

# The Institute of Chartered Accountants of India

## Syllabus for Professional Competence Examination (PCE)

### Group I – Paper 1: Advanced Accounting (One paper – Three hours – 100 Marks)

#### Level of Knowledge: Working knowledge

#### Objectives:

- (a) To lay a theoretical foundation for the preparation and presentation of financial statements,
- (b) To gain working knowledge of the professional standards, principles and procedures of accounting and their application to different practical situations,
- (c) To gain the ability to solve simple problems and cases relating to company accounts including special type of corporate entities, partnership accounts and
- (d) To familiarize students with the fundamentals of computerized system of accounting.

#### Contents

#### 1. Conceptual Framework for Preparation and Presentation of Financial Statements

#### 2. Accounting Standards

An overview; standards setting process

Working knowledge of:

AS 1: Disclosure of Accounting Policies

AS 2: Valuation of Inventories

AS 3: Cash Flow Statements

AS 4: Contingencies and Events occurring after the Balance Sheet Date

AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

AS 6: Depreciation Accounting

AS 7: Construction Contracts (Revised 2002)

AS 9: Revenue Recognition

AS 10: Accounting for Fixed Assets

AS 11: The Effects of Changes in Foreign Exchange Rates (Revised 2003)

AS 12: Accounting for Government Grants

AS 13: Accounting for Investments

AS 14: Accounting for Amalgamations

AS 16: Borrowing Costs

AS 19: Leases

AS 20: Earnings per Share

AS 26: Intangible Assets

AS 29: Provisions, Contingent Liabilities and Contingent Assets.

#### 3. Company Accounts

(a) Preparation of financial statements – Profit and Loss Account, Balance Sheet and Cash Flow Statement

(b) Profit (Loss) prior to incorporation

(c) Alteration of share capital, Conversion of fully paid shares into stock and stock into shares, Accounting for bonus issue, Accounting for employee stock option plan, Buy back of securities, Equity shares with differential rights, Underwriting of shares and debentures, Redemption of debentures

(d) Accounting for business acquisition, Amalgamation and reconstruction (excluding problems of amalgamation on inter-company holding)

(e) Accounting involved in liquidation of companies, Statement of Affairs (including deficiency/surplus accounts) and liquidator's statement of account of the winding up.

4. **Financial Statements of Banking, Insurance and Electricity Companies**
5. **Average Due Date, Account Current, Self-Balancing Ledgers**
6. **Financial Statements of Not-for-Profit Organisations**
7. **Accounts from Incomplete Records**
8. **Accounting for Special Transactions**

- (a) Hire purchase and instalment sale transactions
- (b) Investment accounts
- (c) Departmental and branch accounts including foreign branches
- (d) Insurance claims for loss of stock and loss of profit.

**9. Advanced Issues in Partnership Accounts**

Final accounts of partnership firms – Admission, retirement and death of a partner including treatment of goodwill; Dissolution of partnership firms, including piecemeal distribution of assets; Amalgamation of partnership firms; Conversion into a company and Sale to a company.

**10. Accounting in Computerised Environment**

An overview of computerized accounting system – Salient features and significance, Concept of grouping of accounts, Codification of accounts, Maintaining the hierarchy of ledger, Accounting packages and consideration for their selection, Generating Accounting Reports.

**Note** – If either old Accounting Standards (ASs), Accounting Standards Interpretations (ASIs), Announcements and Limited Revisions to ASs are withdrawn or new ASs, ASIs, Announcements and Limited Revisions to ASs are issued by the Institute of Chartered Accountants of India in place of existing ASs, ASIs, Announcements and Limited Revisions to ASs, the syllabus will accordingly include/exclude such new developments in place of the existing ones with effect from the date to be notified by the Institute.

**Paper 2: Auditing and Assurance**

**(One Paper – Three hours – 100 Marks)**

**Level of knowledge:** Working Knowledge

**Objective:**

To understand objective and concepts of auditing and gain working knowledge of generally accepted auditing procedures and of techniques and skills needed to apply them in audit and attestation engagements and solving simple case-studies.

**Contents:**

1. **Auditing Concepts** – Nature and limitations of Auditing, Basic Principles governing an audit, Ethical principles and concept of Auditor's Independence, Relationship of auditing with other disciplines.
2. **Auditing and Assurance Standards** – Overview, Standard-setting process, Role of International Auditing and Assurance Standards Board and Auditing and Assurance Standards Board in India.
3. **Auditing engagement** – Audit planning, Audit programme, Control of quality of audit work – Delegation and supervision of audit work.
4. **Documentation** – Audit working papers, Audit files: Permanent and current audit files, Ownership and custody of working papers.
5. **Audit evidence** – Audit procedures for obtaining evidence, Sources of evidence, Reliability of audit evidence, Methods of obtaining audit evidence – Physical verification, Documentation, Direct confirmation, Re-computation, Analytical review techniques, Representation by management.
6. **Internal Control** – Elements of internal control, Review and documentation, Evaluation of internal control system, Internal control questionnaire, Internal control check list, Tests of control, Application of concept of materiality and audit risk, Concept of internal audit.

7. Internal Control and Computerized Environment, Approaches to Auditing in Computerised Environment.
8. **Audit Sampling** – Types of sampling, Test checking, Techniques of test checks.
9. **Analytical review procedures**
10. **Audit of payments** – General considerations, Wages, Capital expenditure, Other payments and expenses, Petty cash payments, Bank payments, Bank reconciliation.
11. **Audit of receipts** – General considerations, Cash sales, Receipts from debtors, Other Receipts.
12. **Audit of Purchases** – Vouching cash and credit purchases, Forward purchases, Purchase returns, Allowance received from suppliers.
13. **Audit of Sales** – Vouching of cash and credit sales, Goods on consignment, Sale on approval basis, Sale under hire– purchase agreement, Returnable containers, Various types of allowances given to customers, Sale returns.
14. **Audit of suppliers' ledger and the debtors' ledger** – Self-balancing and the sectional balancing system, Total or control accounts, Confirmatory statements from credit customers and suppliers, Provision for bad and doubtful debts, Writing off of bad debts.
15. **Audit of impersonal ledger** – Capital expenditure, deferred revenue expenditure and revenue expenditure, Outstanding expenses and income, Repairs and renewals, Distinction between reserves and provisions, Implications of change in the basis of accounting.
16. **Audit of assets and liabilities**
17. **Company Audit** – Audit of Shares, Qualifications and Disqualifications of Auditors, Appointment of auditors, Removal of auditors, Powers and duties of auditors, Branch audit, Joint audit, Special audit, Reporting requirements under the Companies Act, 1956.
18. **Audit Report** – Qualifications, Disclaimers, Adverse opinion, Disclosures, Reports and

certificates.

19. Special points in audit of different types of undertakings, i.e., Educational institutions, Hotels, Clubs, Hospitals, Hire-purchase and leasing companies (excluding banks, electricity companies, cooperative societies, and insurance companies).
20. Features and basic principles of government audit, Local bodies and not-for-profit organizations, Comptroller and Auditor General and its constitutional role.

**Note** – Candidates are expected to have working knowledge of relevant Auditing and Assurance Standards issued by the ICAI with reference to above-mentioned topics.

### Paper 3: Law, Ethics and Communication

(One paper – Three hours – 100 Marks)

**Level of Knowledge:** Working knowledge

**Part I:** Law (60 Marks)

#### Objective:

To test working knowledge of business laws and company law and their practical application in commercial situations.

#### Contents

##### Business Laws (30 Marks)

1. The Indian Contract Act, 1872
2. The Negotiable Instruments Act, 1881
3. The Payment of Bonus Act, 1965
4. The Employees' Provident Fund and Miscellaneous Provisions Act, 1952
5. The Payment of Gratuity Act, 1972.

##### Company Law (30 Marks)

#### The Companies Act, 1956 – Sections 1 to 197

- (a) Preliminary
- (b) Board of Company Law Administration – National Company Law Tribunal; Appellate Tribunal
- (c) Incorporation of Company and Matters Incidental thereto

- (d) Prospectus and Allotment, and other matters relating to use of Shares or Debentures
- (e) Share Capital and Debentures
- (f) Registration of Charges
- (g) Management and Administration – General Provisions – Registered office and name, Restrictions on commencement of business, Registers of members and debentures holders, Foreign registers of members or debenture holders, Annual returns, General provisions regarding registers and returns, Meetings and proceedings.
- (h) Company Law in a computerized Environment – E-filing.

**Note** – If new legislations are enacted in place of the existing legislations, the syllabus would include the corresponding provisions of such new legislations with effect from a date notified by the Institute.

### **Part II: Business Ethics (20 Marks)**

#### **Objective:**

To have an understanding of ethical issues in business.

#### **Contents:**

##### **1. Introduction to Business Ethics**

The nature, purpose of ethics and morals for organizational interests; Ethics and Conflicts of Interests; Ethical and Social Implications of business policies and decisions; Corporate Social Responsibility; Ethical issues in Corporate Governance.

##### **2. Environment issues**

Protecting the Natural Environment – Prevention of Pollution and Depletion of Natural Resources; Conservation of Natural Resources.

##### **3. Ethics in Workplace**

Individual in the organisation, discrimination, harassment, gender equality.

##### **4. Ethics in Marketing and Consumer Protection**

Healthy competition and protecting consumer's interest.

### **5. Ethics in Accounting and Finance**

Importance, issues and common problems.

### **Part III: Business Communications (20 Marks)**

#### **Objective:**

To nurture and develop the communication and behavioural skills relating to business

#### **Contents:**

##### **1. Elements of Communication**

- (a) Forms of Communication: Formal and Informal, Interdepartmental, Verbal and nonverbal; Active listening and critical thinking
- (b) Presentation skills including conducting meeting, press conference
- (c) Planning and Composing Business messages
- (d) Communication channels
- (e) Communicating Corporate culture, change, innovative spirits
- (f) Communication breakdowns
- (g) Communication ethics
- (h) Groups dynamics; handling group conflicts, consensus building; influencing and persuasion skills; Negotiating and bargaining
- (i) Emotional intelligence – Emotional Quotient
- (j) Soft skills – personality traits; Interpersonal skills; leadership

##### **2. Communication in Business Environment**

- (a) Business Meetings – Notice, Agenda, Minutes, Chairperson's speech
- (b) Press releases
- (c) Corporate announcements by stock exchanges
- (d) Reporting of proceedings of a meeting

##### **3. Basic understanding of legal deeds and documents**

- (a) Partnership deed
- (b) Power of Attorney
- (c) Lease deed
- (d) Affidavit
- (e) Indemnity bond
- (f) Gift deed
- (g) Memorandum and articles of association of a company
- (h) Annual Report of a company

## Group II

### Paper 4: Cost Accounting and Financial Management

(One paper – Three hours – 100 Marks)

Level of Knowledge: Working knowledge

#### Part I: Cost Accounting (50 Marks)

#### Objectives:

- (a) To understand the basic concepts and processes used to determine product costs,
- (b) To be able to interpret cost accounting statements,
- (c) To be able to analyse and evaluate information for cost ascertainment, planning, control and decision making, and
- (d) To be able to solve simple cases.

#### Contents

##### 1. Introduction to Cost Accounting

- (a) Objectives and scope of Cost Accounting
- (b) Cost centres and Cost units
- (c) Cost classification for stock valuation, Profit measurement, Decision making and control
- (d) Coding systems
- (e) Elements of Cost
- (f) Cost behaviour pattern, Separating the components of semi-variable costs
- (g) Installation of a Costing system
- (h) Relationship of Cost Accounting, Finan-

cial Accounting, Management Accounting and Financial Management.

##### 2. Cost Ascertainment

###### (a) Material Cost

- (i) Procurement procedures – Store procedures and documentation in respect of receipts and issue of stock, Stock verification
- (ii) Inventory control – Techniques of fixing of minimum, maximum and reorder levels, Economic Order Quantity, ABC classification; Stock-taking and perpetual inventory
- (iii) Inventory accounting
- (iv) Consumption – Identification with products of cost centres, Basis for consumption entries in financial accounts, Monitoring consumption.

###### (b) Employee Cost

- (i) Attendance and payroll procedures, Overview of statutory requirements, Overtime, Idle time and Incentives
- (ii) Labour turnover
- (iii) Utilisation of labour, Direct and indirect labour, Charging of labour cost, Identifying labour hours with work orders or batches or capital jobs
- (iv) Efficiency rating procedures
- (v) Remuneration systems and incentive schemes.

###### (c) Direct Expenses

Sub-contracting – Control on material movements, Identification with the main product or service.

###### (d) Overheads

- (i) Functional analysis – Factory, Administration, Selling, Distribution, Research and Development  
Behavioural analysis – Fixed, Variable, Semi variable and Step cost
- (ii) Factory Overheads – Primary distribu-

tion and secondary distribution, Criteria for choosing suitable basis for allotment, Capacity cost adjustments, Fixed absorption rates for absorbing overheads to products or services

- (iii) Administration overheads – Method of allocation to cost centres or products
- (iv) Selling and distribution overheads – Analysis and absorption of the expenses in products/customers, impact of marketing strategies, Cost effectiveness of various methods of sales promotion.

### 3. Cost Book-keeping

Cost Ledgers – Non-integrated accounts, Integrated accounts, Reconciliation of cost and financial accounts.

### 4. Costing Systems

#### (a) Job Costing

Job cost cards and databases, Collecting direct costs of each job, Attributing overhead costs to jobs, Applications of job costing.

#### (b) Batch Costing

#### (c) Contract Costing

Progress payments, Retention money, Escalation clause, Contract accounts, Accounting for material, Accounting for plant used in a contract, Contract profit and Balance sheet entries.

#### (d) Process Costing

Double entry book keeping, Process loss, Abnormal gains and losses, Equivalent units, Interprocess profit, Joint products and by products.

#### (e) Operating Costing System

### 5. Introduction to Marginal Costing

Marginal costing compared with absorption costing, Contribution, Breakeven analysis and profit volume graph.

### 6. Introduction to Standard Costing

Various types of standards, Setting of standards, Basic concepts of material and Labour standards and variance analysis.

## Part II: Financial Management (50 Marks)

### Objectives:

- (a) To develop ability to analyse and interpret various tools of financial analysis and planning,
- (b) To gain knowledge of management and financing of working capital,
- (c) To understand concepts relating to financing and investment decisions, and
- (d) To be able to solve simple cases.

### Contents

#### 1. Scope and Objectives of Financial Management

- (a) Meaning, Importance and Objectives
- (b) Conflicts in profit versus value maximisation principle
- (c) Role of Chief Financial Officer.

#### 2. Time Value of Money

Compounding and Discounting techniques – Concepts of Annuity and Perpetuity.

#### 3. Financial Analysis and Planning

- (a) Ratio Analysis for performance evaluation and financial health
- (b) Application of Ratio Analysis in decision making
- (c) Analysis of Cash Flow Statement.

#### 4. Financing Decisions

- (a) Cost of Capital – Weighted average cost of capital and Marginal cost of capital
- (b) Capital Structure decisions – Capital structure patterns, Designing optimum capital structure, Constraints, Various capital structure theories
- (c) Business Risk and Financial Risk – Operating and financial leverage, Trading on Equity.

#### 5. Types of Financing

- (a) Different sources of finance
- (b) Project financing – Intermediate and long term financing

- (c) Negotiating term loans with banks and financial institutions and appraisal thereof
- (d) Introduction to lease financing
- (e) Venture capital finance.

## 6. Investment Decisions

- (a) Purpose, Objective, Process
- (b) Understanding different types of projects
- (c) Techniques of Decision making: Non-discounted and Discounted Cash flow Approaches – Payback Period method, Accounting Rate of Return, Net Present Value, Internal Rate of Return, Modified Internal Rate of Return, Discounted Payback Period and Profitability Index
- (d) Ranking of competing projects, Ranking of projects with unequal lives.

## 7. Management of Working Capital

- (a) Working capital policies
- (b) Funds flow analysis
- (c) Inventory management
- (d) Receivables management
- (e) Payables management
- (f) Management of cash and marketable securities
- (g) Financing of working capital.

### Paper 5: Taxation

**(One paper – Three hours – 100 Marks)**

**Level of Knowledge:** Working knowledge

### Objectives:

- (a) To gain knowledge of the provisions of Income-tax law relating to the topics mentioned in the contents below and
- (b) To gain ability to solve simple problems concerning assessee's with the status of 'Individual' and 'Hindu Undivided Family' covering the areas mentioned in the contents below.

### Contents:

#### Part I: Income-tax (75 marks)

1. Important definitions in the Income-tax Act, 1961
2. Basis of charge; Rates of taxes applicable for different types of assessee's
3. Concepts of previous year and assessment year
4. Residential status and scope of total income; Income deemed to be received / deemed to accrue or arise in India
5. Incomes which do not form part of total income
6. Heads of income and the provisions governing computation of income under different heads
7. Income of other persons included in assessee's total income
8. Aggregation of income; Set-off or carry forward and set-off of losses
9. Deductions from gross total income
10. Computation of total income and tax payable; Rebates and reliefs
11. Provisions concerning advance tax and tax deducted at source
12. Provisions for filing of return of income.

#### Part II: Service tax and VAT (25 marks)

### Objective:

To gain knowledge of the provisions of service tax as mentioned below and basic concepts of Value added tax (VAT) in India.

### Contents:

1. Service tax – Concepts and general principles
2. Charge of service tax and taxable services
3. Valuation of taxable services
4. Payment of service tax and filing of returns
5. VAT – Concepts and general principles.

**Note** – If new legislations are enacted in place of the existing legislations the syllabus will accordingly include the corresponding provisions

*of such new legislations in the place of the existing legislations with effect from the date to be notified by the Institute. Students shall not be examined with reference to any particular State VAT Law.*

### **Paper 6: Information Technology and Strategic Management**

**(One paper – Three hours – 100 Marks)**

**Level of Knowledge:** Working knowledge

#### **Section A: Information Technology (50 Marks)**

#### **Objective:**

To develop an understanding of Information Technology and its use by the business as facilitator and driver.

#### **Contents**

##### **1. Introduction to Computers**

###### (a) Computer Hardware

Classification of Computers – Personal computer, Workstation, Servers and Super computers  
Computer Components – CPU, Input output devices, Storage devices

###### (b) BUS, I/O CO Processors, Ports (serial, parallel, USB ports), Expansion slots, Add on cards, On board chips, LAN cards, Multi media cards, Cache memory, Buffers, Controllers and drivers

###### (c) Computer Software

Systems Software – Operating system, Translators (Compilers, Interpreters and Assemblers), System utilities

General Purpose Software/ Utilities – Word Processor, Spread Sheet, DBMS, Scheduler / Planner, Internet browser and E-mail clients

Application Software – Financial Accounting, Payroll, Inventory

Specialised Systems – Enterprise Resource Planning (ERP), Artificial Intelligence, Expert Systems, Decision Support Systems – An Overview

##### **2. Data Storage, Retrievals and Data Base Management Systems**

###### (a) Data and Information Concepts: Bits, Bytes, KB, MB, GB, TB

###### (b) Data organization and Access

Storage Concepts: Records, Fields, Grouped fields, Special fields like date, Integers, Real, Floating, Fixed, Double precision, Logical, Characters, Strings, Variable character fields (Memo); Key, Primary key, Foreign key, Secondary key, Referential integrity, Index fields.

Storage techniques: Sequential, Block Sequential, Random, Indexed, Sequential access, Direct access, Random access including Randomizing

Logical Structure and Physical structure of files

###### (c) DBMS Models and Classification:

Need for database, Administration, Models, DML and DDL (Query and reporting); Data Dictionaries, Distributed data bases, Object oriented databases, Client Server databases, Knowledge databases

###### (d) Backup and recovery – backup policy, backup schedules, offsite backups, recycling of backups, frequent checking of recovery of backup

###### (e) Usage of system software like program library management systems and tape and disk management systems – features, functionalities, advantages

###### (f) Data Mining and Data Warehousing – An overview

##### **3. Computer Networks & Network Security**

###### (a) Networking Concepts – Need and Scope, Benefits

Classification – LAN, MAN, WAN, VPN; Peer-to-Peer, Client Server

Components – NIC, Router, Switch, Hub, Repeater, Bridge, Gateway, Modem

Network Topologies – Bus, Star, Ring, Mesh, Hybrid, Architecture :Token ring, Ethernet

Transmission Technologies and Protocols – OSI, TCP/IP, ISDN etc.

Network Operating System

(b) Local Area Networks- Components of a LAN, Advantages of LAN

(c) Client Server Technology

Limitation of Single user systems and need for Client Server Technology

Servers – Database, Application, Print servers, Transaction servers, Internet servers, Mail servers, Chat servers, IDS  
Introduction to 3-tier and “n” tier architecture (COM, COM+)

(d) Data centres: Features and functions, Primary delivery centre and disaster recovery site

(e) Network Security

Need; Threats and Vulnerabilities; Security levels; techniques

#### 4. Internet and other technologies

(a) Internet and world-wide web, Intranets, Extranets, applications of Internet, Internet protocols

(b) E-Commerce – Nature, Types (B2B, B2C, C2C), Supply chain management, CRM, Electronic data interchange (EDI), Electronic fund transfers (EFT), Payment portal, E-Commerce security;

(c) Mobile Commerce, Bluetooth and Wi-Fi

#### 5. Flowcharts, Decision Tables

##### Section B: Strategic Management

(50 Marks)

##### Objectives:

- (a) To develop an understanding of the general and competitive business environment,  
(b) To develop an understanding of strategic management concepts and techniques,

(c) To be able to solve simple cases.

##### Contents

#### 1. Business Environment

General Environment – Demographic, Socio-cultural, Macro-economic, Legal/political, Technological, and Global; Competitive Environment.

#### 2. Business Policy and Strategic Management

Meaning and nature; Strategic management imperative; Vision, Mission and Objectives; Strategic levels in organisations.

#### 3. Strategic Analyses

Situational Analysis – SWOT Analysis, TOWS Matrix, Portfolio Analysis – BCG Matrix.

#### 4. Strategic Planning

Meaning, stages, alternatives, strategy formulation.

#### 5. Formulation of Functional Strategy

Marketing strategy, Financial strategy, Production strategy, Logistics strategy, Human resource strategy.

#### 6. Strategy Implementation and Control

Organisational structures; Establishing strategic business units; Establishing profit centres by business, product or service, market segment or customer; Leadership and behavioural challenges.

#### 7. Reaching Strategic Edge

Business Process Reengineering, Benchmarking, Total Quality Management, Six Sigma, Contemporary Strategic Issues.

## Transition Scheme

Readers' attention is invited to the aforesaid announcement published in the August 2006 issue of the Journal on pages 290-291. With respect to the proposed Transition Scheme for PE-II course students, it was stated that candidates falling under Category (a) and Category (b) will be required to complete CCT/IT training before joining articles. However, in terms of the Council's recent decision, candidates falling under either category may join articles for 3½ years and then complete CCT/IT training before appearing for the Professional Competence Examination (PCE).