Message from the Chairman, Board of Studies

Dear Students,

A typical student of Chartered Accountancy spends at least five years preparing and passing examinations before entering the profession. These years are filled with rigorous theoretical education and practical training. During these years the focus is on acquiring technical education and minutely learning warps and wefts of Chartered Accountancy. Students become professionals by acquiring and demonstrating necessary attributes of professionalism. The essential attributes of a chartered accountant are sound theoretical knowledge, technical skills, integrity, autonomy and service orientation. Students need to imbibe these to become successful in their lives.

The Institute tries to impart the required skills and assists the students in all respect. It puts in the required resources to help the students and groom them for accepting future challenges. In addition to getting knowledge in the core and other related areas, students need to acquire other skills such as writing, public speaking, time management, behavioural, managerial and working in teams. Students should leave no stone unturned to get the necessary skills.

Students should also attend seminars, conferences and other contact programmes. A golden opportunity for you is to attend 18th All India CA Students’ Conference. The conference is being organised on 8th and 9th of this month in Indore. I exhort you to attend in large numbers and reap the benefits. There will be topical papers on accounting, auditing, taxation, corporate laws, education, training and career opportunities. I reiterate – Do not miss it.

Tools of Information Technology are entering the education in a big way. Some time back a small beginning was made to conduct online eligibility test in Mumbai. The basic idea is further given shape as more tests are being planned in Kolkata. Look for detailed announcement in this Newsletter.

Recently, the eligibility test paper scheme has been simplified. Announcements in this regard were included in previous issues. It has been further decided to provide option to final students to take postal tests. These students are also being allowed to mix Sunday tests and Postal tests. However, for students of Professional Education (Course II) who are residing in selected cities the Sunday Test Scheme remains mandatory. See the detailed announcement printed in this Newsletter.

With best wishes,

Yours truly,

Jaydeep Narendra Shah

December, 2005 Vol 9 No 7
## 18th All India C.A. Students’ Conference

**Optimising Abilities – Chasing Challenges**

**Dates:** December 8 & 9, 2005  
**Venue:** Ravindra Natya Grah, R.N.T. Marg, Indore

### Technical Session I
**Accounting and Auditing**
- Impairment of Assets  
  - CARO, 2003

### Technical Session II
**Taxation**
- Fringe Benefit Tax
- Procedural Aspects of CENVAT Credit

### Technical Session III
**Corporate Laws**
- Significant Changes in the Companies Act
- Clause 49 of the Listing Agreement - Corporate Governance & Independent Directors

### Technical Session IV
**General**
- Career Opportunities of Chartered Accountancy Profession in IT Industries
- Education and Training of Chartered Accountancy

### Special Session
- Winning Strategies for passing CA Examination

**Registration fee:** Rs. 500

All correspondence relating to registration may be addressed to:

Ms Kemisha Soni / Mr Amit Ramani,  
Indore Branch of CIRC of the ICAI, 101 Urvashi, First Floor, Jaora Compound, Indore 452001.  
Phone 0731 2702875  
Fax 0731 2702471;  
E-mail: cicasaindore_casc@rediffmail.com

**Students are invited to join the Conference**

### 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.

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Technology Incubators: The New Paradigm for SME's

Dr. Arun Mohan Sherry

Technology Business Incubator is a mechanism to provide advisory, training and information services, management and marketing support, linkages to research faculty and facilities, access to capital, thereby greatly enhancing the chances of success of the early stage technopreneur. It is a cost-effective instrument for technology transfer and the development of knowledge-based and high-tech enterprises.

Keywords: SME's—Small and Medium Enterprises

I. Introduction

The recent World Bank's review on Small Business activity establishes the commitment of World Bank Group to the development of the small and medium enterprises (SME's) sector as a core element in its strategy to foster economic growth, employment and poverty alleviation. The Indian SMEs — IT industry demonstrates the tremendous growth/value that the Indian IT industry provides to its customer/development effort which encourage existing SMEs to do more business. The technology incubator is the key success for the growth of IT & ITES industry for SME segment, which help them to grow.

The Indian IT & ITES industry market continued to increase momentum, with offshore outsourcing becoming a mainstream phenomenon. A growth of about 28 percent by the Software and services industry placed the sector among the highest performers within the Indian market. The Indian IT industry covers generally SME's which contains 85 % of the total industry. This paper introduces about the Technology Incubator the key success to the SME's and need to focus in the technology incubator.

The objective is to cover some of the risks involved in the early stages of technology incubators. However, many SMEs have not yet developed a culture of innovation and those that do invest in innovation may still face obstacles in pursuing this strategy. Here lies a huge potential source of economic growth, quality job creation and social well-being that can be met through technology incubators.

II. Definitions:

Technology Business Incubator (TBI) is a mechanism to provide advisory, training and information services, management and marketing support, linkages to research faculty and facilities, access to capital, thereby greatly enhancing the chances of success of the early stage technopreneur. It is a cost-effective instrument for technology transfer and the development of knowledge-based and high-tech enterprises.

The main objective of Technology Business Incubators is to facilitate the technological development stage and to complete technological ideas for technologies currently under development.

However, the technology incubators are commonly known to include the concepts of technology business incubators and innovation centers. The goal of technology incubators is also to promote technology-based firms, and to address regional and local developmental issues through S&T. TBIs are located at or near technical institutions and are characterized by institutional links to knowledge sources including technology transfer agencies, research centers, national laboratories and skilled R&D personnel. TBIs promote technology transfer and diffusion while encouraging entrepreneurship among researchers and academics.

A TBI is a managed workspace with low cost office facilities and business and professional services necessary for nurturing and supporting early stage growth of technologies and technology based enterprises. The services may include modern communication and information services, and access to the R&D, testing, design and engineering etc., facilities and services. The objective is to cover some of the risks involved in the early stages of technology incubators.

2. NASSCOM STRATEGY 2004.
stages of incubation of technologies and technopreneurs particularly in the area of high technologies. In addition to work space, the services provided by incubators can include various forms of business planning and managerial advice, office facilities, finance and accounting access to business networks, and legal services.

**TBIs essentially assume**
- Strong R&D and technological capabilities in academic institutions and R&D organisations, thereby associating R&D results with commercial potential and encouraging potential entrepreneurship among students and faculty.
- Potential technopreneurs including researchers, who are willing to translate their ideas/high technology into products and services, are available.
- Strong linkages with academic and financial institutions.

Some of the major objectives of establishing TBIs are:
- **Technology Commercialization**: Most universities, R&D institutions and technical institutions such as IITs have technologies, which need to be commercialized. These institutions are indeed a critical element in the supply of future business know-how for industry.
- **Economic Development**: TBIs are a tool for promoting new business. A main underlying goal of support for new business formation is economic development through job generation.
- **Property Venture**: TBIs create lucrative property-based venture.
- **Entrepreneurship Development**: Promoting entrepreneurship through incubators is another objective of public support. One of the main goals of technology incubators in developing countries and transit economies has been the development of an entrepreneurial culture and the creation of SMEs. Incubators in the university premises can act as a training ground for entrepreneurs, especially the technopreneurs.
- **R&D for Industry**: Creating awareness among academic institutions about the requirements of industry and reorient their research and development programmes to suit the need of industry.
- **Problem Solving**: Act as a problem-solving agency not only in the areas of technology but also in other related areas of business development.

**III. Key Success Factors For Technology Incubators**
The determinant factors that contribute to the ultimate economic, social and political success of a new business incubator and tech-park evolve with the stages through which the facility develops from the initial design to sustained operation. Experience indicates that in industrializing countries, without patient and continuing support from the state and community over the whole program cycle, developing sustainable performance and having positive impact on economic development will become difficult.
An outward looking, export-oriented incubator/park is forced by the competition to become more dynamic, more efficient.

The skills and structures for marketing are generally the most critical. Changing markets require continuous innovation, and this comes best from an environment which encourages risk-taking.

Operations in both industrial and industrializing countries can now benefit from linkages between them, both south-south and south-north. The international development agencies have a role to play.

IV. Indian Incubation Provider by Govt Agency
Software Technology Parks of India: Technology Incubators:
 "Single Window" access to all statutory & technological support.
The factors for competitiveness comprise supportive state policies, technical infrastructure, stable economy, financial services, technical human resources, and a national strategy which targets products and markets of advantage. Among developing countries, India had an early start on building small business support, entrepreneurship and scientific research capabilities.
Today 130 of the Fortune-500 companies outsource their software requirements to India. Currently India’s software industry employs 450,000 people and produced over US$ 9.8 billion in 2003, a 10-fold increase in a decade. Exports are growing at 28% a year, mostly to the U.S. and mainly as end-user application products and services.

A significant initiative of the Department of Electronics is the Software Technology Parks of India (STPI), to help strengthen the "India - Software Advantage". For outsourcing software, these advantages include:

- Large, English-speaking personnel pool, with technical & management skills;
- State-of-the-art technologies and equipment, significantly lower development costs;
- Quality assurance levels, ISO 9001 certification and copyright protection;
- High speed data com links and time advantage, for 24-hour development.

STPI is an autonomous society for promoting the establishment of software centers by private or public or 100% owned foreign agencies. Through "single-point contact" for all regulatory functions, the sponsor can get duty-free imports of equipment, custom-bonded warehouses for materials, income-tax exemptions for five years, full repatriation of know-how fees and royalties, and other facilities, in order to develop and export software, (domestic sale only 50 % of software exported). STPI has set up Parks at 40 locations with prime centers at Bangalore, Pune, Bhubaneswar, Hyderabad, Noida, Gandhinagar and Trivandrum, while some state governments have their own schemes.

In addition, Export Processing Zones are established at seven port cities, essentially for software exports. At these places, reliable high speed data communication infrastructure has been created for executing off-shore projects, remote computing, software development and maintenance.

Also few of Private Parks also establish in the recent years were ITPL at Bangalore, Hitech city at Hyderabad, Tidel Park at Chennai etc. who were providing good Technology Incubator facility to help the SME to grow in their respective area.

V. Conclusion :
This paper introduces a new and unique set of in-country indicators of the Technology Incubator the concept and the growth for SME industry which indicates the growth in the employment and wealth creation. Counties with a higher level of GDP per capita have larger SME sector in terms of their contribution to total employment and GDP.

The paper also suggested that varieties of variables are needed to be implemented for the growth of the technology incubation concept which are relative importance of SME segment in IT & ITES industry.

VI. References


This is the story of Ghotala Bank, one of the biggest, most respected banks in the country today. Headed by my good friend, Baidnath Ramesh Chand S. Maha Ghotala.

Ghotalaji, as he is popularly known, is one of the most respected bankers in the country. Some even say that he pioneered banking as it is known today. Scrupulously honest, as his name implies. And of course you are aware that Ghotala Bank has been around for years and years, with perhaps a few thousand branches today. In every town and city. So much so, that even if you go to the remotest corner of the country, you are bound to see a big hoarding, proudly proclaiming, “There’s a Ghotala near you!”

Now let me tell you what happened to Ghotalaji and his bank just a few months ago.

First of all, you should know that Ghotalaji had computerised all branches of the bank some time back, even though they were not linked, like some modern-day banks. So each branch ran a bunch of software programs on its own computer, without communicating with the other branches. But that worked fine—after all, there were not too many customers who maintained accounts in multiple branches or cities. And for those few customers who did have an account in say, two branches, well, they were simply managed as independent customers by the branches concerned.

One day, Ghotalaji had a brainwave. He realised that there were many, many customers with accounts in his bank. But a large chunk of them hardly used these accounts. And the balance in their accounts was, of course majestic—Rupees six hundred and paise fifteen only. Rupees one thousand and paise forty three and a half. And so on and so forth. But these were the small time customers Ghotalaji wanted to target. To pocket the monthly service charge. Or get the data of all kinds. They could ask questions like, “Where’s the balance in my account?”

So Ghotala Bank went ahead and implemented the service charge. And as expected, several college students closed down their accounts. After all, there were cheaper ways of impressing their respective girl-friends (you can’t imagine how impressed a sixteen year old young lady would be if she hears that her boy-friend has six bank accounts!)

So to get back to our bank, Ghotalaji decided to charge a monthly service charge of fifty rupees for every month where the balance in the account was less than five thousand rupees.

But Ghotalaji was smart. He realised that there would be some big customers whose account balances were low only temporarily. Perhaps they were involved in some scam, which would naturally be cleared up after the requisite political finger pointing. Or maybe they were getting married for the nth time and the bride had insisted on emptying the bank account as a pre-condition. Naturally, these customers would get back to their big banking ways in due course (for instance when the scam was settled, or sense prevailed after marriage). And therefore Ghotalaji did not want to risk annoying them by charging a fee.

But that problem was easily solved. Since Ghotalaji was aware of the principles of CRM, he had implemented a Data Warehouse — by a lucky coincidence, in the Chennai branch itself. This Data Warehouse stored old, historical data about all customers, which it picked up from the database of the branch accounting system of the Chennai branch office. So the bank had historical data of all kinds. They could ask questions like,

“list out all customers whose account balance has never gone beyond five thousand rupees.”

And these were the small time customers Ghotalaji wanted to target. To pocket the monthly service charge. Or get the customers to close down the account.

So Ghotala Bank went ahead and implemented the service charge. And as expected, several college students closed down their accounts. After all, there were cheaper ways of impressing your date! Some other strange people agreed to pay the service charge. And wonder of wonders, a few actually put in more
money so as to take their balance beyond the magic figure of five thousand rupees.

So Ghotala Bank had far less customers to deal with – the large, important ones who therefore got far more attention now. And life carried on happily ever after...

One day, Ghotalaji happened to go to a party. One of those social affairs where the Who’s Who of the city get together to flaunt their wealth. And there he happened to meet for the first time, Mr. Vishal Seth, one of the biggest businessmen in the country. Seth was speaking to another guest, “You know, I used to have several accounts with Ghotala Bank. But last week they sent me a ridiculous letter saying that I had to pay a ridiculous fifty rupees because the balance in one of my accounts was not enough. Absolutely RIDICULOUS !!!”

Seth’s voice had been rising a few decibels with every “ridiculous”, and by now all the guests stopped to stare at him. But spare a thought for poor Ghotalaji. He had turned pale. What was this ? With fingers shaking uncontrollable, he quickly downed his drink and turned to Seth with what he fondly imagined was an ingratiating smile, but which actually looked more like a leer. “What happened, Seth ji ?”

Seth turned at the interruption, and was a bit surprised to see a total stranger so interested in his financial matters. “Oh, I sometimes travel to Chennai, and I had opened an account in the Chennai branch of Ghotala Bank. Just in case I needed extra money. But for some reason I hardly used it. And I must have had a few thousands there – not more.” And this stupid bank had the cheek to insult me by asking for a ridiculous figure of fifty rupees every month. RIDICULOUS !!!

The audience was now warming to this theme – Seth had a charming way of saying ridiculous, especially when he was angry – and he was very angry now. “Imagine, I had lakhs of rupees in other branches of the same bank. In Delhi, in Mumbai, in Bangalore. You name the city and I had a big account in Ghotala Bank.” And they had the cheek to insult me. RIDICULOUS !”

Now at this moment I had the opportunity to observe Ghotalaji’s face (I was there, you see). And I must share with you what I saw, because it has tremendous implications on your learning of the subject of CRM. His face had turned a pale violet – rather a pretty shade of violet, but at that moment Ghotalaji was not looking pretty at all. No Sir. He was looking like a haunted man, who didn’t know where to run.

With horrible fascination, he stammered out the final question, “So what did you do with the account, Seth ji ?”

“That account ? I closed it. But not just that account.” And Seth continued in a voice which carried to each and every pair of ears in that august gathering, “let me tell you, I closed every account I had in the bank of ghotala. And my advice to all of you would be to do the same.”

My story now ends – because at this stage Ghotalaji suffered a mild stroke, and had to be carried away to hospital, where the doctors were a bit surprised to find him babbling about branches and accounts and service charges. Of course, he had a very strong constitution and recovered very quickly – especially when a glum faced General Manager of his bank walked in to inform him that thirty five large customers like Mr. Seth had closed all the accounts in his bank. And all for the same reason !

Why it Failed

Dear reader, I can imagine your thoughts right now. After reading this moving and touching story, I am sure you are moved and touched. And are probably close to tears – feeling deeply sorry for poor, miserable, honest old Ghotalaji. Who had just lost some of his biggest customers. And suffered a stroke in the process.

But for the moment, lets keep emotions aside. You must remember that your job right now is to learn CRM. And no emotion should be allowed to come in the way of knowledge. So with a heavy heart, let’s take a look at the learning we have had at Ghotalaji’s expense.

Ghotalaji was probably right in charging a fee from small customers. After all, he wanted to focus on the big ones – and there’s nothing wrong with that. He was also right in deciding the criteria which would define a small customer – after all, a person who had never gone beyond five thousand rupees was not worth chasing.

But where did he go wrong ?

Think, my friend, think. I know you can do it!

That’s right – I knew you would guess it. Customers at Ghotala Bank did not deal with just one branch. The big ones dealt with several of them. And that’s where the blunder took place. Because a small customer in the Chennai branch might turn out to be a very huge and important customer in Mumbai, or Delhi, or Hyderabad, or………

Ghotala Bank had created a data warehouse all right, but it was based on a customer’s account in one single branch ! Too late, Ghotalaji realised that a customer was the same, whether he came to the Mount Road branch in Chennai, or to the
Bandra branch in Mumbai, or the Karol Bagh branch in Delhi.

So what should he have done?

Simple. Since the same customer maintained accounts in multiple branches, each of these branches would have data about this customer in its local database. And therefore the data warehouse should have picked up data from all these databases!

Data, Data Everywhere

A few weeks later, Ghotalaji had recovered partially from his stroke. He had also met all these big customers personally and apologised to them. In fact, many of them had come back to him, and life was limping back to normal.

Now this is where he started thinking. He had already seen that data about each customer was scattered across multiple locations. But now he realised something more. He figured out that even within the same location, the data could be spread across multiple databases. And it was critical to get all this data into one common data warehouse, to be able to take key business decisions.

For instance, a customer who had a savings account in the bank might also have a Ghotala Bank credit card, which would be handled by a totally different department, and would therefore have its own, independent database. He shuddered as he thought of Vishal Seth getting a bill from the credit card department asking for an interest payment of twenty rupees for some silly unpaid dues (perhaps Seth ji was abroad at that time, and hadn’t even seen the bill). The consequences were too painful to even think about.

The customer might also have taken a home loan from the bank. Once again handled by a different department, and therefore with its own, independent database. And this data would also need to be picked up.

Or, take a typical analytical query that Ghotalaji would ask, “If a customer has made a complaint that has not been resolved, does that affect the probability of his closing his account with the bank?”

For such a query, Ghotalaji would need to look at the complaints data in addition to data about the account. Now the bank had a separate Complaints department which maintained its own register of complaints. So that was fine. But several customers did not even visit the bank to make complaints. They simply phoned up. And these complaints were maintained in a totally separate register. Which was not even computerised!

And then they had a few tech-savvy customers, whose complaints were strongly worded messages on e-mail. The messages were occasionally read. And even more occasionally acted upon, especially when the bank’s programmers were not on leave. But they remained in computer’s hard disk. And once again this data was required.

In other words, any analytic query that Ghotalaji asked would need data from several databases, and maybe even some manual files and registers.

And the crucial thing therefore, is that the data warehouse would need to pick up data from all these data sources.

Clear, isn’t it?

We can do so much more with the data

By now a strange thing started to happen. As all of you know, Ghotalaji was able to think of all the terrible things that could happen if he did not integrate data from all the databases in his bank. But having got into this thinking mood, he went a step further. And began to look at all the good things which could come out of integrating all the data.

He had always faced a problem with cross selling, which is selling different products to existing customers. For instance, when sending mailers to customers with savings accounts in his bank, asking them to take his credit card as well. It was a terrible waste of money, because not more than 1% people would respond. And even out of these, the ones who actually bought the credit card were a miserable fraction.

Now was there a way to study past data and figure out which of his existing customers were more likely to respond to this offer? Perhaps customers who had a wildly fluctuating bank balance were a good bet? Or customers who made heavy withdrawals? Or those with at least two bank accounts? Or...

The possibilities were endless. So far, they had been based on guess-work. Where Ghotalaji tried to figure out the working of his customer’s mind. And usually failed.

But now he had a tool. A data warehouse, populated with data from the databases of all his business lines – whether credit cards, or savings accounts, or current accounts, or home loans. Lots and lots of old, historical data. And therefore he did not need to guess any more. He could actually check out his hunches with hard facts. Or maybe, just maybe, get the computer to throw up patterns. Patterns which indicated that customers of such and such kind were more likely to buy so and so additional product or service.

And it was after one such bout of thinking, that Ghotalaji did something he had not done for years. He had lost many of his biggest customers. And he was close to losing several more. But in the middle of all this, he saw hope. And therefore, poor, harassed Ghotalaji, besieged with problems, and recovering from a stroke…yes the very same Ghotalaji…permitted himself a rare smile.
Accounting Standard (AS) 29 “Provisions, Contingent Liabilities, and Contingent Assets” is a mandatory accounting standard effective from 1 April, 2004. The standard is applicable for banks and financial institutions as well. The standard seeks to make a distinction between provisions and contingencies and suggests recognition and disclosure requirements for these items. At the outset, it should be made clear that provisions (e.g., provision for tax) are different from outstanding liabilities (e.g., salary payable). In the case of the former, the amount is based on estimates, whereas in case of the latter, the liability is certain and hence no estimation is involved. However, in practice the difference between provisions and other liabilities is often far from straightforward and recategorization from one category to the other cannot be ruled out. The distinction is important because provisions are subject to disclosure requirements (paras 66 and 67 of AS 29) that do not apply to other payables. While recognition and measurement of provisions are important considerations, transparency of disclosure is equally important. This is because once a provision is created, expenditures charged to it subsequently do not figure in the Profit and Loss Statement.

Para 10 of AS 29 defines the term ‘provision’ as “a liability which can be measured only by using a substantial degree of estimation”. A liability, in turn, is defined as a “present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits”. Thus, liability gives rise to a present obligation due to some past events. A provision should be recognized in the financial statements only when (para 14 of AS 29):

(i) an enterprise has a present obligation as a result of a past event;
(ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
(iii) a reliable estimate can be made of the amount of the obligation.

The past event that gives rise to present obligation is called an ‘obligating event’. Examples of obligating events cited in the standard include environmental clean-up costs, decommissioning costs of an oil installation. A past event is deemed to give rise to present obligation if it is ‘more likely than not’ that a present obligation exists on the balance sheet date. The expression ‘more likely than not’ implies that there is a probability of more than 50% for the outflow of economic resources. Hence, some degree of probability estimation may be required to recognize provisions in the financial statements. The amount recognized as a provision should be the best estimate of the expenditure required to settle the obligation. In the process of determining the best estimate, the amount of provision should not be discounted to its present value. In other words, the undiscounted estimate should be used as provision. The argument given for using undiscounted estimates is that financial statements are prepared on historical cost basis. But, there could be a counter-argument that with the introduction of AS 28, financial statements are no longer based on historical cost. However, IAS 37 on the same subject requires that where the effect of the time value of money is material, the amount of provision should be the present value of the expenditure expected to be incurred to settle the obligation. When the expected cash outflows will not be sufficiently far into the future, discounting will not have material impact. But, where the expected cash flow to meet the obligating expenditure will be far away into the future (e.g., five years from the balance sheet date), present value of the expenditure is a better estimate of the provision. It cannot be denied that lot of subjectivity will be involved in arriving at the proper discounting factor to estimate the present value. The recommendation of AS 29 to use undiscounted estimate of expenditure for provisions is perhaps made to avoid such subjectivity.

Para 41 of AS 29 states that “future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that they will occur”. It implies that a provision cannot be reduced simply on the basis that new technology may be developed in the intervening period before the liability is settled. There must be convincing objective evidence of the new technology that has the potential of reducing future liability. Similarly, one cannot anticipate any change in existing legislation while recognizing provisions. There has to be sufficient evidence of such new legislation and the probability that such legislation will be enacted in due course should be high. In many cases, sufficient objective evidence will not exist until the new legislation is enacted.

Since provisions are based on the principle of ‘best estimate’, there is a need for periodic review of provisions. Para 52 of AS 29 states that provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If at a subsequent balance sheet date, it is found, after review, that a particular provision is no longer required, the provision should be reversed. Here again, the prescription of AS 29 to use undiscounted amount of expected expenditure to recognize provisions would save us from making periodic adjustments to the provision amount. This is because where discounting is used, carrying amount of a provision increases in each period.
to reflect the passage of time. Such increase in provision is recognized as borrowing cost.

Oil exploration and production companies are normally required, as per licensing agreement, to remove the oil rig at the end of production and restore the site—offshore or onshore. An estimate says that: “Ninety percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and ten percent arise through the extraction of oil” (Example 3, Appendix C of AS 29).

Construction of oil rig creates an obligation for eventual removal of rig and restoration of site and hence a cash outflow in the future is probable. Therefore, a provision is to be recognized for the best estimate of ninety percent of the eventual cost of removal and restoration. Let us look at the accounting policy of ONGC Ltd. (2004-2005) to this effect:

“(a) The full eventual liability towards costs relating to dismantling, abandoning and restoring offshore well sites and allied facilities is recognized at the initial stage as cost of producing property and liability for abandonment cost, based on the latest technical assessment available at current costs with the Company.

(b) Cost relating to dismantling, abandoning and restoring onshore well sites and allied facilities are accounted for in the year in which such costs are incurred as the salvage value is expected to take care of the abandonment costs.” Abandonment and restoration costs in onshore well sites are much lower than offshore sites. However, the company should have also made a reasonable estimate and provided for abandonment costs of onshore sites.

However, where a present obligation cannot be estimated no provision needs to be recognized, and the liability should be disclosed as a ‘contingent liability’.

A ‘contingent liability’ is (Para 10 of AS 29):

“(a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or

(b) a present obligation that arises from past events but is not recognized because:

(i) it is not possible that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) a reliable estimate of the amount of the obligation cannot be made”.

Thus, a contingent liability could either be a ‘possible’ or ‘present’ obligation. A possible obligation is one whose existence at the balance sheet date is not considered probable. Thus, a possible obligation is one whose probability of occurrence is less than 50% on the balance sheet date. A contingent liability does no longer remain contingent if it becomes more than 50% probable.

Hence, an item that would previously (under AS 4) qualify as a contingent liability is now classified as a provision. Contingent liabilities are required to be assessed continually to determine whether any outflow of economic resources has become probable. Example of a ‘possible’ obligation is a pending legal case, the outcome of which is uncertain and the example of a present obligation is the bank/corporate guarantee. It is interesting to look at the Gas Authority of India Ltd.’s (GAIL) disclosure on corporate guarantee during 2004-2005:

“The Company along with three other promoters has issued Corporate Guarantees in favour of banks and financial institutions for short term loan taken by Petronet ING Limited from such banks and financial institutions. The Company share in the Guarantee is Rs. 350 Crores (Previous year: Rs. 350 Crores), being one fourth share of total guarantees of Rs. 1,400 Crores (Previous year: Rs. 1,400 Crores) issued as on 31.03.2005”.

AS 29 states that contingent liabilities should not be provided for. A disclosure of contingent liabilities in the ‘Notes to accounts’ section of the financial statements is required only when the possibility of any outflow in settlement is not remote. The standard does not define what constitutes ‘ remoteness’ of a possibility. Prudence suggests that a possibility can be termed remote if it falls below the 5th percentile (i.e., probability of occurrence is less than 5%). To put it simply, any contingent liability, the outcome of which is uncertain and also it is difficult to make any reliable estimate of the possible obligation, need not be disclosed. Para 72 of AS 29 provides an exemption from disclosure of a contingent liability where such disclosure would seriously prejudice the position of the enterprise in a dispute. However, in such a scenario, the enterprise should disclose the general nature of the dispute.

A company may do well to disclose a contingent liability even if in final analysis, there may not arise any possible liability. Take a look at the following disclosure of SAIL in its note to accounts for the year 2004-2005:

“Sales Tax authorities have raised demands for Rs. 1109.08 crores (As at 31st March, 2004 – Rs. 1047.70 crores) mainly on account of sales tax on stock transfers made by the plants over the years to stockyards situated in different States. The demands of sales tax authorities at plants have been contested by the Company which is pending at various stages of appeal. As sales tax liability has been paid on sale of such stocks to the respective sales tax authorities in different states, no liability is expected to arise, as sales tax is leviable only once”.

Para 68 of AS 29, which deals with disclosure of contingent liability, states that the disclosure of contingent liability should include, inter alia, an estimate of its financial effect and the possibility of any reimbursement. A company may be in a position to pass on the financial consequence of a contingent liability to its customers. The disclosure of contingent liability, in that case,
should clearly state this fact. Take, for example, GAIL’s disclosure in this respect during 2004-2005:

“Claims of ONGCL (not acknowledged as debt) for Rs. 248.46 Crores (Previous Year: Rs. 375.84 Crores) on account of interest for delayed payment and MGO (Minimum Guaranteed Offtake) etc. Out of these MGO claims of Rs. 49.23 Crores (Previous Year: Rs. 56.08 Crores) are recoverable on back-to-back basis”.

An enterprise should neither recognize nor disclose in the financial statements any contingent asset. This provision is again to follow the principle of prudence or conservatism. However, a mention of such contingent asset may be made in the report of Board of Directors, where an inflow of economic benefits is probable. A contingent asset is defined as a “possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise” (Para 10 of AS 29). An example of contingent asset is a claim pursued by an enterprise through legal process, the outcome of which is uncertain.

AS 29 also prescribes recognition principles for restructuring expenses. Para 62 states that:

“A restructuring provision should include only the direct expenditures arising from the restructuring, which are those that are both:

(a) necessarily entailed by the restructuring; and
(b) not associated with the ongoing activities of the enterprise.”

It may be noted that the mere existence and announcement of a restructuring plan does not by itself create an obligation. There has to be a binding sale agreement for creating an obligation out of restructuring exercise. A provision of restructuring costs will be recognized only when the basic recognition criteria as applicable to normal provisions are satisfied.

In conclusion, it can be said that AS 29 significantly improves recognition and disclosure requirements for provisions and contingencies as compared to the extant provisions in AS 4. Provisions are recognized when the recognition criteria are satisfied. It has been clearly specified that contingencies do not satisfy basic recognition criteria and hence these items need only to be disclosed. The standard sticks to the principles of prudence and suggests that contingent assets should not even be disclosed in the notes to accounts. The treatment of contingent liabilities depends on the likelihood of outcome. If the outcome is probable or virtually certain, it is no longer a contingent liability and hence provide for it. If the outcome is possible (but not probable), i.e., the probability of occurrence is between 5%-50%, contingent liability needs to be disclosed. Finally, if the likelihood of the outcome is remote (with a probability of less than 5%), no disclosure is required. It may be noted that these probability numbers are not specified in the standard. These are only inferences.
Service Tax and DTAA

V S Datey

There is a general impression that ‘DTAA’ (Double Taxation Avoidance Agreement) is applicable only to income tax. Rather it is taken for granted that DTAA is only in respect of income tax. Hence, nobody gives a thought whether DTAA can apply to any other tax like service tax.

I also had the same conviction. However, after reading some DTAA, I thought that DTAA is certainly relevant to service tax, particularly after 16-6-2005, since now not only import of services but also services consumed abroad are proposed to be taxed in India, if the service receiver has establishment or office in India and service provider does not have any office or establishment in India.

Drafting of all DTAA seems similar: India has entered DTAA with some 57 countries. Almost all of them are identically drafted. They seem to be based on an internationally accepted standard draft of DTAA agreements. Some changes and variations are there in agreements with different countries, but basic drafting appears to be same.

Any tax similar to tax on Income is covered under DTAA

Though DTAA is made specifically applicable to income tax, it is not restricted to tax under Income Tax Act alone.

Article 2(2) of Convention with USA, gazetted vide Notification No. GSR 990(E), dated 20-12-1990, reads as follows, ‘The Convention shall apply also to any identical or substantially similar taxes which are imposed after the date of signature of the Convention in addition to, or in place of, the existing taxes’.

Identical provision is made in Article 2(2) of Convention with UK, gazetted vide Notification No. GSR 91(E) dated 11-2-1994 and Article 2(4) of Convention with China, gazetted vide notification No. GSR 331(E), dated 5-4-1995. Other Conventions also have similar provision.

Thus, DTAA applies to income tax and also to any other tax which is identical or substantially similar to tax on income, by whatever name you call it.

Legal background of DTAA

Entry 14 of List I (Union List) of Seventh Schedule to Constitution reads, ‘Entering into treaties and agreements with foreign countries and implementing treaties, agreements and conventions with foreign countries. Entry 13 reads, ‘Participation in international conferences, associations and other bodies and implementing of decisions made thereat’. Article 253 specifically provides that even if an matter included in State List (list II), Parliament can make law for whole or any part of territory of India for implementing any treaty, agreement or convention with any other country or countries or any decision made at any international conference, association or body.

Powers to enter into agreements or treaties or conventions with other countries is a sovereign power and not a delegated power. For example, agreements entered into by Government of India in UN or WTO are valid even if not ratified or approved by Parliament.

That is the reason why DTAA provisions will override provisions of any Indian law - a view upheld in UOI v. Azadi Bachao Andolan 2003 AIR SCW 5766=132 Taxman 373 = 263 ITR 706 (SC).

Section 90(1) of Income Tax Act does empower Central Government to enter into agreement with Government of any country outside India, for granting relief in respect of income on which income tax had been paid in India as well as that country, or to avoid double taxation of income under Indian Income Tax and corresponding law in force in that country. However, power to enter into DTAA is not derived from Income Tax Act, but it is a sovereign power derived from Constitutional provisions.

India has entered into Double Taxation Avoidance Agreement (DTAA) with some 57 countries. These cover all important and relevant countries like USA, UK, Japan, China, Germany etc. The agreements broadly provide two modes of granting relief - (i) exemption method and (ii) tax credit method.

In addition, India has entered agreements with some countries which cover limited areas of activity like aircraft and shipping business.

Section 90(2) of Income Tax Act makes it clear that in relation to assessee to whom the DTAA agreement applies, provisions of Income Tax Act will apply only to the extent they are more beneficial to assessee. Thus, provisions of DTAA prevail over provision of Income Tax Act – CBDT circular No. 333 daced 2-4-1982.

Tax on Import of Services

An explanation has been added to section 65(105) w.e.f. 16-6-2005 to provide that service provided from outside India to a person in India will be taxable, if such service is received by a person who has place of residence or establishment in India and service provider does not have place of business in India. Even services provided and consumed abroad come under net of service tax.

The explanation reads as follows - For the removal of doubts, it is hereby declared that where any service provided or to be provided by a person, who has established a business or has a fixed establishment from which the service is provided or to be

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provided, or has his permanent address or usual place of residence, in a country other than India and such service is received or to be received by a person who has his place of business, fixed establishment, permanent address or, as the case may be, usual place of residence, in India such service shall be deemed to be taxable service for the purposes of this clause.

This explanation is bound to create many controversies and litigation. This explanation seems to impose tax at least two types of transactions - (a) Service provided abroad and even consumed/utilised abroad (b) Service provided abroad but utilised/received in India.

As regards first type of services, it is highly doubtful if tax can be levied on services when service is provided and consumed abroad just because service receiver has a place of business in India. Section 64(1) of Finance Act, 1994 states that provisions of chapter V of the Finance Act, 1994 (which contain provisions relating to service tax) extend to whole of India except J&K. Thus, the Act does not have any extra-territorial jurisdiction. It is doubtful if such jurisdiction can be created by adding an explanation.

As regards second type of services, there does not seem to be any constitutional difficulty in imposing tax on services provided abroad but utilised/consumed in India, as it will have territorial nexus in India. However, it can be argued that presently, there is no provision to impose such tax on import of services.

In regard to both types, the issue involved is whether such service tax can be levied where India has entered into Double Taxation Avoidance Agreement (DTAA) with a particular country. I feel that there is a good case to argue that service tax cannot be imposed in respect of services provided abroad in countries with which India has entered into DTA agreement.

**Income can mean gross receipts also**

Generally, the term ‘income’ in case of commercial activities is used in the sense of ‘profit from business’ or ‘gains from profession’, i.e. net amount after deducting allowable expenses. However, this is not the only sense in which the term ‘income’ has been understood or used either in Income Tax Act or in DTAA.

The word ‘income’ is often used in two senses, i.e. either gross amount received or net amount after deducting expenses. Definition of ‘income’ in section 2(24) of Income Tax Act is ‘inclusive’ definition, and is not helpful in resolving the dispute.

**Gross receipt as income in many places** - At many places in Income Tax Act, ‘Income’ is treated as the gross amount received. As per section 5 of Income Tax Act, ‘Income’ is all ‘income’ received or accrued in India. Many sections provide for ‘deductions’ allowable while computing taxable income, which means that but for such ‘deductions’, the entire amount received by assessee is ‘income’.

For example, sections 30 to 38 of Income Tax Act provide for deduction of various expenses to arrive at ‘profit and gains of business or profession’. Even section 43B of Income Tax Act talks of ‘deduction’ of taxes, duties, contribution to provident fund, interest on loans from PFI/Bank and leave encashment.

Thus, gross amount before such deductions is ‘income’ and some deductions are mercifully allowed from ‘income’ to calculate ‘profit/gains’ for purpose of payment of Income tax.

Similarly, section 24 of Income Tax Act provides for ‘deductions from income from house property’ to arrive at taxable income.

Most of TDS provisions (except probably provisions relating to TDS from salary) require deduction on gross amount paid and not on net amount after allowing expenditure. For example, section 194C of Income Tax Act states that 1%/2% of gross amount credited to account of contractor shall be income tax on income comprised therein for purpose of deduction of tax at source.

Income signifies ‘what comes in’ (Jones v. Ogle 42 LJ Ch 336). It is as large a word as can be used to denote a person’s receipts (M R Re Huggins 42 LJ Ch 336) (Source – Aiyer's Law Lexicon).

Income as contrasted not with ‘capital’ but with ‘profits’ or ‘gains’ means a periodical monetary return coming in, and not as ‘net proceeds’. In this sense ‘income’ connotes incomings without regard to outgoings. Profits are the surplus by which receipts from trade or business exceed the expenditure necessary for the purpose of carrying those receipts (11 Rang 521 = 148 IC 633 = AIR 1934 Rang 27 (SB)).

In case of salary, gross amount received is practically ‘income’ as now even ‘standard deduction’ is not permitted. Thus, law nowhere states that ‘income’ can be computed only after allowing expenditure. Deductions allowable by legislature are ‘favours’ not ‘rights’.

**Net amount after deduction of expenses is ‘income’, i.e. taxable income** – Sections 14 and 14A of Income Tax Act do not clearly state that ‘income’ is net i.e. after deductions, but they seem to imply that ‘income’ means net amount after deducting expenditure. The words ‘income from house property’ in section 24 and ‘income from profits and gains or profession’ in section 29 of Income Tax Act are used in the sense of ‘net income’ after deducting expenditure.

There is marked distinction between a tax on gross income and a tax on income which for taxation purposes means gains and profits. There may be considerable gross revenues but no income taxable by an income-tax in the accepted sense [111 IC 216 = AIR 1928 PC 282 (PC)]. Profit or income can mean only the balance after deducting charges and losses and not mere gross receipts [4 Bom IR 384].

Thus, ‘income’ can mean either ‘gross receipt’ or ‘net amount after deducting expenses’.

**DTAA applies to ‘gross receipts’ in many cases**

In DTAA, ‘income’ is often understood as ‘gross receipts’ and not ‘net income’. Articles 7 and 8 of DTAA agreement specifically speak about ‘business profits’. However, Article 12 speaks about ‘gross amount of royalties and fees for technical services’, Article 10 of DTAA agreement speaks about ‘gross dividend’ and Article 11 speaks about ‘gross interest’.
Restrictions on tax on royalties and technical services: Article 12 of Convention with USA states that ‘Royalties and fees for ‘included services’ (term used for ‘technical services’) arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State’. Such royalties and fees for ‘included services’ may also be taxed in the Contracting State in which they arise and according to the laws of that State; but such tax on gross amount cannot exceed 15% of ‘gross amount’. [similar provision in Article 13 of DTA agreement with UK].

In case of China and some other countries, the tax is 10%.

It may be noted that this amount is already collected as TDS under Income Tax provisions.

Can additional amount be collected as ‘service tax’ on royalties and technical services?: The amount of tax that can be collected under DTAA is already collected by Government of India under income tax provisions. The question is whether some additional amount can be collected as ‘service tax’ on royalty and technical services? Article 2(2) of Convention very clearly states that the convention applies to any identical or substantially similar taxes which are imposed after convention.

Charging service tax on gross amount of technical services provided by non-resident seems to be nothing but additional tax by different name.

Collecting the tax from service receiver means doing something indirectly which cannot be done directly, as effect of both is same.

Service tax is on service provider, not on service receiver: In case of services provided by person who does not have place of business in India, the liability to pay tax is on the service receiver, as per rule 2(4)(iv) of Service Tax Rules. However, this is only an administrative provision for collection of taxes. Tax liability is on the service provider. It is only that the liability to pay tax is shifted to the service receiver, known as ‘reverse charge’.

Section 68(2) of Finance Act, 1994 empowers Central Government to collect tax from any person. It states that all provisions of this Chapter (i.e. Chapter V of Finance Act) shall apply to such person (e.g. service receiver who is liable to pay service tax). It can be argued that what section 68(2) means that all provisions relating to collection, payment and penalties will apply to service receiver. Section 68 provides only mechanism to collect service tax. It does not convert service receiver into service provider for basic liability of service tax.

In other words, it can be argued that if service provider is not liable to pay service tax, there is no liability on service receiver to pay service tax. A rule making authority cannot create tax liability which is not there.

Tax on services provided by person who has no place of business in India

Article 7 of the convention with USA reads as follows, ‘The profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the profits of the enterprise may be taxed in the other State but only so much of them as is attributable to (a) that permanent establishment; (b) sales in the other State of goods or merchandise of the same or similar kind as those sold through that permanent establishment; or (c) other business activities carried on in the other State of the same or similar kind as those effected through that permanent establishment’.

Article 7(1) of Convention with UK reads as follows, ‘The profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent, establishment situated therein. If the enterprise carries on business as aforesaid, the profits of the enterprise may be taxed in the other State but only so much of them as is directly or indirectly attributable to that permanent establishment’. [identical provision in Convention with China and many other countries].

Charging service tax on service provided by non-resident amounts to tax on ‘profits’: Charging service tax on services provided by person who has no place of business in India means indirectly taxing ‘profits’ of non-resident. What cannot be directly, can as well not be done indirectly. As explained above, only the liability of payment of service tax has been shifted to service receiver in respect of services received from a non-resident. It may be noted that a person providing service abroad cannot charge ‘service tax’ in his invoice to the service receiver.

For example, if Income Tax Act provides that amounts paid for services to non-resident will not be allowable as ‘expenditure’ under Income Tax Act, it will amount to imposing a tax on services provided by non-resident. This would be the easiest way of getting over restrictions placed under DTAA agreements.

Doing indirectly what cannot be done indirectly

Collecting service tax from service receiver when service provider is not liable to pay service tax would mean rule making authority i.e. Central Government has been empowered to do indirectly what it cannot do directly. It is trite that what cannot be done directly can also not be done indirectly.

Summary

Charging service tax on services provided by person who does not have place of business in India amounts to indirectly imposing a tax on his income. What cannot be done directly can also not be done indirectly. It can be argued that in view of DTAA, service tax cannot be levied on services provided by person who does not have place of business in India. This is particularly so in case of royalty and technical services, for which specific provisions exist in DTAA.

In any case, it is doubtful if service tax can be imposed on services provided and consumed abroad, as no ‘taxable event’ is taking place in India.
Combined Overhead Recovery Rate and Two-way, Three-way and Four-way Variance Analysis

Dr. N. K. Agrawal

Sometimes, companies use a combined single overhead recovery rate consisting of variable and fixed overhead for determining the product cost. In such a situation, total overhead variance will be the sum of overhead variances calculated separately for variable overhead and fixed overhead.

Circumstances warranting the need of two-way, three-way and four-way analysis

When variances are calculated without segregating fixed overhead and variable overhead, such an analysis can be (i) two-way analysis, (ii) three-way analysis and (iv) four-way analysis depending on the number of variances calculated. There are two approaches to compute these variances. In the first approach, the total overhead variance is divided into the following two variances:

- Controllable variance (also called expenditure, budget or spending variance), and
- Volume variance

(a) Controllable variance

The controllable variance is the difference between the total budgeted (flexible) overhead (fixed plus variable) and the total actual overhead. The variance is computed by comparing the budgeted overhead with the actual overhead. The actual overhead is the sum of the budgeted fixed overhead and the budgeted variable overhead. The controllable variance can be calculated by comparing the actual overhead with the budgeted overhead.

In the formula form:

\[
\text{Controllable variance} = \text{Budgeted overhead} - \text{Actual overhead}
\]

(b) Volume variance

The volume variance arises due to variation between the actual production and the budgeted production. It is computed by comparing the actual production with the budgeted production.

In the formula form:

\[
\text{Volume variance} = \text{Actual production} - \text{Budgeted production}
\]

In two-way analysis, the total overhead variance is divided into the following three variances:

- Spending variance
- Efficiency variance
- Capacity variance

2. Three-way analysis

In three-way analysis, the total overhead variance is divided into the following three variances:

- Spending variance
- Efficiency variance
- Capacity variance

(a) Spending variance (also called expenditure or budget variance)

The spending variance is the difference between the total budgeted (flexible) overhead and the total actual overhead. It is computed by comparing the budgeted overhead with the actual overhead. If the budgeted overhead is greater than the actual overhead, the variance is favourable and vice-versa.

In the formula form:

\[
\text{Spending variance} = \text{Budgeted overhead} - \text{Actual overhead}
\]

(b) Efficiency variance

The efficiency variance is the difference between the actual production and the budgeted production. It is computed by comparing the actual production with the budgeted production. If the actual production is greater than the budgeted production, the variance is favourable and vice-versa.

In the formula form:

\[
\text{Efficiency variance} = \text{Budgeted production} - \text{Actual production}
\]

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Capacity variance:
The capacity variance, in fact, reflects the effect of under/over utilization of budgeted capacity with regard to fixed overhead. In three-way analysis, this variance is computed by comparing the standard fixed overhead for actual hours (i.e. actual hours multiplied by budgeted fixed overhead rate per hour) with the budgeted fixed overhead. If the standard fixed overhead for actual hours exceeds the budgeted fixed overhead, the variance will be favourable and vice-versa.

**In the formula form:**
Capacity variance  
= (Actual hours – Budgeted hours)  
5 Budgeted fixed overhead rate per hour

### 3. Four-way analysis

In case of four-way analysis, the total overhead variance is analysed into the following four variances:

1. **Spending variance (also called expenditure or budget variance):**
2. **Variable overhead efficiency variance:**
3. **Fixed overhead efficiency variance (also called as effectiveness variance):**
4. **Capacity variance:**

#### (d) Capacity variance:

In four-way analysis, the capacity variance reflects the same effect as in three-way analysis. It is also computed in the same way as in three-way analysis.

**In the formula form:**
Capacity variance  
= (Actual hours – Budgeted hours)  
5 Budgeted fixed overhead rate per hour

The computation of variances under first approach discussed above is illustrated below:

**Illustration 1**

[When actual variable and fixed overheads have not been recorded separately]

From the following data, calculate the variances under (a) two-way, (b) three-way and (c) four-way method of variance analysis.

- Normal capacity: 20,000 hours
- Normal production: 10,000 hours
- Fixed overhead at normal capacity: Rs. 30,000
- Variable overhead at normal capacity: Rs. 40,000
- Total overhead at normal capacity: Rs. 70,000
- Actual hours worked: 17,200
- Actual production (units): 8,500
- Actual overhead incurred: Rs. 68,125

**Solution**

**Working notes:**

(i) Budgeted fixed overhead rate per hour:  
\[
\text{Rs. } \frac{30,000}{20,000 \text{hrs}} = \text{Rs. }1.50
\]

(ii) Budgeted variable overhead rate per hour:  
\[
\text{Rs. } \frac{40,000}{20,000 \text{hrs}} = \text{Rs. }2.00
\]

(iii) Budgeted combined overhead rate per hour:  
\[
\text{Rs. } \frac{70,000}{20,000 \text{hrs}} = \text{Rs. }3.50
\]

(iv) Budgeted combined overhead rate per unit:  
\[
\text{Rs. } \frac{70,000}{10,000 \text{units}} = \text{Rs. }7.00
\]

(v) Budgeted fixed overhead rate per unit:  
\[
\text{Rs. } \frac{30,000}{10,000 \text{units}} = \text{Rs. }3.00
\]

(vi) Budgeted variable overhead rate per unit:  
\[
\text{Rs. } \frac{40,000}{10,000 \text{units}} = \text{Rs. }4.00
\]

(vii) Standard hours required per unit of output:  
\[
\text{Rs. } \frac{20,000}{10,000 \text{units}} = \text{Rs. }2.00
\]
(viii) Total standard hours required/produced:  
8,500 \times 2 = 17,000

(ix) Total standard overhead:  
8,500 \times Rs.7 = Rs.59,500

(x) Budgeted (flexible) overhead for actual production:  
- Fixed: Rs.30,000
- Variable (8,500 units \times 5 \times Rs.4.00): Rs.34,000
  
Total: Rs.64,000

(xi) Budgeted (flexible) overhead for actual hours:
- Fixed: Rs.30,000
- Variable (17,200 hours \times 5 \times Rs.2.00): Rs.34,400
  
Total: Rs.64,400

Computation of variances:

(a) Two-way analysis

(i) Overhead controllable variance (Combined):
= Budgeted (flexible) overhead for actual production - Actual overhead
= Rs.64,000 - Rs.68,125
= Rs.4,125 (Adverse)

(ii) Overhead volume variance:
= (Actual volume - Budgeted volume) \times 5
  \times Budgeted fixed overhead rate per unit
= (8,500 - 10,000) \times 5 \times Rs.3
= Rs.4,500 (Adverse)

Proof: Total overhead variance = Controllable overhead variance + Volume variance

Or, Rs.8,625 (Adverse) = Rs.4,125 (Adverse) + Rs.4,500 (Adverse)

(b) Three-way analysis

(i) Overhead Spending variance (Combined):
= Budgeted (flexible) overhead for actual hours - Actual overhead
= Rs.64,400 - Rs.68,125
= Rs.3,725 (Adverse)

(ii) Overhead efficiency variance (Combined):
= (Standard hours - Actual hours) \times 5
  \times Budgeted combined overhead rate per hour
= (17,000 - 17,200) \times 5 \times Rs.3.50
= Rs.700 (Adverse)

(iii) Overhead capacity variance (Fixed):
= (Actual hours - Budgeted hours) \times 5
  \times Budgeted fixed overhead rate per hour
= (17,200 - 20,000) \times 5 \times Rs.1.50
= Rs.4,200 (Adverse)

Proof: Total overhead variance = Spending variance + Efficiency variance (variable) + Efficiency variance (fixed) + Capacity variance (fixed)

Or, Rs.8,625 (Adverse) = Rs.3,725 (Adverse) + Rs.700 (Adverse) + Rs.4,200 (Adverse)

(c) Four-way analysis

(i) Overhead Spending variance (Combined):
This is the same as the spending variance in three-way analysis i.e. Rs.3,725 (Adverse)

(ii) Overhead efficiency variance (Variable):
= (Standard hours - Actual hours) \times 5
  \times Budgeted variable overhead rate per hour
= (17,000 - 17,200) \times 5 \times Rs.2.00
= Rs.400 (Adverse)

(iii) Overhead efficiency variance (Fixed):
= (Standard hours - Actual hours) \times 5
  \times Budgeted fixed overhead rate per hour
= (17,000 - 17,200) \times 5 \times Rs.1.50
= Rs.300 (Adverse)

(iv) Overhead capacity variance (Fixed):
= (Actual hours - Budgeted hours) \times 5
  \times Budgeted fixed overhead rate per hour
= (17,200 - 20,000) \times 5 \times Rs.1.50
= Rs.4,200 (Adverse)

Proof: Total overhead variance = Spending variance + Efficiency variance (variable) + Efficiency variance (fixed) + Capacity variance (fixed)

Or, Rs.8,625 (Adverse) = Rs.3,725 (Adverse) + Rs.700 (Adverse) + Rs.4,200 (Adverse)

Reconciliation statements for two-way, three-way and four-way analysis under first approach

Reconciliation statement for two-way analysis:

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total actual overhead incurred</td>
<td>68,125</td>
<td></td>
</tr>
<tr>
<td>Less: Controllable variance (combined)</td>
<td>4,125 (Adverse)</td>
<td></td>
</tr>
<tr>
<td>Volume variance (fixed)</td>
<td>4,500 (Adverse)</td>
<td>59,500</td>
</tr>
<tr>
<td>Total standard overhead</td>
<td>59,500</td>
<td></td>
</tr>
</tbody>
</table>

Reconciliation statement for three-way analysis:

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total actual overhead incurred</td>
<td>68,125</td>
<td></td>
</tr>
<tr>
<td>Less: Spending variance (combined)</td>
<td>3,725 (Adverse)</td>
<td></td>
</tr>
<tr>
<td>Efficiency variance (combined)</td>
<td>700 (Adverse)</td>
<td></td>
</tr>
<tr>
<td>Capacity variance (fixed)</td>
<td>4,200 (Adverse)</td>
<td>59,500</td>
</tr>
<tr>
<td>Total standard overhead</td>
<td>59,500</td>
<td></td>
</tr>
</tbody>
</table>

Reconciliation statement for four-way analysis:

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total actual overhead incurred</td>
<td>68,125</td>
<td></td>
</tr>
<tr>
<td>Less: Spending variance (combined)</td>
<td>3,725 (Adverse)</td>
<td></td>
</tr>
<tr>
<td>Efficiency variance (variable)</td>
<td>400 (Adverse)</td>
<td></td>
</tr>
<tr>
<td>Efficiency variance (fixed)</td>
<td>300 (Adverse)</td>
<td></td>
</tr>
<tr>
<td>Capacity variance (fixed)</td>
<td>4,200 (Adverse)</td>
<td>8,625</td>
</tr>
<tr>
<td>Total standard overhead</td>
<td>59,500</td>
<td></td>
</tr>
</tbody>
</table>

[All the above variances are depicted at a glance in Appendix 'A']

Second approach:
Alternatively, total overhead variance under two-way, three-way and four-way method may be analysed as under:

1) Two-way analysis

(a) Overhead controllable variance (Combined):
= Budgeted (flexible) overhead for actual production - Actual overhead
(i) Overhead volume variance (Fixed)
=(Actual volume – Budgeted volume) × Budgeted fixed overhead rate per unit
2) Three-way analysis
(a) Overhead spending variance (Combined)
= Budgeted (flexible) overhead – Actual overhead for actual hours
(b) Overhead efficiency variance (Variable)
= (Standard hours – Actual hours) × Budgeted variable overhead rate per hour
(c) Overhead volume variance (Fixed)
=(Actual volume – Budgeted volume) × Budgeted fixed overhead rate per unit
3) Four-way analysis
(a) Overhead Spending variance (Variable)
= Budgeted variable overhead – Actual variable overhead for actual hours
(b) Overhead Spending variance (Fixed)
= Budgeted fixed overhead – Actual fixed overhead
(c) Overhead efficiency variance (Variable)
= (Standard hours – Actual hours) × Budgeted variable overhead rate per hour
(d) Overhead volume variance (Fixed)
=(Actual volume – Budgeted volume) × Budgeted fixed overhead rate per unit

The computation of two-way, three-way and four-way variances under above approach is illustrated below:

Illustration 2
[When actual variable and fixed overheads have been recorded separately]

From the following information, compute overhead variances under (a) two-way, (b) three-way and (c) four-way analysis:

Normal capacity
5,000 hours
Normal production
5,000 units
Fixed overhead at normal capacity
Rs. 5,000
Variable overhead at normal capacity
Rs. 5,000
Total overhead at normal capacity
Rs. 10,000
Actual hours worked
4,300
Actual production (units)
4,250
Actual overhead incurred:
Fixed
Rs. 5,500
Variable
Rs. 4,000
Total actual overhead
Rs. 9,500

Solution

Workings:

(i) Budgeted fixed overhead rate per hour:
\[
\text{Rs. } \frac{5,000}{5,000 \text{ hrs.}} = \text{Rs. } 1.00
\]

(ii) Budgeted variable overhead rate per unit:
\[
\text{Rs. } \frac{5,000}{5,000 \text{ units}} = \text{Rs. } 1.00
\]

Computation of variances:

Total overhead variance
=Standard overhead – Actual overhead
=Rs. 8,500 – Rs. 9,500
=Rs. 1,000 (Adverse)

(a) Two-way analysis
(i) Overhead controllable variance (Combined)
= Budgeted (flexible) overhead for actual production – Actual overhead
= Rs. 9,250 – Rs. 9,500 = Rs. 250 (Adverse)
(ii) Overhead volume variance (Fixed)
= (Actual volume – Budgeted volume) × Budgeted fixed overhead rate per unit
= (4,250 – 5,000) × Rs. 1 = Rs. 750 (Adverse)

Proof: Total overhead variance = Controllable variance + Volume variance
Or, Rs. 1,000 (Adverse) = Rs. 250 (Adverse) + Rs. 750 (Adverse)

(b) Three-way analysis
(i) Overhead spending variance (Combined)
= Budgeted (flexible) overhead for actual hours – Actual overhead
= Rs. 9,300 – Rs. 9,500 = Rs. 200 (Adverse)
(ii) Overhead efficiency variance (Variable)
= (Standard hours – Actual hours) × Budgeted variable overhead rate per hour
= (4,250 – 4,300) × Rs. 1 = Rs. 50 (Adverse)
(iii) Overhead volume variance (Fixed)
The same as computed in two-way analysis above i.e. Rs. 750 (Adverse)

Proof: Total overhead variance = Spending variance + Efficiency (variable) variance + Overhead Volume variance
Or, Rs.1,000 (Adverse) = Rs. 200 (Adverse) + Rs. 50 (Adverse) + Rs. 750 (Adverse)

(c) Four-way analysis

(i) Overhead spending variance (Variable)
= Budgeted variable overhead for actual hours - Actual overhead
= (4,300 × Rs.1) - Rs.4,000 = Rs.300 (Favourable)

(ii) Overhead spending variance (Fixed)
= Budgeted fixed overhead - Actual fixed overhead
= Rs.5,000 - Rs.5,500 = Rs.500 (Adverse)

(iii) Overhead efficiency variance (Variable)
The same as computed in three-way analysis above i.e. Rs.50 (Adverse)

(iv) Overhead volume variance (Fixed)
This is also the same as computed in two-way/three-way analysis above i.e. Rs.750 (Adverse)

Proof: Total overhead variance = Spending variance (variable) + Spending variance (fixed) + Efficiency variance (variable) + Volume variance (fixed)
Or, Rs.1,000 (A) = Rs. 300 (F) + Rs.500 (A) + Rs. 50 (A) + Rs.750 (A)

Reconciliation statements for two-way, three-way and four-way analysis under second approach

Reconciliation statement for two-way analysis:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total actual overhead incurred</td>
<td>Rs. 9,500</td>
</tr>
<tr>
<td>Less: Controllable variance (combined)</td>
<td>Rs. 250 (Adverse)</td>
</tr>
<tr>
<td>Volume variance (fixed)</td>
<td>Rs. 750 (Adverse)</td>
</tr>
<tr>
<td>Total standard overhead</td>
<td>Rs. 8,500</td>
</tr>
</tbody>
</table>

Reconciliation statement for three-way analysis:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total actual overhead incurred</td>
<td>Rs. 9,500</td>
</tr>
<tr>
<td>Less: Spending variance (combined)</td>
<td>Rs. 200 (Adverse)</td>
</tr>
<tr>
<td>Efficiency variance (variable)</td>
<td>Rs. 50 (Adverse)</td>
</tr>
<tr>
<td>Volume variance (fixed)</td>
<td>Rs. 750 (Adverse)</td>
</tr>
<tr>
<td>Total standard overhead</td>
<td>Rs. 8,500</td>
</tr>
</tbody>
</table>

Reconciliation statement for four-way analysis:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total actual overhead incurred</td>
<td>Rs. 9,500</td>
</tr>
<tr>
<td>Add: Spending variance (variable)</td>
<td>Rs. 300 (Favourable)</td>
</tr>
<tr>
<td>Spending variance (fixed)</td>
<td>Rs. 500 (Adverse)</td>
</tr>
<tr>
<td>Efficiency variance (variable)</td>
<td>Rs. 50 (Adverse)</td>
</tr>
<tr>
<td>Volume variance (fixed)</td>
<td>Rs. 750 (Adverse)</td>
</tr>
<tr>
<td>Total standard overhead</td>
<td>Rs. 8,500</td>
</tr>
</tbody>
</table>

[All the above variances are depicted at a glance in Appendix ‘B’]
Appendix 'B'

Two-way, Three-way and Four-way Variances under Second Approach at a Glance

**Two-way analysis**

Total overhead variance

= Standard overhead - Actual overhead

= Rs.8,500 - Rs.9,500 = Rs.1,000 (A)

- **Controlable variance**
  
  = Budgeted (flexible) - Actual overhead
  
  = (Rs.) 9,250 - 9,500 = 250 (A)

- **Volume variance**
  
  = (Actual volume - Budgeted volume) x Re.1.50
  
  = (17,200 - 20,000) x Re.1.50
  
  = Rs.4,200 (A)

**Fig. B.1**

**Three-way analysis**

Total overhead variance

= Standard overhead - Actual overhead

= Rs.8,500 - Rs.9,500 = Rs.1,000 (A)

- **Spending variance (Combined)**
  
  = (Budgeted flexible - Actual overhead) for actual hours
  
  = Rs.64,400 - Rs.68,125 = Rs.3,725 (A)

- **Efficiency variance (combined)**
  
  = (Budgeted flexible variable overhead rate per hour - Actual hours) x Re.1.50
  
  = (17,000 - 17,200) x Re.2
  
  = Rs.400 (A)

- **Capacity variance**
  
  = (Actual volume - Budgeted volume) x Budgeted fixed overhead rate per unit
  
  = (17,200 - 20,000) x Rs.1.50
  
  = Rs.4,200 (A)

**Fig. B.2**

**Four-way analysis**

Total overhead variance

= Standard overhead - Actual overhead

= Rs.8,500 - Rs.9,500 = Rs.1,000 (A)

- **Spending variance (Variable)**
  
  = (Budgeted variable - Actual variable overhead for actual hours)
  
  = Rs.4,300 - Rs.4,000 = Rs.300 (F)

- **Efficiency variance (Variable)**
  
  = (Budgeted variable overhead rate per hour - Actual hours) x Re.1.50
  
  = (5,000 - 5,500) x Re.1.50
  
  = Rs.50 (A)

- **Efficiency variance (Fixed)**
  
  = (Budgeted fixed overhead rate per unit - Actual fixed overhead per hour) x Re.1.50
  
  = (4,250 - 5,000) x Re.1.00
  
  = Rs.300 (A)

- **Volume Variance**
  
  = (Actual volume - Budgeted volume) x Budgeted fixed overhead rate per unit
  
  = (4,250 - 5,000) x Rs.1
  
  = Rs.750 (A)

**Fig. B.3**
250 Hours Compulsory Computer Training Programme – Revised Guidelines

Applicable for Students Joining 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 ICAI.

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 prospectus 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 the 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:

1. 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).

2. 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.

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

4. 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: bosncoida@icai.org.

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

6. 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. For students registered prior to October 1st, 2005, the existing guidelines, wherein they are required to undergo computer training for a minimum duration of three and a half months and clear six module tests beside other conditions, will remain applicable.

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 for appearing in the online examination at e-mail id ind@icai.org.
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, Ahmedabad, Bangalore, Hyderabad, Jaipur, 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 Centers is given in the box. The list of Sunday Test Centers in other cities/Towns will be made non-operative w.e.f. 1st January, 2006.

2. 11th All India Elocution Contest and 5th All India Quiz Contest – 2006

Date: 9th and 10th January 2006

Venue: Brahmayya Auditorium, SIRC, Chennai

3. 2nd National Convention for CA Students

Theme: Commanding New Heights - A futuristic approach for CA

Date: 14th and 15th January 2006

Venue*: Yashwantrao Chavan Natya Graha
Kothrud, Near Shivaji Putala
Pune 411 019
Phone 020-25395232

* Confirmation awaited.

List of Sunday Test Centres of PE-II and Final Course

Western Region
- Ahmedabad Branch of WIRC of the Institute of Chartered Accountants of India, 123, Sardar Patel Colony, Navjivan Post, Ahmedabad – 380 014
- Karmaveer Bhaurao Patil College (Modern College) Vashi, Juhunagar, Sector 15A, Navi Mumbai-400703 [Only for Professional Education (Course I)]
- Modern College Vashi, Juhunagar, Sector 15A, Navi Mumbai-400 703 [Only for Final Course]
- Mulund College of Commerce, Sarojnani Naidu Road, Mulund (West), MUMBAI-400 080
- Pragati College of Arts & Commerce, DNC Road, Dattanagar, Dombivli (W)
- S.I.E.S. College of Arts, Science & Commerce, SION (West), Mumbai-400022
- Sir Parashurambhau College, Pune- 411 030
- Vidya Vachhini’s A.V. College of Arts, Vasai Road, Thane- 401 202
- Vivek College of Commerce, Vivek College Road, Goregaon (W), Mumbai-400 062

Central Region
- Central India Regional Council of the Institute of Chartered Accountants of India, 16/77 B, Civil Lines, Karpur – 208 001
- Jaipur Branch of CIRC of the Institute of Chartered Accountants of India, D-1, Institutional Area, Jhalana Doongri, JAIPUR 302004

Northern Region
- Anglo Sanskrit Victoria Jubilee, Hr. Secondary School, Daryaganj, New Delhi-110 002
- Arvachin Bharti Bhawan, Sr. Secondary School, Vivek Vihar, Delhi
- Divine Public School, Sector -9, Near Gurukul, Faridabad
- Hans Raj Model School, Punjabi Bagh, New Delhi – 110 026

Southern Region
- Bangalore Branch of SIRC of the Institute of Chartered Accountants of India, No. 16/0, Millers Tank Bed Area, BANGALORE - 560 052
- Hyderabad Branch of SIRC of the Institute of Chartered Accountants of India, 11-5-398/C, Red Hills, HYDERABAD – 500 004
- Southern India Regional Council of the Institute of Chartered Accountants of India, 122, Mahatma Gandhi Road, Chennai- 600 034

Eastern Region
- Khudiram Bose Cent. College, 125-B, Masjid Bari Street, Kolkata- 700 006
4. Campus Placement Programme for Newly Qualified Chartered Accountants (February – March 2006)

The Committee for Members in Industry of the Institute organises Campus Placement Programme for newly qualified Chartered Accountants at various centres all over India. The scheme has been evolved to provide an opportunity both to employing organisations as well as the young professional aspirants to meet and explore the possibility of taking up positions in industry. In the last such interviews conducted in August – September 2005 at various centres, 160 recruiting teams of leading organisations of the country reviewed the bio-data of more than 2936 young Chartered Accountants and interviewed those shortlisted by them in the premises of the offices of the Institute.

Invitation to Candidates Qualified in CA Final November 2005 Examinations

It has been decided to organise Campus Placement Programme at thirteen centres, viz., Ahmedabad, Bangalore, Baroda, Chennai, Coimbatore, Hyderabad, Indore, Jaipur, Kanpur, Kolkata, Mumbai, New Delhi and Pune in February – March 2006. As earlier, a large number of leading organisations are expected to participate.

The schedule of the Campus Placement Programme is as below:

<table>
<thead>
<tr>
<th>Centre</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barcode, Coimbatore, Indore, Jaipur, Kanpur and Pune</td>
<td>21st-24th February 2006</td>
</tr>
<tr>
<td>Ahmedabad, Bangalore and Hyderabad</td>
<td>28th February - 3rd March 2006</td>
</tr>
<tr>
<td>Chennai, Kolkata, Mumbai, New Delhi</td>
<td>7th March – 14th March 2006 (Excluding Sunday)</td>
</tr>
</tbody>
</table>

The Candidates who have qualified in the CA Final Examination held in November 2005 and are interested to appear in these interviews may access the Institute’s On-Line Placement Portal at www.placements-icai.org and fill up the Application Form Online. Please note the following important information in this regard:

1. **Last date for filing up the online application form for the candidates:** 31st January 2006 (upto 12 midnight).

2. Please ensure that you submit the online application form after completing the same in the portal. (i.e. mere filling up of the form online will not be sufficient)

3. Candidates shall be allowed to opt for only one Campus Interview centre

4. Candidates can appear for any number of interviews at a particular campus placement programme centre but the moment he/she gets an offer letter from ONE organisation, he/she will not be allowed to attend further interviews – even if he/she has been shortlisted by other organisations or the interviews of a particular organisation is opened to all (without restriction regarding shortlisting).

5. No manual applications shall be entertained under any circumstances

6. Correspondence with the students shall be done via e-mail only

7. **Correspondence with the students shall be done via e-mail only**

8. **Correspondence with the students shall be done via e-mail only**

Invitation to Employers

The Committee for Members in Industry of the Institute provides opportunity to the employers to interact with newly qualified Chartered Accountants and makes all arrangements at its centres, thereby it provides a cost effective mode of recruiting young Chartered Accountants.

Organisations intending to recruit newly qualified Chartered Accountants through the scheme of Campus Placement Programme are invited to get in touch with Dr. T. Paramasivan, Secretary, Committee for Members in Industry, Indraprastha Marg, New Delhi – 110002, Tel. No. (011) 30110450, 30110442 E-mail: tparamasivan@icai.org; placements@icai.org for the details of the scheme. An organisation can participate in one or more centres, as per its requirements. Firms of Chartered Accountants are also welcome to join. For further details please log on to www.placements-icai.org.

(V. Murali)
Chairman
Committee for Members in Industry

5. Examination Helpline

The new helpline numbers of “Help Line Desk” established in the Examination Division of the Institute to attend the student’s queries relating to examination matters including admit cards are given below:

<table>
<thead>
<tr>
<th>For users calling from outside</th>
<th>For users calling from Delhi</th>
</tr>
</thead>
<tbody>
<tr>
<td>110002, Tel. No. (011) 30110450, 30110442</td>
<td>0120-3054851</td>
</tr>
<tr>
<td>E-mail: <a href="mailto:tparamasivan@icai.org">tparamasivan@icai.org</a>; <a href="mailto:placements@icai.org">placements@icai.org</a></td>
<td>95120-3054851</td>
</tr>
</tbody>
</table>

Online Examination – 250 Hours Compulsory Computer Training Programme

The next online Examination for 250 Hours Compulsory Computer Training Programme will be conducted on 18th December, 2005 at 10.00 AM. All those students who fulfil following requirements are eligible to appear for this examination:

1. Completed minimum three and half months computer training,
2. Cleared all six 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 above 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.

The Chartered Accountant Student
0120-3054852
0120-3054853
Fax Number
0120-3054841
E-mail id for your queries related to:
Professional Education - I
Professional Education -II
Final
Information System Audit
Insurance and Risk Management
International Trade Law and
world Trade Organisation
Other

The help line desk operates from 10.00 a.m. to 5.30 p.m. during the working days.


The SAFA (South Asian Federation of Accountants) Committee on Education, Examination, Training and CPE has proposed to organise, inter-alia, a Students Exchange Programme with the Institute of Chartered Accountants of Nepal. Under the exchange programme, 10 students of ICAI would be visiting Nepal sometime in January / February, 2006. These students will be exposed to the Professional Environment, Education & Training System apart from the local national environment of the host country.

It is proposed to select the students for the exchange programme based on the following criteria:
♦ Students who have not passed the final examination of the Institute and are undergoing the articled training or have completed the articled training but period of 12 months have not elapsed since completion of practical training.
♦ Preference to be given to rank holders, participants of elocution, quiz contests, students presenting papers - Regional/State Level/All India Seminars/Conferences.
♦ Fluency in English (spoken and written).
♦ Maximum age 21 years.
♦ Proficiency in Computer literacy, inclusive of MS Office / Accounting package / Power Point Presentation.
♦ Successful Participation in a half - day orientation training programme in communication and presentation skills. This programme will be organised by ICAI for the selected students of the programme to give them orientation about the Institute’s activities since they shall act as brand ambassadors of the Institute. If required, short-listed candidates may be called for an interview and the decision of the Interview Committee will be final.

Each selected student will be required to send to ICAI Rs. 7,500 by way of demand draft toward participation fee for meeting expenses on account of travel, etc immediately on receipt of intimation of the selection. Participating students will be required to submit photocopy of their Voter Identity Card / Passport along with the fee for participation. They will be required to report to the New Delhi / Noida Office of the Institute on the specified date and time at their own cost and to carry with them during the trip their Voter Identity Card / Passport.

Students fulfilling the above requirements and wishing to avail of this opportunity may send their particulars (specifically mentioning contact telephone / mobile number and e-mail address) in the form of an application and send the same by Speed Post/ Courier, to Dr.S.K.Chatterjee, Additional Director (SG), The Institute of Chartered Accountants of India, C-1, Sector-1, Noida–201 301.

The last date for submitting the application has been extended to December 20th, 2005.

Similar programme with the Institute of Chartered Accountants of Pakistan is also being considered. Separate announcement in this regard for selection of students will be made in due course once the programme is finalised. Interested students are advised to refer to ‘the Chartered Accountant student’ – the Students’ Newsletter / Website of the Institute.

7. Online Eligibility Test to be conducted at ICAI – Calcutta Computer Centre

We are pleased to inform that the Board of Studies is introducing the scheme of Online Eligibly Tests from 11th December, 2005 for the students appearing for May, 2006 Examination. To start with, this facility will be available for the students of Kolkata in all subjects of Professional Education (Course-II). However, a student can appear and pass a maximum of two test papers under Online Eligibility Test Paper Scheme. Each paper is of one and a half hour duration and comprises of multiple choice questions covering the entire syllabus of the subject.

Likewise Postal Test paper are Sunday Test Paper Scheme, qualifying marks under online Eligibility Test Paper Scheme is 45 per cent.

Schedule of Online Eligibility Test

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>11th December 2005</td>
<td>10.00 to 11.30</td>
</tr>
<tr>
<td>17th December, 2005</td>
<td>12.00 to 1.30</td>
</tr>
<tr>
<td>24th December 2005</td>
<td>2.00 to 3.30</td>
</tr>
<tr>
<td>31st December, 2005</td>
<td>1st January, 2006</td>
</tr>
</tbody>
</table>

Second and subsequent slot will be allotted only when the first slot is filled up.

Students are required to register themselves in advance with Kolkata office for appearing in the examination. For details, please contact:

Mrs. Sinha Chowdhary,
Sr. Faculty, ICAI-Calcutta Computer Centre
7, Anandilal Podar Sarani,
Russell Street, Kolkata 700 071
Phone (033) 3021 1142, 3021 1143
8. Revisionary Classes

The Northern India Regional Council of The Institute of Chartered Accountants of India conducts Revisionary Classes for the benefit of the students appearing in the Institute’s Examinations.

For the Professional Education Course I Examination, Professional Education Course II Examination, and the Final Course Examination to be conducted by the Institute in May, 2006, Revisionary Classes conducted by the NIRC of the ICAI will commence on December 12, 2005 and these will be held in the premises of the Northern Regional Office of the Institute at “ICAI Bhawan”, 52-53-54, Vishwas Nagar, (Near Karkardoom Courts), Shahdara, Delhi – 110 032. [Efforts are being made to conduct the Special Classes in Income Tax and Central Sales Tax in the Professional Education Course II, and Direct Taxes in the Final Course in the vicinity of the office of the NIRC of the ICAI at Indraprastha Marg].

Course Timing Fee (Rs)

Professional Education (Course—I) 3.00 PM – 6.00 PM 800

Professional Education (Course—II) 10.00 AM – 12.00 Noon

Group-I 500
Group-II (Except IT & CST) 300
Both Groups (Except IT & CST) 750

Final Course 7.00 AM – 9.30 AM

Group-I 900
Gr-II (Except Direct Taxes) 600
Both Groups (Except Direct Taxes) 1400

Special Classes on Income-tax and Central Sales Tax 8.00 AM – 12.00 Noon [Sundays only] 400

Special Classes on Direct Taxes 2.00 PM – 6.00 PM [Saturdays only] 500

The fee as above is required to be paid by way of Demand Draft / Pay Order drawn in favour of "N I R C of the I C A I" payable at New Delhi. If the exigencies so demand, the timing, venue, etc. may change without any notice.

Registration Form can be obtained free of charge from the office of the NIRC of the ICAI, “ICAI Bhawan”, 5th Floor, Indraprastha Marg, New Delhi-110002 or “ICAI Bhawan” at 52-53-54, Vishwas Nagar, Shahdara, Delhi – 110032 or the same may be downloaded from the website of the NIRC of the ICAI, viz. nirc-icai.org.

Seats are limited, registration will be done on First-come-First-Served basis. Accordingly, registration will stand closed as soon as the requisite number of students register themselves.

Students’ Corner

ICAI – A Friend of Every Student of The Institute

Vidyavati H. Malawade

Accepts you as you are
Believes in "You"
Calls you just to say "our student"
Doesn't discourage
Explains things you don't understand
Focuses on your skills
Gives unconditionally
Helps you always
Inspires you to excel
Just there to solve difficulties in studies
Keeps you always a "disciplined person"
Loves you for who you are
Makes a turning point in your life
Never criticises you
Offers support
Picks you up
Quiets your fears
Raises your spirits
Says nice things about you
Tells you the importance of C.A. profession
Understands you
Values you
Walks beside you
Excellent guide
Yells when you won’t listen and
Zaps you back to reality.

Few Words for Institute

Pooja J. Agrawal (PE-I)

So much of knowledge it gives us,
on it how much we trust.
It is the best;
offering services which can’t be given by rest
Which behaves very kindly,
hence government has faith on it blindly.
We do not have wings to fly,
but it gave us the will to fly high in sky
It gave us proper guideline,
when we made are goals sidelined.