Editorial Office & Headquarters
12, Sudder Street, Kolkata-700 016
Phone : (033) 2252-1031/34/35,
Fax : (033) 2252-1602/1492
Website : www.icwai.org
Delhi Office
ICWAI Bhawan
3, Institutional Area, Lodi Road
New Delhi-110003
Phone : (011) 24622156, 24618645,
Fax: (011) 24622156, 24631532, 24618645

The Management Accountant

★ *Official Organ of The Institute of Cost and Works Accountants of India established in year 1944 (Founder member of IFAC, SAFA and CAPA)*

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IDEALS
THE INSTITUTE STANDS FOR

❑ to develop the Cost and Management Accountancy profession ❑ to develop the body of members and properly equip them for functions ❑ to ensure sound professional ethics ❑ to keep abreast of new developments.

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MISSION STATEMENT

"ICWAI Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

VISION STATEMENT

"ICWAI would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

NOTIFICATION

Ref. No. DS-3/1/1/10 January 12, 2010

Finance (No.2) Act 2009, involving Assessment Year 2010-2011 will be applicable for the subjects Business Taxation (Intermediate) and Strategic Tax Management (Final) under Syllabus 2002 for the purpose of June 2010 term of Examination.

Arnab Chakraborty
Director-Studies

NOTIFICATION

Ref. No. DS-3/2/1/10 January 12, 2010

Finance (No.2) Act 2009, involving Assessment Year 2010-2011 will be applicable for the subjects Applied Direct Taxation (Intermediate), Applied Indirect Taxation (Intermediate) and Indirect & Direct-Tax Management (Final) for the purpose of June 2010 term of Examination under Revised Syllabus 2008.

Arnab Chakraborty
Director-Studies

Editorial

Budget Bytes

The month February marks the high point of the Indian economic and financial calendar. This is because the shortest month of the year witnesses the two most important financial documents that shape the growth chart of the country for the forthcoming period- the Railway Budget and the Union Budget. Interestingly, the word budget has Gallic origins meaning 'sack' and later Latinized as 'bulga' or a leather wallet or a bag.

The significance of the Railway Budget is derived from the fact that the Railways is the largest employer (employing nearly 14.22 lakh people) in the country and more importantly, in the vast and diverse sub-continent that is India, it is truly the carriage of the nation (approximately covering 63,465 route kms).

Similarly, the Union Budget defines the nation's financial projections by the government for the forthcoming financial year and is also a financial review of the current fiscal year. For obvious reasons, this event occupies the center stage of all Indians (and non-Indians). Reams of literature are written; the budget analysed threadbare. Without going into nitty-gritty of Budget 2010 in this editorial, we try to delve into the trivia behind this financial exercise.

The Budget speech of the Finance Minister is usually in two parts. Part A deals with general economic survey of the country while Part B relates to taxation proposals. Though the Railway budget is presented separately, the receipts and expenditure of the Railways form part of the Consolidated Fund of India and the figures relating to them are included in the Annual Financial Statement. The Union Budget is laid before both Houses of Parliament in the form of Annual Financial Statement. However, it is the Lok Sabha, the House of the People, whose approval is mandatory for the Budget to come into effect. The imposition of any central government taxes and distribution of government expenditure from public funds cannot be possible without an Act of Parliament, which examines and reviews all statements to ensure the proper dissemination of government expenditures. The Budget is predated by the Economic Survey, which gives a snapshot of the economic health of the nation in the year gone by and also gives early warning signals towards the incipient weaknesses of the economy.

The Union Budget is presented to the Parliament on a date as fixed by the President. The finance minister is required to submit the Budget to Parliament usually on the last day of February so that the Lok Sabha has one month to review and modify the Budget proposals. This ensures that the new economic activity can commence from April 1, which is the beginning of financial year for the purpose of government activity. In an election year, Budget may be presented twice -- first to secure vote on account for a few months and later in full.

India's first Finance Minister Sir R.K. Shanmugham Chetty, presented the first Finance Budget of Independent India on November 26, 1947. Since then, 28 different Union Finance Ministers have been presenting the budget year after year. Shri Jawahar Lal Nehru was the first Prime Minister to present the budget when he held the Finance portfolio in 1958-59. Shri C.D. Deshmukh was the first Indian Governor of RBI to have presented the Interim Budget for 1951-52. Shri Morarji Desai has the distinction of presenting the maximum number of budgets- ten of which two budgets were presented by him on two leap years (which incidentally were also on his birthdays). Prime Minister, Shri Manmohan Singh has presented five Budgets in a row as a Finance Minister, a record which he shares with Shri Yashwant Sinha. Shri R Venkataraman was the only Finance Minister who later became the President of India. Our present Finance Minister has the rare distinction of presenting two regular budgets after a gap of 25 years (in 1982 and thereafter in 2010).

The Budget process has its roots in the Bombay Plan of 1944. Bombay Plan was authored by John Mathai, G.D. Birla & J.R.D Tata. The entire budget exercise is shrouded in secrecy. Officials working on the budget are not permitted to outsource any part of this exercise, they are cut off from the world till the budget is presented by the Finance Minister. Previously, the entire document was printed in the Rashtrapati Bhavan but now it is printed in the mint of the North Block.

General Budget was earlier being presented at 5 pm on the last working day of February, but since 1999 the General Budget is being presented at 11 am on the last working day of February, i.e. about a month before the commencement of the financial year except in the year when general elections to Lok Sabha are held. The precedent for the convention of the budget speech beginning at 5 pm was set by Sir Basil Blackett in 1924 in England and the same was followed in India. According to him, this was done to give some relief to officials who worked all night to present a financial statement. He also felt that this would give traders an opportunity to study the announcements overnight instead of in the middle of a busy day.

It is hoped that these nuggets will act as an appetizer for a wider menu of articles on Union Budget 2010 that follow. From the Editing Team we wish our readers a very happy Poila Baishak, Vaishaki and Vishu.

• President's Communique •

Dear Professional Friends,

Programmes arranged at Durgapur by ICWAI:

28th March 2010 was an excellent day for ICWAI when we had few programmes at Durgapur in the august presence of our Hon'ble Minister Mr. Salman Khurshid and our Hon'ble Secretary, MCA, Shri R. Bandyopadhyay, IAS. The above programmes started almost on the previous day at Kolkata when the entire Council Members along with the Past Presidents had a meeting with Shri R. Bandyopadhyay, Secretary, MCA. The Hon'ble Minister took pains by coming all the way from Delhi via Chennai and Kolkata. He was received at the Panagarh Airport by ICWAI and Durgapur Chapter.

Inauguration of the "i2i Management Hall" at Durgapur Chapter:

The Hon'ble Minister and Secretary, MCA, inaugurated the "i2i Management Hall" at Durgapur Chapter, by cutting the tape in the presence of Shri P.K. Bajaj, Managing Director, Durgapur Steel Plant, SAIL and Shri Soiles Bhattacharyya, Director (Finance), SAIL. This hall was built with the assistance of Durgapur Steel Plant. President, Vice President, few Council Members, Chairman and office bearers of EIRC along with members of Durgapur Chapter were present on the occasion.

Seminar on "Global Mealtdown and After-Managing Growth:

The seminar was inaugurated by our Hon'ble Minister and attended by Shri P.K. Bajaj, Managing Director, Durgapur Steel Plant, SAIL and Shri Soiles Bhattacharyya, Director (Finance), SAIL. Our Secretary, MCA, Shri R. Bandyopadhyay, IAS, was the Guest of Honour. President, Vice President and Shri T.C.A.S. Prasad, Chairman, Durgapur Chapter of Cost Accountants, took part in the inaugural function. The Hon'ble Minister, while addressing the gathering, appreciated the efforts put in by the Cost and Management Accountants and advised the CMAs to take more interest in Green Audit and determine and prepare Social Cost Audit Reports which is the need for the nation to help the common man. The seminar was well attended by more than 250 people. Shri R. Bandyopadhyay, IAS, Secretary, MCA, complimented ICWAI and Durgapur Chapter for the laudable efforts in building the "i2i Management Hall" and undertaking many activities like Investor Awareness Programmes and the Conference on Voluntary Guidelines issued by the Ministry. President-ICWAI, assured that the call of the Minister and the Secretary-MCA will be addressed to and CMAs will put in their best efforts to deserve a place in the performance for the economic growth of India.

National Conference on "Inclusive & Responsible - The Next Face of India Inc." on 24th March, 2010 at New Delhi with ICWAI as Partner, conducted by CII:

Members will be happy to know that in continuation of our initiatives at National Conference at Bangalore on "Voluntary Guidelines on Corporate Governance & Corporate Social Responsibility", ICWAI partnership with Confederation of Indian Industry (CII) was a moral boost for ICWAI as our Hon'ble Minster Mr. Salman Khurshid was the Chief Guest and our Secretary Mr. R. Bandhyopadhyay, IAS was the Guest of Honour. As a President it was pleasure for me to participate in the inaugural function along with other dignitaries including Mr. Y. C Deveshwar of CII, former Chairman of ITC. Mr. Bandhyopadhyay stressed on the topic of India Corporate Week for an inclusive growth and highlighted the participation of our Institute also. ICWAI was appreciated for its participation in this National Conference titled "Inclusive & Responsible - The Next Face of India Inc." Our Hon'ble Minister Mr. Salman Khurshid commented on the importance of Corporate Governance and particularly CSR, which called for self-regulation in doing the business. He told that every company need not do everything, on the other hand every company should focus on CSR relevant to community in that area so that the Aam Aadmi will appreciate such actions which will be helpful to them. He also appreciated the role of ICWA of India and he gave a call for Cost and Management Accountants to take the opportunity and develop a framework in reporting other cost management areas to develop 'Social Responsibility Reporting Accounting Systems'. He said Cost and Management Accountants would have a place in Corporate Governance and CSR Guidelines. I was happy to assure on behalf of members of ICWAI that the advice of Minister will be accepted with responsibility. I appeal to all the members of our Council, office bearers of Regions and Chapters and other members to strive hard in acquiring a place in this role.

Investor Awareness Programmes:

I congratulate the Vice-President, ICWAI Shri Brij Mohan Sharma, Central Council Members and Regions & Chapters in conducting the Investor Awareness Programmes, which are appreciated by MCA. A message has been received from the Ministry indicating that ICWAI should focus on conducting Investor Awareness Programmes all over the country, right from 1st April, 2010 onwards for another year till 31.3.2011 to drive the advantage of spreading the Investor Awareness Programme every month, if possible every fortnight at various places in India. I request the Chapters and Regions to plan the events in advance and intimate the Delhi Office and Vice President, ICWAI so that we could focus on the directions of Ministry in implementing their guidelines.

The SIRC of ICWAI organized the Investor Awareness Programme on 14th March, 2010 at Chennai. Shri T.S. Krishnamurthy, former Election Commissioner of India and former Secretary, Ministry of Corporate Affairs graced the occasion as the Chief Guest. The technical sessions of the programme were handled by Mr. V. Nagappa, Chairman, MSE Institute of Capital Markets and Mr. A. R. Vasudevan, Regional Manager, CDSL, Chennai.

• President's Communique •

STUDENTS' FEST - CHITTA CHATURYA by ICWAI-Bangalore Chapter:

I was happy to be a part of the Students' Fest organized by ICWAI-Bangalore Chapter on 4th March 2010. The bright students from all over South had participated in this Fest in large numbers. 'Future of the Cost and Management Accountancy' was the theme called CHITTA CHATURYA as to what Management Accountants has to contribute to the growth of the nation. Congratulations to Bangalore Chapter for continuing the trend and participating in the movement of ICWAI.

Continuing Education Programmes:

The Institute organized two exclusive programmes for Indian Navy on "Financial Management & Cost Management", and "Cost & Contract Management" and also an exclusive programme was organized for Indian Air Force on "Contract Management". Senior officers of Indian Navy led by Rear Admiral Mr. Pritam Lal and Indian Air Force led by Air Marshal Mr. J.N.Burma and Air Vice Marshal Mr. S.K. Gagneja have graced the occasions during the inauguration and valediction of the programmes. The Institute is also planning to organize three months exclusive programmes for Indian Navy and Indian Air Force, which was well appreciated by them.

I am also happy to inform that CEP Department organized more than 18 programmes on International Financial Reporting Standards (IFRS) exclusively; few of them with the help of Dr. T.P. Ghosh, a renowned faculty and authority on the subject at different locations in India. The programmes were well received by the participants and organizations. They rated this programme as the most educative programme on IFRS in India.

INDO-USA Delegation to America led by our Hon'ble Secretary, MCA Shri R.Bandhyopadhyay, IAS.

We are happy to inform you that our Council Members Shri A.N.Raman, Vice-President, SAFA & Member, PAIP, IFAC and Shri Chandra Wadhwa, Past President, led by our Hon'ble Secretary, MCA Shri R. Bandhyopadhyay, IAS visited Washington and New York and held discussions with various International Bodies to study the implementation of IFRS and also the contribution of CMAs for the development of management accounting profession. The discussion with IMA-USA was very helpful and both Mr. R. Bandhyopadhyay and Shri Jitesh Khosla, IAS who accompanied the delegation stressed the need for continuance of task under the existing MOU between ICWA of India and IMA-USA.

Visit of CIMA President, Mr Aubrey Joachim to our Institute.

Mr Aubrey Joachim, President, CIMA-UK visited the Delhi office of the Institute on 10th March, 2010 and met with Central Council Members and officials. After detailed discussions many issues were finalised for further follow-up like, exchange programme between the members of the two Institutions for training; undertaking research work jointly in India and other countries, particularly in the area of Cost Audit, Health and Education; possibility of making e-learning programme available to the Indian students at a concessional rate; holding joint conference / seminars on various areas like Performance Management, Enterprise Governance, Cost Audit etc.

Cost Accounting Standard Board

The Council of the Institute has so far issued 12 Cost Accounting Standards. The Council has also made the application of these Cost Accounting Standards mandatory w.e.f. accounting period commencing on or after 1st April, 2010 for the preparation and certification of General Purpose Cost Accounting Statements. In case the members of the Institute in practice are of the opinion that the aforesaid cost accounting standards have not been complied with for the preparation of the cost statement, it shall be their duty to make a suitable disclosure / qualification in their audit report / certificate.

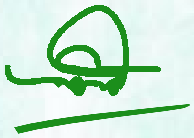
Chapter Visits

The Asansol Chapter of Cost Accountants organized its Annual Seminar on 7th March, 2010 on the theme "Managing Growth in Turbulence Times". The Chairman and Director Finance, ECIL participated in the programme and we are thankful to them for giving the support to Asansol Chapter for its activities.

The Dhanbad-Sindri Chapter of Cost Accountants organized its Annual Seminar 2010 at Dhanbad on 14th March, 2010 on the theme "Role of GST in Indian Economy".

With regards,

Yours sincerely,



(GN Venkataraman)
President
Date : 7th April, 2010

Budget 2010 and development

Anamika Mukherjee*

The year 2010 has been an interesting year already. While the world continued to be in the grip of recession, India showed admirable resilience and was quick to jump on the path of recovery. This made the Union Budget 2010 a challenging one for the Finance Minister. The stimulus taps (opened last year to aid economic recovery) could no longer be allowed to run at full pace due to fears of overheating the economy (thereby aggravating an already existent supply driven inflation) and neither could the taps be closed too tight risking nipping the recovery process prematurely in the bud.

The Finance Minister has stood the challenge with remarkable deftness. This year's Budget has earmarked 37% of its total fund towards social sector investment. Thus the main thrust of the Budget has been the 'aam aadmi' and very rightly so, since it is the common man who has been the worst hit by the economic crisis. Loss of jobs, pay cuts, lower standard of living owing to rising inflation- the common man has seen it all and suffered (without any safety net). Social sector is one area where the government's intervention required is maximum since it is in the nature of merit goods, where social benefits far exceed the private benefits. Hence, the Budget announcements primarily focusing on greater financial inclusiveness and on improving the lot of the common man is commendable and welcome.

(i) **Nobody can afford to ignore agricultural development since this sector still constitutes the livelihood of a majority of people in our country.** The Budget has adopted a multi-pronged strategy to boost up this sector viz. (a) increasing agricultural production through increased allocation to dry land farming and farming of climate resilient crops, (b) increasing farmers access to cheap credit through extension of Debt Waiver Scheme and extension of interest subvention to farmers, (c) providing further impetus to food processing units through setting up of five food parks. (d) The government intends in ultimately moving to a system of direct cash transfers to farmers. This will serve to reduce the subsidy bill while at the same time ensuing that the benefits of optimum and inexpensive fertilizers reach the beneficiaries directly.

(ii) **The government has taken many steps for bringing a wider cross section of the population within the fold of enhanced growth:** a) Increased allocation for its flagship public works progrmame NREGA. b) Greater coverage of the Rashtriya Swasthya Bima Yojana to all NREGA beneficiaries who have worked for more than 15 days during the preceding financial year, thereby expanding the insurance net for the masses. (c) Contribution by government of Rs.1000 per year to each New Pension Scheme opened during the year. This is a step towards providing a safety net to the hitherto unprotected workers in the unorganised sector. (d) Increased allocation to Ministry of Social Justice and Empowerement, which will enable revision of rates for scholarships to OBC and SC students. (e) Increased allocation to Ministry of Minority Affairs. (f) Increased allocation for Women and Child Development. (g) Setting up of Mahila Kisan Sashaktikaran Pariyojana to meet the specific needs of women farmers. (h) It is proposed to conduct an Annual Health Survey at all districts, which shall benefit the government in its public health initiatives. (i) Allocation for education has been increased to ensure that every child has the Right to Free and Compulsory Education. (j) Disinvestments of state held units through public offers to ensure greater retail ownership of these state assets. (k) Augmentation of funds to Financial Inclusion Fund and Financial Inclusion Technology Fund. (l) Increased allocation under Swarna Jayanti Shahari Rozgar Yojana (for employment opportunities in urban areas) and Rajiv Awas Yojana (for slum dwellers and urban poor). (m) Increased allocations to Micro, Small & Medium Enterprises and to micro finance initiatives through Self Help Group linkages with the banking system.

(iii) **A robust banking system is systemically critical to the financial health of any country.** (a) The Budget has proposed recapitalistion of Rs.16500 crore to help banks meet their capital requirements due to growing business and greater risk. (b) Regional Rural Banks, which are important vehicles of development in rural, remote and unbanked areas have also been capitalized further. (c) To increase geographical coverage and increased access to credit, RBI is considering granting of banking licenses to non banking financial intermediaries. (d) The government has set a target of ensuring that banking facilities reach every habitation where population exceeds 2000 by March 2012. (e) To prevent banking crisis that has systemic implications, the governments intends setting up an apex level Financial Stability and Development Council for macro-prudential supervision.

*Deputy Director, Research & Journal, ICWAI

(iv) **Strengthening transparency and public accountability is a vital step to ensure success of the government's efforts to reach out to the common man.** (a) Towards this end, the Budget envisages setting up of a Financial Sector legislative Reforms Commission that will attempt to rewrite the financial sector laws. (b) The government intends to harness the benefits of technology for better administration and execution by setting up a Technology Advisory Group for Unique Projects. (c) An Independent Evaluation Office will be set up to undertake impartial and objective assessments of various public programmes and improve effectiveness of public interventions. (d) Additional grants amounting to Rs.5,000 crore have been given to the states for improving delivery of justice through strengthening of alternate dispute resolution mechanism.

(v) **A good infrastructural network is the lifeblood of any nation.** It improves standard of living and increases long-term productivity of a country. (a) Realizing this significance, this year's Budget has provided for 46% of the total plan allocations for infrastructure. (b) Allocation for road development has been hiked by 13%. (c) India Infrastructure Finance Company Limited (IIFCL) has been permitted to also refinance bank lending to infrastructure projects. (d) Plan allocation for power sector has been hiked. (e) It is proposed to set up a Coal Regulatory Authority to create a level playing field. (f) Increase of 61% allocation to New and Renewable Energy. (g) As part of Environment & Climate Change initiatives, the Budget proposes setting up of National Clean Energy Fund for funding R&D initiatives in clean climate technologies, a one-time grant for effluent treatment plant at Tirupur and budgetary allocations under 'Mission Clean Ganga 2020'.

These measures can be viewed as building blocks for sustainable and inclusive development as envisaged in India Vision 2020 by Former President of India, Dr. Abdul Kalam. Dr. Kalam has identified five key areas: doubling agricultural production, strengthening infrastructural development, providing social security to all, leveraging our core competencies in IT and self-reliance in critical technologies and strategic industries. Focus on these areas constitutes integrated action that can help double our GDP and propel India from a developing to a highly developed nation.

However, merely increasing outlays towards social works programmes will not be sufficient as can be seen by the poor utilization of NREGA funds. The actual utilization was only 39% of the budgetary allocation in 2009-10. An important factor behind the dismal performance has been the absence of any social audit. For more effective implementation, it is necessary to undertake regular audits to examine the actual amount of work done and amount paid, assess the suitability and quality of the underlying assets created, track regular progress on the work done, detect loopholes which allow misappropriation of funds and also suggest ways to tie the utility derived from such programmes to local requirements. Greater use of technology can help plug the chances of corruption and leakage and enable greater number of people to reap the dividend of India's growth.

Increasing funds allocation to the education sector, for example without focusing on the outcome will result in sluggish pace of growth in literacy rates, (which have grown by just about 1% during the past one year) low skill base and high drop-outs. Thus what is required is better delivery through improvement in student teacher ratio, better quality of teachers and better equipped physical facilities at schools.

The Budget does not lay a roadmap on enactment of Food Security Bill. Further, curtailment of Public Distribution Subsidy without any accompanying improvement in food management and delivery of foodgrain at cheap rates to the poor will seriously jeopardize the nutritional needs of the population. Similarly, enhancing allocation to agricultural sector and provision of subsidized credit to farmers will be insufficient to double production or improve the lot of farmers since lack of funds has never really been a deterrent. Introducing a Second Green Revolution, which avoids generating inter regional disparity and development of markets for risk trading by farmers is the need of the hour.

A major impediment to India's growth has been the lack of world-class infrastructure. Despite increasing budgetary allocations to this sector, infrastructure remain woefully inadequate and of poor quality. Out of the targeted infrastructural investment as a proportion of GDP of 9%, the actual investment stands at only 6%. For example, out of the stipulated target in different phases under National Highways Development Programme of 3165 kms, the actual road development was only 1490 kms as on 31.3.2010. The total power supply deficit as a ratio of total energy availability and peak availability has been continuously rising. As against targeted capacity addition of 78700 MW, the total commissioned capacity addition, as on 31.12.2009 was only 19092 MW. While passenger traffic in airports has increased by 6%, cargo traffic growth has remained static. The average turnaround at Indian ports is around 3.27 days as against 10 hours at Hong Kong ports, which undermines the competitiveness of our ports. A study by the Dept. of Programme Implementation, which monitors progress in Central sector projects above Rs.100 crore has found that project delays have increased from 41% in 2007 to 55% in 2009. No clear policy guidelines on decontrol of oil prices and inadequate compensation to oil companies are hampering oil exploration and thereby endangering oil security. Bureaucratic red tapism, raw material bottlenecks, contractual vendor disputes, tardy dispute resolution mechanism, lack of proper policy relating to land acquisition have all contributed to this sorry state of affairs. These lacunae have to be addressed to ensure effective infrastructural development and in this matter government has to play a facilitator's role at legislative, administrative and executive levels. Avoiding cost and time overruns through proper monitoring in the form of regular audits is also imperative. Considering the fact that private sector investment is only 5.7% in total infrastructure investment (with the major chunk appropriated by the telecom sector), it would have been better if the Budget had spelt out clear guidelines for Public Private Partnership, allowed greater flexibility to the existing PPP norms to attract greater foreign investment in this sector and increased the Viability Gap Funding. Increasing budgetary allocations have to be necessarily complemented with these measures to be truly effective.

One thing that can be concluded from the above analysis is that while the decisions announced in the Budget are good in spirit, it has been seen from past experience that the major stumbling block is poor implementation and execution. And it is in this respect where Cost and Management Accountants can play a major role to plug the gaps. The need of maintaining proper cost records as a compliance mechanism cannot be overemphazised. Maintenance of proper records serves to create a database that can be used to regulate the interest of the society. Apart from being used just as a monitoring measure, cost audit is an important tool of resource management by suggesting prudent and optimal business processes and setting up of physical and financial standards. It covers the interests of all internal and external stakeholders and thus serves the society at large. Cost audit can also aid in greater business transparency and better corporate governance by acting as an effective whistleblower. This conforms to Dr Kalam's motto of 'Profit with Integrity'.❑

CONGRATULATIONS

ICWAI FIRST ESSAY COMPETITION

The Institute has pleasure in announcing results of essay competition on
"Cost Management Key to Survival in Current Global Meltdown".
The Jury for evaluation of essays comprised of:

CMA - Dr. Heena Oza,
CMA - Dr. P.C. Basu, and
CMA - Dr. Sreehari Chawa.

The award winners are:

Students Category

First prize: Guruprasad D
Second prize: Praveen Mittal
Third prize: Arun Sarathy Ravikumar

General Category

First prize: S. Jeyaraj, AICWA
Second prize: K.R.Srivarahan, AICWA
Third prize: Dilip Choudhary, AICWA

The Institute thanks all the participants for taking part in the Competition. All the participants will receive a Certificate of Appreciation for their efforts.
Awards will be commemorated at a function. Date, time, and venue of the function and other details will be intimated to the winners individually.

Analysis of Budget Changes Relating to Service Tax

P. Ravindran*

The Indian Budgets are indeed a hardy annual. The Budget has become a national event to look forward to, with both hope and anxiety. The Governments have used the Budget as an instrument to set policy directions. The important tax changes are also announced at the time of presentation of the Budget. The full impact of tax changes in a budget becomes visible only after an analysis. Thus, it may not be an easy task to pronounce on the extent and scope of tax changes in a budget presentation in an instant assessment that has become a normal feature nowadays. In this article, we will note and briefly discuss the important changes that have taken place in the arena of service tax as introduced through the budget 2010-11.

Service Tax:

1. Ever since the legislature introduced a levy of tax on services in 1994 for the first time, the successive changes have seen a proliferation in the number of services specified as taxable. Instead of adopting a one-off approach in which the services to be taxed will be broadly defined to mean any offering for a consideration other than goods, the Governments in India have chosen to follow an incremental approach to the levy of service tax. Additions to the list of taxable services thus have been calibrated. This method of jural choice appears to have been suitable to the Indian context. The service tax changes are looked forward to with great interest as the number of tax-payers has phenomenally expanded over the years. Here we will discuss the changes in service tax.

*B.Sc, PGDM (Germany), M.L, (PhD) Advocate - Indirect taxes.

2. Like in the previous years, the latest budget has adopted the twin approach of bringing in new services under the tax net as well as tweaking the meaning and scope of existing services to milk more revenue out of them. Repairs and tinkering in the statutory provisions are also common, as before. As usual, some of the services newly introduced may be overlapping with certain other services, giving rise to potential classification issues.

New Services introduced in this year:

(A) Services in Games of Chance:

Services of promoting, marketing or organizing of or assisting in organizing games of chance including lottery" [Section65 (105)(zzzzn)].

Analysis:

Even though the budget papers declare that the above service category is at present included in the scope of Business Auxiliary Service but now culled out as an independent entry in the list of services, a scrutiny shows that the new entry is broader in scope than the existing entry. Let us have a look at the existing entry:

"Promotion or marketing of service provided by the client":

[***Explanation***—For the removal of doubts it is hereby declared that for the purposes of the sub-clause, "Service in relation to promotion or marketing of service provided by the client" includes any service provided in relation to promotion or marketing of games of chance, organized, conducted or promoted by the client, in whatever form or by whatever name called, whether or not conducted online, including lottery, lotto, bingo:]

The new entry proposed as per Section 75 of the Finance Bill reads as follows:

"(zzzzn) (service provided) to any person by any other person, for promotion, marketing, organizing or in any other manner assisting in organizing games of chance, including lottery, bingo or lotto in whatever form or by whatever name called whether or not conducted through internet or other electronic network".

The following impacts are seen:

- The word 'client' is removed and is substituted by 'any person to any other person'.
- The organizing and assisting in the games of chance are now additionally included in the scope of taxable service. The widest ambit has thus been given. Earlier the taxing entry was restricted to promotion or marketing of games of chance.

(B) Health Services:

The Government seeks for the first time to bring health services under the Service Tax net. The following three services are taxed:

(zzzzo) services provided by any hospital, nursing home or multi-specialty clinic-

(i) to an employee of any business entity, in relation to health check-up or preventive care, where the payment for such check-up or preventive care is made by such business entity directly to such hospital, nursing home or multi-specialty clinic; or

(ii) to a person covered by health insurance scheme, for any health check-up or treatment, where the payment for such health check-up or treatment is made by the insurance company directly to such hospital, nursing home or multi-specialty clinic;

(C) Healthcare -related record maintenance service:

(zzzzp)(Service provided) to any business entity, by any other person, in relation to storing, keeping or maintaining of medical records or employees of a business entity.

Analysis:

The insurance companies are already subject to service tax in respect of the premium charged and collected. The payments they make to the hospitals would come from their premium income only. There is thus an element of double taxation which especially in the grossly under-provided health care sector appears avoidable.

(D) Business Brand or Trade Name promotion services:

(zzzzq) Services provided to any person by any other person, through a business entity or otherwise, under a contract for promotion or marketing of a brand of goods, service, event or endorsement of name, including a trade name, logo or house mark of a business entity by appearing in an advertisement and promotional event or carrying out any promotional activity for such goods, service or event.

[Explanation-For the purposes of this sub-clause, 'brand' includes symbol, monogram, label, signature or invented words which indicate connection with the said goods, service, event or business entity]

Analysis:

The tax department has apparently been observing that large corporations spend a lot of money on brand promotion. The "brands" themselves become valuable over a period of time and become prized possessions. The exercise of developing and promoting brands is set to become costlier with this tax. The new entry apparently overlaps with a similar entry under BAS. However, we have an interesting exposition of the change in the TRU's budget letter dated 26-2-2010 in which the department has stated that the existing BAS scope is limited to a product or service offering of the client and not to a brand or name. This demarcation of the existing BAS scope is welcome indeed.

(E) Services of commercial use/ exploitation of "celebrity weddings", "star nights" and such other events organized by a person or an organization:

The definition of the proposed new entry goes as follows:

Service provided—

(zzzzr) to any person by any other person by granting the right or permitting the commercial use or exploitation of any event including any event relating to art, entertainment, business, sports or marriage organized by such person:

Analysis:

The events such as celebrity weddings, star nights, song & dance shows and mega sport events are money spinners for the organizers owing to sheer popular fascination with the players and personalities involved. The rights granted to these events are now subject to service tax. It is not just the rights formally, but even the allowing of formal or informal commercial use or exploitation of these events will also be subjected to service tax. The tax coverage is indeed wide.

(F) Services provided by electricity exchanges:

The new entry reads as follows:

"(zzzzs) (service provided) to any person by an electricity exchange, by whatever name called approved by the Central Electricity Regulatory Commission constituted under Section 76 of the Electricity Act, 2003 in relation to trading, processing, clearing or settlement of spot contracts, term ahead contracts, seasonal contracts, derivatives or any other electricity related contracts".

Analysis:

The department clarifies that the above service will not overlap with forward contract service which is already subject to service tax for the reason that only forward contracts covered by the Forward Contract (Regulation) Act, 1952 are covered in the scope of existing taxation. The electricity exchanges are a new phenomenon and the transactions thereunder are not covered under forward market regulations. Therefore, the Government has proposed to tax the charges recovered for services in relation to assisting, regulating, controlling the business of trading, processing and settlement pertaining to the sale or purchase of electricity by the associations authorized by C.E.R.C.

(G) Services Related to copy right Transactions in Cinematographic Films and Sound Recording:

The taxing entry is defined as follows:

(zzzzt) (Service provided) to any person, by any other person, for-

(a) transferring temporarily; or

(b) permitting the use or enjoyment of,

Any copy right defined in the Copy Right Act, 1957, except the rights covered under sub-clause (a) of Clause (1) of Section 13 of the said Act.

Analysis:

The new tax covers all copy right transactions regulating to recording of cine films and sound recordings other than the outright sale of such copy rights. The department has clarified that the new tax on copy right will not cover individual artist, composers, performers etc. as their copy rights fall under the excluded clause (a) of Section 13 of the Copy Right Act.

(H) Special Services provided by builder to the Prospective Buyers such as Providing Preferential Location or External or Internal Development of Complexes on Extra Charges:

The taxing entry reads as follows:

"(zzzzu) (service provided) to a buyer, by a builder of a residential complex, or a commercial complex, or any other person authorized by such builder, for providing preferential location of development of such complex but does not include services covered under sub-clause (zzg), (zzq), (zzzh) and in relation to parking place.

Explanation- For the purposes of this sub-clause, "preferential location" means any location having extra advantage which attracts extra payment over and above the basic sale price";

Analysis:

The department clarifies that the following facilities are under the scanner in respect of this service which will cover both residential and commercial construction:

- Choice of location such as sea facing, park spacing, corner flat, first floor, top floor or lucky number etc.
- Provision of access roads and common lighting etc.
- Fire fighting installation.
- Power back-up.

(I) Alteration and Expansion in the Scope of Existing Services:

(A) Services Provided in an Airport or Port :

The Government has made a sweeping change in the definition relating to port and airport services. Now, all services provided in the port / airport premises will fall under this service and specific authorization from the port or airport authority hitherto required is no longer a pre-condition for the levy of this tax. The move aims at consolidating all the services within airport or a port under one head.

(B) Auctioneers Service:

The change has been made in this case to make it clear that the words "auction by government" in the definition of auctioneer's service means an auction where Government property is being auctioned by any person acting as auctioneer. Thus, the action of government property continues to be exempted. Additionally, the implication is that when government acts as auctioneer or directs the auction for private goods, this exemption will not apply. The government thus has the best of both worlds.

(C) Unit Linked Insurance Plans:

The change in the definition of a taxable service "Management of investment under ULIP service provides that the value of the taxable service of any year of the operation of the policy shall be the actual amount charged by the insurer for the management of funds under ULIP or the maximum amount of fund management charges fixed by the IRDA whichever is higher. The change is expected to bring about some reduction in the service tax outgo on ULIPs as compared to the earlier practice.

(D) Transport of Passengers by Air Service:

Until now service tax on air travel has been limited to business class in international travel undertaken by a scheduled air liner. Now, service tax has been extended to both domestic and international air travel and in any class. The cost of air travel is bound to go up.

(E) International Technology Software Services:

Hitherto, services provided in relation to I.T.S.S. were taxed only when they were used in the course or furtherance of business or commerce. The change in the definition extends the levy to cover all I.T. Software Services provided in all cases whether or not used in the course or furtherance of business or commerce.

(F) Expansion in the Scope of Commercial Training and Coaching Service:

A number of Tribunal decisions have come holding that the service tax in this category is not leviable when the institution concerned is not commercial in nature or by constitution. To overcome the impact of such case law, an amendment has been brought about in this service to clarify that the word 'commercial' means any training or coaching that is provided for a consideration irrespective of the presence or absence of any profit motive. To add salt to injury, the amendment is declared to be retrospective from July, 2003. It is a moot point whether the amendment will solve the problem for the department owing to the continuing entrenchment of the word 'commercial' and it is debatable whether the common parlance associated with the word 'commercial' can be given a far-fetched definition which makes the normal popular understanding stand on its head. The time when parliament could call a man a woman and vice versa is in the past and the scope of statutory interpretative clauses in these days and times is not left uncircumscribed in litigations.

(G) Service Tax on Construction Services:

The interpretative confusion regarding levy of service tax in this area is well known. The Board's circular issued in January, 2009 has added to the boiling cauldron. Now the pot has been stirred even more vigorously by this amendment in the Budget. The change states that if the entire consideration for the purchase and sale of the property (both residential and commercial) is paid after the completion of construction (including the certification by the local authorities) it would be exempted from service tax. This new condition is an impossibility in practice and no builder would wait to collect his charges as late as the time stipulated by the law. The benefit of the amendment will only accrue in cases where fully built and readily available apartment/commercial property is sold by the builder. Litigation appears to be guaranteed and there is the prospect that the Courts may read down the law to permit payment of certain amounts in advance to the builder, even while retaining the exemption.

(H) Renting of Immovable Property Services:

The Delhi High Court, in its landmark judgment in the case of Home Solutions Retail India Ltd. Vs. Union of India has struck down the levy by observing that renting of immovable property for use in business or commerce per se does not attract tax and the taxing entry would only cover value added services in relation to such renting. To overcome the difficulty to Revenue caused by the judgment and recognizing the havoc caused by the use of the words "in relation to renting", an amendment has been proposed to declare that the renting itself is a taxable service. The amendment is sought to be given retrospective from 1.6.2007. The constitutionality of service tax on Rentals may now be actively challenged on the ground that it impinges the power assigned to the states under the head "taxes on lands and buildings". How far back in time a tax can be taken may also be subject to judicial review.

(I) Renting of Vacant Land:

Under the definition of taxable service pertaining to renting of immovable property, the renting of vacant land used for agriculture, farming, forestry, animal husbandry, mining, education, sports, circus, entertainment and parking purposes is excluded from the purview of service tax. Further, 'vacant land', whether or not having facilities clearly incidental to the use of such vacant land has also been excluded from the tax net.

However, since plenty of business has developed in the use of such vacant land, e.g. renting of vacant land on long term leases with an understanding that the lessee would construct factory or commercial building on the land, the government proposes to amend the definition to levy a tax on the rent of a vacant land if there is an agreement or contract between the lesser and the lessee that a construction on such a land is to be undertaken for furtherance of business or commerce during the tenure of the lease.

(J) Expanding the Scope of Sponsorship Service:

The existing sponsorship service in existence since 2006 has excluded sponsorship of sports events. An amendment removes this exclusion. The Department promises suitable exemption for certain categories of sports events at a later date. Events such as IPL will bring in more revenue for the Government through this levy. This levy may overlap with brand promotion service inasmuch as the sponsors are seen generally to promote the popularity of their brand during such events.

II. Refund of Accumulated Cenvat Credit To Exporters-amendments In Notification No.5/2006-ce(nt):

The scope of "input service" has proved to be a vexed area of dispute between the department and the assessees. Recently the Central Board of Excise and Customs came out with a circular No.120/01/2010-ST dated 19.01.2010 in which a refreshingly new approach of allowing CENVAT Credit on input services such as canteen catering, transport pickup of employees etc was adopted on the principle of the input services concerned being essential to the business. To give legal backing to the circular as well as to expedite the settlement of pending refund claims, the Government has amended the above notification. The amendment has the effect of relaxing the condition that input services should be used in the manufacture of final products which are cleared for export or be used in providing output services which are exported. Instead of stipulating direct use of the input services, the new amendment inserts the words "in relation to" for manufacture and the word "for" in respect of provision of service so that even indirect use will also result in availment of CENVAT credit and subsequent refund claim. The illustration to the condition 5 of the appendix to the notification has been deleted. This ensures that refund of CENVAT credit availed in the period prior to the quarter/ period for which the refund has been claimed would also be now eligible for refund. Henceforth, the refund claims under this notification would be calculated only on the basis of the ratio of export turnover to the total turnover of the claimant and the refund of CENVAT credit will not be linked to CENVAT credit taken from a particular period only. These changes are retrospective from 14.03.2006, the date of issue of notification No.5/2006.

The statutory Form-A in which refund has to be claimed under this notification has been changed by deleting conditions a & b so as to bring them in line with the amendments made in the main conditions of the notification. The refund claim particulars should be given in a table which has been prescribed. The table should be certified by a person authorized by the Board of Directors in the case of a limited company or by the proprietor / partner in the case of firms / partnerships, if the amount of refund claimed is less than Rs.5 lakhs in a quarter. Where the amount exceeds Rs.5 lakhs, the declaration should also be certified by a Chartered Accountant who audits the annual accounts of the exporter for the purposes of the Companies Act. It is unfortunate that the Cost Accountants have not been included as a certifying authority. These changes are prospective.

III. Withdrawal of Existing Exemptions:

(A) Transport of Goods by Rail:

The existing exemptions under notification 33/2009 dated 1.9.2009 has been withdrawn by notification 7/2010 dated 27.2.2010. However, rail transport of certain specified goods such as postal mail bags, luggage of rail passengers, including household effects, food grains, flours and pulses, fire works, soaps, fruits and vegetables, edible oils etc. have been exempted vide notification No.8/2010-ST dated 27.2.2010. An abatement of 70% from taxable value has also been provided.

(b) Vocational Training Institutes:

Under Commercial Training and Coaching Service, institutes offering vocational training were exempted and vocational training institute was liberally defined to mean a commercial training or coaching centre which provides vocational coaching or training that imparts skills to enable the trainee to seek employment or undertakes self-employment, directly after such training or coaching. Now, the liberal and forward looking definition that has so far prevailed is deleted and a new restrictive definition inserted vide notification No.3/2010-ST dated 27.2.2010. The change retains exemption for vocational training institutes only when such institutes are-

- Industrial Training Centers
- Affiliated to the National Council of Vocational Training
- Offering courses in the designated trades covered under Schedule-I of the Apprentices Act, 1961.

(c) Group personal insurance scheme provided by Rajasthan government to its employees under general insurance has been withdrawn vide notification No.5/2010-ST dated 27.2.2010.

(D) Expansion of "India" for Service Tax Levy:

Notification No.14/2010-ST dated 27.2.2010 has been issued to bring under Service Tax Levy any service provided for the following activities within the continental shelf and the exclusive economic zone of India. (What is continental shelf and the exclusive economic zone will be discussed in the next issues of this Magazine).

- Construction of installations, structures and vessels for the purposes of prospecting or extraction or production of mineral oil and natural gas and supply thereof.
- Any service provided to such installations, structures and vessels and for supply of any goods connected with said activities.

The expansion aims to garner revenue from the substantial business and industrial activity happening in the economic waters of India running into thousands of crores.

IV. New Exemptions:

1. Abatement of statutory taxes charged by any government (including foreign governments where a passenger disembarks) on air passenger from taxable value for the purpose of levy of service tax under the Air Passenger Transport Service (Notification No.15/2010 dated 27.2.2010). This exemption is subject to the condition that such taxes should be shown separately on the ticket or the invoice for such ticket issued to the passenger. However, it would have been welcome if the government has also enumerated what are the "statutory taxes" which are now exempted.
2. Exemption from service tax under erection, commissioning or installation service for the following items: (there is unfortunately no clarity on whether the erection, commissioning and installation covered in the works contract service will get the same exemption. If not, the department on the ground may actually deny the exemption by holding that it is not applicable to works contracts involving erection, commissioning & installation).
   - Mechanized food grain handling systems.
   - Equipment for setting up or substantial expansion of cold storage
   - Machinery or equipment for initial setting up or substantial expansion of units for processing agricultural, apiary, horticultural, dairy, poultry, aquatic and marine products and meat.
3. Packaged IT Software, pre-packed in retail packages and meant for single use is exempted from service tax under IT Software Service provided customs duty and excise duty accordingly has been paid. The intention appears to be to tax all such software under some taxation to ensure that such software does not leak out of the overall taxation system.
4. Exemption for food grains and pulses added in the list of exempted goods under GTA service.
5. Exemption from service tax to Indian News agencies under online information and database retrieval service as well as Business Auxiliary Service provided that such news agency is a notified one and set up solely for collection and distribution of news, such news agency does not distribute its income in any manner to its members and such agency applies the same for collection and distribution of news and such news agencies are specified under clause 22B of Section 10 of the Income Tax Act, 1961.
6. Exemption to services provided to any person by person for the transmission of electricity. There is no clarity on whether the exemption will apply to generation and operation cum maintenance of power plants.

V. Amendment to Export of Service Rules, 2005:

A major change is that the condition in the rules that for export treatment,

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Budget 2010 -11: Changes in Central Excise, Customs & Service Tax

S. S. Gupta*

Service Tax

Part - I (A) Changes effective from 27th February 2010.

A. **Rate of service tax:** There is no change in the rate of service tax.

B. **Changes made w.e.f 27th February 2010.**

1. Changes in Export of services rules, 2005 and Taxation of Serivces provided from outside and received in India, 2006.

a. Condition of 'provided from India and used outside India' dispensed with.

One of the conditions which was required to be fulfilled for the purpose of treating the services provided as export of services was that the service should be provided from India and used outside India. The said condition gave rise to dispute in determining the place where the use of the service takes place. The circular no 111/09-ST clarified that the use of the service was required to be determined with respect to the beneficial use of the service. Even after clarification of circular no 111/09-ST the Hon'ble Cestat in the case of Microsoft Corporation (India) Pvt. Ltd had not accepted the principles of the said circular and had ordered for pre-deposit of an amount of more than 70 crores.

The said condition has now been deleted in the current budget. This will put a rest to disputes with respect to export of services and will also assist in quicker refund to exporter of services.

The amendment is effective from 27th February 2010 and will not apply to services rendered prior to 27th February 2010.

b. The definition of India has been extended to include India as including the installations, structure's and vessels in the entire continental shelf of India and exclusive economic zone of India for the installations, structure's and vessels to be used for the purpose of prospecting or extraction or production of mineral oil and natural gas and supply thereof. Thus such services provided on such installations, structure's and vessels cannot be treated as export of services under the service tax provisions after the said amendment.

c. The criteria for determining export of services for the categories of Chartered Accountant services, Company Secretary services and Cost Accountant services has been changed from performance to recipient based. Amendment has also been made to provide for treating the Mandap Keeper services as export only if the Mandap is situated outside India.

2. Changes in Taxation of Services provided from outside and received in India, 2006.

The provision of Taxation of Services (Provided from outside India and received in India) Rules, 2006 has been amended to define India as including the installations, structure's and vessels in the entire continental shelf of India and exclusive economic zone of India for the installations, structure's and vessels to be used for the purpose of prospecting or extraction or production of mineral oil and natural gas and supply thereof. Therefore Services received from nonresident in such extended areas will also be considered as taxable. As per the prevalent deeming provisions the service tax on such services is payable by the service receiver.

These changes is also effective from 27.2.2010 and will apply to services rendered on or after 27.2.2010.

3. New Exemptions under Information Technology services.

a. Exemption provided for the information technology services in relation to locally manufactured packaged or canned software which is intended for single use and packed accordingly is given under Notification No 02/2010-ST dt 27-02-2010. The said exemption is subject to the following conditions:

i. The document providing right to use such software is required to be packed with the same.

ii. The person manufacturing, duplicating or the person holding the copyright of the same should have paid the appropriate excise duty on sale price of the software. The exemption does not apply if the manufacturer claims the benefit of any other exemption which results in Nil payment of excise duty.

iii. The exemption under service tax is not applicable if the benefit of exemption has been availed for non-payment of excise duty on the value attributable to the consideration for the transfer or right to use under Central Excise Notification no 17/2010.

*CMA, CA, CS, Expert in Indirect Taxes.

b. Exemption provided for the above services in relation to imported packaged or canned software which is intended for single use and packed accordingly is given under Notification No 17/2010-ST dt 27-02-2010. The said exemption is subject to the following conditions:

i. The document providing right to use such software is required to be packed with the same.

ii. The importer has paid the appropriate customs duty on the sale price of the software. The exemption does not apply if the importer claims the benefit of any other exemption which results in Nil payment of customs duty.

iii. The exemption under service tax is not applicable if the benefit of exemption has been availed for the value attributable to the consideration for the transfer or right to use under Customs Notification no 31/2010.

4. Amendment in exemption for Vocational Training Institutes.

Notification no. 24/2004 provided exemption to any institute which provides vocational training or coaching to enable the trainee to seek employment or undertake self-employment. The benefit after the amendment will now be applicable to only for those Vocational Institutes which are Industrial Training Institute or an Industrial Training Centre affiliated to the National Council for Vocational Training and offering courses in designated trades as notified under the Apprentices Act, 1961.

5. Exemption under Transport of Goods by Road Services is being extended to transportation of food grains or pulses. It is advised that the transportation invoices towards the receipt of services towards the said products should be bifurcated (in case multiple type of cargo is being transported) for substantiating the eligibility of exemption.

6. Full Exemption for payment of service tax under all categories of services has been provided for services provided in relation to transmission of electricity.

7. Exemption has been provided to Technical Testing or analysis service of seeds provided by Central or State Seed Testing Laboratory taxable under Technical Inspection and Certification services for seeds provided by Central or State Seed certification agency.

8. Exemption has been granted under the category of Erection, Commission and installation services for mechanised food grain handling systems, equipment for cold storage, equipments / machinery for processing units for agricultural, agiary, horticulture, dairy, poultry, aquatic, marine products and meat.

9. The services provided by New Agency which has been solely set up for the collection and distribution new has been exempted from service tax under the category Online Information and database access or retrieval services & Business Auxiliary services. The said exemption is available to those news agencies which specified under section 10(22B) of the Income Tax Act, 1961 and who do not distribute its income in any manner to the members.

10. Jurisdiction of Levy of service tax has been extended to activities of prospecting of or extraction or production of mineral oils and natural gas in the Continental Shelf and Exclusive Economic Zone o f India .

In the Budget 2009 the jurisdiction of service tax was extended to the installations, structure's and vessels in the entire continental shelf and exclusive economic zone of India. A question had therefore arisen with respect to the leviability of service tax on the services provided during the pre-construction phase of such installations, structure's and vessels. In the Budget 2010, the jurisdiction of service tax is now being extended to the whole of continental shelf and exclusive economic zone of India for the purpose of levying service tax on the services of construction with respect to the installations, structure's and vessels to be used for the purpose of prospecting or extraction or production of mineral oil and natural gas and supply thereof. Thus service tax is now applicable on such services provided.

Thus it can be said that prior to the said amendment the provisions of service tax were not applicable in respect of services provided for the construction of installations, structure's and vessels in the continental shelf and exclusive economic zone of India.

It is advised that a separate invoice should be raised for the value of taxable service upto 26th February 2010 for the services provided with respect to the construction of such installations, structure's and vessels. In case issuing of separate invoice is not possible then value of taxable service provided till 26th February in such extended areas should be shown separately on the invoice.

The provision of Taxation of Services (Provided from outside India and received in India) Rules, 2006 has been amended to define India as including the installations, structure's and vessels in the entire continental shelf of India and exclusive economic zone of India for the installations, structure's and vessels to be used for the purpose of prospecting or extraction or production of mineral oil and natural gas and supply thereof. Therefore Services received from nonresident in such extended areas will also be considered as taxable. As per the prevalent deeming provisions the service tax on such services is payable by the service receiver.

11. The value of Government taxes levied on passengers travelling by air have been excluded from the value of taxable services vide amendment to the Valuation Rules. The said value is excludible provided it is shown separately on the ticket, or the invoice for such ticket, issued to the passenger.

Part I - (b) - Changes w.e.f 1st April 2010 under the category of Transport of Goods by Rail services -

a. Exemption available to Indian Government Railways is withdrawn consequently service provided by Indian Railway are now taxable.

b. An abatement of 70% has been extended to all types of transport by rail services whether in container or otherwise. The benefit of cenvat credit will not be available in case benefit of abatement availed.

c. Exemption has been provided to transportation by rail with respect to specified items such as Defence / Militarily Equipments, Railway Equipments, Postal Mails, Luggage of passengers, etc.

PART - I (c) - Amendment effective from date of enactment of Finance Act 2009.

Amendment in Section 73(3) - An explicit explanation is being added in section 73(3) to provide for non-issue of Show notice in cases where the amount has been paid prior to issue of show cause notice. The provisions of section 73(3) are not applicable to cases where duty is paid on account of fraud, collusion, wilfull suppression or mis-statement with an intent to evade payment of duty.

PART I(d) - Amendment effective from date of notification after enactment of Finance Act 2009.

a) Changes in definition of Existing services and Other amendment

1. Renting of immovable property services.

Current status	(i) Mere Renting of immovable property was not taxable due to judgment rendered by Hon'ble High court of Delhi in the case of Home Solutions Retail India Ltd. & Others that the renting of immovable property for use in the course of furtherance of business or commerce does not involve any value addition and therefore, cannot be regarded as service. (ii) Under the definition of taxable service pertaining to renting of immovable property, the renting of vacant land was excluded from the tax net.
Amendment in brief	(i) Provide explicitly that the activity of 'renting' itself is a taxable service and further any other services in relation to such renting is also taxable. This change is being given retrospective effect from 01.06.2007; and (ii) Provide that renting of vacant land, where the agreement or contract between the lessor and lessee provides for undertaking construction of buildings or structures on such land for furtherance of business or commerce during the tenure of the lease shall be subjected to service tax. This amendment is prospective and will be applicable only after the date of notification after enactment of the Finance Act.
Implications	(i) Intention of the legislature is clear to recover service tax on renting of immovable property from June 2007. Therefore it is advisable to pay service tax and take the credit if the assessee provides taxable service or manufactures dutiable goods. (ii) Service tax would be charged on rent of a vacant land if there is an agreement or contract between the lessor and lessee that a construction i.e. construction of building or temporary structure on such land is to be undertaken for furtherance of business or commerce during the tenure of the lease.

2. 'Port' and 'other port' services.

Current status	The services provided by port or any person authorised by the port are only liable for the payment of taxes. Services which were classifiable under any other specific category of service was liable to tax under the said category and not Port services.
Amendment in brief	a. It has been proposed that services provided by any person within the port premises in any manner will be liable for the payment of service tax. b. Specific amendments have been made to provide that principles of classification under section 65A cannot be applied for the category of port services.

Implications	a. The pre-condition that the service provider should be either the port authority or any person specifically authorized has been dispensed with. Thus any person irrespective of the fact whether the services are provided by authorized person or a person who has only been given entry permit will be treated as service provider under the said category. b. Any service provided within the port premises will be liable to service tax under the category of "Port Service" only. The principal of specific classification over general and other rules of classification will not apply to services provided within the port. B) The services of maintenance repair, cargo handling, etc provided within the port will now be covered under the category of port services. Service tax will be leviable even if a service which is other-wise non-taxable is provided within aport.

3. Airport Service

Current status	The services provided by airport authority or any person authorized by it are only liable for the payment of taxes. Services which were classifiable under any other specific category of service was liable to tax under the said category and not Airport services.
Amendment in brief	a. It has been proposed that services provided by any person within the airport or civil enclave premises in any manner will be liable for the payment of service tax. b. Specific amendments have been made to provide that principles of classification under section 65A cannot be applied for the category of airport services.
Implications	a. The pre-condition that the service provider should be either the airport authority or any person specifically authorized has been dispensed with. Thus any person irrespective of the fact whether the services are provided by authorized person or a person who has only been given entry permit will be treated as service provider under the said category. b. Any service provided within the airport or civil enclave premises will be liable to service tax under the category of "Airport Service" only. The principal of specific classification over general and other rules of classification will not apply to services provided within the port. c. The services of maintenance repair, cargo handling, rent -a-cab, etc provided within the airport will now be covered under the category of port services. Service tax will be leviable even if a service which is other-wise non-taxable is provided within an airport.

4. Auctioneer's Service

Current status	The definition of taxable service excludes the services in relation to Auction by the Government.
Amendment in brief	The meaning of term "Auction by the Government" has been clarified to mean the auction of only government property by the auctioneer.
Implications	The exclusion from the auction services will apply only to those auction which are undertaken to auction government property, assets, etc such as Government land, etc. The auction undertaken by the Government department for the private property for the purpose of recovery of the pending dues will now be taxable. Thus services provided for auction of Detained goods by Customs authority will be taxable.

5. Transport of Passenger by Air Service

Current status	The transport of passenger by air for international journey for travel by a class other than economy is only taxable.
Amendment in brief	It has been proposed to widen the coverage under the said category to impose service tax on international as well as the domestic air transportation in any class.
Implications	The said amendment will cover the services of transportation of all passengers by the international as well domestic passenger. Thus airlines will be required to charge service tax for the services provided by them to the passengers. The methodology for computation of taxes and abatement will be provided at later stage.

6. Management of Investment under Unit Linked Insurance Plan

Current status	The service of fund management was deemed to a taxable service under the said category. However the value for the purpose of service tax was defined as the difference between the (a) premium paid by the policy holder for the Unit Linked Insurance Plan policy; and (b) the sum of premium paid for or attributable to risk cover plus the amount segregated for actual investment. Thus various other charges collected by the ULIP service providers such as premium allocation charges, policy issue charges, etc were being subject to tax.
Amendment in brief	The explanation governing the valuation under the said service is proposed to be amended to provide that the value of the taxable service for any year of the operation of policy shall be the actual amount charged by the insurer as Fund Management charges for the service of management of segregated funds under ULIP or the maximum amount of fund management charges fixed by IRDA, whichever is higher.
Implications	The service tax will be leviable only on the amount recovered towards the fund management charges or on the amount computed as per the rates fixed under IRDA guidelines. The said amendment has the effect of creating a deeming fiction even for the valuation purposes. The methodology for computation of taxes will be provided at appropriate stage.

7. Information Technology Software Service

Current status	The services provided in relation to development, designing, up-gradation, adaptation, enhancement, right to use for commercial exploitation, etc of Information Technology Software for use in the course of furtherance of business or Commerce are only liable for the payment of service tax.
Amendment in brief	It has been proposed to expand the levy under the said category to IT services even if the same are not used in relation to furtherance of business or commerce.
Implications	The provision of IT services to government entities, charitable entities, for education purpose, individual service providers will also be taxable now.

8. Commercial Training & Coaching Service

Current status	The levy only covered the commercial training or coaching centers and institutes providing training which imparts skills or knowledge. The term 'commercial training or coaching centre' in the definition was a subject matter of dispute. The Tribunal in the case of Great Lakes Institute of Management Ltd. Vs CST [2008 (12) STT (296)] and in Magus Society Vs. CC&CE [2009 (18) STT (193)] held that non-commercial organization having no profit motive are not liable for the payment of service tax.
Retrospective Amendment	An explanation has been added with retrospective effect from 01-07-2003 to provide that the term 'commercial training or coaching centre' will include any institute which provides the training or coaching for a consideration, whether or not such training or coaching is conducted with a profit motive.
Implications	Thus the decision given by the Tribunal in the case of Great Lakes Institute of Management Ltd. Vs CST [2008 (12) STT (296)] and in Magus Society Vs. CC& CE [2009 (18) STT (193)] has been reversed on account of the said amendment. Even charitable institutions, trust, etc providing coaching would now be covered under the service tax net. The said change is retrospective and therefore the department will proceed to demand service tax for the past 5 years. The pending disputes at various appellate forums will now have to be decided based on the amended provisions.

9. Sponsorship Service

Current status	Sponsorship services for sports event is not liable for the payment of service tax.

Amendment in brief	It is proposed to cover the sponsorship provided for sports within the service tax net.
Implications	Thus service tax will be leivable on Sponsorship services provided for events like IPL, Team Sponsorship, Common Wealth Games, etc. The service tax will be continued to payable by the service receiver.

10. Commercial or Industrial Construction Service.

Current status	There has been lots of dispute with respect to leviability of service tax on Construction of flats by the builder which are sold during construction. The Gauhati High Court in the case of Magus Construction Pvt. Ltd. Vs. UOI reported in 2008 (11)STR 225 (Gau.) held that builder is engaged in sale of flats. Agreement indicates the transaction as sale and purchase of premises and not for carrying out the construction service on behalf of the prospective buyer. It has also held that advance amount given by the prospective buyer is against sale consideration and not for obtaining service. The circular no 108/2/2009-ST also clarified to this effect.
Amendment in brief	The coverage under the said category is being widened to treat the service of sale of flats to prospective buyer as a deemed service and liable for service tax. The service tax however is not payable in cases where the sale consideration is paid only after obtaining of the completion certificate by the builder i.e. in case of purchase of ready possession flats.
Implications	Service tax will be payable on the bookings of in new buildings made under agreement to sell during preconstruction period. Even if a part of the sales proceeds is given to the builder prior to completion certificate the service tax will be leviable on the entire sale price of the flats. Purchase of flats in resell and purchase of flats in ready possession after issue of completion certificate issued by the competent authority will not be subject to service tax.

11. Definition of Business Entity inserted

Current status	The definition of Business Entity was only defined under the services of legal consultancy as the said term was only specified under the said category.
Amendment in brief	Some of the new service specified under the Finance Act, 2010 also cover services provided to Business Entity. Therefore the definition is of business entity has been separately provided. Consequently the explanation under legal consultancy services has been deleted.

12. Business Auxiliary Services

Current status	The definition of Business Auxiliary services covers the services of promotion or marketing of service provided by the client" includes any service provided in relation to promotion or marketing of games of chance such as lottery, lotto, bingo.
Amendment in brief	The said services have now been notified under a separate heading. Thus as a consequent change the same is deleted from Business Auxiliary services.

b) New Services on which service tax is proposed to be introduced vide Finance Bill, 2010.

1. Services in relation to Games of chance:

Statutory Definition

(zzzzn) to any person, by any other person, for promotion, marketing, organising or in any other manner assisting in organising games of chance, including lottery, Bingo or Lotto in whatever form or by whatever name called, whether or not conducted through internet or other electronic networks;

Comments

Earlier, services provided in relation to promotion or marketing of games of chance such as lottery, lotto etc. were taxed under the category of Business Auxiliary Services under sub-clause (ii) of clause 65(19). There was lot of dispute whether organization of lottery can be considered as service. Therefore to avoid dispute new, services provided in relation to promotion, marketing or organizing of games of chance which are conducted by various State Governments is proposed to be taxed under this new category. Thus, the agents appointed by the State Government for promoting & organizing the lottery are covered under this category.

2. Health Services by hospital, nursing home or multi-specialty clinic:

Statutory Definition

(zzzzo) by any hospital, nursing home or multi-specialty clinic,-

(i) to an employee of any business entity, in relation to health check-up or preventive care, where the payment for such check-up or preventive care is made by such business entity directly to such hospital, nursing home or multi-specialty clinic; or

(ii) to a person covered by health insurance scheme, for any health checkup or treatment, where the payment for such health check-up or treatment is made by the insurance company directly to such hospital, nursing home or multi-specialty clinic;

Comments

Following services provided by any hospital, nursing home or multi-specialty clinics are proposed to tax:

a) Health check-up or preventive care services provided to employees of any business entity, provided the payment for the same is made by such business entity directly to the hospital, nursing home or multi-specialty clinics.

b) Health check-up or treatment of any person covered by health insurance scheme wherein the payment of the same is made by the insurance company directly to such hospital, nursing home or multi-specialty clinics. Thus, cases where insurance companies provide cashless facility to the patients by directly making the payment to the hospital are covered under this category.

The definition does not propose to tax individuals. Also, the insurance companies & business entities making the payment of such service tax would be eligible for cenvat credit.

3. **Maintenance of Medical Records services:**

Statutory Definition

(zzzzp) to any business entity, by any other person, in relation to storing, keeping or maintaining of medical records of employees of a business entity;

Comments

Many organizations maintain medical records of its employees. For example, persons joining merchant navy have to undergo eye testing before joining. The records of the report of such employees are maintained by the company. The services provided by any person in relation to storing, keeping or maintaining of such records on behalf of the organizations is proposed to be taxed under this category.

4. **Promotion of brand services:**

Statutory Definition

(zzzzq) to any person, by any other person, through a business entity or otherwise, under a contract for promotion or marketing of a brand of goods, service, event or endorsement of name, including a trade name, logo or house mark of a business entity by appearing in advertisement and promotional event or carrying out any promotional activity for such goods, service or event.

Explanation.-For the purposes of this sub-clause, "brand" includes symbol, monogram, label, signature or invented words which indicate connection with the said goods, service, event or business entity;

Comments

Services provided in relation to promotion or marketing of any brand of goods, service, event or endorsement of any name, trade name, logo or house-mark is proposed to be taxed under this category. Thus, services provided by film stars, sports persons etc. in promoting any brand will get covered under this category. For example, Sachin promoting the brand 'Britannia' will be covered under this category.

The services in relation to promotion or marketing of goods or services (not any brand) will continue to be taxable under the category of 'Business Auxiliary Services'. Thus, for example Sachin promoting 'Britannia Good-Day' biscuit will continue to cover under Business Auxiliary Services.

5. **Granting Rights , Permitting commercial use or Exploitation services:**

Statutory Definition

(zzzzr) to any person, by any other person, by granting the right or by permitting commercial use or exploitation of any event including an event relating to art, entertainment, business, sports or marriage organised by such other person;

Comments

The services of granting the rights, permitting commercial use or exploitation i.e. permitting the recording or broadcasting of events relating to art, entertainment, business, sports or marriage is proposed to be taxed under this category. For example, the rights of 'Filmfare Award' function given to 'Sony Television' for permitting its exploitation i.e. telecasting will be covered under this category.

6. **Services provided by Electricity Exchange:**

Statutory Definition

(zzzzs) to any person, by an electricity exchange, by whatever name called, approved by the Central Electricity Regulatory Commission constituted under section 76 of the Electricity Act, 2003, in relation to trading, processing, clearing or settlement of spot contracts, term ahead contracts, seasonal contracts, derivatives or any other electricity related contract;

Comments

The services provided by any electricity exchange (approved by Central Electricity Regulatory Commission) in relation to trading, processing, clearing or settlement of spot contracts, term ahead contracts, seasonal contracts, derivatives or any other electricity related contract is proposed to be taxed under this category. For example, the charges collected by the electricity exchange from the brokers in relation trading of the contracts (i.e. STT) would be covered under this category.

7. **Copyright Services:**

Statutory Definition

(zzzzt) to any person, by any other person, for-

(a) transferring temporarily; or

(b) permitting the use or enjoyment of, any copyright defined in the Copyright Act, 1957, except the rights covered under sub- clause (a) of clause (1) of section 13 of the said Act;"

Comments

Intellectual Property Service specifically excludes copyright. As per Sec. 13 of the Copyright Act, copyright subsists in the following:

a) Original literary, dramatic, musical & artistic works

b) Recording of cinematograph films

c) Sound recordings

The services of transferring temporarily or permitting the use of any copyright pertaining to cinematograph films & sound recordings is proposed to be taxed under this category.

The copyright pertaining to original literary, dramatic, musical & artistic works continues to remain out of the purview of service tax.

8. **Services provided by builder to prospective buyer:**

Statutory Definition

(zzzzu) to a buyer, by a builder of a residential complex, or a commercial complex, or any other person authorised by such builder, for providing preferential location or development of such complex but does not include services covered under sub-clauses (zzg), (zzq), (zzzh) and in relation to parking place.

Explanation.-For the purposes of this sub-clause, "preferential location" means any location having extra advantage which attracts extra payment over and above the basic sale price;'

Comments

The services of providing a preferential location (a location having extra advantage & attracting extra payment above the basic sale price) or services of development of complex provided to a buyer by a builder of residential or commercial complex is proposed to be taxed under this category. For example, the premium charged to any buyer for sea-facing flat will be covered under this category.

The category specifically excludes the services provided under 'Commercial or Industrial Construction' service, 'Construction of Residential Complex' service & 'Management, Maintenance or Repair' service. Also, services provided in relation to parking place have been excluded.

PART II - CENTRAL EXCISE

1) GOODS & SERVICE TAX

The Finance Minister in his speech stated that the GST may be implemented from the FY 2011-12. Keeping in this view, the rate of Excise Duty is enhanced from the present 8% to 10%. The rate of Excise Duty is kept in line with the rate of Service tax i.e.10% so that there will common rate applicable for goods and services when the GST is being implemented.

2) **CHANGES MADE w.e.f. 27th FEBRUARY 2010-02**

a) Increase in excise duty from 8% to 10% for major chapters. Some of the products are as follows :

b) There is no change in the rate of Education cesses.

c) Credit on the stock with the trader as on 26th February 2010.

Many of the first stage and second stage dealer who has stock as on 26th February may sell the product subsequent to 27th February 2010. These products have borne the duty @ 8% plus cesses. The traders will be able to pass credit @ 8.24% to the customers who purchases the input after 26th February 2010 ie. duty at the rate of 8.24% paid on the inputs and not at 10.3%

d) In view of the increase in the rate, the manufacturer can clear the final

Chapter Heading	Description of Goods	Existing Rate of Duty	New Rate of Duty
(1)	(2)	(3)	(4)
44	Articles of wood, other than articles of densified wood and flush doors	8%	10%
4418 20 10	Flush Doors	8%	10%
48	Baby and Clinical diapers	Exempted	10%
9504	Playing cards	8%	10%

product which is in stock in the factory as on 26th February 2010 at the rate of 10% plus the education cesses. The basic excise duty has been increased and it is not a new levy. Therefore, the increase rate will apply even to the stock as on 26th February 2010.

e) The manufacturer is advised to put the relevant notification number in the excise invoice prepared from 27th February 2010. The relevant notification for increasing the rate from 8% to 10% is 2/2008 dated 1.3.2008 as amended.

3) NEW LEVY :-

a) Slabs or Tiles falling under chapter heading 6802 & 6810

A deemed manufacture provision has been inserted for tiles under chapter 6802 & 6810. The process of cutting or sawing or sizing or polishing or any other process, for converting of stone blocks into slabs or tiles shall amount to manufacture"

Therefore, the duty is to be paid for above goods as per the deemed manufacture provision and the SSI benefit is also available for above goods.

b) Drawing or Redrawing of aluminium tubes and pipes for chapter heading 7608

A deemed manufacture provision has been inserted for aluminium tubes and pipes falling under chapter 7608. The process of drawing or redrawing shall amount to manufacture.

Therefore, the duty is to be paid for above goods as per the deemed manufacture provision and the SSI benefit is also available for above goods.

c) Clean Energy Cess

A levy of cess known as Clean Energy Cess being introduced on coal, liginite and peat produced in India. It will be levied and collected as a duy of excise from coal mines. The rate of duty, rules and procedure for its collection will be notified after the enactment of the Finance Bill, 2010.

4) Amendment in the notification 5/2006 for refund claims of the Cenvat credit for Exporters

There is lot of delay account of refund claims under notification no. 5/2006-CE (NT) on account of difference in perception of the notification with Rule 5 of Cenvat credit rule. Circular No. 120/01/2010-ST dated 19th January, 2010 has been given legal backing which will lead to fasten the refund procedure, certain amendment have been introduced which have retrospective effect and certain which have prospective effect.

Amendment with retrospective effect:

1. The definitions of terms such as 'inputs'/ 'input services' used in the above notification has been changed to the aligned with Cenvat Credit Rules and clarify that not only input or input services used in export of goods or services but also goods or services used in relation to manufacture of final product or output services exported shall be eligible for refund.
2. The illustration given in condition 5 of the Appendix to the Notification has been deleted. This ensures that refund of CENVAT credit which has been availed in the period prior to the quarter/ period for which the refund has been claimed is also eligible for refund.

Amendment with prospective effect:

The Form A has been changed and new table has been inserted by deleting conditions A and B of such form vide notification 7/2010.

The information contained in the said table shall be certified by a person authorized by the Board of Directors or proprietor or any partner if the refund claim is less than Rs 5Lakhs. In case the refund claim is more than Rs 5lakhs than information contained in such table should also be certified by the Tax Auditor or Statutory auditor.

5) Changes Made W.e.f. 1st April 2010

A) Changes for SSI Units Having Aggregate Value of Clearance Below 4 Crores

a) Duty to be paid on quarterly basis

The goods cleared during the quarter of the financial year, the duty shall be paid by 6th of the month following the quarter, if the duty is paid electronically through Internet banking and in any other case, by the 5th of the month following the quarter. For instance, the goods cleared during the quarter April 2010 to June 2010, the duty is to be paid by 5th / 6th July 2010. The goods cleared during the last quarter i.e. January 2011 to March 2011, the duty is to be paid by 31st March 2011.

b) Full Credit Eligible for Capital Goods in the Year of Receipt of Capital Goods.

From 1st April 2010, the SSI is eligible to avail full 100% credit for capital goods in the year of receipt of capital goods.

c) Filing of Quarterly Return :-

The ER-3 return is to be filed on quarterly basis within ten days after the end of the quarter. The clarification is provided in the rule in case the assessee avail the benefit of SSI notification, the ER-3 return is to be filed on quarterly basis for that whole year.

B) Changes effective from 1st April, 2010

a) Extension of non-applicability of Rule 6(6) for three more supplies :-

The assessee avail the credit on input and input services used in or in relation to the manufacturing of dutiable and exempted goods, then, the assessee is required to pay an amount @5% on the value of exempted goods. Now, from 1st April, the assessee is not required to pay the amount @5% on the value of exempted goods for the following supplies.

(i) The goods which are exempted from custom duty and CVD when imported in India and are supplied :-

a) against International Competitive Bidding

b) to a power project from which power supply has been tied up through tariff based competitive bidding

c) to a power project awarded to a developer through tariff based competitive bidding.

b) The Cenvat Credit Rules has been amended to provide that the manufacturer will be eligible to credit in respect of jigs, fixture, moulds and ties sent outside the factory to

a) another manufacturer for the production of goods or

b) job worker for the production of goods according to his specification. The credit is not required to be reversed even though the above items are not available in the factory i.e. available with another manufacturer or job worker

c) Relaxation to the requirement of pre-authentication of invoices.

The rule for authentication each foil of the excise invoice has been deleted.

Therefore, there is no requirement to authenticate the invoice book.

d) New depreciation rate given for computers and computer peripherals cleared after use.

Earlier, when the capital goods cleared after use, the amount equal to the credit taken as reduced by 2.5% per quarter as payable on removal. Now, the rule clarified that the duty reversal calculation is to be made by straight line method. The new rate of depreciation for computer and computer peripherals, which are as follows

For each quarter in the first year	10%
For each quarter in the second year	8%
For each quarter in the third year	5%
For each quarter in the fourth and fifth year	1%

The manner of determining the amount to be reversed for other capital goods is same as earlier.

C) Change effective from the date of enactment of the Finance Act.

a) The section 11A(2B) has been amended that no penalty under any of the provisions of this Act or the rule made thereunder shall be imposed in respect of duty paid under this sub-section.

b) The power has been given to Central Government under Section 37 to make rules for "provide for withdrawal of facilities or imposition of restriction (including restriction on utilisation of cenvat credit) on manufacturer or exporter or suspension of registration of dealer, for dealing with evasion of duty or misuse of Cenvat Credit"

c) The Settlement Commission has been empowered to admit the cases in which manufacturer has not maintained proper records of production and clearance.

d) Changes on levies under Medical & Toilet Preparation Act.

i) Section 3 of the M &TP Act, 1955, is amended to exclude goods manufactured in a special economic zone.

ii) Excise duty on medical and toilet preparation cover under M & TP Act, 1955, is being reduced from 16% to 10%.

iii) The rate of abatement on toilet preparation covered under M& TP Act, 1955 is revised from 40% to 35%

D) Cenvat Credit: Rule 57CC, 57AD & Rule 6 of Central Excise Rules, 2001 and rule 6 of Cenvat Credit Rules 2004 are proposed to be amended retrospectively to provide option to the manufacturer to pay an amount of credit attributable to use of input or input services in the manufacture of exempted goods along with interest of 24%. On payment of such amount demand raised in show cause notice will be set aside.

PART III CUSTOMS

A) No change in Peak Rate. There is no change in maximum basic rate of customs duties. It remains @ 10%.

B) Changes in duty rates of major items as applicable w.e.f 27th Feb 2010 are as follows:

C) Electrical energy is classified under customs tariff entry No. 27160000 and attracts nil rate of basic

Description of goods	Earlier	Present
Crude Petroleum	Nil	5%
Petrol & diesel	2.5%	7.5%
Platinum	Rs.200 per 10 gram	Rs.300 per 10 gram
Gold bars (other than tola bars) & gold coins*	Rs.200 per 10 gms	Rs.300 per 10 gms
Other form of gold*	Rs.500 per 10 gms	Rs.750 per 10gms
Silver	Rs.1,000 per kg	Rs.1,500 per kg

* - Applicable even if imported as personal baggage.

customs duty from 26-6-09. In this budget levy of customs duty of 16% for sale of electrical energy from SEZ to DTA and non-processing areas of the SEZ.

The tax is being levied from retrospective effect from 26-6-2009.

D) Project Imports:

(a) Following projects classified under 9801 will now attract c.v.d @ 10% (earlier 8%)

(i) Fertlizer project

(ii) Coal mining project

(iii) Power generation project

(iv) Power transmission project

(b) Following four projects are being notified to provide concession under Project Imports @ 5% basic customs duty.

(i) Cold Storage, cold room (including farm pre-coolers) or Industrial projects for preservation, storage or processing of agricultural, apiary, horticultural, dairy, poultry, aquatic & marine produce and meat.

(ii) Project for installation of mechanized handling system and pallet racking systems in mandis or warehouses for food grains and sugar.

(iii) Mono Rail Projects for urban public transport; &

(iv) Setting up of Digital Head End

E) Exemptions w.e.f 27th Feb 2010

(i) Goods imported in pre-packed form for retail sale requiring declaration of MRP under Standards of Weights & Measures Act is exempted from payment of 4% SAD. This exemption is available to Mobile Phones, Watches & Readymade garments. Prior to this date the importer had the option to claim refund of SAD under notification No. 102/07-Cus if central sales tax/ VAT has been paid at the time of sale.

(ii) Value of commercial sample being imported as personal baggage is increased from Rs.1 lakh to Rs. 3 lakhs.

F) Changes in statutory provisions effective from date of enactment of Finance Act, 2010

(i) Section 3 is being amended to charge c.v.d. based on MRP minus abatement for the goods chargeable to excise duty on the basis MRP under M & TP Act, 1955

(ii) Section 127 is amended on the lines of Central Excise to expand the scope of cases which can be admitted by Settlement Commission.❑

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the service should be provided from India and used outside India has been deleted under notification No.6/2010-ST dated 27.2.2010. This will extend export treatment to services where all the activities are done in India but the benefit accrues outside India. This is a welcome change.

Another change is the explanatory clause that "India" includes installations, structures and vessels located in the continental shelf of India and the exclusive economic zone of India, for the purposes of prospecting or extraction or production of mineral oil and natural gas and supply thereof.

VI. Other Significant Amendments:

(i) Sub-section 3 of Section 73 of the Finance Act now has now got a second explanatory clause which clarifies that no penalty should be imposed where the service tax along with interest has been paid before issue of notice by the department. The relief is not extended to cases coming under section 78. It is a pity also that this concession is not extended to cases where the tax had to be paid after the issue of SCN but with applicable interest, and where there is no suppression of facts etc. The concession appears, any way, inconsequential in as much as the existing proviso to the sub section (3) states that no SCN should be issued where the tax with interest is paid by the assessee on his own or as determined by the departmental official. Without SCN being issued, the question of imposing a penalty will not arise. Thus, the amendment which restricts its relief only to non-suppression cases is not new at all. It seems to provide no real relief.

(ii) The term "business entity" as it occurs in any definition of taxable service is now broadly defined to include an association of persons, body of individuals / company or firm but will only exclude an individual. Groups styling themselves as "associates" will now be clearly covered.

VII. The date of effect of the changes:

A) Service tax on the new services will come into fore from a date to be notified after the enactment of the Finance Bill.

B) Alterations & modifications in the taxing entries will take effect from a date to be notified after the Finance Bill is enacted.

C) Amendments to statutory provisions such as section 73 (3) and the definition of "Business entity" would also be effective from a date to be notifies after the enactment of the Finance Bill.

D) The exemptions from service tax are effective from 27-2-2010

E) Service tax changes carried by notifications are effective from the date of publication in the official Gazette or the date of issue of notification or from 1-4-2010, as the case may be.❑

The Union Budget 2010 - 2011 and Financial Market Reforms

Venkateswaran R*

"This Budget belongs to 'Aam Aadmi'. It belongs to the farmer, the agriculturist, the entrepreneur and the investor. The opportunity is great. The time is right. I have placed my faith in the hands of the people who, I know, can be depended upon to rise to any occasion in national interest. I have placed my faith in the collective conscience of the nation that can be touched to scale undreamt of heights in the coming years."

— Shri Pranab Mukherjee
Budget Speech 2010 - 2011
February 26, 2010

Shri Pranab Mukherjee, Hon'ble Minister of Finance, Government of India, tabled the Economic Survey 2009 - 2010 (hereafter referred to as the Survey) in the Parliament on February 25, 2010 and presented the Union Budget 2010 - 2011 (hereafter referred to as the Union Budget) in the Lok Sabha on February 26, 2010.

The Survey underscored the necessity for every efficient and healthy financial market to avoid the shortcomings as gleaned from the experience of the global financial markets in the last couple of years. The Survey, thus, stressed the importance of investors/institutions paying adequate attention to the fundamentals, transparency in the pricing of risk and ratings for the wide variety of financial instruments and adequacy of regulatory oversight. The financial market reform proposals in the Union Budget have to be viewed in this background.

The Union Budget began by taking note of the fact that India has weathered the current global financial crisis well. The Union Budget, nevertheless, identified quick reverting to the high GDP growth path of 9% and then finding the means to cross the 'double digit growth barrier' as a major challenge. There is also a recognition expressed in the Unionn Budget that as a result of economic development and financial sector reforms, the focus of economic activity has shifted towards the non-governmental actors, which has brought into sharper focus the role of the Government as an enabler. The Union Budget also indicated the Government's intention to move towards the preferred path of fiscal consolidation that facilitated the remarkable growth in the pre-crisis five year period. The rest of the Article looks into the financial market reform proposals in the Union Budget.

In order to strengthen and institutionalise the mechanism for maintaining financial stability, the Union Budget has proposed to setup an apex-level Financial Stability and Development Council (FSDC). It is proposed that the FSDC will monitor macro prudential supervision of the economy, including the functioning of large financial conglomerates, and address inter-regulatory coordination issues. The FSDC will also focus on financial literacy and financial inclusion. The Union Budget has categorically stated that the FSDC will not in anyway affect the autonomy of the existing regulators. Some later reports have indicated that the Government will come out with a discussion paper on the FSDC.

The Union Budget has provided a sum of Rs.16,500 crore to ensure that the Public Sector Banks (PSBs) are able to attain a minimum 8% Tier-I capital by March 31, 2011 as well as to provide further capital to strengthen the regional rural banks (RRBs) so that they have adequate capital base to support increased lending to the rural economy. The Government has, thus, indicated its readiness to infuse the required capital into the PSBs to help them maintain a comfortable level of Capital to Risk Weighted Asset Ratio (CRAR).

The Union Budget noted that the Government had introduced the Companies Bill, 2009 in the Parliament, which, when passed, will replace the Companies Act, 1956. The Union Budget has assured that the proposed Bill would address issues related to regulation in corporate sector in the context of the changing business environment.

The Union Budget has also proposed to extend banking, insurance and other services to the targeted beneficiaries through the Lead Bank Scheme in habitations having population in excess of 2,000. Business correspondent model as well as other models, with appropriate technology back up, will be employed to provide these services. The Union Budget has set an ambitious target of 60,000 habitations to be covered by this scheme. It is expected that this will add a big boost to the initiatives aimed at financial literacy and financial inclusion.

*CMA & Assistant Director, Securities and Exchange Board of India (SEBI). The views expressed are personal and not necessarily those of SEBI.

The Union Budget noted that most of the legislations governing the financial sector are very old. In addition, a large number of amendments to the parent Acts, made at different points of time, has also increased ambiguity and complexity. The Union Budget has, thus, proposed to set up a Financial Sector Legislative Reforms Commission (FSLRC) to rewrite and clean up the financial sector laws to bring them in line with the requirements of the sector.

To provide timely delivery of justice to all, the Union Budget has proposed the setting up of the National Mission for Delivery of Justice and Legal Reforms. The objective of the mission is to help reduce legal backlog in courts from an average of 15 years at present to 3 years by 2012. It will also help in improving the legal environment for business.

The Union Budget also has proposals to implement the Direct Tax Code (DTC) and Goods and Services Tax (GST) from April 01, 2011, to set up a Technology Advisory Group for Unique Projects, to formalize a symbol for the Indian Rupee (which will reflect and capture the Indian ethos and culture), to broaden the personal income tax slabs, to provide greater opportunities to people to participate in the Government's disinvestment programme and to launch the Swavalamban scheme to encourage the people from the unorganized sector to voluntarily save for their retirement and to lower the cost of operations of the New Pension Scheme (NPS) for such subscribers.❑

CORRIGENDUM

The author of article "Union Budget - 2010: Key Performance Indicators", on page 199 of the March 2010 issue of The Management Accountant is Shri Mrityunjay Acharjee, Senior Member of ICWAI and also a Company Secretary. The inadvertent omission is genuinely regretted.

HEARTY CONGRATULATIONS

to

Dr. Bhabatosh Banerjee on being nominated by the International Association for Accounting Education and Research (IAAER) as a member of the Standards Advisory Council (SAC) of the International Accounting Standards Board (IASB) for a period of at least one year.

HEARTY CONGRATULATIONS

to

Shri K. G. Goyal, former Central Council Member of ICWAI on being elected as Hony. Jt. Secretary of Rajasthan Chamber of Commerce & Industries.

Union Budget 2010 and Indian Agrarian Crisis:Issues and Initiatives

Agricultural sector in India is passing through a crucial and decisive phase as it coincides with globalization, economic liberalization and new international economic integrations. Ironically this phase has been marked by decrease in public investment in irrigation and infrastructure, lack of sound credit facilities and crop insurance schemes, farmers quitting farming, decline in agricultural production, weakening of the public distribution system and adverse climatic variations due to the global warming. All these have resulted in the slow and uneven growth of agriculture when compared to other sectors of Indian economy. Thus on one hand there is tremendous optimism and euphoria associated with the economic restructuring and reengineering of the Indian economy on the other hand the Indian agriculture is in the doldrums and it portrays a gloomy and sad picture. Budgetary allocation is an important tool which can revitalize and resurrect the Indian Agriculture sector. This article delves into the problem areas of Indian Agriculture particularly relating to rural indebtedness and financial exclusion. It also analyses the impact of budgetary allocations on agriculture growth in the long run with specific emphasis on Union Budget 2010.

Dr. Manoj Pillai*

Introduction

Indian Agriculture and its allied sectors which includes animal husbandry, forestry and agro forestry, fisheries and agro industries is a dynamic and vital component of Indian Economy as it provides livelihood to over 60 percent of the Indian population. It is the main stay of the Indian economy as is treated as the backbone of the rural economy. India's total geographical area is 328.7 million hectares of which 141 million hectares is the gross cropped area. The net irrigated area is 57 million hectares with a cropping intensity of 134 percent. The agriculture sector contributes to about 21 percent of India's Gross Domestic Product (GDP), 11 percent of total exports and provides employment to around 60 percent of the workforce. Thus the Agricultural sector is directly related to self - reliance, meeting the food and nutritional security of the people, equitable distribution of income and wealth in rural area, reduction of poverty and improvement in the quality of life.

Agricultural sector in India is passing through a crucial and decisive phase as it coincides with globalization, economic liberalization and new international economic integrations. Ironically this phase has been marked by decrease in public investment in irrigation and infrastructure, lack of sound credit facilities and crop insurance schemes, farmers quitting farming, decline in agricultural production, weakening of the public distribution system and adverse climatic variations due to the global warming. All these have resulted in the slow and uneven growth of agriculture when compared to other sectors of Indian economy. Thus on one hand there is tremendous optimism and euphoria associated with the economic restructuring and reengineering of the Indian economy on the other hand the Indian agriculture is in the doldrums and it portrays a gloomy and sad picture. The most agonizing and sad aspect of this phase is the large number of suicides by the farmers throughout India. Regular crop failures and rural indebted ness are the main reason for the suicides. Even though the share of agriculture in the gross domestic product of India is highest as compared to the other sectors of the economy, its overall growth rate as well as the incremental capital output ratio is lowest among all the sectors of the Indian economy. Similarly the plan outlays during the eighth, ninth and tenth five year plans stands at an average of a meager 5 percent.

Table I highlights the composition and structure of growth of various sectors of Indian economy during Eighth, Ninth and Tenth Plan.

The above tables show that there has been considerable decline in the agricultural growth rate as well as the incremental capital output ratio from the eighth five year plan to the tenth five year plan. Similarly the planned outlays for the agriculture sector have shown a constant decline over the years. These developments have adversely affected the agricultural sector in India.

Rural Indebtedness and Agrarian Crisis

Rural indebtedness is a potent factor behind the contemporary agrarian crisis. Despite a rapid expansion of branch network in the rural areas particularly after the nationalization of banks in 1969 and regular flow of institutional credit for agriculture, the severity of indebtness has persisted (Patil, Balasaheb Vikhe, 2008). The most striking aspect of the present phase of rural indebtedness is that majority of

*Assistant Professor, Department of Commerce, Mahatma Gandhi Govt. College (Affiliated To Pondicherry Central University), Chalakkara, New-Mahe - 673311

TABLE - 1

COMPOSITION AND STRUCTURE OF GROWTH OF VARIOUS SECTORS OF INDIAN ECONOMY DURING EIGHTH, NINTH AND TENTH PLAN.									
SECTORS		EIGHTH PLAN		NINTH PLAN		TENTH PLAN		SHARE OF GDP (%)	
		GROWTH RATE (%)	ICOR	GROWTH RATE (%)	ICOR	GROWTH RATE (%)	ICOR	2001-02	2006-07
1	Agricultural and allied activities	4.69	1.59	2.06	4.05	3.97	1.99	24.7	20.5
2	Mining and quarrying	3.59	10.74	3.81	5.44	4.30	7.99	2.3	1.9
3	Manufacturing	9.77	6.67	3.68	18.37	9.82	7.77	15.3	16.7
4	Electricity, Gas and Water supply	5.50	18.00	6.46	15.43	7.99	14.97	2.8	2.8
5	Construction	3.56	1.74	6.82	1.0	8.34	0.99	6.0	6.1
6	Trade	9.06	0.54	5.86	1.09	9.44	0.91	12.7	13.6
7	Rail transport	1.95	27.94	4.70	9.87	5.40	14.66	0.9	0.8
8	Other transport	8.42	4.41	5.63	6.09	7.54	5.37	4.9	4.8
9	Communication	14.31	7.25	17.40	5.28	15.00	8.33	1.7	2.3
10	Financial services	10.21	2.23	8.93	1.35	11.69	1.56	6.3	7.5
11	Public Administration	3.91	7.82	9.21	4.09	6.43	5.45	6.6	6.1
12	Other service	6.22	4.19	8.19	3.70	9.26	3.53	15.8	16.8
13.	Total	6.54	3.43	5.35	4.53	7.93	3.58	100.0	100.0

the indebted farmers belong to small and marginal category who have less than one acre of land. Table 3 highlights the details related to incidence of rural indebtedness based on size of land possessed in big Indian states.

Thus it is clearly evident that the maximum incidence of rural indebtedness based on land possession is related to marginal and small farmers. Indebtedness is less among the medium and large land owners throughout India.

Rural Indebtedness and Farmers Suicide In India

The preface of the Report of the Expert Group on Agricultural Indebtedness under the Chairmanship of Prof.Radhakrishna highlights that the declining agricultural income resulting from the inability to repay debt has lead to the agrarian crisis. It also triggers farmer's decision to commit suicide. Thus the indebtedness of the farmer has become a key issue which needs an

Table 2 highlights the plan outlays to the agricultural sector from the first five year plan.

TABLE - 2

PLAN OUTLAY IN AGRICULTURE AND ALLIED SECTORS

PLANS	TOTAL PLAN OUTLAY (In Cr.)	AGRICULTURE AND ALLIED SECTOR (In Cr.)	% OF AGRICULTURE AND ALLIED SECTOR TO TOTAL
I PLAN (1951-56)*	2378	354	14.9
II PLAN (1956-61)*	4500	501	11.3
III PLAN (1961-66)	8577	1089	12.7
ANNUAL PLANS (1966-69)**	6625	1107	16.7
IV PLAN (1969-74)**	15779	2320	14.7
V PLAN	39426	4865	12.3
ANNUAL PLAN (79-80)	12177	1997	16.4
VI PLAN (1980-85)	97500	5695	5.8
VII PLAN (1985-90)	18000	10525	5.9
ANNUAL PLAN (1990-91)	12177	1997	16.4
ANNUAL PLAN (1991-92)	64751	3851	6.0
VIII PLAN (1992-97)	434100	22467	5.2
IX PLAN (1997-2002)	859200	42462	4.9
X PLAN (2002-2007)	398890	20668	5.2
XITH PLAN (2007 – 2012)	1096860	54801	4.9

* Includes Animal Husbandry, Special Area Programme, Rural Development and Forestry and Wildlife.

* Includes buffer stocks of Rs140 crores for 1968-69, Rs24crore for 1969-70, Rs50 crore for1971-72and Rs25 crore for 1972-73 and 24 crore for 1973-73. Thus the figure for Vth plan work out to Rs 124 crore against the original plan provision of Rs225 crore.

urgent and holistic solution. In the 5 years from 1997 to 2001, there were 78, 737 farm suicides recorded in India which is on an average around 15,747 each year. But in the next four years (2002-2005) there were 70, 507, which is on a yearly average of 17,627 farm suicides that is a rise of nearly 1900 in the yearly averages of the two periods. (Sainath.P, 2008) Table 5 focuses on a State wise analysis of General Suicide Rate (GSR) per 100,000 population and Farmers Suicide Rate (FSR) per 100,000 farmers.

The fundamental reason behind farmer's suicide is a complex and multifaceted phenomenon. The risk factor can be related to either neurological or of socio- economic domain. The neurobiological reasons can be associated with the internal psyche of the individual and are considered as predisposing factors where as the socio- economic factors are more external environment oriented and can be termed as precipitating factors. Some of the neurological factors may also have their roots in the socio- economic domain.

The Radhakrishna Committee on Agricultural Indebtedness (Report of the Expert Group on Agricultural Indebtedness) highlights that the Suicide Mortality Rate (SMR per 100,000 persons) for male farmers and male non farmers were more or less the same at about 12 in 1996. But for male farmers it increased from 12.3 in 1996 to a peak of 19.2 percent in 2004, and then declined to 18.2 in 2005, where as the SMR for male non farmers increased from 11.9 in 1966 to a peak of 14.2 in 2000 and there after declined to 13.4 in 2005. The surge in the SMR for male farmers is 4.8 percent per annum while the increase for male non farmers was marginal. The number of suicides between the period 2001 - 2005 stands at 86,922. The four states, of Andhra Pradesh, Karnataka, Kerala, and Maharashtra accounts for 54 percent of these cases. The gap between farmers and non farmers SMR was particularly high in Maharashtra and Kerala. Similarly Chattisgarh, Tamil Nadu, Pondicherry, Goa, Delhi and Sikkim also recorded high SMR for male farmers. The suicide mortality rate among farmers is rising through out India with Kerala, Maharastra, Karnataka, and Andhra being the worst

TABLE-3 INCIDENCE OF RURAL INDEBTEDNESS BASED ON SIZE OF LAND POSSESSED

	State	% of Marginal Indebted farmer House holds (upto 1.0 Ha. of land)	% of small Indebted farmers Households (1.01 to 2.0 Ha)	%of semi medium Indebted Farmer Households (2.01 to 4 Ha)	% of Medium Indebted Farmer Households (4.01 – 10.00 Ha)	% of Large Indebted Farmer Households (Above 10.00 Ha)
1	Uttar Pradesh	71.3	17.4	7.8	3.4	0.3
2	Maharashtra	36	26.2	23.3	12.2	2.4
3	Madhya Pradesh	33	27.1	23.1	13	3.9
4	Rajasthan	49.9	19.8	17.8	14.1	4.5
5	Karnataka	50.7	22.2	15.9	9.3	1.2
6	Andhra Pradesh	55.7	21.8	15.1	6.6	0.7
7	Bihar	86.9	9.2	2.8	0.7	.06
8	West Bengal	88.7	8.5	2.4	0.4	0.0
9	Punjab	53.3	15.8	17	11.8	2.2
10	Orissa	70.3	20.6	12.5	1.7	0.0
	All India	61	18.9	12.5	6.4	1.2

SOURCE: *Report number 498 (59/33/1). Situation Assessment Survey of Farmers: Indebtedness of Farmers Households, National Sample Survey's 59th round. (January December 2003)*

hit states where the farmer suicide mortality rate is higher than that of non farmers.

Financial exclusion is a prominent factor which has crippled the rural economy of India. It is related with the inability to access necessary financial services in an appropriate form due to problems associated with access, conditions, prices, marketing and self exclusion. C. Rangarajan Committee on Financial Inclusion has defined it as "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." Thorat, Usha (2008) opines that the working or operational definitions of financial exclusion generally focus on the ownership or access to particular financial products and services. The financial services are a broad concept and it includes savings, loans, insurance, credit, payments etc. The financial system has to provide its function of transferring resources from surplus to deficit units but both deficit and surplus units are those with low incomes and poor background. By providing these services, the basic aim is to help them come out of poverty. Sharma, Purti (2009) relates financial inclusion with easy safe and affordable credit and other financial services to socially and economically weaker sections of the society. Dasgupta (2009) points out the following fundamental factors as the potent reasons for the financial exclusion in India.

(i) Geographical, i.e. non- existence of branches in the area, (ii) Access exclusion, i.e. restricted access because of bank risk assessment process, (iii) Condition exclusion, i.e. the condition relating to the products failing to meet the needs, (iv) price exclusion, i.e. charges associated with the products or services are very high, (v) Marketing exclusion, i.e. strategic exclusion of certain markets, and (vi) Self exclusion, i.e. some section of the population refuse to approach banks believing that any request would be turned down

Table 5 highlights the incidence of financial exclusion both from formal and informal sources and the proportion of

Table - 4 State Wise General Suicide Rate and Farmers Suicide (Per 100,000)

GROUP OF STATES	GENERAL SUICIDERATE (PER 100,000 POPULATION)	FARMER SUICIDE RATE (PER 100,000 POPULATION)	RATIO OF FST TO GSR
GROUP I STATES (with very high general suicide rates)	30.1	142.9	4.7
	18.1	19.3	1.1
	54.3	834.9	15.4
	17.1	22.0	1.3
	26.7	13.1	0.5
	20.1	28.8	1.4
GROUP II STATES (states with high General suicide rates and large numbers of farmers suicide)	22.5	36.4	1.6
	15.1	29.9	2.0
	19.0	35.7	1.9
	13.4	18.4	1.4
	13.8	19.2	1.4
	15.6	25.8	1.7
GROUP III STATES (states with moderate general and farmer suicide rates	9.9	4.5	0.5
	9.5	10.2	1.1
	9.5	4.8	0.5
	11.0	6.0	0.5
	10.0	6.9	0.7
GROUP IV STATES (states with low general and farmer suicide rates)	0.8	0.7	0.9
	5.1	1.1	0.2
	1.5	0.9	0.6
	2.7	2.2	0.8
	5.7	3.8	0.7
	2.2	3.0	1.4
	2.3	2.6	1.1
ALL INDIA	10.6	12.9	1.2

Source: *Table formulated by Dr. K Nagaraj, Madras Institute of Development Studies, drawing from various records of National Crime Records Bureau (NCRB). Publications 'Accidental Deaths and Suicides in India (Ministry of Home, GOI) census, 2001*

non indebted house holds belonging to various categories.

It can be seen from Table - 5 that 87% of all non indebted farm house holds belong to the marginal (70.6) and small (17.1) farmer categories. Similarly the incidence of exclusion by both formal and non formal sources is higher in marginal and small farmers. The above table also highlight that 51.4 per cent of all categories of house holds are still financially excluded.

Table 6 below shows that the incidence of financial exclusion among non cultivator households was estimated at 78.2 percent out of which 78.8 are agricultural laborer households, 71.4 percent of artisans, and 79.9 belong to other rural house holds. Out of the 5.96 crore non cultivator house holds about 4.66 crores were estimated to be financially excluded.

Thus it is clearly evident that the Indian agricultural sector is in the midst of a severe crisis. Several weak links can be associated with the crisis but reduced public outlays and sparse budgetary allocation, infrastructural bottlenecks, rural indebtedness and financial exclusion are major constraints which has crippled the rural

TABLE - 5

CATEGORY OF FARMER HH	SIZE CLASS OF LAND HOLD (HA)	TOTAL FARMER HOUSE HOLD (LAKHS)	NON INDEBTED FARMER HOUSE HOLDS (LAKHS)	INCIDENCE OF EXCLUSION (FORMAL AND INFORMAL SOURCES IN %)	PROPORTION OF NON INDEBTED HOUSE HOLDS (%)
MARGINAL	< 1	589.06	324.04	55.0	70.6
SMALL	1.01 – 2.0	160.60	78.68	49.0	17.1
SEMI MEDIUM	2.01 – 4.0	93.50	39.10	41.8	8.5
MEDIUM	4.01- 10	42.58	14.84	34.9	3.2
LARGE	10.0 +	7.76	2.60	33.6	0.6
ALL SIZES		893.50	459.26	51.4	100

Source: *C. Rangarajan Committee Report on Financial Inclusion*

TABLE - 6

HOUSE HOLDS	AGRICULTURAL LABOURER	ARTISANS	OTHERS	TOTAL NON CULTIVATORS
NUMBER OF HOUSE HOLDS (CRORES)	2.12	0.77	3.06	5.96
NUMBER OF HOUSE HOLDS FACING FINANCIAL EXCLUSION (CRORES)	1.67	0.55	2.44	4.66
INCIDENCE OF FINANCIAL EXCLUSION (%)	78.80	71.40	79.70	78.20

Source: *C. Rangarajan Committee Report on Financial Inclusion*

agrarian economy. Government of India is fully committed to revitalize and resurrect the agrarian set up. Many committees have been established so that the root cause of the constraints can be assessed and analyzed and effective policies can be designed based on the recommendations of these committees. Agriculture is also given prime important status in the budgetary allocations as many new initiatives are taken in every Union Budget.

Agricultural Development Initiatives in Budget 2010

The Government of India firmly believes those agricultural sectors occupies a pivotal and centre stage in the Indian economy as it promotes inclusive growth, enhances rural incomes and sustain food security. In order to revitalize the Agricultural Sector, Budget 2010 has initiated a four-pronged strategy covering (a) Agricultural Production (b) Reduction of Wastage of Produce (c) Credit support to farmers, and (d) a Thrust to food processing sector.

Major Budget Allocations Towards the Four Pronged Strategy includes the Following

(A) For enhancing the agricultural production the following important allocations have been made:

i) Budget 2010 provides Rs 400 Crores for extending green revolution to the eastern region of India comprising Bihar, Chattisgarh, Jharkhand, Eastern UP, West Bengal and Orissa.

ii) Provision of Rs. 300 crore for organizing 60,000 "pulses and oilseed villages" in rain fed areas during 2010-2011 and provide an integrated intervention for water harvesting, water shed management and soil health, to enhance productivity of the dry farming areas.

iii) Provision of Rs. 200 crores for launching a climate resilient agricultural initiative with specific emphasis on concurrent attention to the soil health, water conservation and preservation of biodiversity.

(B) In order to reduce wastages in storage as well as in operations the following important decision were taken:

i) Steps will be taken for reducing significant wastages in storage as well as in the operation of the existing food supply chains. The Government of India believes that opening up of the retail trade will help in bringing down the considerable difference between the farm gate prices, wholesale pries and retail prices.

ii) In order to meet the deficit storage capacity the time frame for hiring of private go downs have been extended to 7 years from 5 years.

c) Availability of credit to farmers is a very important component particularly in the background of indebtedness and financial exclusion. Budget 2010 makes the following allocations of rural credit front.

i) The target for agricultural credit for 2010-11 has been raised to Rs. 3, 75,000 crores from Rs. 2, 75,000 crores in 2009-10.

ii) In view of the drought and flood situation is various states the budget proposes to extend by six months the period for repayment of loan amount by farmers from December 31, 2009 to June 30, 2010.

iii) The budget proposes 2 percent interest subvention as an incentive to those farmers who repay short term crop loans as per schedule. The effective rate of interest of such farmer will be 5 percent per annum.

d) Budget 2010 provides impetus to the development of food processing sector by providing state of the art infrastructure. The following important initiatives are being made in the present budget:

i) In addition to the ten mega food park projects already been set up, the Government has decided to set up five more such park.

ii) External commercial borrowings will henceforth be available for cold storage, including farm level pre cooling, for preservation or storage of agricultural and allied produce, marine products and meat.

Besides this the budget has approved a nutrient based subsidy policy for the fertilizer sector which will become effective from April 1, 2010. This policy is expected to promote balanced fertilization through new fortified products and focus on extension services by the fertilizer industry. This will lead to an increase in agriculture productivity and consequently better returns to the farmers. Thus on the whole the Union Budget of 2010 has made an attempt to infuse fresh vitality to the Indian agrarian sector.

Conclusion

The economic reforms initiated since 1991 has succeeded in putting the Indian economy on a higher growth trajectory. The planning commission in its approach paper to the 11th five year plan has stated that 9 percent growth rate in GDP would be feasible during the 11th Five Year plan period. However, Agriculture, which accounted for more than 30 percent of the total GDP at the beginning of the economic reforms, has witnessed a sharp deceleration in growth after the mid 1990s. The two fundamental factors in the emerging distress are the manifestation of agrarian crisis that threatens the livelihoods of farmers, particularly those of small and marginal ones and the agriculture development crisis in reduction of its overall growth rate accompanied by declining profitability. The post liberalized India has witnessed weakening of support system to farming and the rise of input prices due to absence of cost effective technologies.

Though there are number of factors related with agrarian crisis, it is the growing volume of indebtedness and financial exclusion that requires urgent attention. An integrated and coordinated effort from the Central Government, State Governments and the apex financial institutions like Reserve Bank of India (RBI) and The National Bank for Agricultural and Rural Development (NABARD) is of utmost importance if an early and effective solution to the present crisis has to be devised. Union Budgetary allocation is an effective tool to accelerate of the growth of the agricultural sector, reduce agrarian distress and revitalize and resurrect the Indian agrarian structure. Union Budget 2010 has number of strategic allocations for the agriculture and allied sector. Its proper implementation will definitely benefit the overall growth of the agrarian set up in India. Increased budgetary allocation in annual budgets will assist in the augmentation of agriculture in the long run.

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Budget 2010 - A few Challenges

Dr. Sreehari Chava*
Dr.Vinayak Deshpande**

Important Aspects

The focus of Union Budget of 2010 is on three important aspects of the economy viz. quick return to the economic growth trajectory, fiscal consolidation and inclusive growth. It has clearly been an attempt to reconcile two equally pressing considerations- economic growth and financial consolidation. While growth is essential to have a larger cake to share, financial consolidation is needed to ensure that the gains do not dissipate as a consequence of skewflation.

The budget has sent clear signals to the effect that increase in consumption and private savings would be the priority of the day. The biggest move has been the recasting of personal income-tax slabs and allowing tax free investment in infrastructure bonds. The move is expected to increase the disposable income to the extent of Rs 56,000 each in the hands of over 3 crore taxpayers and thus boost consumption. The Budget, in general, has touched people across all income levels, for example by extending the deadline for farm loan repayment (under debt waiver scheme) and raising the subvention for timely repayment of crop loans from 1 per cent to 2 per cent for FY11.

There are, however, a few major challenges - some tangible and others intangible -before the government that need to be tackled with due diligence and integrity. An important one outlined by the Finance Minister in his budget speech relates to the weaknesses in government systems, structures and institutions at different levels of governance. The FM adds on to say that if there is one factor that can hold India back in realising our potential as a modern nation, it is the bottleneck of our public delivery mechanisms. He emphasizes that we have a long way to go before we can rest on this count.

Two obvious bottlenecks in the government systems are leaky buckets and unsustainable expenditures. A latest estimate on black money pin points that the existing tax revenue of Rs.5,34,000 crore can move up to a mind boggling to Rs.12,50,000 crores if the government can devise a means of channelizing this money into the main stream. The proposals relating to DTC and GST, when implemented, are expected to tap a substantial portion of this unaccounted chunk.

Cost of Governance

An important parameter that may unravel the unsustainable government expenditure is the cost of per capita governance. The population in India has grown by 41.84% during the last 20 years whereas the cost per capita governance of the union government has shot up from Rs.1255/- in 1990-91 to Rs.9317/- by 2010-11 reflecting an increase of a huge 953%.

The cardinal principle is that the increase in the cost of governance shall be directly proportional to the increase in population with appropriate adjustments for price index. Assuming a price increase of 250%, the logical increase in per capita governance should be pegged at Rs.2568/- for 2010-11 as against Rs.9317/- being born by us. In other words every Indian is put to carry on an additional burden of Rs.6749/- towards the uncontained cost of governance. Apart from zero based evaluation, stringent performance & social audits rather than the expenditure audits may help substantial containments in unproductive expenditures.

Alarming Fiscal Deficits and Public Debt

Another important area of concern to the Indian Economy is the alarming growth in Fiscal Deficits and Public Debt. The Economic Survey highlights that the fiscal deficits in India are dominated more by structural features and less by cyclical components. Therefore, the rapid and significant fiscal consolidation achieved in the post- FRBMA period up to 2007-08 was indeed an important achievement that enabled greater fiscal space for a macroeconomic policy stance to counteract the impact of the global economic crisis. Besides, as a proportion of the GDP, the reductions in fiscal deficit in the period 2003-04 to 2007-08 were made possible in equal measure by higher tax revenues and expenditure compression. This facilitated use of both tax and expenditure measures in the expansionary fiscal policies to boost demand. As such, the progress in fiscal consolidation in India is considered to be different from the typical models elsewhere driven purely by expenditure compression.

The resurgence of abnormal Primary Deficits since 2008-09 has, however, led to a reversal of the declining trend in the Debt-GDP ratio, and raises severe concerns about the sustainability of Public Debt in near future. The total Internal Liabilities of the Central Government are put at Rs.34,98,452 crore, working out to 56.75% of the GDP, as of 31st March 2010.

The rise in public debt means three major implications:

*CMA & Director of Shanthiniketan Business School, Nagpur.

**Economist & Director of Business Management, Nagpur University.

(a) The concomitant interest burden absorbs an increasing proportion of revenue receipts. The interest payments work out to 36.45% of the revenue receipts for the financial year 2010 -11.

(b) The rising level of borrowings casts an upward pressure on interest rates, crowds out interest sensitive investments in the short run and thereby adversely impacts the economic growth.

(c) The substantial additional borrowings add to the repayment burden and may result in the problem of frequent debt rollovers.

The bare financial fundamentals warrant that the Gross Fiscal Deficit should lead to Incremental GDP and in turn Incremental Revenue Receipts. These incremental receipts should be sufficient to cover the Interest Cost of the Deficit and as also the repayment of the borrowings within a reasonable time frame. In other words, the Revenue Receipts attributable to the Incremental Gross Domestic Product (IGDP) should be adequate to service the incremental interest payments and repayment of the relevant debt installment. Thus the vital Equilibrium that should be targeted by any Finance Minister is "Revenue Receipts attributable to IGDP shall be equal to or greater than Annual Interest Cost plus Annual Debt Installment." The Indian story of deficits completely ignores this principle of equilibrium.

In the process, the cumulative impact of the fiscal deficits and the public debt has lead us to an Interest Burden of 37 paise of every rupee being earned in 2010-11. There could be no respite unless & until the bare fundamentals are appreciated and stringent strategies advocated by the Finance Minister.

If the debt-servicing burden is contained, there could be larger amount of resources spared for vital sectors such as health, education, social welfare and other needy avenues of the economy. This is especially so since almost the entire quantum of borrowed funds is being used for financing current consumption. Moreover, a disproportionate burden of debt is being shifted on to the future generations by excessive growth in public debt and rising debt servicing burden.

A clear roadmap to achieving fiscal consolidation will send the right signals to the global community and is a step in the right direction towards earning improved sovereign credit ratings for the country. Although the fiscal policy enunciated by the Central Government is committed towards reducing the fiscal deficit and debt to a sustainable level, such a commitment is not backed by specific actions that would ensure compliance and enforcement by the Government.

Window Dressing

Every Finance Minister attempts his best to window dress the budget by underplaying expenditure items such as fertilizer subsidy or petro bond liability or down plying the borrowings by excluding small saving loans and so on.

The revenue deficit of Rs.2,82,735 crores projected in the budget estimates for 2009-10 has shot up to Rs. 3,29,061 crores in the revised estimates furnished now. The deviation of Rs.46,326 crores between the budget estimates and the revised estimates is worrisome. The contributing factors to this huge increase in the deficit mainly consisted of Rs.37,203 crores of shortfall in revenue receipts coupled with excessive revenue expenditure o Rs.9,123 crores. Such of these deviations reflect the inability of the budget controllers to achieve the targeted goals and affects the integrity of the Budget severely. As a result the sanctity of the budget stands diluted.

Looking at the other way, the union budget is expenditure driven and is a commitment for the nation. The burden should be shared by every citizen in an equitable manner within the canons of economy, ability and transparency. In the absence of adequate transparency and a suspicious secrecy surrounding the Indian Budget, the canons of economy and ability are severely impaired pushing up the cost of governance.

Suggestions

The 13th Finance Commission has recently recommended that "tweaking tax and duty rates annually" should be stopped and they should switch to a "three-year rolling budget". A rolling budget means that tax and duty rates would remain unchanged for a longer period. This would help the companies and individuals to plan their financial strategies better. It would also improve the quality of government expenditure. Many developed countries follow a similar practice. It is time that India moves on to such a system which will amount to a stable tax regime for a reasonable period. In essence, such a rolling budget will make good sense for stability and planning.

In the ultimate, good governance should consist of five basic components i.e. political accountability, free market, the rule of law, social justice, and education. The government that rules and controls the nation, therefore, has to be properly streamlined. We should, in fact, learn from the experience of the East Asian countries, and try to be honestly 'hard' rather than being dishonestly 'soft'. In the process of achieving the aim of Inclusive growth the fear is of unfair exclusion and unjustified inclusion. The present growth strategy seems to be-consumption driven and not investment driven.

Therefore, it is important to simplify tax laws, be it be Direct Tax Code or GST, plug in the leaky buckets and spread out the age old Indian Ethics and bring down the per capita cost of governance to sustainable levels which will go a long way in expenditure containment and national prosperity.❑

Budget 2010 : Growth Strategy for Social and Human Capital Development

Dr. L. N. Koli*
Dr. Brijesh Rawat**

Social welfare aimed at human development or improvement in the well being of the people is an important objective of development planning. While economic growth is extremely important, it has to be accompanied by improvement in the quality of life of the people for the development process to be sustainable in the medium to long run. More importantly, it has to be inclusive in nature. The notion of inclusive growth relates essentially to equality of opportunity to all for a productive and meaningful life with freedom and dignity. It is much broader than the objective of poverty alleviation. It encompasses human development and economic and social mobility for all sections of the society, and in particular, for the disadvantaged and marginalized population groups of the society. These population groups have not only to be brought into the economic and social mainstream but made active participants and legitimate beneficiaries of the development process. Ultimately, a healthy, educated and an empowered population contributes to improved productivity which, in turn sustains economic growth.

This paper highlights the important issues concerning social sector, like rural infrastructure and development, education, health, women and child development, welfare and development of weaker sections of society, social security and related issues. This paper also briefly highlights sectoral alloca-tions in budget 2010-11 for social sector.

The ultimate objective of development planning is human development or increased social welfare and well-being of the people of a nation. This goal is also important because the sustainability of the development process hinges upon the quality of life enjoyed by the people. A healthy and educated population lends to increased productivity which, in turn, can contribute effectively to output growth. Development strategy, therefore, needs to continuously strive for broad-based improvement in standards of living. High growth is essential to generate resources for social spending. However, the fruits of growth need to be shared equitably among all section of society. Especially, if needs to be ensured that the weaker and disadvantaged sections are not left out of the benefits of growth. The eleventh plan has this very objective as it aim to ensure that higher growth of the economy helps overcome the problem of chronic poverty, ignorance and disease.

Investment in human capital is essential because expenditure on education and training can step up the growth rate of an economy. By developing skill in the population, capital formation is speeded up which along with physical capital formation, helps in the process of economic growth. Thus, a country ought to spend more resources an education to promote economic growth. But in less developed economics this is a serious problem due to lack of funds, very little amount is spend on educations the people. Consequently, the rate of growth remains at a low level. In such countries it is the duty of the government to increase its support to educational institutions at various levels.

Social and Human Capital Development

Human Development

As per the united nations development programme human development report 2009, the human development index (HDI) for India in 2007 was 0.612 on the basis of which India is ranked 134 out of 182 countries of the world placing it at the same work as in 2006. The HDI is based on three indicators, namely GDP per capital, life expectancy at birth, and education as measured by adult literacy rate and gross enrolment ratio.

Trends in India's Social Sector Expenditures

Central government expenditure on social services and rural development has gone up consistently over the years. The share of central government expenditure on social services including rural development in total expenditure has invested from 10.46 percent in 2007-08 to 15.48 percent in 2009-10; Central support for social programmes has continued to expand in various forms although most social sector subjects fall with the purview of the states.

Expenditure on social services which include education, sports, art and culture, medical and public health, family welfare, water supply and samitation housing, urban development, welfare of scheduled castes, scheduled tribes and other background classes, labour and labour welfare and social security.

Social Sector Initiatives

I. **Poverty alleviation and employ-ment generation programmes-** Several poverty allevation and employment generation programmes are being implement by the government the important among these are-

Table

Central Government expenditure on social services and rural development

(As % of total expenditure)

	2007-08 (Actual)	2008-09 (Revised)	2009-10 (Budgeted)
- Social Services	11.39	11.19	13.35
- Rural Development	2.56	4.55	4.30

*Reader, Deptt. Accountancy & Law Faculty of Commerce, Dayalbagh Educational Institute[Deemed University] Agra-5 (U.P.).
**Director, SPCJIM [Dr B. R. A. Univ.] Agra.

1. The national rural employment guarantee scheme
2. Swarn jayanti gram swarozgar yojana
3. Swarna jayanti shahari rozagar yojana

II. **Social Protection Programmes-** In view of the predominance of informal sector workers in the workforce, there is need for expansion in the scope and coverage of social security schemes for these unorganized workers so that they are assured of a minimum level of social protection. Many measures were taken by the government of India, like-

1. Aam Admi Bima Yojana
2. Rashtriya Swasthya Bima Yojana
3. The unorganized woker's Social Security Act, 2008
4. Bilateral Social Security agreements

III. **Rural Infrastructure and Development-** Substantial progress was made by the central government is creating rural infrastructure during the year. This was in accordance with the committed to faster social-sector development to remove disparities under the 11th five year plan. These include Bharat Nirman, the total sanitation campaign and the national rural health mission. It is evident that the focus of these programmes is on providing better facilities and quality of life to rural population.

IV. **Bharat Nirman-** This programme, launched in 2005-06 for building infrastructure and basic amenities in rural area, has six components, namely rural housing, irrigation potential, drinking water, rural roads, electrification and rural telephony. It is an important initiative for reducing the gap between rural and urban areas and improving the quality of like of people in rural areas. The allocation in 2009-10 for Bharat Nirman was stepped up 45 percent over 2008-09. upto December 2009, a total length of about 250554 Km of roads has been completed under the PMGSY with a cumulative expenditure of Rs.59800 crore. Under rural roads component of Bharat Nirman 33812 habitations have been provided all weather road connectivity upto December 2009 and projects for connecting 20067 habitations are of different stages.

Sectoral Allocation In Budget - 2010

- Rs. 400 crore for extending green revolution in the eastern region comprising Bihar, Chhattisgarh, Jharkhand, Eastern UP, West Bengal and Orissa.
- Rs.66100 crore for rural development.
- Rs. 40100 crore for NREGA.
- Rs, 48000 crore for Bharat Nirman.
- Rs. 10000 crore for Indira Awas Yojana.
- Allocation for Housing and Urban Poverty Alleviation raised to Rs. 1000 crore
- Rs. 1270 crore for Rajiv Awas Yojana for slum dwellers and urban poor.
- Rs. 22300 crore for health sector.
- Rs. 31036 crore for school education.
- 25% of plan outlay allocated to develop rural infrastructure.
- And Rs. 137674 crore , which stands 37 % of the total plan outlay , for social sector.❑

CANCELLATION OF REGISTRATION UNDER REGULATION 25(1) OF CWA ACT, 1959
REGISTRATION NUMBERS CANCELLED FOR JUNE-2010 EXAMINATION
UPTO
ERS/000904
NRS/001056 (EXCEPT 96, 119, 127, 140-145,
488-499, 533-600, 901-923, 937-950)
SRS/002191 (EXCEPT 2062–2104)
WRS/001818
RSW/075376
RAF/005824
RE-REGISTRATION

The students whose Registration Numbers have been cancelled (inclusive of the students registered upto 31st December-2002) as above but desire to take the Institute's Examination in June-2010 must apply for **DE-NOVO** Registration and on being Registered DE-NOVO, **Exemption** from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, shall remain valid as per prevalent Rules.

For **DE-NOVO** Registration, a candidate shall have to apply to Director of Studies in prescribed Form (which can be had either from the Institute's H.Q. at Kolkata or from the concerned Regional Offices on payment of Rs. 5/-) along with a remittance of Rs. 2000/- only as Registration Fee through Demand Draft drawn in favour of THE ICWA OF INDIA, payable at KOLKATA.

Kindly ignore the earlier Circular dt. 27th January, 2010 in this regard.

Date: 24th March, 2010

Arnab Chakraborty,
Director of Studies

Union Budget 2010-11: A Reform Oriented Approach

Budget 2010 is considered to be a landmark as it significantly the broad agenda on fiscal reforms by introducing the dual goods and services tax (GST) to replace the current multiple mechanism of indirect taxes across central and state levels. This budget has made many people happy with its outcome of tax proposals. The overall theme of the Union Budget for 2010-11 was a shift in fiscal policy from stimulating growth to maintaining the growth momentum while embarking on a renewed path towards fiscal consolidation. A second and more careful reading of the budget documents may very well change the positive feelings that have been generated.

Dr. Arindam Ghosh*

Asit Gope**

Introduction:

The Finance Minister Mr. Pranab Mukherjee's budget speech has installed confidence that the Indian economy is well on its way to recovery. The budget-industry nexus is a completely different framework from the past. In the early periods, the most highlighting points were taxes, incomes, customs and excise. Since the economy of our country is moving towards a maturity stage, the impact of the budget on industry has gone far beyond and now it is not only a simple matter of taxes or customs etc. but it also includes different areas of our economy. This is so because, the structure of our industry culture not only consists of manufacturing concerns but it also includes many varieties of service industry sectors and infrastructure and agribusiness. However, the budget 2010 shows a clear approach towards its challenging nature to different sectors of our economy. Therefore, the challenge of getting back to fiscal consolidation was always expected.

Thus, the increase in the rate of excise duty from 8% to 10% or increasing duties on oil and oil-related areas, as well as other sectors, were inevitable and predicted. So far as the recovery of our economy is concerned the budget makes a clear approach by the methodical exit from the fiscal stimulus package. The finance minister's plan to rein in the fiscal deficit at 5.5% of GDP in 2010-11 and thereafter to 4.8% and 4.1% in the subsequent years is the key takeaway from this budget. However, Budget 2010 is considered to be a landmark as it significantly the broad agenda on fiscal reforms by introducing the dual goods and services tax (GST) to replace the current multiple mechanism of indirect taxes across central and state levels. This budget has made many people happy with its outcome of tax proposals. A taxpayer with an income up to Rs. 5 lakh can now enjoy a saving close to 37% of his payable tax with the new slabs introduced in the budget. For other small taxpayers, there is relief on this front in one way or the other. The reduction in the surcharge has made the corporate sector happy too. But this budget is based on quite a few assumptions, which, if not properly attempted, may prove the all efforts in vain.

Overall Economic Picture:

The Indian economy turned around in the second quarter of 2009-10 with a growth of real gross domestic product (GDP) at 7.9 per cent and is estimated to grow at 7.2 per cent for the full year 2009-10 as per the latest data - Advance Estimates (AE) of the Central Statistical Organisation (CSO) released on February 8, 2010. Following an uncertain

Table:1 Efforts to restore fiscal balance in the Budget 2010-11

(Rs. Crores)	2008-09	2009-10 (RE)	2010-11 (BE)
Total Receipts	883,956	1021,546	1108,749
Revenue	540,259	577,294	682,212
Capital	343,697	444,253	426,537
Total Expenditure	883,956	1021,547	1108,749
Revenue	793,798	906,355	958,724
Capital	90,158	115,192	150,025
Revenue Deficit	253,539	329,061	276,512
Fiscal Deficit	336,992	414,041	381,408
RD to GDP ratio (%)	4.5	5.3	4.0
FD to GDP ratio (%)	6.0	6.7	5.5

Source: Tata Strategic Management Group

**Reader and Head, Department of Commerce, Panihati College; Life Member, Indian Economic Association & Bengal Economic Association.

*Research Scholar, Department of Commerce, University of Kalyani.

period since the onset of the global financial crisis, which soon metamorphosed into a global economic recession that led to a slowdown in the Indian economy with quarterly growth at around 6 per cent in the third and fourth quarters of 2008-09 and the first quarter of the current fiscal, the sharp turnaround underscored the strong macroeconomic fundamentals and brightened the economic prospects for the medium term. On the demand side of the GDP, the rise in gross capital formation in the second quarter of 2009-10 indicates a broad based recovery. The economic overview is shown below in gist form:

1. GDP Growth:

The CSO effected a revision in the base year of its National Accounts Statistics (NAS) from 1999-2000 to 2004-05 while presenting the Quick Estimates for 2008-09. As per the 2004-05 series, the economy is estimated to have grown by 6.7 per cent in 2008-09 following a growth of 9.2 per cent in 2007-08. The Advanced Estimates for 2009-10 places the growth in the GDP at factor cost and constant 2004-05 prices at Rs 44,53,064 crore and the GDP at current market prices at Rs 61,64,178 crore.

2. Industrial Production:

The recovery in the economy as gleaned from the quarterly estimates of the GDP is due to the resurgent industry. The latest information as per index of industrial production (IIP) also mirrors this. The IIP crossed the 10 per cent mark for the fourth time the current fiscal in December 2009. IIP grew by 16.8 per cent in December 2009 (compared to -0.2 per cent in December 2008) - the highest level of growth in the recent past. This follows growth of 10.6 per cent in August 2009, 10.3 per cent in October 2009 and 11.7 per cent in November 2009. Fourteen out of the 17 industry groups at the double digit level have shown positive growth during December 2009 as compared to December 2008.

3. Agricultural Production:

As per Fourth Advance Estimates of agricultural production released by the Directorate of Economics & Statistics, the total foodgrains production in 2008-09 was estimated at 233.88 million tonnes as compared to 230.78 million tonnes in 2007-08. As per the latest available estimates, area sown under wheat, pulses and groundnut is more this year (up to February 4, 2010) compared to last year. The deficiency in South West monsoon of 23 percent, compared to the long period average, severely affected the area sown during kharif 2009-10 season.

4. Inflation:

Inflation, measured in terms of the wholesale price index (WPI) on a year-on-year basis, eased sharply from its peak of 12.8 per cent in August 2008 to 1.2 per cent in March 2009. Average annual inflation (April-December) stood at 1.6 per cent in 2009-10 compared to 10.2 per cent in 2008-09. The current financial year (2009-10) started with an inflation rate of 1.3 per cent in April 2009 and remained in negative territory from June to August 2009. In the month of December 2009, the year-on-year inflation was 7.3 per cent as against 6.1 per cent last year in the corresponding month. Since December 2009, there have been signs of these high food prices, together with the gradual hardening of non-administered fuel product prices, getting transmitted to other non-food items, thus creating concerns about higher-than-anticipated generalized inflation over the next few months.

5. External Sector:

India's merchandise exports have shown remarkable resilience in recent years with a growth rate of 20 per cent plus in US dollar terms since 2002-03. Despite full impact of recession in the economy the growth in exports in 2008-09, as per the revised data, is placed at 13.6 per cent. In the month of November 2009, exports grew by 18.2 per cent after a nearly continuous 12-month spell of negative growth. On the other hand, Trade deficit fell to US$ 76.2 billion (as per customs data) in 2009-10 (April-December) from US$ 106 billion in the corresponding period of the previous year.

6. Balance of Payment:

As per the latest data for the fiscal 2009-10, exports and imports on BoP basis showed substantial decline during April-September (H1) of 2009-10 vis-à-vis the corresponding period in 2008-09. There has however been improvement in the balance of payment (BoP) scenario during H1 of 2009-10 over H1 of 2008-09, reflected in higher net capital inflows and lower trade deficit. The trade deficit was lower at US$ 58.2 billion during H1 (April-September) of 2009 as compared with US$ 64.4 billion in April-September 2008 mainly on account of decline in oil import.

Roll-out of Goods and Services Tax:

On the reform front, the government reiterated its commitment to tax reforms, implementation of GST and Direct Tax Code by April-11, which will help reduce inefficiencies and leakages within the system. However, lack of a clear roadmap on oil sector reforms was a negative surprise. The finance minister has put to rest all speculation on the date for the rollout of GST and has announced April 1, 2011 as the date of its introduction in India. Budget 2010 is significant, as it not only brings clarity to the introduction of GST, but also marks the government's commitment to ensure its introduction. The proposals therein also strongly signal the philosophy and the thought process surrounding GST, of a broad based and moderately rated tax that would apply to all consumption at a uniform rate, whether they are goods or services. In his Budget speech, the finance minister has indicated that the concerted efforts of the Empowered Committee of State Finance Ministers (EC) and the Thirteenth Finance Commission (TFC)

Budget 2010-11: Highlights

Indian Union Budget 2010-11 Highlights are as follows :-
. The total expenditure proposed in the budget estimates is Rs.11,08,749 crore , an increase of 8.6 per cent over last year. *• The plan and non-plan expenditure estimated at Rs.3,73,092 crore and Rs.7,35,657 crore respectively, an increase of 15 percent in plan expenditure and 6 per cent in Non-plan expenditure* over the BE of previous year. 1. *Additional Rs 1, 65, 000 Crs for bank re-capitalisation* 2. *Rs 3000 Crs for agricultural impetus* 3. *Farm loan payments to be extended for six months* 4. *Fertiliser subsidy to be reduced* 5. *Rs 100 Cr woman farmer fund scheme* 6. *Coal regulatory authority to be set up* 7. *Clean energy fund to be established* 8. *Interest subvention of 2% to be extended for handicrafts and SMEs* 9. *Rs 200 Crs for Tamilnadu textile sector* 10. *India faces a challenge of reverting to double digit growth* 11. *Economy can achieve GDP growth of 10%* 12. *Interest subvention for housing loans up to 1 lacs* 13. *Allocation to defence raised to Rs 1.47 lac Crs* 14. *Defence capex raised to Rs 60000 Crs* 15. *Hope to implement Direct Tax Code from April 2011* 16. *GST to be implemented from 2011* 17. *Divestment target of Rs 25,000 Crs* 18. *Rs 1200 Crs assistance for drought in Bundelkhand* 19. *Rs 48000 Crs for Bharat Nirman* 20. *NREGA scheme allocation raised to Rs 40,100 Crs* 21. *Allocation to health Rs 22,300 Crs* 22. *Allocation for school education up from Rs 26800 Crs to Rs 31036 Crs* 23. *Allocation to power sector at Rs 5130 Crs* 24. *Rs 10,000 Crs allocated for Indira Awaas Yojna* 25. *Social Security Fund to have corpus of over Rs 1000 Crs* 26. *Rs 2400 Crs for* Micro, Small and Medium Enterprises 27. *Government to contribute Rs 1000 per month for pension security* 28. *Rs 5400 Crs allocated for urban development* 29. *Rs 66100 Crs allocated for rural development* 30. *Rs 1900 Crs allocated for UID project* 31. *Gross tax receipts Rs 7.46 lac Crs* 32. *Govt. to set up National Mission for delivery of justice* 33. *15% rise in planned expenditure* 34. *Fiscal deficit target of 5.5% in FY11* 35. *Excise on all non smoking tobacco raised* 36. *Televisions to be costlier* 37. *Mobile phones to become cheaper* 38. *Cement to be costlier* 39. *Refrigerators to be costlier* 40. *Jewellery to be more expensive* 41. *Monorail granted project import status* 42. *CDs to be cheaper* 43. *Excise duty on Compact Fluorescent Lamps halved to 4%* 44. *Customs duty on Gold and Platinum hiked* 45. *Service Tax rates unchanged* 46. *More services to be brought under tax net*

Source: *http://bellthebull.com & Press Information Bureau Govt. of India*

in the last few months have led to a broad consensus on the design of GST and laid a robust foundation for its introduction. The TFC made its final recommendations on GST in its report that was tabled in Parliament on February 25, 2010, just a day before the release of the Union Budget. The comments of the central government on the report are as yet awaited, but given the convergence of the views so far the recommendations of the TFC are likely to receive the broad "buy in" of the Centre, although the states may have different views on certain parameters such as the GST rates, its scope and coverage, thresholds and on certain other operational aspects. In furtherance of the central government's visualization of GST, Budget 2010 has rationalised the excise duty rate on goods at 10 per cent, bringing it on par with the service tax rate of 10 per cent, thus ensuring uniformity of taxation across goods and services. As regards the indicative GST rate, it appears certain that the federal or the central GST rate will not, in any eventuality, be in excess of 10 per cent. Indeed, it is likely that the central GST rate could be 8 per cent and that the 10 per cent rate was only maintained as a short term response to the fiscal situation. What is somewhat disappointing is the lack of real action on the GST front. While the intention of introduction of GST by April 2011 is laudable, the absence of a clear roadmap for its implementation is a concern. It is hoped that the central government and the Empowered Committee (EC) would now move fast on this and announce clear cut timelines after their scheduled meeting in early April this year, so as to ensure that GST is a reality in April 2011.

Financial Consolidation:

A combination of higher expenditure committed by Govt. of India prior to the economic slowdown, counter-cyclical revenue and expenditure measures instituted as part of the fiscal stimulus packages, and a cyclical slowdown in growth of tax revenues mirroring the economic scenario, led to a substantial deterioration in Govt. of India's revenue and fiscal balances during 2008-09 and 2009-10. The higher expenditure committed prior to the economic crisis included the Pay Commission related benefits and the Debt Waiver to Farmers, which however also acted as stimulants for economic growth. Additionally, Govt. of India introduced a number of fiscal stimulus packages in

2008-09 that entailed higher expenditures and tax cuts to stem the slowdown in economic growth, but these led to considerable departure from the targets set in the Fiscal Responsibility and Budget Management Act, 2003 (FRBM) in 2008-09 and 2009-10.

The overall theme of the Union Budget for 2010-11 was a shift in fiscal

Table: 2 Trends in Fiscal Indicators (as a percentage of GDP)

	2006-07	2007-08	2008-09 (RE)	2009-10 (BE)
Revenue Receipts	10.1%	11%	10.1%	10%
Revenue Expenditures	12%	12%	14.4%	14.6%
Revenue Balance	-1.9%	-1.1%	-4.3%	-4.6%
Capital Receipts	0.0%	0.8%	0.0%	0.0%
Capital Expenditures & Net Lending	1.5%	2.3%	1.6%	1.9%
Fiscal Deficit	-3.3%	-2.6%	-5.9%	-6.5%

Source: *ICRA Estimates BE- Budget Estimate, RE- Revised Estimate*

Table: 3

Sector	Proposals	Impact
Roads	Increase in budget allocation for road projects by 13.5% from Rs. 175.20 billion in FY2009-10 to Rs. 198.94 billion in FY2010-11. Incremental disbursement of Rs. 250 billion over the next three years by IIFCL under its takeout financing scheme Full exemption from import duty for specified machinery for road construction projects Increase in the rate of MAT to 18% from 15% Increase in excise duty for cement, petrol/diesel	Neutral
Oil & Gas	Restoration of basic customs duty of 5% on crude petroleum, 7.50% on petrol and diesel and 10% on other refined petroleum products Enhancement of central excise duty on petrol and diesel by Rs. 1/litre each. Post budget announcement of hike in petrol and diesel prices by Rs. 2.67/litre and Rs. 2.58/litre respectively. Payment of subsidy in cash to the OMCs rather than by way of oil bonds Increase in MAT from 15% to 18%	Neutral
Infrastructure	Increased spending on road projects by 14%. Increased spending on power projects by 34%. Increase in MAT, and non-extension of 80IA benefits and cess on coal are some negatives.	Positive
Telecom	Central Excise duties increased from 8% to 10% Rate of Minimum Alternate Tax (MAT) increased from the current rate of 15% to 18% of book profits.	Marginally Negative
Construction	Overall thrust on development of infrastructure Increase in MAT rate from 15% to 18% Increase in excise duty for cement, petrol/diesel Full exemption from import duty for specified machinery for road construction projects.	Neutral
Real Estate	The construction period for real estate builders to avail benefits under section 80-IB (10) has been extended to 5 years from 4 years. Rs.12.70 billion has allocated for Rajiv Awas Yojna for slum dwellers, up from Rs.1.50 billion, an increase of 700% with the aim of creating a slum free India. Rs 100 billion have been allocated for Indira Awas Yojana. Interest subvention scheme for home loans extended till March 2011.	Marginally Positive
Capital Goods	Increased allocation for power and infrastructure sector Reduction in excise duty from 8% to 4% on CFL and LED Concessional import duty at 5% on inputs for Photovoltaic & Solar Panels Waiver of excise duty on Photovoltaic & Solar Panels and on inputs required in Rotor Blades	Marginally Positive

Cement	2% Excise duty hike.	Negative
Pharma	Weighted R&D deduction for in house R&D increased from 150% to 200%.	Positive
Auto	2% excise roll back across the board – largely expected and better than a feared 4% roll back Increase in excise duty to 22% + Rs 15,000 from earlier 20% + Rs 15,000 (on >4m cars) Thrust of infra should benefit commercial vehicle Manufacturers Realignment of direct tax slabs will help spur demand.	Neutral
IT	No mention of Section 10A/B will be allowed to expire. Full SEZ tax benefit extended for profits from FY06 by amendment of Sec 10 AA.	Neutral
FMCG	Increased allocation towards rural development, agricultural-centric and employment generation schemes Reduction in personal tax Increase in central excise duty from 8% to 10%; Duties for all tobacco products to be enhanced	Marginally Positive
Textiles	Extension of existing interest subvention of 2 per cent for one more year for exports covering handlooms. Increase in excise duty on man-made fibres and yarns from 8 per cent to 10 per cent One-time grant of Rs.2 billion to the Government of TamilNadu towards the cost of installation of a zero liquid discharge system at Tirupur to sustain knitwear industry.	Neutral
Banking	RBI to consider giving banking licenses to Private Sector Companies / NBFCs GoI to recapitalise select Public Sector Banks by Rs 165 billion; additional capital to RRB Regulatory framework for the Financial sector to be strengthened: Apex level financial stability & Development council to be set up. Increase in interest subvention from 1% to 2% for the farmers who pay as per repayment schedule, extension of debt waiver and debt relief scheme for farmers extended by six months to June 30, 2010.	Positive

policy from stimulating growth to maintaining the growth momentum while embarking on a renewed path towards fiscal consolidation. The Budget has aimed to achieve these dual objectives through a combination of selective rollbacks in the tax cuts to boost revenue receipts and controlled growth of revenue expenditure, while higher disinvestment proceeds will provide headroom for enhanced capital expenditure benefitting the infrastructure sector. Estimates released by the Central Statistical Organisation (CSO) suggest that non-agricultural economic growth was robust at 8.9% and 8% respectively in the second quarter (Q2) and third quarter (Q3) of 2009-10, signalling that the timing was appropriate for Government of India (GoI) to shift its fiscal policy stance from stimulating economic growth to fiscal consolidation, while ensuring that the growth momentum is maintained.

The revenue deficit, which is estimated to have worsened to 5.3% in 2009-10, from 4.5% in 2008-09, (Table:1) is budgeted to improve to 4% of GDP in 2010-11 as a result of the estimated high growth of revenue receipts and controlled 6% growth of revenue expenditure. While the fiscal deficit of GoI is expected to worsen to 6.7% of GDP in 2009-10 from 6% of GDP in 2008-09, led by the worsening revenue deficit, the Budget for 2010-11 has estimated that the fiscal deficit will improve to 5.5% of GDP.

The Budget also announced the revised date for the migration to the GST regime, which was keenly awaited, and reaffirmed the commitment to introduce the Direct Tax Code (DTC) on April 1, 2011. Given the impending introduction of the DTC, the change in the income tax slabs for individuals was somewhat unexpected, and will result in some revenue loss to Govt. of India (GoI). Additionally, the surcharge on domestic companies has been reduced to 7.5% from the existing rate of 10%. However, the same would be offset to some extent by the increase in the rate of Minimum Alternative Tax (MAT) to 18% of book profits from the current rate of 15%.

Impact of Budget on Different Sectors:

The following table shows the impact of budget proposals on different sectors:

Conclusion:

The budget as a policy document is

Contd. on Page 303

Budget 2010 : Growth Strategy for 2020

Savitri Kumari*

The market's rally post the budget reflects a realistic and progressive FY 2011 Union Budget. The projected reduction in fiscal deficit in FY 2011 indicates that the government is achieving fiscal consolidation program which is positive for earnings growth for next coming years and the stock market.

The key risk factors in what seems to be a very strong growth environment are a combination of rising inflation and fragile risk appetite. Going forward, we expect to see policy action on rates to pre-empt demand side inflation.

a) Yield curve flattening is likely more certain - the government's market net borrowing is estimated to fall 13% in FY 2011 - this is positive for banks, especially public sector banks. Indeed, given the conservative estimates on the budget the likelihood is that the borrowing program is lower than expected.
b) Consumption will likely stay strong - the increase in excise taxes is offset by reduction in personal taxes.
c) The balance of government spending is shifting from 'non-plan' to 'plan' expenditure with benefits to infrastructure and rural spending. We are positive on industrials particularly for the second half of 2010.
d) Overall, change to earnings is insignificant - the cut in corporate tax surcharge is neutralized by the change in MAT, in my view. Costs are slightly higher on the back of increased fuel costs and excise duty.
e) Tax reforms are on track for implementation in FY 2012. A new company law, the food security bill and possible energy sector reforms are likely in the coming months. Divestment target of Rs 400 billion should be reassuring to the market as a signal for further reform on top of Rs 250 billion to be achieved in FY 2010.

The Budget has realigned the tax rate slabs thus increasing disposable income. Overall, from a consumer perspective the budget was positive as car prices will go up by Rs 5,000-7,000 and annual fuel bills will go up by Rs 2,000-3,000 pa but overall disposable income will increase by Rs 20,000-50,000 pa.

There were no major misses in the FY 2011 Union Budget. The FY 2011 Union Budget is in the right direction: growth inductive - focusing on fiscal consolidation, gradual withdrawal of fiscal stimulus, tax reforms, planned divestments, social and inclusive growth and infrastructure development.

A balanced and pragmatic budget. 7.5 out of 10.

The Union Budget 2010-11 has been a pleasant surprise, putting to rest some of the pre-budget fears on high fiscal deficit, stimulus withdrawal, a big government borrowing plan, so on and so forth.

It was a zero expectations budget for the markets. Rather it can be called a budget from which the markets had negative expectations. This is probably what worked to its advantage as exemplified by the way the equity markets reacted.

The single most noteworthy point that can be taken from this budget is the clear shift in focus from managing the recovery to initialising reforms. There is a clear direction on fiscal and monetary reforms.

Initiating reforms is probably a better way to boost long term growth as compared to the short term measure of giving stimuli, once the economy has started recovering.

The clear visibility on fiscal consolidation and the calibrated withdrawal of fiscal stimulus in specific areas is a decisive signal to the world that the Indian economy has started recovering from the shocks of the global financial crisis and that the government is on the path of fiscal prudence.

One of the most important statements in the budget was the fact that no oil or fertiliser or food subsidy bonds have been issued in 2009-10. Rather, government subsidy has been extended in cash, thereby bringing all subsidy related liabilities into fiscal accounting.

In all likelihood, this policy will be continued in 2010-11 as stated by the Finance Minister. We all love transparency, after all.

Before the budget, the finance minister had an unenviable task of managing growth, controlling inflation and fiscal consolidation. His budget speech shows that he has been successful.

Taking the bull by his horns, he has sought to tackle high food price inflation by improving farm productivity, reducing wastage and rejuvenating the distribution infrastructure.

In managing growth, he has given sops for exporters, retained the service tax at 10%, sought to increase the availability of credit to the rural under-banked areas and hiked allocations for the infrastructure sector.

On the fiscal consolidation front, he has raised the Minimum Alternate Tax by 3%, hiked the excise duty by 2% and restored the excise and customs duty on crude petroleum as well as petroleum products.

*Student of ICWAI

What more, he has maintained the fiscal deficit target for 2010-11 at 5.5% of GDP as stated in his budget speech last year and has given a clear roadmap for reduction in fiscal deficit over the next two years.

Though the extent and pace of implementation will unfold over a period of time, it is the intent which has improved sentiments for the equity markets.

Fixing a timeline for rolling out the Goods & Services Tax (GST), Direct Tax Code (DTC), 3G spectrum auctions and Unique Identification Project (UID), shows that the government means business.

There was good news for the 'aam aadmi' too in the form of a widening of the tax slab eligible for lower rates of taxation, though this was partly offset by the restoration of excise duty on petrol and diesel, something that will further increase the already high prices of primary articles and essential commodities.

An individual taxpayer with a taxable income of Rs. 8 lacs p.a. or more now stands to gain Rs. 50000-54000 as tax saved because of the widening of the tax slab.

On the top of it comes a deduction on amounts invested in long term infrastructure bonds subject to a maximum limit of Rs. 20000. This is over and above the Rs. 1 lac deduction available under section 80C.

* Insurance sector reforms - hike in FDI limit - no mention at all
* Concrete steps for improving the Public Distribution System - probably the UID will help, but still a clearer roadmap could have been provided
* FDI in organised retail - no clarity
* Petroleum pricing policy - it has been deferred to some unknown time frame
* Fertilizer pricing and subsidy transfer policy - again no fixed timelines

There are certain concerns too. First the restoration of excise and customs duty on petroleum products will fuel inflation further. How will the government tackle this if international prices of oil start rising?

Secondly, the Direct Tax Code, if implemented in its current unchanged form, will discourage savings and investments as it does not differentiate between income tax and capital gains tax and does not provide any benefit for investments in strategically important areas such as equities and infrastructure.

This can be disastrous for the high savings and investment cult of the Indian economy which is crucial to its future growth.

For the financial markets, the budget has provided a ray of hope particularly when the global cues remain gloomy.

A combination of lower than expected fiscal deficit (at Rs. 3.81 trillion), lower than expected government borrowing plan (at Rs. 3.45 trillion), roadmap for fiscal consolidation, no change in service tax rates, focus on infrastructure, exporters, banking and financial sector, tax relief to individuals coupled with some technical factors such as the formation of big short positions in the markets are some of the factors that led to the relief rally in equity markets.

Similarly, for the debt markets the lower fiscal deficit and government borrowing plan has provided some relief.

Going forward, though the budget speech seems to have set a bullish undertone for equity markets, there will be some reality check over the next week or so as investors read the finer print and understand the exact implications of the tax rate hikes on corporate earnings.

Future direction is likely to be guided more by global cues and developments. And the global environment remains far from certain.

The effective tax rate, he pointed out, was only 19.26 per cent when the statutory rate was 33.66 per cent (2006-07). The Exchequer was losing chunks of revenue. What he would like is, by and large, an exemption free tax code, possibly with a lower tax rate.

The 3,01,736 companies in the sample, earned a total Rs.4,08,444 crores pretax profits but declared a taxable income of only Rs.2,48,758 crores, the balance being mainly exemptions claimed by the companies.

The ministry has estimated that the total revenue foregone by the Exchequer due to tax exemptions to corporate sector was Rs. 50,075 crores. Had the exemption free tax code been strictly applied the effective tax rate would have been 31.6 per cent. That is really what is tempting the minister to knock off tax exemptions.

There is however a catch. The computation of the revenue foregone is based on the assumption that the underlying tax base will be unaffected by the removal of tax exemptions. That would be utterly unrealistic.

Take first, the incentives to exports. Almost every country indulges in such incentives as long as they remain within the WTO regulations. If export incentives are diluted the trade deficit, which will definitely cross $60 billion this year, will jump up further.

Take again infrastructure. If the price of electricity, for instance, is regulated, private investment can be attractive only if the undertakings receive tax benefit. Allow companies to charge market price and no tax exemption would be justified

Therefore, when he raised the income tax slabs and gave relief to those with salary more than Rs 3 lakhs, the euphoria on the street was not unexpected. To the corporate sector, with one hand he gave a reduction of surcharge from 10% to 7.5% and took away with the other in the form of enhancing the MAT from 15% to 18%. Reactions were mixed to this.

A government which is sworn to a social welfare agenda was expected to be profligate with budgetary discipline. Against a target of 6.8%, fiscal deficit for FY10 is expected to be 6.9%. But there is a resolution to limit it to 5.5%, 4.8% and 4.2% in FY11 to FY13.

This is good signal to both local and global investor. With the government borrowing programme limited to Rs 3,45,000 in FY11 there should be enough room left for the private sector to access funds.

There is an ambitious and official disinvestment programme to raise around Rs 40,000 crore and a 3G auction collection estimated at Rs 35,000 crore. Both of these are good initiatives. The former has a good line-up of state owned enterprises which will give an exposure to minerals sector, a sector which does not have a fair representation in the market. The latter should move the telecom revolution in India to the next generation.

Infrastructure spending has been kept at almost 46% of the Plan outlay or over Rs 1.73 trillion. Roads and Power sector have received an enhanced outlay of almost Rs 20,000 crore and Rs 5,130 crore respectively.

Urban development has been earmarked Rs 5,400 crore with housing and urban poverty alleviation getting an allocation of Rs 1,000 crore and the Rajiv Awas Yojana for Slum Development and urban poor segment seeing its amount hiked from Rs 150 crore to Rs 1,270 crore. The spending on the social sector has actually been enhanced to over Rs 1.37 trillion.

Budget 2010 will make a lot of individual taxpayers happy on account of the broad reduction in tax slabs. But there are some people who will be unhappy with the budget because of some changes and duties announced by the Finance Minister. Let's go over these:

1. Hike in petrol and diesel prices: The Budget has raised custom duty on petrol and diesel by 7.5% each and raised the central excise duty on petrol and diesel by Rs 1 per litre each.

Impact: Petrol and diesel prices are estimated to go up by about Rs 2.50 per litre. (This estimated amount is for the Delhi area, but other markets will see a rise of a similar magnitude.)

Clearly, transportation costs will go up for everyone, especially if we use our own vehicle.

2. Excise duty on large cars, SUVs and multi-utility vehicles: Excise duty on these vehicles is being raised by 2% to 22%.

Impact: The price of these vehicles will rise. If you were planning on taking a car loan, it's likely that the loan amount will be higher, and that your down payment will also be commensurately higher. For example, if you were buying a Scorpio or an Innova worth around Rs 8 lakhs to Rs 10 lakhs (depending upon the model), you are likely to pay a higher price of about Rs 16,000 to Rs 20,000.

3. Excise duty on cigarettes, cigars and cigarillos: The Budget proposes a change in the structure of the excise duty on these items, as well as an increase in rates.

Impact: Cigarettes will cost more, and if you are a smoker you will have to pay more for your favourite brand. Now might be a good time to consider reviving the perennially popular new year resolution of giving up smoking.

4. Customs duty on precious metals - gold, platinum and silver: The Budget proposes raising customs duty on gold and platinum from Rs 200 per 10 grams to Rs 300 per 10 grams, and on silver from Rs 1,000 per kilo to Rs 1,500 per kilo.

Impact: Clearly, the overall cost of these precious metals will go up for end consumers because the rise in these duties will be passed on the end buyer.

On the other hand, according to this budget we think that stronger growth and improving pricing power represent upside risks to earnings estimates.❑

Contd. from Page 300

both brave and ambitious. It is also unlikely to be popular among large sections of the polity. The ambition is based on a very optimistic set of growth assumptions. Overall, however, the corporate sector has reason to cheer the finance minister's tax measures. By rolling back partially, he kept the prospects for corporate profitability growth intact, and gave them enough time to adjust to the full rollback of duty and tax cuts likely sometime next year. Despite very little changing, what is evident from this budget is that the finance ministry has bet on high growth and good buoyancy of taxes, especially on the indirect tax from the next year. While the ministry has assumed an 18% increase in overall tax revenues, it is also expected that the excise duties to be raised by 30% and customs by 36%. However, the big challenge is inflation. The food inflation is the major concern for the Govt. of India now. The fact is based on the assumption that as long as the overall inflation stays below 8%, the consumer will continue to spend and therefore, the control of the situation is a far reaching objective. A second and more careful reading of the budget documents may very well change the positive feelings that have been generated. For the sake of our economy we all can just hope that all assumptions or expectations won't be wrong.

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Budget Deficit Demystified

Budget deficit, fiscal, revenue or primary have their own implications when countries prepare and present their budgets. In some countries, the deficits have contributed to growth and have also some times helped countries in tackling recession. In few others, it has caused havoc and tragedy to their economic systems. In view of both positive and negative aspects relating to budget deficits, it is important how country leaders look at them in different situations and circumstances. Deficit financing is also an art and a skill that country leaders will have to possess if they have to steer their economy to creating an environment of people welfare. An attempt has been made to look at the whole gamut of budget deficits, when annual estimated financial statements for the country as a whole is prepared by leaders of different countries.

K. S. Ravi*

Madhusudhan K.**

Introduction:

Budget is the key instrument for execution of government's economic and social policies. It tries to meet public expectations and competing political interests. Deficit financing or budget deficits being components of a budget document are often discussed as a part of public finance or public debt management, when the yearly revenues are insufficient to address proposed or budgeted annual public expenditure (Plan and Non-Plan). It is an estimated shortfall in the proposed financials of the government for the year. Statistics from public documents have been culled out to show the trend in revenues, expenditures and various deficits over the years and the same are tabled at the end of the article.

Deficits are of three types, fiscal deficit, revenue deficit and the primary deficit. Each of these is defined variously and has its own implications for the economy. Also, different policies are devised to tackle them, by the policymakers, in order to ensure a functioning economy that does not hurt the poor and the have-nots. It has wide ranging political ramifications and consciously they are nurtured to take care of immediate needs in the economy.

It may be observed in the above table that all the deficits are conspicuously presented in the statement. The annual rhetoric presents the statement without any change from year to year, subject however to qualification-notes at the bottom. The anticipated or the expected statement is revised until actual results emerge for its comparability with the budgeted figures. There is a revised estimate, followed by provisional figures and when all the figures have been correctly and accurately obtained; actual financial figures are documented to close the statement. The actual figures are compared to find out as to how the economy has fared as against the budget estimates.

Deficits defined:

It is important to understand the elements of deficit before we delve deep into the subject. Although it is rudimentary in its approach, the terms are defined as hereunder.

Fiscal deficit: It is the difference between the total revenue and the total expenditure of the government. Any deficit or shortfall indicates the government's borrowing programme. It also includes recovery of loans on the receipts side and capital expenditure on the outflow side. Capital expenditure is incurred in creating long term assets for the country and its citizens. The deficit is a combination of revenue deficit and capital expenditure. Fiscal deficit or the overall shortfall is normally financed by borrowing from the central bank, borrowing from market by issue of treasury bills or bonds and as a last resort by printing of currency.

Primary deficit: The primary deficit is a sub-set of the fiscal deficit. As stated above, fiscal deficit is the difference between total revenue and total expenditure. Primary deficit on the other hand, is obtained by deducting interest payments, on loans borrowed by the government, from fiscal deficit. This will indicate the extent to which the current revenues are servicing interest payments on government debts. Also, if a greater portion of the current revenues service interest payment it is a matter of concern that adequate revenues may not be available for social programs and development.

Revenue deficit: Any mismatch between revenue receipts and obligated payments which includes interest payments and that which cannot be postponed to a later date will result in revenue deficit. Government will have to adopt measures to not only meet the shortfall in current obligation but may also have to raise resources to meet the development programs and projects.

If on the other hand government is able to raise resources through normal means and the expenditure to be incurred is less than the revenue raised, the resultant effect is a surplus and government will not have to resort to deficit financing. At this point one should remember that the budget is only an estimate based on the past achievements, extrapolated into the future with certain policy decisions. The

*B.Sc., FCA

*B.Com., Final passed ICWAI

actual performance may turn out to be more beneficial or adverse depending on how an economy behaves due to unanticipated and extraneous circumstances. The matter becomes even more complex as local economies are often tormented by happenings across the world on account of globalization or global integration.

History of deficits:

The world was not as complicated as it is today. Governments did not take risk to create a large deficit and the trend across the developed economies during the 19th century or the early part of the 20th century showed considerable stability. It was a fiscal deficit or a surplus that could be managed without any sophisticated planning. The pace of growth, development and industrialization was predictable and the planning process too was simple. Except for countries that were ruled by foreign dominance, external economies had little to say in the local economies of countries. But, the first and the second world wars opened up local governments to the vagaries of world order. In order to keep pace with war related expenditure, countries emptied their coffers and financed shortfalls against future revenue in order to stay afloat. The situation provided some good lessons to the governance that in the post-war period, the productivity went up to such an extent that governments were able to service debts during peace-times. Having experienced this phenomenon, the habit of borrowing to spend, in anticipation of future revenues, has come to stay across economies. But the repercussion is there for us to see, that peace-time balanced approach to economy, prevalent in the early part of 20th century, has given way to a habitual practice of deficit financing across economies. The trend has proceeded to such an extent that countries have reached the brink of getting into debt trap.

The next tragedy that caused economies on the globe to tremble was in 1973 when the Organization of Oil Exporting Countries (OPEC) decided to cut back on supply of fossil fuel to several countries. This was on account of the supposed support that they lent to Israel in a war against Syria and Egypt. This embargo had a devastating effect on several local economies resulting in inflation, trade deficit and increase in interest rates. Oil prices shot up decreasing the easy money and surpluses in the hands of the individuals. It proved counter-productive in generating productive surpluses and employment, requiring governments to intervene. Revenues earned had fallen and development programs could not be taken up unless deficit financing was resorted to.

Features that contribute to budget deficits;

It is easy to decipher that in the pre-war environment, humanity did not see any need for governments to provide for its inabilities. Joint families and larger families provided the required social security net, either during old age or during calamities. Hence, governments did not see the need of spending towards social welfare of the people. People depended on the government only for protection against war, physical assault, theft, etc. Most of the other social requirements were either a family matter or a community matter. Discipline and morality had balancing effects on communities in a nation. Exposure to the external world was limited and people lived slow paced ordinary lives. The world wars, fraught with violence and uncertainty, made individuals demand for safety and security of their families based on the sacrifices that they had made. Pension and health related demands forced political parties to provide for welfare programs, which has become the order of the day and the absence of which will jeopardize its very existence. This shift in approach of political parties to provide populous welfare measures to its citizens is distinctly visible in various legislations being passed across nations. It may be in the form of subsidies, incentives, pensions, health care, insurance, debt waivers, etc. This article has no intention of making judgments on the merits and de-merits of such programs, but it is sufficient here to understand that they all contribute to budget deficits of a nation if there is insufficient revenue to garner.

Not all budget deficits are harmful. If the object of borrowing is to build capacities, build -infrastructure and maintain the existing national assets, then they will have the effect of increasing volumes and productivity. The higher revenues generated due to added infrastructure, will not only wipe out the borrowings, but will also service the debt. Hence, the qualitative aspect deficit financing has to be compared and contrasted before passing any judgment.

There is per se no real correlation between deficit financing and growth. In fact, if only small and manageable deficits are there, it provides an opportunity for growth in anticipation of demand for goods and services. But, if deficit financing goes beyond the anticipated control and countries are unable to service interest and debts or that it creates severe inflation in the economy, as in Nigeria, it may jeopardize growth. Economies may grow or may not grow irrespective of budget deficits. Growth is a complex phenomenon and affected by many more parameters than merely by fiscal deficit. American economy has grown in spite of severe fiscal deficits. But, the day the deficits become non-manageable the impact is unbearable and the economy goes into a tailspin. This is what we have seen happening in some of the developed economies.

Deficit and inflation:

Deficits are normally financed from any of the following sources:

- Government Bonds and Treasury Bills
- Foreign Debt
- Disinvestment
- Monetization

If government is unable to curb this tendency or is unable to curtail deficit financing, going beyond manageable limits, it will have a devastating effect on the economy. When the sustainability is in question the economy faces adverse situations like inflation, constant deficits on current account, slow economic growth, etc. Therefore, balanced public finance indicates the macroeconomic health of the country.

If bonds are issued to local public then it crowds out private investment as there will be a dearth of money available for private projects. Scarcity of funds will create a demand in the private sector thereby increasing interest rates and investments will move to take benefit of that. Also, when more and more money is required by government it has issue bonds at a discount rate or it has to offer higher interest rate, which forms the benchmark for interest rates in the private sector.

On the other hand if deficit financing invites resources from outside the country, it will affect exchange rates and increase foreign debt thereby depleting exchange reserves in the country. Flight of currency will have adverse impact on the economy adding fuel to inflation.

TABLE

	2006-2007 Actuals	2007-2008 Actuals	2008-2009 Actuals @	2009-2010 Budget Estimates	2009-2010 Revised Estimates	2010-2011 Budget Estimates
1 Revenue Receipts	**434,387**	**541,864**	**540,259**	**614,497**	**577,294**	**682,212**
2 Tax Revenue (net to Centre)	351,182	439,547	443,319	474,218	465,103	534,094
3 Non-tax Revenue	83,205	102,317	96,940	140,279	112,191	148,118
4 Capital Receipts (5+6+7)$	**149,000**	**170,807**	**343,697**	**406,341**	**444,253**	**426,537**
5 Recoveries of Loans	5,893	5,100	6,139	4,225	4,254	5,129
6 Other Receipts	534	38,795	566	1,120	25,958	40,000
7 Borrowings and other Liabilities	142,573	126,912	336,992	400,996	414,041	381,408
8 Total Receipts (1+4)$	**583,387**	**712,671**	**883,956**	**1,020,838**	**1,021,547**	**1,108,749**
9 Non-plan Expenditure	**413,527**	**507,589**	**608,721**	**695,689**	**706,371**	**736,107**
10 On Revenue Account of which,	372,191	420,861	559,024	618,834	641,944	643,599
11 Interest Payments	150,272	171,030	192,204	225,511	219,500	248,664
12 On Capital Account	41,336	86,728	49,697	76,855	64,427	92,508
13 Plan Expenditure	**169,860**	**205,082**	**275,235**	**325,149**	**315,176**	**373,092**
14 On Revenue Account	142,418	173,572	234,774	278,398	264,411	315,125
15 On Capital Account	27,442	31,510	40,461	46,751	50,765	57,967
16 Total Expenditure (9+13)	**583,387**	**712,671**	**883,956**	**1,020,838**	**1,021,547**	**1,109,199**
17 Revenue Expenditure (10+14)	514,609	594,433	793,798	897,232	906,355	958,724
18 Capital Expenditure (12+15)	68,778	118,238	90,158	123,606	115,192	150,475
19 Revenue Deficit (17-1)	**80,222**	**52,569**	**253,539**	**282,735**	**329,061**	**276,512**
	(1.90)	**(1.10)**	**(4.50)**	**(4.80)**	**(5.30)**	**(4.00)**
20 Fiscal Deficit {16-(1+5+6)}	**142,573**	**126,912**	**336,992**	**400,996**	**414,041**	**381,858**
	(3.50)	**(2.70)**	**(6.00)**	**(6.80)**	**(6.70)**	**(5.50)**
21 Primary Deficit (20-11)	**(7,699)**	**(44,118)**	**144,788**	**175,485**	**194,541**	**133,194**
	(0.20)	**(0.90)**	**(2.60)**	**(3.00)**	**(3.20)**	**(1.90)**

$ does not include receipts in respect of Market stabilisation scheme

@ Actuals for 2008-09 are provisional

This is not new to us as many economies have suffered on account of this.

Monetization or printing currency adds to money circulation without production of real goods. Hence, this method of pump priming the economy through deficit financing is not resorted to unless this is the last choice available to the leaders.

Another important aspect to this discussion is that the economy has to be matured to absorb this deficit financing or else the money in circulation will create hyper-inflation without production of real goods. The financial markets too have to be fully developed to see the benefit of well managed deficit financing.

Deficit financing and recession:

Indian economy has weathered with resilience the global recession. Steps were taken to flush the economy with money to ensure that it has a stabilizing and a multiplier effect in the economy. John Maynard Keyens advocated that during recession government should adopt the policy of deficit spending. Increase in government spending creates liquidity in the system, creates market for produced goods, demand fructifies into increased employment, increases consumer spending and drives growth. But when the growth stabilizes, the process of sucking liquidity in the system should start in a graduated manner so as not to destabilize the growing economy. This is what the Indian government and Reserve Bank are attempting to do. A careful and deft handling through deficit financing increases confidence in the public debt management whereby growth remains undisturbed and at the same time ensuring that inflation will not cast it ugly shadow in the economy. Whether recession or not, a little bit of inflation and a little bit of liquidity will accelerate the economic process adding to growth and employment. But how much is little has to be determined by parameters such as market maturity, level of growth, unemployment, governments capability of having a vision for its people (without populist measures), etc., and it may vary from country to country. Deficit financing during recession really means bringing down taxes are increasing expenditure. By any or both these acts, people are left with money to spend, to save or to spend and save thereby creating a demand for goods and money for investment, and the surplus liquidity in the economy can be gradually managed to be siphoned out, all other things being equal.

National emergencies like war, flood, drought and other natural calamities can have recessionary tendencies in the economy. Here, the treatment required will be different from what has been discussed above as the economy instead of growth will be fighting for its survival. Also, it should be clear that those smaller recessions that may raise its hood more often, have to be dealt in their ordinary course and not by resorting to deficit financing.

Efforts in deficit reduction:

Countries are making all out efforts to decrease budget deficits and excess money circulation in the economy. India too has been talking rather boldly to reduce deficits. It is entering into a disinvestment phase, whereby it hopes to bring down the accumulated fiscal deficit to manageable levels. Government cannot control their economies fully. They can only attempt to control volatility in the economy to ensure a non-turbulent growth. This they have either to do by increasing taxes or cutting down expenditure. It is a human psychology that people do not want to pay more taxes, but they may be willing to accept reduced expenditure spend from the government. The path is arduous and a painful one but people will weather it with equanimity. May be the government has to cut down subsidies and populous welfare schemes and concentrate spending on priorities. Japan, America and European countries are all hectically working towards bringing down their deficits.

Unless serious efforts are made to reduce and manage budget deficits, country after country may fall into debt trap like the one that has happened as the Greek economic crisis. The country's budget deficit is • 300 billion and it owes $ 75.5 billion, $ 64 billion, and $43.2 billion to French, Swiss and German banks respectively. The Prime Minister there has proposed public expenditure cuts and savings measures to reduce the budget deficit from 12.7% of the GDP as against 3% allowed by Euro Zone Rules. This cut of 9.7% cut, he expects to achieve by 2011. The German public, which has suffered severe austerity measures, is unwilling to accept any bailouts for a country which has far exceeded the budget deficit limits. Whether Greece should adopt expansionary policies through investment or should it adopt austerity measures, only time will have to tell the course of action that the Greece Government will take.

Conclusion:

There are very little choices available to economies other than bringing budget deficits down. The matter cannot be carried any further as there are enough lessons, which indicate that economies can be left devastated to fend for themselves when deficit financing becomes unsustainable or uncontrollable. In the long run, standard of living will deteriorate to such an extent that any intervention will take a long time to wash out the effect of the past sins. Probably a generation may have to sacrifice for ills of the government and for which they are not responsible.❑

Standards on Auditing and the Quality Review Board

Ashok K Agarwal*

The Government of India, Ministry of Corporate Affairs vide Gazette Notification Number S.O. 1693 (E) dated 3rd October 2007 has set up a Quality Review Board to evaluate various services being provided by the members of the Institute. In simple words, it translates to the evaluation of quality of services being provided by the members of the Institute. In order to undertake review of the services rendered by the members of the Institute in practice, the Board, vide its letter number Tech/QRB/ Review/2009/1, dated 14th December 2009 has already intended to receive information with regard to various statutory and nonstatutory services rendered by all the practicing members either in their individual capacity or as proprietorship firms or as partners of partnership firms.

International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body within the International Federation of Accountants (IFAC) has so far finalised 36 International Standards on Auditing (ISAs) and International Standard on Quality Control (ISQC). The objective of the IAASB is to serve the public interest by setting high quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

*M.Sc.; FICWA; Ph.D, Practicing Cost Accountant (Delhi)

In India, the Auditing and Assurance Standards Board, constituted by the Institute of Chartered Accountants of India has issued Standards on Auditing (SA) and Standard on Quality Control (SQC) in accordance with ISAs and ISQC.

The Cost Audit Assurance Standard Board, constituted by the Institute of Cost and Works Accountants of India is expected to issue guidelines for its members in practice by setting high quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice and strengthening confidence of Quality Review Board. In the mean time, a lead can be taken by recommending adoption of 'ISAs and ISQC' by all the practicing members of the Institute. The ISAs have a uniform structure, in which information is presented in separate sections: Introduction, Objective, Definitions, Requirements, and Application and Other Explanatory Material.

A list of all the 36 ISAs and ISQC is set forth below:

ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing

This International Standard on Auditing (ISA) deals with the independent auditor's overall responsibilities when conducting an audit of Financial Statements in accordance with ISAs. Specifically, it sets out the overall objectives of the independent auditor, and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives. It also explains the scope, authority and structure of the ISAs, and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the ISAs.

ISA 210, Agreeing the Terms of Audit Engagements

This ISA deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance.

ISA 220, Quality Control for an Audit of Financial Statements

This ISA deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of Financial Statements. It also addresses, where applicable, the responsibilities of the engagement quality control reviewer. This ISA is to be read in conjunction with relevant ethical requirements.

ISA 230, Audit Documentation

This ISA deals with the auditor's responsibility to prepare audit documentation for an audit of Financial Statements. The Appendix lists other ISAs that contain specific documentation requirements and guidance. The specific documentation requirements of other ISAs do not limit the application of this ISA. Law or regulation may establish additional documentation requirements.

ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

This ISA deals with the auditor's responsibilities relating to fraud in an audit of Financial Statements. Specifically, it expands on how ISA 315 and ISA 330 are to be applied in relation to risks of material misstatement due to fraud.

ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements

This ISA deals with the auditor's responsibility to consider laws and regulations in an audit of Financial Statements. This ISA does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.

ISA 260, Communication with Those Charged with Governance

This ISA deals with the auditor's responsibility to communicate with those charged with governance in an audit of Financial Statements. Although this ISA applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for listed entities. This ISA does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.

ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

This ISA deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of Financial Statements. This ISA does not impose additional responsibilities on the auditor regarding obtaining an understanding of internal control and designing and performing tests of controls over and above the requirements of ISA 315 and ISA 330. ISA 260 establishes further requirements and provides guidance regarding the auditor's responsibility to communicate with those charged with governance in relation to the audit.

ISA 300, Planning an Audit of Financial Statements

This ISA deals with the auditor's responsibility to plan an audit of Financial Statements. This ISA is written in the context of recurring audits. Additional considerations in an initial audit engagement are separately identified.

ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

This ISA deals with the auditor's responsibility to identify and assess the risks of material misstatement in the Financial Statements, through understanding the entity and its environment, including the entity's internal control.

ISA 320, Materiality in Planning and Performing an Audit

This ISA deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of Financial Statements. ISA 450 explains how materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the Financial Statements.

ISA 330, The Auditor's Responses to Assessed Risks

This ISA deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with ISA 315 in an audit of Financial Statements.

ISA 402, Audit Considerations Relating to an Entity Using a Service Organization

This ISA deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organizations.

ISA 450, Evaluation of Misstatements Identified during the Audit

This ISA deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the Financial Statements. ISA 700 deals with the auditor's responsibility, in forming an opinion on the Financial Statements, to conclude whether reasonable assurance has been obtained about whether the Financial Statements as a whole are free from material misstatement. The auditor's conclusion required by ISA 700 takes into account the auditor's evaluation of uncorrected misstatements, if any, on the Financial Statements, in accordance with this ISA. ISA 320 deals with the auditor's responsibility to apply the concept of materiality appropriately in planning and performing an audit of Financial Statements.

ISA 500, Audit Evidence

This ISA explains what constitutes audit evidence in an audit of Financial Statements, and deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. This ISA is applicable to all the audit evidence obtained during the course of the audit. Other ISAs deal with specific aspects of the audit (for example, ISA 315), the audit evidence to be obtained in relation to a particular topic (for example, ISA 570), specific procedures to obtain audit evidence (for example, ISA 520), and the evaluation of whether sufficient appropriate audit evidence has been obtained (ISA 200 and ISA 330).

ISA 501, Audit Evidence-Specific Considerations for Selected Items

This ISA deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with ISA 330, ISA 500 and other relevant ISAs, with respect to certain aspects of inventory, litigation and claims involving the entity, and segment information in an audit of Financial Statements.

ISA 505, External Confirmations

This ISA deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of ISA 330 and ISA 500. It does not address inquiries regarding litigation and claims, which are dealt with in ISA 501.

ISA 510, Initial Audit Engagements-Opening Balances

This ISA deals with the auditor's responsibilities relating to opening balances in an initial audit engagement. In addition to Financial Statements amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments. When the Financial Statements include comparative Financial/Cost information, the requirements and guidance in ISA 710 also apply. ISA 300 includes additional requirements and guidance regarding activities prior to starting an initial audit.

ISA 520, Analytical Procedures

This ISA deals with the auditor's use of analytical procedures as substantive procedures ("substantive analytical procedures"). It also deals with the auditor's responsibility to perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion on the Financial Statements. ISA 315 deals with the use of analytical procedures as risk assessment procedures. ISA 330 includes requirements and guidance regarding the nature, timing and extent of audit procedures in response to assessed risks; these audit procedures may include substantive analytical procedures.

ISA 530, Audit Sampling

This ISA applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with the auditor's use of statistical and nonstatistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample. This ISA complements ISA 500, which deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. ISA 500 provides guidance on the means available to the auditor for selecting items for testing, of which audit sampling is one means.

ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

This ISA deals with the auditor's responsibilities relating to accounting estimates, including fair value accounting estimates, and related disclosures in an audit of Financial Statements. Specifically, it expands on how ISA 315 and ISA 330 and other relevant ISAs are to be applied in relation to accounting estimates. It also includes requirements and guidance on misstatements of individual accounting estimates, and indicators of possible management bias.

ISA 550, Related Parties

This ISA deals with the auditor's responsibilities relating to related party relationships and transactions in an audit of Financial Statements. Specifically, it expands on how ISA 315, ISA 330, and ISA 240 are to be applied in relation to risks of material misstatement associated with related party relationships and transactions.

ISA 560, Subsequent Events

This ISA deals with the auditor's responsibilities relating to subsequent events in an audit of Financial Statements.

ISA 570, Going Concern

This ISA deals with the auditor's responsibilities in the audit of Financial Statements relating to management's use of the going concern assumption in the preparation of the Financial Statements.

ISA 580, Written Representations

This ISA deals with the auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance in an audit of Financial Statements.

ISA 600, Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)

The ISA apply to group audits. This ISA deals with special considerations that apply to group audits, in particular those that involve component auditors. An auditor may find this ISA, adapted as necessary in the circumstances, useful when that auditor involves other auditors in the audit of Financial Statements that are not group Financial Statements. For example, an auditor may involve another auditor to observe the inventory count or inspect physical fixed assets at a remote location.

ISA 610, Using the Work of Internal Auditors

This ISA deals with the external auditor's responsibilities relating to the work of internal auditors when the external auditor has determined, in accordance with ISA 315, that the internal audit function is likely to be relevant to the audit. This ISA does not deal with instances when individual internal auditors provide direct assistance to the external auditor in carrying out audit procedures.

ISA 620, Using the Work of an Auditor's Expert

This ISA deals with the auditor's responsibilities relating to the work of an individual or organization in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence. This ISA does not deal with: (a) Situations where the engagement team includes a member, or consults an individual or organization, with expertise in a specialized area of accounting or auditing, which are dealt with in ISA 220; or (b) The auditor's use of the work of an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the Financial Statements (a management's expert), which is dealt with in ISA 500.

ISA 700, Forming an Opinion and Reporting on Financial Statements

This ISA deals with the auditor's responsibility to form an opinion on the Financial Statements. It also deals with the form and content of the auditor's report issued as a result of an audit of Financial Statements. ISA 705 and ISA 706 deal with how the form and content of the auditor's report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report.

ISA 705, Modifications to the Opinion in the Independent Auditor's Report

This ISA deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with ISA 700, the auditor concludes that a modification to the auditor's opinion on the Financial Statements is necessary.

ISA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

This ISA deals with additional communication in the auditor's report when the auditor considers it necessary to: (a) Draw users' attention to a matter or matters presented or disclosed in the Financial Statements that are of such importance that they are fundamental to users' understanding of the Financial Statements; or (b) Draw users' attention to any matter or matters other than those presented or disclosed in the Financial Statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

ISA 710, Comparative Information-Corresponding Figures and Comparative Financial Statements

This ISA deals with the auditor's responsibilities relating to comparative information in an audit of Financial Statements. When the Financial Statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in ISA 510 regarding opening balances also apply.

ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements

This ISA deals with the auditor's responsibilities relating to other information in documents containing audited Financial Statements and the auditor's report thereon. In the absence of any separate requirement in the particular circumstances of the engagement, the auditor's opinion does not cover other information and the auditor has no specific responsibility for determining whether or not other information is properly stated. However, the auditor reads the other information because the credibility of the audited Financial Statements may be undermined by material inconsistencies between the audited Financial Statements and other information.

ISA 800, Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

The ISAs in the 100-700 series apply to an audit of Financial Statements. This ISA deals with special considerations in the application of those ISAs to an audit of Financial Statements prepared in accordance with a special purpose framework. This ISA is written in the context of a complete set of Financial Statements prepared in accordance with a special purpose framework. ISA 805 deals with special considerations relevant to an audit of a single Financial Statements or of a specific element, account or item of a Financial Statements. This ISA does not override the requirements of the other ISAs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

ISA 805, Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statements

The ISAs in the 100-700 series apply to an audit of Financial Statements and are to be adapted as necessary in the circumstances when applied to audits of other historical Financial/Cost information. This ISA deals with special considerations in the application of those ISAs to an audit of a single Financial Statements or of a specific element, account or item of a Financial Statements. The single Financial Statements or the specific element, account or item of a Financial Statements may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, ISA 800 also applies to the audit.

ISA 810, Engagements to Report on Summary Financial Statements

This ISA deals with the auditor's responsibilities relating to an engagement to report on summary Financial Statements derived from Financial Statements audited in accordance with ISAs by that same auditor.

International Standard on Quality Control (ISQC) 1, Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements

This ISQC deals with a firm's responsibilities for its system of quality control for audits and reviews of Financial Statements, and other assurance and related services engagements. This ISQC is to be read in conjunction with relevant ethical requirements. Other pronouncements of the IAASB set out additional standards and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements. ISA 220, for example, deals with quality control procedures for audits of Financial Statements.❑

Key Business and Financial Matrices for IT Services Companies

Aloke Ghosh*

For all finance professionals tracking the performance metrices for an IT Services Company has always been a challenging and interesting activity. As with any other Industry, the quarter on quarter progress of an IT Services Company is tracked by the financial and business metrices it achieves. In the case of a listed company the metrices are paramount, and the management, employees, shareholders and analysts community keep on comparing themselves with the leading and similar companies in the Industry to determine where the company stands in terms of its performance. Some of the key metrices which are looked upon with interest are as follows:

1. **Onsite: Off-shore effort ratio:** This ratio depicts the number of associates working overseas either in the Company development centres or client sites to the ratio of associates working out from Company development centres in India. The current trend is to move more and more work offshore as it proves beneficial for both the stakeholders. For the Customer, the rate per associate for work done decreases to a third or less of what they would have paid onsite. For the Services Company, though the revenue decreases, the margin improves due to the cost arbitrage of working out from India.

   There are cases where the customers themselves have redefined outsourcing and offshoring from being a tactical methodology for reducing operational costs into a strategic tool for business transformation. They have enshrined that 90% of all outsourced work must be delivered from offshore. In collaboration with the services company they have executed the shifting of onsite work to offshore leading to quick economic benefit for both companies.

***Commonly Existing ratio: -** Offshore effort ratio : Onsite effort ratio : 70: 30

1% movement of work from onsite location to off-shore location improves profitability by 0.4%

2. **Utilisation ratio:** Depicts the billability of the associates on the given project. The performance and profitability of the company improves with more associates working on billable projects rather than being on training or sitting in bench in anticipation of future projects. However it has to be remembered that the company would need to retain a few of its billable resources in it's reserve to train them and make them prepared when new projects come up. A critical measurement tool for IT Services Company is to ensure that their delivery utilization level does not go below the industry average as it would impact adversely the profitability of the company.

***Commonly Existing ratio :** 70-75% (excluding trainees)

3. **Attrition ratio :** The level of attrition in the company or associates leaving the company for other alternative jobs is a ratio which is very keenly followed from quarter on quarter. The ratio depicts the number of employees who have left during a defined period to the average number of employees on the payroll during such period. High attrition level impacts proficient execution of existing projects besides impacting the availability of trained and skilled resources. Attrition ratio varies from company to company however an attrition level of atleast 10% of the workforce is faced by most companies.

In the last few years besides the regular retention methodology of promotions, increase in salaries , stock options and job redefinement companies are also adopting innovative methods of retention. One such company had launched a career development programme for its employees by using resources such as training programs, knowledge repositories and guidance by counselors appointed exclusively to facilitate their career growth and development. This programme had an extremely strong positive impact on its employees.

4. **Time & material :** Fixed fee Projects: Analysts prefer companies which execute more fixed priced projects. This is primarily because it shows the maturity of the IT Services Company in the value chain. Execution of fixed priced projects showcases the project execution as well as management skills. The company has to be mature enough

*CFO of CMS and SYSTIME Global Solutions Ltd.

to ensure that the Project milestones are achieved on time so that the customer requirement is met in addition to the company attaining it's revenue and profitability objectives. Time and Material projects are more of supplying resources as per customers requirement where projects execution mechanism is more or less controlled by the customer.

***Commonly Existing ratio :** Time& material projects : Fixed fee Projects : 70: 30

5. **Head: Tail ratio:** This depicts the Head (Senior Programme Manager) to the ratio of Middle Management (Project Lead) to the ratio of programmers existing in a project (primarily the offshore team composition should be considered for calculating the same). Managing the IT projects with the right mix of employees is not only important from the project execution purpose but is critical as well for the project profitability. In the normal course, the customer is going to pay market determined prices hence it becomes important to execute the project through the correct mix of management and programmers so that the cost of resources remains rationalized and the company makes planned profit.

***Commonly Existing ratio :** Head to tail ratio: 1:3:7

6. **SG&A as a % of Revenue:** This ratio is another very important profit lever. This depicts the Selling , General and Administrative costs of the company as a percentage of its revenue. It is pertinent to note here that a lot of the selling costs for the company is spent overseas. Since SG&A touches every part of the enterprise, finding a way to lower SG&A costs goes a long way towards cutting overall spend. Infact a number of high performing companies have taken SG&A cost control to heart , consistently decreasing such spend.

***Commonly existing ratio :** 15%-20% of Revenue

7. **Contribution%, PAT% :** If all the above is executed well it would end in the right ratios for the Company in terms of bottom-line. Contribution percentage would depict the margin after deducting the costs directly associated with the associates working on the project. PAT depicts profit after tax.

***Commonly existing ratio:** Contribution% : 45-50% and PAT % : 20-25%

8. **Foreign exchange gain or loss:** 95% or more revenue in this industry is covered by overseas exports. Hence gain or loss on foreign exchange through forward cover or otherwise is very critical for the company.

9. **Revenue/person:** This is calculated by dividing the Global revenue earned by the company by the number of employees in the company. Revenue per person is the end result of the following combination of input factors:

a) Onsite-off-shore effort ratio : As the onsite billing rates are atleast 3 times the offshore rates , more onsite work would lead to a higher revenue ratio.

b) Billing rates : The revenue ratio would move higher with higher billing rates received from customers.

c) Utilisation of associates : Higher the utilization ratio or higher the number of associates being billed to customers as compared to the ones on bench the higher would be the revenue ratio.

Commonly existing figure: US$ 45000-50000 per person per year.

10. **Debtor days :** Like any other industry customer payment cycle is an important tracking mechanism for the company. An overly burdened debtor days does not reflect well, and besides effecting cash flow, could also reveal poor project execution skills for the Company as payments may have been held up due to customer not providing project completion certificate against projects.

Commonly existing ratio: 60 days

11. **Geography and Customer Concentration :** As in any other industry, it becomes very important for the IT services company to track the Geography and customer concentration of the business. The critical metrices being Geography spread and revenue generated from the top ten customers. In the current business scenario US still continues to be the most important Geography and in a lot of cases the business generated from the top 10 customers varies from 45% -55% of the total business.

12. **Project profitability :** A sucessful management of projects would be depicted by the end result, which is the profit it generates. Tracking project profitability and ensuring that it is within budget is an extremely important criterion which needs to be tracked.

13. **Delivery:Non-Delivery headcount:** As the revenue in the business is generated from billable associates, it is critical to ensure that the non-billable resources (or Corporate staff) required to support the business is kept within control. In a lot of well managed companies the ratio of non- delivery headcount to total headcount has been restricted to a maximum of 10%.❑

Smart Cards for Banking for Rural Masses - Technology, Security and Costs

S. Mukhopadhyay*

Banking involves banker customer relationship in a way that the banker can

- enroll a customer with demographic and identity details.
- accept customer mandate for services or products (out of the bank's offerings) that the customer wishes to avail.
- accept, safe keep, account for customer's money/ valuables.
- get customer instruction on disposal of customer's funds (like in remittances, delivery of trust funds, etc. to a simple cash withdrawal by self/ third party) with reasonable certainty.
- keep records pertaining to customer account for use for customer/ regulator/ legal authorities or for disposal in absence/ incapacitation/ death of customer.

2. The underlying requirements then lead to a need for, among other things,

- keeping records of customer details and accounts for transactions, in control of bank's system.
- identifying the customer for accepting instructions to act on her funds.

Both of the above, for ensuing adequate trust in a banking system, needs to be beyond repudiation and revocation. Also facts of recording transactions or verifying authority by banker should be possible to be recorded permanently and irrevocably for two things :-

- the person performing the transaction is identifiable and had the authority to undertake it.
- the customer could be verified against his recorded identity in any process that would, on usual diligence, lead to same results if the verification is re-performed by a different person or at a later time.

Both these processes need be auditable, recorded and repeatable.

3. The above underlying gross philosophies (of banking or , so to say, all financial activities) are practiced in rules and processes of book keeping, processes of authorization/ verification, and also, audit - which gets over time further standardized through trade bodies/ audit bodies/ regulators etc. The manual banking practices in our country have adequate checks and balances embodying such concepts.

4. To help speed up record retrieval, avoid manual mistakes of entries and contra entry items to be undertaken at multiple accounting stages, ease bulk job like ledger balancing / interest application to a large number of accounts, summary/ report creations etc., the manual methods of record keeping and accounting have moved to mechanized platform. With improvement of technology the platform has moved from aids like FACIT machines to Automated Ledger Posting Machines, to Standalone branch level back office mechanization, to Standalone branch level Total Branch Computerization (TBC) to todays Core Banking System (CBS) where all branches of a bank are actually on a single solution system and networked with multilayered technology (hardware/ software) implementation for such solutions. This CBS eases inter-office transfers/ customer account aggregation and MIS consolidations further. Most banks are in different levels of achievement in this journey.

5. Whether the computerization is on a branch (TBS) level or whole bank connected level (CBS), a customer therefore basically will today face a banking person for a cash/ transfer transaction, with a machine (connected to bank's network - Local or national) who will need to

- recall customer account from the computer
- verify customer against, may be, a stored signature (or check customer's fingerprint on paper against recorded one and photo - involving manual retrieval offer - and be satisfied)
- make entries of transaction in and controlled by IT System of the Bank
- return customer a proof (stamped & signed voucher counterfoil/ machine output receipt/ certificate/ statement etc.)

These needs presence of a bank branch where such systems, computers, connectivities are available, plus ability of the person operating to verify the customer's signature/ fingerprint. The bank's system will keep all records and audit trail of the activity undertaken - which can be verified as necessary.

6. There is a felt need for expanding banking services to places remote from a bank branch. The population to be covered will therefore be present in "unbanked" customer category or geography. So, the electronic connectivity may be poor or even, not available; however, banks may not find it viable to open a branch there. The customers also will be less aware/ less educated and amounts of monies transacted will be small. However,

*G.M., State Bank of India, Corporate Centre, Rural Business Group.

people will deal mostly in cash. The country wide present thought to expand Financial Inclusion (FI) is to address this. FI involves, as a starting premise, a bank deposit account and thereafter remittances, loans and others.

7. To do the above, one of the emerging solution has been through 'Smart Cards' and a 'hand held device' - where the customer will be provided with a smart card and bank's representative will make transactions on a handheld device, in conjunction with such customer smart card.

Smart Card :

A smart card is a small electronic "chip". It is, for convenience of use, housed in a plastic card (like the golden coloured metallic piece we use as cellphone SIM put in a plastic card when first provided by the cell company. That small metallic golden looking piece - known as SIM for cell phone - is a smart chip). Some cards expose the chip so that we can see the chip from outside. These cards need to be inserted in a reading device so that the card reader head of the device comes in contact with the chip and then data exchange can happen. These are called "contact" cards. Some cards hide the smart chip inside plastic faces of the card so that the chip is not visible. These are "contact less" cards where an "antenna" is provided along with the chip inside the card, and by electromagnetic radiation, signals are exchanged between the chip and a card reader (in the hand held device). The card here has to be brought near the device for transaction. Different options for such exchanges exist. One such technology "Near Field communication" limits the exchange within 10 cms so that unaware robbing of data from a card by a reader at a distance is precluded. Different technical implementations inside the chip are possible. Basically it will have a Read Only Memory (ROM), a microprocessor, an Erasable Expandable Programmable Read Only Memory (EEPROM), contact points for data signal input/ output , as also contact points for power supply and "earth" The ROM will be provided with the specific components of the "operating System (OS)" that makes it start on power-on, receive/ collect/ send data etc. Depending on the technology the EEPROM is organized in different ways. In some system (Java Card) small pieces of applications in Java can be kept in the card there, in some others, different user systems can write their OS, File structure etc. (Global Open Platform) there. The data put out by this card can be read by "compatible" smart card reader which is housed in the Hand Held Device (may also be housed in a cellphone/ ATM or other contraption that can exchange with the Card Reader in terms of message format compatibility).

Leaving the details apart, the card can "read" some data input to it, and also store it if the exchange is through a compatible device. Incidentally the Card and the Device having the reader can both the numbered/ identified under some scheme and also the "message"/ "data" that are received/ sent between them can carry such identifications. Many schemes of authentication and/ or encryption exist of varying complexities and implementation demands. This means that only "authorised" devices can read/ write from a card and vice-versa.

"Hand held Device" :

Device - Technically the smart card chip has to exchange with card reader (a smart card reader is different from a magnetic strip reader in an ATM or a credit card reader normally seen) - but both ATM and the Credit Card reading device- often called a "Point of Sole" (POS) device - can be fitted with a smart card reader. As a normal Credit/ Debit Card reader device - the desired device need be small in size for portability, have buttons to enter alphanumeric data, a display screen, a card reader, usual power supply and communication ability to transmit the transaction data between the Bank system and itself to and fro . Obviously it needs electronic storage, memory, microprocessor and "Operating System (OS)". Again there exists more than one such "solutions". Sometimes the usual credit card POS are tweaked to incorporate the smart card etc. and sometimes companies have designed and developed dedicated machines for the purpose and even, some have put in add-on readers and program in certain type of cellphones to enable it up as a device. The communication with the 'backend' of bank is through a telephone line (PSTN), or wireless like a cellphone (GSM), or over internet over wireless (GPRS). There will have to be a specific 'application' program on the Device to involve the activities, offer menus, perform transactions etc. As discussed earlier , it is possible to effect various ways of 'authorising' the operator of the device as also the transacting card to the Device for transactions.

Add on Devices :

Finger Print Scanner/ Reader Device (FPD) - Banking practices need customer authentication. Customer signature record may not be for the 'Device' operator who often is an employee of a 'franchisee' outlet or 'contract based agent' etc. Also many remote customers may not be comfortable/ able to sign. So, though not a technical compulsion for the Device and Card to exchange, a finger print verification of customer (as also 'Device operator') is built into the transaction cycle as per banks' process. Essentially this is a physically very small device that reads the customer finger on presentation and creates the same or a 'compressed' or 'encrypted' version of the same. The similarly created electronic image/ compressed or encrypted version of that is 'stored' in the Card during 'customer enrollment'.

The card is put in the 'reader' of the Device while the live finger is put on FPD. The FPD gets the live finger and the stored version and compares (by a suitable program) and returns a 'success'/ 'failure' result. There are many methods of the Finger Print image encryption and comparison, mostly proprietory to each technology provider. (Incidentally the card systems and 'Devices' are also similarly having versatile technologies - mostly proprietory)

- The FPD is, in some systems built into the Deice as a component, sometimes housed together with the Device and connected and fixed permanently and sometimes standalone, exchanging data with the device wirelessly.
- Slip Printer - Often a small printer is attached/ built into the Device and the software prints a transaction slip here on transactions. Mostly thermal paper printers (requires no print ribbon, but print on paper fades with time) are used.
- Additional devices for Customer Enrollment -
- If the field level outlet does customer enrollment, often PC/Laptop are used for Customer details demographic data entry in field apart from FPD for fingerprint capture.
- For customers photo capture a digital camera is used often. Some cellphone implementations have started this with the built-in camera of the cell; some Laptop based implementations use webcam of the computer to do it.

There are practices of simplifying the method from taking enrollment forms to data centre (physically/ photo transmission from Cellphone/ hand held device/ web cam to data entry centre also and a mix of these practices) - upto full entry in the field on the hand held device also.

Binding it altogether :

Banking process and software remains behind the field presence. The POS Devices interact with an "intermediate server" that keeps POS data, card data, transaction data and communication control. This "Intermediate System" talks to the bank's system. Banks may have a separate system for this or use their own CBS. Programs reside on POS for field level transaction menu and in "Intermediate server" for control and aggregation of the field level 'POS' machines and interact with the banking system. In a fully outsourced model, a banking application is put (may not be of the bank but of the technology provider of the 'intermediate server') on the intermediate server and transaction, account maintenance is done here. In a bank based version while this may or may not be done, essentially all transactions and messages are to be pushed from this 'intermediate' (with technical provider mostly) to the bank's system that can be in Core Banking/ other main banking system or a standalone system at bank. The connectivity can be by leased line/ virtual (i.e. VPN etc.). The data exchanges (intermediate to bank and the reverse) can be immediate and instantaneous (on-line real time) or in lots, time to time (batch processing). Various processes and systems with many banks/ technology companies are on this architecture, details of elements/ methods at stages (at and between PoS, card, intermediate and Banking system) vary - giving varieties of models.

8. Technology Summary :

I. Front end -

(a) Transaction Device - (POS/ POT) - has smart card reader, Finger print scanner, Alphanumeric keypad for data entry, navigation key (up/ down/ enter etc.), Smart card reader, memory, processor, storage, communication facility, display, power supply, Operating system, software for its menu options to work and a slip printer

(b) Customer Enabler - Smart card - contact or contactless with processor, storage, memory.

(c) Operator Enabler - Operator Card (like customer card). The operator is agent of Business Correspondent (BC). BC maintains an account with bank.

II. Front end Operation. -

PoS program stored in POS. Operator logs in with his finger print or PIN verification technically - mostly with his card. Menu options show on POS. Customer gets verified with his card and fingerprint. Option for operation related (deposit/ withdrawal/ balance enquiry etc. - whatever provided) by operator and details (amount etc. as required) entered. In some systems the entered details are played back (local language possible) for customer to listen, be assured and confirm (by 'entering'/ 'selecting' some value/ option in the menu provided for confirmation). If 'off line' transactions is selected, the details stored in the customer card is checked by the program and action taken i.e. for withdrawal. If balance is sufficient it will debit i.e. note the reduced balance in the customer card, note the transaction in the POS, display response showing transaction success, new balance etc., print transaction slip for customer (1 or 2 as provided in program). At this point the BC (the field agent of BC) hands over the cash to the customer. This cash is own cash of the

BC field agent. When the transaction hits the banking system, eventually, the transaction that will be booked is - Debit the customer and Credit the BC. So, for all cash handed over by BC or his agent, BC's account in the bank is credited when it hits the Bank. For deposit by customer at the POS the transaction is just the opposite i.e. credit the customer and debit the BC. The transaction stored in the POS will be sent electronically to the 'intermediate server' at the back-end in 'batches' or at 'day-end' as decided/ opted and then this transaction will be posted in the intermediate server system in the customer account. If the bank has set up individual accounts in their banking system then the 'intermediate server' will pass these details to bank for posting in individual accounts at 'day-end' or in 'batches', else the bank takes a report from the 'intermediate system' and makes a summary entry.

For an 'online' transaction the card - POS- intermediate server (-bank if desired and system) data flow is immediate so that the data stored in card and intermediate (and bank system) are always aligned.

III. **Intermediate System -** Server, Communication and program. Intermediate Server maintains card base, customer demographics, customer account systems, day's transactions, and controls for message exchange to front (POS) and back (Bank). Mostly kept in some data centre. Lost card, lost POS, access control of POS, etc. are managed from here.

IV. Card Manufacture is a completely different process for which other vendors are there normally.

V. Banking System - Usual banking system - mostly Core Banking System these days. For intermediate and Banking systems to talk, a 'gateway' or 'switch' being a server with message exchange and control (firewall, etc.) are put in between.

VI. Back end process -

(a) Gateway or Switch - Manages access control, message flow routine management and control between banking system and intermediate servers.

(b) Banking system - The usual banking system of the bank. The smart card accounts can be in this or can be in the intermediate for which one summary account is mentioned in this system.

9. Costs :

As we have seen, the technological infrastructure and distribution manpower (BC) ecosystem required to do this activity is quite huge. The component costs vary with technology, volume and business model (own the backend or share a common hired backend, etc.)

As to components-presently the smart cards depending on technology and size, varies from above Rs.40/- to Rs.150/-, (bulk orders reduce cost), the POS machines are in the ranges of Rs.20000/- -30000/-. For the 'intermediate server' or 'banking system' costs as we know are huge and incremental costing (like 'per transaction' or 'per card' cost) has no dependability unless a huge base of millions of users are achieved. The banking system of a moderate size bank, costing an initial investment of say Rs.300 crores and recurring spends of Rs.30 crores a year will be fit for a given client base and geographical expanse, say 1 crore customer and 150 districts in 10 states (all figures imaginary). However, if the customer number was only 20 lacs but banking software, branch network and other physical reach were the same, the above costs would have been nearly the same. The per customer cost in two of these cases will widely vary. However, adding another 1 crore customer will not need the same investment again. The infrastructure costs move in slabs actually and averaging helps only after high numbers are achieved. While cost of POS and smart card are commodity cost from manufacturing industry (of course quite high value-added commodities they are !) and mostly paid so, the infrastructure and servicing cost of the technology back end and banking back ends have not surfaced clearly. Practices of paying a per month fixed cost per account (say Rs.5/-) were tried in the industry in some cases. Some projections of actual incremental setting up cost to have a BC point with a given number of customers (say 1000) with a given transaction level (say 2 per month, Rs.300 per transaction) were attempted and estimates moved between Rs.5000/- per month to Rs.3000/- depending on if amortization of cost of POS over 3-5 years is included or not. A clear model is not in place.

10. Benefits : The smart card based outreach has huge benefits.

For Customer :

(i) Cost and time of travelling to bank branch (which is away) is avoided.

(ii) Transactions cannot be done (specifically withdrawals) without his physical presence (due to fingerprint verification by technology to enable the transaction).

For Bank :

(i) Can reach small customer (for future business growth or societal reasons) without elaborate branch setup/ staff deployment.

(ii) Create a new delivery infrastructure that is technologically capable of ex-branch outreach for customer convenience.

For Society :

(i) Creation of a new avenue for Govt. to citizen, Business to citizen service delivery.

(ii) Creation of capacities and employments in remote locations (the BC network)

(iii) Spreading of Financial awareness and capability in disadvantaged population.

Contd. on Page 321

Limited Liability Partnership - A New Dimension of Business

Limited Liability Partnership (LLP) is s new business concept which will try to minimise the gap between partnership business and limited liability companies formed by the companies act. There exists different steps for incorporation of LLP and these steps are quite simple. LLP combines the advantages of partnership business and company but still it has some differences with partnership business and company. Different countries as UK, USA, Australia, Singapore, Japan have already accepted this limited liability partnership concept.

In India the need for LLP legislation gained momentum with the submission of 2nd Naresh Chandra Committee's report on 2nd July, 2005.The Limited Liability Partnership Act 2008 was published in the Indian official Gazette on January 9, 2009 and has been notified with effect from 31st March 2009. The concept of LLP is very promising for Indian business environment.

Nabina Saha*

Introduction:

Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. The main limitation of partnership is the unlimited liability of partners for the debts and liabilities of the firm i.e. if property of partnership firm is insufficient to meet liabilities, personal property of any partner can be attached to pay the debts of the firm. To remove this main limitation of partnership the concept of limited liability partnership has been introduced. A limited liability partnership (LLP) is a partnership in which some or all partners (depending on the jurisdiction) have limited liability. So, it contains elements of partnership and corporation. LLP is a legal entity separate from its partners, can own assets in its name, sue and be sued. Partners of LLP can manage the business directly and partners are not liable for another partner's misconduct. It must have perpetual succession and it should always be for profitable business. The rights and duties of partners in LLP will be decided by the agreement between partners and partners can devise the agreement as per their choice.

Arguments for LLP:

LLP is a new concept which will try to meet up the gap between partnership business and limited liability companies governed by the companies act. LLP will help small and medium enterprises and professional firms of company secretaries, chartered accountants etc. to conduct their business/profession smoothly and increase their global competitiveness. A LLP is advantageous because of comparatively lower cost of formation, lesser compliance requirements, easy to manage and run and dissolve, and without the need for minimum contribution of capital. Partners are not liable for the acts of other members, also there is no requirement of minimum alternate tax (as of date).

Incorporation of LLP :

The process for incorporating a LLP is simple. The steps required are-

- Decide on the partners and designated partners.
- Obtain Designated Partner Identification Number (DPIN) and a digital signature certificate.
- Decide on the name of the LLP and check whether it is available.
- Draft the LLP agreement.
- File the LLP agreement, incorporation documents and obtain the certificate of incorporation.

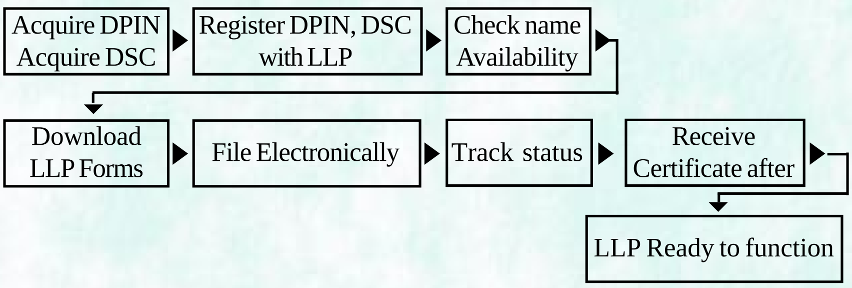
Comparison between the LLP, partnership firm and a company:

LLP combines the advantages of ease of running a partnership and separate legal entity status and limited liability aspect of a company but LLP has some differences with partnership firm and company. The differences are as follows :

- In case of company & LLP, the requirement of compulsory registration with ROC is there but in case of partnership firm, registration is not compulsory.

Exhibit-1

Process to Start LLP



*Lecturer in Commerce, Bankura Sammilani College, W.B.

- The word "limited' and "private limited" must be attached at the end of the name of public limited company and private limited company respectively and the name of LLP end with "LLP" "Limited Liability Partnership" but in case of partnership firm no such guidelines are there.
- Private limited company should have a minimum paid up capital of Rs 1 lakh and public limited company should have a minimum capital of Rs 5 lakhs but no requirement of such capital contribution is there in case of partnership firm and LLP.
- Both company and LLP have a separate legal entity but partnership firm does not have any such separate legal entity.
- In case of company the liability of each shareholder is limited to the extent of unpaid capital but the liability of each partner in case of partnership business is unlimited and in case of LLP the liability of each partner is limited to the extent of the contribution to the LLP.
- Minimum number of shareholders in case of private limited company is 2. Maximum number of shareholders in case of private limited company is 50 and maximum number of partners in case of partnership firm is 20 but LLP does not have any of such maximum number of partners.
- Foreign nationals can be shareholders of company and foreign nationals can be also Partners of LLP but foreign nationals can not form partnership firm.
- The income of a company is taxed at 30% + surcharge + cess and the income of a Partnership firm is taxed at 30% + surcharge + cess but how the income of LLP to be taxed has not yet been notified.
- In case of a company, quarterly Board of Directors meeting and annual shareholders meeting is mandatory. But, no such requirement is there in case of LLP and partnership firm.
- In case of a company, annual accounts and annual returns of company should file with ROC and in case of LLP annual statement of accounts and solvency and annual return has to be filed with ROC but in case of partnership no return to be filed with the registrar of firms.
- In case of company and partnership firms auditing is compulsory but in case of LLP auditing is required if the contribution is above Rs 25 lakhs or if annual turnover is above 40 lakhs.

International experiences of LLPs :

LLPs are very popular form of business in different countries throughout the world. In Canada, the provinces of Ontario, Manitoba and Albert and the territory of Nunavut have permitted LLPs for lawyers. In BC, the partnership amendment Act, 2004 (Bill 35) permitted LLPs for lawyers and other professionals as well businesses.

In China, LLPs are known as special general partnership and its organizational form is restricted to knowledge - based professions and technical service industries. The structure of these LLPs shields co-partners from liabilities due to the willful misconduct or gross negligence of one partner or a group of partners. In Germany, the German Partners chaftsgesellschaft or Part G is an association of non - commercial professionals, working together. It can sue and be sued, own property and act under the partnership's name. The partners are jointly and severally liable for all the partnership's debts, except when only some partner's misconduct causes damages to another party. The Partners chaftsgesellschaft does not need any corporate or business tax, only its partner's respective income is taxed. In Japan, LLPs were introduced in 2006. Japanese LLPs may be formed for any purpose (the purpose must be clearly stated in the partnership agreement) and have full limited liability. All partners in these LLPs must take an active part in the business but Japanese LLPs may not be used by lawyers or accountants, as these professions are required to do business through an unlimited entity. These LLPs are treated as pass-through entities for tax purposes.

In Singapore, LLPs are formed under the LLPs Act 2005. This legislation draws on both the US and UK models of LLP. For tax purpose these LLPs are treated like a general partnership and so the partners rather than the partnership are subject to tax.

In the United Kingdom LLPs are governed by the Limited Liability Partnership Act (in England and Wales and Scotland) and the Limited Liability Partnership Act (Northern Ireland) 2002 in Northern Ireland. A UK LLP is a corporate body which has a continuing legal existence independent of its members. A UK LLP's members have a collective responsibility, to the extent that they may agree in a "LLP agreement", but no individual responsibility for each other's action. In relation to tax, a UK LLP is similar to partnership i.e. it pays no UK tax but its members have to pay tax in relation to the income or gains they receive through the LLP. I

In the United States each individual state has its own law governing their formation. LLPs emerged in the early 1990s; while only two states allowed LLPs inl992, over forty had adopted LLP statutes by the time LLPs were added to the Uniform Partnership Act in 1996. Although LLP may be found in many business fields, it is an especially popular form of organization among professionals, particularly lawyers, accountants, and architects. Each individual state of United States has its own law governing their formation. The profits of an LLP of United States are allocated among the partners for tax purposes, avoiding the problem of "double taxation" often found in corporations.

LLPs in India :

For a long period the issue of Limited Liability Partnership has been a matter of discussion. In India the concept of LLP and its importance found mention in the report of Naresh Chandra Committee (2003) set up on regulation of private companies. But, the need for introduction of LLP legislation gained momentum when the 2nd Naresh Chandra Committee submitted its report on 23rd July 2005 and made the following observations: "In increasing litigious market environment, prospect of being a member of a partnership firm with unlimited liability is, to say the least, risky and unattractive. Indeed the chief reason why the firms of professionals, such as accountants, have not grown in size to successfully meet the challenge of the international competition. This makes an LLP a most attractive vehicle for partnership among professionals such as lawyers and accountants". According to committee's view, the scope of LLPs should be made available to firms providing professional services, as opposed to trading firms, and/or manufacturing firms for the reason it will help to evaluate its advantages and risks; and based on such evaluation and experience, the LLP could be considered for extension to small scale industries. Recently the JJ Irani Expert Committee on company law (2005) under the chairmanship of JJ Irani and appointed by the Central Government recommended the introduction of a LLP law. In its report the committee recommended as follows "Limited Liability Partnerships should be facilitated through a separate enactment. Companies Act need not prescribe limitations on the number of members of other kind of organizations". While Naresh Chandra Committee preferred the application of the LLP to the service industry, Irani Committee recommended that the small enterprise should also be included in the scope of LLP.

Limited Liability Partnership Bill was tabled in Rajya Sabha on 15th December 2006. The Bill, introduced by the Minister of Company Affairs, will bring the Indian partnership law framework more in line with international practices and this bill will provide an effective alternate corporate business vehicle to professionals and enterprises to institutionalize their activities and graduate to the next level. The LLP Bill, 2006 is broadly based on UK and Singapore LLP Acts. The Central Government has retained the power to make rules for carrying out the provision of the Act. The Bill is divided into XIV chapters having 73 sections and four schedules.

The Limited Liability Partnership Act 2008 was published in the official Gazette of India on January 9, 2009 and has been notified with effect from 31st March 2009. The Act has been notified with limited sections only. The Lok Sabha (Lower House) granted its assent to the Bill on December 12, 2008 which was already passed by the Rajya Sabha (Upper House) in October 2008. The rules under the act have been framed and are made effective from 01.04.2009.

The sailent features of the LLP Act, 2008 are as follows :

- The LLP is an alternative corporate business vehicle that would give the benefits of limited liability but allows its members the flexibility of organizing their internal structure as a partnership based on an agreement.
- The LLP Act does not restrict the benefit of LLP structure to certain classes of professionals only and would be available for use by any enterprise which fulfills the requirements of the Act.
- LLP has a separate legal entity. The liability of the partners would be limited to their agreed contribution in the LLP. No partner would be liable on account of the independent or unauthorized actions of other partners.
- LLP shall be a body corporate and a legal entity separate from its partners. It will have perpetual succession. Indian Partnership Act 1932 shall not be applicable to LLPs and there shall not be any upper limit on number of partners in an LLP. LLP Act makes a mandatory statement where one of the partners to the LLP should be an Indian.
- Provisions have been made for corporate actions like mergers, amalgamations etc. While provisions in respect of winding up and dissolutions of LLPs have been made, detailed provisions in this regard would be provided by way of rules under the Act.
- The Act provides the conversion of existing partnership firm, private limited company and unlisted public company into a LLP by registering the same with the Registrar of Companies (ROC).
- Nothing contained in the Partnership Act 1932 shall effect an LLP.
- The Registrar of Companies (ROC) shall register and control LLPs.
- The governance of LLPs shall be in electronic mode based on successful model of the present Ministry of Corporate Affairs Portal.
- Some private players also offer online LLP registration service.

Conclusion:

Dynamism is the main characteristic of life. Being a living process business always changes its form and according to that theory the new concept Limited Liability Partnership business has been introduced. This business entity allows individual partners to be restricted from the joint liability of partners in a. partnership firm. So, this is really a great relief to the partners, particularly professionals like company secretaries, chartered accountants, cost accountants, lawyers and other professionals. Different countries like UK, USA, Australia, Singapore, Japan has already accepted this Limited Liability Partnership concept. The introduction of LLPs in India is a good beginning towards a long journey. In my opinion this Limited Liability Partnership concept is really very good and promising for Indian business environment.

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For Industry :

New/expanded market for technology companies (Smart card, POS, Software and backend systems) Communication channel usage. The data exchanges from POS to backends, often the POS being implemented involving a Cellphone or even otherwise, creates network traffic for cell phone companies.

11. Prevention of frauds :

(i) Fingerprint technology being well established, actual fingerprint verification in field during transaction is reasonably good. So, impersonation/ wrongful customer identification is very strongly controlled by technology. However, fingerprint qualities of toiling masses may be not very good i.e. the distinctive features may not be very sharp/ pronounced. So, the fingerprint capture quality both during enrolment and verification need be high; also, threshold for accepting a 'match' is preferably to be kept high (there are few technical parameters) in the software- which also will mean that a genuine person can get 'rejected' - leading to customer dissatisfaction. However, easing of these standards will lead to a 'wrong' person to get matched which will then fail to prevent frauds.

(ii) The 'card', the 'POS' are mutually authenticated and the 'POS' is authenticated by the Intermediate Server by the software as a practice. This means some rouge installations or unauthorized outlets/ cards cannot operate in the ecosystem. Fraud can happen from this angle if the implementing software agency do not implement these mutual authentication principle at the said stages.

(iii) The exchange of data including fingerprint data between card, POS, Intermediate Server are usually encrypted so that the recipient having the correct decryption algorithm and key can only use/ act on such data. This prevents fraud of ingenuine message being introduced from outside or messages getting 'intercepted' while in open and then being altered. Compromising on this practice of encryption of messages and never bringing the encryption key in the open, will loosen the guard against fraud.

(iv) While the technology is reasonably secure, "offline" transaction by person(s) / outlet with physical misrepresentation/ duping illiterate or ill-informed customers can be a possibility outside the system. The systems and processes and checks and oversight on actual activities can help prevent such situations - which are not controllable by technology programs completely.

12. In Fine :

The technologies have evolved well in this area but the business viability, large scale adoption, societal/ Governmental funds support for building up the ecosystem of both the technology and the operating human chain/ business entities, are visibly lacking. Without this last piece, the technology alone is not expected to make a reasonable service to the society.❑

The Institute of Cost and Works Accountants of India

(Set up in the year 1944-founder member of IFAC, CAPA & SAFA)

EASTERN INDIA REGIONAL COUNCIL

ORGANISES

51st NATIONAL COST CONVENTION

at FORTUNE PARK PANCHWATI, KOLKATA

Kona Expressway, Santragachi, Howrah - 711 403, W.B.

Phone : 91-33-39884444

On 23rd, 24th & 25th April, 2010

TIME	23rd APRIL FRIDAY	24th APRIL SATURDAY	25th APRIL SUNDAY
09.00 – 09.30	Registration	-	-
09.30 – 10.30	INAUGURATION		
10.30 – 11.00	TEA		
11.00 – 12.00	Discussion Meet (Persons from the Regulatory Body)	Discussion Meet (Persons from the Regulatory Body)	Discussion Meet (Madams' Day Out)
12.00 – 13.00	Technical Session with the Corporate Giants (Cost Accounting for Strategic Competitiveness - Iron & Steel)	Technical Session with the Corporate Giants (Cost Accounting for Strategic Competitiveness - power)	Technical Session with the Business & Industry Associations. (Di rect Tax Code & GST)
13.00 – 14.00	LUNCH		
14 .00 – 15.00	Technical Session with the Corporate Giants (Cost Accounting for Strategic Competitiveness - Infrastructure)	Technical Session with the Corporate Giants (Cost Accounting for Strategic Competitiveness - IT – ITES)	LUNCH
15.00 – 16.00	Technical Session with the Corporate Giants (Cost Accounting for Strategic Competitiveness Banking)	Technical Session with the Corporate Giants (Cost Accounting for Strategic Competitiveness - Telecommunication)	Valedictory Session & Prize Distribution
16.00 – 16.30	HIGH TEA		-
16.30 – 17.30	Technical Session with the Corporate Giants (Cost Accounting for Strategic Competitiveness Insurance)	Technical Session (Competition Commission)	
17.30 – 18.30	Technical Session (IFRS)	Regions & Chapters' Meet	
19.00 Onwards	-	Cultural Programme & Convention Dinner	

Registration Fees	
Delegate	Rs. 7000/- per Delegate
Practicing Cost Accountants & ICWAI Students	Rs. 5000/- per Delegate
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Special Page	Rs. 70,000
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Back Cover (Inside)	Rs. 30,000
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Inside Full Page (Colour)	Rs. 20,000
Inside Full Page (Black & White)	Rs. 10,000
Inside Half Page (Black & White)	Rs. 7,000
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Display Banner [At Convention venue (3' x 6')]	Rs. 50,000

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Main Sponsorship:
Rs. 15,00,000/-

- The company will be allowed to send 20 (Twenty) numbers of delegates at free of cost.
- As the title sponsor and partner of the conference in association with EIRC ICWAI Kolkata, your name will figure prominently in all the publicity and media communication undertaken by EIRC ICWAI Kolkata.
- The company will be allowed to set up promotional stall(s) in the campus for the duration of the conference and would have the option of placing suitable complimentary inserts in the welcome kit we will give to the speakers and participants of the seminar conference.
- All the stationery used in communication and invitation will contain your company logo along with that of EIRC ICWAI Kolkata.
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- Backdrop banners (3 in no) will be put up at the location.
- The event will be mentioned as Corporate lunch hosted by your company in the Program schedule.
- Two insertion in the EIRC NEWS monthly journal published by EIRC OF ICWAI and one inside back cover insertion in the souvenir.

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- The company will be allowed to send 8 (Eight) numbers of delegates at free of cost.
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Technical Paper
Rs. 2,00,000/-

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- Name of the advertiser will be displayed in the Kit.

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- The company will be allowed to send 3 (Three) numbers of delegates at free of cost.
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Tea
Rs. 50,000/-

- The company will be allowed to send 2 (Two) numbers of delegates at free of cost.

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Rs. 35,000/-

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Dear Sir,

We are pleased to inform you that we are interested in: [Tick which is applicable]

a) Sponsoring the programme to be held on 23rd , 24th & 25th April, 201 0 at **Fortune Park Panchwati, Kolkata, Kona Expressway, Santragachi, Howrah-711 403, West Bengal**
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Name of the Organization: ....
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c) To enroll the following person(s) as delegates for the 51 st National Cost Convention. Delegate Details:

1) Name:...
Designation:.. ☐ Veg ☐ Non-Veg
2) Name:...
Designation:.. ☐ Veg ☐ Non-Veg
3) Name:..
Designation:..☐ Veg ☐ Non-Veg

[Attach more pages if no. of persons is more than three(3)]
Bank Draft/Cheque should be drawn in favour of **'51 st National Cost Convention of ICWAI'** payable at Kolkata.

Signature with seal

ANNOUNCEMENT

ESSAY COMPETITION

We are happy to announce that the essay competition **'Cost Management - Key to survival in current global meltdown'** has received a very good response, which would not have been possible but for the enthusiastic participation of our members and students. We thank all contributors for their interest. The winners' names has already been announced on page 266. The awards will be presented, details of which will be intimated individually and also hosted on Institute's website.

Buoyed by the heartening response of the essay competition, we propose to hold another essay competition.

The topic for members is

"ROLE OF COST AND MANAGEMENT ACCOUNTANTS IN CHANGED SCENARIO"

and the topic for students is

"CORPORATE SOCIAL RESPONSIBILITY- EXPECTATIONS FROM COST AND MANAGEMENT ACCOUNTANTS".

The competition is open for all Indian Nationals.

In the **General** category, Grad CWAs, members and students of ICWAI above 25 years are eligible to participate.

In the **Students** category, only students of ICWAI in the age group 17- 25 years are eligible to participate.

First prize: Rs.20,000/-, Second Prize: Rs.15,000/- and Third prize: Rs.10,000/- in each category.

Terms and conditions

1. Entries may be submitted by individuals or jointly to Deputy Director (Research & Journal), ICWAI, 12 Sudder Street, Kolkata-700016.
2. Essay can be coauthored by student of ICWAI or member of ICWAI or Grad CWA only.
3. Essay should be in English only.
4. The essay should be accompanied by a declaration by the participant of the essay to confirm that it is original and that it has not been published earlier. Wherever required, reference must be quoted. This condition is mandatory.
5. Participants are required to clearly furnish their name, age, status- student/ member, address, email, phone number and one photograph along with the essay.
6. Participants shall be responsible for ensuring that all the information supplied by them regarding themselves is true, correct and complete. They shall keep the Institute informed of any change in information about them till the competition is over.
7. Entries should not exceed 5000 words.
8. The matter should be type written on one side of the page in 1.5 space. Each page should be signed by the participant/s.
9. Last date of submission is **15th April, 2010.**
10. Entries received after the last date will not be considered.
11. Entries received shall be the property of ICWAI and may be used freely.
12. ICWAI shall not be liable for any loss or damage of any nature incurred by the participant as a result of their participation in the competition. Participants shall indemnify ICWAI against any damages howsoever arising from their participation in the competition.
13. Participants shall comply with all national and international laws pertaining to Intellectual Property Rights.
14. Any or all of the terms of competition may be changed by ICWAI at any time without prior notice.
15. ICWAI reserves the right to stop or suspend the competition without assigning any reasons.
16. The award winners will be intimated by email/ post.
17. In case of any dispute or difference of opinion, the decision of ICWAI will be final.
18. Prizes will be given at a function organized by ICWAI. The winners will be provided second class AC return train fare or air ticket at the discretion of ICWAI. Lodging and boarding will also be provided as per Institute's rules.

The Institute of Cost and Works Accountants of India

EXAMINATION TIME TABLE & PROGRAMME - JUNE 2010

	PROGRAMME FOR SYLLABUS 2002		PROGRAMME FOR SYLLABUS 2008 (REVISED)		
Day, Date & Time	**Final** 9.30 A.M. to 12.30 P.M.	**Intermediate** 2.00 P.M. to 5.00 P.M.	**Intermediate–2008** 9.30 A.M. to 12.30 P.M.	**Final – 2008** 2.00 P.M. to 5.00 P.M.	**Foundation** 2.00 P.M. to 5.00 P.M.
Friday, 11th June, 2010	Operations and Project Management and Control	Cost and Management Accounting	Financial Accounting	Capital Market Analysis & Corporate Laws	___
Saturday, 12th June, 2010	Advanced Financial Management and International Finance	Information Systems and Technology	___	Financial Management & International Finance	___
Sunday, 13th June, 2010	Strategic Management and Marketing	Business Laws and Communication Skill	Commercial and Industrial Laws and Auditing	Management Accounting – Strategic Management	___
Monday, 14th June, 2010	Strategic Tax Management	Business Taxation	Applied Direct Taxation	Indirect & Direct – Tax Management	___
Tuesday, 15th June, 2010	Management Accounting – Decision Making	Management Accounting- Performance Management	Cost & Management Accounting	Management Accounting – Enterprise Performance Management	Organization and Management Fundamentals
Wednesday, 16th June, 2010	Management Accounting- Financial Strategy and Reporting	Advanced Financial Accounting	___	Advanced Financial Accounting & Reporting	Accounting
Thursday, 17th June, 2010	Cost Audit and Management Audit	Auditing	Operation Management and Information Systems	Cost Audit & Operational Audit	Economics and Business Fundamentals
Friday, 18th June, 2010	Valuations Management and Case Study	Quantitative Methods	Applied Indirect Taxation	Business Valuation Management	Business Mathematics & Statistics Fundamentals

EXAMINATION FEES

Stage (s)	Final Examination	Intermediate Examination	Foundation Course Examination
One Stage (Inland Centres) (Overseas Centres)	Rs.800/- US $ 100	Rs.700/- US $ 90	Rs.700/- US $ 60
Two Stages (Inland Centres) (Overseas Centres)	Rs.1600/- US $ 100	Rs.1400/- US $ 90	

1. Application Forms for Foundation Course, Intermediate and Final Examinations are available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of Rs. 30/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US $ 10 per form.

2. Last date for receipt of Examination Application Forms without late fees is 10th April, 2010 and with late fees of Rs. 200/- is **20 th April, 2010.**

3. Examination fees to be paid through Bank Demand Draft of requisite fees drawn in favour of the Institute and payable at Kolkata.

4. Students may submit their Examination Application Forms along with the fees at ICWAI, 12 Sudder Street, Kolkata -700016 or Regional Offices or Chapter Offices. Any query can be sent to Sr. Director (Exam.) at H. Q.

5. For June 2010 term of Examinations questions on the subjects - "Business Taxation" and "Strategic Tax Management" for Syllabus 2002 & "Applied Direct Taxation", "Applied Indirect Taxation" and "Indirect & Direct - Tax Management" will be set considering the Finance (No.2)Act, 2009 involving Assessment Year : 2010-2011.

6. Examination Centres : Agartala, Ahmedabad, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Berhampur(Ganjam), Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Shillong, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Dubai and Muscat.

7. A candidate who is completing all conditions will only be allowed to appear for examination.

8. Probable date of publication of result : Foundation - 2nd August 2010 and Inter & Final - 22nd August 2010.

C. Bose
Sr. Director (Examination)

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

EXAMINATION TIME TABLE & PROGRAMME - JUNE 2010

CERTIFICATE IN ACCOUNTING TECHNICIANS (CAT)

Day & Date	Time	Foundation Course (Entry Level) Part - 1
Tuesday, 15th June 2010	02.00 P.M. to 05.00 P.M.	Organisation and Management Fundamentals
Wednesday, 16th June 2010	02.00 P.M. to 05.00 P.M.	Accounting
Thursday, 17th June 2010	02.00 P.M. to 05.00 P.M.	Economics and Business Fundamentals
Friday, 18th June 2010	02.00 P.M. to 05.00 P.M.	Business Mathematics and Statistics Fundamentals

Day & Date	Time	Competency Level Part - II
Friday, 11th June 2010	09.30 A.M. to 12.30 P.M.	Financial Accounting
Saturday, 12th June 2010	09.30 A.M. to 12.30 P.M.	Applied Statutory Compliance

Examination Fees

Inland Centres	Foundation Course (Entry Level) Part - 1	Rs. 700/-
	Competency Level Part - II	Rs. 700/-

1. Application Forms for CAT Examination will be available from Directorate of CAT at "ICWAI Bhawan", 3, Institutional Area, Lodi Road, New Delhi - 110003. Cost of form Rs.30/- per form.
2. Last date of receipt of Examination Application Forms without late fee is 10th April 2010 and with late fee of Rs.100/- is 20th April, 2010.
3. Examination Fees to be paid through Bank Draft of requisite fees drawn in favour of "ICWAI A/C CAT" payable at New Delhi.
4. Students will send their Examination Application Forms along with the fees to Directorate of CAT at "ICWAI Bhawan", 3, Institutional Area, Lodi Road, New Delhi - 110003.
5. Examination Centres : Agartala, Ahmedabad, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Berhampur (Ganjam), Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottyam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Shillong, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vellore, Vijayawada, Vindhyanagar, Waltair.
6. A candidate who is fulfilling all conditions will only be allowed to appear for examination.
7. Probable date of publication of result : Foundation Course (Entry Level) Part - 1 is 2nd August, 2010 and Competency Level Part - II is 22nd August, 2010.

C. Bose
Sr. Director (Examination)

NOTIFICATION

The Examination Committee of the Council of ICWAI at its 268th meeting decided to open new examination centers at

(a) Jabalpur (Center Code 127) (b) Kannur-Kerala (Center Code 223) and (c) Noida (Center Code 425) with effect from June 2010 term of examination.

While selling the existing Examination Application forms the Chapters and Regions are requested to inform the students accordingly.

C. Bose
Sr. Director (Examination)

CUSTOMS

Government of India, Ministry of Finance, (Department of Revenue), New Delhi, the 11th March, 2010

Notification No. 32/2010-Customs

G.S.R. 184(E). - In exercise of the powers conferred by sub-section (1) of section 25 of the Customs Act, 1962 (52 of 1962), th e Central Government, being satisfied that it is necessary in the public interest so to do, hereby makes the following further amendments, in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No.39/96-Customs, dated the 23rd July, 1996, G.S.R. 291(E), dated the 23rd July, 1996, namely:-

In the said notification, in the TABLE, against S.No.18, in column (3), -

i. for the words and letters "duly certified by the Senior Manager" the words and letters "duly certified by the Senior Manager or the Assistant Director" shall be substituted.
ii. in the Explanation, for the words, letters and figures, "the 28th day of March 2010", the words, letters and figures, "the 1st day of January, 2019" shall be substituted.

[F. No. 354/76/2006-TRU]

(Prashant Kumar), Under Secretary to the Government of India

Note:- The principal notification No.39/96-Customs dated the 23rd July, 1996 was published in the Gazette of India, Extraordinary, Part-II, Section 3, Sub-section (i) vide number G.S.R. 291 (E), dated the 23rd July,1996 and last amended vide notification No.54/2009-Customs dated the 22nd May, 2009 , published vide number G.S.R. 355(E), dated the 22nd May, 2009.

GOVERNMENT OF INDIA, MINISTRY OF FINANCE , (DEPARTMENT OF REVENUE), New Delhi, the 12th March, 2010Notification No. 33/2010-Customs

G.S.R. (E).- In exercise of the powers conferred by sub-section (1) of section 25 of the Customs Act, 1962 (52 of 1962), the Central Government, on being satisfied that it is necessary in the public interest so to do, hereby makes the following further amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No. 21/2002-Customs, dated the 1st March, 2002 which was published in the Gazette of India, Extraordinary, vide number G.S.R.118 (E), dated the 1st March, 2002, namely:-

In the said notification, in the Table,-

(i) for S. No 3 and the entries relating thereto, the following shall be substituted, namely:-

S. No.	Chapter or Heading No. or sub-heading No.	Description of goods	Standard rate	Additional duty rate	Condition No.
(1)	(2)	(3)	(4)	(5)	(6)
“3.	0402 10 or 0402 21 00	Goods upto an aggregate of thirty thousand metric tonnes of total imports of such goods in a financial year.	Nil	-	1”.

(ii) after S.No. 3AA and the entries relating thereto, the following S.No. and the entries shall be inserted, namely:-

S. No.	Chapter or Heading No. or sub-heading No.	Description of goods	Standard rate	Additional duty rate	Condition No.
(1)	(2)	(3)	(4)	(5)	(6)
“3AB.	0405	White Butter, Butter oil, Anhydrous Milk Fat upto an aggregate of fifteen thousand metric tonnes of total imports of such goods in a financial year.	Nil	-	1.”

[F.No.354/20/2010-TRU]

(Prashant Kumar),Under Secretary to the Government of India

Note: The principal notification No.21/2002-Customs, dated the 1st March, 2002 was published in the Gazette of India, Extraordinary, vide number G.S.R. 118(E), dated the 1st March, 2002 and was last amended vide notification No. 21/2010-Customs, dated the 27th February, 2010 published vide number G.S.R.134(E), dated the 27th February, 2010.

CENTRAL EXCISE
GOVERNMENT OF INDIA, MINISTRY OF FINANCE, (DEPARTMENT OF REVENUE)
(CENTRAL BOARD OF EXCISE AND CUSTOMS)
Notification No 12 /2010 Central Excise (N.T.), New Delhi, the16 March, 2010.

G.S.R. (E) - In exercise of the powers conferred by sub-section (1B) of section 35B of the Central Excise Act, 1944 (1 of 1944), the Central Board of Excise and Customs hereby makes the following further amendment in the notification of the Government of India, Ministry of Finance (Department of Revenue) No. 24/2005-Central Excise (N.T.) published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) ,vide, number G.S.R. 304(E), dated the 13th May, 2005, namely:-

In the said notification, in the Table, against serial number 14, in column (2), in item number (2) for the word "Cochin" , the word "Bangalore" shall be substituted ;.

[F.No.390/39/07-JC]
MOHAN LAL
Under Secretary(Judicial Cell)

VARIOUS BUDGET RELATED CIRCULARS ON CUSTOMS, CENTRAL EXCISE , SERVICE TAX , ETC. AVAILABLE ON WEBSITE " www.cbec.gov.in"

SEBI

Sanjay Purao, Deputy General Manager, Corporation Finance Department, Division of Issues and Listing
SEBI/CFD/DIL/LA/1/2010/05/03 March 5, 2010
The Managing Director / Executive Director / Administrator of All Stock Exchanges

Dear Sirs,

Sub: Disclosure of details of the allottees in the Qualified Institutional Placements (QIP) made by issuer company

1.0 It has been decided that the details of allottees and the corresponding pre and post QIP issue shareholding in the issuer company may be disclosed on the website of the stock exchanges. Accordingly, this circular is issued in exercise of powers conferred by sub-section (1) of Section 11 of the Securities and Exchange Board of India Act, 1992, to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.

2.0 All the Stock Exchanges are advised to :

2.1 Ensure that the details of those allottes in QIP who have been allotted more than 5% of the securities offered in the QIP, viz names of the allottees and number of securities allotted to each of them, pre and post issue shareholding pattern of the issuer in the format specified in clause 35 of the Equity Listing Agreement shall be made available on the website of stock exchanges along with the final placement document.

2.2 communicate to SEBI the status of implementation of the requirements of this circular in the next Monthly Development Report.

3.0 Applicability

3.1 The aforesaid instruction shall come into force with immediate effect.

4.0 This circular is available on SEBI website at www.sebi.gov.in under the categories "Legal Framework" and "Issues and Listing".

Yours faithfully,
Sanjay Purao

SEBI/IMD/CIR No 18 / 198647 /2010, March 15 ,2010
Sub: Circular for Mutual Funds
AVAILABLE ON SEBI WEBSITE www.sebi.gov.in
SEBI/MIRSD/Master Cir-04/2010, March 17, 2010

Sub: Master Circular on Oversight of Members (Stock Brokers/Trading Members/Clearing Members of any Segment of Stock Exchanges and Clearing Corporations)
AVAILABLE ON SEBI WEBSITE "www.sebi.gov.in"
RESERVE BANK OF INDIA
RBI/2009-10/347 DBOD.BP.BC.No. 79 /21.04.018/2009-10 March 15, 2010
Subject; Additional Disclosures by banks in Notes to Accounts
AVAILABLE ON RBI WEBSITE "www.rbi.org.in"

RBI/2009-10/343
IDMD.PDRD.No. 3843 / 03.64.00/2009-10 March 9, 2010
All Standalone Primary Dealers
Dear Sir
Investment Portfolio of Primary Dealers - Extension of HTM Category for PDs
Please refer to the circular RBI / 2009-10 / 136 - IDMD.PDRD.No. 1050 / 03.64.00 / 2009-10 dated August 31, 2009 allowing the standalone Primary Dealers (PDs) to categorize a portion of their Government securities portfolio in the Held to Maturity (HTM) category, subject to certain conditions, till March 31, 2010. The above guidelines have been reviewed and it has been decided to permit the PDs to continue holding of Government securities in HTM category until further advice. All other conditions specified in the circular referred to above will continue to apply.
2. Banks undertaking PD activities departmentally may continue to follow the extant guidelines applicable to banks in regard to the classification and valuation of the investment portfolio issued by our Department of Banking Operations and Development.
Yours faithfully
(K.V.Rajan)
Chief General Manager

RBI/2009-10/342
RPCD.CO.RF.BC.No.60/07.37.02/2009-10 March 5, 2010
All State and District Central Co-operative Banks
Dear Sir,
Repayment of Gold Loan
State and Central Co-operative Banks grant loans for various purposes against the security of gold /gold ornaments as part of their lending policy. As per extant instructions (c.f. our circular RPCD.RF.BC.No.69/07.37.02/2002-03 dated January 31, 2003), banks charge interest at monthly rests on loans and advances granted for purposes other than agricultural and allied activities.
2. On a review, it has been decided to permit bullet repayment of gold loans up to Rupees one lakh as an additional option. State and Central Co-operative Banks are, therefore, permitted to lay down policies with the approval of their Board for sanction of gold loan with bullet repayment option subject to the following guidelines:
(i) The amount of gold loan sanctioned should not exceed Rs. 1.00 lakh at any point of time.
(ii) The period of loan shall not exceed 12 months from the date of sanction.
(iii) Interest will be charged to the account at monthly rests, but will become due for payment along with repayment of principal only at the end of 12 months from the date of sanction.
(iv) The bank should prescribe a minimum margin to be maintained in case of such loans and accordingly, fix the loan limit taking into account the market value of the security (gold / gold ornament), expected price fluctuations, interest that will accrue during the tenure of the loan, etc.
(v) Such loans shall be governed by the extant income recognition, asset classification and provisioning norms which shall be applicable once the principal and interest become overdue.
(vi) The account would also be classified as NPA (sub standard category) even before the due date of repayment, if the prescribed margin is not maintained.
3. It is clarified that crop loans sanctioned against the collateral security of gold/gold ornaments shall continue to be governed by the extant income recognition, asset classification and provisioning norms for such loans.
Yours faithfully,
(R.C.Sarangi)
Chief General Manager

RBI/2009-10/337
RPCD.RRB.No.BC. 61/ 03.05.34/2009-10 March 4, 2010
All Regional Rural Banks
Dear Sir,
Provisioning Requirement for Standard Assets
Please refer to paragraph 2 of our circular RPCD.RRB.No.BC.97/03.05.34/2000-01 dated June 11, 2001 regarding provisioning requirements for 'standard assets'.
2. In this connection, a reference is invited to paragraph 158 of the Second Quarter Review of Monetary Policy for the year 2009-10 announced on October 27, 2009 (copy enclosed). It was proposed to increase the provisioning requirement for advances to the Commercial Real Estate (CRE) sector classified as 'standard assets' to 1.00 per cent with a view to building cushion against likely non-performing assets (NPAs). Accordingly, it has been decided to increase the provisioning requirement for advances to the CRE Sector classified as 'standard asset' to 1%. As regards other standard assets, it has been decided that while the provisioning requirements for direct advances to agriculture and SME sectors would remain unchanged at 0.25%, the same for all other loans and advances would be 0.40%.
3. The standard asset provisioning requirements for all categories, after the above changes, are summarised below.

Sr.No.	Category of standard asset	Rate of provisioning
(a)	Direct advances to Agriculture and SME sectors	0.25 %
(b)	Commercial Real Estate (CRE) sector	1.00%
(c)	All other loans and advances not included in (a) and (b) above	0.40%

4. Please acknowledge receipt to our Regional Office concerned.
Yours faithfully
(R.C.Sarangi)
Chief General Manager

RBI/2009-10/339
UBD (PCB) BPD.Cir.No. 48 / 13.01.000 / 2009-10 March 4, 2010
Chief Executive Officer
All Primary (Urban) Cooperative Banks
Dear Sir,
Payment of Interest on Savings Bank Account on Daily Product Basis
Please refer to our circular UBD (PCB) BPD.Cir.No. 7 / 13.01.000 / 2009-10 dated September 1, 2009 advising banks to put in place requisite infrastructure so that transition to the revised procedure of calculating interest on balances in savings bank accounts on a daily product basis could be implemented smoothly.
2. We advise that payment of interest on savings bank accounts may be made by banks on a daily product basis with effect from April 1, 2010.
Yours faithfully,
(A.K. Khound) Chief General Manager-in-Charge

RBI/2009-10/36
A.P. (DIR Series) Circular No.36 February 24, 2010
To
All Category - I Authorised Dealer Banks
Madam / Sir,
Overseas Investment Application - Online Reporting of Overseas Direct Investment in Form ODI
AVAILABLE ON RBI WEBSITE "www.rbi.org.in"

ANNOUNCEMENT

The Management Accountant - May, 2010 will be a special issue on
'COST AND STRATEGIC MANAGEMENT FOR GROWTH OF SME SECTOR'.
Articles, views and opinions on the topic are solicited from readers to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to research@icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15th April, 2010.

ANNOUNCEMENT

The Management Accountant - June, 2010 will be a special issue on
'ROLE OF COST AND MANAGEMENT ACCOUNTANTS UNDER DIRECT TAX CODE'.
Articles, views and opinions on the topic are solicited from readers to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to research@icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15th May, 2010.

Kolkata, the 5th March, 2010

NOTIFICATION

11-CWR (421-424)/2010 : In pursuance of sub-Regulation (3) of Regulation 11 of the Cost and Works Accountants Regulations, 1959, it is hereby notified that the Certificates of Practice granted to :

1. Shri Pranab Kumar Chatterjee, BCOM(HONS),FICWA,Mathpara, Nildanga, Gopinathpur, Bankura - 722101, (Membership No. 23674) is cancelled from 4th December, 2009 to 30th June, 2010 at his own request,
2. Shri Ranjit Jha, BSC(HONS),AICWA, Deep Apartment, G-4, HA-20, Sachindra Lal Sarani, Aswininagar, Baguiati, Kolkata - 700059, (Membership No. 28326) is cancelled from 2nd February, 2010 to 30th June, 2010 at her own request,
3. Shri S. Balaji, BCOM,AICWA, 616, Mahamayatala Road, Flat No. 204, Block - F, 2nd Floor, Basundhara Apartments, Tentultala, Kolkata - 700084, (Membership NO. 23501) is cancelled from 10th January, 2010 to 30th June, 2010 at his own request,
4. Shri Appa Rao Kella, BCOM,ACS,FICWA, C/o. Murali Associates, 1st Floor, Ramanuja Plaza Opp Hotel Vasali, Vth Cross, Malleswaram, Bangalore - 560003, (Membership No. 18312) is cancelled from 14th August, 2009 to 30th June, 2010 at his own request.

(G.N. Venkataraman)
President

Kolkata, the 5th March, 2010

NOTIFICATION

16-CWR(8755-8762/2010: In pursuance of Regulation 16 of the Cost and Works Accountants Regulations, 1959, it is hereby notified that in exercise of powers conferred by sub-section (1) (b) of Section 20 of the Cost and Works Accountants Act, 1959, the Council of the Institute of Cost and Works Accountants of India has removed from the Register of Members, the name of :

1. Shri Arjun Dev Malhotra, MCOM,AICWA, KG - 10, Kavi Nagar, Ghaziabad - 201002, (Membership No. 694) with effect from 6th October, 2009 at his own request,
2. Shri A. Jagannathan, BCOM,FCA,AICWA, 64-33 99TH Street, Apt. 5J, Rego Park, New York, NY 11374, U.S.A. (Membership No. 1261) with effect from 7th August, 2009 at his own request,
3. Shri Vasudeo Sadashiv Pise, BCOM,AICWA, avp Management Consultants, Shri Sai Shri Niwas, B20, Panini Society, Araneswar, Pune - 411009, (Membership No. 2008) with effect from 14th September, 2009 at his own request,
4. Shri Anand Bihari Lal, BA,FICWA, Flat No. B-10, Sona Apartments, 9, Aundh Road, Khadki, Pune - 411020, (Membership No. 2798) with effect from 31st August, 2009, at his own request.
5. Shri Radhesh Chandra Pal, BA,FICWA, B-1/1260, Vasant Kunj, New Delhi 110070, (Membership No. 3207) with effect from 5th August, 2009, at his own request.
6. Shri Ved Prakash Gupta, MA,ACS,FICWA, 100-D, Sukhdev Vihar, Pkt. `A', D.D.A. Flats, New Delhi 110025, (Membership No. 3820) with effect from 2nd September, 2009, at his own request,
7. Shri Dilip Kumar Saha, MCOM,AICWA,F 21/7, Karunamoyee Housing Estate, Sector - II, Phase - II, Salt Lake City, Kolkata - 700091, (Membership No. 4641) with effect from 7th August, 2009, at his own request,
8. Shri Sharad W. Athaley, BSC, FICWA, 408A, Lokmat Bhavan, J.L.N. Marg, Wardha Road, Ramdaspeth, Nagpur - 440012, (Membership No. 6890) with effect from 1st April, 2009, at his own request.

(G.N. Venkataraman)
President

Kolkata, the 5th March, 2010

NOTIFICATION

16-CWR (8732-8754)/2010: In pursuance of Regulation 16 of the Cost and Works Accountants Regulations, 1959, it is hereby notified that in exercise of powers conferred by sub-section (1) (a) of Section 20 of the Cost and Works Accountants Act, 1959, the Council of the Institute of Cost and Works Accountants of India has removed from the Register of Members, the names of :

1. Shri Sasadhar Raha,BA,FCMA,FICWA, 41/2B, Sarat Bose Road, Kolkata - 700020, (Membership No. 467) with effect from September, 2002,
2. Shri Samuel Biswas, BSC(HONS),AICWA, C/o. Shri Tarun Biswas, Joka - 743512, (Membership No. 190), with effect from 1999,
3. Shri Rama Pada Mondal, BCOM,MA,FCS,FICWA, 29, New South park, Kazipara, Baghajatin, Kolkata - 700092,(Membership No. 484) with effect from 18th February, 2009,
4. Dr. Pan Mal Surana, MCOM,LLB,FICWA, 1-D, Shangri'la Apts., 61, Jatin Das Road,Kolkata - 700029, (Membership No. 795) with effect from 10th 28th February, 2007,
5. Shri Swaminathan Pattabiraman,BCOM,AICWA, B-51, Godrej Sherwood, Wakdewadi, Pune-Bombay Road,Shivaji Nagar, Pune 411005, (Membership No. 845) with effect from March, 2005,
6. Shri Y.L.N. Achar, BSC,FICWA, B/22, Shrinagar Co.-op. Hsg. Society, P.L. Lokhande Marg, Chembur, Mumbai - 400089,(Membership No. 1254) with effect from 19th March, 2005,
7. Shri M. S. Sampath, BCOM,FCA,AICWA, 47, Kasturi Ranjan Iyengar Road, Alwarpet, Chennai - 600018, (Membership No. 1272) with effect from 25th January, 2000,
8. Shri Asoke Kumar Chakraborty, BSC,FICWA, Flat No. B2, Sai Sadan, D/126, Ramgarh, Kolkata - 700047, (Membership No. 1502) with effect from 18th May, 2009,
9. Shri S. N. Gupta, BCOM,AICWA, Jt. Director (F&A), 128, Vivaka Nand Puri, Old Rohtak Road, Azad Marg, Delhi - 110007, (Membership No. 1718) with effect from 2000,
10. Shri R. Hariharan,BCOM,AICWA, 12, Teachers Colony, Royapettah, Chennai - 600014, (Membership No. 2650) with effect from April, 1993,
11. Shri Mushunuri Venkatarao,MSC,FICWA, Advisor, Castwel Industries, Nagpur - 440028, (Membership No. 2812) with effect from 23rd July, 2009,
12. Shri Vijay Kumar Gupta, AICWA, C-4-B/131, Janakpuri, New Delhi - 110058, (Membership No. 2887) with effect from 30th December, 2009,
13. Shri K. N. Govindaraju, BE(MECH),AICWA, H1 19, Periyar Nagar, Erode - 638001, (Membership No. 3446) with effect from 21st December, 2006,
14. Shri Asim Kumar Basu Sarbadhikary, BSC,AICWA,Dy. Chief Finance Manager, Coal India Ltd., Dankuni Coal Complex, Dankuni - 711224, (Membership No. 4011) with effect from 1st August, 2009,
15. Shri Girishkant J. Dholakia, BA,AICWA, Tathastu Rudranagar No. 2, Plot No. 28, Opp. Sadguru Nagar, Kalawad Road, Rajkot - 360005, (Membership No. 4166) with effect from 27th July, 2009,
16. Shri Hrushikesh Padhiari , BSC,AICWA, Finance Manager, National Alluminium Co. Ltd., Smelter Divn., Nalco Nagar - 759145, (Membership No. 4330) with effect from 25th October, 2007,
17. Shri H. Ghosh,BCOM,AICWA, 44, Sil Thakur Bari Road, Kolkata - 700038 (Membership No. 4434) with effect from 10th October, 2000,
18. Shri Nikhilesh Mathur, BSC,AICWA, Kakku E&P Control Pvt. Ltd., Shed No. 1, Industrial Estate, Bhilai - 490026, (Membership No. 4814) with effect from 31st August, 2009,
19. Shri R. Ramkumar, BCOM(HONS),FCS,FICWA, Co. Secretary & DGM - Accounts, Kalyani Forge Ltd., Koegaon Bhima, Tal: Shirur, Pune - 412207, (Membership No. 4957) with effect from 8th June, 2009,
20. Shri Mansukh Chatrabhuj Lodha, BSC,LLB,AICWA, 1, Takshashila Apartment, Behind L.I.C. Office, Camp Road, Malegaon - 423203, (Membership No. 6374) with effect from 13th January, 2010,
21. Shri Jagdish Chandra Dhupar, MCOM,AICWA, G-B, Ekling Colony, Hiran Magri, Set No. 3, Udaipur - 313002, (Membership No. 19627) with effect from 21st June, 2006,
22. Shri P.R. Gopinath, MCOM,AICWA, 31/15, T.P. Koil 1st Lane, Triplicane, Chennai - 600005, (Membership No. 25714) with effect from 4th October, 2007,
23. Shri Satyendra Nath Ghose, BSC,ACMA,FCIS,FCS,FICWA, 15, Rajani Sen Road, Kolkata - 700026, (Membership No. 544) with effect from 24th December, 2009
   on account of death.

(G.N. Venkataraman)
President

FOR ATTENTION OF MEMBERS

ICWA OF INDIA MEMBERS BENEVOLENT FUND

OBJECTIVE

The Fund has been created to provide:

1. Outright grant of prescribed amount to the beneficiary in the event of death of a member of the Fund.
2. Financial assistance of prescribed amount repayable in prescribed manner by the members of the Fund in case of financial distress due to prolonged illness or temporary loss of employment, illness of spouse/dependent children of member of the Fund; and education of dependent children of deceased member of the Fund.

Beneficiary means member of the Fund including dependent spouse/dependent children/parents/dependent minor brothers and sisters of the member of the Fund.

PROCEDURE OF MEMBERSHIP

An Associate / Fellow Member having paid up to date membership fees to the Institute can become a Life Member of the Fund on application being made in the prescribed application form along with a remittance of Rs.500/- (one time payment) by a Demand Draft favouring 'ICWAI Members Benevolent Fund' payable at Kolkata. The application form can be collected from the headquarters of the Institute at Kolkata or downloaded from the website of the Institute www.icwai.org. Soft copy of the application form can also be sent on requisition made to e-mail: membership.kb@icwai.org .

For the purpose of obtaining benefit from the Fund, a member should ensure to pay his up to date Associate/Fellow membership fees to the Institute and his name should continue to exist in the Register of Members of the Institute.

FOR ATTENTION OF MEMBERS

PAYMENT OF MEMBERSHIP FEES

Members of the Institute who are having outstanding membership dues have been communicated individually to pay their dues. In addition, their due position is also uploaded on Institute's website www.icwai.org under the option Members->Member Details->Search Details & Check Dues. All members having outstanding dues are requested to pay the same immediately.

Further, the Annual Membership Fee for 2010-2011 for Associate and Fellow Members of the Institute shall become due and payable on 1st April, 2010 at the following rates:

Associate Annual Membership Fee : Rs.500/- (Rs.125/- for members entitled to pay at reduced rate)

Fellow Annual Membership Fee : Rs.1000/- (Rs.250/- for members entitled to pay at reduced rate)

All members are requested to pay their respective membership fees along with arrears, if any, immediately for dues upto 2009-2010 and not later than 30th September, 2010 for dues as on 1st April, 2010.

The fees may be paid by Cash/Demand Draft/Pay Order/Cheque at the Headquarters/Regional Councils/Chapters of the Institute. The Demand Draft/Pay Order/Cheque should be drawn in favour of "The ICWA of India" and payable at Kolkata. In case of outstation cheque not payable at Kolkata, Rs.30/- is to be added towards Bank Charges. In case of payment made at the Regional Councils/Chapters of the Institute, the position will be updated upon receipt of the remittance at the Headquarters.

NOTE: MEMBERS SHOULD ENSURE TO INDICATE THEIR NAME AND MEMBERSHIP NO. ON THE REVERSE OF DEMAND DRAFT/PAY ORDER/CHEQUE TO BE DRAWN IN FAVOUR OF "THE ICWA OF INDIA" PAYABLE AT KOLKATA IN CASE PAYMENT IS TENDERED BY DEMAND DRAFT/PAY ORDER/CHEQUE. IT SHOULD ALSO BE ENSURED NOT TO ENCLOSE ANY OTHER INTIMATION ETC. ALONG WITH THE REMITTANCE OF MEMBERSHIP FEE.

FOR ATTENTION OF MEMBERS

PROCEDURE FOR CHANGE OF ADDRESS

Members are requested to check their status from the option Members->Member Details->Search Details & Check Dues on Institute's website www.icwai.org and inform us the following:

1.	In case of any change in the **professional address and other particulars**, the same is to be intimated through a signed hard copy preferably in the format **(Format "A" – Please see Annexure I)** given below to:	Additional Director-cum-Joint Secretary Membership Department The Institute of Cost and Works Accountants of India 12, Sudder Street Kolkata – 700 016. The signed intimation may also be sent by fax to no. 033-22521723. Otherwise, a scanned file of the signed intimation may be sent to e-mail: membership.kb@icwai.org
2.	If the **journal mailing address** is desired to be changed as per the professional address, the intimation in **(Format "A" – Please see Annexure I)** is also to be made to:	Additional Director-cum-Joint Secretary Membership Department The Institute of Cost and Works Accountants of India 12, Sudder Street Kolkata – 700 016. The signed intimation may also be sent by fax to no. 033-22521723. Otherwise, a scanned file of the signed intimation may be sent to e-mail: membership.kb@icwai.org
3.	In case of any change in the **journal mailing address only**, the same is to be intimated through a signed hard copy or by e-mail preferably in the format **(Format "B" – Please see Annexure I)** given below to:	Deputy Director (Research & Journal) The Institute of Cost and Works Accountants of India 12, Sudder Street Kolkata – 700 016. e-mail: research@icwai.org / rnj.arpan@icwai.org

Annexure I

Format "A"

	CHANGE OF ADDRESS IN THE LIST OF MEMBERS	
IN BLOCK LETTERS	NAME IN FULL :	
	MEMBERSHIP NO. :	
	QUALIFICATION :	
	ADDRESS :	
	CITY :	
	STATE :	
	PIN CODE :	
	PHONE NO. (OFFICE) :	
	PHONE NO. (RESIDENCE) :	
	PHONE NO. (MOBILE) :	
	E-MAIL :	
	SIGNATURE OF MEMBER :	

NOTE : PLEASE INDICATE N.A., IF ANY OF THE COLUMNS IS NOT APPLICABLE.

Format "B"

	CHANGE OF ADDRESS IN THE JOURNAL MAILING LIST	
IN BLOCK LETTERS	NAME IN FULL :	
	MEMBERSHIP NO. :	
	QUALIFICATION :	
	ADDRESS :	
	CITY :	
	STATE :	
	PIN CODE :	
	PHONE NO. (OFFICE) :	
	PHONE NO. (RESIDENCE) :	
	PHONE NO. (MOBILE) :	
	E-MAIL :	
	SIGNATURE OF MEMBER :	

NOTE : PLEASE INDICATE N.A., IF ANY OF THE COLUMNS IS NOT APPLICABLE.

For Attention of Practising Members

GUIDELINES FOR RENEWAL OF CERTIFICATE OF PRACTICE

The members of the Institute holding Certificate of Practice having validity upto 30th June, 2010 are requested to comply with the following guidelines for renewal of their Certificate of Practice:

1. Application for renewal of Certificate of Practice upto 30th June, 2011 has to be made in the prescribed Form 'D' duly filled in and signed on both sides together with Renewal Certificate of Practice fee for Rs. 500/- and all other dues to the Institute on account of annual membership fees and entrance fees. The annual membership fee for Associate and Fellow Members are Rs. 500/- and Rs. 1000/- respectively. The entrance fee for Associate and Fellow Members are Rs. 600/- and Rs. 500/- respectively payable at a time at the time of application for admission. The fees may be paid by Demand Draft/Pay Order/Cheque payable at Kolkata if remitted by post to the Headquarters of the Institute. In case remittance is made through an outstation cheque, Rs.30/- is to be included towards bank charges. The fees may also be paid directly by cash at the Headquarters or by Cash/ Demand Draft/Pay Order/ Cheque at the Regional Councils or Chapters of the Institute.
2. It may please be noted that under Section 6 of the Cost and Works Accountants Act, 1959, the annual membership fee and Renewal Certificate of Practice fee fall due on 1st April each year.
3. Special attention is invited to the fact that the validity of a Certificate of Practice expires on 30th June each year unless it is renewed on or before the date of expiry in terms of Regulation 10 of the Cost and Works Accountants Regulation, 1959. Therefore, a member signing any document as a practising Cost Accountant without having his Certificate of Practice renewed on or before the due date, makes the signed document invalid.
4. It may please be noted that mere payment of fees alone will not be sufficient for renewal of Certificate of Practice. Application in prescribed Form 'D' duly filled in and signed on **both sides is absolute necessary.** Soft copy of Form 'D' can be downloaded from Institute's website www.icwai.org under the option Members->Download->Forms.
5. It is also essential to furnish a certificate from the employer in the following form or in a form as near thereto as possible if the practising member has undertaken any employment or there has been a change in employment:

   "Shri ………………………………………………….is employed as (designation)……………………………………..in (name of Organisation)…………………………………….and he is permitted , notwithstanding anything contained in the terms of his employment, to engage himself in the practice of profession of Cost Accountancy in his spare time in addition to his regular salaried employment with us.

   Signature of Employers
   under seal of Organisation"

6. In order to enhance professional competence and evolve a systematic mechanism to update knowledge of members in practice, a scheme of Continuing Education Programme (CEP) was introduced in the year 2003.

   A revision of the said scheme has been made by the Council of the ICWAI in 2009 as follows:

(i) The member should undergo minimum mandatory training of 10 hours per year w.e.f. 2009-10.

(ii) The certificate of attendance for training will have to be enclosed with the application for renewal of Certificate of Practice.

The detailed revised guidelines in this connection are available on Institute's website www.icwai.org under the option Members->Guidelines/Procedures->For Mandatory Training For all Members of ICWAI under Continuing Education Programme.

The requirement specified above does not apply to a member in practice who has attained the age of 65 years as on 1st July, 2010.

Hence, all practising members are requested to send their application for renewal along with other requirements as indicated herein above immediately, in any case so as to reach the Institute Headquarters not later than **15th June, 2010.**