

Finance professionals have to deal with the top management, other colleagues, statutory auditors, tax departments like the Excise Department, Sales Tax Department, Income-tax Department, *etc.* They also deal with other business partners like suppliers, customers, service providers, *etc.* This is explained in Exhibit 8.



The detailed explanation of the role of Finance Professionals in Auto Industry is explained hereunder:

The total role can be bifurcated into the following sub-categories:

1) Planning and Decision-making
2) Budget and Costing
3) Corporate Accounting & Reporting
4) Transaction Accounting (Sales Accounting/ Purchase Accounting)
5) Taxation: (a) Direct Tax; and (b) Indirect Tax
6) Banking & Treasury
7) Internal Audit and Internal Controls

1. **Planning and decision-making consists of the following activities:**
   - Strategic Planning
   - Feasibility analysis for business decisions (capacity expansion, new model introduction, *etc.*)
2. **Budgeting &Costing:**
   - Preparing revenue budgets
   - Preparing long term plans
   - Product Costing & Contribution analysis, Ratio & Variance analysis.
3. **Corporate Accounting & Reporting:**
   - General Ledger maintenance in compliance with Indian & International GAAPS
   - SEBI Compliance for Quarterly results
   - Arranging Statutory Audits
   - Reporting to Holding Companies/Group Companies, *etc.*
4. **Transaction Accounting (Sales Accounting/ Purchase Accounting)/Fixed Asset:**
   a) <u>Sales Accounting-</u> Accounting of Sales of vehicle, Spare parts, Extended Warranty, *etc.* Accounting relating to marketing expenses, receivables and monitoring of default if any
   b) <u>Purchase Accounting–</u> Payment to suppliers for various inputs services and capital equipment
   c) <u>Fixed Asset -</u> Maintaining Fixed Asset Register-Depreciation.
5. **Taxation:**
   Direct Tax:
   - Direct tax planning,
   - Transfer pricing study & assessment,
   - Filing of Returns under Direct Tax Laws,
   - Representing the Company in various assessment & appeals proceedings.

Indirect Tax:

- Indirect Tax planning and tax management,
- Availment of Input Tax Credit (CENVAT/ Service Tax/VAT),
- Filing of various Returns under various Indirect tax laws:
  - Excise
  - VAT
  - Service Tax
- Representing the company in various assessment appeal and proceedings.

6. **Banking & Treasury:**

- Realisation of sale receivables, cheque issuance/ electronic fund transfer to suppliers, Bank reconciliation, *etc.*
- Foreign currency transactions including forward covers and hedging.

7. **Internal Audit & Internal Controls:**

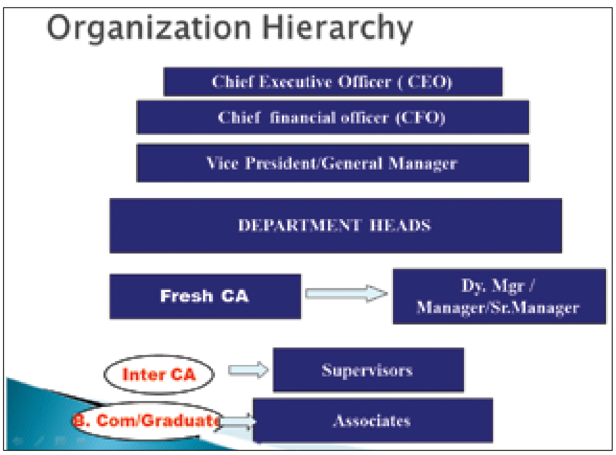
- Ensuring internal controls,
- Internal Audit as per plan approved by Audit Committee,
- Compliance with Clause 49 of Listing agreement.

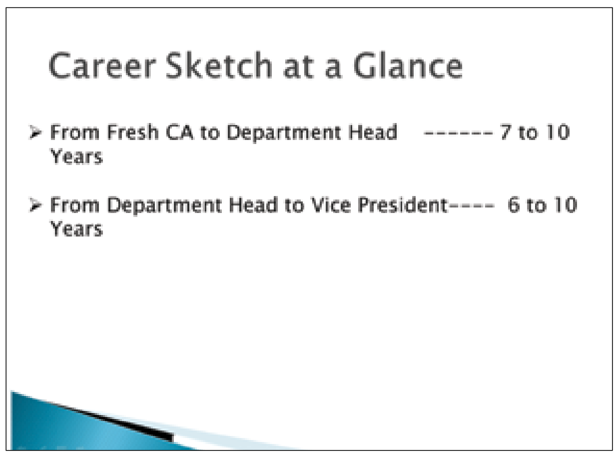
There is a statutory requirement for adequate internal controls so as to facilitate the same finance/ accounting professionals who have to play a very significant role. Most of the Automobile Industries have established an elaborate computer-based system, each and every process is fully analysed and check points are built in and at periodical intervals, each process owner is supposed to check whether the controls are being maintained and in case any non-compliance appropriate counter measures are taken. This is called Risk & Control Matrix.

Career Aspect

1. **Recruitment & Promotion**

Normally, fresh Chartered Accountants are recruited by the Automobile Companies at Assistant Managers' level and with good performance they move upwards in the journey of career progress. Exhibits 9 & 10 reflect the organisational hierarchy and career scope.

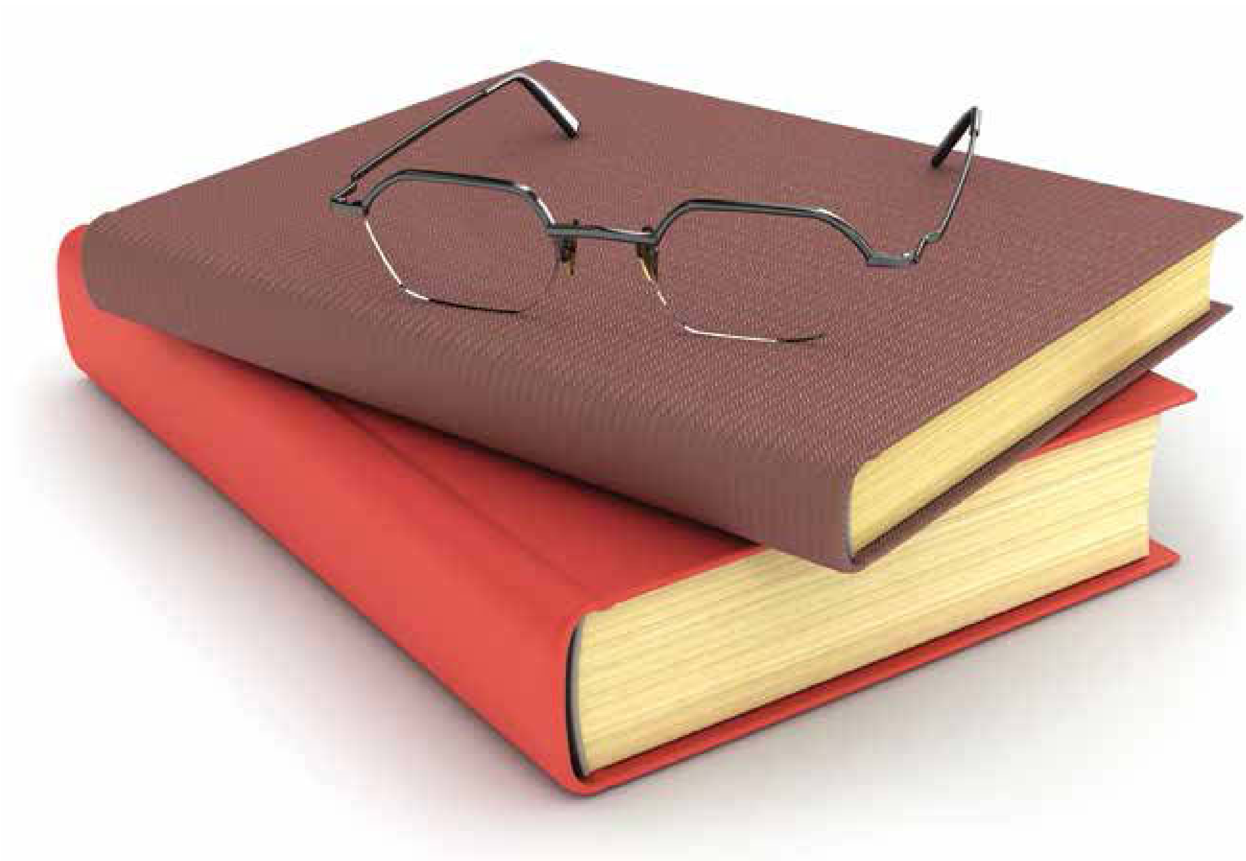




2. **Compensation:**

In a manufacturing company, compensation is not only by way of hard cash, it is much more than that. Young professionals should also be aware of the expectations of their employer from young CAs, which is in Exhibit 11. Let young professionals be part of the Indian Auto Industry in the journey towards excellence.

An Update on the Companies Act, 2013 from Professional Perspective



As many as 183 Sections of the Companies Act 2013 have been already notified and operational since 1st April, 2014. The Ministry has notified 98 Sections of the new legislation along with the rules governing the CSR. The author has tried to decode the intricacies of this new legislation and gives an update on some of the key concerns of accountancy profession in this article. Read on…

CA. S. Santhanakrishnan

(The author is a member of the Institute and he may be contacted at ssca@vsnl.in)

This Companies Act, 2013, a historic legislation, will have comprehensive and encompassing consequences in the corporate sector of our nation. And the industry understands it. Exposure to the Act will impact the overall corporate sector eventually.

On a deeper review of the Companies Act, one would understand that the profession's roles and responsibilities have been substantially enhanced now. There are going to be severe challenges and unintended inclusion of certain provisions of the Act.

NFRA

First amongst the list is introduction of the National Financial Regulatory Authority (NFRA).

Worldwide, there has been criticism about the need to have segregation of monitoring from the standard-setting and accounting professionals' body which was sought to be removed. However, in a country like India, both these aspects have been in the administrative control of an institution set up by an Act of Parliament, which would not be the case in other countries.

Even assuming that such segregation has to be done, it has not been actually achieved since once again standard-setting and disciplinary mechanism would be with NFRA.

By creating two Acts under the very same Parliament of India, I am not sure what objective will be achieved eventually. I am pretty certain that the Government, which has been receptive to all our suggestions, would look at our suggestion on bringing certain changes which are essential.

Penal Provisions

The penalties and other related provisions would certainly cause hardship both financially and otherwise on the profession. Further, it has not given the profession adequate protection from the certain acts of professionals which are not with any criminal intentions. Here again, I am confident that the Government would look at these suggestions from the ICAI sincerely and seriously.

Fraud Reporting

Reporting on fraud is another major issue which would pose not so much of a problem to the profession but to the company and to the government itself. Each and every fraud will have to be reported to the Central Government. The Act does not make a distinction between fraud on the management and fraud by the management. Consequently, every small fraud like stealing of stamps, inflated travel expenses bills, or, even a hundred rupee fraud should be reported which could present serious challenges to the companies.

On a deeper review of the Companies Act, one would understand that profession's roles and responsibilities have been substantially enhanced now. There are going to be severe challenges and unintended inclusion of certain provisions of the Act.

The Act does not make a distinction between fraud on the management and fraud by the management. Consequently, every small fraud like stealing of stamps, inflated travel expenses bills, or, even a hundred rupee fraud should be reported which could present serious challenges to the companies.

The concept of materiality has not been considered. Further, greater challenge is going to be before the Ministry in taking action or disposing off such a large number of reporting. The Government will not have the required machinery to do the same.

I think, essentially, it is a welcome move, but its drafting is not considerate. Consequences are so severe that this section should be clarified and suitably amended under removal of difficulties.

Internal Financial Controls

Another aspect of the Act is that an auditor is required to report on the *internal financial controls*, which is not clearly defined to be even limited to financial reporting (as in the case of SoX). Further, this requirement is to be applied to companies of all sizes and hues, without any consideration of concepts of 'systemically important' or 'public interest entity'. It is also interesting to note, that Directors are required to give an assertion on such *internal financial controls* only in case of listed companies.

This is going to pose significant challenges to the companies in order to document and provide evidence of such *internal financial controls* which would be sufficient and appropriate for the profession to comment upon. It is also a contradiction that in case of unlisted entities, the management is not required to provide an assertion on the *internal financial controls,* though the auditors are called upon to comment on the same.

Albeit, all these specific issues, where I am sure, that the Government will also be receptive to suggestions and provide solutions, on an overall basis, this act has brought us new challenges and provided consulting opportunities. It's yet another opportunity for the profession to help the government in implementing the new Companies Act and become true leaders in the corporate world into great times ahead. ■

Rotation of Auditors under the Companies Act, 2013

The Companies Act, 2013 is being enacted in phases. As many as 98 Sections were notified w.e.f 12th September 2013 and 183 Sections were notified w.e.f. 1st April, 2014. Section 139(2) of the Companies Act, 2013 provides the mandatory rotation of statutory auditors for listed as well as certain class of the companies as prescribed. The provisions rotation of statutory auditors are not applicable to one person companies and small companies and shall be applicable to all companies having borrowings from financial institutions, banks or public deposits of ₹50 crore or more irrespective of the threshold limit as mentioned. It is also provided in the Act that the cooling period for the outgoing auditor shall be for five consecutive years. This article delves into this concept and more. Read on…

CA. Arun Saxena

(The author is a member of the Institute. He can be reached at saxena1959@gmail.com)

Background

The question of rotation of an auditor is not new. Way back in 1972, there was a proposal to introduce rotation of the statutory auditors by adding clause (1B) in the Section 224 of the Companies Act, 1956 in the Companies Amendment Bill, 1972. The object was probably to have more independence of statutory auditors as well as to achieve more equitable

As on date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding financial year, shall be appointed as auditor of the same company for the period of five years.

distribution of audit to the younger members of the profession. Lots of representations from the members and the institute were submitted to the Government on the proposed amended bill against the proposal and amongst the representations there was also a suggestion to put the ceiling on the audit by a member in place of having complete rotation of auditors. Thereafter, when the Companies Amendment Act, 1974 was notified, a clause (1B) in Section 224 of the Act was inserted whereby the ceiling of the Audit was provided. This provision was again modified in the year 2000 when the ceiling of 20 audits per partner was retained. However, our institute by issuing the notification restricted that the number of audit assignment of the companies, having paid-up capital of ₹25 lakh or more cannot exceed 10 per partner. Again, the Company Bill, 1997 proposed for the rotation of the auditor after 5 consecutive years, but this proposal was again dropped by the Government on the recommendations and suggestions received from our members and the institute and other stakeholders.

The question of independence of the auditor was also discussed considerably in recommendations of the Naresh Chandra Committee constituted by the Government of India in August, 2002. The committee suggested various suggestions through which the independence of the auditor can be maintained. The suggestions were basically on the concept that the auditor should not have financial, business or personal relationship with the client. But the committee did not recommend the rotation of the statutory auditors. Instead, the committee suggested that the partners or team leaders or the team should be rotated. The Committee also suggested that the listed companies or companies having paid up capital and free reserves exceeding ₹10 crore or companies having turnover exceeding ₹50 crore, the 50% of audit team (excluding article clerk and trainees) should rotate every five years and the outgoing team can again be engaged for audit after three years. The suggestions of the Naresh Chandra Committee were incorporated in the Companies Amendment Bill, 2003. With the above background it can be said that the question of rotation of statutory auditor is now not new as it was dealt with by the Government and so many committees for the last three decades.

Provisions under the Companies Act, 2013

Rotation of Auditor:

The mandatory rotation of the statutory auditors has been provided under Section 139(2) of Companies Act, 2013 which provides that no listed company or the company belonging to such class or classes of companies as may be prescribed shall appoint or reappoint:

(a) An individual as auditor for more than one term of five consecutive years, and
(b) An audit firm has auditor for more than two terms of five consecutive years.

Therefore, the rotation of the statutory auditor is applicable to all listed companies and any other company or class of the company as may be prescribed.

The Central Government has notified the Companies (Audit and Auditors) Rules, 2014 and prescribed that these provisions shall be applicable to following class of the companies excluding one person companies and small companies.

a) All unlisted public companies having paid up capital of ₹10 crore or more.
b) All private limited companies having paid up capital of ₹20 crore or more.
c) All companies having paid up share capital of below threshold limit mentioned in (a) & (b) above and having borrowing from financial institutions, banks or public deposits of ₹50 crore or more.

It means the provisions rotation of statutory auditors are not applicable to one person companies and small companies and shall be applicable to all companies having borrowings from financial institutions, banks or public deposits of ₹50 crore or more irrespective of threshold limit mentioned hereinabove.

It is also provided in the Act that the cooling period for the outgoing auditor shall be for fiveconsecutive years which means:

i) An individual auditor who has completed his term under clause (a) above shall not be eligible for reappointment as an auditor in the same company for five years from the completion of such term.

ii) The audit firm which has completed its term under clause (b) shall not be eligible for reappointment as auditor in the same company for five years from the completion of such term.

Transition Period

The provisions of this Section shall be applicable to every company existing on or before the commencement of this Act, *i.e.,* 1st April, 2014 which is required to comply with the provisions of this Section and shall comply with the requirement of this Section within three years from the date of commencement of this Act. It means, the transition period has been given for three year w.e.f. 1st April, 2014 to comply with these provisions.

The Rule 6(3) also provides that an auditor, whether an individual or audit firm, the period for which an individual or firm has held office as auditor prior to the commencement of the Act shall be taken into account for calculating the period of five consecutive years or 10 consecutive years as the case may be. The following illustration shall clear how an appointment shall be made in the first AGM after the commencement of this Act, *i.e.*, 1st April, 2014.

Illustration 1 (For individual auditor) :

Number of consecutive years for which an individual auditor has been functioning as auditor in the same company [in the first AGM held after the commencement of provisions of Section 139(2)]	Maximum number of consecutive years for which he may be appointed in the same company (including transitional period)	Aggregate period which the auditor would complete in the same company in view of column I and II
I	**II**	**III**
5 years (or more than 5 years)	3 years	8 years or more
4 years	3 years	7 years
3 years	3 years	6 years
2 years	3 years	5 years
1 year	4 years	5 years

Illustration 2 (in case of Audit Firm)

Number of consecutive years for which an audit firm has been functioning as auditor in the same company [in the first AGM held after the commencement of provisions of Section 139(2)]	Maximum number of consecutive years for which the firm may be appointed in the same company (including transitional period)	Aggregate period which the firm would complete in the same company in view of column I and II
I	**II**	**III**
10 years (or more than 10 years)	3 years	13 years or more
9 years	3 years	12 years
8 years	3 years	11 years
7 years	3 years	10 years
6 years	4 years	10 years
5 years	5 years	10 years
4 years	6 years	10 years
3 years	7 years	10 years
2 years	8 years	10 years
1 year	9 years	10 years

Note:

1. The Audit Firm shall include other firms whose name or trade mark or brand is used by the firm or any of its partners.
2. The Consecutive years shall mean all the preceding financial years for which the firm has been the auditor until there has been a break by five years or more.

Other Provisions Relating to Rotation of Auditors

a) As on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding financial year, shall be appointed as auditor of the same company for the period of five years.

b) The Central Government has prescribed under Rule 6 of the Companies (Audit and Auditors) Rule, 2014, the manner of the rotation of the

The provisions of this Section shall be applicable to every company existing on or before the commencement of this Act, i.e., 1st April, 2014 which is required to comply with the provisions of this Section and shall comply with the requirement of this Section within three years from the date of commencement of this Act. It means, the transition period has been given for three year w.e.f. 1st April, 2014 to comply with these provisions.

auditors by the company as under:

i) The audit committees shall recommend to the board the name of the auditor, who may replace the existing auditor on the expiry of the term of such existing auditor.

ii) Where a company is required to constitute the audit committee the board shall consider the recommendation of such committee and in other cases board shall consider the matter of rotation of auditor and makes its recommendation for the appointment of next auditor by the members in general meeting.

c) For the purpose of rotation of the auditor, it is also provided that an incoming auditor or audit firm shall not be eligible if such audit or audit firm is associated with the outgoing auditor or audit firm under the same network of audit firm. For this purpose the term 'Same network' means the firm operating or initiating hitherto or in future under the same brand name, trade name or common control.

d) It is also provided if the partner, who is in-charge of the audit firm and also certifies the financial statement of the company, retires from the said firm and joins another firm of chartered accountants such other firm shall also be ineligible to be appointed for the period of five years.

e) The members of the company may resolve that the audit firm appointed by it, the auditing partner and his team shall be rotated at such interval as may be resolved by the members or the audit shall be conducted by more than one auditor.

f) The rights of the company to remove the auditor or the right of the auditor to resign before the expiry of the term are retained. Thus, the company can remove the auditor before the expiry of the term after following the prescribed procedure under Section 140 of the Act. Similarly, an auditor can resign before the expiry of his term after following prescribed procedure under Section 140(2) of the Act.

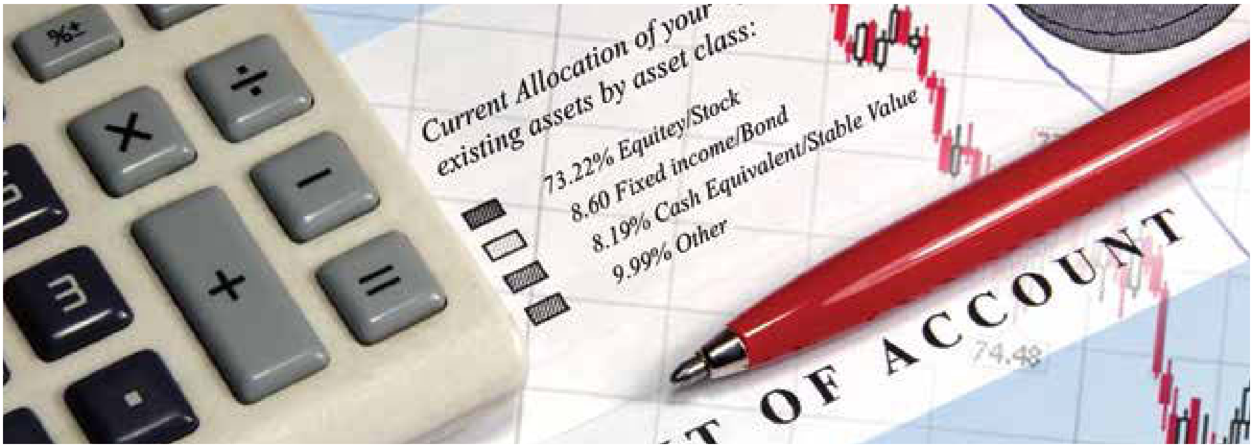
International Perspective on Rotation of Auditor

Many countries are not in favour of the rotation of statutory auditor. Some countries which initially adopted the rotation of the auditors have rejected it afterwards. Recently, the US House of Representation voted 321 to 62 in favour of a bill which bans the mandatory rotation of the auditor. The law-makers in the US have overwhelmingly voted against a proposal that would have mandated the companies to rotate the auditors after every few years. However, China has adopted the rules of rotation of the auditors in 2010.

Conclusion

In view of the history of rotation of auditors and the provisions of Companies Act, 2013 the sole object for the rotation of auditors is to have more independence of the auditors. The independence of the auditors has already been taken care of strictly while the provision of disqualification of the auditor were framed under Section 141 of this Act, wherein the matter related to the financial, personal and business relationship of the auditor with the client has been taken care of. Further, Section 144 of the Act also provides the prohibited services which the auditor or the audit firm cannot provide. Thus, the Companies Act, 2013 has enough provisions relating to the independence of Auditors. Therefore, separate provisions for rotation of auditors may not be required. The rotation of auditor could be applicable only for the companies in which public are interested. ■

Accounting for Fixed Assets – Impact of Schedule II of the Companies Act, 2013

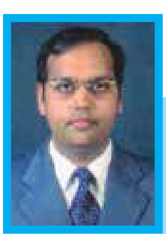


The Companies Act, 2013 is set to be implemented by the corporate sector from the financial year 2014-15. Like Section 205 of the Companies Act, 1956, Section 123 of the Companies Act, 2013 states that no dividend shall be declared unless some depreciation is provided in accordance with Schedule II of the Companies Act, 2013 (corresponding Schedule XIV of the Companies Act, 1956). Schedule II of the Companies Act, 2013 provides Useful Lives to Compute Depreciation as against Rates of Depreciation provided hitherto in the Schedule XIV of the Companies Act, 2013. The author, after duly presenting an extract of Schedule II of the Companies Act, 2013, explains and discusses the impact of these provisions of the Schedule on the accounting for fixed assets. Read on…

Like Section 205 of the Companies Act, 1956, Section 123 of the Companies Act, 2013 states that no dividend shall be declared unless some depreciation is provided in accordance with Schedule II of the Companies Act, 2013 (corresponding schedule XIV of the Companies Act, 1956). Following is the extract of the Schedule II of the Companies Act, 2013, which provides *Useful Lives to Compute Depreciation* as against *Rates of Depreciation* provided hitherto in the Schedule XIV of the Companies Act, 2013:

PART 'A'

1. Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount of an asset is the cost of an asset or other amount substituted for cost, less its residual value. The useful life of an asset is the period over which an asset is expected to be available for use by an entity, or the number of production or similar units expected to be obtained from the asset by the entity.
2. For the purpose of this Schedule, the term *depreciation* includes amortisation.
3. Without prejudice to the foregoing provisions of paragraph 1—
   (i) In case of such a class of companies, as may be prescribed and whose financial statements comply with the accounting standards prescribed for such class of companies under Section 133, the useful life of an asset shall not normally be different from the useful life and the residual value shall not be different from that as indicated in Part C, provided if such a company uses a useful life or residual value which is different from the useful life or residual value indicated therein, it shall disclose the justification for the same.



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(ii) In respect of other companies the useful life of an asset shall not be longer than the useful life and the residual value shall not be higher than that prescribed in Part C.

(iii) For intangible assets, provisions of the Accounting Standards mentioned under sub-para *(i)* or *(ii)*, as applicable, shall apply.

PART 'B'

4. The useful life or residual value of any specific asset, as notified for accounting purposes by a regulatory authority constituted under an Act of Parliament or by the Central Government shall be applied in calculating the depreciation to be provided for such asset irrespective of the requirements of this Schedule.

PART 'C'

It provides useful lives of various assets under the following categories:

I. Buildings
II. Bridges, culverts, bunders, *etc.*
III. Roads
IV. Plant and Machinery
V. Furniture and Fittings
VI. Motor Vehicles
VII. Ships
VIII. Aircrafts or Helicopters
IX. Railway Sidings, Locomatives, Rolling Stocks, Tramways and Railways used by concerns, Excluding railway concerns
X. Ropeway Structures
XI. Office Equipment
XII. Computers and Data Processing units
XIII. Laboratory equipment
XIV. Electrical Installations and Equipment
XV. Hydraulic Works, Pipelines and Sluices

Notes to Part 'C' of the Schedule II reads:

1. *Factory buildings* do not include offices, godowns, or staff quarters.

The useful life or residual value of any specific asset, as notified for accounting purposes by a regulatory authority constituted under an Act of Parliament or by the Central Government shall be applied in calculating the depreciation to be provided for such asset irrespective of the requirements of this Schedule.

2. Where during any financial year, any addition has been made to any asset, or where any asset has been sold, discarded, demolished or destroyed, the depreciation on such assets shall be calculated on a *pro rata* basis from the date of such addition or, as the case may be, up to the date on which such asset has been sold, discarded, demolished or destroyed.
3. The following information shall also be disclosed in the accounts, namely—
   (i) depreciation methods used; and
   (ii) useful lives of the assets for computing depreciation, if they are different from the life specified in the Schedule.
4. Useful life specified in Part C of the Schedule is for whole of the asset. Where cost of a part of the asset is significant to total cost of the asset and useful life of that part is different from the useful life of the remaining asset, useful life of that significant part shall be determined separately.
5. Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. Ordinarily, the residual value of an asset is often insignificant but it should generally be not more than 5% of the original cost of the asset.
6. The useful lives of assets working on shift basis have been specified in the Schedule based on their single shift working. Except for assets in respect of which no extra shift depreciation is permitted (indicated by NESD in Part C above), if an asset is used for any time during the year for double shift, the depreciation will increase by 50% for that period and in case of the triple shift the depreciation shall be calculated on the basis of 100% for that period.
7. From the date this Schedule comes into effect, the carrying amount of the asset as on that date—
   (a) shall be depreciated over the remaining useful life of the asset as per this Schedule;
   (b) after retaining the residual value, shall be recognised in the opening balance of retained earnings where the remaining useful life of an asset is nil.
8. *Continuous process* plant means a plant which is required and designed to operate for 24 hours a day.

These provisions of the Schedule II of the

Another issue which arises is, if companies are now mandatorily required to assess the useful life and provide for depreciation according to such useful life even if the useful life is different from that provided in Schedule II of the Companies Act.

Companies Act would have greater impact on accounting for fixed assets which are discussed hereinafter.

Determination of Useful Life

Section 205 read with Section 350 of the Companies Act, 1956 prescribes that depreciation will be charged at the rates as per Schedule XIV of the Companies Act. Para 13 of AS 6 'Depreciation Accounting' further states:

> *13. The statute governing an enterprise may provide the basis for computation of the depreciation. For example, the Companies Act, 1956 lays down the rates of depreciation in respect of various assets. Where the management's estimate of the useful life of an asset of the enterprise is shorter than that envisaged under the provisions of the relevant statute, the depreciation provision is appropriately computed by applying a higher rate. If the management's estimate of the useful life of the asset is longer than that envisaged under the statute, depreciation rate lower than that envisaged by the statute can be applied only in accordance with requirements of the statute.*

Thus, under the Companies Act, 1956, the rates prescribed were minimum rates for charging depreciation on fixed assets. However, in the Companies Act, 2013, para 3(i) of Part A of the Schedule II provides that in case of such class of companies, as may be prescribed and whose financial statements comply with the accounting standards prescribed for such class of companies under Section 133 the useful life of an asset shall not normally be different from the useful life and the residual value shall not be different from that as indicated in Part C, provided that if such a company uses a useful life or residual value which is different from the useful life or residual value indicated therein, it shall disclose the justification for the same.

These provisions in Schedule II give an option (whether it is an option or mandatory, discussed later) to a certain class of companies to use different useful life which may be higher or lower useful life than provided in the Schedule II. Accordingly, these certain classes of companies can now even apply lower rate of depreciation provided they disclose the justification for the same in the financial statements.

Another issue which arises is if companies are now mandatorily required to assess the useful life and provide for depreciation according to such useful life even if the useful life is different from that provided in Schedule II of the Companies Act. One view which comes to mind is that it is an option given to companies to use different useful life as the Schedule II provides *the useful life of an asset shall not normally be different from the useful life and the residual value shall not be different from that as indicated in Part C, provided that if such a company uses a useful life or residual value which is different from the useful life or residual value indicated therein, it shall disclose the justification for the same.* It nowhere mandates the companies to use different useful life. However, the following reasons support the view that, for certain classes of companies, it would be mandatory to assess the useful life of fixed assets and charge depreciation accordingly:

a. General instructions for the preparation of Balance Sheet and Statement of Profit & Loss as given in the Schedule III of Companies Act, 2013 requires that where compliance with the requirements of the Act including Accounting Standards as applicable to the companies require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head or sub-head or any changes, *inter se*, in the financial statements or statements forming part thereof, the same shall be made and the requirements of this Schedule shall stand modified accordingly. Thus para 13 of *AS 6 Depreciation Accounting* is mandatorily required to be followed. Since Schedule II of the Companies Act, 2013 gives an option to charge deprecation using different useful life for certain class of companies, this option is mandatorily required to be followed in view of para 13 of AS 6 read with general instructions given in Schedule III of the Companies Act, 2013.
b. Para 8.3 of AS 10 Accounting for Fixed Assets states:

In certain circumstances, the accounting for an item of fixed asset may be improved if the total expenditure thereon is allocated to its component parts, provided they are in practice separable, and estimates are made of the useful lives of these components. For example, rather than treat an aircraft and its engine as one unit, it may be better to treat the engine as a separate unit if it is likely that their useful life is shorter than that of the aircraft as a whole.

In the era of the Companies Act, 1956, this paragraph was not mandatorily followed by the companies. However, now note 4 to Part C of the Schedule as reproduced above mandates that where cost of a part of the asset is significant to total cost of the asset and useful life of that part is different from the useful life of the remaining asset, useful life of that significant part shall be determined separately. This requirement is not optional. Hence to follow this requirement of Companies Act, 2013, the companies necessarily require identifying those components, which have significant cost and determine their useful life separately.

c. As per Schedule II, Part C, useful life of Plant & Machinery other than the continuous process plant not covered under specific industries, is 15 years on single shift basis. Thus, if a company has used the Plant & Machinery on triple shift basis, the useful life of such assets would be 7.5 years only as the note 6 to Part C of Schedule II as reproduced above requires that in case the asset is used for triple shift, the depreciation shall be calculated on the basis of 100% for that period. Note 7 (b) to Part C of the Schedule II as reproduced above requires that from the date this Schedule comes into effect, the carrying amount of the asset as on that date after retaining the residual value, shall be recognised in the opening balance of the retained earnings where the remaining useful life of an asset is nil. In many companies' a situation would arise where they have used the asset for more than 7.5 to 15 years on single/double/triple shift basis. Hence, as per the Schedule II, their remaining useful life as on the commencement of the Schedule II may remain nil. However, if such a company is falling in the class of companies as prescribed it would not be judicious to consider the useful life as given in Schedule II as there is an option with these companies to determine different useful life. Thus, it would be mandatory for those companies to use different useful life which will be higher than the useful life as given in Schedule II. A similar situation may arise for other assets too.

Classification of Assets

If the line items of fixed assets as given in the Schedule II of Companies Act, 2013 and Schedule XIV of the Companies Act, 1956 are compared, one may note that various assets are now required to be classified differently under the new Companies Act. A few of the illustrations are:

Illustration 1

Nature of assets under Companies Act, 2013	Useful Life	Depreciation rate Companies Act, 2013	Depreciation rate Companies Act, 1956	Nature of assets under Companies Act, 1956
		Single Shift	**Single Shift**	
I. Buildings [NESD]				
(a) Buildings (other than factory buildings) RCC Frame Structure	60 Years	1.67%	1.63%	Buildings (other than factory buildings)(NESD)
(b) Buildings (other than factory buildings) other than RCC Frame Structure	30 Years	3.33%	1.63%	Buildings (other than factory buildings)(NESD)
(c) Factory buildings	30 Years	3.33%	3.34%	Factory Buildings

Nature of assets under Companies Act, 2013	**Useful Life**	**Depreciation rate Companies Act, 2013**	**Depreciation rate Companies Act, 1956**	**Nature of assets under Companies Act, 1956**
		Single Shift	**Single Shift**	
(d) Fences, wells, tube wells	5 Years	20%	1.63%	As per note 1: "buildings" include roads, bridges, culverts, wells, and tubewells. Further, as per Note 2 "factory buildings" does not include offices, godowns, officers and employees' quarters, roads, bridges, culverts, wells and tube wells.
(e) Others (including temporary structure, *etc.*)	3 Years	33.33%	100%	Purely temporary erections such as wooden structures
II. Bridges, culverts, bunders, etc. [NESD]	30 Years	3.33%	1.63%	As per note 1: "buildings" include roads, bridges, culverts, wells, and tube wells. Further, as per Note 2 "factory buildings" does not include offices, godowns, officers and employees' quarters, roads, bridges, culverts, wells and tube wells.
III. Roads [NESD]				
(a) Carpeted roads				
(i) Carpeted Roads-RCC	10 Years	10%	1.63%	Included in definition of building as per Note 1 & 2 to schedule XIV.
(ii) Carpeted Roads-other than RCC	5 Years	20%	1.63%	Included in definition of building as per Note 1 & 2 to schedule XIV.
(b) Non-carpeted roads	3 Years	33.33%	1.63%	Included in definition of building as per Note 1 & 2 to schedule XIV.
Note: Straight Line Method rates are compared. For the purpose of Companies Act, 2013, it is assumed that residual value is Nil.				

There are various implications of the above changes done in the Schedule II as compared to the Schedule XIV which are:

a. Buildings (other than factory buildings) are now required to be classified under two categories *i.e.*, RCC Frame Structure and other than RCC frame structure. Under the Companies Act, 1956 both these categories of buildings were required to be depreciated at same rate of 1.63%. However, now the useful life of both the categories is different. Hence, a different rate would apply. Further a detailed exercise is required to be made by the Companies to identify buildings with RCC Frame Structure and other than RCC Frame Structure because in the past such record would not have been maintained by the Companies.

b. In terms of Companies Act, 1956, fences, wells, tube wells *etc.*, were part of building and depreciated accordingly at 1.63%. In the Schedule II of the Companies Act 2013, a separate useful life of 5 years for these assets is prescribed. Accordingly, the depreciation rate comes at 20%. Hence, if fences, wells and tube wells are constructed five years before, any balance lying on account of such assets has to be recognised in retained earnings. Similarly for bridges, culverts and bunders, the useful life is now 30 years and therefore the same has to be depreciated at 3.33% as against 1.63% as the same was part of buildings as per Companies Act, 1956.

c. In terms of the Companies Act, 1956, fences, wells, tube wells, *etc.*, were part of building and depreciated accordingly at 1.63%. In the Schedule II of the Companies Act, 2013, roads are to be classified as *Carpeted Roads and Other than Carpeted Roads*. Carpeted roads are to be further classified into RCC and other than RCC. Based on their category, their useful life is 10 years, 5 years and 3 years as against 1.63% as per the Companies Act, 1956. Accordingly, depreciation accounting as to roads will undergo change.

Illustration II

Nature of assets under Companies Act, 2013	Useful Life	Depreciation rate Companies Act, 2013	Depreciation rate Companies Act, 1956	Nature of assets under Companies Act 1956
		Single Shift	**Single Shift**	
IV. Plant and Machinery				
(i) General rate applicable to plant and machinery not covered under special plant and machinery				
(a) Plant and Machinery other than continuous process plant not covered under specific industries	15 Years	6.67%	4.75%	Plant and machinery (not being a ship) other than continuous process plant for which no special rate has been prescribed
(b) continuous process plant for which no special rate has been prescribed [NESD]	8 Years	12.5%	5.28%	Continuous process plant for which no special rate has been prescribed

Note: Straight Line Method rates are compared. For the purpose of Companies Act, 2013, it is assumed that residual value is nil. Rates for double shift and triple shift, wherever applicable, shall change as per the provisions of Schedule II of Companies Act, 2013 or Companies Act, 1956, as the case may be.

There are various implications of the above changes done in the Schedule II as compared to the Schedule XIV which are:

a. The above comparison of rates as per the Companies Act, 2013 and Companies Act, 1956 shows that there has been substantial increase in rates of depreciation under the Companies Act, 2013 for general plants and machineries as well as for continuous process plant. Companies which do not have option for determining useful life higher than those prescribed in the Schedule II of the Companies Act will have to charge depreciation on general plants and machineries @ 6.67% as against 4.75% which has been applied earlier and for continuous process plant @ 12.5% as against 5.28%. Hence, in many of the companies, where plant and machineries have been in use for more than the useful lives as prescribed in the Schedule II of Companies Act, the remaining value has to be transferred to retained earnings.

b. The identification of new categories of continuous process plant: In Schedule II, depreciation rates of plants and machineries used in various other industries as compared to the Companies Act,

If the line items of fixed assets as given in the Schedule II of Companies Act, 2013 and Schedule XIV of the Companies Act, 1956 are compared, one may note that various assets are now required to be classified differently under the new Companies Act.

1956 have also been specified. These other industries are telecommunications sector, power sector, steel sector, non-ferrous metal sector, pharmaceutical and chemical sector, and civil construction sector. For an illustrative purpose the rates as prescribed for plants and machineries used in telecommunications and power sectors are discussed:

Nature of assets under Companies Act, 2013	Useful Life	Depreciation rate Companies Act, 2013	Depreciation rate Companies Act, 1956	Nature of assets under Companies Act, 1956
(d) Plant and Machinery used in Telecommunications [NESD]				
1. Towers	18 Years	5.55%	5.28%	Continuous process plant
2. Telecom transceivers, switching centres, transmission and other network equipment	13 Years	7.69%	5.28%	Continuous process plant
3. Telecom—Ducts, Cables and Optical Fibre	18 Years	5.55%	5.28%	Continuous process plant
4. Satellites	18 Years	5.55%	5.28%	Continuous process plant
(f) Plant and Machinery used in generation, transmission and distribution of power [NESD]				
1. Thermal/Gas/Combined Cycle Power Generation Plant	40 Years	2.5%	5.28%	Continuous process plant
2. Hydro Power Generation Plant	40 Years	2.5%	5.28%	Continuous process plant
3. Nuclear Power Generation Plant	40 Years	2.5%	5.28%	Continuous process plant
4. Transmission lines, cables and other network assets	40 Years	2.5%	5.28%	Continuous process plant
5. Wind Power Generation Plant	22 Years	4.54%	5.28%	Continuous process plant
6. Electric Distribution Plant	35 Years	2.85%	5.28%	Continuous process plant
7. Gas Storage and Distribution Plant	30 Years	3.33%	5.28%	Continuous process plant
8. Water Distribution Plant including pipelines	30 Years	3.33%	5.28%	Continuous process plant

It can be noted that, in many cases, the depreciation rate prescribed under the Companies Act, 2013 is even lower than what is prescribed in the Companies Act, 1956. Such assets shall be depreciated over the remaining useful life of the asset as per Schedule II in view of note 7(a) reproduced above.

Conclusion

The implementation of the Schedule II of the Companies Act, 2013 has lots of challenges. Considering that Section 123 and Schedule II of the Companies Act are effective from 1st April, 2014, accounting for fixed assets for the financial year 2014-15 will undergo a sea change and may have impact over the profitability of the companies. The determination of useful life and residual value of various assets will be a major task for the companies. This will require technical evaluation from experts. To complete this task, companies need to prepare themselves earliest. Of course, when challenges are there in the new Companies Act, 2013 for accounting for fixed assets, professionals need to be ready to create opportunities in these challenges. ■

Works Contract- Some Vital Issues

The taxability of "Works Contract" has always been a matter of debate. This debate has been renewed with the recent changes in the service tax regime. This article discusses the journey of Works Contract from the 46th constitutional amendment and onwards, current scenario under service tax, i.e., its definition and valuation. It demystifies the link between Service Tax and the Sales Tax laws. It also raises a few issues like non-exclusion of Entry tax under Rule 2A, denial of benefit to small service providers due to reverse charge. Read on…

The taxability of "Works contract" has always been a matter of debate. The concept sailed on its enduring journey through an Apex Court order in case of *State of Madras vs. Gannon Dunkerley & Co. (Madras) Ltd.*, (1958) 9 STC 353 (SC). In the course of its journey it met through the Constitutional amendment, various case laws, rules, statutory amendments, and the latest being the changes in the Service Tax regime. The debate started with respect to applicability of local Sales Tax on the material involved in the execution of the Works Contract, got extended to the applicability of CST on interstate transaction and furthermore Service Tax on the service portion in the execution of a Works Contract.

Background

The issue of applicability of Sales Tax on indivisible contracts came before the Apex Court in the case of *State of Madras vs. Gannon Dunkerley & Co. (Madras) Ltd.*, (1958) 9 STC 353 (SC). The Apex Court held that the expression "sale" in entry 54 of list II is same as that of used in the Sales of Goods Act 1930.

Section 4(1) of The *Sale of Goods Act*, 1930 defines sale as a "contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for a price". Accordingly a transaction, in order to be 'sale' for the levy of Sales Tax should have the following ingredients, two parties to contract *i.e.*, seller/purchaser; moveable goods, monetary consideration and transfer of property, *i.e.*, transfer of ownership from seller to purchaser.

The court held that "On the true interpretation of the expression "sale of goods" there must be an agreement between the parties for the sale of the very goods in which eventually the property passes. In a building contract, the agreement between the parties is that the contractor should construct the building according to the specifications contained in the agreement, and in consideration therefore, receive payment as provided therein, and in such an agreement there is neither a contract to sell the materials used in the construction, nor does property pass therein as moveable."

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In the concluding part of the judgment, the court further held that:

"In a building contract which is, as in the present case, one, entire and indivisible and that is its norm, there is no sale of goods, and it is not within the competence of the Provincial Legislature under Entry 48 to impose a tax on the supply of the materials used in such a contract treating it as a sale". The court had held that there is no contract to sell the materials as such and the property in them does not pass as moveable. As an outcome of this judgement, State legislature was not competent to levy tax on indivisible Works Contract. Whereas, if the contract treated the sale of materials separately from the cost of the labour, tax was to be paid on the sale of such materials. This position resulted in scope for avoidance of tax as well as loss of revenue to the state exchequer.

Later on, the matter was referred to the Law Commission to express its opinion. The Law commission in its report opined that the union has the power to tax the Works Contracts under Constitution, Seventh Schedule, Union List, Entry 97. The commission stated that the question is ultimately of the policy however before the judgment of the Supreme Court sale was usually regarded as including a Works Contract and the commission would prefer restoration of power to the states. The commission suggested three alternatives, (i) Amending entry 54 in the state list. (ii) Adding a fresh entry in the state list (iii) inserting in article 366 a wide definition of "sale" so as to include works contract.

The Government preferred the 3rd option and introduced clause 29A in Article 366 on 2nd February 1983 by 46th Constitutional Amendment. Constitutional amendment nullified the observation of the Supreme Court in the Gannon Dunkerley's case.

Works contract which was an indivisible one, by a legal fiction altered into a contract divisible into one for the sale of goods and the other for supply of labour and services. After the 46th Amendment, it has become possible for the States to levy Sales Tax on the transfer of property in goods (whether as goods or in some other form) involved in execution of a works contract irrespective of the fact that the contract might have been a composite one and the intention of the parties was not to sell goods. States amended the Sales Tax laws and included the property transferred in the execution of a Works Contract within tax net of the State VAT.

The constitutional validity of the 46th Amendment has been upheld in case of *Builder Association of India vs. Union of India* (1989) 73.

"Service" under Section 65B (44), defined for the first time w.e.f 01-07-2012, includes the declared services within its ambit. Declared Services are defined under Section 65B (22) of the Finance Act, 1994 as any activity carried out by a person for another person for consideration and declared as such under Section 66E of the Finance Act, 1994.

46th Constitutional Amendment and Interstate Sale

In another case of *Gannon Dunkerley. & Co. vs. State of Rajasthan* (1993) 88 STC-204), the apex court held that the state in exercise of its legislative power under Entry 54 of the State List read with Article 366(29-A) (b), is not competent to impose a tax on such a transfer (deemed sale) which constitutes a sale in the course of inter-State trade or commerce or a sale outside the State or a sale in the course of import or export. Whether a sale falls under these aforesaid categories, have to be determined in accordance with the principles contained in the Central Sales Tax Act and the State cannot make a departure from those principles.

The definition of "sale" under CST act, to bring in line with the Constitutional Amendment, was amended by the Finance act, 2002 .The new definition of "sale u/s 2(g) w.e.f 11th May 2002 includes "transfer of property in goods" (whether as goods or in some other form) involved in the execution of a Works Contract.

Chargeability under Service Tax

"Service" u/s 65B (44), defined for the first time w.e.f 01-07-2012, includes the Declared Services within its ambit. Declared Services are defined under Section 65B (22) of the Finance Act, 1994 as any activity carried out by a person for another person for consideration and declared as such under Section 66E of the Finance Act, 1994. It means for a service to come under the purview of Declared Services, it has to satisfy two conditions simultaneously:-

a) It must be an activity carried out by one person for another person in lieu of consideration and

b) It must be specified (*i.e.*, declared) under Section 66E.

Section 66E specifies 9 activities as Declared Services, service portion in the execution of Works Contract being one of them. Thus, the ambiguity prevailing with regard to taxability of Works Contract under Service Tax has been settled to a greater extent.

Section 65B (54) defines Works Contract as a contract wherein transfer of property in goods involved in the execution of such contract is leviable to tax as sale of goods and such contract is for the purpose of carrying out construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, alteration of any movable or immovable property or for carrying out any other similar activity or a part thereof in relation to such property.

Mere classification as Works Contract in VAT doesn't make an activity as Works Contract in Service Tax. Thus for classifying a service as Works Contract all the following conditions need to be satisfied:

a) There must be transfer of property in goods in the execution of such contract. For instance, a comprehensive Annual Maintenance Contract involving replacement of various spare parts, peripherals *etc.* However, the consumables used during the course of provision of service, such as in case of cleaning contracts, do not constitute transfer of property in goods.

b) Such goods must be chargeable to Sales Tax. The exemption by any notification doesn't mean that Sales Tax is not leviable.

c) Such contract is for construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, alteration or any other similar activity or a part thereof in relation to such property.

The new definition has enlarged the scope of the Works Contract by including activities relating to movable property, in addition to immovable property, within its ambit. The new definition covers services such as composite AMC, Authorised Service Station *etc.*

Valuation – Works Contract

The new system of negative list based taxation has abolished the concept of classification to a greater extent but not in its entirety. Classification of services is vital not only for the attraction of "Reverse charge" or "partial reverse charge" mechanism but also for the valuation of few services such as Works Contract.

As soon as a service is classified as Works Contract, valuation is to be carried out as per Rule 2A of Service Tax (Determination of value) Rules, 2006. Two options of valuation are available to the taxpayer under Rule 2A, as amended by Notification No. 24/2012 dated 06th June 2012.

Valuation under Rule 2A(i) can be carried out only when payment of VAT or Sales Tax has been made on the actual value of the transfer of property involved in the execution of works contract, *i.e.*, this option is not available in case the taxpayer has opted for composition scheme or standard deduction under Sales Tax/VAT.

As per Rule 2A (i), Value of works contract =

"Gross amount " charged for the works contract	-
Less: - the value of transfer of property in goods involved in the execution of works contract.	-
Taxable value	-

The "Gross amount" shall not include Value Added Tax or Sales Tax paid on goods involved in the execution of the said Works Contract and Value of Transfer of Property in Goods shall be the value of goods adopted for the purpose of payment of Sales Tax or VAT.

Rule 2A (ii) provides for payment of tax on the composition basis although not referred as composition scheme in the notification. This option is available only when valuation cannot be done as per Rule 2A (i)Works Contract (composition scheme for payment of Service Tax) rules 2007 has been withdrawn by Notification No. 35/2012.

Rule 2A (ii) provides for the following rate:-

Works pertaining to	**Value of services**
Original works	40% of the "total amount" charged
Maintenance, repair, reconditioning or restoration or servicing of any goods.	70% of the "total amount" charged
In case of other contracts not included above	60% of the "total amount" charged

Original works includes addition or alteration carried out to abandoned or damaged structure to make them workable. Any alteration relating to the structures already in use or fit to use won't be covered under original works and would be classified as maintenance or repair work.

The computation of the total amount can be explained with the help of an illustration:-

Mr. B entered into an agreement with Mr. A to construct a building for ₹1 crore. As per the agreement Mr. B will supply 1000MT cement to Mr. A @ ₹1000/MT. Sales Tax @5% is chargeable on the amount recovered on account of charges for cement supplied. The fair market value of cement is ₹6500/ MT. Furthermore, Mr. B will also provide a Crane for 30 days to be used in the construction without charging any amount. Mr. B recovers ₹1000 per day for such crane from others.

Entry Tax & Rule 2A

Various states have levied tax on entry of goods into the state from outside the state, referred as Entry Tax. The tax is to be paid to the recipient state in addition of CST payable to the originating state. It is administered by the commercial taxes department of the state. Few states such as Bihar provide set-off of Entry Taxes paid on the entry of such goods with the subsequent VAT liability. The nature of Entry Tax and VAT is very much similar. While determining the 'Transaction Value' under Section 4 of the Central Excise Act, VAT as well as other taxes are excluded however Rule 2A of Service Tax (Determination of Value) Rules, 2006 provides for exclusion of VAT only. The constitutional validity of Entry Tax is under litigation at several forums. However, it is applicable in many states as of now. Exclusion of Entry tax in addition to VAT in rule 2A would have avoided undue hardship faced by the taxpayers.

Valuation under VAT/CST Regime

The valuation rule under Service Tax is dependent on the method of valuation adopted under Sales Tax/Vat rules. Three valuation options are available under VAT laws:- (1) Regular method (2) Standard deduction method (3) Composition scheme.

Regular method: The Apex Court in the case of *Gannon Dunkerley & Co. vs. State of Rajasthan* (1993) 88 STC-204) held that the value of goods involved in the execution of the works contract can be arrived at by deducting expenses incurred by the contractor for providing labour and other services from the value of the works contract.

The charges for labour and services which are required to be deducted from the value of the works contract would cover:-

(i) labour charges for execution of the works,
(ii) amount paid to a sub-contractor for labour and services;
(iii) charges for obtaining on hire or otherwise machinery and tools used for execution of the works contract;
(iv) charges for planning, designing and architect's fees; and
(v) cost of consumables used in execution of the works contract;
(vi) cost of establishment of the contractor to the extent it is relatable to supply of labour and services,
(vii) other similar expenses relatable to supply of labour and services; and
(viii) profit earned by the contractor to the extent it is relatable to supply of labour and services.

Explanation (b) to Rule 2A (1) of Service Tax (Determination of Value) Rules, 2006 provides these elements as includible for the value of Works Contract service. Thus, the elements allowed as deduction under VAT are taxed under Service Tax. After deduction of these items, tax is payable at applicable rates under State VAT. The Apex Court also held that a uniform rate of tax for various goods involved may be prescribed. Few states such as Assam, Delhi, Karnataka and Kerala have specified a uniform rate on materials involved in the execution of Works Contract other than declared goods under CST Act, 1956.

Standard deduction: Under standard deduction method, tax is payable after deduction of standard labour component as prescribed under State VAT laws. This option is not available in a few states such as Bihar.

Composition scheme: Under the composition scheme, tax is payable on the total contract value including labour at a concessional rate. It is a simple method saving a lot of effort in maintaining records however input tax credit, except in the state of Maharashtra, is not available to the dealer opting composition scheme. Few states such as Gujarat and Tamil Nadu do not allow composition if it involves interstate movement of goods. In few states this scheme is available only to the dealers having turnover less than the specified limit.

Valuation under CST Act

Proviso to Section 2(h) of CST Act provides that "sale price" in case of sale of 'goods involved in the execution of works contract will be determined on the basis of rules that may be made by the Central Government but no rule has been framed till date. In a peculiar case of *M/s. Mahim Patram Pvt. Ltd. vs. Union of India* (6 VST 248) (SC), the appellant contended that in absence of any rule for determination of the sale price, in respect of transfer of property in goods involved in the execution of works contract, the taxable turnover u/s 8A of the CST Act cannot be determined under the act and it cannot be left to the whims and fancies of the authorities. The Apex Court didn't agree to the contention that in the absence of valuation rule, the transaction cannot be taxed and held that only because the rules have not been framed under Central Act would not mean that no tax is leviable and in absence of rules, valuation can be made on the basis of state rules.

Works Contract – Reverse Charge

Usually, the service provider is liable to pay Service Tax for the services provided except for the few services for which service receiver is liable as per Section 68 (2) of Finance act 1994, referred to as reverse charge mechanism. This mechanism has not been altogether new but the scope has been enlarged in a greater way. Furthermore, a new concept has been introduced where the service provider as well as service receiver is made liable to pay Service Tax in specified percentage for a particular service, popularly referred as "partial reverse charge."

Applicability of the reverse charge mechanism is not dependent only on the nature of services but to who and by whom also.

Description of services	Provided by	Provided to	Liability to pay
Works contract	Any individual HUF Proprietary firm Partnership Firm Association of person located in the taxable territory	Business entity registered as body corporate located in taxable territory.	SR-50% SP-50%

Denial of Benefit

Notification No.33/2012 exempts taxable services of aggregate value not exceeding ₹10 lakh in any financial year from the whole of the Service Tax

Specific conditions of each case rules out the possibility of a single point formula that fits to each and every situation. Applicability of CST, Service tax, VAT laws of different states as well as multitude of judicial pronouncements makes the job more complex. However proper analysis and planning of the available options to compute tax liability could prove to be a boon for organisations.

leviable thereon. However, the liability of the service provider and service recipient are different and independent of each other. Thus, in case the service provider is availing exemption owing to turnover being less than ₹10 lakh; he shall not be obliged to pay any tax but the service recipient shall have to pay Service Tax which he is obliged to pay under the partial reverse charge mechanism

It is a common practice that the contract price entered between the Contractor and the contractee is inclusive of all taxes and duties. Service receiver deducts the Service Tax amount from the payment of contractor and deposits to the Government. In many cases at the time of entering the contract, the service provider has not considered the service tax cost in his quotation being a SSP. However, now as the SR has been made liable to pay, Contract being inclusive, SR recovers the tax and deposits the same. This is an indirect collection of Service Tax and denial of benefit to the SSP. Introduction of Reverse charge have caused undue hardship to the Small Scale Service provider and especially to the existing contracts.

Conclusion

Specific conditions of each case rules out the possibility of a single point formula that fits to each and every situation. Applicability of CST, Service Tax, VAT laws of different states as well as multitude of judicial pronouncements makes the job more complex. However, proper analysis and planning of the available options to compute tax liability could prove to be a boon for organisations.

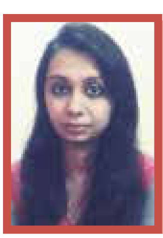
GST may mark an end to the enduring debate surrounding the taxability of Works Contract. GST will lead to multitude of case laws and legislative history on Works Contracts becoming irrelevant. The provision of segregation of taxing power relating to Supply of Goods and Services under the constitution would become irrelevant. A simple GST regime is hence awaited eagerly. ■

Towards Better Understanding of CSR

Corporate social responsibility (CSR) is often expressed as a company's commitment to operate in an economically, socially and environmentally sustainable manner, while recognising the interests of its stakeholders. Commencing with the historical background of CSR from an Indian perspective and various standards and guidelines relating to it, this article describes how the Indian companies have been initiating their CSR activities at their respective ends and how new CSR provisions under the new Indian Companies Act, 2013 put formal and greater responsibility on them to set out clear framework and process to ensure strict compliance. Read on to get a better understanding of the CSR act…

Introduction

Corporate Social Responsibility ("CSR") is a heterogeneous concept with diverse perceptions. In general, *CSR may be understood as the responsibility that corporations owe towards the society in which they operate while addressing stakeholders' expectations*. Jamali and Rabbath (2007) stated: *CSR as a concept has attracted worldwide attention and acquired a new resonance in the global economy.*



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Heightened interest in CSR in recent years has stemmed from the advent of globalisation and international trade, which has reflected in increased business complexity and new demands for enhanced transparency and corporate citizenship. Moreover, while Governments have traditionally assumed the sole responsibility for the improvement of the living conditions of the population, society's needs have exceeded the capabilities of Governments to fulfill them. In this context, the spotlight is increasingly turning to focus on the role of business in society and progressive companies are seeking to differentiate themselves through engagement in what is referred to as CSR.

Moreover, the recent years have witnessed the development of various codes and standards in the field of CSR at national and global levels.

Mostly voluntary in nature (*"and to some extent now mandatory from Financial Year 2014-15"*), these codes and standards address the economic, environmental and social concerns that firms should take into consideration while discharging their corporate social responsibility. With the New Companies Act, 2013, India became the first country to mandate spending on CSR activities through a statutory provision.

Commencing with the historical background of CSR from an Indian perspective and various standards and guidelines relating to it, this article describes how Indian companies have been initiating CSR at their respective ends and how new CSR provisions under Indian Companies Act, 2013 put formal and greater responsibility on them to set out clear framework and process to ensure strict compliance.

Historical Background

In general, the history of CSR can be studied in five phases:

1. Phase one considered CSR in terms of assigning social duties to companies covering the views of J. M. Clark who emphasised the significance of transparency in business dealings, of Prof. Theodore Kreps who applied the expression *social audit* with respect to companies reporting on their social responsibilities, of Peter Drucker who stated that apart from pursuing economic purpose, companies had a social dimension, and of Bowen who said that businesses should follow those objectives or policies that were desirable in terms of values of society.
2. Phase two regards corporate power as a central theme in the debate over CSR and the business-society relationship. K. Davis expressed that social power in long run will rest with companies which will assume social responsibilities. However, during this phase Milton Friedman objected the notion of social responsibilities for corporations and stated, "*The social responsibility of business is to increase its profits*."
3. CSR was redefined in phase three. Three models were introduced in this phase to explain this concept. Firstly, *Three Concentric Circles* by the Committee for Economic Development where Corporate Social Responsibility was understood in terms of the inner circle, the intermediate circle and the outer circle. Secondly, the model of *Corporate Social Performance* by Sethi, where the levels of a corporate social performance were based on social obligation, social responsibility and social responsiveness. Lastly, *The Pyramid of CSR* by Archie Carroll where social responsibility was defined as a whole of economic responsibility, legal responsibility, ethical responsibility and philanthropic responsibility.
4. Phase four was dominated by Freeman's *Stakeholder Theory* which states that all stakeholders who are affected by or could affect the company's actions have a right to be considered in the decision-making process of the company.
5. Phase five gives rise to enriching themes of CSR in terms of corporate citizenship, triple bottom line, *etc.*

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CSR in India

India has an extensively rich history of close business involvement in social causes for national development. Known by social duty or charity historically, CSR has evolved over a longer period of time in India. Gautam and Singh (2010) pointed out: *The ideology of CSR in the 1950s was primarily based on postulation of the obligation of business to society. In initial years, there was little documentation of social responsibility initiatives in India. Since then, there is a mounting recognition towards contribution to social activities globally with a desire to improve the immediate environment.* They went on to indicate: *After independence, JRD Tata... pointed out that there were many ways in which industrial and business enterprises can contribute to public welfare beyond the scope of their normal (profit making) activities.*

For Infosys founder, Shri NR Narayana Murthy, CSR is *to create maximum shareholders value working under the circumstances, where it is fair to all its stakeholders, workers, consumers, the community, government and the environment.* The four models of corporate responsibility have been hence described briefly:

Table 1: Four Models of Corporate Responsibility

Model	Focus	Champions
Ethical	Voluntary commitment by companies to public welfare	M. K. Gandhi
Statist	State ownership and legal requirements determine corporate responsibility	Jawahar Lal Nehru
Liberal	Corporate responsibilities limited to private owners (shareholders)	Milton Friedman
Stakeholder	Companies respond to the needs of stakeholders-customers, employees, communities, *etc.*	R. Edward Freeman

Source: Arora & Puranik 2004

CSR Standards/Principles

Recognised efforts at standardised corporate responsibility reporting began in the early 1990s. A wide compendium of global initiatives, principles and standards designed to stimulate changes and promote good corporate citizenship have evolved over a period of time which not only addresses environmental issues but also economic and social performance. Various codes and standards on CSR are:

1. *United Nations Global Compact:* The Global Compact comprises 10 principles, surrounding the issues of human rights, labour standards and environment and anti-corruption. The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values within these four areas.
2. *Global Reporting Initiative (GRI):* GRI is a foundation-funded programme that established the generally accepted sustainability-reporting framework to which corporations adhere. Reporting criteria cover all aspects of a company's performance—economic, environmental and social. Other traits include strong governance, accessibility and transparency as well as the ability to create strong partnerships throughout the globe.
3. *ISO 14000:* ISO 14000 series is a voluntary initiative developed in 1996 by the *International Organisation for Standardisation* in Geneva. It places an emphasis on environmental management standards and operations, *i.e.,* management systems, auditing, labeling, performance evaluation, and life-cycle assessment. Its core mission is to offer voluntary environmental management standards to augment a company's ability to administer environmental impacts and risks, and to advance environmental performance.
4. *ISO 26000: 2010: ISO 26000:2010, Guidance for Social Responsibility:* It aims to help all type of organisations in both in the public and private sectors to consider implementing ISO 26000 as a way to achieve the benefits of operating in a socially responsible manner. ISO 26000 addresses seven core subjects of social responsibility which include organisational governance, human rights, labour practices, environment, fair operating practices, consumer issues, community involvement and development.
5. *Organisation for Economic Co-operation and Development (OECD):* OECD guidelines contain recommendations on core labour, environmental standards, human rights, competition, taxation, science and technology combating corruption and safeguarding consumer rights.
6. *International Labour Organisation Conventions:* With endorsement of more than 180 conventions, *International Labour Organisation* has been addressing an extensive range of labour issues, including the freedom of association, prohibition of compulsory labour, prohibition of child labour, employment of disabled persons,

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equal remuneration/equal work and health and safety. The conventions' positive elements – international reach, history and tripartite structure – give it credibility in addressing the topic of social reporting.

7. *Corporate Social Responsibility Voluntary Guidelines 2009:* Issued by the Ministry of Corporate Affairs, Government of India, these guidelines state that each business entity should formulate a CSR policy to guide its strategic planning and provide a roadmap for its CSR initiatives, which should be an integral part of the overall business policy and aligned with its business goals. The core elements for CSR policy include care for all stakeholders, ethical functioning, respect for workers' rights and welfare, respect for human rights, respect for environment and activities for social and inclusive development.
8. *National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business, 2011:* Released in July 2011 by the Ministry of Corporate Affairs, Government of India, these guidelines provide a robust framework that may be adopted voluntarily by companies to address interests of various stakeholders, including employees, customers and investors. Accordingly, the SEBI has mandated listed companies to report on environmental, social and governance (ESG) initiatives undertaken by them.

Companies Act 2013

The Companies Act, 2013 through Section 135, has introduced mandatory provisions for CSR as applicable on certain classes of companies. These provisions include the following:

1. Companies following under any of the below mentioned criteria shall have to mandatorily follow provisions of Section 135:-
   a. Having a minimum net worth of ₹500 crore;
   b. Having a minimum turnover of ₹1,000 crore; and
   c. Having a minimum net profit of ₹5 crore.
2. Companies which fall under either of the above mentioned criteria shall have to constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which one shall be an independent director.
3. Roles of the committee shall be as follows:-
   a. To formulate and recommend a CSR policy to the board;

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   b. To recommend amount of expenditure to be incurred on CSR activities; and
   c. To monitor the implementation of CSR policy of the company from time to time.
4. Roles of the Board formed of three directors shall be as follows:-
   a. To approve the CSR policy recommended by the CSR committee and disclose the contents of such policy in its report and place it on company's website;
   b. To ensure the CSR activities are undertaken by the company;
   c. To ensure 2% spending on CSR activities;
   d. To report CSR activities in Board's report and disclose non-compliance (if any) with the CSR provisions; and
   e. The draft CSR rules provide the format in which all qualifying companies shall report the details of their CSR initiatives in the Director's report and in the company's website.
5. Section 135 has established that the CSR Board shall ensure that at least 2% of average net profits of the company made during the three immediately preceding financial years shall be spent by the company on its CSR activities. It should be noted that Act further clarifies that average net profit shall be computed in accordance with Section 198 of The Companies Act, 2013.
6. Schedule VII of the Act specifies the list of activities which may be included by companies in their CSR policies :-
   a. Eradicating hunger, poverty and mal nutrition, promoting preventive health care and sanitation, and making available safe drinking water;
   b. Promoting education, including special education and employment enhancing vocational skills especially among children, women, elderly, and the differently-abled along with livelihood enhancing projects;

   c. Promoting gender equality, empowering women, setting up houses and hostels for women and orphans; setting up old age homes, day care centers and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically-backward groups;
   d. Ensuring enviornmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conversation of natural resources and maintaing quality of soil, air and water;
   e. Protection of national heritage, art and culture including restoration of archaeological buildings and sites of historical importance and works of art, setting up public libraries, promotion and development of traditional arts and handicrafts;
   f. Measures for the benefit of armed forces veterans, war widows and their dependents;
   g. Training to promote rural sports, nationally recognised sports, paralympic sports and olympic sports;
   h. Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief; and welfare of the Scheduled Castes (SCs), the Scheduled Tribes (STs), Other Backward Classes (OBCs), minorities and women;
   i. Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government; and
   j. Rural development projects.
7. Section 135 has established that companies shall give preference to the local areas and areas around it where it operates, for spending the requisite amount.
8. Various disclosures which have been mentioned in The Companies Act, 2013 are as follows :-
   a. Board report under Section 134(3) of the said Act shall disclose the composition of the CSR committee; and
   b. If the company fails to spend the requisite amount, Board shall in its report under Section 134(3) of the said act disclose the reasons for not spending the required amount.

Practical Approach

It is recommended that companies should establish separate CSR-related departments in order to help them to align their CSR strategies with their business objectives appropriately. A separate CSR department or foundation managed by qualified professionals should ensure that provisions of the Companies Act, 2013 are complied with and also the same shall facilitate integration of company's social and environmental objectives with its business strategies.

Involvement of separate board will further ensure that socially responsible and sustainable practices percolate across the company. It has been found that more transparency is required in terms of disclosure of expenditure on CSR activities by various firms. Details in terms of expenditure on community investments in general and amount spent on each project in particular will ensure fair, transparent and ethical dealing of social programmes by a firm thus increasing the reliability of stakeholders towards the firm and its social activities.

Conclusion

Globally, the number of businesses reporting CSR and sustainability is highest in India, followed by Vietnam and the Netherlands. A survey by Grant Thornton found that 68% of businesses in India now issues CSR and sustainability information, up from about 32% two years ago, either in their financial reports or separately. The increasing level of responsibility taken up by the businesses in India on CSR aims at a better environment and life for the society.

The Companies Act, 2013 has taken one step ahead and introduced mandatory provisions in the field of CSR. Though many believe that concerns on the new company law are manifold and it is a bold yet not beautiful step. For instance, India Inc is concerned that the cost of board performance evaluation may outweigh the benefits for many small companies in this regard. Also, it has concerns about the prospect of an over regulated regime and the attendant scourge of corruption. Given the advantages and concerns on the new regulations introduced by the new Companies Act, we all need to wait and watch once the companies start implementing the new provisions and therefore, the practical aspects and implications will be evaluated thereafter. ■

Corporate Debt Restructuring: *No Longer a Tool for Frivolous Promoters to Exploit*

Borrowing and lending of money in one form or the other has evolved along with the history of mankind. Indian history also had instances of indigenous money lenders (well known as 'sahukars' and 'zamindars') who used to lend money though by charging exorbitant interest rates. With increased number of new projects and expansion projects being taken over by corporates and new corporates coming in to establish their businesses in India, there is a need for a robust banking system. In the present times, borrowing has become a vital part for successfully running an organisation. The RBI has been continuously working for improving the banking system in India to make it more robust. The article discusses one of the major issues faced by the RBI today and the banking system on restructuring of corporates debts. Among others, it discusses about the objectives with which the corporate debt restructuring mechanism (also termed as CDR mechanism) came into existence, what went wrong with the mechanism and the regulator's future plan based on its learning from past.

CA. Akshat Kedia

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When does a Need for CDR Arise?

The need for CDR arises when the company is facing cash flow problems (commonly called as '*cash crunch*') and financial distress. It may be on account of internal factors (such as cash crisis, major plants being idle on account of delay in commercial production, *etc.*) as well as external factors (*i.e.*, macro economic factors such as fall in the country's economic growth which, among other things, impact the purchasing power of customers, thus, resulting in lack of demand for the product, government restrictions, lack of good opportunities to invest surplus funds due to economic slowdown, *etc.*).

The CDR Mechanism in India

The genesis of the CDR mechanism in India is an aftermath of the need for the revival of the corporates facing financial hardship and to ensure safety of the money lent by the banks. The CDR system in India is a three-tier structure.

CDR Standing Forum
↓
CDR Empowered Group
↓
CDR Cell

The CDR was given legal recognition by the RBI *vide* circular dated 23rd August, 2001.

Objectives of the CDR mechanism

The objectives of the CDR mechanism as enunciated in the scheme evolved by RBI are as follows:

- *To ensure timely and transparent mechanism for restructuring of corporate debts of viable entities facing problems for the benefit of all concerned.*
- *To aim at preserving viable corporates that are affected by certain internal and external factors.*
- *To minimise the losses to the creditors and other stakeholders through an orderly and co-ordinated restructuring programme. (Source: www.cdrindia.org)*

The principle of the CDR mechanism is, preservation of the economic value.

What Happens under the CDR?

The CDR would normally involve modification of terms of the advances/securities, which would generally include, among others, alteration of repayment period/repayable amount/the amount of installments and rate of interest. It is a mechanism to nurture an otherwise viable unit, which has been adversely impacted, back to health. To put it simply, under the CDR, the borrower gets the following benefits:

More Time to pay — *and/or* — Lower interest rate
→ Benefits to borrower

Other Benefits of the CDR

- The CDR can be considered as an out-of-court restructuring, thus, it avoids litigation which is generally expensive and cumbersome
- The CDR prevents bankruptcy of the company in financial distress by taking necessary steps at the right time to revive the company

Status of the CDR cases

(as on 30th September, 2013)

Particulars	**No. of cases**	**Aggregate debt (₹ in crore)**
Total references received by the CDR cell	580	3,62,370
Cases rejected before admission or approval	96	45,256
Cases under consideration of the CDR EG	53	44,828
Total cases approved	431	2,72,286
Cases withdrawn on account of failure	103	24,915
Cases exited successfully	67	51,104
Live cases in the CDR	261	1,96,267

(*Source:* www.cdrindia.org)

Based on the above information, the following conclusions can be reached:

- Only 17% of the number of CDR cases (or 12% CDR cases in terms of aggregate debt) were rejected upfront.
- Large number of CDR cases were approved, *i.e.*, 74% of the number of CDR cases (or 75% CDR cases in terms of aggregate debt).
- ***It will be worthwhile to note that out of the cases approved, only 16% of the number of CDR cases (or 19% CDR cases in terms of aggregate debt) were successful.***
- 24% of the number of CDR cases (or 9% CDR cases in terms of aggregate debt) were withdrawn on account of failure; however, this percentage will increase as and when the result of live cases in CDR is out.

Out of the live cases in the CDR, iron & steel, infrastructure, textiles and power industries account for nearly 58% of the aggregate debt of ₹1,96,267 crore with iron and steel having a maximum share of nearly 21% and with infrastructure having nearly 18%.

Factors contributing to increase in the cases of CDR

- Over-leveraging by companies
- High interest rates due to macroeconomic factors

The fall in India's economic growth made the already over-leveraged Indian companies reluctant to make investments in new projects. However, if the economic downturn was the sole reason for increase in the cases of restructuring, then the impact of the fall in economic growth should have been the same on the public sector and private sector banks, which is not the case. Cases of bad loans are much higher in the public sector banks when compared to private banks. It may be attributed to:

- Interventions by the government to bail out the defaulters.
- Lending to infrastructure projects (building power plants, road, *etc.*) where the projects are not able to commence operations on account of straining cash flows and delay in clearances to projects by the Government.

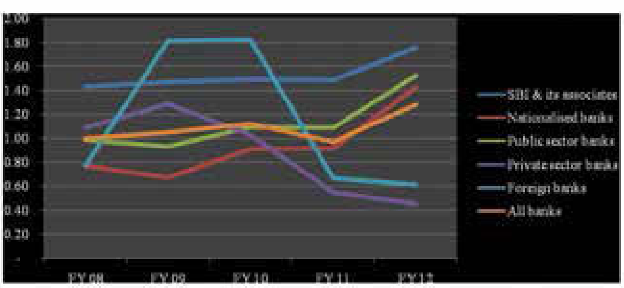
Loopholes Exploited under the CDR

- Less sacrifice by promoters
- Allowing conversion of debt into equity
- Long extensions being given by the banks
- Lack of proper monitoring on implementation of the CDR package.

Frivolous promoters are exploiting the intent of the CDR mechanism to get undue concession.

Impact on the banking sector: Due to bad loans & misuse of the CDR mechanism

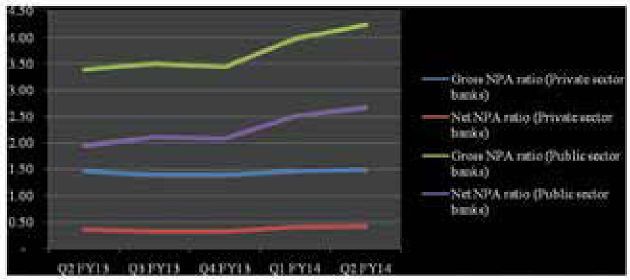
Let us analyse the net NPA ratio (31st March, 2008 to 31st March, 2012) of various banks groups based on the information available at the RBI website.



Although foreign banks have underperformed during the FY 9 – FY 10, but their NPAs were reduced considerably by the end of FY 12. However, nationalised and public sector banks kept performing badly.

Trend of the NPAs

The trend of the NPAs (based on the above financial information) can be clearly understood with the help of the following chart:



Thus, it can be seen that the ratio of NPA to advances (whether gross or net) is substantially higher in the public sector banks as compared to private sector banks and it is also increasing at a much higher pace.

The RBI's action plan for increased cases of CDR

The RBI's plan is to expedite the process of debt restructuring and speed up the recovery mechanism so as to ensure that the Indian economy recovers as fast as the US economy recovered after the credit crisis in 2008. Among others, the RBI's plan includes the following:

- Banks should write off bad loans from their books
- The working of debt recovering tribunals should be accelerated
- The working of asset reconstruction companies should be accelerated

In an interview with the Economic Times, Dr. Raghuram Rajan (Governor, RBI) said, *"The public does pay a price for restructuring. The public has the right to know that their money is being used in a fair way."* The owners should be made accountable and their commitments and obligations should be established towards the CDRs. The lender's right over the ownership of defaulter's assets have to be established to control the misuse of the CDR mechanism. Here, it may be important to note that the banks may not find it feasible to take control of the management of the defaulting company because it may lead to banks concentrating on the business of the defaulting company instead of the banking business. Also, conversion of debt into equity should be a measure of last resort. In this regard, a preferable option may be that of the change in the management, i.e., banks may find a deserving promoter who can help the company to bring it back to life, or sale of the assets- lock, stock and barrel. Below is an extract of the statement by Dr. Raghuram Rajan on taking office on 4 September, 2013:

"Finance is not just about lending, it is about recovering loans also. We have to improve the efficiency of the recovery system, especially at a time of economic uncertainty like the present. Recovery should be focused on efficiency and fairness – preserving the value of underlying valuable assets and jobs where possible, even while redeploying unviable assets to new uses and compensating employees fairly. All this should be done while ensuring that contractual priorities are met. The system has to be tolerant of genuine difficulty while coming down hard on mismanagement or fraud.

Promoters do not have a divine right to stay in charge regardless of how badly they mismanage an enterprise, nor do they have the right to use the banking system to recapitalise their failed ventures.

Most immediately, we need to accelerate the working of Debt Recovery Tribunals and Asset Reconstruction Companies. Deputy Governor Anand Sinha and I will be examining the necessary steps.

I have asked Deputy Governor Dr. Chakrabarty to take a close look at rising NPAs and the restructuring/ recovery process, and we too will be taking next steps shortly. RBI proposes to collect credit data and examine large common exposures across banks. This will enable the creation of a central repository on large credits, which we will share with the banks. This will enable banks themselves to be aware of building leverage and common exposures.

While the resumption of stalled projects and stronger growth will alleviate some of the banking system difficulties, we will encourage banks to clean up their balance sheets, and commit to a capital raising programme where necessary. The bad loan problem is not alarming yet, but it will only fester and grow if left unaddressed."

After his first message, banks are more cautious in offering restructuring of loans and lookingf closely at the cases where it seems that the funds are being diverted to some other projects. The government has made its intention very clear regarding the CDR, *i.e.*, they will support genuine cases; however, they will take action against the willful defaulters who commit fraud, *e.g.*, auctioning their collateralised assets, selling NPAs to ARCs, *etc*. The government is also proposing new rules for the CDR which are under discussion. The new rules recommend the requirement for promoters to pledge 40% of their shareholding and they have to deliver specific results failing which they may lose control.

Consequences of the new Companies Act, 2013 on CDR

- Under the provisions relating to the national company law tribunal under the Companies Act, 2013, a professional (which includes a Chartered Accountant) can be appointed as a liquidator of the company, thus, easing the existing provisions under the Companies Act, 1956.
- The requirement to approach the Board for Industrial and Financial Reconstruction (BIFR) has been dispensed with.
- Widening of the definition of 'sick company' will help the regulator correct the situation before it turns worse.

What should be the responsibilities of the lenders?

During the tenure of loan

- Banks should have a system of good governance, *e.g.*, banks should regularly monitor the status of loans
- In suitable cases, banks should issue early warnings to the borrower to avoid a situation of default in repayment of the loan by the borrower in future

At the time of restructuring of loan

- Banks should not be prompt in approving CDR packages as it will only postpone something which is inevitable
- Banks should ascertain the viability of the project before approving any CDR package
- Banks should ensure that the promoters have not diverted the funds to some other project(s)
- Banks should ensure that no CDR should be allowed in case of suspicious companies, *e.g.*, where the business collapsed on account of mismanagement and not due to the prevailing economic conditions, company having dishonest promoter(s), *etc*.
- Banks should monitor the cash flows of the company before approving CDR . ■

International Update

IASB agrees Charter of Mutual Co-operation with Accounting Standard-setting Community

The International Accounting Standards Board (IASB) recently published an updated Charter establishing key principles of co-operation between the IASB and national standard-setters and other accounting standard-setting bodies, represented by the International Forum of Accounting Standard Setters (IFASS). The principles established by the Charter are designed to enhance the efficiency and effectiveness of international accounting standard-setting. The Charter re-emphasises the importance of the global accounting standard-setting community to the work of the IASB and builds on the premise that it is essential that all parties should work together in a spirit of openness and close co-operation in order to meet shared goals. It describes a shared understanding of the commitments and expectations of the IASB and national standard-setters and other accounting standard-setting bodies, presented as a statement of co-operation. Also, it focuses on practical aspects whereby staff and members of the IASB and other accounting standard-setters can work co-operatively, describing the actions and procedural matters that deserve the most care.

*(**Source:** www.ifrs.org)*

IASB publishes amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The International Accounting Standards Board (IASB) recently published amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The issue originated from a submission to the IFRS Interpretations Committee (the 'Interpretations Committee'). As a result, the Interpretations Committee recommended that the IASB should amend IAS 16 and IAS 38.

*(**Source:** www.ifrs.org)*

IFRS Taxonomy Updated for IFRS 14 Regulatory Deferral Accounts

The IFRS Foundation recently published Interim Release 1 to the IFRS Taxonomy 2014 for the IFRS 14 Regulatory Deferral Account, which was issued by the IASB on 30 January 2014. The *IFRS Taxonomy 2014* is the XBRL representation of the IFRSs, including International Accounting Standards (IASs), Interpretations, and the IFRS for SME's, as issued by the IASB. XBRL taxonomies are available for most of the major national financial reporting standards around the world, and the IFRS Taxonomy is intended for use by entities reporting in IFRS. By providing the IFRS Taxonomy, the IFRS Foundation seeks to address the demand for an electronic standard to transmit IFRS financial information. IFRS Taxonomy Interim Releases support consistent adoption and implementation of IFRS, by providing taxonomy items for electronic reporting using the latest Standards published by the IASB.

*(**Source:** www.ifrs.org)*

FASB Proposes 'Pushdown Accounting' Changes

The Financial Accounting Standards Board (FASB) has issued a proposed accounting standards update on "pushdown accounting" from FASB's Emerging Issues Task Force. The update would be part of the business combination standards collected under Topic 805 of the FASB Accounting Standards Codification. Under current U.S. GAAP, there is limited guidance for determining whether and when a new accounting and reporting basis, referred to as "pushdown accounting," should be established in an acquired entity's separate financial statements. There has been some guidance for SEC-registered companies in an SEC Staff Accounting Bulletin and in comments made by an SEC observer at meetings of the Emerging Issues Task Force (EITF), but because the SEC staff's guidance is generally applicable mostly to public companies, the EITF was concerned there might be different ways to apply pushdown accounting among entities that are not SEC registrants and even among the SEC registrants as well. The amendments in the proposed update would apply to the separate financial statements of an acquired entity, both public and nonpublic, that is a business or nonprofit activity, upon the occurrence of an event in which an acquirer obtains control of the acquired entity. The recognition and measurement provisions are elective, but to comply with the disclosure provisions, an entity would be required to assess at each reporting date whether an acquirer has obtained control of the entity since its last reporting date. The comments on exposure draft can be submitted to FASB by July 31, 2014.

*(**Source:** http://www.accountingtoday.com/)*

GASB Proposes Changes in Fair Value Measurement for State and Local Governments

The Governmental Accounting Standards Board (GASB) has issued a proposed standard to address the accounting and financial reporting issues related to fair value measurements for state and local governments. The exposure draft, *Fair Value Measurement and Application*, describes how fair value should be defined and measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. GASB is proposing that fair value be defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The exposure draft also proposes that investments would generally be measured at fair value. Under current accounting standards, state and local governments are required to disclose how they arrived at their measures of fair value if they are not based on quoted market prices.

In the exposure draft, GASB is proposing to expand those disclosures to include the inputs a government uses to measure fair value and the judgments made to arrive at those inputs.

*(**Source:** http://www.accountingtoday.com/)*

PCAOB to Incorporate Economic Analysis in Standard-Setting

The Public Company Accounting Oversight Board (PCAOB) has released staff guidance on how the PCAOB should perform an economic analysis as part of its standard-setting process. The document, *Staff Guidance on Economic Analysis in PCAOB Standard Setting*, was prepared by PCAOB staff economists and the Office of the General Counsel. The guidance describes four main elements of economic analysis for setting auditing and related professional practice standards: describing the need for a rule, developing a baseline for measuring the effects of a rule, considering reasonable alternatives to the rule, and analysing the economic impacts of the rule (and alternatives to the rule), including the benefits and costs.

*(**Source:** http://www.accountingtoday.com/)*

IAASB Proposes Changes in Auditing Standards for Financial Statement Disclosures

The International Auditing and Assurance Standards Board (IAASB) has released for public comment proposed changes to the International Standards on Auditing to clarify the expectations of auditors when auditing financial statement disclosures. The proposals include new guidance on considerations relevant to disclosures—from when the auditor plans the audit and assesses the risks of material misstatement, to when the auditor evaluates misstatements and forms an opinion on the financial statements. The IAASB's latest proposals stem from feedback it received to a discussion paper, *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*, which it released in January 2011. The board, which operates under the auspices of the International Federation of Accountants, has also benefited from liaison and outreach with stakeholders, including accounting standard setters, which are also actively exploring initiatives relating to disclosures. The IAASB acknowledges that many of the issues around disclosures cannot be solved by the IAASB alone, and that collaboration and cooperation between many interested stakeholders is necessary to further enhance the public's confidence in financial statement disclosures. The IAASB is inviting all stakeholders to comment on the IAASB exposure draft of proposed changes to the ISAs to address disclosures in an audit. To access the exposure draft or submit a comment, visit the IAASB's Web site at www.iaasb.org. Comments are requested by Sept. 11, 2014.

*(**Source:** http://www.accountingtoday.com/)*

ACCOUNTANT'S BROWSER

'PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE'

Index of some useful articles taken from Periodicals received during April-May, 2014 for the reference of Faculty/Students & Members of the Institute

1 Accountancy

Aligning Hedge Accounting With Risk Management by John McCarroll and Goind Ram Khatri. *Accountancy Ireland* , April 2014, Vol. 46/2, pp.36-38.

Chartered Accountancy: The Launch Pad for Your Career by Karin Lanigan. *Accountancy Ireland*, April 2014, Vol.46/2, pp.14.

2 Auditing

Auditing Standards: Auditing Opening Balances-How Far Should An Auditor Go? by Bhavesh Dhupelia and Shabbir Readymadewala. *The Bombay Chartered Accountant Journal*, April 2014, V.46-A/1, pp.81-85.

Beyond Plain Vanilla: The Auditor's Role These Days Far Exceeds Ticking Off the Annual Accounts by Valerie Clifford. *In The Black*, April 2014, pp.50-53.

3 Economics

Business in Russia: From Bad to Worse. *The Economist*, April 19th 2014, pp.52-53.

G20's vision 2020: Can It Revive Global Growth? By Andrew K. P. Leung. *The Global Analyst*, April 2014, pp.46-48.

Microfinance in Bangladesh: Rehabilitation and Attack. *The Economist*, April 19th 2014, pp.60.

Post–Office Banking: Put Your Money Where Your Mail Is. *The Economist*, April 19th 2014, pp.61-62.

State-owned Banks in Bangladesh: From Cancer to Pimple. *The Economist*, April 19th 2014, pp.59-60.

4 Information Technology

IT Security: Growing Trends in Cybercrime and How to Protect Your Firm by Sheila Pancholi. *International Accountant*, March/April 2014, pp.20-21.

5 Law

Companies Act, 2013, Will Boost Prevention of Corporate Frauds by Delep Goswami. *Company Law Journal*, April 2014, pp.1-9.

Corporate Fraud and the New Company Law by TCA Ramanujam. *The Management Accountant*, April 2014, pp.86-87.

Duties and Responsibilities of Independent Directors Under the Companies Act, 2013 by P. N. Shah. *All India Federation of Tax Practitioners Journal*, March 2014, pp.8-14.

Private Companies under the Companies Act, 2013 by Himanshu V. Kishnadwala. *The Bombay Chartered Accountant Journal*, April 2014, V.46-A/1, pp.17-22.

6 Management

Composition of Board of Indian Companies and its Effect on Corporate Governance by Shiv Nath Sinha. *Chartered Secretary*, April 2014, pp.432-437

Corporate Governance: How Independent Directors Can Play a Key Role. *The Global Analyst*, April 2014, pp.42-45.

More on Financial Inclusion : A Few Baby Steps, Not a Great Leap Forward by T. T. Ram Mohan. *Economic & Political Weekly*, April 19th 2014, Vol. 49/16, pp. 10-11.

Regulatory Assurance: The Role of the Board by Mark Kennedy and Sarah Lane. *Accountancy Ireland*, April 2014, Vol.46/2, pp.26-29.

Risk Management: Issues and Challenges by Pramod S. Shah. *Chartered Secretary*, April 2014, pp.418-425

7 Taxation & Finance

Corporate Tax to Grind by John Lorinc. *CPA Magazine*, April 2014, pp.47-52.

Service Tax Implications of Redevelopment of Co-operative Society on or after 01-07-2012 by Naresh K. Sheth. *The Bombay Chartered Accountant Journal*, April 2014, Vol.46-A/1, pp.10-16.

Tax Torture by Ameet Patel. *Money Life*, May 1st 2014, pp.26-33.

Wisemen's Observations Regarding Taxation of Incomes and Wealth by T. N. Pandey.*Company Law Journal*, April 2014, pp.10-16.

Full Texts of the above articles are available with the Central Council Library, ICAI, which can be referred on all working days. For further inquiries please contact on 011-23370154 or by e-mail at library@icai.in

Exposure Draft of ASLB

Announcement

The Committee on Accounting Standards for Local Bodies (ASLB) was constituted as a separate Committee in March, 2005 with the main objective of formulating Accounting Standards for Local Bodies (ASLB). So far, the Committee has issued seven ASLBs and ASLB 31, *'Intangible Assets'* is likely to be issued shortly. Moving forward in this direction, the Committee has finalised the Exposure Draft of ASLB on *'Financial Reporting under the Cash Basis of Accounting'.*

This ASLB prescribes the manner in which general purpose financial statements should be presented under the cash basis of accounting. Compliance with the requirements and encouragements of this Standard will enhance comprehensive and transparent financial reporting of the cash receipts, cash payments and cash balances of the entity and comparability with the entity's own financial statements of previous periods and with the financial statements of other entities which adopt the cash basis of accounting. Since this Standard also contains various disclosure requirements relating the assets and liabilities, this ASLB will serve as an interim measure to facilitate transitioning to accrual basis of accounting for Local Bodies.

Comments are invited on the Exposure Draft of the above ASLB. The text of the Exposure Draft is also available at the following link on the website of the Institute for your valuable comments and suggestions:
http://www.icai.org/post.html?post_id=424

Comments can be submitted in writing to the Secretary, Committee on Accounting Standards for Local Bodies, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than **June 30, 2014.** Comments can also be sent by e-mail at caslb@icai.in

Certificate Course on Concurrent Audit of Banks

The concurrent audit system of banks has become very crucial and important for banks. The main objective of the system is to ensure compliance with the audit systems in banks as per the guidelines of the Reserve Bank of India and importantly, to ensure timely detection of lapses/irregularities. In view of the core competence of the chartered accountants in the area of finance and accounting, risk management, understanding of the internal functioning and controls of banks, etc., the banking sector has been relying extensively on them to comply with these requirements of the regulator. The Internal Audit Standards Board of ICAI conducts six days Certificate Course on Concurrent Audit of Banks. The purpose of the ***Certificate Course on Concurrent Audit of Banks*** is to provide an opportunity to the members to understand the intricacies of concurrent audit of banks thereby improving the effectiveness of concurrent audit system in banks, and also the quality and coverage of concurrent audit reports.

The course is open for the members of the Institute of Chartered Accountants of India as well as the students who have cleared CA final examinations.

Please refer link for further details of the Course:http://www.icai.org/post.html?post_id=8236

Course Fees: For metro cities: ₹15,000 per participant, for non-metro cities: ₹12,500/- per participant *(Cheque may be drawn in favor of "Secretary, ICAI" Payable at Delhi and should be submitted to respective branch)*

The details of the forthcoming batches of the Certificate Course on Concurrent Audit of Banks, organized by the Internal Audit Standards Board at various places in June & July, 2014 are as follows:

Location	Scheduled Dates	Registration and Course Details
Jabalpur	June 7&8, 14&15, 21&22, 2014	http://220.227.161.86/33231iasb-jabalpur-85.pdf
WIRC	June 7,14, 21,28 and July 5 & 12, 2014	http://220.227.161.86/33541iasb-wirc-124.pdf

Guwahati	June 14&15, 21&22, 28&29, 2014	http://220.227.161.86/33232iasb-guwahati-86.pdf http://220.227.161.86/33520iasb-guwahati-122.pdf
Akola	June 21&22, 28&29 and July 5 & 6, 2014	http://220.227.161.86/33233iasb-akola-87.pdf
Amravati	June 21&22, 28&29 and July 5 & 6, 2014	http://220.227.161.86/33543iasb-amravati-88.pdf
Bareilly	June 28&29 , July 5 & 6 and July 12 & 13, 2014	http://220.227.161.86/33236iasb-bareilly-89.pdf
Moradabad	June 28&29 , July 5 & 6 and July 12 & 13, 2014	http://220.227.161.86/33237iasb-moradabad-90.pdf
Jhansi	June 29&30 , July 5 & 6 and July 12 & 13, 2014	http://220.227.161.86/33542iasb-jhansi-125.pdf
Lucknow	July 5&6, 12&13 and 19 & 20,2014	http://220.227.161.86/33238iasb-lucknow-91.pdf
CIRC	July 5&6, 12&13 and 19 & 20,2014	http://220.227.161.86/33239iasb-circ-92.pdf
Nagpur	July 12&13 ,19 & 20 and 26 & 27,2014	http://220.227.161.86/33386iasb-nagpur-95.pdf
Bilaspur	July 19,20,26,27 and August 2 & 3,2014	http://220.227.161.86/32588iasb22441.pdf
Nashik	July 26 & 27, August 2 & 3 and 9 & 10,2014	http://220.227.161.86/33387iasb-nashik-97.pdf

Chairman
Internal Audit Standards Board, ICAI
E-mail: cia@icai.in; iasb.program@icai.in

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

Convocation - 2014

As you are aware, for promoting a sense of bonhomie among members, and also for bringing them closer to the Institute, the Institute of Chartered Accountants of India organizes Convocations for distribution of Certificates. This is an occasion to mark the entry of new members into the fraternity.

ICAI invites members enrolled during the period of December, 2013 to May, 2014, to participate in the Convocation wherein Certificate of Membership will be awarded amidst the august gathering of the President and other dignitaries. The schedule of the proposed Convocation is as under:

ICAI Convocation - 2014

- Chennai - 4th July 2014, Friday
- Bangalore - 14th July 2014, Monday
- Kolkata - 17th July 2014, Thursday
- Kanpur - 22nd July 2014, Tuesday
- Jaipur - 23rd July 2014, Wednesday
- Delhi - 6th August 2014, Wednesday
- Chandigarh-9th August 2014,Saturday
- Mumbai - 19th August 2014, Tuesday
- Ahmedabad - 25th August 2014, Monday
- Pune - 26th August 2014, Tuesday

This schedule has been released for the advance information of the participants. Further details about the Venue and Timing of the Convocation Programme scheduled will be intimated to the participants by the concerned Regional offices of ICAI.

Members who, due to any reason, could not attend the last Convocation held in January, 2014 at Delhi, Kolkata, Bangalore, Mumbai and Kanpur may also participate in the proposed Convocation. They are advised to be in touch with concerned Regional office of ICAI

28th April, 2014

Joint Secretary
MC & MSS Section

Resource Persons for Workshop

Invitation for empanelment as Resource Persons for the Workshop for Members in Practice to be organized by the Committee for Capacity Building of CA Firms and Small & Medium Practitioners (CCBCAF&SMP) in the Year 2014-15

The Committee for Capacity Building of CA Firms and Small & Medium Practitioners (CCBCAF&SMP) of the Institute of Chartered Accountants of India proposes to organize **Workshops for Members in Practice** during the year 2014-15, which are broadly relevant to the Members of ICAI in Practice.

Indicative topics for the programme on Workshop for Members in Practice

- i. How to Represent before Assessing & Appellate Authority
- ii. Drafting and Conveyancing
- iii. Risk Based Internal Auditing: Execution & Reporting
- iv. Auditing in ERP Environment
- v. Cloud computing
- vi. Wealth Management & Investment Strategy
- vii. Commercialism vs Professionalism: Do's & Don't's in Ethical Framework
- viii. Bird's Eye View on Financing Techniques and Parameters
- ix. Professional opportunities/avenues in New Companies Bill
- x. Valuation
- xi. Anti Money Laundering
- xii. Any Other topics relevant for the Members in Practice

Experts who have more than five years of experience in the relevant area and who have delivered lectures at various forums of Chartered Accountants are eligible for the enlistment in the Panel of Experts.

Experts who are interested to be associated with The Institute of Chartered Accountants of India as Resource Persons are requested to send/e-mail their resume to the following address:

Dr. Sambit Kumar Mishra, Secretary, Committee for Capacity Building of CA Firms and Small & Medium Practitioners(CCBCAF&SMP), The Institute of Chartered Accountants of India(ICAI), ICAI Bhawan, A-29, First Floor, Administrative Block, Sector-62, Noida (U.P.), P.C.-201309 E-Mail: sambit.mishra@icai.org, Tel No. 0120-3045994

It would be appreciated if the resume including all details regarding qualification, Membership no. of ICAI (if any), Experience, areas of specialization, contact address, etc. is sent at the earliest, preferably within 30.06.2014.

CCBCAF&SMP, ICAI reserves the right to invite similar proposal from any other Member/ Members of ICAI though they may not have offered their expression of interest in this regard. No communications will be entertained from the applicant Member/Members in this regard. Only selected applicant Member/Members will be individually communicated. CCBCAF&SMP, ICAI reserves the right to reject the Expression of Interest received from the applicant Member/Members of ICAI without assigning any reason therefore.

Chairman
Committee for Capacity Building of CA Firms and Small & Medium Practitioners(CCBCAF&SMP), ICAI

Prohibition to undertake audit and accounting work together for the same entity

ANNOUNCEMENT No. ICAI/ESB/2014/03

It has come to the knowledge of some members that certain entities, while inviting tenders for services of chartered accountants for the assignment of statutory audit, are mentioning accounting and book keeping related works in the scope of works required to done by the auditor.

Members are hereby advised not to undertake such assignment since it is violative of the provisions of 'Code of Ethics' and 'Guidance Note on Independence of Auditors' for auditor of an entity to do book keeping work of the entity. The said prohibition in the case of Companies is further also mentioned in Section 144 of the Companies Act, 2013.

Examination Notifications: ISA

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

[Set up by an Act of Parliament]

5th May, 2014

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

NOTIFICATION

No.13-CA(EXAM)/ISA/J/2014: - In pursuance of Regulation 204 of the Chartered Accountants Regulations, 1988, the Council of the Institute of Chartered Accountants of India is pleased to notify that the Information Systems Audit (ISA) Course Assessment Test (which is open to the members of the Institute) will be held on **28th June, 2014 (Saturday) from 10.30 AM to 2.30 PM** at the following cities provided that sufficient number of candidates offer themselves to appear therefrom.

Sl. No.	Name of the Cities	Sl. No.	Name of the Cities	Sl. No.	Name of the Cities
1	AGRA	21	GOA	41	MEERUT
2	AHMEDABAD	22	GUWAHATI	42	MORADABAD
3	ALIGARH	23	HISAR	43	MUMBAI
4	AMRAVATI	24	HYDERABAD	44	NAGPUR
5	AURANGABAD	25	INDORE	45	NASIK
6	BANGALORE	26	JABALPUR	46	PATNA
7	BELGAUM	27	JAIPUR	47	PUNE
8	BHOPAL	28	JALANDHAR	48	RAIPUR
9	BHUBANESWAR	29	JALGAON	49	RAJAMAHENDRAVARAM
10	BIKANER	30	JAMMU	50	RAJKOT
11	CHANDIGARH	31	JAMNAGAR	51	ROHTAK
12	CHENNAI	32	JHANSI	52	SHIMLA
13	COIMBATORE	33	JODHPUR	53	SILIGURI
14	CUTTACK	34	KANPUR	54	SOLAPUR
15	DELHI / NEW DELHI	35	KOLHAPUR	55	SURAT
16	DURGAPUR	36	KOLKATA	56	UDAIPUR
17	ERNAKULAM	37	KOZHIKODE	57	VADODRA
18	FARIDABAD	38	LUCKNOW	58	VARANASI
19	GANDHIDHAM	39	LUDHIANA	59	VIJAYAWADA
20	GHAZIABAD	40	MANGALORE		

The Council reserves the right to withdraw any centre at any stage without assigning any reason. The above Test is open only to the Members of the Institute who are already registered with the Institute for the ISA course and passed the related eligibility test. The fee payable for the above Assessment Test is ₹1,000/-.

An application for admission to the Assessment Test is required to be submitted online by visiting http://isaat.icaiexam.icai.org and the sum of ₹1,100/- (₹ 1,000/- as examination fees and ₹100/- towards the examination form) has to be paid online using Master / Visa / Maestro Credit or Debit Card on or from 22nd May, 2014. Alternatively, the format

ICAI News

of application form can be downloaded from the website of the Institute viz. www.icai.org and the cost of the application form of ₹100/- can be added to the Assessment Test fee of ₹1,000/- and the Demand Draft for ₹1,100/- of any Scheduled Bank drawn in favour of "The Secretary, The Institute of Chartered Accountants of India", payable at New Delhi only has to be sent to the Joint Secretary (Exams), The Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, New Delhi – 110002 so as to reach him on or before 4th June, 2014. The applications received after **4th June, 2014** will not be entertained under any circumstances.

(T. Karthikeyan)
Secretary

On Line Articles Placement Portal

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

The Board of Studies of the ICAI has been providing Online Articles Placement facility for selection of Articled Assistants by CA Firms through its Articles Placement Portal on pan India basis. It provides a platform to the firms of Chartered Accountants having vacancies for Articled Assistants to shortlist eligible students for selection of articled assistants, and call them for Interview at their offices, as per date and time convenient to them. The eligible candidates who have passed Group-I or both Groups of the Intermediate (Integrated Professional Competence) Course or have been admitted under the Direct Entry Scheme and are willing to join articled training can register themselves on the portal. **The services to the Online Placement Portal are available free of charge for both CA Firms and students and they can register themselves online through the Portal at http://bosapp.icai.org.**

The services on the Portal would be available for two months, twice a year, from the date of registration by the firms. Similarly the bio data of a student will also be available on the portal for a maximum period of 2 months from student's registration. The candidates shortlisted by CA Firms would be informed by e-mails through the Portal, to appear for interview at their respective Offices, at the designated date and time.

Detailed guidelines are available at the institutes' website www.icai.org and on the Portal. In case of any further clarification, please contact the Board of Studies, ICAI Bhawan, A-29, Sector-62, Noida-201309, Tel.No.0120-3045930/931; eMail: bosapp@icai.org.

Chairman, Board of Studies

Events

FORTHCOMING EVENTS[1]

Sl. No.	Title of the Seminar/ Conference	Date	Place	CPE Hours/ Fees	Contact Detail
1.	Programme on IFRS for Young Members	Saturday, 14th, 21st, 28th June, 5th July and 12th July, 2014/Time: 4.30 PM To 8.30 PM	ICAI Bhawan, Vishwas Nagar, Shahdara, Delhi.	15 Hrs/ ₹1,000	NIRC: 011- 30100504
2.	Seminar on Scope and Opportunities for Young Members in Practice and Service	21st June, 2014 (Saturday)/Time: 2.30 PM. To 5.30 PM.	'ICAI Bhawan', Plot No.10, Gajanan Colony, Near LIC Colony, Ring Road, Jalgaon	3 Hrs/ ₹50	Jalgaon Branch of ICAI: Ph.: [+91] (257) 2224 305, 2232 205 E-mail: jalgaon@icai.org
3.	Seminar for Youth Networking " Y-Connect"	6th June, 2014/Time: 4.00 PM. To 7.00 PM.	'ICAI Bhawan', D-1, Institutional Area, Jhalana Doongiri JAIPUR - 302 004	3 Hrs/ ₹100	CA. Rohit Ruwatia Ph.: [+91] (141) 3044 200, 3989 398, 96675 55213 E-mail: jaipur@icai.org, jaipur@icai.in

[1] For more details about the forthcoming events please refer the detailed announcements hosted on the ICAI website www.icai.org

November 2014 Examinations: Applicability of Chapters IX & X of the Companies Act, 2013 for Final Course

Important Announcement

Attention: Intermediate (IPC) and Final Course students – November 2014 examinations

Subject: Applicability of notified sections of Chapter IX, "Accounts of Companies" and Chapter X, "Audit and Auditors" of the Companies Act, 2013 along with its Rules for November 2014, Examinations for Final Course

Attention of students is invited to the announcement dated15th March, 2014 hosted on the students' portal at http://220.227.161.86/32800bos-announ15mar14.pdf regarding applicability of 53 sections and 45 sections of the Companies Act, 2013 for November 2014 examinations for Intermediate (IPC) and Final Course respectively.

Final course students may note that in addition to 45 sections of the Companies Act, 2013, notified sections of Chapter IX, "Accounts of Companies" and Chapter X, "Audit and Auditors" of the Companies Act, 2013, along with its Rules are also applicable for November 2014 examinations in respect of following papers:

Paper 1: Financial Reporting (Group I)
Paper 3: Advanced Auditing and Professional Ethics (Group I)
Paper 4: Corporate and Allied Laws (Group I)

As far as Intermediate (IPC) Course students are concerned, **only** 53 sections of the Companies Act, 2013 as announced earlier would continue to apply for November 2014 examinations.

It is also clarified that along with the applicable sections of the Companies Act, 2013, the remaining provisions of the Companies Act, 1956, if any, would continue to apply for November 2014 examinations.

Members are requested to bring this to the kind notice of the students who are undergoing articleship under them.

Chairman, Board of Studies

May 2015 Examinations: Applicability of notified sections of the Companies Act,2013

Important Announcement

Attention: Intermediate (IPC) and Final Course students

Subject: Applicability of notified sections of the Companies Act,2013 for May 2015, Examinations

This is to bring to the notice of students that the relevant sections of the Companies Act, 2013 notified till 30th September, 2014 would be applicable for May 2015 examinations in respect of the following papers:

At the Intermediate (IPC) Course
Paper 1: Accounting (Group I)
Paper 2: Business Laws, Ethics and Communication (Group I)
Paper 5: Advanced Accounting (Group II)
Paper 6: Auditing and Assurance (Group II)

At the Final Course
Paper 1: Financial Reporting (Group I)
Paper 3: Advanced Auditing and Professional Ethics (Group I)
Paper 4: Corporate and Allied Laws (Group I)

For reference and benefit of our students, the Board of Studies would release relevant material applicable for May 2015 examinations well in advance before the examinations.

It is also clarified that along with the applicable sections of the Companies Act, 2013, the remaining provisions of the Companies Act, 1956, if any, would continue to apply for May 2015 examinations.
Members are requested to bring this to the kind notice of the students who are undergoing articleship under them.

Chairman, Board of Studies

May 2015 Examinations: Revision of Syllabus

Important Announcement
Attention: Intermediate (IPC) and Final Course students- May 2015 examinations and onwards
Subject: Revision of the syllabus for May 2015 examinations and onwards pursuant to enactment of the Companies Act, 2013

As students may be aware, the Companies Act, 2013 has been notified in the Official Gazette on 30th August, 2013 stating that different dates may be appointed for enforcement of different provisions of this Act through notification of the Central Government in this regard.

Having regard to the above development, the Council at its 333th meeting, revised the syllabus in a comprehensive manner in the following papers of Intermediate (IPC) and Final Course(s) as annexed herewith (shown in ***Bold cum Italics***):

Intermediate (IPC) Course
Paper 1: Accounting (Group I)
Paper 2: Business Laws, Ethics and Communication (Group I)
Paper 5: Advanced Accounting (Group II)
Paper 6: Auditing and Assurance (Group II)

Final Course
Paper 3: Advanced Auditing and Professional Ethics (Group I)
Paper 4: Corporate and Allied Laws (Group I)

Members are requested to bring this to the kind notice of the students who are undergoing articleship under them.

Chairman, Board of Studies

SYLLABUS

PAPER 1: ACCOUNTING
(One paper – Three hours – 100 Marks)

Level of Knowledge : Working Knowledge
Objectives :
(a) To lay a foundation for the preparation and presentation of financial statements,
(b) To gain working knowledge of the principles and procedures of accounting and their application to different practical situations,
(c) To gain the ability to solve simple problems and cases relating to sole proprietorship, partnership and companies and
(d) To familiarize students with the fundamentals of computerized system of accounting.

Contents :
1. **A General Knowledge of the framing of the accounting standards, national and international accounting authorities, adoption of international financial reporting standards**
2. **Accounting Standards**
Working knowledge of:
AS 1 : Disclosure of Accounting Policies
AS 2 : Valuation of Inventories
AS 3 : Cash Flow Statements
AS 6 : Depreciation Accounting
AS 7 : Construction Contracts (Revised 2002)
AS 9 : Revenue Recognition
AS 10 : Accounting for Fixed Assets
AS 13 : Accounting for Investments
AS 14 : Accounting for Amalgamations
3. **Company Accounts**
(a) Preparation of financial statements – Balance Sheet, Profit and Loss Account Cash Flow Statement, ***Statement of Changes in Equity and Explanatory Notes***
(b) Profit (Loss) prior to incorporation
(c) Alteration of share capital, Conversion of fully paid shares into stock and stock into shares, Accounting for bonus issue
(d) Simple problems on Accounting for business acquisition, Amalgamation and reconstruction (excluding problems of amalgamation on inter-company holding)
4. **Average Due Date, Account Current, Self-Balancing Ledgers**

5. **Financial Statements of Not-for-Profit Organisations**
6. **Accounts from Incomplete Records**
7. **Accounting for Special Transactions**
   (a) Hire purchase and instalment sale transactions
   (b) Investment accounts
   (c) Insurance claims for loss of stock and loss of profit.
8. **Issues in Partnership Accounts**
   Final accounts of partnership firms – Admission, retirement and death of a partner including treatment of goodwill.
9. **Accounting in Computerised Environment**
   An overview of computerized accounting system–Salient features and significance, Concept of grouping of accounts, Codification of accounts, Maintaining the hierarchy of ledger, Accounting packages and consideration for their selection, Generating Accounting Reports.

Note : If either old Accounting Standards (ASs), Announcements and Limited Revisions to ASs are withdrawn or new ASs, Announcements and Limited Revisions to ASs are issued by the Institute of Chartered Accountants of India in place of existing ASs, Announcements and Limited Revisions to ASs, the syllabus will accordingly exclude/include such new developments in place of the existing ones with effect from the date to be notified by the Institute.

SYLLABUS

PAPER – 2: BUSINESS LAWS, ETHICS AND COMMUNICATION

(One paper – Three hours – 100 Marks)

Level of Knowledge: Working knowledge

PART I – BUSINESS LAWS (60 MARKS)

Objective:
To test working knowledge of Business Laws and Company Law and their practical application in commercial situations.

Contents
Business Laws (30 Marks)
1. The Indian Contract Act, 1872
2. The Negotiable Instruments Act, 1881
3. The Payment of Bonus Act, 1965
4. The Employees' Provident Fund and Miscellaneous Provisions Act, 1952
5. The Payment of Gratuity Act, 1972.

Company Law (30 Marks)
The Companies Act, ***2013*** – Sections ***1 to 122***
(a) Preliminary
(b) Incorporation of Company and Matters Incidental thereto
(c) ***Prospectus and Allotment of Securities***
(d) Share Capital and Debentures
(e) ***Acceptance of Deposits by companies***
(f) Registration of Charges
(g) Management and Administration
(i) Company Law in a computerized Environment – E-filing.

Note:
(i) The provisions of the Companies Act, 1956 which are still in force would form part of the syllabus till the time their corresponding or new provisions of the Companies Act, 2013 are enforced.
(ii) If new legislations are enacted in place of the existing legislations, the syllabus would include the corresponding provisions of such new legislations with effect from a date notified by the Institute.

Part II – ETHICS (20 Marks)

Objective:
To have an understanding of ethical issues in business.

Contents:
1. **Introduction to Business Ethics**
   The nature, purpose of ethics and morals for organizational interests; Ethics and Conflicts of Interests; Ethical and Social Implications of business policies and decisions; Corporate Social Responsibility; Ethical issues in Corporate Governance.

2. **Environment issues**
Protecting the Natural Environment – Prevention of Pollution and Depletion of Natural Resources; Conservation of Natural Resources.
3. **Ethics in Workplace**
Individual in the organisation, discrimination, harassment, gender equality.
4. **Ethics in Marketing and Consumer Protection**
Healthy competition and protecting consumer's interest.
5. **Ethics in Accounting and Finance**
Importance, issues and common problems.

Part III – COMMUNICATION (20 Marks)

Objective:

To nurture and develop the communication and behavioural skills relating to business

Contents:

1. Elements of Communication

(a) Forms of Communication: Formal and Informal, Interdepartmental, Verbal and non-verbal; Active listening and critical thinking
(b) Presentation skills including conducting meeting, press conference
(c) Planning and Composing Business messages
(d) Communication channels
(e) Communicating Corporate culture, change, innovative spirits
(f) Communication breakdowns
(g) Communication ethics
(h) Groups dynamics; handling group conflicts, consensus building; influencing and persuasion skills; Negotiating and bargaining
(i) Emotional intelligence - Emotional Quotient
(j) Soft skills – personality traits; Interpersonal skills ; leadership

2. Communication in Business Environment

(a) Business Meetings – Notice, Agenda, Minutes, Chairperson's speech
(b) Press releases
(c) Corporate announcements by stock exchanges
(d) Reporting of proceedings of a meeting

3. Basic understanding of legal deeds and documents

(a) Partnership deed
(b) Power of Attorney
(c) Lease deed
(d) Affidavit
(e) Indemnity bond
(f) Gift deed
(g) Memorandum and articles of association of a company
(h) Annual Report of a company

SYLLABUS

GROUP II PAPER 5: ADVANCED ACCOUNTING

(One paper – Three hours – 100 Marks)

Level of Knowledge: Working Knowledge

Objectives:

(a) To have an understanding of the conceptual framework for the preparation and presentation of financial statements,
(b) To gain working knowledge of the professional standards and application of accounting principles to different practical situations, and
(c) To gain the ability to solve advanced problems in the case of different entities.

Contents :

1. **Framework for Preparation and Presentation of Financial Statements**
2. **Accounting Standards**
Working knowledge of:
AS 4 : Contingencies and Events occurring after the Balance Sheet Date
AS 5 : Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS 11 : The Effects of Changes in Foreign Exchange Rates (Revised 2003)
AS 12 : Accounting for Government Grants
AS 16 : Borrowing Costs
AS 19 : Leases
AS 20 : Earnings Per Share

AS 26 : Intangible Assets
AS 29 : Provisions, Contingent Liabilities and Contingent Assets.

3. **Advanced Issues in Partnership Accounts *and Issues related to accounting in Limited Liability Partnerships***
Dissolution of partnership firms including piecemeal distribution of assets; Amalgamation of partnership firms; Conversion into a company and Sale to a company.

4. **Company Accounts**
(a) Accounting for employee stock option plan, Buy back of securities, Equity shares with differential rights, Underwriting of shares and debentures, Redemption of debentures
(b) Advanced problems for business acquisition, Amalgamation and reconstruction (excluding problems of amalgamation of inter-company holding)
(c) Accounting involved in liquidation of companies, Statement of Affairs (including deficiency/surplus accounts) and liquidator's statement of account of the winding up.
(d) Financial Reporting of Insurance, Banking and Electricity Companies and legal and regulatory requirements thereof

5. **Accounting for Special Transactions**
Departmental and branch accounts including foreign branches

Note – If either old Accounting Standards (ASs), Announcements and Limited Revisions to ASs are withdrawn or new ASs, Announcements and Limited Revisions to ASs are issued by the Institute of Chartered Accountants of India in place of existing ASs, Announcements and Limited Revisions to ASs, the syllabus will accordingly include/exclude such new developments in place of the existing ones with effect from the date to be notified by the Institute.

SYLLABUS

PAPER – 6: AUDITING AND ASSURANCE

(One paper – Three hours – 100 Marks)

Level of Knowledge: Working Knowledge

Objective:

To understand objective and concept of auditing and gain working knowledge of generally accepted auditing procedures and of techniques and skills needed to apply them in audit and attestation engagements.

Contents:

1. **Auditing Concepts -** Nature and limitations of Auditing, Basic Principles governing an audit, Ethical principles and concept of Auditor's Independence, Relationship of auditing with other disciplines.
2. **Standards on Auditing and Guidance Notes** - Overview, Standard-setting process, Role of International Auditing and Assurance Standards Board, Standards on Auditing issued by the ICAI; Guidance Note(s) on - Audit of Fixed Assets, Audit of Inventories, Audit of Investments, Audit of Debtors, Loans and Advances, Audit of Cash and Bank Balances, Audit of Miscellaneous Expenditure, Audit of Liabilities, Audit of Revenue, Audit of Expenses and provision for proposed dividends.
3. **Auditing engagement -** Audit planning, Audit programme, Control of quality of audit work - Delegation and supervision of audit work.
4. **Documentation** - Audit working papers, Audit files: Permanent and current audit files, Ownership and custody of working papers.
5. **Audit evidence** - Audit procedures for obtaining evidence, Sources of evidence, Reliability of audit evidence, Methods of obtaining audit evidence - Physical verification, Documentation, Direct confirmation, Re-computation, Analytical review techniques, Representation by management, Obtaining certificate.
6. **Internal Control** - Elements of internal control, Review and documentation, Evaluation of internal control system, Internal control questionnaire, Internal control check list, Tests of control, Application of concept of materiality and audit risk, Concept of internal audit.
7. Internal Control and Computerized Environment, Approaches to Auditing in Computerised Environment.
8. **Auditing Sampling** - Types of sampling, Test checking, Techniques of test checks.
9. **Analytical review procedures.**
10. **Audit of payments** - General considerations,

Wages, Capital expenditure, Other payments and expenses, Petty cash payments, Bank payments, Bank reconciliation.

11. **Audit of receipts** - General considerations, Cash sales, Receipts from debtors, Other Receipts.
12. **Audit of Purchases** - Vouching cash and credit purchases, Forward purchases, Purchase returns, Allowance received from suppliers.
13. **Audit of Sales** - Vouching of cash and credit sales, Goods on consignment, Sale on approval basis, Sale under hire-purchase agreement, Returnable containers, Various types of allowances given to customers, Sale returns.
14. **Audit of suppliers' ledger and the debtors' ledger** - Self-balancing and the sectional balancing system, Total or control accounts, Confirmatory statements from credit customers and suppliers, Provision for bad and doubtful debts, Writing off of bad debts.
15. **Audit of impersonal ledger** - Capital expenditure, deferred revenue expenditure and revenue expenditure, Outstanding expenses and income, Repairs and renewals, Distinction between reserves and provisions, Implications of change in the basis of accounting.
16. Audit of assets and liabilities.
17. Company Audit - Audit of Shares, ***Eligibility,*** Qualifications and Disqualifications of Auditors, Appointment of auditors, Removal of auditors, ***Remuneration of Auditors***, Powers and duties of auditors, Branch audit, Joint audit, Reporting requirements under the Companies Act, ***2013, Other Important Provisions under the Companies Act, 2013 relating to Audit and Auditors and Rules made thereunder.***
18. **Audit Report** - Qualifications, Disclaimers, Adverse opinion, Disclosures, Reports and certificates.
19. Special points in audit of different types of undertakings, i.e., Educational institutions, Hotels, Clubs, Hospitals, Hire-purchase and leasing companies (excluding banks, electricity companies, cooperative societies, and insurance companies).
20. Features and basic principles of government audit, Local bodies and not-for-profit organizations, Comptroller and Auditor General and its constitutional role.

Note:

(i) The provisions of the Companies Act, 1956 which are still in force would form part of the syllabus till the time their corresponding or new provisions of the Companies Act, 2013 are enforced.

(ii) If new legislations are enacted in place of the existing legislations, the syllabus would include the corresponding provisions of such new legislations with effect from a date notified by the Institute.

SYLLABUS

PAPER 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

(One paper – Three hours – 100 Marks)

Level of Knowledge: Advanced knowledge

Objectives:

(a) To gain expert knowledge of current auditing practices and procedures and apply them in auditing engagements,

(b) To develop ability to solve cases relating to audit engagements.

Contents:

1. **Auditing Standards, Statements and Guidance Notes**
   Auditing and Assurance Standards (AASs); Statements and Guidance Notes on Auditing issued by the ICAI; Significant differences between Auditing and Assurance Standards and International Standards on Auditing.
2. **Audit strategy, planning and programming**
   Planning the flow of audit work; audit strategy, planning programme and importance of supervision: review of audit notes and working papers; drafting of reports; principal's ultimate responsibility; extent of delegation; control over quality of audit work; reliance on the work of other auditor, internal auditor or an expert.
3. **Risk Assessment and Internal Control**
   Evaluation of internal control procedures; techniques including questionnaire, flowchart;

internal audit and external audit, coordination between the two.

4. **Audit under computerized information system (CIS) environment**
   Special aspects of CIS Audit Environment, need for review of internal control especially procedure controls and facility controls. Approach to audit in CIS Environment, use of computers for internal and management audit purposes: audit tools, test packs, computerized audit programmes; Special Aspects in Audit of E-Commerce Transaction.
5. **Special audit techniques**
   (a) Selective verification; statistical sampling: Special audit procedures; physical verification of assets, direct confirmation of debtors and creditors
   (b) Analytical review procedures
   (c) Risk-based auditing.
6. **Audit of limited companies**
   Relevant Provisions under the Companies Act, 2013 relating to Audit and Auditors and Rules made thereunder; Audit of branches: joint audits; Dividends and divisible profits-financial, legal, and policy considerations.
7. Rights, duties, and liabilities of auditors; third party liability.
8. Audit reports; Qualifications, notes on accounts, distinction between notes and qualifications, detailed observations by the statutory auditor to the management vis-a-vis obligations of reporting to the members.
9. Audit Committee and Corporate Governance
10. ***Provisions under the Companies Act, 2013 in respect of Accounts of Companies and Rules made thereunder.*** Audit of Consolidated Financial Statements, Audit Reports and Certificates for Special Purpose engagements; Certificates under the Payment of Bonus Act, import/export control authorities, etc.; Specific services to non-audit clients; Certificate on Corporate Governance.
11. Special features of audit of banks, insurance companies, co-operative societies and non-banking financial companies.
12. Audit under Fiscal Laws, viz, Direct and Indirect Tax Laws.
13. Cost audit
14. Special audit assignments like audit of bank borrowers, audit of stock and commodity exchange intermediaries and depositories; inspection of special entities like banks, financial institutions, mutual funds, stock brokers.
15. Special features in audit of public sector companies. Directions of Comptroller and Auditor General of India ***to statutory auditors***.; Concepts of propriety and efficiency audit.
16. **Internal audit, management and operational audit** Nature and purpose, organisation, audit programme, behavioural problems; Internal Audit Standards issued by the ICAI; Specific areas of management and operational audit involving review of internal control, purchasing operations, manufacturing operations, selling and distribution, personnel policies, systems and procedures. Aspects relating to concurrent audit.
17. Investigation and Due Diligence.
18. Concept of peer review
19. Salient features of Sarbanes – Oxley Act, 2002 with special reference to reporting on internal control.
20. **Professional Ethics**
    Code of Ethics with special reference to the relevant provisions of The Chartered Accountants Act, 1949 and the Regulations thereunder.

Note:

(i) The provisions of the Companies Act, 1956 which are still in force would form part of the syllabus till the time their corresponding or new provisions of the Companies Act, 2013 are enforced.

(ii) If new legislations are enacted in place of the existing legislations, the syllabus would include the corresponding provisions of such new legislations with effect from a date notified by the Institute.

SYLLABUS

PAPER – 4: CORPORATE AND ALLIED LAWS
(One paper – Three hours – 100 Marks)

SECTION A: COMPANY LAW (70 MARKS)

Level of Knowledge: Advanced knowledge

Objective:
To be able to analyze and apply various provisions of the Company Law in practical situations

Contents:
1. The Companies Act, ***2013 and*** Rules ***framed*** thereunder in its entirety with specific reference to
   (a) ***Declaration and payment of Dividend***
   (b) Accounts and audit
   (c) ***Appointment and Qualifications of Directors***
   (d) ***Appointment and remuneration of Managerial Personnel***
   (e) ***Meetings of Board and its powers***
   (f) Inspection, ***inquiry*** and Investigation
   (g) Compromises, Arrangements and ***Amalgamations***
   (h) Prevention of Oppression and Mismanagement
   (i) Revival and Rehabilitation of Sick Companies
   (j) ***Winding Up***
   (k) Producer Companies
   (l) Companies incorporated outside India
   (m) Offences and Penalties
   (n) E-governance
   (o) ***National Company Law Tribunal and Appellate Tribunal***
   (p) ***Special Courts***
   (q) ***Miscellaneous Provisions***

2. Corporate Secretarial Practice–Drafting of Resolution, Minutes, Notices and Reports

Note: The provisions of the Companies Act, 1956 which are still in force would form part of the syllabus till the time their corresponding or new provisions of the Companies Act, 2013 are enforced.

SECTION B: ALLIED LAWS (30 MARKS)

Objective:
To develop ability to analyse the requirements of laws stated in the Section.

Contents:
3. An overview of the following laws –
   (a) The Securities and Exchange Board of India Act, 1992, Rules, Regulations and Guidelines issued thereunder.
   (b) Securities Contracts (Regulation) Act, 1956
   (c) The Foreign Exchange Management Act, 1999
   (d) The Competition Act, 2002
   (e) The Banking Regulation Act, 1949, The Insurance Act, 1938. The Insurance Regulatory and Development Authority Act, 1999. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
   (f) The Prevention of Money Laundering Act, 2002

4. Interpretation of Statutes, Deeds and Documents.

Note: If new legislations are enacted in place of the existing legislations, the syllabus would include the corresponding provisions of such new legislations with effect from a date notified by the Institute.

Classifieds

5115 Mumbai based CA holding COP seeks professional work on assignment/sub-contract/retainership basis in M'shtra/Guj./Goa. E-mail: kulin_asher@hotmail.com, Mobile: 9833535386.

5116 A Mumbai based consultancy firm invites expression of interest (EoI) for partnership/entrepreneurship from professionals all over India. Professionals (CA) with 3-5 years of experience in Job/Practice may send their EOI to partnersindia1@gmail.com, or call 9930047479

5117 Mumbai based CA Propriertorship firm having experience of 10 years looking for partnership with any only Local CA firm.Kindly email on cafirmmumbai@gmail.com

5118 A Mumbai based CA firm newly started by ex-CFO of a Infrastructure Company with office in Andheri East require fresh CA on employment/partner basis. The firm is also looking for taking the assignments on joint or outsourced basis. Contact: 98190 65907 or e-mail somsaini@gmail.com

5119 South Delhi based CA firm requires CAs. Minimum experience 2 years in Statutory Audits. Good communication skills must. Salary no bar. Contact:-Ms. Kiran Bala, RKACA and Associates LLP, E-186, Greater Kailash–1, New Delhi–110048, Phone: 29232201/02. e-mail: Kiran.bala@rka-india.com

5120 A CA firm with membership of global network of accounting firms with offices at Chennai, Cochin and Trivandrum invites expression of interest (EOI) for partnership from professionals to open it's office at Bangalore. Young CAs in practice of the profession for a period below 5 years may send their EOI at: eoi.blr@gmail.com

5121 Bangalore based ACA retired PSU having mfg/service industries experience with COP seeks audit work on assignment/Retainership/part time in Karnataka Contact: brjoshi17@rediffmail.com/9731984387

5122 Delhi based 35 years old mid-sized firm having branches in Mumbai & Bangalore seeks merger proposal for small & mid-sized CA firms in Delhi/Bangalore/Chennai/Mumbai/Hyderabad. Proposals are also invited from veteran CA firms willing to retire from their practices and form partnerships. Contact: merger.firm@gmail.com

5123 CA based in Kolkata 33 year experience in corporate finance,capital market,independent Director of reputed company, now working as CFO needs change in company or in a CA firm, ranmajumdar@yahoo.co.in

5124 We welcome assignment-basis partnership for Business Valuation/DCF/Due-diligence services offered by us–experienced corporate finance professionals. CA Pratik Singhi, +91 9892047829; e-mail: pratiksinghi@gmail.com

5125 A medium size Chartered Accountant firm based at Chennai requires Chartered Accountant at New Delhi and Mumbai. Please contact: ponraj.sundarapandianadar@gmail.com

5126 CA Firm (proprietorship) based at Goa-newly started by recently retired senior company executive and director (FCA 41+ years experience) will undertake professional work on assignment/contract/partnership basis. Contact: seniorca13@gmail.com. Cell No: +91 8308373182

5127 Jamshedpur (Jharkhand) based CA firm, is looking for work on assignment, partnership basis. Jaluka & Associates, jalukaandassociates@gmail.com, 9709138711, 8406000707.

5128 Delhi based CA firm requires fresh and experienced Chartered Accountants. Candidates should have audit and/or taxation experience. Contact M/s. D. G. & Co., Chartered Accountants, 403, Pratap Chambers, Gurudwara Road, Karol Bagh, New Delhi-05, Ph. no. 28751295, e-mail: appointments@dgco.in

Forthcoming Events[1]

Sl. No.	Title of the Seminar/ Conference	Date	Place	CPE Hours
1.	Certificate Course on Master in Business Finance	June, 2014 (Alternate Saturday & Sunday)	Delhi, Mumbai & Ahmedabad	100 Hrs
Topics	LEVEL I Paper 1 - Financial Management and Advanced Financial Analysis Paper 2 - Capital Structuring, Fund Raising and Investment Management LEVEL II Paper 3 - Capital and Financial Markets Management Paper 4 - Forex, Treasury and Risk Management LEVEL III Paper 5 - Valuations, Merger & Acquisitions, and Restructure Paper 6 - Banking, Risk management and Business Strategy			
Fees	₹50,000 (₹30,000 for Registration & ₹20,000 for Residential Programme Fees)			
Contact Person	**For Registration, Visit:** http://www.icai.org/post.html?post_id=4092 **For Information Contact:** • CA. Anuj Goyal, CCM, Chairman, CMA, E-mail: anujgoel28@sify.com • Dr. Amit Kumar Agrawal, Secretary, CMA, Mobile: 9350572094, E-mail: akagrawal@icai.in • Committee Secretariat, Phone: 0120-3045905, E-mail: cma@icai.in			
2.	Certificate Course on Indirect Taxes	5th July, 2014 to 10th August, 2014 (Every Saturday and Sunday) Time: 9.30 am to 5.30 pm	Gurgaon	70 Hours (50 Structured and 20 Unstructured)
Topics	The Certificate Course covers the following topics: • Service Tax • Introduction to Central Excise Law • Introduction to Customs Law • CST/ VAT Laws • Foreign Trade Policy/GST • Case Law • Practical Case Studies			
Fees	₹15,000			
Contact Person	**For Registration visit:** http://www.icai.org/post.html?post_id=7382 **For Information contact:** • CA. Rajiv Dagar, Mobile: 9818280137 • Secretariat, Indirect Taxes Committee, Phone: 0120-3045954, 9350799932, E-mail: ccidt@icai.in			
3.	Certificate Course on Indirect Taxes	18th July, 2014 to 10th August, 2014 (Every Friday, Saturday and Sunday) Time: 9.30 am to 5.30 pm	Ernakulam	70 Hours (50 Structured and 20 Unstructured)
Topics	The Certificate Course covers the following topics: • Service Tax • Introduction to Central Excise Law • Introduction to Customs Law • CST/ VAT Laws • Foreign Trade Policy/GST • Case Law • Practical Case Studies			
Fees	₹15,000			

[1] For more details about the forthcoming events please refer the detailed announcements hosted on the ICAI website www.icai.org

Sl. No.	Title of the Seminar/ Conference	Date	Place	CPE Hours
Contact Person	**For Registration visit:** http://www.icai.org/post.html?post_id=7382 **For Information contact:** • CA. V. J. Johney, Mobile: 9388601505 • Secretariat, Indirect Taxes Committee, Phone: 0120-3045954, 9350799932, E-mail: ccidt@icai.in			
4.	Two Days National Conference on Service Tax	21st and 22nd June, 2014 Time: 9.30 am to 5.30 pm	Surat	12 Hours
Topics	The National conference covers the following topics: • How to Assess Taxability - Exemption Notification & Negative List. • Various Penalties and Concessions under Service Tax • Reverse Charge Mechanism (RCM) • Cenvat Credit Rules under Service Tax(Recent Case Laws, Notifications) • VAT - Construction Contract • Service Tax - Construction Contract & Related Activities			
Contact Person	**For Information contact:** • CA. Hemant Jariwal, Mobile: 8401550155, E-mail: surat@icai.org • Conference Director: CA. Jay Ajit Chhaira, CCM: Mobile: 09825196241 • Secretariat, Indirect Taxes Committee, Phone: 0120-3045954, 9350799932, E-mail: ccidt@icai.in			
5.	Two Days National Conference on Service Tax	1st and 2nd August, 2014 Time: 9.30 am to 5.30 pm	Ernakulam	12 Hours
Contact Person	**For Information contact:** • Victoria Noronha, Phone: 0484-2349591, E-mail: ernakulam@icai.org • Secretariat, Indirect Taxes Committee, Phone: 0120-3045954, 9350799932, E-mail: ccidt@icai.in			
6.	Two Days National Conference on Service Tax	11th and 12th July, 2014 Time: 9.30 am to 5.30 pm	Bangalore	12 Hours
Topics	The National conference covers the following topics: • How to determine taxability under Service tax • Valuation under Service tax with latest Case Studies • Cenvat Credit Rules 2004 • Jurisprudence - How to Prepare for Representation before Authorities • Service Tax on Real Estate Sector			
Contact Person	**For Information contact:** • CA. Babu K. Thevar, Mobile: 9342500855, E-mail: banglore@icai.org • Secretariat, Indirect Taxes Committee, Phone: 0120-3045954, 9350799932, E-mail: ccidt@icai.in			
7.	Two Days National Conference on Service Tax	28th and 29th June, 2014 Time: 9.30 am to 5.30 pm	Gurgaon	12 Hours
Contact Person	**For Information contact:** • CA. Rajiv Dagar, Mobile: 9818280137 • Secretariat, Indirect Taxes Committee, Phone: 0120-3045954, 9350799932, E-mail: ccidt@icai.in			

Events

Sl. No.	Title of the Seminar/ Conference	Date	Place	CPE Hours
8.	Two Days Programme on Service Tax	28th and 29th June, 2014 Time: 9.30 am to 5.30 pm	Jamnagar	12 Hours
Contact Person	**For Information contact:** • CA. Ankur Doshi, Mobile: 9427444880, E-mail: jamnagar@icai.org • Secretariat, Indirect Taxes Committee, Phone: 0120-3045954, 9350799932, E-mail: ccidt@icai.in			
9.	One Day Programme on Service Tax	15th June, 2014 Time: 9.30 am to 5.30 pm	Ujjain	6 Hours
Contact Person	**For Information contact:** • CA. Jeetendra Thani, Mobile: 9827777788, E-mail: ujjain@icai.org • Secretariat, Indirect Taxes Committee, Phone: 0120-3045954, 9350799932, E-mail: ccidt@icai.in			
10.	Live Webcast	27th June, 2014 Time: 9.30 am to 5.30 pm	Online	-
Topics	Cenvat Credit Rules, 2004			
Contact Person	**For Information contact:** • Secretariat, Indirect Taxes Committee, Phone: 0120-3045954, 9350799932, E-mail: ccidt@icai.in			
11.	One Day Programme on Service Tax	11th June, 2014 Time: 9.30 am to 5.30 pm	Hisar	6 Hours
Contact Person	**For Information contact:** • CA. Onkar Kedia, Mobile: 9896275123, E-mail: hisar@icai.org • Secretariat, Indirect Taxes Committee, Phone: 0120-3045954, 9350799932, E-mail: ccidt@icai.in			
12.	Three Days Residential Programme on Service Tax	6th , 7th & 8th June, 2014	Jim Corbett National Park	12 Hours
Contact Person	**For Information contact:** * Secretariat, Indirect Taxes Committee, Phone: 0120-3045954, 9350799932, E-mail: ccidt@icai.in			
13.	Workshop on Capacity Building Measures of CA Professionals	7th June, 2014	Hotel Rajmahal, Near Railway Station, Bikaner	6
Topics	• Companies Act, 2013 • Drafting and Conveyancing			
Fees	₹250/-			
Contact Person	**Programme Chairman** CA Anuj Goyal, Chairman, CCBCAF&SMP, ICAI and CMA, ICAI, E-mail: anujgoyal@icai.org **Programme Director** CA. Shyam Lal Agarwal, Central Council Member, ICAI and Member, CCBCAF&SMP, ICAI, E-mail: shyamjpr@gmail.com **Programme Co-Ordinator** CA. Shri Ballabh Bagri, Chairman, Bikaner Branch of CIRC of ICAI, Mobile: 9414283385, Email: sbbagri@yahoo.co.in; sbbagri@gmail.com **For Registration & Information** • Bikaner Branch of CIRC of ICAI, Khaturia Bhawan, Transport Gali, G. S Road, Bikaner 334 001, Phone: 0151-2203788 • Dr. Sambit Kumar Mishra, Secretary, CCBCAF&SMP, ICAI, Phone: 0120-3045994			

Treading the Path of Professional Progress in the Gulf

Lighting the Lamp to Inaugurate 32nd Annual International Conference at Dubai Chapter of ICAI

ICAI President CA. K. Raghu along with Vice-President CA. Manoj Fadnis, among others, visited Dubai and Kuwait Chapters of the ICAI to attend various professional events held recently. Then ICAI President CA. K. Raghu also went to Doha Chapter of ICAI to attend the professional events. The ICAI leadership made it a point to meet the young members as well as women members in line with the action points as drafted in the Action Plan (2014-15). They interacted with the membership community and informed about the latest developments and initiatives in the profession brought out by their alma mater in India, including ICAI Now and ICAI Knowledge Gateway. Read on to know more on the ICAI leadership visit to the three foreign Chapters in the Gulf region…

The new world economic order commands a larger role and responsibility from the accountancy profession, and our members do have a great potential to deliver content as well as values to the economic pursuits of our times, not only in India but also in other parts of the world, especially the Middle East. Members of the Institute are making their presence felt in the foreign soil as well, with over 10,000 members/chartered accountants from the country spread across the globe and over 7,000 members in the Middle East itself. Our members abroad have been acting as ambassadors of the profession in the world market.

Report

Accountancy profession in the Middle East has been growing remarkably. Chartered accountants from India are very well accepted in the government, business and professional organisations in the entire Middle East. It is noteworthy that ICAI has 9 Chapters in the Middle East namely Abu Dhabi, Bahrain, Doha, Dubai, Eastern Province (Saudi Arabia), Jeddah, Kuwait, Oman (Muscat) and Riyadh. With relatively more striking benefits, which include negligible or no taxation, handsome salaries for manpower with special skills like chartered accountants, and increasing demand in booming sectors like real estate, financial services, industries, manufacturing and construction, make it more favourable for the young Indian chartered accountants to explore opportunities for themselves in this part of the world.

ICAI has been aligning its activities according to the requirements of our members abroad. It aims to create more professional avenues for those members so that they have a wider professional base of activities to cater to in other countries.

ICAI Meets Dubai Chamber: Exploring Mutual Concerns

ICAI President CA. K. Raghu along with Vice-President CA. Manoj Fadnis, Vice and ICAI Additional Secretary Shri Rakesh Sehgal, visited Dubai (May 1, 2014), and Kuwait (May 4, 2014), and also to Doha (May 9, 2014) where only ICAI President CA. K. Raghu went to attend the events of these foreign Chapters of ICAI.

In Dubai, they met the officials of Dubai Chamber at their office, namely Atiq Juma Faraj Nasib, Senior Director (Commercial Services Sector), Mahdi Al Mazim, Director (Member Relations Department), Wajd Ghanem Al Hashmi, Executive (Member Relations Department) and Saed AlNajjar, Manager (Member Relations Department) to explore the possibilities of joint collaboration in the area of research publications, corporate governance and a possibility of induction of Indian chartered accountants in their Committees.

Annual Function at Kuwait Chapter of ICAI: ICAI President Presents Memento

They also met with H.E. Shri Anurag Bhushan, Consul General of India in Dubai, who assured of their support for any specific issue faced by ICAI with regard to the operationalisation of the MoU with Higher Colleges of Technology (HCT).

The ICAI functionaries along with H.E. Shri T. P. Seetharam, Ambassador of India to UAE and Shri Anurag Bhushan, Consul-General of India in Dubai inaugurated the 32nd Annual International Conference held at Dubai Men's College on *Change...Challenge... Opportunity.*

Releasing Global Kit at Kuwait Chapter of ICAI

On May 4, 2014, the ICAI delegation visited Kuwait to inaugurate the 8th Annual Day Function of the Kuwait Chapter of ICAI. The Ambassador of India to Kuwait, Shri Sunil Jain was the Guest of Honour for the event.

ICAI Global Career E-Kit was launched in Dubai as well as in Kuwait in order to make the potential ICAI members to capitalise on global opportunities available in this era of technology. These kits are conceptualised to provide a panoramic view of the primary information to our members who intend to go abroad for professional forays.

Releasing Global Kit at Dubai Chapter of ICAI

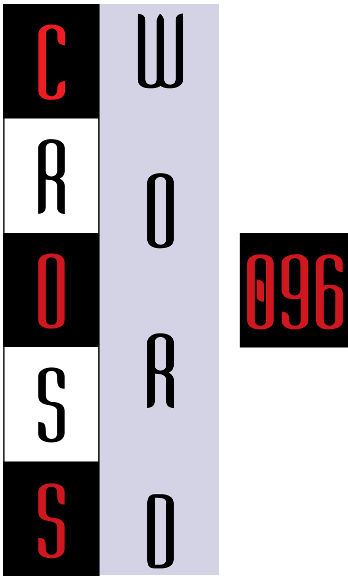
Visit to Doha Chapter of ICAI: ICAI President with Indian Ambassador to Qatar and Doha Chapter Chairman among others

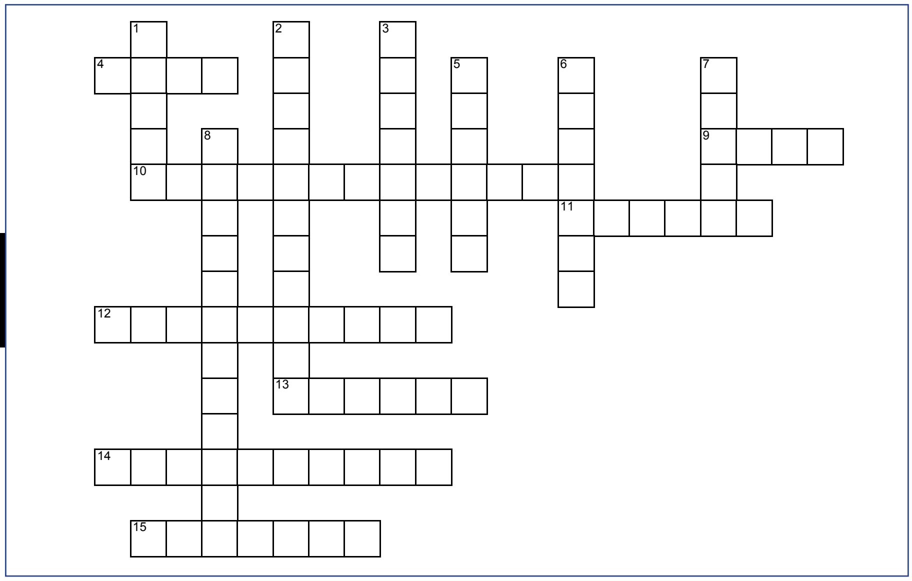
ICAI President CA. K. Raghu then went to Doha on May 9, 2014 to attend the International Conference on the theme *Delivering Business Advantage.*

During the visit, interactions were held with the past-Chairmen and other senior members of the ICAI Chapters in Dubai, Kuwait and Doha on various professional issues faced by the Chapters as well as our members and various issues on furthering the mission of the chartered accountancy profession and how these Chapters can further assist our members, were discussed in details. Members present on the occasion were apprised of the launch of mobile app ICAI Now and the *ICAI Knowledge Gateway* portal, which would help all its stakeholders including its members and students access vital information from wherever and whenever.

Interactions were also held with the young chartered accountants and women chartered accountants in these regions. Purpose in interacting with the young chartered accountants was on the realisation that our young members are very pragmatic and multi-dimensional and they are forging uniquely-effective career paths across various domains. Similarly, with changing times, more women are taking up the accountancy profession, and are proving their mettle by playing an important role in every sphere of business and industry nationally as well as internationally. The two important and often ignored segments were taken into consideration and the ways and means of improving and channelising their position was explored. The ICAI delegation also shared the Action Plan of ICAI (2014-15) with them and enlightened its membership community abroad on how ICAI would fully be supporting the two niche areas, i.e. *Women Empowerment* and *Young Member Empowerment.* ■

Backpage





ACROSS

4. Indian Government Accounting Standards (IGASs) formulated by GASAB are for ________ system of accounting.
9. _________ was founded on October 7, 1977, in Munich, Germany.
10. A composite financial service offering both bank and insurance product.
11. ICAI recently launched "ICAI Global ________E-Kit" at Dubai & Kuwait for its members.
12. IGFRS stands for Indian ___________ Financial Reporting Standards.
13. Interest rates on _________deposit schemes is fixed by RBI.
14. CTS stands for Cheque ___________ System.
15. In India, the introduction of accrual accounting in government was recommended by the _______Finance Commission recommended.

DOWN

1. Board constituted by Comptroller and Auditor General of India to establish and improve standards of government accounting and financial reporting and enhance accountability mechanism.
2. _______ ______are regulated by Securities and Exchange Board of India (SEBI).
3. The _______basis standards are issued under the title IGFRS.
5. ______ in India is prohibited under the provision Foreign Exchange Management Act.
6. TRAI regulates the functioning of __________.
7. ING Vysya Life Insurance is now ______Life Insurance.
8. Self-interest threat, Familiarity threat, Advocacy threat, Trust threat and Intimidation threat are categorised as threats to auditor's _____________.

NOTE: Members can claim one hour – CPE Credit – Unstructured Learning for attempting this crossword by filling the details in the self-declaration form to be submitted to your regional office annually to avail CPE hours credit for Unstructured Learning activities under the activity 'Providing Solutions to Questionnaires/puzzles available on Web/Professional Journals.' There is no need to individually send this crossword in hard copy or email.

Husband gave keys of his new car to his wife with a warning:

Dear, if u meet with an accident, the newspaper will print your AGE.

So be careful !!

SOLUTION CROSSWORD 095