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

The Chartered Accountant STUDENT

Your monthly guide to CA news, information and events

1st JULY CA DAY

Advanced Auditing and Professional Ethics

Final

Accounting

Intermediate

Business Laws

Foundation

CONTENTS

INSIDE

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My Dear Students,

I extend my heartiest greetings on the auspicious and propitious occasion of Foundation Day of the Institute, being celebrated as **Chartered Accountants Day** across the country on July 1 every year. This year, ICAI is completing 71 years of its glorious existence.

In all these years, the profession has grown exponentially, to a strength of more than 3.1 lakh active members and more than 7 lakh students, becoming one of the most coveted professional qualifications globally. On this occasion, as we recount the contribution of our predecessors for our glorious past, we also need to acknowledge and appreciate our esteemed colleagues for our illustrious present and must work relentlessly towards a bright future. You, the students, the future of the profession, have to take the mantle of this prestigious profession forward, with your conscientious efforts and astute vision.

Embracing/Harnessing Technology: The way forward!

In view of the current COVID-19 health crisis prevailing in almost all of the parts of the world, industries and businesses across the spectrum need to **re-think** their strategies and **re-design** their operational ecosystem around technology in order to stay relevant in the present and near future.

In the time to come, a huge brigade of young, competent and technology-savvy accounting professionals having expertise in **artificial intelligence, blockchain, cloud computing, big data analytics, data security etc.** will be required who can lead from the front to **re-structure** business models to turn them around. This will create huge opportunities in **Valuation, Risk assessment, Mergers and Acquisitions** consulting worldwide. Not just the accounting but the technology will also change the way auditing is being done at present. With big data analytics and artificial intelligence, sampling or test checking will become the things of the past. As a budding professional, you should try to gain an overview of these technological concepts to enhance your knowledge and employability to leverage opportunities globally. Here I would like to quote our great philosopher and thinker, **Gurudev Rabindranath Tagore,**

"The highest education is that which does not merely give us information but makes our life in harmony with all existence."

ICAI: Frontrunner in knowledge delivery

As I informed in my earlier communication, finally the day has come when in order to expedite knowledge delivery at your door-steps and to provide the much-needed exposure to subject experts to guide you in these times of distress, absolutely **free of cost,** the ICAI through Board of Studies (BOS) is commencing **'Virtual Coaching Classes'** for CA Foundation, Intermediate and Final. These classes from July 1, 2020 will cover the entire syllabus to enable you to prepare for November 2020 exams, without having to venture out anywhere to attend physical classes. The classes can be viewed at your laptops/ tablets and hand-held smartphones within the comfort of your homes.

Current issue brings to you an inclusive capsule on **Business Laws for CA Foundation, Accounting for Intermediate and Advanced Auditing and Professional Ethics for Final.** These present significant details on important topics for revision.

Industrial Training Portal: Where Talent and Opportunity meet!

I am pleased to share that the **Students Skills Enrichment Board of ICAI i.e. BOS (Operations)** launched the **Industrial Training Portal** on **June 14, 2020** for all of you. The objective of the portal is to bring eligible students and companies/industries on a single common platform wherein they can engage with each other to explore training opportunities within the industrial framework.

Besides data, this portal will send auto-generated emails/SMS to the students, well ahead of time about their eligibility for industrial training as well as issue online approval to industries willing to impart industrial training to our students as per regulations. In today's new age business environment, industrial exposure is very much important for a student to move ahead in his / her dream of becoming a CEO from CFO of a company. Today, the industries need an all-round personality which is in true sense can become the business solution provider and this portal is a right step in this direction.

Spanish Language Programme: Global Approach

We at ICAI have collaborated with **Instituto Cervantes (Spanish Embassy Cultural Centre)** to impart courses on Spanish language at concessional rates for our students. This is your opportunity to overcome the language barrier; keeping you ahead of the times and helping you to prepare for opportunities with business conglomerates worldwide. The details are provided in this issue in the later pages.

OPT-OUT Option for July 2020 examination: Upholding your interest!

In order to put to rest your anxiety regarding the forthcoming July 2020 examination due to COVID-19 pandemic, we at ICAI introduced the OPT-OUT option to the students who registered for the exams. The option allowed you to carry forward your candidature to the next i.e. November 2020 exam without having to pay the exam fee again and extending the validity of your exemptions, if any, for the next exam. The last attempt for CA IPCC has also been extended to November 2020 exam. I hope you must have exercised your option for the forthcoming exams after analyzing the situation in your area.

All of you who wish to appear for the forthcoming July 2020 exam should be assured that we at ICAI shall make all necessary arrangements for smooth conduct of July 2020 examination scheduled to be held between 29th July and 16th August, 2020 including strict adherence to the precautions/measures prescribed by the Government /State authorities.

However, situation of pandemic will be reviewed (COVID cases, MHA guidelines, Centre and State Government directions) in the current month and status will be intimated shortly. It is to be noted that conduct of July 2020 examination commencing from 29th July 2020 will strictly depend upon the Government advisory issued for the area where the exam centre is located. In any such eventuality, the students will be accommodated to the November 2020 examination.

In evaluation process of ICAI we have already introduced various reforms. We started to empanel only those examiners who will score 72%+ in special test conducted which will value-add the entire eco-system around evaluation. Besides our commitment that May 2020 exam copies will be 100% digitally evaluated, now we have move forward with two more important reforms. For this exam cycle onwards, re-verification result to students will be available within 7 days of application and after adoption of technology in evaluation, time lag between exams and result can be reduced by 15-20 days which will offer more time to students to prepare for next cycle of exam.

I urge you to remain positive under all such circumstances and behold your faith in your own caliber. Remember that you are respected for your character first and then for your achievements. I end with the words of great scientist Albert Einstein: ***"Try not to become a person of success. Rather become a person of value."***

All the Best!

CA. ATUL K. GUPTA
PRESIDENT, ICAI, NEW DELHI

The best way to predict the future is to create it. - Peter Drucker

My Dear Students,

With great pride and happiness, I would like to congratulate everyone as we celebrate the ***72nd Foundation Day*** of our esteemed Institute - ***'The Institute of Chartered Accountants of India.'*** It is indeed a great pleasure to be a part of ***ICAI family*** and witness that ICAI has earned a place of prominence in global accounting community and is making rapid progress towards fulfilling its vision of becoming the world's leading accounting body. During its seven decades of existence, ICAI has established itself as a premier institute worldwide for producing highly skilled Chartered Accountant professionals. The Institute of Chartered Accountants of India will continue to produce quality professionals by imparting world class education and partnering in the journey of its students to help them develop as global professionals. I sincerely wish that you become a part of our professional fraternity in the near future.

After completing your CA course, you will primarily shoulder the responsibility of accurate and honest financial reporting of your client's business. This will require you to perform your task with utmost integrity, commitment and competency. Integrity requires accountants to be honest, candid and forthright with the client and their financial information. You must realize the fact that you will be remembered and admired by the society for your strict code of ethics in your professional deeds, apart from your technical capability and academic accomplishments. Hence, I advise you to inculcate the habit to perform your task with utmost integrity.

"The supreme quality for leadership is unquestionably integrity. Without it, no real success is possible, no matter whether it is on a section gang, a football field, in an army, or in an office."

- Dwight D. Eisenhower

Another key skill to be successful is Time Management. The management of time in appropriate and in judicial manner is the key to unfold the doors of success in the domain of personal and professional front. It is one of the most powerful and valuable skills that must be developed by all of you. Using effective time-management skills, you can improve your ability to function more effectively and efficiently during stressful situation. You can thrive and achieve your goals in a timely manner. I strongly recommend you to draft a focused plan for accomplishing your educational pursuits in a synchronized, organized and predetermined time frame.

We, at the Institute are sensitive to the need of each student during these difficult times of Covid-19 pandemic. The pandemic has impacted most of us in one way or another and we are confident that we will come out of the crisis soon.

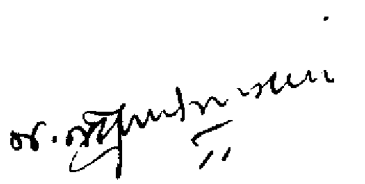
Staying at home is important for us to keep ourselves safe from Covid-19. In order to help our students to continue their studies seamlessly, Board of studies has taken an initiative to launch **Free Virtual Coaching Classes (VCC)** for CA Foundation, Intermediate and Final students from July 1 till October 2020 covering the entire syllabus targeting November 2020 exams. I am very confident that this initiative will serve as a supplement to our distance learning course and through these classes you will be having a life time learning opportunity to interact with eminent faculty members. I advise you to make the best use of this opportunity and attend these classes wholeheartedly.

"To succeed in your mission, you must have a single-minded devotion to your goal."

- Dr. APJ Abdul Kalam

Stay safe and healthy.

Yours sincerely



CA. NIHAR NIRANJAN JAMBUSARIA
VICE PRESIDENT, ICAI, NEW DELHI

"It always seems impossible, until it is done." - Nelson Mandela

My Dear Students,

It is my pleasure to greet you on the auspicious occasion of the Chartered Accountants Day, observed on 1st July every year. This is the time to remember the tireless efforts and valuable contributions made by the membership, who set a sound foundation for the profession. I sincerely wish that you become a part of our professional fraternity very soon. On this momentous occasion, I urge upon you to rededicate yourself towards your studies and practical training. As budding Chartered Accountants, you have a profound responsibility of taking the profession forward, uphold its ethics and values and commit yourself towards the betterment of the society and the nation.

Board of Studies: Moving with the times!

We at the Board of Studies are striving to provide the best resources in learning as well as best services to our stakeholders. In furtherance of our commitment towards the well-being of our students, we are going to commence **free 'Virtual Coaching Classes'** for CA Foundation, Intermediate and Final from **1st of July, 2020** covering the entire syllabus for November 2020 Examination.

These classes will be rendered by renowned subject experts and will be streamed live with a facility to be viewed later as recorded lectures. These can be accessed from any of your hand-held smart devices such as smartphones, tablets, I-pads and laptops. Being interactive in nature, you can put forth your queries at the end of each session. This is an endeavour to deliver knowledge to you irrespective of your location, within the country or abroad; in a uniform and universal manner to enable you to ***learn from home!***

I urge you to attend these classes to learn from the experts. The details have been uploaded on the following Link: https://www.icai.org/post/virtual-coaching-classes-commencing-from-1stJuly2020

CA Curriculum: Confluence of Theory and Application

The great American statesman Benjamin Franklin once said, ***Tell me and I forget. Teach me and I remember. Involve me and I learn.*** The professional course of chartered accountancy has been designed on the same philosophy, perfectly blending theoretical knowledge with practical training. Perhaps, this is one of the few courses that balance theory with practical and provides you with an opportunity to make a smooth transition from being a discerning student to a confident professional.

Students who have cleared either or both the Groups of Intermediate or registered through Direct Entry and were not able to start their practical training by 30th April, may start their training by **31st July, 2020** and complete their ICITSS by **31st October, 2020.**

This issue comprises inclusive subject capsules on **Business laws for CA Foundation, Accounting for Intermediate and Advanced Auditing and Professional Ethics for Final.** These provide vital concepts presented in a lucid manner for easy comprehension and revision.

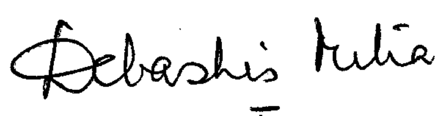
July 2020 exams: Round the corner

Those of you who have opted for the exams must be in the final phase of preparation, embarking on revision. You must have attempted the Mock Test Papers Series-I, subsequently self-assessed your performance vis a vis the solution sets and also attended the comprehensive counselling sessions conducted by the BoS faculty. I am sure you must have received valuable tips/cues and specific guidance regarding exam preparation and presentation. The Mock Test Paper Series-II will be released shortly.

It is now time to bridge the learning gaps and recapitulate important concepts and significant topics so that you are able to attempt any question with clarity and precision. You must realize that you have to utilize every minute of your time during the exam so that you are able to attempt the paper completely. Therefore, the time allocated to each question and the sequence in which you attempt the questions is crucial for your overall performance and score. I am sure, with undeterred determination, dedication and diligence; you shall definitely come out with flying colours and fulfil your dream of joining the coveted profession.

In conclusion, I would like to quote **Pele**, one the greatest footballers ***Success is no accident; it is the result of hard work, perseverance, learning, studying, sacrifice and most of all love of what you are doing!***

All the Best!



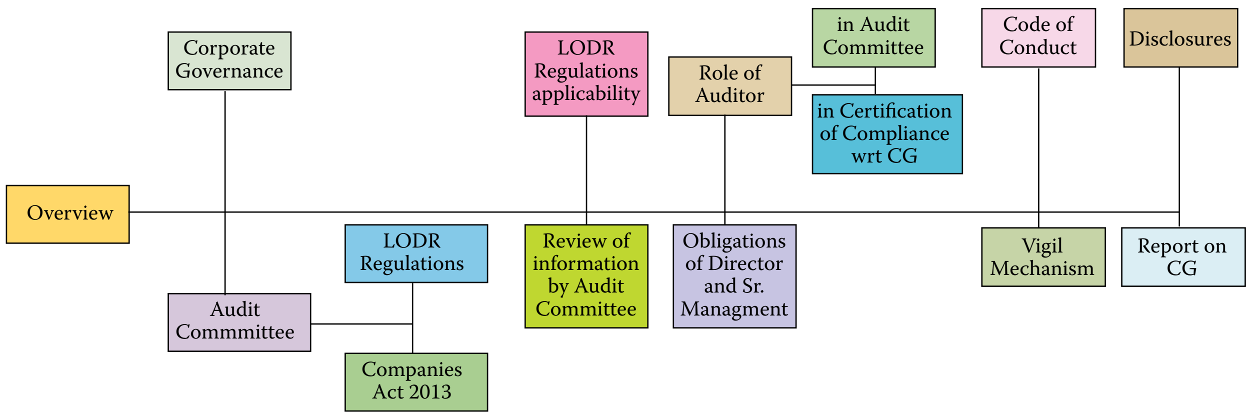
CA. (DR.) DEBASHIS MITRA
CHAIRMAN, BOARD OF STUDIES (ACADEMIC), ICAI

"It is never too late to be what you might have been." - George Eliot

ADVANCED AUDITING AND PROFESSIONAL ETHICS: A CAPSULE FOR QUICK RECAP

It has always been the endeavour of Board of Studies to provide quality academic inputs to the students of Chartered Accountancy Course. Keeping in mind this objective, BoS has decided to come out with a Crisp & Concise Capsule of each subject to facilitate students for quick revision before examination. In continuation to the series, this is fourth capsule on Paper 3: Advanced Auditing Professional Ethics of Final Course. It may be mentioned that this capsule is a tool for quick revision of some significant areas of Advanced Auditing and Professional Ethics this should not be taken as a substitute for the detailed study of the subject. Students are advised to refer to the relevant Study Material and Revisionary Test Paper for comprehensive study & revision.

CHAPTER 7: AUDIT COMMITTEE AND CORPORATE GOVERNANCE



'Corporate Governance' term encompasses rules, processes or laws by which the business entities are operated, regulated or controlled.

Legal Framework: Securities and Exchange Board of India (SEBI) on September 2, 2015 issued Listing Obligations and Disclosure Requirements Regulations, 2015 (herein after referred as **LODR Regulations**), with the objective of streamlining and consolidating the provisions of various listing agreements in operation for different segments of the capital markets, such as equity shares, preference shares, debt instruments, units of mutual funds, Indian depository receipts, securitised debt instruments and any other securities that the SEBI may specify.

The LODR Regulations are divided into **two parts** -

I. Substantive provisions -: incorporated in the main body;

II. Procedural requirements -: incorporated in the form of schedules.

The LODR Regulations also cover the corporate governance principles found in Clause 49 of SEBI's Model Listing Agreement.

Issues addressed in the LODR Regulations regarding corporate governance are:

- Responsibilities and key functions of the Board, it's composition, compensation and disclosures;
- Code of Conduct and vigil mechanism;
- Composition, meetings, powers, role and responsibilities of the Audit Committee which is an important pillar of corporate governance;
- Management of subsidiary companies;
- Procedures related to risk management;
- Disclosures on important issues regarding related party transactions, accounting treatment, etc.;
- Content of management discussion and analysis;
- Information to shareholders;
- Compliance Certificate by the CEO and CFO;
- Compliance Certificate from either the auditors or practising company secretaries regarding compliance of conditions on corporate governance.

Applicability of LODR Regulations [Regulation 3]
Listed Entities which has any of the following designated securities listed on recognised Stock Exchange(s):

- specified securities listed on main board or SME Exchange or institutional trading platform;
- non-convertible debt securities, non-convertible redeemable preference shares, perpetual debt instrument, perpetual non-cumulative preference shares;
- Indian depository receipts;
- securitised debt instruments;
- security receipts;
- units issued by mutual funds;
- any other securities as may be specified by the Board.

A. - Audit Committee under LODR Regulation:

Qualified and Independent Audit Committee [Regulation 18(1)]

Qualified and Independent Audit Committee -Regulation 18(1)

- Audit Committee shall have minimum three directors as members.
  - Two-third of the members of audit committee shall be independent directors,
  - In case of a listed entity having outstanding SR (Superior Rights) equity shares, the audit committee shall only comprise of independent directors.
- All members of Audit Committee shall be financially literate and at least one member shall have accounting or related financial management expertise.
- Chairperson of the Audit Committee shall be an independent director and he shall be present at AGM to answer shareholder queries.
- Company Secretary shall act as the secretary to the committee.
- Audit Committee at its discretion shall invite the :
  - finance director or the head of the finance function,
  - head of internal audit and
  - a representative of the statutory auditor and
  - any other such executives to be present at the meetings of the committee,
  - However, the Audit Committee may meet without the presence of any executives of the listed entity.

Meeting of Audit Committee [Regulation 18(2)]

- Audit Committee shall meet at least four times in a year;
- not more than one hundred and twenty days shall lapse between two meetings;
- quorum shall be either two members or one third of the members of the Audit Committee, whichever is greater;
- but there should be a minimum of two independent directors present.

Powers of Audit Committee [Regulation 18(2)]

The Audit Committee shall have powers, which includes the following:

(1) To investigate any activity within its terms of reference.
(2) To seek information from any employee.
(3) To obtain outside legal or other professional advice.
(4) To secure attendance of outsiders with relevant expertise, if it considers necessary.

Role of Audit Committee [Part C(A) of Schedule II]

Oversight of the listed entity's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;	
Recommendation for appointment, remuneration and terms of appointment of auditors of the listed entity;	Approval of payment to statutory auditors for any other services rendered by the statutory auditors;

Reviewing, with the Management, the Annual Financial Statements and Auditor's Report thereon before submission to the Board for approval, with particular reference to:						
Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (c) of sub-section 3 of section 134 of the Companies Act, 2013;	Changes, if any, in accounting policies and practices and reasons for the same;	Major accounting entries involving estimates based on the exercise of judgment by management;	Significant adjustments made in the financial statements arising out of audit findings;	Compliance with listing and other legal requirements relating to financial statements;	Disclosure of any related party transactions;	Modified opinion(s) in the draft audit report;
Reviewing, with the management, the quarterly financial statements before submission to the Board for approval;						
Reviewing, with the management, the statement of uses/application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/ prospectus/ notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter;						
Reviewing and monitoring the auditor's independence and performance, and effectiveness of audit process;						
Approval or any subsequent modification of transactions of the listed entity with related parties;						
Scrutiny of inter-corporate loans and investments;						
Valuation of undertakings or assets of the listed entity, wherever it is necessary;						
Evaluation of internal financial controls and risk management systems;						
Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;						
Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;						
Discussion with internal auditors of any significant findings and follow up there on;						
Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board;						
Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;						
To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;						
To review the functioning of the Whistle Blower mechanism;						
Approval of appointment of Chief Financial Officer after assessing the qualifications, experience and background, etc. of the candidate;						
Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.						
Reviewing the utilization of loans and/ or advances from /investment by the holding company in the subsidiary exceeding rupees 100 crore or 10% of the asset size of the subsidiary, whichever is lower including existing loans / advances / investments.						
If the company has set up an Audit Committee as per section 177 of the Companies Act, 2013, the company must ensure that the said Audit Committee has such additional functions / features as are contained in the LODR Regulations.						

B.- Audit Committee under Section 177 of the Companies Act, 2013

As per section 177 read with Rule 6 of the Companies (Meetings of Board and its Powers) Rules, 2014, every listed public company and the following classes of companies shall constitute an Audit Committee –

all public companies with a paid up capital of ten crore rupees or more;

all public companies having turnover of one hundred crore rupees or more;

all public companies, having in aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees.

However, following class of unlisted public companies shall not be covered:

- a joint venture;
- wholly owned subsidiary; and
- a dormant company as covered u/s 455.

The paid up share capital or turnover or outstanding loans, debentures and deposits, as the case may be, as existing on the date of last audited Financial Statements shall be taken into account for the purposes of this rule.	Section 139(11) provides that where a company is required to constitute an Audit Committee under section 177, all appointments, including the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of such committee.	The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority. It may be noted that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.

Resignation of Statutory Auditors from Listed Entities and their Material Subsidiaries

Audit Committee of a listed entity, inter alia, has to make recommendations for the appointment, remuneration and terms of appointment of auditors of a listed entity. Audit Committee is also responsible for reviewing and monitoring the independence and performance of auditors and the effectiveness of the audit process.

Clause A in Part A of Schedule Ill under Regulation 30(2) of SEBI LODR Regulations **requires detailed reasons to be disclosed by the listed entities to the stock exchanges in case of resignation of the auditor** of a listed entity as soon as possible **but not later than twenty-four hours of receipt** of such reasons from the auditor.

Regulation 36(5) of the SEBI LODR Regulations lays down certain **disclosures to be made part of the notice** to the shareholders for an AGM, where the **statutory auditors are proposed to be appointed**/re-appointed, including their terms of appointment.

In light of the above, the conditions to be complied with upon resignation of the statutory auditor of a listed entity/material subsidiary w.r.t. limited review / audit report as per SEBI LODR Regulations, are as under:

A. All listed entities/ material subsidiaries while appointing/ re-appointing an auditor shall ensure compliance with:

- If the auditor **resigns within 45 days from the end of a quarter** of a financial year, then the auditor shall, **before such resignation, issue the limited review/ audit report for such quarter.**
- If the auditor resigns **after 45 days from the end of a quarter of a financial year,** then the auditor shall, before such resignation, **issue the limited review/ audit report for such quarter as well as the next quarter.**
- if the auditor has signed the limited review/ audit report for the first three quarters of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for the last quarter of such financial year as well as the audit report for such financial year.

B. Other conditions relating to resignation shall include:

i) Reporting of concerns with respect to the listed entity/its material subsidiary to the Audit Committee:

a. In case of any concern with the management of the listed entity/material subsidiary such as non-availability of information / non-cooperation by the management which may hamper the audit process, the auditor shall approach the Chairman of the Audit Committee of the listed entity and the Audit Committee shall receive such concern directly and immediately without specifically waiting for the quarterly Audit Committee meetings.

b. If auditor proposes to resign, all concerns with respect to the proposed resignation, along with relevant documents shall be brought to the notice of the Audit Committee.

If proposed resignation is due to non-receipt of information/explanation from the company, the auditor shall inform the Audit Committee of the details of information/explanation sought and not provided by the management, as applicable.

c. On receipt of such information from the auditor relating to the proposal to resign as mentioned above, the Audit Committee/board of directors (In case an entity is not mandated to have an Audit Committee, then the board of directors of the entity shall ensure compliance), shall deliberate on the matter and communicate its views to the management and the auditor.

ii) Disclaimer in case of non-receipt of information in accordance with the Standards of Auditing as specified by ICAI/ NFRA.

The listed entity/ material subsidiary shall ensure that the conditions mentioned above in (A) and (B) above are included in the terms of appointment of the statutory auditor at the time of appointing/re-appointing the auditor. In case the auditor has already been appointed, the terms of appointment shall be suitably modified to give effect to (A) and (B) above.

The practicing company secretary shall certify compliance by a listed entity on the above in the prescribed annual secretarial compliance report.

C. Obligations of the listed entity and its material subsidiary:

- **Format of information to be obtained from the statutory auditor upon resignation**
- **Co-operation by listed entity and its material subsidiary:**
- **Disclosure of Audit Committee's views to the Stock Exchanges**

Above provisions will not apply if the auditor is disqualified due to Section 141 of the Companies Act, 2013.

Functions of the Audit Committee

Section 177 (4): "Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall inter alia, include,—

(i) the recommendation for appointment, remuneration and terms of appointment of auditors of the company ***(However, in case of Government Company, it is limited to the recommendation for remuneration);***	(ii) review and monitor the auditor's independence and performance, and effectiveness of audit process;	(iii) examination of the financial statement and the auditors' report thereon;

(iv) approval or any subsequent modification of transactions of the company with related parties;
(However, the Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to such conditions as may be prescribed.

In case of transactions other than transactions referred to in section 188 of the Companies Act 2013, and where Audit Committee does not approve the transaction, it shall make its recommendations to the Board.

Also, in case any transaction involving an amount not exceeding Rupees 1 crore is entered into by a director or officer of the company without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within three months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee and if the transaction is with the related party to any director or is authorized by any other director, the director concerned shall indemnify the company against any loss incurred by it.

These provisions shall not apply to a transaction, other than a transaction referred to in section 188, between a holding company and its wholly owned subsidiary company.

(v) scrutiny of inter-corporate loans and investments;	(vi) valuation of undertakings or assets of the company, wherever it is necessary;	(vii) evaluation of internal financial controls and risk management systems;	(viii) monitoring the end use of funds raised through public offers and related matters."

Section 177 (5): "The Audit Committee may call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company".

Section 177 (6): "The Audit Committee shall have authority to investigate into any matter in relation to the items specified in sub-section (4) or referred to it by the Board and for this purpose shall have power to obtain professional advice from external sources and have full access to information contained in the records of the company."

Section 177 (7): "The auditors of a company and the key managerial personnel shall have a right to be heard in the meetings of the Audit Committee when it considers the auditor's report but shall not have the right to vote."

Section 177 (8): "The Board's report under sub-section (3) of section 134 shall disclose the composition of an Audit Committee and where the Board had not accepted any recommendation of the Audit Committee, the same shall be disclosed in such report along with the reasons therefor."

Section 177 (9): "Every listed company or such class or classes of companies, as may be prescribed, shall establish a vigil mechanism for directors and employees to report genuine concerns in such manner as may be prescribed."

Section 177 (10): "The vigil mechanism under sub-section (9) shall provide for adequate safeguards against victimisation of persons who use such mechanism and make provision for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases: Provided that the details of establishment of such mechanism shall be disclosed by the company on its website, if any, and in the Board's report."

Mandatorily Review of Information by Audit Committee as per Part C(B) of Schedule II

1. Management discussion and analysis of financial condition and results of operations;
2. Statement of significant related party transactions (as defined by the Audit Committee), submitted by management;
3. Management letters / letters of internal control weaknesses issued by the statutory auditors;
4. Internal audit reports relating to internal control weaknesses;
5. The appointment, removal and terms of remuneration of the Chief Internal Auditor shall be subject to review by the Audit Committee; and
6. Statement of deviations: (a) quarterly statement of deviations including report of monitoring agency if applicable and (b) annual statement of funds utilized for purposes other than those stated in the offer document/ prospectus/ notice.

Role of Auditor in Audit Committee and Certification of Compliance of Conditions of Corporate Governance

Regulation 18(1)(f) stipulates that a representative of the statutory auditor, when required, shall be invited to the meetings of the Audit Committee. Similarly, Section 177 of the Companies Act, 2013 provides the auditors of a company and the key managerial personnel, the right to be heard in the meetings of the Audit Committee when it considers the auditor's report but they shall not have the right to vote.

The auditor must ensure that he communicates frequently and openly with the Audit Committee on key accounting or auditing issues that, in the auditor's judgment, give rise to a greater risk of material misstatement of the financial statements, and also ensure that he addresses any questions or concerns voiced by the Audit Committee.

He can contribute significantly in assisting and advising the Audit Committee on improving corporate governance, oversight of financial reporting process, implementation of accounting policies and practices, compliance with accounting standards, strengthening of the internal control systems in regard to financial reporting and reporting processes.

The auditor must devote substantial professional time in assisting the management and the Audit Committee to enable them to discharge their functions effectively and in certification of the requirements of corporate governance.

The auditor has to keep in mind that his role is not to drive corporate governance directly. Rather, it is the management's responsibility to do so and, in the process, he should play a significant role in assisting management to ensure better standards of corporate governance.

Auditor's Responsibility:

in certifying compliance with the requirements of corporate governance relates to the verification and certification of factual implementation of requirements of corporate governance as stipulated in the LODR Regulations.

Such verification and certification is neither an audit nor an expression of opinion on the financial statements of the company

The certificate from the auditor as regards compliance with the requirements of corporate governance is neither an assurance as to the future viability of the company, nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

General Principles of Audit

- **Complying with SA in the performance of certification**
- **in the case of other professional assignments, in certifying the compliance the auditor should comply with the "Code of Ethics"**
- **conduct verification of compliance with the requirements of corporate governance as per LODR Regulations, in accordance with the Guidance Note on Certification of Corporate Governance issued by ICAI.**

Documentation :

- **document matters, which are important in providing evidence to support the certificate of factual findings, in accordance with SA 230 on "Audit Documentation".**

Written Representation:

- **consider obtaining management representations in accordance with SA 580, "Written Representations".**

Verification regarding Composition of Board [Regulation 17 and 17A]

The auditor should ensure that:

- throughout the reporting period, the Board of Directors comprises an optimum combination of executive and non-executive directors, with at least one woman director and not less than 50% of the Board of Directors comprising non-executive directors.
- whether, the Board of directors of the top 500 (1000 by April 1, 2020) listed entities shall have at least one independent woman director.
- **The top 500 / 1000 entities shall be determined on the basis of market capitalisation, as at the end of the immediate previous financial year**
- no listed entity shall appoint a person or continue the directorship of any person as a non-executive director who has attained the age of **seventy five years** (unless a special resolution is passed to that effect, in which case the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such a person.)

The directors of listed entities shall comply with the following conditions with respect to the maximum number of directorships, including any alternate directorships that can be held by them at any point of time -

- A person shall not be a **director** in more than **eight listed entities** (and in not more than seven listed entities w.e.f. April 1, 2020).
- A person shall not serve as an **independent director** in more than **seven listed entities.**
- Notwithstanding the above, any person who is serving as a whole time director / managing director in any listed entity shall serve as an independent director in not more than three listed entities.

For the purpose of above-mentioned provision, the count for the number of listed entities on which a person is a director / independent director shall be only those whose equity shares are listed on a stock exchange.

The minutes of the Board of Directors' meetings should be verified to ascertain whether a director is an executive director or a non-executive director.

The auditor should also verify that where the Chairperson of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case the listed entity does not have a regular non-executive Chairperson, at least half of the Board of Directors should comprise independent directors.

In case the regular non-executive Chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the Board level or at one level below the Board, at least one-half of the Board of the listed entity shall consist of independent directors.

The auditor should ensure that the board of directors of the top 1000 listed entities (and the top 2000 listed entities w.e.f. April 1, 2020) shall comprise of not less than six directors.

The Chairperson of the board of the top 500 listed entities (w.e.f. April 1, 2020) is –

(a) a non-executive director;

(b) not related to the Managing Director or the Chief Executive Officer as per the definition of the term "relative" defined under the Companies Act, 2013.

This provision shall not be applicable to the listed entities which do not have any identifiable promoters as per the shareholding pattern filed with stock exchanges.

In case of listed company having outstanding SR equity shares, the auditor shall check that at least half of the board of directors comprises of independent directors.

Annual disclosure submitted by the directors to the Board of Directors may be examined for this purpose. If the Board of Directors has followed any particular procedure(s) to ascertain the independence of directors, the auditor should examine the same. Effect of changes in the composition of the Board and/or its Chairman and its impact on compliance throughout the reporting period should also be examined.

An independent non-executive director, apart from receiving remuneration, should not have had/ should not have any material pecuniary relationship with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year. Also, such independent director, either by himself or with any of his relatives should not be a material supplier, service provider or customer or a lessor or lessee of the listed entity, and should not also be a substantial shareholder of the listed entity. In determining 'not a substantial shareholder', he (together with his relatives) should not own 2% or more of total voting power of the listed entity.

Limited Review of the audit of all the Entities whose accounts are to be consolidated with the Listed Entity: whose accounts are to be consolidated with the listed entity as per AS / Ind-AS in accordance with guidelines issued by SEBI on this matter". Consequently, following should *shall comply with the prescribed procedure.*

- **all listed entities whose equity shares and convertible securities are listed on a recognised stock exchange,**
- **the statutory auditors of such entities,**
- **all entities whose accounts are to be consolidated with the listed entity and**
- **the statutory auditors of entities whose accounts are to be consolidated with the listed entity**

Disclosure requirements regarding Directors' Remuneration as per [Part C of Schedule V]

All pecuniary relationship or transactions of the non-executive directors vis-à-vis the listed entity shall be disclosed in the Annual Report.

Criteria for making payments to non-executive directors.

In addition to the disclosures required under the Companies Act, 2013, the following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the Annual Report:

- **All elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, pension etc.**
- **Details of fixed component and performance linked incentives, along with the performance criteria.**
- **Service contracts, notice period, severance fees.**
- **Stock option details, if any – and whether issued at a discount as well as the period over which accrued and over which exercisable.**

Approval of Remuneration of Directors [Regulation 17(6)]

All fees/compensation, if any, paid to non-executive directors, including independent directors, shall be:

- fixed by the Board of Directors and
- shall require previous approval of shareholders in general meeting.

The shareholders' resolution shall specify the limits for the maximum number of stock options that can be granted to non-executive directors, in any financial year and in aggregate.

In case the **annual remuneration payable to a single non-executive director exceeds fifty percent of the total annual remuneration payable to all non-executive directors, approval of shareholders by special resolution** shall be obtained every year

Exception to prior approval of shareholders in general meeting is payment of sitting fees to non-executive directors, if made within the limits prescribed under the Companies Act, 2013 for payment of sitting fees without approval of the Central Government.

Independent director shall **not** be **entitled to any stock option.**

The fees or compensation **payable to executive directors who are promoters or members of the promoter group,** shall be subject to the **approval of the shareholders by special resolution in general meeting,** in case-

(i) the annual remuneration payable to such executive director exceeds rupees 5 crore or 2.5 per cent of the net profits of the listed entity, whichever is higher; or

(ii) where there is more than one such director, the aggregate annual remuneration to such directors exceeds 5 per cent of the net profits of the listed entity

Obligations with respect to Employees including Senior Management, Key Managerial Persons, Directors and Promoters [Regulations 17(2) to 17(4), 17A, 25(5), 25(6), 26(1), 26 (2), 26(4) to 26(6)]

(i) The Board shall
- meet at least four times a year,
- with a maximum time gap of one hundred and twenty days between any two meetings.

The quorum for every meeting of the board of directors of the top 1,000 listed entities (top 2,000 listed entities w.e.f. April 1, 2020) shall be one-third of its total strength or three directors, whichever is higher, including at least one independent director.

The participation of the directors by video conferencing or by other audio-visual means shall also be counted for the purposes of such quorum.

The directors of listed entities shall comply with the conditions (discussed above in Regulation 17 and 17A) with respect to the maximum number of directorships, including any alternate directorships that can be held by them at any point of time.

(ii) A director shall not be a member in more than ten committees or act as Chairperson of more than five committees across all listed entities in which he is a director, shall inform the listed entity about the committee positions he occupies in other listed entities and notify changes as and when they take place.

(iii) The Board shall periodically review compliance reports of all laws applicable to the listed entity, prepared by the listed entity as well as steps taken by the listed entity to rectify instances of non-compliances.

(iv) Non-executive directors shall be required to disclose their shareholding (both own or held by / for other persons on a beneficial basis) in the listed entity in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director.

(v) An independent director shall be held liable, only in respect of such acts of omission or commission by the listed entity which had occurred with his knowledge, attributable through Board processes, and with his consent or connivance or where he had not acted diligently with respect of the provisions contained in the LODR Regulations.

(vi) Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large.

(vii) An independent director who resigns or is removed from the Board of Directors of the listed entity shall be replaced by a new independent director at the earliest but not later than the immediate next Board meeting or three months from the date of such vacancy, whichever is later.

It may be noted that where the listed entity fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as the case may be, the requirement of replacement by a new independent director shall not apply.

(viii) The Board of Directors of the listed entity shall satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management.

Meeting of Board of Directors as per LODR Regulations and Section 173 of the Companies Act, 2013: Board meetings shall be held at least four times a year and that the maximum time gap between any two meetings should not exceed one hundred and twenty days (except for certain specified companies).

However, Central Government may, by notification, direct that the provisions of this section 173 (1), shall not apply in relation to any class or description of companies or shall apply subject to such exceptions, modifications or conditions as may be specified in the notification,
- in case of Section 8 company, section 173 (1) shall apply only to the extent that the Board of Directors, of such Companies shall **hold at least one meeting within every six calendar months.**
- in case of specified IFSC public and private company, it **shall hold the first meeting of the Board of Directors within sixty days of its incorporation** and thereafter hold **at least one meeting** of the **Board of Directors in each half of a calendar year.**

Code of Conduct [Regulations 17(5), 26(3), 46(2) and Part D of Sch. V]

- The Board shall lay down a code of conduct for all Board members and senior management of the listed entity.
- All Board members and senior management personnel shall affirm compliance with the code on an annual basis.
- The Annual Report of the company shall contain a declaration to this effect signed by the CEO.
- The code of conduct shall be posted on the website of the company.
- The Code of Conduct shall suitably incorporate the duties of Independent Directors as laid down in the Companies Act, 2013.

Vigil Mechanism [Regulations 22, 46 and Part C of Schedule V]

(i) The listed entity shall establish a vigil mechanism for directors and employees to report genuine concerns.

(ii) This mechanism should also provide for adequate safeguards against victimization of director(s) / employee(s) or any other person who avail the mechanism and also provide for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases.

(iii) The details of establishment of such mechanism shall be disclosed by the company on its website and in the Board's report.

Subsidiary of Listed Entity [Regulations16(c), 24 and 46 and Part C of Schedule V]

(i) As per **Regulation 16(c),** "material subsidiary" shall mean a subsidiary, whose income or net worth exceeds 10% of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.

Regulation 24(1) provides that at least one independent director on the board of directors of the listed entity shall be a director on the board of directors of an unlisted material subsidiary, whether incorporated in India or not. [For the purposes of Regulation 24(1), notwithstanding anything to the contrary contained in regulation 16, the term "material subsidiary" shall mean a subsidiary, whose income or net worth exceeds 20% of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year]

(ii) The Audit Committee of the listed entity shall also review the financial statements, in particular, the investments made by the unlisted subsidiary.

(iii) The minutes of the Board meetings of the unlisted subsidiary shall be placed at the Board meeting of the listed entity. The management of the unlisted subsidiary shall periodically bring to the notice of the Board of Directors of the listed entity, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary.

(iv) The company shall formulate a policy for determining 'material' subsidiaries and such policy shall be disclosed on the company's website and a web link thereto shall be provided in the Annual Report.

(v) **A listed entity shall not dispose off shares in its material subsidiary resulting in reduction of its shareholding** (either on its own or together with other subsidiaries) **to less than 50% or cease the exercise of control over the subsidiary** without passing a special resolution in its General Meeting except in cases where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal, or under a resolution plan duly approved under section 31 of the Insolvency Code and such an event has been disclosed to the recognized stock exchanges within one day of the resolution plan being approved.

(vi) **Selling, disposing and leasing of assets amounting to more than twenty percent of the assets of the material subsidiary** on an aggregate basis during a financial year shall require prior approval of shareholders by way of special resolution, unless the sale/ disposal/lease is made under a scheme of arrangement duly approved by a Court/Tribunal, or under a resolution plan duly approved under section 31 of the Insolvency Code and such an event has been disclosed to the recognized stock exchanges within one day of the resolution plan being approved.

(vii) Where a listed entity has a listed subsidiary which is itself a holding company, the above provisions shall apply to the listed subsidiary insofar as its subsidiaries are concerned.

<u>Regulation 24 requires the Audit Committee of the listed entity</u> to review the financial statements and in particular, the investments made by the unlisted subsidiary. This is required in regard to all unlisted subsidiaries, without reference to materiality or place of incorporation etc. Where however the subsidiary of a listed entity is itself a listed entity.

<u>Secretarial Audit of Listed Entity and its Material Unlisted Subsidiaries</u> incorporated in India shall undertake secretarial audit and shall annex with its annual report, a secretarial audit report, given by a company secretary in practice, in such form as may be specified as per **<u>Regulation 24A</u>**

Nomination and Remuneration Committee [Regulation 19 and Part D of Schedule II]

A. The Board of Directors of every listed public company shall constitute the Nomination and Remuneration Committee which shall:

- ✔ comprise of at least three directors,
- ✔ all of whom shall be non-executive directors and
- ✔ at least half shall be independent directors,
- ✔ two thirds shall comprise of independent directors if listed entity having outstanding SR equity shares,
- ✔ Chairperson of the committee shall be an independent director.

- ✔ **Chairperson** of the company (whether executive or non-executive) may be appointed as a member of the Nomination and Remuneration Committee but shall not chair such committee.
- ✔ **Quorum** for a **meeting of the Nomination and Remuneration committee** shall be **either two members or one third of the members** of the committee, whichever is **greater**, including **at least one independent director** in attendance.
- ✔ Nomination and Remuneration committee shall **meet at least once in a year.**

B. Role of Nomination and Remuneration committee:

- Formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board of Directors a policy, relating to the remuneration of the directors, key managerial personnel and other employees;
- Formulation of criteria for evaluation of performance of independent directors and the Board of Directors;
- Devising a policy on Board diversity;
- Identifying persons who are qualified to become directors and who may be appointed in senior management as per given criteria laid down, and recommend to the Board for appointment and removal;
- whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors.
- recommend to the board, all remuneration, in whatever form, payable to senior management.

C. Chairperson of the Nomination and Remuneration Committee may be present at the AGM, to answer the shareholders' queries.

Stakeholders Relationship Committee [Regulation 20 and Part D of Schedule II]

(i) The listed entity shall constitute a Stakeholders Relationship Committee to specifically look into various aspects of interest of shareholders, debenture holders and other security holders.

(ii) The chairperson of this Committee shall be a non-executive director.

(iii) At least three directors, with at least one being an independent director, shall be members of the Committee. However, in case of a listed entity having outstanding SR equity shares, at least two thirds of the Committee shall comprise of independent directors.

(iv) The Chairperson of the Stakeholders Relationship Committee shall be present at the annual general meetings to answer queries of the security holders.

(v) The Stakeholders Relationship Committee shall meet at least once in a year.

(iv) **Role of Stakeholders Relationship Committee :**

- Resolving the grievances of the security holders of the listed entity including complaints related to transfer/ transmission of shares, non-receipt of annual report, non-receipt of declared dividends, issue of new/duplicate certificates, general meetings etc.
- Review of measures taken for effective exercise of voting rights by shareholders.
- Review of adherence to the service standards adopted by the listed entity in respect of various services being rendered by the Registrar & Share Transfer Agent.
- Review of the various measures and initiatives taken by the listed entity for reducing the quantum of unclaimed dividends and ensuring timely receipt of dividend warrants/annual reports/statutory notices by the shareholders of the company.

Role of Auditor:

- ✔ The auditor should ascertain from the minutes book of the Board meetings whether a Board committee, namely a Stakeholders Relationship Committee has been set up under the chairmanship of a non-executive director to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of annual report, non-receipt of declared dividends, etc. Further, the auditor should also ascertain from the minutes book of the Committee meetings whether such committee is prima facie functioning.
- ✔ The auditor should also verify from the records of the Committee as well as from the certificate obtained by the listed entity from SEBI and stock exchange(s), if any, as regards the investors' grievances pending up to the date of certificate of compliance of conditions of corporate governance.

Risk Management Committee [Regulation 21]

The Board of Directors shall constitute a Risk Management Committee.

The majority of members of Risk Management Committee shall consist of members of the Board of Directors. In case of a listed entity having outstanding SR equity shares, at least two thirds of the Risk Management Committee shall comprise of independent directors.

The Chairperson of the Risk Management Committee shall be a member of the Board of Directors and senior executives of the listed entity may be members of the committee.

The risk management committee shall meet at least once in a year.

The Board of Directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit and such function shall specifically cover cyber security.

The provisions of this regulation shall be applicable to top 500 listed entities, determined on the basis of market capitalisation, as at the end of the immediate previous financial year.

These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.
A majority of this Committee will be the members of the Board of Directors.

Statement of Deviation(s) or Variation(s) [Regulation 32 and Part C of Schedule II]

The listed entity shall submit to the stock exchange the following statement(s) on a quarterly basis for public issue, rights issue, preferential issue etc.:

- **Indicating deviations, if any, in the use of proceeds from the objects stated in the offer document or explanatory statement to the notice for the general meeting, as applicable;**
- **Indicating category-wise variation (capital expenditure, sales and marketing, working capital etc.) between projected utilisation of funds made by it in its offer document or explanatory statement to the notice for the general meeting, as applicable and the actual utilisation of funds.**

The statement(s) shall be continued to be given till such time the issue proceeds have been fully utilised or the purpose for which these proceeds were raised has been achieved.

Where an entity has raised funds through preferential allotment or qualified institutions placement, the listed entity shall disclose every year, the utilization of such funds during that year in its Annual Report until such funds are fully utilized.

The audit committee shall mandatorily review:

(a) Quarterly statement of deviation(s) including report of monitoring agency, if applicable, submitted to stock exchange(s) in terms of Regulation 32(1).

(b) Annual statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice.

Information to Shareholders [Regulation 36]

In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:

- A brief resume of the director;
- Nature of his expertise in specific functional areas;
- Disclosure of relationships between directors inter-se;
- Names of listed entities in which the person also holds the directorship and the membership of Committees of the Board; and
- Share-holding of non-executive directors.

Role of Auditor : The auditor should ascertain from the communications sent, whether in the case of appointment of a new director or re-appointment of a director, the shareholders have been provided with the information stipulated above.

Transfer or Transmission or Transposition of Securities [Regulation 40]

Board of Directors of a listed entity shall :

- delegate the power of transfer of securities to a committee or to the compliance officer or to the registrar to an issue and/or share transfer agents.
- Board of directors and/or the delegated authority shall attend to the formalities pertaining to transfer of securities at least once in a fortnight.
- Delegated authority shall report on transfer of securities to the board of directors in each meeting.

Role of Auditor :

- ascertain from the minutes book of the Board meetings whether the listed entity has delegated the power of share transfer to an officer or a committee or to the registrar and share transfer agents.
- verify from the records maintained to ascertain whether the delegated authority has attended to share transfer formalities at least once in a fortnight.
- verify whether any transfer request are pending for more than a fortnight and are not attended to in terms of this Regulation.

Compliance Certificate [Part B of Schedule II]

The Chief Executive Officer and the Chief Financial Officer shall certify to the Board that:

(a) They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:

(i) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

(ii) These statements together present a true and fair view of the listed entity's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

(b) There are, to the best of their knowledge and belief, no transactions entered into by the listed entity during the year which are fraudulent, illegal or violative of the listed entity's code of conduct.

(c) They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of the internal control systems of the listed entity pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.

They have indicated to the auditors and the Audit committee:

(i) Significant changes in internal control over financial reporting during the year;

(ii) Significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and

(iii)Instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the listed entity's internal control system over financial reporting.

Part B of Schedule II clearly brings out that - The responsibility entrusted to the CEO and CFO is in relation to establishing and maintaining internal controls over financial reporting.

The Compliance Certificate has to assert that they have evaluated the effectiveness of internal control systems of the listed entity pertaining to financial reporting.

The Compliance Certificate will further state the manner in which deficiencies (if any) in the design or operation of such internal controls has been disclosed to the auditors and the Audit Committee.

The Compliance Certificate will also state the steps they have taken or propose to take to rectify these deficiencies in the design or operation of such internal controls pertaining to financial reporting.

Disclosures - Management Discussion and Analysis [Schedule V]

As part of the directors' report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders. This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company's competitive position:

<table>
<tr><td>(a) Industry structure and developments.</td><td>(b) Opportunities and Threats.</td><td>(c) Segment–wise or product-wise performance.</td></tr>
<tr><td>(d) Outlook</td><td>(e) Risks and concerns.</td><td>(f) Internal control systems and their adequacy.</td></tr>
<tr><td>(g) Discussion on financial performance with respect to operational performance.</td><td colspan="2">(h) Material developments in Human Resources / Industrial Relations front, including number of people employed.</td></tr>
<tr><td>(i) details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with detailed explanations therefor, including:
(i) Debtors Turnover
(ii) Inventory Turnover
(iii) Interest Coverage Ratio
(iv) Current Ratio
(v) Debt Equity Ratio
(vi) Operating Profit Margin (%)
(vii) Net Profit Margin (%) or sector-specific equivalent ratios, as applicable.</td><td colspan="2">(j) details of any change in Return on Net Worth as compared to the immediately previous financial year along with a detailed explanation thereof.</td></tr>
</table>

Other Disclosures

Disclosure & Transparency [Regulation 4]

- ensure timely and accurate disclosure on all material matters of the Listed entity, in the following manner:
- Information shall be prepared and disclosed as per prescribed standards of accounting, financial and non-financial disclosure.
- Channels for disseminating information should provide for equal, timely and cost efficient access to relevant information by users.
- Minutes of the meeting shall be maintained explicitly recording dissenting opinions, if any.

Related Party Disclosure [Regulations 23, 27, 46 and Schedule V]

- submit quarterly compliance report on corporate governance in specified format by Board
- to the recognised stock exchange(s) within fifteen days from close of the quarter.
- Details of all material transactions with related parties shall be disclosed therein.
- The report shall be signed either by the compliance officer or the chief executive officer of the listed entity.
- disclose the policy on dealing with related party transactions on its website and a web link thereto shall be provided in the Annual Report.
- disclosure of transactions with any person or entity belonging to the promoter/ promoter group which hold(s) 10% or more shareholding in the listed entity in presecribed format as per relevant AS for annual results.
- The listed entity shall submit within 30 days from the date of publication of its standalone and consolidated financial results for the half year, disclosures of related party transactions on a consolidated basis, in the format specified in the relevant accounting standards for annual results to the stock exchanges and publish the same on its website.

Disclosure of Accounting Treatment [Schedule V]

- Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management's explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction.
- Auditor should refer to the Compliance Certificate issued in accordance with Regulation 17

Disclosures in relation to the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 (Schedule V)

- Amongst other matters, following should be disclosed in the section on Corporate Governance of the Annual Report:
- number of complaints filed during the financial year
- number of complaints disposed of during the financial year
- number of complaints pending as on end of the financial year .

Report on Corporate Governance [Regulation 27 and Schedule II]

- The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by the Board from time to time to the recognised stock exchange(s) within 15 days from the close of quarter. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the listed entity.
- The auditor should ascertain whether the Board of Directors have included in the Annual Report of the listed entity, a separate section on corporate governance with a detailed compliance report on corporate governance.
- Any data in the report on corporate governance should not be inconsistent with that contained in the financial statements.

Auditors' Certificate (Schedule V)

A listed entity shall obtain a compliance certificate from either the auditors or practicing company secretaries regarding compliance of co13nditions of corporate governance and shall annex it to the Directors' Report.

Situations may require an adverse or qualified statement or a disclosure without necessarily making it a subject matter of qualification in the Auditors' Certificate are:

- The number of non-executive directors is less than 50% of the strength of Board of directors.
- A qualified and independent audit committee is not set up.
- The Chairman of the audit committee is not an independent director.
- The Audit Committee does not meet four times a year.
- The necessary powers in terms of Part C of Schedule II have not been vested by the Board in the Audit Committee.
- The time gap between two Board meetings is more than one hundred and twenty days.
- A director is a member of more than ten committees or acts as Chairman of more than five committees across all companies in which he is a director.
- The information of quarterly results is neither put on the listed entity's website nor sent in a form so as to enable the stock exchange on which the entity's securities are listed to enable such stock exchange to put it on its own website.
- The power of share transfer is not delegated to an officer or a committee or to the registrar and share transfer agents.

ACCOUNTING: A CAPSULE FOR QUICK RECAP

It has always been the endeavour of Board of Studies to provide quality academic inputs to the students. Considering this objective in mind, it has been decided to bring forth a crisp and concise capsule for Paper 1 'Accounting' at Intermediate level. The topics of "Framework for Preparation and Presentation of Financial Statements" (in continuation of the matter given in May, 2020 issue of Students' Journal); "Redemption of Preference Shares and Debentures" and "Departmental Accounts" have been covered in this Capsule. The significant points of these topics have been presented through pictorial presentations in this capsule which will help the students in grasping the intricate practical aspects of each topic. This will facilitate the students to recapitulate the whole concepts within minimum time and efforts in the later stages of preparation. Although, the capsule has been prepared keeping in view the new and revised scheme of Education and Training of ICAI, the students of earlier scheme may also be benefitted from it. This capsule, though, facilitates the students in undergoing quick revision, under no circumstances, such revisions can substitute the detailed study of the material provided by the Board of Studies.

CHAPTER 2 FRAMEWORK FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The principal areas covered by the framework, status and scope of Framework, components of financial statements, objectives and users of financial statements, fundamental accounting assumptions, true and fair view of financial statements and measurement of elements of financial statements have already been discussed in the Capsule published in May, 2020 issue of Students' Journal. Continuing this, the concepts of capital maintenance and determination of profit are being discussed below:

Capital Maintenance

Capital refers to net assets of a business. It is important for any business to maintain its net assets in such a way, as to ensure continued operations, at least at the same level, year after year. In other words, dividends should not exceed profit after appropriate provisions for replacement of assets consumed in operations.

The point is explained below as:

- P = (CA – CL) – (OA – OL) – C + D
- Where: Profit = P
- Opening Assets = OA and Opening Liabilities = OL
- Closing Assets = CA and Closing Liabilities = CL
- Introduction of capital = C and Drawings / Dividends = D
- Retained Profit = P – D = (CA – CL) – (OA – OL) – C

A business must ensure that Retained Profit (RP) is not negative, i.e. closing equity should not be less than capital to be maintained, which is sum of opening equity and capital introduced. The value of retained profit depends on the valuation of assets and liabilities.

The concept of capital maintenance is concerned with how an enterprise defines the capital that it seeks to maintain. It provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured. It is a prerequisite for distinguishing between an enterprise's return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital can be regarded as profit and therefore as a return on capital.

In order to check maintenance of capital, i.e. whether or not retained profit is negative, we can use any of these bases:

Financial capital maintenance at historical cost:	Financial capital maintenance at current purchasing power:	Physical capital maintenance at current costs:
Under this convention, opening and closing assets are stated at respective historical costs to ascertain opening and closing equity. If retained profit is greater than or equal to zero, the capital is said to be maintained at historical costs. This means the business will have enough funds to replace its assets at historical costs. This is quite right as long as prices do not rise.	Under this convention, opening and closing equity at historical costs are restated at closing prices using average price indices. A positive retained profit by this method means the business has enough funds to replace its assets at average closing price. This may not serve the purpose because prices of all assets do not change at average rate in real situations. For example, price of a machine can increase by 30% while the average increase is 20%.	Under this convention, the historical costs of opening and closing assets are restated at closing prices using specific price indices applicable to each asset. The liabilities are also restated at a value of economic resources to be sacrificed to settle the obligation at closing date. The opening and closing equity at closing current costs are obtained as an excess of aggregate of current cost values of assets over aggregate of current cost values of liabilities. A positive retained profit by this method ensures retention of funds for replacement of each asset at respective closing prices.

The selection of the appropriate concept of capital by an enterprise should be based on the needs of the users of its financial statements. Thus, a financial concept of capital should be adopted if the users of financial statements are primarily concerned with the maintenance of nominal invested capital or the purchasing power of invested capital. If, however, the main concern of users is with the operating capability of the enterprise, a physical concept of capital should be used. The concept chosen indicates the goal to be attained in determining profit, even though there may be some measurement difficulties in making the concept operational. The selection of the measurement bases and concept of capital maintenance will determine the accounting model used in the preparation of the financial statements.

CHAPTER 7 REDEMPTION OF PREFERENCE SHARES

Introduction

Redemption is the process of repaying an obligation, at prearranged amounts and timings. It is a contract giving the right to redeem preference shares within or at the end of a given time period at an agreed price. The redeemable shares are issued on the terms that shareholders will at a future date be repaid the amount which they invested in the company (along with frequent payment of a specified amount as return on investment during the tenure of the preference shares).

Purpose of Issuing Redeemable Preference Shares

A company may issue redeemable preference shares because of the following:

1. A company may face difficulty in raising share capital, if its shares are not traded on the stock exchange. Potential investors, hesitant in putting money into shares that cannot easily be sold, may be encouraged to invest if the shares are redeemable by the company.
2. The preference shares may be redeemed when there is a surplus of capital and the surplus funds cannot be utilised in the business for profitable use. In India, the issue and redemption of preference shares is governed by the Companies Act, 2013.

Provisions of the Companies Act

A company limited by shares, if so authorised by its Articles, may issue preference shares which at the option of the company, are liable to be redeemed within a period, normally not exceeding 20 years from the date of their issue. It should be noted that:

(a) no shares can be redeemed except out of profit of the company which would otherwise be available for dividend or out of proceeds of fresh issue of shares made for the purpose of redemption;

(b) no such shares can be redeemed unless they are fully paid;

(c) (i) in case of prescribed companies whose financial statements comply with the accounting standards prescribed for such class of companies under Section 133 of the Companies Act, the premium, if any, payable on redemption shall be provided for out of the profits of the company, before the shares are redeemed;

(ii) in case of other companies (not falling under (i) above), the premium, if any payable on redemption shall be provided for out of the profits of the company or out of the company's securities premium account, before such shares are redeemed.

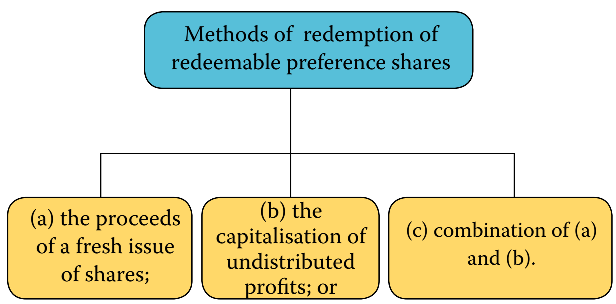
(d) where any such shares are proposed to be redeemed out of the profits of the company, there shall, out of profits which would otherwise have been available for dividends, be transferred to a reserve account to be called Capital Redemption Reserve Account, a sum equal to the nominal amount of the shares redeemed; and the provisions of the Act relating to the reduction of the share capital of a company shall, except as provided in the Companies Act, apply as if the Capital Redemption Reserve (CRR) Account were the paid-up share capital of the company.

The utilisation of CRR Account is further restricted to issuance of fully paid-up bonus shares only.

On the redemption of redeemable preference shares out of accumulated profits it will be necessary to transfer to the Capital Redemption Reserve Account an amount equal to the amount repaid on the redemption of preference shares on account of face value less proceeds of a fresh issue of capital made for the purpose of redemption.

Section 55 of the Companies Act, 2013, deals with provisions relating to redemption of preference shares. It ensures that there is no reduction in shareholders' funds due to redemption and, thus, the interest of outsiders is not affected. For this, it requires that either fresh issue of shares is made or distributable profits are retained and transferred to 'Capital Redemption Reserve Account'.

Methods of Redemption of Fully Paid-Up Shares



Redemption of Preference Shares by Fresh Issue of Shares

One of the methods for redemption of preference shares is to use the proceeds of a fresh issue of shares. A company can issue new shares (equity share or preference share) and the proceeds from such new shares can be used for redemption of preference shares.

The proceeds from issue of debentures cannot be utilised for the purpose.

Section 52 of the Companies Act, 2013 provides that the securities premium account may be applied by the company:

(a) Towards issue of un-issued shares of the company to be issued to members of the company as fully paid bonus securities

(b) To write off preliminary expenses of the company

(c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company

(d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.

(e) For the purchase of its own shares or other securities.

Note : If may be noted that certain class of Companies whose financial statements comply with the Accounting Standards as prescribed under Section 133 of the Companies Act, 2013, can't apply the securities premium account for the purposes (b) and (d) mentioned above. Any other way, except the above prescribed ways, in which securities premium account is utilised will be in contravention of law.

The proceeds of a fresh issue of shares will not include the amount of securities premium for the purpose of redemption of preference shares.

Reasons for issue of New Equity Shares

A company may prefer issue of new equity shares for the following reasons:

(a) When the company has come to realise that the capital is needed permanently and it makes more sense to issue Equity Shares in place of Redeemable Preference Shares which carry a fixed rate of dividend.

(b) When the balance of profit, which would otherwise be available for dividend, is insufficient.

(c) When the liquidity position of the company is not good enough.

Advantages and Disadvantages of Redemption of Preference Shares by Issue of Fresh Equity Shares

Redemption of preference shares by issue of fresh equity shares

Advantages
- No cash outflow of money – now or later.
- New equity shares may be issued at a premium.
- Shareholders retain their equity interest.

Disadvantages
- There will be dilution of future earnings.
- Share-holding pattern in the company is changed.

Calculation of Minimum Fresh Issue of Shares to Provide Funds for Redemption

(1) Maximum amount of reserves and surplus available for redemption is ascertained taking into account the balances appearing in the balance sheet before redemption and the additional information provided in the problem.

(2) Make adjustment for premium payable on redemption out of profits and then compute

Minimum Proceeds of Fresh Issue of shares :	Nominal value of preference shares to be redeemed – Maximum amount of reserve and surplus available for redemption.

(3) After computation of minimum proceeds, calculate

Minimum Number of Shares	Minimum proceeds divided by face value of one share

(4) if minimum number of shares as per (3) above includes a fraction, it must be approximated to the next higher figure to ensure that provisions of Section 55 are not violated.

Thus to calculate minimum number of fresh shares to be issued to provide funds, amount payable to preference shareholders is compared with funds available for redemption and the balance of funds to be raised by fresh issue of shares are calculated.

Undistributed Profits

Another method for redemption of preference shares, as per the Companies Act, is to use the distributable profits in place of issuing new shares.

When shares are redeemed by utilising distributable profit, an amount equal to the face value of shares redeemed is transferred to Capital Redemption Reserve Account by debiting the distributable profit.

Advantages and Disadvantages of Redemption of Preference Shares by Capitalisation of Undistributed Profits

Advantages

- No change in the percentage of equity share-holding of the company;
- Surplus funds can be used.

Disadvantage

- There may be a reduction in liquidity.

Redemption of Preference Shares by Combination of Fresh Issue and Capitalisation of Undistributed Profits

A company can redeem the preference shares partly from the proceeds from new issue and partly out of profits.

(i) Amount to be Transferred to Capital Redemption Reserve	
Face value of shares redeemed	***
Less: Proceeds from new issue	***
(ii) Proceeds to be collected from New Issue	
Face value of shares redeemed	***
Less: Profits available for distribution as dividend	***

Companies may have sufficient investments, which can be sold, in the market to arrange funds for redemption of preference shares.

Redemption Of Fully Called But Partly Paid-Up Preference Shares

The problem of unpaid calls on fully called up shares may be studied under following categories:

When Calls-In-Arrears is received by the Company

If the amount of unpaid calls is received by the Company before redemption, the entry passed is as under:
Bank A/c Dr.
To Calls-in-Arrears A/c

After receipt of calls in arrears, the shares become fully paid up and, then, company can proceed with redemption in the normal course.

In Case of Forfeited Shares

If, on getting a proper notice from the company, the shareholders fail to pay the unpaid calls, the Board of Directors may decide to forfeit the shares and cancel these shares instead of reissuing the forfeited shares because redemption of these shares is due immediately or in near future. In this case, entry for forfeiture is passed as usual.

Accounting Entries for Redemption of Preference Shares

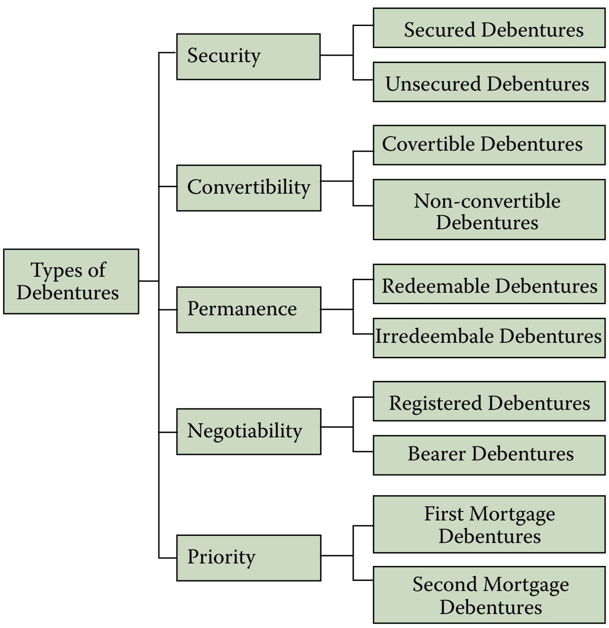
When preference shares are redeemed at par	
Redeemable Preference Share Capital Account	Dr.
To Preference Shareholders Account	
When preference shares are redeemed at a premium	
Redeemable Preference Share Capital Account	Dr.
Premium on Redemption of Preference Shares Account	Dr.
To Preference Shareholders Account	
When payment is made to preference shareholders	
Preference Shareholders Account	Dr.
To Bank Account	
For adjustment of premium on redemption	
Profit and Loss Account	Dr.
To Premium on Redemption of Preference Shares Account	
(Being the premium on redemption adjusted against Profit and Loss Account)	
For transferring nominal amount of shares redeemed to Capital Redemption Reserve Account	
General Reserve Account	Dr.
Profit and Loss Account	Dr.
To Capital Redemption Reserve Account	
(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	

CHAPTER 8 REDEMPTION OF DEBENTURES

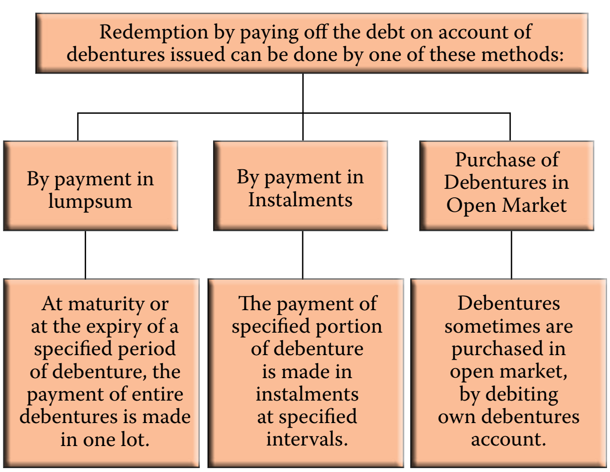
Introduction

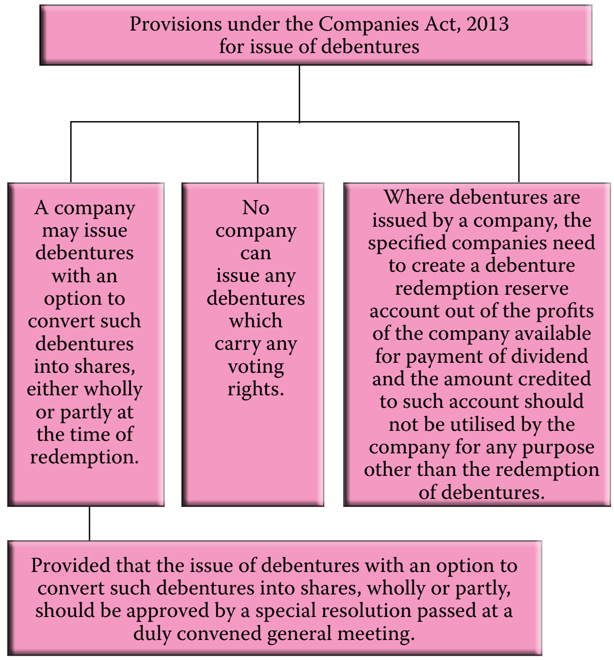
Chapter on "Redemption of Debentures" covers the meaning of redemption of debentures along with related legal provisions. The requirement of creation of Debenture Redemption Reserve, Debenture Redemption Reserve Investments (i.e. making investments for purpose of redemption of debentures) and accounting treatment for redemption of debentures has been discussed, in detail, in this chapter.

A debenture is an instrument issued by a company under its seal, acknowledging a debt and contains provisions as regards repayment of the principal and interest. Under Section 71 (1) of the Companies Act, 2013, a company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption.



Methods of Redemption of Debentures





Debentures are usually redeemable i.e. either redeemed in cash or convertible after a specified time period.

Redeemable debentures may be redeemed:

- after a **fixed number** of years; or
- any time after a **certain number of years** has elapsed since their issue; or
- on giving a **specified notice;** or
- by **annual drawing.**

A company may also purchase its debentures, as and when convenient, in the open market and when debentures are quoted at a discount on the Stock Exchange, it may be profitable for the company to purchase and cancel them. As per Rule 18 (1) of the Companies (Share Capital and Debentures) Rules, 2014, a company shall not issue secured debentures, unless it complies with the following conditions, namely:

An issue of secured debentures may be made, provided the date of its redemption shall not exceed ten years from the date of issue:

Provided that the following classes of companies may issue secured debentures for a period exceeding ten years but not exceeding thirty years,

(i) Companies engaged in setting up of infrastructure projects;

(ii) Infrastructure Finance Companies' as defined in clause (viia) of sub-direction (1) of direction 2 of Non-Banking Financial (Non-deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007;

(iii) Infrastructure Debt Fund Non-Banking Financial Companies' as defined in clause (b) of direction 3 of Infrastructure Debt Fund Non-Banking Financial Companies (Reserve Bank) Directions, 2011;

(iv) Companies permitted by a Ministry or Department of the Central Government or by Reserve Bank of India or by the National Housing Bank or by any other statutory authority to issue debentures for a period exceeding ten years.

Such an issue of debentures shall be secured by the creation of a charge on the properties or assets of the company or its subsidiaries or its holding company or its associates companies, having a value which is sufficient for the due repayment of the amount of debentures and interest thereon.

The company shall appoint a debenture trustee before the issue of prospectus or letter of offer for subscription of its debentures and not later than sixty days after the allotment of the debentures, execute a debenture trust deed to protect the interest of the debenture holders; and

The security for the debentures by way of a charge or mortgage shall be created in favour of the debenture trustee on-

(i) any specific movable property of the company or its holding company or subsidiaries or associate companies or otherwise.

(ii) any specific immovable property wherever situate, or any interest therein:

Provided that in case of a non-banking financial company, the charge or mortgage under sub-clause (i) may be created on any movable property.

Note: Provided further that in case of any issue of debentures by a Government company which is fully secured by the guarantee given by the Central Government or one or more State Government or by both, the requirement for creation of charge under this sub-rule shall not apply.

Provided also that in case of any loan taken by a subsidiary company from any bank or financial institution the charge or mortgage under this sub-rule may also be created on the properties or assets of the holding company

Debenture Redemption Reserve

A company issuing debentures may be required to create a debenture redemption reserve account (DRR) out of the profits available for distribution of dividend and amounts credited to such account cannot be utilised by the company except for redemption of debentures. Such an arrangement would ensure that the company will have sufficient liquid funds for the redemption of debentures at the time they fall due for payment.

An appropriate amount is transferred from profits every year to Debenture Redemption Reserve and its investment is termed as Debenture Redemption Reserve Investment (or Debenture Redemption Fund). In the last year or at the time of redemption of debentures, Debenture Redemption Reserve Investments are encashed and the amount so obtained is used for the redemption of debentures.

Requirement to Create Debenture Redemption Reserve

Section 71 of the Companies Act 2013 covers the requirement of creating a debenture redemption reserve account. This states as follows:

(1) Where a company issues debentures under this section, it should create a debenture redemption reserve account out of its profits which are available for distribution of dividend every year until such debentures are redeemed.

(2) The amounts credited to the debenture redemption reserve should not be utilised by the company for any purpose except for the purpose aforesaid.

(3) The company should pay interest and redeem the debentures in accordance with the terms and conditions of their issue.

(4) Where a company fails to redeem the debentures on the date of maturity or fails to pay the interest on debentures when they fall due, the Tribunal may, on the application of any or all the holders of debentures or debenture trustee and, after hearing the parties concerned, direct, by order, the company to redeem the debentures forthwith by the payment of principal and interest due thereon.

Balance In Debenture Redemption Reserve

When the company is required to create DRR, the amount prescribed, is credited to the Debenture Redemption Reserve account and debited to profit and loss account. That shows the intention of the company to set aside sum of money to build up a fund for redeeming debentures. Immediately, the company should also purchase outside investments. The entry for the purpose naturally will be to debit Debenture Redemption Reserve Investments and credit Bank.

Adequacy of debenture redemption reserve

As per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, the company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year in accordance with the conditions.

- **Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend;**
- **the limits with respect to adequacy of DRR and investment or deposits, as the case may be, shall be as per table below:**

S. No	Debentures issued by	Adequacy of Debenture Redemption Reserve (DRR)
1	**All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures**	No DRR is required
2	**Other Financial Institutions (FIs) within the meaning of clause (72) of section 2 of the Companies Act, 2013**	DRR will be as applicable to NBFCs registered with RBI (as per (3) below)
3	**For listed companies (other than AIFIs and Banking Companies as specified in Sr. No. 1 above):**	
a	**All listed NBFCs (registered with RBI under section 45-IA of the RBI Act,) and listed HFCs (Housing Finance Companies registered with National Housing Bank) for both public as well as privately placed debentures**	No DRR is required
b.	**Other listed companies for both public as well as privately placed debentures**	No DRR is required
4	**For unlisted companies (other than AIFIs and Banking Companies as specified in Sr. No. 1 above**	
a	**All unlisted NBFCs (registered with RBI under section 45-IA of the RBI (Amendment) Act, 1997) and unlisted HFCs (Housing Finance Companies registered with National Housing Bank) for privately placed debentures**	No DRR is required
b	**Other unlisted companies**	DRR shall be 10% of the value of the outstanding debentures issued

Investment of Debenture Redemption Reserve (DRR) Amount

As per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, all listed NBFCs; all listed HFCs; all other listed companies (other than AIFIs, Banking Companies and Other FIs); and all unlisted companies which are not NBFCs and HFCs shall on or before the 30th day of April in each year, in respect of debentures issued, deposit or invest, as the case may be, a sum which should not be less than 15% of the amount of its debentures maturing during the year ending on the 31st day of March of next year, in any one or more of the following methods, namely:

(a) in deposits with any scheduled bank, free from charge or lien;

(b) in unencumbered securities of the Central Government or of any State Government;

(c) in unencumbered securities mentioned in clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882;

(d) in unencumbered bonds issued by any other company which is notified under clause (f) of Section 20 of the Indian Trusts Act, 1882.

The amount deposited or invested, as the case may be, above should not be utilised for any purpose other than for the redemption of debentures maturing during the year referred to above.

↓

Provided that the amount remaining deposited or invested, as the case may be, shall not at any time fall below 15% of the amount of debentures maturing during the 31st day of March of that year.

↓

In case of partly convertible debentures, DRR shall be created in respect of non-convertible portion of debentures issued.

↓

The amount credited to DRR shall not be utilised by the company except for the purpose of redemption of debentures.

Journal Entries

The necessary journal entries passed in the books of a company are given below:

1. After allotment of debentures

(a)	For setting aside the fixed amount of profit for redemption	
	Profit and Loss A/c	Dr.
	To Debenture Redemption Reserve A/c	
(b)	For investing the amount set aside for redemption	
	Debenture Redemption Reserve Investment A/c	Dr.
	To Bank A/c	
(c)	For receipt of interest on Debenture Redemption Reserve Investments (DRRI)	
	Bank A/c	Dr.
	To Interest on Debenture Redemption Reserve Investment A/c	
(d)	For transfer of interest on Debenture Redemption Reserve Investments (DRRI)	
	Interest on Debenture Redemption Reserve Investment A/c	Dr.
	To Profit and loss A/c*	

** Considering the fact that interest is received each year through cash/ bank account.*

2. At the time of redemption of debentures

(a)	For encashment of Debenture Redemption Reserve Investments	
	Bank A/c	Dr.
	To Debenture Redemption Reserve Investment A/c	
(b)	For amount due to debentureholders on redemption	
	Debentures A/c	Dr.
	To Debentureholders A/c	
(c)	For payment to debentureholders	
	Debentureholders A/c	Dr.
	To Bank A/c	
(d)	After redemption of debentures, Debenture Redemption Reserve A/c should be transferred to general reserve	
	Debenture Redemption Reserve A/c	Dr.
	To General Reserve	

CHAPTER 12: DEPARTMENTAL ACCOUNTS

Introduction

If a business consists of several independent activities, or is divided into several departments, for carrying on separate functions, its management is usually interested in finding out the working results of each department to ascertain their relative efficiencies. This can be made possible only if departmental accounts are prepared. Departmental accounts are of great help and assistance to the managements as they provide necessary information for controlling the business more intelligently and effectively

Type of Departments

- Dependent
  - Have inter-department transfers
- Independent
  - Work independently, have negligible transfers

Advantages of Departmental Accounting

The main advantages of departmental accounting are:

- ***Evaluation of performance:*** The performance of each department can be evaluated separately on the basis of trading results. An endeavour may be made to push up the sales of that department which is earning maximum profit.
- ***Growth potential of each department:*** The growth potential of a department as compared to others can be evaluated.
- ***Justification of capital outlay:*** It helps the management to determine the justification of capital outlay in each department.
- ***Judgement of efficiency:*** It helps to calculate stock turnover ratio of each department separately, and thus the efficiency of each department can be revealed.
- ***Planning and control:*** Availability of separate cost and profit figures for each department facilitates better control. Thus effective planning and control can be achieved on the basis of departmental accounting information.

Methods of Departmental Accounting

Methods of keeping departmental accounts

- **Accounts of all departments are kept in one book only**
  - This may be done by having columnar subsidiary books and a columnar ledger having information of each department.
- **Separate set of books are kept for each department**
  - A separate set of books may be kept for each department, including complete stock accounts of goods received from or transferred to other departments and also sales.

Basis of Allocation of Common Expenditure among Different Departments

Basis of Allocation of Common Expenditure among different Departments

- Expenses incurred specially for each department are charged to the specific department.
- Common expenses allocated among the departments on suitable basis.

S. No	Expenses	Basis of Allocation
1	Rent, rates and taxes, repairs and maintenance, insurance of building	Floor area occupied by each department (if given) otherwise on time basis
2	Lighting and Heating expenses (e.g., energy expenses)	Consumption of energy by each department
3	Selling expenses, e.g., discount, bad debts, selling commission, freight outward, travelling sales manager's salary and other costs	Sales of each department
4.	Carriage inward/ Discount received	Purchases of each department
5.	Wages/Salaries	Time devoted by employees to each department
6.	Depreciation, insurance, repairs and maintenance of capital assets	Value of assets of each department otherwise on time basis
7.	Administrative and other expenses, e.g., salaries of managers, directors, common advertisement expenses, etc.	Time basis or equally among all departments
8.	Labour welfare expenses	Number of employees in each department
9.	PF/ESI contributions	Wages and salaries of each department

Note: *There are certain expenses and income, of financial nature, which cannot be apportioned on a suitable basis; therefore they are recognised in the combined Profit and Loss Account, for example, interest on loan, profit/loss on sale of investment, etc.*

Inter-Departmental Transfers

Inter-department transfers (forming part of closing inventory)

- Cost
  - No unrealised Profit exists
- Market Price
- Cost plus agreed percentage of profit

The situation of unrealised profit will arise only if the transfers are made at market price which is more than cost or when the goods are transferred at cost plus percentage of profit.

Stock Reserve

Unrealised profit included in unsold stock at the end of accounting period is eliminated by creating an appropriate stock reserve by debiting the combined Profit and Loss Account. The amount of stock reserve will be calculated as:

$$\frac{\text{Transfer price of unsold stock} \times \text{Profit included in transfer price}}{\text{Transfer price}}$$

Journal Entry

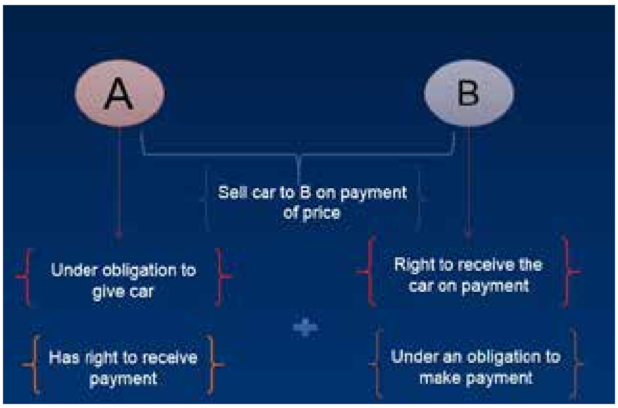
At the end of the accounting year, this journal entry will be passed for elimination of unrealised profit (creation of stock reserve):	• Profit and Loss Account Dr. To Stock Reserve • (Being a provision made for unrealised profit included in closing stock)
In the beginning of the next accounting year, the aforesaid journal entry will be reversed as :	• Stock Reserve Dr. To Profit and Loss Account • (Being provision for unrealised profit reversed.)

PAPER 2(SECTION A): BUSINESS LAWS

This capsule on Paper 2-Section A: Business Laws at Foundation, have been dealt with important concepts related to the formation of the valid contract under the Indian Contract Act, 1872. In this capsule, we have touched upon significant concepts that are required for making valid contract and the related concepts supported with relevant case laws to have conceptual understanding of the subject. This chapter is important from examination perspective as its form base for the understanding of the nature of the contract which constitutes unit 1 of Chapter 1 of the said paper in the Foundation course. Considering this capsule as summarised version of the unit 1 of chapter 1 will certainly benefit the students to recapitulate the important points while studying the subject.

CONCEPTS RELATED TO ENTERING OF CONTRACT UNDER THE INDIAN CONTRACT ACT, 1872

I. Nature of Contract



The above situation talks about formation of an agreement. An agreement is the result of a proposal by one party and its acceptance by another with the consideration forming the foundation of any contract. Therefore, such an offer and its acceptance gives rise to right & obligation against each other.

An Agreement in order to be a Contract, must satisfy the conditions as specified under section 10 of the Indian Contract Act, 1872.

Requirement for an agreement to be a contract

- made by the free consent
- between parties competent to contract,
- for a lawful consideration and with a lawful object, and
- are not hereby expressly declared to be void

Since section 10 is not complete and exhaustive, so there are certain others sections which also contains requirements for an agreement to be enforceable.

Not given by Section 10 but are also considered essentials of valid contracts

- Two parties
- Intention to create legal relationship
- Fulfillment of legal formalities
- Certainty of meaning
- Possibility of performance

(1) Meaning of offer/proposal

As offer is the starting point in the making of an agreement. An offer is also called as proposal. Thus, for a valid offer, the party making it must express his willingness 'to do' or 'not to do' something.

Law defines the term offer/proposal as –

When one person signifies to another his willingness

to do, or to abstain from doing anything

with a view to obtain the assent of that other

to such act or abstinence

(2) Essentials of the offer/proposal:

Essentials of valid Offer/proposal

- At least two parties-offeror & offeree
- expression of willingness of parties 'to do' or 'not to do' something
- with a view to obtain the assent of the other party

(3) Mode of offers

Offer can be made by

- Act
  - Words
    - Written
    - Oral
  - Conduct
- Omission/Abstinence

(4) Classification of Offer

- General Offer
- Counter Offer
- Standing Offer
- Specific Offer
- Cross Offer

General offer

offer made to public at large and anyone can accept by performing the desired act

Special/specific offer

offer made to a specific / ascertained person, & can be accepted only by that specified person

Cross offer

2 parties exchange identical offers in ignorance of each other's offer at the same time. It is not binding

Counter offer

offeree offers to qualified acceptance of the offer subject to modifications and variations in the terms of original offer. Counter-offer amounts to rejection of the original offer

Standing / continuing / open offer

An offer of continuous nature which remains open for acceptance over a period of time

Important case laws

Name of the case laws	Facts of the case	Decision
Carlill Vs. Carbolic Smoke Ball Co.	In this famous case, Carbolic smoke Ball Co. advertised in several newspapers that a reward of £100 would be given to any person who contracted influenza after using the smoke balls produced by the Carbolic Smoke Ball Company according to printed directions. One lady, Mrs. Carlill, used the smoke balls as per the directions of company and even then suffered from influenza.	Held, she could recover the amount as by using the smoke balls she had accepted the offer. In terms of Sec. 8 of the Indian Contract Act, anyone performing the conditions of the offer can be considered to have accepted the offer. Until the general offer is retracted or withdrawn, it can be accepted by anyone at any time as it is a continuing offer.
Lalman Shukla Vs. Gauri Dutt	Gauri Dutt sent his servant Lalman to trace his missing nephew. He then announced that anybody who traced his nephew would be entitled to a certain reward. Lalman traced the boy in ignorance of this announcement. Subsequently when he came to know of the reward, he claimed it.	Held, he was not entitled to the reward, as he did not know the offer. Section 4 of the Indian Contract Act states that the communication of a proposal is complete when it comes to the knowledge of the person to whom it is made. In Lalman case, the defendant's nephew absconded from home. The plaintiff who was defendant's servant was sent to search for the missing boy. After the plaintiff had left in search of the boy, the defendant announced a reward of Rs. 501 to anyone who might find out the boy. The plaintiff who was unaware of this reward, was successful in searching the boy. When he came to know of the reward, which had been announced in his absence, he brought an action against the defendant to claim this reward. It was held that since the plaintiff was ignorant of the offer of reward, his act of bringing the lost boy did not amount to the acceptance of the offer and therefore he was not entitled to claim the reward.
Boulton Vs. Jones	Boulton had taken over the business of one Brocklehurst, with whom Jones had previous dealings. Jones sent an order for goods to Brocklehurst, which Boulton supplied without informing Jones that the business had changed hands. When Jones found out that the goods had not come from Brocklehurst, he refused to pay for them and was sued by Boulton for the price.	**Held:** Jones is not liable to pay for the good. It is a rule of law that offer made to a specific / ascertained person can be accepted only by that specified person.

(5) Difference between Offer and Invitation to Offer, and Invitation to Treat

Case laws	Facts of the case	Decision
Harvey Vs. Facie	In this case, Privy Council briefly explained the distinction between an offer and an invitation to offer. In the given case, the plaintiffs through a telegram asked the defendants two questions namely, (i) Will you sell us Bumper Hall Pen? and (ii) Telegraph lowest cash price. The defendants replied through telegram that the "lowest price for Bumper Hall Pen is £900". The plaintiffs sent another telegram stating "we agree to buy Bumper Hall Pen at £900". However, the defendants refused to sell the property at the price. The plaintiffs sued the defendants contending that they had made an offer to sell the property at £900 and therefore they are bound by the offer.	Held that the mere statement of the lowest price at which the vendor would sell contained no implied contract to sell to the person who had enquired about the price.

Case laws	Facts of the case	Decision
Mac Pherson Vs. Appanna	The owner of the property had said that he would not accept less than ` 6000/- for it.	It was held that this statement did not indicate any offer but indicated only an invitation to offer.
Harris Vs. Nickerson	An auctioneer advertised in a newspaper that a sale of office furniture will be held on a particular day. Plaintiff (Harris) with the intention to buy furniture came from a distant place for auction but the auction was cancelled.	It was held that plaintiff cannot file a suit against the auctioneer for his loss of time and expenses because the advertisement was merely a declaration of intention to hold auction and not an offer to sell. The auctioneer (Nickerson) does not contract with any one who attends the sale. The auction is only an advertisement to sell but the items are not put for sale though persons who have come to the auction may have the intention to purchase.
Pharma-ceutical Society of Great Britain Vs. Boots Cash Chemists Ltd	The goods were displayed in the shop for sale with price tags attached on each article and self-service system was there. One customer selected the goods but the owner refused to sell.	In this case, it was held that display of goods alongwith price tags merely amounts to invitation to treat and therefore if an intending buyer is willing to purchase the goods at a price mentioned on the tag, he makes an offer to buy the goods. Thus, the shopkeeper has the right to accept or reject the same. The contract would arise only when the offer is accepted. Hence there was no contract and customer had no rights to sue the owner.

(6) Rules as to Valid Offer

- Intention to create Legal Relationship
- Certain, Definite and not Vague.
- Expressed or Implied
- Different from an Invitation to Offer
- Offer must be communicated
- Offer may be conditional.
- No term of the non compliance amounting to Acceptance

(7) Acceptance

person to whom the Proposal is made → Signifies his Assent thereto → Proposal is said to be Accepted

(8) Acceptance of an offer

- General Rule- Offer can be Accepted only by the person or persons to whom it is made
- Specific Offer-accepted only by that definite person or particular group of persons to whom it has been made
- General Offer-Accepted by any person by complying with the terms of the Offer

(9) Legal rules for a valid acceptance

- Absolute and Unqualified
- Communicated to Offeror
- Prescribed Mode
- Time limit
- Before the lapse of Offer

Relevant Case laws

Case laws	Facts	Decision
Felthouse Vs. Bindley	F offered by letter to buy a nephews horse, saying:" If I hear no more about it, I shall consider the horse mine. "The nephew did not reply but he told an auctioneer not to sell that particular horse as he had sold it to his uncle. By mistake, the auctioneer sold the horse. F sued for conversion against his nephew.	Held, F could not succeed as his nephew had not communicated acceptance and there was no contract.
Carlill Vs. Carbolic & Smoke Balls Co.	In this famous case Carbolic smoke Ball Co. advertised in several newspapers that a reward of £100 would be given to any person who contracted influenza after using the smoke balls produced by the Carbolic Smoke Company according to printed directions. One lady, Mrs. Carlill, used the smoke balls as per the directions of company and even then suffered from influenza. Here company took the defend that there was no communication of acceptance of an offer by Mrs. Carlill and so there was no contract between them.	In case of a general offer, it is not necessary to communicate the acceptance if it is made by acting upon the terms of the offer.
Neale Vs. Merret	M offered to sell his land to N for £280. N replied purporting to accept the offer but enclosed a cheque for £ 80 only. He promised to pay the balance of £ 200 by monthly installments of £ 50 each.	It was held that N could not enforce his acceptance because it was not an unqualified one

Case laws	Facts	Decision
Brogden vs. Metropolitan Railway Co.	Brogden a supplier, sent a draft agreement relating to the supply of coal to the manager of railway Co. viz, Metropolitian railway for his acceptance. The manager wrote the word "Approved" on the same and put the draft agreement in the drawer of the table Intending to send it to the company's solicitors for a formal contract to be drawn up. By an over sight the draft agreement remained in drawer.	Held, that there was no contract as the manager had not communicated his acceptance to the supplier, Brogden.

(10) Rules for Communication of Offer and Acceptance

For Valid Offer and Acceptance
- Offer must be communicated to the Offeree
- Acceptance must be communicated to the Offeror

(11)When communication of offer is complete?

Communication of an offer is complete
- comes to the knowledge of the person to whom it is made
- either by words spoken or written, or it may be inferred from the conduct of the parties

Relevant Case laws

Case laws	Facts	Decision
Lilly White Vs. Mannuswamy	Plaintiff delivered some clothes to drycleaner for which she received a laundry receipt containing a condition that in case of loss, customer would be entitled to claim 15% of the market price of value of the article, Plaintiff lost her new saree.	Held, the terms were unreasonable and Plaintiff was entitled to recover full value of the saree from the drycleaner. The receipt carries special conditions and are to be treated as having been duly communicated to the customer and therein a tacit acceptance of these conditions is implied by the customer's acceptance of the receipt

(12) When is communication of acceptance complete?

As against the Proposer-
when put in course of transmission to the Proposer

As against the Acceptor
when it comes to the knowledge of the Proposer

(13) Communication of acceptance by post

As against the Proposer-	As against the Acceptor
when the letter of acceptance is posted	when the letter reaches the proposer

(14) Acceptance over telephone or telex or fax

Offer is made by instantaneous communication- Contract is completed	
When the Acceptance is received by the Offeror,	The Contract is made at the place where the Acceptance is received

(15) When revocation of offer and acceptance is complete

as against the person who makes it-	• when it is put into a course of transmission
as against the person to whom it is made-	• when it comes to his knowledge.

(16) When a Proposal and Acceptance can be revoked?

Proposal
may be revoked at any time before the communication of its acceptance is complete as against the proposer

Acceptance
may be revoked at any time before the communication of the acceptance is complete as against the acceptor

(17)Modes of revocation of offer by

Notice of Revocation	Lapse of specified or reasonable time	Death or Insanity of the parties	Non fulfilment of Conditions of Offer	Counter Offer

CROSSWORD SOLUTION – JUNE 2020

[1]B	U	[2]G		[3]R	E	[4]A	[5]S	[6]O	[7]N	A	[8]B	[9]L	[10]E
R		[11]R	[12]T	O		[13]L	I	N	E		[14]I	L	L
[15]A	[16]F	I	R	E		[17]S	P	O	T		D		F
[18]G	I	N	I		[19]D	O			[20]W	E		[21]S	
	R			[22]A	R		[23]B	[24]R	O	W	[25]S	E	[26]R
[27]P	E	S	T	L	E		[28]P	E	R		[29]E	L	I
A	W		[30]S	T	A	[31]R		[32]S	T	[33]E	A	L	S
[34]U	A	[35]E		[36]E	M	I		[37]T	H	O	R		K
[38]L	L	P				O	[39]T			N	C		
[40]A	L	G	[41]O	[42]R	[43]I	T	H	[44]M			[45]H	[46]A	[47]L
L			[48]D	I	M		E	E		[49]I		S	E
[50]L	[51]E	[52]A	D	L	A	[53]G		N		[54]C	[55]A	S	H
[56]E	G	G		[57]E	G	O			[58]B	A	N	E	
[59]N	M	O		[60]S	E	T		[61]J	O	I	N	T	

NEWS UPDATES

FINANCE UPDATES

BSE changes expiry of weekly derivatives contracts from Thursday to Monday

The Bombay Stock Exchange (BSE) decided to change the expiry of weekly contracts from Thursday to Monday for the equity derivatives segment.

https://www.moneycontrol.com/news/business/markets/bse-changes-expiry-of-weekly-derivatives-contracts-from-thursday-to-monday-5384991.html

TCS issues notice for first virtual AGM

Tata Consultancy Services Ltd (TCS) kicked off the season of AGM through virtual mode.

https://www.livemint.com/companies/news/tcs-issues-notice-for-first-virtual-agm-11590003998861.html

Disclose fallout from covid-19, SEBI tells firms

India's markets regulator Securities Exchange Board of India (SEBI) directed companies that have publicly traded securities, including shares and bonds, to disclose broad-ranging details about the financial fallout from the coronavirus pandemic.

https://www.livemint.com/news/india/disclose-fallout-from-covid-19-sebi-tells-firms-11590003308640.html

More firms may opt for delisting

Given the sharp fall in the value of their stocks, more companies may seek to take their firms private. Anil Agarwal's Vedanta Ltd was the first off the block since the coronavirus pandemic hit India's economy.

https://www.livemint.com/market/stock-market-news/more-firms-may-opt-for-delisting-11590606762524.html

RBI proposes easier securitisation, loan sale guidelines

The Reserve Bank of India (RBI) is proposing a new set of guidelines that would address the differential between mortgage loans and other loans securitisation, simplifying regulations.

https://economictimes.indiatimes.com/news/economy/policy/rbi-proposes-easier-securitisation-loan-sale-guidelines/articleshow/76266393.cms?from=mdr

Local banks to start rupee trading in overseas NDF market

The rupee is set to enter a new era as local banks including Axis Bank, ICICI Bank, HDFC Bank and IndusInd Bank will likely start trade in the overseas derivative market, known as Non-Deliverable Forwards (NDF).

https://economictimes.indiatimes.com/markets/forex/local-banks-to-start-rupee-trading-in-overseas-ndf-market/articleshow/76127278.cms

SEBI mulls long term steps to curb redemption risks

The SEBI is considering a series of steps to reduce redemption risks, including increasing the minimum number of investors and a maximum threshold for investment per investor in a scheme.

https://www.livemint.com/news/india/sebi-looks-to-curb-mf-redemption-risks-explores-more-investors-lower-threshold-11590497305936.html

Higher margins for unhedged F&O bets from 1 June

Risk-takers will have to pay a steeper price to participate in India's equity derivatives market. Traders betting on the direction of the index or a stock without insurance will have to pay higher upfront money from June 1 when the National Stock Exchange's new margin norms kick in.

https://economictimes.indiatimes.com/markets/stocks/news/higher-margins-for-unhedged-fo-bets-from-today-what-does-it-mean/articleshow/76127306.cms

ECONOMIC UPDATES

India's GDP contraction to significantly hurt small businesses, says Crisil

The expected contraction in the Indian economy in FY21 due to the coronavirus outbreak will significantly hurt micro, small and medium enterprises (MSMEs) across sectors, said a report by rating agency Crisil.

The report said that India Inc is headed towards about a 15% decline in revenue and 25% fall in earnings before interest, taxes, depreciation and amortisation (Ebitda). Meanwhile, for small businesses, the fall in revenue will be steeper at 17-21%, while Ebitda margin will shrink 200-300 basis points (bps) to 4-5% as weak demand gnaws away gains from lower commodity prices, said Crisil.

https://www.livemint.com/news/india/india-s-gdp-contraction-to-significantly-hurt-small-businesses-says-crisil-11592220274681.html

Coronavirus pandemic shows need to shift India's focus to poor, report says

The vulnerability of the Indian economy exposed by Covid-19 emphasizes the need for an economic model that brings people at the bottom of the pyramid to the fore, according to a report.

India needs to reorient its economic structure to make it much more people-centric and inclusive, think tanks the Council on Energy, Environment and Water, and the National Institute of Public Finance and Policy said in a report titled "Jobs, Growth and Sustainability: A New Social Contract for India's Recovery."

https://www.livemint.com/news/india/coronavirus-pandemic-shows-need-to-shift-india-s-focus-to-poor-report-says-11591892966509.html

Enhanced import duty to give a big boost to agarbatti and bamboo industries in India: KVIC

The government's decision to increase import duty on bamboo sticks from 10% to 25% will open up new avenues of self-employment in the country and create 1 lakh new jobs in the 'agarbatti' (incense sticks) industry in the next 8-10 months, Khadi & Village Industries Commission(KVIC) said.

https://economictimes.indiatimes.com/news/economy/agriculture/enhanced-import-duty-to-give-a-big-boost-to-agarbatti-and-bamboo-industries-in-india-kvic/articleshow/76323452.cms

Wholesale prices decline 3% in May as coronavirus pulls down demand

Wholesale price entered a deflationary zone in May, falling 3.2 per cent, as the month saw a decline in demand amid an economic hit in the wake of the coronavirus pandemic.

While overall wholesale price index (WPI) numbers were not available for April, in May last year the WPI-based inflation rate had stood at 2.79 per cent.

Among major categories, food items showed a slight inflation of 1.13 per cent in May. But vegetable prices in this category declined 12.48 per cent. Pulses continued to see elevated inflation, even as it declined to 11.91 per cent in May from 12.31 per cent the previous month.

https://www.business-standard.com/article/economy-policy/wholesale-prices-decline-by-3-in-may-as-coronavirus-pulls-down-demand-120061500465_1.html

Covid-19 impact: It is WPI deflation for the first time in 56 months

The wholesale price index (WPI) entered the deflationary zone in over four-and-a-half years as it fell by 3.2 per cent in May due to slackening demand in the economy, hit hard by the coronavirus outbreak.

As this will translate into low retail price inflation at some point of time, economists expect the monetary policy committee (MPC) of the Reserve Bank of India (RBI) to go for another 25 basis points cut in the policy rate to address the economic slump.

https://www.business-standard.com/article/economy-policy/covid-19-impact-it-is-wpi-deflation-for-the-first-time-in-56-months-120061500984_1.html

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Examination Department
The Institute of Chartered Accountants of India

26th June, 2020

IMPORTANT ANNOUNCEMENT

In continuation to Important Announcement dated 21st June 2020, in which students (who had already submitted online examination application for May 2020 Examination cycle) were given an option to decide at their own will and **"Opt Out"** from May 2020 examinations and carry forward their candidature to next examination i.e. November, 2020 examination cycle upto 27th June 2020 (Saturday).

In view of feedback received from the students who have already submitted online examination application for May 2020 Examination, it is decided that the request of students for allowance of some more time for exercising the Opt-Out option be extended till **30th June 2020 (Tuesday) upto 11.59 PM. [Further extended till 7th July, 2020 (Tuesday) upto 11.59 (PM)]**

Therefore, students who at their own will decide of availing **"Opt Out"** option and wish to carry forward their candidature to next examination i.e. November, 2020 examination cycle may apply for opt out option & submit a declaration online available at https://icaiexam.icai.org latest by **7th July, 2020 (Tuesday) upto 11.59 (PM)**

On successful submission of declaration form online as stated in para 2 and 3 above, candidature of the student for May 2020 Examination Cycle will be cancelled and he/she will be shifted to the next Examination Cycle. Students may note that Option for "Opt out" once taken will be treated as final and no request for its change will be entertained under any circumstances. The Candidates are advised to note the above and stay in touch with the website of the Institute, www.icai.org.

Sd/-
(S. K. Garg)
Additional Secretary (Exams)

The Institute of Chartered Accountants of India
Board of Studies

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- Will be interactive in nature - with facility to raise questions
- To have examination focused approach

Target Exams Nov. 2020

Timings :

Final Classes
7am to 10am &
6pm to 9pm

Intermediate Classes
7 am to 9.30 am &
6pm to 8.30 pm

Foundation Classes
11.00am to 1.00pm &
2.00pm to 4.00pm

For details : https://www.icai.org/post/virtual-coaching-classes-commencing-from-1stJuly2020

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A1 (120h)	1	A1.1	DELE A1 (Breakthrough)	120 hours
	2	A1.2		
A2 (180h)	3	A2.1	DELE A2 (Waystage)	300 hours
	4	A2.2		
	5	A2.3		
B1 (180h)	6	B1.1	DELE B1 (Threshold)	480 hours
	7	B1.2		
	8	B1.3		
B2 (240h)	9	B2.1	DELE B2 (Vantage)	720 hours
	10	B2.2		
	11	B2.3		
	12	B2.4		
C1 (240h)	13	C1.1	DELE C1 (Profiency)	960 hours
	14	C1.2		
	15	C1.3		
	16	C1.4		

More Information
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ceswto@icai.in
Instituto Cervantes : adx2ndel@cervantes.es

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CROSSWORD - JULY 2020

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9			10					11				
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42	43		44						45		46	
47		48							49			
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		53						54				

ACROSS

1. The rate of _________ applicable in respect of dividend paid to residents would be 7.5% for the period from 14.05.2020 to 31.03.2021.
4. _____ is charged on the goods and services supplied from one state to another.
7. A monetary measures of the market value of all the final goods and services produced in a specific time period.
9. Duplicates
12. Aperture
13. A _____ balance is a list of all the general ledger accounts contained in the ledger of a business.
16. Neckband
18. Alpha: beginning and ____ : ending
20. An Indian ridesharing company
23. __________ is designed to detect and destroy computer viruses.
27. Enemy
28. A mode of electronic funds transfer from one bank account to another bank account using the services of a clearing house.
29. ______ is a development practice where developers integrate code into a shared repository frequently, preferably several times a day.
30. A two-dimensional macroeconomic tool that shows the relationship between interest rates and assets market.
32. The _____ gate is a digital logic gate that implements logic disjunction.
33. Sink
34. The specifies date for the purpose of tax audit u/s 44AB for A.Y.2020-21 is extended to 31st ___________, 2020.
37. For copy in Linux ---- is used.
38. Recall
42. Roman numeral for 51
44. ------, awake and stop not till the goal is reached : Swami Vivekananda,
45. A programme found on Unix and Unix-like operating systems such as Linux.
47. A certain minimum amount of deposit that the commercial banks have to hold as reserve with the central bank.
49. The file format for compressing picture is ________
50. Economics is a science as well as an ---.
51. A unit of digital information that most commonly consists of eight bits.
52. The ______ serves as the international trade administration's principal advisor on trade policy issues affecting the competitive position of multiple US industries.
53. An ___ mind is devil's workshop.
54. A preposition but sometimes acts as an adverb.

DOWNWARD

1. The rate of ___ applicable in respect of sale of motor vehicle above Rs.10 lakhs would be 0.75% for the period from 14.05.2020 to 31.03.2021
2. Alms
3. ______ market is a public financial market in which financial instruments or commodities are traded for immediate delivery.
4. 'that is' in Latin
5. An indirect tax used in India on the supply of goods and services.
6. In computer programming, ______ is a string manipulation in which leading and trailing whitespace is removed from a string.
8. The activity of defrauding an online account holder of financial information by posing as a legitimate company.
10. -------- is a company's outsourcing of computer or Internet related work, such as programming, to other companies.
11. A middle –east country.
14. Clamors
15. Life is good is the motto of -----.
17. As part of the COVID-19 relief package, the due date for filing of income-tax return for A.Y.2020-21 in case of individuals not subject to tax audit is extended to 30th _______ 2020.
19. The air arm of the Indian Armed Forces
21. An Indian state-owned insurance group and investment corporation owned by the GoI.
22. Brief, summary
24. A party to the agreement may issue ____ if the other company does not comply with the conditions mentioned in the agreement
25. Examination
26. Cleanse
31. A spread spectrum modulation technique derived from CSS technology.
33. ________is the text editor to write instructions into a file.
34. A spouted bin designed to release liquid for lubricating machinery.
35. A fixed payment amount made by a borrower to a lender at a specified date each calendar month.
36. A ____ command in computer clears any pending errors and brings a system to normal condition.
39. An Internet _____ is a type of cultural information concept that spread through social media.
40. Relish
41. A cloud storage and file hosting service company.
43. A measure to estimate the profitability of potential investments.
46. A monetary unit
48. An act of the Parliament of India which sets out the rules and procedures regarding citizens' right to information.

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