Message from the Chairman, Board of Studies

Dear Students,

The New Year is here. I wish that the almighty showers his choicest blessings on you. While the New Year is time to celebrate and rejoice, it is also time to look back and see what has been achieved and what needs to be done. It is also time to make resolutions for the year. I will like to share something from my experience. In our enthusiasm we make big resolutions that we are not able to achieve. It is suggested that you make realistic resolutions and at the same time remain committed for their accomplishment. Otherwise your wishes will remain only your wishful imaginations.

In your list of resolutions time aspects must be covered adequately. The key to success in this profession, whether in passing examinations or in professional lives later, is to start early. We find people around us who will start late from their residences for work places, jump a few red lights, reach a little late and blame it on heavy traffic. We find innumerable reasons and blame others for situations that could be easily avoided. Whatever you do delaying things to the last minute will make things unmanageable. Thus in your study efforts also you should start early. Have a proper plan and adhere to the schedules.

The 18th All India CA Students’ Conference was organised on 8th and 9th of December in Indore. The paper presented by the students clearly reflected the hard work and topical knowledge possessed by our students. It was an intellectual conference which proved beneficial to the participating students. In the conference students from The Institute of Chartered Accountants of Sri Lanka and The Institute of Chartered Accountants of Nepal also participated.

After successful completion of the Conference, three major events are planned for the month of January. A National Convention will be held in Pune on January 14 & 15, 2006 and All India Elocution and Quiz Contests are planned in Chennai on 9th and 10th January, 2006 respectively. Go through the announcements included in this issue. The National convention ‘Commanding New Heights - A futuristic approach for CA’ will help the students to have a holistic approach for preparing for the future. I exhort you all to participate in large numbers and take its benefit. Students who have missed the Indore conference should not leave this opportunity now.

With best wishes,

Yours truly,

Jaydeep Narendra Shah
## 2nd National Convention for CA Students
### Commanding New Heights - A Futuristic Approach for CA

#### Dates
January 14 & 15, 2006

#### Venue
Mahesh Sanskrit Bhavan
Kondwa Budruk, Near Upper Indira Nagar, Pune - 411 048

#### Technical Session I: Accounting and Auditing
- **AS 22: Accounting for Taxes on Income**
- **Code of Conduct**

#### Technical Session II: Taxation
- **Issues in Capital gains**
- **Introduction to VAT**
- **Fringe Benefit Tax**

#### Special Session I: A Path of Destiny

#### Technical Session III: Information Technology
- **MS Excel a Tool for Professionals**
- **Enterprise Resource Planning**
- **Leveraging Technology for Growth**

#### Technical Session IV: General
- **Education and Training for Chartered Accountancy**
- **Career Opportunities for CAs**
- **Designing of CA’s Office**

#### Special Session II: Grooming Yourself

- Interested students should send their papers for technical sessions with a soft copy for approval at the earliest to the Director of Studies, P.B. No.36, C-1, Section-1, Noida 201301 or by e-mail at psdos@icai.org. Please provide your complete address with phone number and e-mail id.

- **All correspondence relating to registration may be addressed to:**
  Mr. Sameer Kulkarani, Pune Branch of WIRC of the ICAI, Amber Chambers, 5th Floor, 28A, Budhwar Peth, Pune 411002
  Phone: 020 24451636, 24489732, Fax 020 24489732, e-mail: pune@icai.org

- **All students are cordially invited to participate in the convention.**

## New publications of Board of Studies

For the benefit of students following new publications are released or in the course of being released. Students are advised to acquire a copy of the same at the earliest.

<table>
<thead>
<tr>
<th>Publication</th>
<th>Price (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Compilation of questions set in previous examinations with answers</td>
<td></td>
</tr>
<tr>
<td>Professional Education (Course - I)</td>
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<tr>
<td>Paper 1: Fundamentals of Accounting</td>
<td>40</td>
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<td>Paper 2: Mathematics and Statistics</td>
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<td>Paper 3: Economics</td>
<td>40</td>
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<td>Paper 4A: Business Communication</td>
<td>25</td>
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<td>Paper 4B: Organisation and Management</td>
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<tr>
<td>Professional Education (Course - II)</td>
<td></td>
</tr>
<tr>
<td>Paper 1: Accounting</td>
<td></td>
</tr>
<tr>
<td>Paper 3: Business and Corporate Laws</td>
<td>40</td>
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<tr>
<td>Paper 4 A: Cost Accounting</td>
<td>40</td>
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<td>Paper 4 B: Financial Management</td>
<td>40</td>
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<td>Paper 6: Information Technology</td>
<td>40</td>
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<tr>
<td>Final</td>
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<td>Paper 1: Advanced Accounting</td>
<td>60</td>
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<td>Paper 2: Management Accounting and Financial Analysis</td>
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<td>Paper 4: Corporate Laws and Secretarial Practice</td>
<td>60</td>
</tr>
<tr>
<td>Paper 5: Cost Management</td>
<td>60</td>
</tr>
<tr>
<td>Paper 6: Management Information and Control System</td>
<td>60</td>
</tr>
<tr>
<td>2. Compilation of questions set in previous examinations</td>
<td></td>
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<td>Professional Education (Course - I)</td>
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<tr>
<td>Professional Education (Course - II)</td>
<td>30</td>
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<tr>
<td>Final</td>
<td>30</td>
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<tr>
<td>3. Supplementary Study Paper - 2005</td>
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<td>Professional Education (Course - I) : Income-tax and Central Sales-tax</td>
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</tr>
<tr>
<td>Final : Direct Taxes and Indirect Taxes</td>
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</tr>
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<td>4. Suggested Answers to Questions set in May, 2005 Examination</td>
<td></td>
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<tr>
<td>Professional Education (Course - I)</td>
<td>40</td>
</tr>
<tr>
<td>Professional Education (Course - II) : Group I &amp; II</td>
<td>40 each</td>
</tr>
<tr>
<td>Final Course : Group I &amp; II</td>
<td>40 each</td>
</tr>
<tr>
<td>5. Self-development Booklet 6 : Audit Documentation</td>
<td>25</td>
</tr>
<tr>
<td>6. Professional Education Course : A Guide for Students</td>
<td>For free distribution at the time of registration</td>
</tr>
<tr>
<td>7. Training Guide</td>
<td>Also for free distribution to new members</td>
</tr>
</tbody>
</table>
The much awaited mega event for students, the 18th All India CA Students’ Conference was organised at Ravindra Natya Graha in the historical city of Indore on 8th and 9th of December, 2005. More than 600 students coming from length and breadth of the country gainfully attended the conference. A noteworthy feature of the conference was participation of student delegation from the Institute of Chartered Accountants of Sri Lanka and the Institute of Chartered Accountants of Nepal.

The conference directed towards providing new insight into the multifarious abilities that are nurtured through rigorous education and training and challenges faced by young students while preparing for the course and later after entering the profession. Recent years have witnessed paradigm shift in the way the profession is progressing. Factors such as more that 8% economic growth, inflow of work through outsourcing of business and knowledge processes are acting as catalysts for the profession. No more a chartered accountant can confine within limited knowledge and become successful. Professionals of today have to remain agile and vigilant to identify and absorb the changes around them. They have to learn newer skills, tools and methodologies to function and succeed.

The conference started with inaugural session in the morning of 8th December. His excellency Shri Balram Jakhar, Governor of state of Madhya Pradesh lighted the lamp to formally inaugurate the conference. The Governor was facilitated by Shri T N Manoharan, Vice-President, Shri Jaydeep Narandra Shah, Chairman, Board of Studies, Mr Vijay Bansal, Chairman, Indore Branch of CIRC of ICAI, Mr Ashok Sodhani, CICASA Chairman and Shri Ashok Mangal, Member, CIRC.

Shri Jaydeep Narandra Shah, Chairman, Board of Studies in his welcome address felt honoured by the presence of the Governor of Madhya Pradesh. He also briefly touched upon participation should lead to development of more bondage between the people of countries. Shri Manoj Fadnis, Council Member in his vote of thanks thanked Shri Manoharan for his inspiring address to the participants at the conference and also lauded the efforts Jaideep shah, Chairman Board of Studies, Indore branch Chairman and office bearers, CICASA chairman and other office bearers and students who are involved in making the conference as a mega event.

The first Technical Session of the conference was on Accounting and Auditing. The session was chaired by Shri Jayant Ghokhale, Council Member and immediate past Chairman of the Board of Studies. He explained the meaning of impairment of assets and its significance in the present day context. On the complexity of Accounting Standards he mentioned that everytime they are read a new dimension is found. He also told that in the present day context more responsibility entrusted on the chartered accountants and it reflects more confidence in them. In the session following papers were presented.

**Impairment of Assets**

1. Accounting Standard - 28 – Petchi T., Chennai
2. Accounting Standard - 28 – Ashish Shah, Baroda
3. Accounting Standard - 28 – Sneha Agarwal, Akola

**CARO, 2003**

1. CARO, 2003 (As Amended by the CARO Amendment Order 2004) – Aumbanish V Athreya, Chennai
3. CARO, 2003, A Value Added Exercise – Sudeep Goyal, Jaipur

A special session on Winning Strategies for passing CA Examination followed first Technical Session. In the session,
Shri T N Manoharan, Vice President gave motivating inputs to students for effective preparation using 5 Ps - Planning, Preparation, Practice, Presentation and performance at examination. This was followed by another inspiring lecture by Shri C S Nanda, Council Member on General Management and Communications Skills. He exhorted on several points aimed at overall holistic development of the students. These points were explained lucidly at the conference and found very interesting by the students.

After the completion of special session the Second Technical Session on Taxation was chaired by Shri. Rajendra Kumar Goyal. Chartered Accountant. The session revolved around two key aspects of taxation - Fringe Benefit Tax and CENVAT Credit. The chairman of the session lauded the role of chartered accountants in generating tax revenue to the Government. The following papers were presented in the session:

**Fringe Benefit Tax**
1. Fringe Benefit Tax - Ganesh S., Chennai
2. Fringe Benefit Tax - Vivek Marne, Rohit Tikhe, Santosh Tapode, Pune
3. Fringe Benefit Tax - Neha Gohil, Baroda
4. Fringe Benefit Tax - Merin Liz Babu, Indore

**Procedural Aspects of CENVAT Credit**
1. Procedural Aspects of CENVAT Credit - Rachit Shah, Baroda
2. Procedural Aspects of CENVAT Credit - Shweta Ajmera, Indore
3. Value Added Tax (VAT) An Introduction - Rishabh Raniwala, Jaipur

At the end of the day there was a cultural programme. The programme clearly established the multifarious talents hidden in the students.

The second day of the conference began with the third Technical Session on Corporate Laws. Shri. Sunil Talati, Council Member, chaired the session. In his address to the students, he briefed the significant changes in the companies Act, 1956 and emphasised the role of corporate governance in the dynamic and competent business. Further, he also stated the initiatives of the Institute in bringing Good Corporate Governance practices. He also briefly summarised significance of Independent Directors in the Corporate Boards. The following papers were presented in the session:

**Significant Changes in the Companies Act**
2. Significant Changes in Companies Act - Amruta Taley, Nagpur

**Clause 49 of the Listing Agreement – Corporate Governance & Independent Directors**
1. Clause 49 of the Listing Agreement: Corporate Governance & Independent Directors – Jai Sahani, Indore
2. Clause 49 of Listing Agreement – Corporate Governance & Independent Director - Aniket V. Khapre, Nagpur
3. Corporate Governance – Recent Changes in Clause 49 & Independent Director – Sudhanshu Pandey, Kanpur

There was another Special Session on the second day on personality development. Shri Anuj Goel, Council Member while starting the conference mentioned that the CA degree is only a Gate Pass to the profession. Life beyond is much more tougher and requires more involvement. In this session Shri Swapnil Kothari spoke on personality development. He highlighted the importance of self dependency for the development of personality. He suggested to the students that
they should be driven within to develop their personality and the lectures on personality are futile. He also gave tips for public speaking and elaborated on confidence, determination, patience and entrepreneurship.

The fourth session was chaired by Shri Manoj Fadnis, Council Member, Vice-Chairman, Board of Studies and Past Chairman, Board of Studies. He highlighted the importance of Information Technology in competent environment. He also said that, CA course is economically viable to society as compared to other professional courses. Different papers presented in the session are as follows

**Career Opportunities of Chartered Accountancy**
**Profession in IT Industries**
1. Career Opportunities for Chartered Accountancy Profession in IT Industry – Brijbhushan Goyal, Indore
2. Career Opportunities for Chartered Accountancy Profession In IT Industries – Abinash Prasad Acharya, Raurkela

**Education and Training of Chartered Accountancy**
1. Education and Training of Chartered Accountancy – Namita Gupta, Indore
2. Education & Training of Chartered Accountancy – Sandeep G. Khandelwal, Nagpur
3. Education & Training of Chartered Accountancy – Sumit Banerjee, Raipur

The conference concluded with the valedictory session. In the session Dr.T.P.Ghosh Director of Studies, thanked the Chairman of Board of Studies for his foresightness and valuable inputs for the success of the conference. He also thanked office bearers of the Indore branch of the Institute, managing committee and the students. Further, Dr. T.P.Ghosh made a clear distinction between students of management course and CA’s. He said that Chartered Accountancy course emphasises on specialised areas of accounting, auditing, finance, corporate laws and taxation laws wherein a student develops conceptual understanding alongwith practical training. For functional expertise, a company has to depend upon chartered accountants. He also emphasised that the four years of rigorous practical experience of accountancy, finance, law and other related matters of professional importance are distinct milestones in the profession.

In the valedictory, Shri Jaydeep Narandra Shah, Chairman, Board of Studies gave a few word of wisdom to the students community. He also briefly summarised the proceedings of the conference. The conference concluded with the distribution of mementoes and prizes to the best paper presenters.
Forecasting in Business Planning: A New Perspective

Nishanth M Nottath

Introduction
Every major organization undergoes the annual ritual of business planning in one form or other. Some call it 5-yr Budget, Long term planning, or simply, business planning. Business planning brings together different functions of an organization, formulates its long-term goals in line with its vision, develop strategies to achieve this, converts into operational and financial parameters, resulting in a well-laid path for the organization to tread into the future.

Role of Finance
Generally, finance department takes the lead in business planning exercise, thanks to its proficiency in developing and tracking annual budgets. Finance executives along with representatives from various functions work together to formulate their respective plans. These are collated and put together to form the final plans, from which key performance indicators are evaluated, confirmed and approved by top management.

Risk Element
Business planning, by its very nature, involves tremendous amount of data estimation and forecasting. Right from estimating future sales units, unit prices, purchase costs, expected capital investments, to salary hike rates, absenteeism rates, foreign exchange fluctuations, almost every element of business planning involves judgment and estimation by users.

Risk Error Mitigation
The beauty and challenge of business planning and its wildly fluctuating parameters is that the probability of erroneous forecasting increases in geometric proportion to fluctuations in estimation. One way of mitigating this risk is to ensure reasonable levels of accuracy while parameters are decided. Seeking parameter inputs from an experienced employee with thorough insight into his / her area of operation is the typical way of forecasting error mitigation. However, this model is losing relevance in the present digital age, where completely new businesses form and deform within a span of few years. Competitive advantage based on synergies from experience gained over decades are moving way to creative thinking, swift-acting, nimble-footed strategies. Lou Gerstner said about the new IBM “even elephants dance” – only way to continue existence.

Another academic alternative to forecasting error mitigation is scenario analysis. ‘What if’ questions are posed against final objectives, shifting parameters across notches. While reviewing the Business Plan prior to approval, top management asks quite a few questions regarding accuracy and suitability of assumptions made to parameters, and its effects on the final numbers. A well-prepared CFO and his executives will carry out scenario analyses involving 2 or 3 alternatives, based on a few top-level parameters.

However, detailed business plans involve 50-100 ‘knob parameters’. (Compare knob-parameter to a ceiling fan regulator that can be adjusted at various levels). Doing a ‘what if analysis’ involving all parameters, levels and forecasts, will turn out to be the full time job for a small department of professionals.

Fortunately, we now have various tools that support us to carry out complex analyses like these with consummate ease. Time to unleash the power of statistics and technology.

A Primer on Statistics & Distributions:
Most of the readers of this article will be familiar with basics of Statistics. Statistics, in one line, is the study and meaningful interpretation of data in various forms. ‘Distributions’ are one of the founding pillars of statistics. Most of the advanced concepts in statistics are based on assumptions in underlying data distributions. Let us understand what a distribution is.

Following is a data set (imaginary) that describes height of students in a class

<table>
<thead>
<tr>
<th>Class Intervals</th>
<th>Count of Data points</th>
</tr>
</thead>
<tbody>
<tr>
<td>96-105</td>
<td>2</td>
</tr>
<tr>
<td>106-115</td>
<td>5</td>
</tr>
<tr>
<td>116-125</td>
<td>6</td>
</tr>
<tr>
<td>126-135</td>
<td>12</td>
</tr>
<tr>
<td>136-145</td>
<td>12</td>
</tr>
<tr>
<td>146-155</td>
<td>27</td>
</tr>
<tr>
<td>156-165</td>
<td>12</td>
</tr>
<tr>
<td>166-175</td>
<td>11</td>
</tr>
<tr>
<td>176-185</td>
<td>11</td>
</tr>
<tr>
<td>186-195</td>
<td>1</td>
</tr>
<tr>
<td>196-205</td>
<td>1</td>
</tr>
</tbody>
</table>

The author is a member of the Institute.
Now the data is more understandable. Putting it in a graphical format:

Now you can observe a pattern to the data. Probability of students having height between 146 and 155 is higher than any other interval. Probability of students having heights at the extremes (100 and 200) is the lowest. If you collect more data, you can see the Histogram shaping up like a bell.

This is called the normal curve in statistics. A distribution that results in a normal curve is called a normal distribution. Statisticians, over centuries, have worked extensively on data distributions and have discovered that most of the data generated around us in nature of normal distribution.

Similarly, there are other types of distributions. Some examples and how they look are given below:

We can fit almost any type of data set to these distributions. Price of petroleum products maybe fit to the Exponential distribution. We may assume that price / litre of petrol could definitely not be below 40Rs, with maximum probability around 40-45, with very less probability of being around 60Rs (at the higher end) and no probability of a price less than Rs 40. (Note that Exponential Distribution starts at a peak)

Having learnt about Distributions, now let us see how we can use them for effective business planning.

Simulation

Simulation is an advanced version of our 'what-if analyses', the key difference being, parameter levels are not restricted to 2-3. In a typical what if analyses, we might take three levels of unit price (as being likely), maybe attach a weight to each of the level (as probabilities), and run three calculations to understand its effect of profit. In simulation, we understand the entire spectrum of parameter movement (which, in most of the cases, are infinite possibilities), take as many levels as possible, and run iterations of tests with parameters set at various levels. Simulation gets very complex when there are more parameters with each having various levels. Fortunately, we have tools today to help us in this endeavour.

Crystal Ball

Various simulation software are available in the market, but we would restrict ourselves with a software add-in called Crystal Ball here. Crystal Ball works seamlessly with MS Excel. (To understand Crystal Ball in detail please visit www.decisioneering.com)

Simulation and Business Planning

By now, you must know where we are headed. We covered business planning, risk & forecasting, challenge, distributions, simulation, spreadsheets & crystal ball. Generally, Budgets and business plans are drawn up in spreadsheets and we will leverage its power to help us perform complex simulation tasks with crystal ball.

Before starting work on crystal ball, your spreadsheets and data sets must be ready. Business Planning spreadsheets are generally complex, with various links and formulas. Two key concepts you must be familiar with to start working on Crystal Ball is:

♦ Defining assumption &
♦ Defining forecast

All our spreadsheets will have parameters (factors) and a forecast. Usually, we assume sales units, sales price, purchase price and expenses to calculate and forecast profits. While there could be lots of factors / parameters (assumptions) in a business planning spreadsheet, forecasted outputs are generally few (gross profit, net profit). However, this does not mean that we can have only the final outputs as forecasts. Intermediate outputs
like total sales (which is a function of sales units & sales price) could also be set as forecast. This would not in any way affect the calculations of final forecasts.

In crystal ball enabled spreadsheets, we have to identify which are factors / parameters and elements that are forecasts. An example:

This is a very simple worksheet with very few factors (assumptions) and forecasts for the next calendar year of Company X.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>(Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td></td>
</tr>
<tr>
<td>Units Forecast</td>
<td>25,000</td>
</tr>
<tr>
<td>Price forecast (Rs)</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>500,000</td>
</tr>
<tr>
<td><strong>Purchase</strong></td>
<td></td>
</tr>
<tr>
<td>Units forecast</td>
<td>25,000</td>
</tr>
<tr>
<td>Purchase cost forecast (Rs)</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>400,000</td>
</tr>
<tr>
<td><strong>Administrative expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Slaries &amp; wages forecast (Rs)</td>
<td>25,000</td>
</tr>
<tr>
<td>Other expenses (Rs)</td>
<td>10,000</td>
</tr>
<tr>
<td>Total Coast (Purchases + Admin exp)</td>
<td>435,000</td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td>65,000</td>
</tr>
</tbody>
</table>

We report to the Management that Net profit would be Rs 65,000 assuming that Sales would be Rs 500,000 (which in turn is a function of unit sales & price forecast) and other expenses. We might have a couple of scenario analyses to understand alternatives, but now let us see how crystal ball can help us in arriving at probabilities.

**Step 1: Identify Assumption Cells**

In this case, we clearly know that unit forecast & price (in sales) is assumed. Similarly, purchase cost and other expenses can also fluctuate. Purchase units directly relate to Sales and lets assume that salaries & wages will not change (fixed)

**Step 2: Identify Distribution for one Assumption cell at a time:**

In the sales units forecast, we assume next year sales as 25000 units. However, past experience tells us that actual sales follow a Normal Distribution with 1500 as standard deviation. This means sales units could be anywhere between 22000 and 29000, with highest probability of being around 25000.

Similarly, identify the right Distributions for other assumptions. (Note: crystal ball can help you identify the right distribution by inputting past data)

**Step 3: Keep the Cursor on Assumption Cell and go to Menu>Cell>Define Assumptions (Crystal Ball must be installed first)**

Once you give OK, the assumed cell will be coloured green. (blue below)
### Particulars (Rs)

<table>
<thead>
<tr>
<th>Sales</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Units Forecast</td>
<td>25,000</td>
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<tr>
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</tr>
<tr>
<td>Net Profit</td>
<td>65,000</td>
</tr>
</tbody>
</table>

Similarly, continue with other assumption cells.

Sales Price forecast – Normal Distribution – Mean 20, standard derivation 2

Purchase unit (25000) is linked to Sales Unit forecast cell

Purchase cost forecast – Triangular Distr – Min 14, Likeliest 16, Max 18

Other expenses– Lognormal Distribution – Mean 10,000, standard deviation 500

**Step 4: Define Forecast cell**

These are the cells against which we want simulation to be done. You can give the final net profit cell alone, or if you want to know the probabilities of total Sales, assign forecast in those cells also.

Blue colour (shaded below) is assigned for forecast cells. You many name them as you wish.

Finally, your spreadsheet would look as below:

**SIMULATION Runs**

To start Simulation, go to Menu>Run>Run. Next few seconds you can see Crystal Ball running 1000 runs of simulation throughout the entire range of assumptions you gave at each assumption cell and comes up with a final distribution of forecast cell; in our case net profit and sales.

What do you interpret from these charts?

- Even though we assumed sales to be Rs 500,000, it could be anywhere between 340,000 and 655,000.
- Company X could even make loss of Rs 85,530, if all the conditions turn out to be adverse.

Now, you can also empower the decision-makers with statistics by working on the cells in the resultant distribution:

There is only 88.10% certainty that the Company will NOT make a Loss.
There is an only 27.40% chance that the Company will make a profit of AT LEAST Rs 100,000.

Conclusion

There are many more features available in Crystal Ball, including decisions and custom distributions. Statistics add tremendous synergy to finance in the areas of risk planning, forecasting, and usage of appropriate tools like crystal ball only goes towards making finance high-end value adding function.
Historically, government accounting and budgeting has been cash-based where the focus is only on the inflow and outflow of financial resources. Thus the budget and the expenditure reports which are presented to the legislature are also cash-based. This methodology has served the governments of the day quite well. However, in the last decade or so, a number of western democratic countries started a process of rethinking on the issue. Australia, New Zealand, Sweden, UK and US are notable in this category. Fiscal pressures and a desire to lighten governmental responsibility have seen a number of economic reforms taking place in these countries. These reforms broadly included unprecedented deregulation of public utilities and financial institutions, large scale divestments, privatisation and massive changes in the public sector.

An important dimension of these reforms is the adoption of the paradigm of managerialism in the government. To equip the managers with comprehensive and complete information, accrual accounting methods have been invoked. This allows them to know the true cost of current performance of the governments and to plan for the future. This paradigm shift has generated significant controversy and debate in the public arena. Accrual accounting is conceptually very different from cash accounting. The focus here is on the accrued, including intangible, outcomes of the activities, rather than on the real flow of tangible resources only. The context in which accrual accounting is most useful is also very different from the realities of the government. In the commercial world the focus is on cost and profitability, as opposed to the government’s imperative of public service, general welfare, equitable distribution of resources and accountability. However, there are costs and subsidies involved in many of the government’s activities also which have to be ascertained for control and regulation.

The countries that have adopted these methods have demonstrated that the desire to do more with less cannot be achieved merely by maintaining cash-based accounts. The methodologies similar to the ones which are utilized in the private sector are also required to be applied to the government. For example, without the standard financial reporting, it is impossible to determine the net worth of a government. When the political power changes from one party to another, the fact that the previous regime had increased the net worth of the government or otherwise cannot be accurately brought out in the traditional cash based reporting. There are a number of other shortcomings in the cash-based reporting and budgeting such as lack of reporting of assets and their use leading to inaccurate costing of services, lack of reporting on unfunded liabilities such as pensions and other retirement benefits thus overburdening the future generations, “march rush syndrome” and the possibility of manipulation of figures of revenue as well as expenditure and many other forms of “creative accounting”. It has been reported that the fiscal targets set in the 1992 Maastricht Treaty together with the Stability & Growth pact were achieved by a number of European Union countries by manipulating their cash-based fiscal information. The advantages on the other hand are that cash-based reports are easily understood and operated without any professional knowledge, these reports directly link with the cash-based-budgetary system and hence, possibly, can be easily understood by the legislators. The accrual accounting on the other hand could offer a complete and standard picture of the government as an enterprise. This picture could be as good and complete as it is available to the owner(s) of any commercial enterprise about their business. Thus it can lead to better asset and liability management and establishment of accounting controls for fixed assets, inventories, receivables and payables and can be subjected to rigorous financial analysis. In New Zealand, for example when they started census of assets for preparing their balance sheet, a number of properties owned by the government were discovered. The government could sell them and earn a lot of revenue. It is also less prone to fraud and manipulation and more comparable and consistent with past reports.

However, there are a number of conceptual difficulties in adopting/adapting the accrual accounting methodologies in the government. How to treat assets, specially cultural, defence and the ones which do not give direct economic benefit to be reflected/expensed in the profit and loss accounts. Government will face an acute shortage of manpower trained in commercial accounting and auditing. How to develop accounting standards, so necessary for accrual accounting. However, accrual accounting even in the commercial world has its own differences. Financial reporting in different countries is still not uniform. There are differences in the Generally Accepted Accounting Principles (GAAPs) followed in different nations. Reporting on the basis of International Financial Reporting Standards (IFRS) has also not become widespread. The public sector financial reporting based on similar standards is still in developing stages. The efforts of International Federation of Accountants (IFAC) are impressive. They have so far issued a number of International Public Sector Accounting Standards to provide guidance on the public sector financial reporting.

The author is a Professor, National Institute of Financial Management, Faridabad.
The reforms in the countries like Australia, New Zealand and United Kingdom have also been reflected in the corresponding changes in the budgeting and accounting methodologies which provide tools for measuring true costs and thus benchmarking against similar activities within or outside the government. Taken together, these changes have brought about more managerialism in the government. This allows managers to be more innovative and entrepreneurial instead of being just bureaucrats. Broadly speaking these changes have resulted in more freedom of operation with corresponding increase in accountability. The Public Service Agreements in the UK, Portfolio Budget Statements in Australia etc. are some examples. The complete cycle of budgeting, expenditure and reporting is being performed on the same principles as are prevalent in any commercial enterprise. In Australia, it culminates as the final budget outcome which is presented to the parliament after the end of the financial year in addition to the Statement of Position and Statement of Performance etc. based on the their public sector accounting standards.

After more than a decade of economic reforms, we in India are probably rightly placed to make the base of the economic reforms wider and bring about more reforms in the way government functions. The Fiscal Responsibility and Budget Management Act, 2003, The Right to Information Act, 2005 and presentation of the first outcome budget are important steps in this direction. Continuing in the same spirit of reforms, the government accounting now needs fundamental changes, not because the International Monitory Fund or World Bank or the Big-four will prescribe but because it is essentially necessary for us. As experienced by some other countries, we have to migrate to accrual based government accounting as well as budgeting. Once we adopt accrual accounting methodologies after adapting them for the Indian public sector, the present cash-based accounting and reporting will only be a small subset of it. The Twelfth Finance Commission has already recommended that, for its merits, the Central government should gradually move towards accrual basis of accounting.

For any reform process to succeed, the most important requirement is the political will. It seems that this will is now evolving. Being the primary users of the budget/expenditure reporting, the legislators and ministers must be able to ask right questions and therefore get right answers. The accrual based reporting offers that opportunity. The generators of accrual information will have to learn new skills and bring about more professionalism. The government auditors will also be required to re-develop their skills to audit the accounts in a similar manner. The managers will have to learn to make best use of vast amount of data/information which will become available. It also offers a large opening of the field of government financial management to professional accountants.

Implementing accrual accounting and budgeting is indeed a massive exercise. It has taken a number of years in developed countries and it is no exception that it will take at least a decade or so for becoming successful in India.
Valuation of Bonds

Ramachandram Mangipudi

What is a bond?
A bond is a long-term debt instrument. A bond may be secured (issued by government/public cos./private Companies) or unsecured (issued by private cos.).

How is it valued?
The value (the market price) of a bond is nothing but the present value of all the expected future cash flows (annual interest payments + principal repayment).

For the purpose of valuation of bonds the following terms need to be understood:

**a) Face value:** It is also called as par value. Generally bonds are issued at par value. Interest is paid on face value.

**b) Coupon rate:** This is also known as interest rate. This is a rate mentioned on the certificate (coupon). Interest paid on a bond is tax deductible.

**c) Redemption value:** The value which a bond holder will get on maturity is called redemption value. A bond may be redeemed at par or at premium or at discount.

**d) Years to maturity:** A bond is issued for a specified period of time. It is repaid on maturity.

**e) Yield to maturity (YTM):** This is nothing but the rate of return that an investor expects if the bond is held till maturity. This is also known as Internal rate of return (IRR). This rate is used for discounting the expected future cash flows. YTM can be calculated by using the following formula:

\[
\text{YTM} = \frac{C + (P \text{ or } D) / \text{Years to maturity}}{(P_{0} + \text{F.V.})/2} \times 100
\]

where:
- \( C \) = Coupon interest
- \( P \) = Premium on issue
- \( D \) = Discount on issue
- \( P_{0} \) = Current market price of the bond
- \( \text{F.V.} \) = Face value of the bond

**Example:** Suppose an investor is considering the purchase of a 5 year Rs.1000 bond bearing a coupon rate of 7% and the current market price of the bond is Rs. 960, then the investor’s required rate of return would be:

\[
\text{YTM} = \frac{70 + 40/5}{(960 + 1000)/2} \times 100
\]

\[= 8%\]

YTM can also be found out by using MS Excel using the following formula:

\[\text{IRR (B1:B6)}\] assuming that data is in B1 to B6 as shown below:

<table>
<thead>
<tr>
<th>S.NO.</th>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0</td>
<td>-960</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>70</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>70</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
<td>70</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
<td>70</td>
</tr>
<tr>
<td>6</td>
<td>5</td>
<td>1070</td>
</tr>
</tbody>
</table>

\[\text{Answer : 8%}\]

Valuation of a bond: As has been stated that value of a bond is the sum of present value of future cash flow. Let us now illustrate this principle taking an example:

Face value = Rs.1000

Coupon rate = 9 %

Years to maturity = 5 years

YTM = 10 %

Redemption value (assuming at par) = Rs.1000

Find out the value of bond.

Value of this bond can be worked and as shown below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash flow</th>
<th>Discount rate (10%)</th>
<th>Discounted cash flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>90</td>
<td>0.9090</td>
<td>81.81</td>
</tr>
<tr>
<td>2</td>
<td>90</td>
<td>0.8264</td>
<td>74.38</td>
</tr>
<tr>
<td>3</td>
<td>90</td>
<td>0.7513</td>
<td>67.62</td>
</tr>
<tr>
<td>4</td>
<td>90</td>
<td>0.6830</td>
<td>61.47</td>
</tr>
<tr>
<td>5</td>
<td>1090</td>
<td>0.6209</td>
<td>676.78</td>
</tr>
</tbody>
</table>

\[\text{Rs. 962.06}\]

Therefore, the current market price of the bond is Rs. 962.06. This implies that Rs.1000 bond is worth Rs.962.06 today if the required rate of return is 10%. The investor would not be willing to pay more than Rs.962.06 for the bond today.

In this example bond value is less than its par value. This is because market yield is higher than the coupon rate.

The above given problem can be solved by using the following formula:

\[
B_{0} = \left[\sum_{t=1}^{n} \frac{\text{INT}_{t}}{(1 + K_{d})^{t}}\right] + \frac{B_{n}}{(1 + K_{d})^{n}}
\]

where:
- \( B_{0} \) = Present value of a bond
- \( \text{INT}_{t} \) = Amount of interest in period \( t \)
- \( B_{n} \) = Redemption value at maturity
- \( K_{d} \) = Market yield
- \( n \) = Years to maturity
Duration of a Bond

Duration of a bond is nothing but the weighted average time to receive the present value of cash flows. Frederick Macaulay has developed this concept in 1938. Duration helps to predict change in bond price if yield changes.

Duration is calculated as:

\[
D = \frac{\sum_{t=1}^{n} \text{Pmt}_t (1/1 + K_d)^t}{\text{Bond price}}
\]

\[\text{Pmt}_t\] = Amounts received in period \(t\)
\[n\] = Number of years to maturity
\[K_d\] = Required rate of return

In the above given example the duration of the bond would be:

\[
D = \frac{\sum_{t=1}^{5} \text{Pmt}_t (1/1 + 10\%)^t}{962.06}
\]

\[
= \frac{90(1) + 90(2) + 90(3) + 90(4) + 90(5)}{(1.1)^1 + (1.1)^2 + (1.1)^3 + (1.1)^4 + (1.1)^5} / 962.06
\]

\[= 4063.32 / 962.06 = 4.22 \text{ years.}\]

Modified duration

Modified duration is a modified version of Macaulay duration that accounts for changing interest rates. As the changing interest rates affect yield, this modified formula shows how much the duration changes for each percentage change in yield. The modified formula is appropriate for investors wishing to measure the volatility of a particular bond.

Modified duration is calculated as:

\[
\text{Modified Duration} = \frac{\text{Macaulay's Duration}}{1 + \text{YTM}}
\]

Therefore in the above given example, modified duration of the bond would be:

\[
\text{Modified Duration} = \frac{4.22}{1.10} = 3.84 \text{ years.}
\]

Normally a change in interest rates is announced in terms of basis points (bps). To convert bps in % changes, divide by 100, i.e. 150 bps = 1.5% change in interest rates.

How volatility of a bond is measured

Volatility of a bond is nothing but change in price of a bond due to a change in interest rates. Modified duration can be used as a measure of sensitivity of bond price changes to changes in interest rates.

Percentage change in price = (-Modified duration) * (change in yield)

In the above given example, if market interest rates fall, so that the annual yield reduces to 9.5%, the new market value of the bond would be:

\[
\text{Percentage change in price} = (-3.84) \times (-0.5\%) = 1.92\%
\]

Therefore, new bond price = 962.06 + (962.06 \times 1.92\%) = Rs.980.53

It may be mentioned that there exists inverse relationship between bond price and yield. If yield decreases price of the bond increases.
Deduction of Tax at Source at Lower Rate

Dr. Vinod K. Singhania

Object of the article

1. This article examines scope and implication of sections 197 and 197A which deal with deduction of tax at lower rate.

Certificate of deduction at lower rate under section 197

2. If the recipient of income (which is covered by the provisions of tax deduction at source given below) is interested in obtaining payment without tax deduction or with lower tax deduction, he can take the benefit of the provisions of section 197 which are given below –

2.1 Conditions: One has to satisfy the following conditions to get relief under section 197 –


✧ **Condition 2**: The recipient wants to get payment without tax deduction at source or with lower tax deduction at source.

✧ **Condition 3**: The recipient will have to apply in Form No. 13 to the Assessing Officer to get a certificate authorizing the payer to deduct tax at lower rate or deduct no tax as may be appropriate. Form No. 13, *inter alia*, requires the following information –

1. Estimated total income of the current previous year and tax payable thereon.
2. Average rate of tax for the current year.
3. Total income assessed in the last three assessment years and total tax paid for each such year.
4. Particulars of income in respect of which certificate for lower tax deduction or no tax deduction is required. Such information is to be submitted in Annexure I in different Schedules (Schedule I for interest on securities, Schedule II for interest other than interest on securities, Schedule III for insurance commission, Schedule IV for dividends, Schedule V for salary, Schedule VI for interest on units, Schedule VII for interest on income from property, Schedule VIII for commission or brokerage, Schedule IX for work contract, Schedule X for commission on lottery tickets, Schedule XI for technical and professional fees, Schedule XII for compensation on acquisition of immovable property).

2.1-1 Additional conditions for charitable trust, scientific research association, etc. [Rule 28AB]

With effect from April 1, 2004, if the recipient of income is one of the two entities given below, then a few additional conditions should be satisfied to make the above application in Form No. 13:

✧ **Entity 1**: It is in receipt of income (or deemed income) derived from property held under trust wholly for charitable or religious purposes and it claims exemption under section 11 or section 12.

✧ **Entity 2**: It is required to file a return in respect of a scientific research association, news agency, association or institution, fund or trust or university or other educational institution or any hospital or other medical institution or trade union referred to in section 139(4C).

✧ **Additional conditions**: In any of the above cases, application in Form No. 13 can be made if the following conditions are satisfied—

a. the person concerned has furnished the returns of income for all assessment years for which such returns became due on or before the date on which the above application in Form No. 13 is made;

b. the trust, scientific research association, news agency, association or institution, fund or trust or university or other educational institution or any hospital or other medical institution or trade union referred to above is for the time being approved for the purpose of exemption from income-tax; and

c. the applicant gives a list of deductors from whom amounts are to be received without deduction of tax at source every six months along with the names, addresses and the amounts received.

2.2 Certificate of lower tax deduction or no tax deduction:

If the above conditions are satisfied, the Assessing Officer will issue a certificate on plain paper directing to the person responsible for paying income under an advice to the applicant. The certificate shall be issued directly to the payer. The certificate shall be valid only for one person named therein.

✧ The certificate shall be valid for the financial year specified therein unless the Assessing Officer cancels it at any time before the expiry of the said financial year.

✧ An application for a fresh certificate may be made, if the assessee so desires, after the expiry of the period of validity of the earlier certificate.

✧ Application requesting for certificate under section 197(1) should not be acted upon if submitted after credit/payment of the amount subject to tax deduction at source. However, assessees having genuine hardship in submitting such...
applications on time may refer to the Board for condonation of delay in terms of section 119(2)(b) - Circular No. 774, dated March 17, 1999.

2.2-1 Certificate in the case of charitable institutions: In the case of entities covered by rule 28AB [given in para 2.1-1], the Assessing Officer may issue a certificate to the recipient authorizing payment of income without deduction of tax at source. The recipient may furnish copies of such certificate to the person responsible for paying the income for the purpose of no deduction of tax at source. In the case of trust, such certificate should be promptly issued by the Assessing Office so that the trusts can collect their interest income without deduction of tax source. In the case of entities covered by rule 28AB [given in para 2.1-1], the Assessing Officer may issue a certificate to the recipient authorizing payment of income without deduction of tax at source as a percentage of the amount in respect of which the certificate of lower tax deduction is required.

2.3 Computation of lower rate of tax deduction by the Assessing Officer: By virtue of rule 28AA, the lower rate is determined on the basis of the higher of the following rates:

- **Average rate of the current year**: Current year’s average rate is determined on the basis of the total income-tax payable on estimated income, as reduced by the sum of advance tax already paid and tax already deducted at source as a percentage of the amount in respect of which the certificate of lower tax deduction is required.

- **Average of the average rate of tax of preceding three years**: Average of the average rate of tax assessed in the last three assessment years and total tax paid for each year.

Case study: The following information is given by X Ltd. on September 15, 2005 -

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on debentures (from April 1, 2005 to September 15, 2005)</td>
<td>90,000</td>
</tr>
<tr>
<td>Tax deduction at source</td>
<td>20,196</td>
</tr>
<tr>
<td>Interest liability of 2005-06 as borrowed money was invested in debentures</td>
<td>4,10,000</td>
</tr>
<tr>
<td>Advance tax paid up to September 15, 2005</td>
<td>2,000</td>
</tr>
<tr>
<td>On September 20, 2005 X Ltd. is likely to get Rs. 4,50,000 as interest on debentures</td>
<td></td>
</tr>
</tbody>
</table>

Assessed income and tax liability of X Ltd. of preceding 3 years is as follows—

1. **Previous year**
   - 2002-03
   - 2003-04
   - 2004-05

   **Rs.**
   - 7,15,000
   - 6,00,000
   - 8,70,000

2. **Assessment year**
   - 2003-04
   - 2004-05
   - 2005-06

   **Rs.**
   - 6,68,000
   - 5,10,000
   - 7,00,000

3. Interest on debentures
   - 47,000
   - 90,000
   - 1,70,000

4. Interest liability
   - 30,000
   - 87,000
   - 1,65,000

5. Net income as per return of income
   - 11,025
   - 31,211
   - 60,377

6. Income-tax and surcharge
   - 1,30,000
   - 39,000
   - 72,196

7. Surcharge and education cess
   - 4,758
   - 4,50,000
   - 2,000

8. Average rate of income-tax on interest on debentures
   - 5.20%
   - 6.94%

9. Average of the average rates of tax paid in the last 3 years
   - 4.56%

For the purpose of rule 28AA, the lower rate of tax deduction is to be determined on the basis of the following:

- **Average rate of the current year**: 4.79%
- **Average of the average rates of tax of preceding three years**: 4.56%
- **Average tax rate of the preceding 3 years**: 4.79%

For the purpose of rule 28AA, the lower rate of tax deduction will be 5.94% [being the higher of (d) or (9)].

- **Income-tax**: 4.27%
- **Surcharge (@ 10% of income-tax)**: 0.43%
- **Education cess**: 0.09%

3.1 Conditions: The following conditions should be satisfied—

- **Condition 1**: Tax is deductible under section 193, 194, 194A or 194EE. If tax is deductible under any other section, one cannot take any relief under section 197A.

- **Condition 2**: The recipient is resident individual if tax is deductible under section 194 or 194EE. However, if tax is deductible under section 193 or 194A, the recipient should be a person other than company or firm.

- **Condition 3**: Tax on the estimated total income of the previous year of the recipient is nil.

- **Condition 4**: The aggregate amount of income covered by the above-noted sections, which is credited or paid or likely to be credited or paid during the previous year, shall not exceed the amount of exemption limit (i.e., Rs. 1,35,000 in the case of a resident woman or Rs. 1,00,000 in the case of
any other person). However, this condition is not applicable if the recipient is a resident individual who is 65 years or more during the previous year. Moreover, this condition is not applicable in the case of those persons whose income is exempt under the following clauses of section 10 -

a. “local authority”, as referred to in the Explanation to clause (20);

b. Regimental Fund or Non-public Fund established by the armed forces of the Union referred to in clause (23AA);

c. Fund, by whatever name called, set up by the Life Insurance Corporation of India on or after 1st August, 1996, or by any other insurer referred to in clause (23AAB);

d. Authority (whether known as the Khadi and Village Industries Board or by any other name) referred to in clause (23BB);

e. Body or authority referred to in clause (23BBA);

f. SAARC Fund for Regional Projects set up by Colombo Declaration referred to in clause (23BC);

g. Secretariat of the Asian Organisation of the Supreme Audit Institutions referred to in clause (23BBD) till assessment year 2003-2004;

i. Insurance Regulatory and Development Authority referred to in clause (23BE);

j. Prime Minister’s National Relief Fund referred to in sub-clause (i), Prime Minister’s Fund (Promotion of Folk Art) referred to in sub-clause (ii), Prime Minister’s Aid to Students Fund referred to in sub-clause (iii), National Foundation for Communal Harmony referred to in sub-clause (iiia), any university or other educational institution referred to in sub-clause (iiisab) and any hospital or other institution for the reception and treatment of persons as referred to in sub-clause (iiia) of clause (23C);

k. Credit Guarantee Fund Trust for Small Scale Industries referred to in clause (23EB) till assessment year 2006-2007;

l. Provident fund to which the Provident Funds Act, 1925 (19 of 1925) referred to in sub-clause (i), recognised provident fund referred to in sub-clause (ii), approved superannuation funds referred to in sub-clause (iii), approved gratuity fund referred to in sub-clause (iv) and funds referred to in sub-clause (v) of clause (25);

m. Employees’ State Insurance Fund referred to in clause (25A);

n. Corporations referred to in clause (26BB);

q. Boards referred to in clause (29A).

3.2 Consequences if the above conditions are satisfied: If the above conditions are satisfied the recipient can make a declaration in Form No. 15H (Form No. 15G for senior citizens) to the payer of the income. The payer of the income will not deduct tax at source.

- The payer of the income is required to deliver to the Commissioner of Income-tax (to whom the Assessing Officer having jurisdiction to assess the payer is subordinate) one copy of the aforesaid declaration on or before seventh day of the month, next following the month in which the declaration is furnished to him [Sec. 197A and rule 23C]. Where payments are to be made to the same person more than once in a year, the declaration in the relevant form may be furnished before the first payment in a year becomes due. It may also be noted that in the declaration in Form No. 15G or 15H particulars of only such securities are to be furnished the income from which is payable by a person to whom declaration is furnished—Circular No. 351, dated November 26, 1982.

- It is the duty of the Assessing Officer to give an opportunity to rectify the defects in the declarations in Form No. 15G or 15H and imposition of tax liability without given an opportunity to the petitioner to rectify the defects in the declarations, in spite of the petitioner asking for an opportunity to rectify the defects, is not justified in the eyes of law—Vijay Hemant Finance & Estates Ltd. v. ITO [1999] 105 Taxman 519/238 ITR 282 (Mad.)
CASE STUDY

Income Tax

Solution to the Case Study published in September, 2005

A case study, relevant for the students of Final course, was included in the September, 2005 issue of the Newsletter. Responses were invited from the students and reviewed. Cash prize of Rs. 1000 for submitting best reply is being awarded to N. Hari Krishnan. Our heartiest Congratulations.

Issue No. 1: Whether company can claim deduction under section 80-IB

Various processes starting from purchase of the raw material till the sale of finished goods form an integral part of the manufacturing process and the workers and labourers employed in these processes are workers employed in the manufacturing process. Consequently, number of workers employed is more than 10 and deduction under section 80-IB is available - CIT v. Sultan & Sons Rice Mill [2005] 145 Taxman 506 (All.).

Issue No. 2 : Whether company can obtain advance ruling in respect of tax deductible under section 195

The applicant has requested the authority to determine tax liability of non-resident. It appears that by virtue of an agreement the resident has undertaken to bear the liability of non-resident. Merely because of the agreement, the tax liability does not become the tax liability of resident. Since the applicant is only discharging liability of a non-resident and no liability is attached to him under the Act, it cannot be said that resident has sought advance ruling pertaining to his own tax liability and, therefore, it will not affect jurisdiction of Authority of Advance Ruling under the provisions of section 245N(a) (ii) – Jay Shree Tea & Industries Ltd., In re. [2005] 145 Taxman 516 (AAR–New Delhi).

Insofar as objection regarding pendency of a question before the Assessing Officer is concerned, a mere filing of return by the applicant would not fall within the mischief of section 245R(2)(i). Where, however, a notice is issued under section 143(2) within the statutory period, the situation may warrant an enquiry into the identity of questions before the Assessing Officer and the Authority. In the Case Study, admittedly, no notice under section 143(2) is issued to the applicants before the date of filing of the applications before the Authority. So the question of rejection of application does not arise – Rotem Company, In re. [2005] 145 Taxman 488 (AAR–New Delhi).

Issue No. 3: Whether company is supposed to deduct tax at source under section 194C or section 194-I

C&F agent is a link between the manufacturer and the consumers. It is a part of sales and distribution network of the manufacturer. The manufacturer dispatches goods to the C&F agent, who in turn, towards the same to various destinations - either to wholesaler or stockiest for onward movement to retailers and consumers. It is just one of the modes of making available the good in the market. However, there is a time-gap between the receipt of goods by the C&F agent and their onward despatch. Obviously, the C&F agent has to store these goods during the intervening period. But then, simply because the C&F agent has to hold the goods in the interim period, the distribution arrangement between the manufacturer and the C&F agent is not converted into an arrangement as may be obtaining between a landlord or tenant, or between a tenant and a subtenant. In case of an arrangement which is a part of the distribution network, the payment made by the manufacturer to the C&F agent is for the services rendered by the latter to the former, the service tax is levied on the C&F agents. Merely because the C&F agent stores the goods in the intervening period, the character of the payment made by the manufacturer to the agent does not undergo any change so as to call it 'rent' either under general law or for the purposes of section 194-I – National Panasonic India (P.) Ltd. v. CIT [2005] 3 SOT 16 (Delhi).

The solution given here is opinion of Dr Vinod K Singhania.
The constitutional validity of the clubbing provision was upheld in Syed Askari Hadi Ali Augistine Imam v. Union of India (1994) 209 ITR 746 (Patna) and Yogindraprasad N.Mafatlal v. CIT (1977) 109 ITR 602 (Bom.).

The minor child whose income to be clubbed with the parent – includes a stepchild and adopted child. Where the child is given for adoption, then the income of that minor child given on adoption will be assessed in the hands of the adoptive parents and not natural parents. T.S.G.Rajan v. Commissioner of Agri. Income Tax (1983) 144 ITR 959 (Mad.). Income of illegitimate child is not liable for clubbing, as the term “child” would not include illegitimate minor child.

The clubbing provision will operate only in the “individual” assessment of the parents. For example, where a minor has only surviving father and no mother, the income of father if assessed in the status of HUF, the minor’s income will not be included with the total income of HUF to which his father is the Karta. The minor’s income however will be included and assessed in father’s individual assessment.

Where the parents have income below taxable limit in individual status, still the income of the minor will have to be included for the purpose of computing the tax on income (including minor’s income).

Where a trust is formed with a mandate that the trustees have to accumulate the income of the trust during the minority of the beneficiary (i.e. the minor) is not liable for clubbing. Yogindraprasad N.Mafatlal v. CIT (1977) 109 ITR 602 (Bom.).

Clubbing of income of the minor is without reference to the marital status of the minor. Even where the minor is married, still the income of the minor is to be included with the total income of the parent, having higher income. CIT v.AK.RM.M.R.Subramaniam Chettiar (2001) 250 ITR 358 (Mad.).

In Babita P.Kanungo v. Dy.CIT (2005) 96 ITD 91 (Mum-Trib) it was held that the agricultural income of the minor is not liable for clubbing even for rate purposes in the assessment of the parents. The tribunal held the agricultural income does not form part of “total income” defined in section 2(45) read with section 10(1). Also section 64(1A) provides for clubbing of “total income” of a minor child with the income of his parent. The agricultural income when does not form part of “total income” of the minor, it cannot be subjected to clubbing even for rate purposes in the assessment of the parents.

The author is a member of the Institute.

Introduction
The Finance Act, 1992 inserted section 64(1A) providing for taxation of income of the minor in the assessment of his parents. Upto the assessment year 1992-93, minors were assessed to tax directly with either of the parents acting as his guardian. Earlier, only where the grandparents transfer any asset to son’s minor child without adequate consideration, any income accruing or arising from the transferred asset to the minor was liable for clubbing in the assessment of the grand parent who transferred the asset.

Introduction of section 64(1A) from the assessment year 1993-94 is a great departure in the taxation of minors’ income. Also, this change has thrown up a few interesting situations. This write up is a round up of court decisions and discusses the mechanism of minor income taxation.

Statutory background

♦ Section 64(1A) provides for clubbing of all such income as arises or accrues to the minor child with the income of the parent. Where the minor suffers from any disability of the nature covered by section 80-U, the minor’s income is not liable for clubbing. This exception is provided in section 64(1A) itself.

♦ Where the minor child earns any income by way of manual work done by him or through the activity involving application of his skill, talent or specialized knowledge and experience, then such minor’s income is not liable for clubbing with the income of the parent. (Examples for special skill or talent: Painting, dancing, singing etc.,)

♦ Where the marriage of the parents subsists, the income of the minor will be clubbed with the income of that parent whose total income is greater. Where the marriage of the parents does not subsist, then the minor’s income will be included with the income of the parent, who maintained the minor child in the previous year.

♦ Where the income of the minor is once included in the total income of either parent, any such income of the minor in any succeeding assessment year shall not be included in the total income of the other parent, unless the Assessing Officer is satisfied that it is necessary so to do. Obviously, the Assessing Officer will resort to such change over if that will give more revenue to the exchequer. However, before doing such change over an opportunity of being heard shall be given to the parent with whose income it is proposed for inclusion.

Judicial precedents

♦ The constitutional validity of the clubbing provision was upheld in Syed Askari Hadi Ali Augistine Imam v. Union of India (1994) 209 ITR 746 (Patna) and K.V.Koppa Raju & Others v. Govt. Of India (2000) 242 ITR 522 (Kar.).
A question would arise whether there can be an assessment in the name of minor?. The definite answer is “yes”. Where the minor has income by means of manual work done by him or by exhibition of his talent, skill etc., the income of the minor is not liable for clubbing under section 64(1A). In such cases, the Assessing Officer can resort to direct assessment of minor for taxing these incomes, which are liable to tax.

Also, it is possible to infer that section 64(1A) provides an exception to clubbing of minor’s income where the minor is eligible for section 80-U deduction. The Circular No.684 dated 11-06-1994 says that “the handicapped minor will be entitled to the deduction under section 80-U in his own assessment”.

**Conclusion**

The minor’s income will have to be classified into two categories. They are (i) incomes liable for clubbing and (ii) incomes not liable for clubbing but taxable in the assessment of minor.

The income of minor liable for clubbing will have to be aggregated with the income of the parent, whoever has higher income before inclusion of such minor’s income. Thereafter, a nominal deduction of Rs.1500 is to be given against the minor’s income under section 10(32).

Incomes which are not liable for clubbing have to be offered for tax and will be assessed directly in the hands of the minor, who will be represented by either of the parents as guardian.

The following table gives a bird’s view of taxation of minors’ income under various heads.

<table>
<thead>
<tr>
<th>Nature of income</th>
<th>Taxability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>It is taxable in minor’s assessment. Not liable for clubbing.</td>
</tr>
<tr>
<td>Income from property</td>
<td>Liable for clubbing as per section 64(1A)</td>
</tr>
<tr>
<td>Income from business</td>
<td>Liable for clubbing as per Section 64(1A)</td>
</tr>
<tr>
<td>Capital gains (both short term and long term)</td>
<td>Liable for clubbing. Deduction under section 54 to 54H if eligible could be availed.</td>
</tr>
<tr>
<td>Income from other sources (other than those attributable to personal skill, talent etc..)</td>
<td>Not liable for clubbing. Such incomes will be assessed directly in the hands of minor.</td>
</tr>
<tr>
<td>Income from other sources – attributable to personal skill, talent etc..</td>
<td></td>
</tr>
</tbody>
</table>

**Set off and carry forward provisions**

The incomes, which are not liable for clubbing with parents income will not be eligible for set off against the losses, to which the clubbing provisions apply. Similarly, incomes liable for clubbing will not go to reduce the losses, to which the clubbing provisions do not apply. It is necessary to note that the parent with whose income the minor’s income is regularly included should include the negative total income (i.e. total loss) of the minor, which is liable for clubbing, for computing the tax liability.

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**All India Elocution and Quiz Contest**

Date: January 9 & 10, 2006  
Venue: Brahmayya Auditorium SIRC, Chennai

**11th All India Elocution Contest**

<table>
<thead>
<tr>
<th>Topics</th>
<th>List of Participants</th>
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</thead>
<tbody>
<tr>
<td>Indian Economic Growth and Bull Run in Stock Market</td>
<td>Western Region</td>
</tr>
<tr>
<td>International Financial Reporting Standards and Changing Corporate Reporting Scenario</td>
<td>Central Region</td>
</tr>
<tr>
<td>Global Convergence of Stock Market : A Healthy Trend for Proper Stock Valuation</td>
<td>Northern Region</td>
</tr>
<tr>
<td>Corporate Fraud and Audit Risk</td>
<td>Eastern Region</td>
</tr>
<tr>
<td>Limited Liability Partnership : A Vehicle for Business Expansion</td>
<td>Southern Region</td>
</tr>
<tr>
<td>6. Corporate Governance : Role of Chartered Accountants</td>
<td></td>
</tr>
<tr>
<td>7. Value Added Tax : A Distinct Move Towards Simplification of Indirect Taxation</td>
<td></td>
</tr>
<tr>
<td>8. Speculative Securities Transactions and Investment Risk</td>
<td></td>
</tr>
<tr>
<td>9. WTO and Developing Nations</td>
<td></td>
</tr>
<tr>
<td>10. Management of SMEs : Role of Chartered Accountants</td>
<td></td>
</tr>
</tbody>
</table>

**Western Region**

- Mr/Ms Sushil Thacker
- Nidhi Agrawal
- Sanket Shah
- Ruchita Ovatratia
- Ramanujam Raghavan
- R Kundhavi
- Mithun S J Souza
- Sudhir G Gaonkar
- Abhishek Agarwal
- Arpita Makherejee
- Priyanka Tandon
- Sonu Agarwal

**Central Region**

- Siddharth
- Neha George
- Saurabh Agarwal
- Sudhanshu Panday
- Sweta Sethi
- Latika
- Naveen Goyal
- Atul Garg

**Northern Region**

**Southern Region**

- B Ganesh Prabhu
- Mithun S J Souza
- Supriya

**Eastern Region**

- Abhishek Agarwal
- Arpita Makherejee
- Priyanka Tandon
- Sonu Agarwal

**5th All India Quiz Contest**

<table>
<thead>
<tr>
<th>List of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Region</td>
</tr>
<tr>
<td>Kalpan Nanavati</td>
</tr>
<tr>
<td>Dwaitin Dave</td>
</tr>
<tr>
<td>Southern Region</td>
</tr>
<tr>
<td>B Ganesh Prabhu</td>
</tr>
<tr>
<td>Mithun S J Souza, Supriya</td>
</tr>
<tr>
<td>Eastern Region</td>
</tr>
<tr>
<td>Aditya Surana</td>
</tr>
<tr>
<td>Amit Kumar Daga</td>
</tr>
<tr>
<td>Central Region</td>
</tr>
<tr>
<td>Anshul Shekhar Nayak</td>
</tr>
<tr>
<td>Vinit Kumar Jain</td>
</tr>
<tr>
<td>Northern Region</td>
</tr>
<tr>
<td>Anyanj Kumar Jha</td>
</tr>
<tr>
<td>Piyush Kumar Shukla</td>
</tr>
</tbody>
</table>

**List of Participants**

These students are winners of regional level contests.
Corporate Governance – Recent Changes in Clause 49 & Independent Director

Sudhanshu Pandey

Corporate Governance initiatives in India

There have been several major corporate governance initiatives launched in India. The Confederation of Indian Industry (CII) came up with the first voluntary code of corporate governance in 1998. The second was by setting up The Birla Committee on Corporate Governance was constituted by the Securities and Exchange Board of India (SEBI) to promote and raise the Standard of Corporate Governance in respect of listed companies. The third was the Naresh Chandra Committee, which submitted its report in 2002. The fourth was by SEBI, the Narayan Murthy Committee, which also submitted its report in 2002. Based on the recommendations of the ‘Committee on Corporate Governance’ SEBI has made certain provisions mandatory for listed companies through the route of the Listing Agreement and thus, Clause 49 was revised in August, 2003. After issuance of the August’03 circular, SEBI received representations/suggestions from the corporate/public on various provisions of the said circular. The Narayan Murthy Committee then considered and deliberated on the suggestions and comments received from corporate/public. Based on the revised recommendations of the committee, it was decided to further revise the provisions of Clause 49 of the Listing Agreement vide Circular dated 29th October, 04. SEBI has again revised clause 49. This circular is a master circular and supersedes all other earlier circulars issued by SEBI on this subject.

Highlights of the Code are as follows

1. Boards to have an optimum combination of Executive and Non-Executive Directors with not less than fifty per cent of the Board of directors comprising non-executive directors.
2. All pecuniary relationship or transactions of the non-executive directors with the company should be disclosed in the Annual Report.
3. Companies to set up a qualified and independent Audit Committee and the Company Secretary to act as the Secretary to the said Committee. All members of the Audit Committee shall be non-executive directors with the majority of them being independent, and with at least one director having financial and accounting knowledge. Chairman of the Committee shall be an independent director.
4. Audit Committee shall have power to investigate any activity within its terms of reference, to seek information from any employee, to obtain outside legal or other professional advice. The Committee will review with the Management, the external and internal auditors, the adequacy of internal control systems, internal audit function including the structure of internal audit department, staffing and seniority of official heading thee department, reviewing the findings of any internal investigations by the internal auditors, discussions with external auditors, review company’s financial and risk management policies and to look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders and creditors.
5. As part of the director’s report or as an addition there to, a Management Discussion and Analysis Report should be part of the Annual Report to the Shareholders.
6. Remuneration of NO-Executive Directors to be decided by the Board.
7. Board Meetings to be held at least four times a year.
8. Shareholders to be provide prescribed information about the appointment of new directors for re-appointment of directors.
9. Companies to provide in Annual Report a separate section on corporate governance.
10. Companies to obtain a compliance certificate from an auditor and to attach it with Directors’ Report.
11. Management must disclose to the Board all important financial and commercial transactions.
12. Information like quarterly results and presentations made by the Company to analysts, shall be put on the company’s website or shall be sent in such a form as to enable the stock exchange on which the company’s listed to put it on its own website.
13. To expedite the process of share transfers, the Board shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents.

Thus, the key aspects of good corporate governance include transparency of corporate structures and operation; the accountability of manager and the boards to shareholders; and corporate responsibility towards stakeholders.

CORPORATE GOVERNANCE FOR NON LISTED COMPANIES

For non-listed companies, there is no such requirement now. The J J Irani Committee, which advised the government on the proposed new company law, said that such a requirement for non-listed companies could be consider in due course. Also, there are efforts globally to infuse the spirit of corporate governance in non-listed companies, as they are key player in the total economic activity in a nation. The Organisation for Economic Co-operation and Development (OECD) is also exploring ways to achieve this.

The author is a student of ICAI. This is a paper presented at 18th All India CA Students’ Conference. The writer was awarded as best paper presenter for the topic at the conference.
Applicability of Revised Clause 49 of the Listing Agreement

As per SEBI, revised clause 49 was applicable w.e.f. 01.04.2005. However, the corporate world had raised their concerns that they are not ready for this mainly on account of requirement of independent directors and CEO/CFO certification. SEBI, thus, extended this date to 31st December 2005.

MAJOR CHANGES

(1) INDEPENDENT DIRECTOR

[Presently, the concept of independent directors is not there in the Companies Act. However, The Act has delegated the administration of some sections relating to listed companies to the capital market regulator-the Securities and Exchange Board of India (SEBI). SEBI, in its circular to stock exchanges in October 2004, has revised the clause 49 of the listing agreement, which mainly deals with independent directors and audit committees.]

The Circular says that a public listed company with an executive chairman on the board should reserve at least half of the board to independent directors. If the chairman is a non-executive, one third would suffice.

The definition of an ‘Independent Director’ was very limited as per the old clause 49, but in revised circular it is wider. An independent director is a non-executive director on the board of a company who has integrity, expertise and the independence to balance the interest of various stake holders. The idea of having them is to bring objectivity to the board decisions and to protect the general interest of the company including that of the minority and small shareholders. Independent directors are expected to improve the corporate governance in a company.

Who cannot be an independent director in a listed company?

The capital market regulator has set eligibility norms for independent directors, which the corporate sector says is too stringent. The Company Affairs Ministry is also considering similar criteria in the proposed new company law. According to SEBI, having a ‘pecuniary’ relationship with the company or any of its arms, other than receiving the director’s remuneration, will be a disqualification. An independent director should not be related to the promoters or anyone in the senior management position from one level below the board. He should not have been an executive of the company or of its audit, consulting or legal firms in the past three financial years. Besides, owning two percent or more of the block of voting shares or being a service provider to the company, would disqualify one from taking up an independent directorship in a listed company. Also, SEBI says that nominee directors appointed by an institution which has invested in or lent to the company, shall be deemed to be independent directors.

This is the only official position on the nominee directors today. If the government accepts the Irani Committee recommendations that directors nominated by a financial institution or government are not independent, and Parliament enacts the new companies bill, this view will prevail upon the SEBI definition. The Committee had also said that the minimum period of no-association with the company or its arms could be one year. The new company law bill is expected to be tabled in Parliament winter session.)

The very purpose of the corporate governance is that the independent director should be independent from the management. He must not be only independent according to the definition, but also in thought and action. Mere presence of independent director does not mean that company is well governed.

What are the other corporate governance requirements as per clause 49?

Independent directors play an active role in various committees to be set up by a company to ensure good governance. Listed companies are required to set up audit committees of minimum three directors, on which, two thirds shall be independent directors. The audit committee, chaired by an independent director, shall inspect the company’s financial statements and can also recommend replacement of the statutory auditor. At least one independent director on the board of a listed holding company should be on the board of its unlisted subsidiary and can inspect its financial statements. Also, a company’s shareholder/investors grievance committee chaired by a non-executive director will look into shareholders complaints like transfer of shares, non-receipt of balance sheet and non-receipt of dividends. Companies are also required to have a separate section on corporate governance in their annual reports and file quarterly compliance report to the stock exchanges. Besides, they are also expected to obtain a certificate from either the auditors or practicing company secretaries on the compliance and send it to all stake holders and the stock exchanges along with the directors’ report.

(2) CODE OF CONDUCT FOR BOARD & SENIOR MANAGEMENT

New Clause 49 requires company to lay down a code of conduct for all board members and senior management of the Company. The annual report of the company shall contain declaration to this effect signed by the CEO. ’Senior Management’ mean personnel of the company who are member of its core management team excluding Board of Directors.

(3) CEO/CFO CERTIFICATION

New Clause 49 requires a CEO or CFO to certify to board that:

Financial Statements do not contain any materially untrue statement

Financial Statement present a true and fair view of the company’s affairs and are in compliance with AS &applicable laws and regulations.

No transactions entered into by the company during the year that is fraudulent or illegal

They accept responsibility for establishing and maintaining internal controls

They have disclosed to the auditors and the /audit Committee, deficiencies in the design or operation of internal controls, if any
They have indicated significant changes in internal control, accounting policy & instances of significant fraud, if any to the auditors and the Audit Committee

(4) SUBSIDIARY COMPANIES

New Clause 49 specifically mentions that:

1. At least one independent director on the Board of Directors of the holding company shall be a director on the Board of Director of material non listed Indian Subsidiary. Material non-listed Indian subsidiary shall mean an unlisted subsidiary, incorporated in India, whose turnover or net worth exceeds 20% of the consolidated turnover or net worth respectively, of the listed holding company and its subsidiaries in the immediately preceding accounting year.

2. The Audit Committee of the listed holding company shall also review the financial statements, in particular, the investments made by the unlisted subsidiary company.

3. The minutes of the Board meetings of the unlisted subsidiary company shall be placed at the Board meeting of the listed holding company. The management should periodically bring to the attention of the Board of Directors of the listed holding company, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary company.

(5) BOARD DISCLOSURE – RISK MANAGEMENT:

In the revised circular, clause 49, disclosure related to Risk Management has tube made mandatory. The Company shall lay down procedures to inform board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive managements controls risk through means of a properly defined framework.

(6) RESPONSIBILITY OF BOARD MEMEBERS:

The Board shall review compliance report of all laws applicable to company, as well as action taken by company to rectify instances of non-compliance. Earlier no such specific mention was here.

OTHER CHANGES

1. As per old clause 49, 4 meetings in one year with a maximum gap of 4 months between two meetings were permitted. But now gap between two meetings has been reduced to 3 months.

2. A director shall not be a member of more than 10 committees or act as a chairman of 5 committees.

3. Audit Committee shall have a minimum of 3 Directors having at least 2/3 to be Independent Directors. At least one Director having financial and accounting expertise. Requirement of all Directors being No Executive Directors is now done away with.

4. Meeting of Audit Committee shall be held for 4 times in a year and gap between two meetings should not exceed 4 months.

5. Audit Committee shall MANDATORILY review the following information:

   ♦ Management discussion and analysis of financial condition and results of operations
   ♦ Statement of significant related party transactions, submitted by management
   ♦ Management letters/letters of internal control weaknesses issued by the statutory auditors
   ♦ Internal audit reports relating to internal control weaknesses, and
   ♦ The appointment, removal and terms of remuneration of the Chief Internal Auditor shall be subject to review by the Audit Committee

6. Annual Report to contain disclosure on:

   ♦ Criteria of making payments to Non-executive directors.
   ♦ No of Shares and convertible instruments held by Non-executive directors
   ♦ Non-executive directors to disclose their shareholding in the Company, prior to appointment
   ♦ Notice of General Meeting to contain details of the shareholding of Non-executive directors being appointed at the Meeting.

NON- MANDATORY REQUIREMENT

Revised Clause 49 contains few non-mandatory requirements as well:

1. Independent Directors may have a tenue not exceeding, in the aggregate, a period of 9 years on the Board of the Company.

2. The Board may set up a remuneration committed to determine the company’s policy on remuneration packages for executive directors.

3. A half-yearly declaration of financial performance including summary of the significant events in last six months, may be sent to each household of shareholders.

4. Mechanism for evaluating non-executive Board Members by peer group should be in place. This peer group evaluation could be the mechanism to determine whether to extend/ continue the terms of appointment of non-executive director.

5. Whistle Blower Policy should be made and implemented. This is a mechanism for employees to report to the management concerns about unethical behaviour, actual or suspected fraud or violation of the company’s code of conduct or ethics policy.

CONCLUSION

Corporate Governance is not merely about preparing ‘Corporate Governance Report’ to comply with listing agreement. It is not merely forming various committees. Corporate Governance is about ethics in business. Ethics cannot be legislated. It is about transparency, openness and fair play in all aspects of business operation. It has to come through conviction and self-discipline of top management. So companies should adopt Corporate Governance in letter and spirit as well. Government or SEBI can at the most ensure that formalities of Corporate Governance are complied with.
Revised Guidelines applicable for students joining 250 Hours Compulsory Computer Training Programme from October 1st, 2005

The Board of Studies has designed a new scheme for organizing 250 Hours Compulsory Computer Training Programme w.e.f. 1.10.2005. The salient features of the new scheme are as given below:

1. The minimum duration to complete the computer training is three months. Two options for undergoing the programme are as follows:
   - **Option I : Duration** - Three months (classes may be conducted 4 hours / day, 5 days / week)
   - **Option II: Duration** - 4 months (classes may be conducted 7 hours / day, on Saturday and Sunday)

2. Training will be organized in a batch system. A batch will be started only in the first week of each month.

3. A student is required to start his training with the accredited institution within six months from the date of registration for the Compulsory Computer Training Programme with ICAR.

4. A student is required to complete the training uninterruptedly.

5. There shall be four module tests.

6. Students will be allowed to appear for online examination only after completion of minimum duration of the course as well as all curriculums given in the prospects and reference manual i.e., after clearing the four Module Tests, submission of project and adherence to minimum attendance criteria of ninety percent.

7. Online examinations will be conducted on second Sunday of every month. Students fulfilling all criteria stated in Point No. 4 above could appear for the final online exam. The examinations are generally conducted from 10 a.m., duration of which is 3 hours. Students are advised to contact their accredited training centres for further details in this regard.

Other important points to remember are:

(i) Students should register for 250 Hours Compulsory Computer Training Programme while undergoing Professional Education (Course - I) or Professional Education (Course - II). It is advised that students may plan the computer training in such a manner that they are able to complete it well in advance of declaration of results of Professional Education (Examination - II).

(ii) Students should also take care that they first register with the Board of Studies for 250 Compulsory Computer Training Programme by submitting the requisite application form. Once the application is found to be complete in all respects, a registration letter will be issued for undergoing the computer training. The students may note that the concerned Regional Office takes minimum 15 days to issue this letter. Thereafter they can start their 250 Hours Compulsory Computer Training with any of the accredited training institutes / centres.

(iii) As there will be a batch system, students are advised to register with the authorized accredited institutions in advance.

(iv) Students are advised to take admission only in the listed accredited training institutes / centres. The updated list of accredited training institutes / centres is available on the website of the Institute, http://www.icai.org/students/index.html, in the prospectus and Reference Manual supplied to students registering for 250 Hours Compulsory Computer Training Programme. In case of any doubt or clarification, you may contact the concerned Regional Offices or Board of Studies at the given e-mail id: bcosnoida@icai.org.

(v) The CCT Completion Certificate will be issued by the concerned Regional Office within 25 days from the date of final online examination.

(vi) Many students face hardship on account of delay in their registration for articleship due to non-receipt of 250 Hours Compulsory Computer Training Completion Certificate. It is reiterated that completion of the computer training is a prerequisite for registration of the articleship. It is suggested that students may plan the computer training in such a manner that they are able to complete it well in advance of declaration of results of Professional Education (Examination - II). In case they fail to do so, there is a delay of at least 3 months if not more. Students should also keep in mind that the final online test is conducted once in a month. Thus, the time loss on account of non-completion of the computer training in time will be much more.

It is further clarified that there is no change in the syllabus for 250 Hours Compulsory Computer Training Programme in this new scheme, only the modalities of imparting training have been modified for implementation of the scheme in a simplified manner. It is again clarified that these guidelines are applicable to students joining the 250 Hours Compulsory Computer Training Programme on and from October 1st, 2005.

Students are advised to lodge complaints for difficulties faced in pursuing 250 Hours Compulsory Computer Training Programme with the accredited institutes / delay in getting Compulsory Computer Training Programme Completion Certificate / difficulties faced in appearing in the online examination at e-mail id indu@icai.org.
Announcements

1. Sunday Test Scheme – For Final and Professional Education (Course – II) Students

Considering the difficulties faced by the Final Course Students in appearing Sunday Tests to fulfill the requirements of Eligibility Test Paper Scheme because of their outstation audit assignments during articled/audit training, the Board of Studies decided to make Sunday Test Scheme optional. Accordingly, Final course students may either appear in requisite number of Sunday Tests or submit requisite number of Postal Test Papers. The students are also allowed to fulfill the criteria of the Eligibility Test Paper Scheme partly under Postal Test Paper Scheme and partly under Sunday Test Paper Scheme. Students are advised to collect the Postal Test Paper booklet from the respective Regional Offices i.e. Mumbai, Chennai, Kolkata, Kanpur and New Delhi. This scheme has been given immediate effect.

The Board of Studies also decided that Sunday Test Paper Scheme for Professional Education (Course – II) students will continue to remain mandatory in the selected cities only. Accordingly, Sunday Tests will be conducted in Mumbai, Chennai, Kolkata, Delhi, Kanpur, Ahemdabad, Bangalore, Hyderabad, Jaipur and Pune. Students belonging to other cities may join Postal Test Paper Scheme. Alternatively, they may complete Sunday Tests for the purpose of eligibility for May, 2006 Examination through existing Sunday Test Centres. This Scheme has been given immediate effect.

The list of Sunday Test Centres is given in the box.

Sunday Test Centres in other cities/Towns will be made non-operative w.e.f. 1st January, 2006. There will also be no Sunday Tests at Divine Public School, Sector –9, Faridabad. All students of the Faridabad city are required to join Postal Test Paper Scheme.

2. Eligibility Tests at Accredited Institutes

Students should note that from January 1, 2006 accredited institutes will not be allowed to conduct tests for the purpose of awarding eligibility certificates to PE-I, PE-II and Final students. Henceforth, all students have to necessarily go through Sunday/
postal test scheme. Thus, the students of the Professional Education (Course-I) have to appear in postal test papers. Students of Professional Education (Course- II) may appear in Sunday/Postal tests as per the existing scheme. Students of the final course may exercise their discretion as given in the first announcement.

3. 250 Hours Compulsory Computer Training Programme
The next online Examination for 250 Hours Compulsory Computer Training Programme will be conducted on 8th January, 2006 at 10.00 AM. All those students who fulfil following requirements are eligible to appear for this examination:
1. Completed minimum three months computer training
2. Cleared all module tests
3. Submitted the project
4. Attained 90% attendance
It is observed that even those students who do not fulfil the conditions stated above are appearing for the online examination. It is reiterated that only those students who fulfil all the four aforesaid criteria are eligible to appear for the online exam. Ineligible students will not be issued CCT completion certificates even if they are allowed to appear for the online examination by their concerned training institute. Students are advised to contact their concerned accredited training institutes for further details. In case you face any difficulty regarding conduct of online examination at your training centre, please contact the concerned Regional Office. Alternatively, you can contact Mrs. Indu Arora at NOIDA office at e-mail address indu@icai.org.

Report on SAFA Students’ Exchange Programme: December 7-15, 2005 at Indore
10 ICASL students and 12 ICAN students (including two girls of ICAN) came to Indore on December 7, 2005 for participation in the 18th All India CA Students’ Conference organised by the Board of Studies and hosted by the Indore Branch of CIRC of ICAI during December 8-9, 2005 as part of the SAFA Students’ Exchange Programme in addition to other programmes. The participants got exposure in the students conference in the area of Accounting Standards, Auditing, Information Technology, Corporate Laws, Indian Tax Laws. They had the opportunity of exchanging their views/perception with their counterpart in India with reference to the education and training systems prevailing in their countries. They also made brief presentations on their countries in the conference which were appreciated by the Indian students.

During the next part of the programme the participating students had the opportunity of visiting Girdharilal Sugar Industries at Ghatwa, Dhamnod about 100 kms off Indore, Eicher Motors (automobile Industry), Bridgestone (Tyre Industry) at Pithan Pur about 40 kms away from Indore, Kirti Soya Oil Industries at Dewas about 30 kms off Indore. The students had the glimpses of functioning of these industries with reference to production process, control mechanism and were exposed to Accounting, Auditing and Tax practices being followed in such industries. They had lively interactions with respective industry representatives that included Chartered Accountants too.

The students were taken to three renowned firms of Chartered Accountants at Indore viz. M.Mehta & Co., Fadnis and Gupte and M. Munshi & Co. where presentations were made before them on prevailing Accounting, Auditing, Taxation and Corporate Governance as are being followed in business, commerce and industries in India. There were interactive sessions where the visiting students shared their knowledge.

The ICASL students made a presentation on their education and training systems in one of the meetings at the CA firms.

To make these students acquainted with the history and culture of the city they were taken to places of historical interest viz, Mandav consisting of Mahal of Ranirupmati and Jahaz Mahal about 100 kms away from Indore, Mahakal temple at Ujjain, Mataji temple at Dewas about 60 kms off Indore, where expert guide explained before them the relevant background and historical importance of respective places.

The students, in general, appreciated overall arrangements, educational inputs, cultural values, hospitality and other arrangements.

The students left through Bhopal by train on December 15, 2005.

Goals and Results
Pooja J. Agrawal
(Professional Education Course-I)

I set my goals as a kite in sky
The kite that was large and pervasive.
To it I tied a thread of hard work.
which was effective.
Then I sent it up in the air,
as everyone did stare.
Like a bird in the sky,
it went higher and higher.
And with passage of time,
it became bigger.
But at times my thread became weak
For that I face the problems heap.
To cope with the lethargy,
I did work with more determination.
After much efforts I saw my kite,
Up glowing in night.
Notice by everyone’s praise,
For which I wove the lace.
To achieve success I always remember,
No one can pass by wonder.
Its like glittering in sky
Without losing hardwork even for wink of eye.
Inland Subscription Rates:

- **Students**: Rs. 60 p.a.
- **Members and Others**: Rs 150 p.a.

Overseas Subscription Rate: U.S. $ 20 p.a.