

The Articled....

Because u r Altitude is determined by u r Attitude

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The New CA Logo. An Insight.

An identity for members of the profession of CA was dearly felt as in case of some other professions. The motive was not only to uphold the line of business but also to replicate it. In order to achieve this very goal the CA logo came into picture. The logo was specifically designed to suit the needs of the members of one of the oldest and most eminent professions in India.

This logo not only summarizes the dynamism of the modern day corporate culture but also endeavors to emphasize its unmatched identity.

The logo comprises of the letters "CA" with a tick mark (upside down) inside a rounded rectangle with a white background. The Blue color in the logo depicts the corporate status and as per the ICAI President it also denotes creativity, innovativeness, knowledge, integrity, trust, truth, stability and depth. The habitually used tick mark by the Chartered Accountants portrays the wisdom and value of the professional. The green color symbolizes growth, prosperity, harmony and freshness.

The logo can be exclusively used by all Chartered Accountants through out the country which will add to the image creation, ability, structure and there by lay a foundation to create a unique identity amidst the people.



-Shilpa & Udaya

Editorial

The start of something new brings the hope of something great.

If there was ever a time to dare, to make a difference, to embark on something worth doing, IT IS NOW. Not for any grand cause but for something that tugs your heart, inconceivable that's your inspiration, ludicrous that's your dream.

Things worth doing seldom come easy. There will be times when we will want to turn around and call it quits. PERSIST. Because with an idea, determination, and the right tools, you can do great things. Let your instincts, your intellect, and your heart, guide you. Believe in the incredible power of the human mind. Of doing something that makes a difference, of working hard.

From The Editor:

When "The Articled" we conceptualised a little over 3 months ago, we were very sure of the kind of product we wanted to place before our readers-it had to be a professional supplement of the highest standard, a newsletter that actually added value to your professional career. Today it gives me immense pleasure to say, at the risk of sounding immodest, that we have taken a step forward in redeeming our pledge to our readers - you

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Foreign Direct Investment in Retail Sector

Introduction:

Retail sector being one of the most important and prominent sectors in India, has solved the problem of unemployment and has served the ultimate consumers to the best. Retailing has been in recent trend with attractive outlooks & impressive human resources. Indian market growing faster with a rapid speed has been the major attraction globally for the investors to take initiative in every sector.

Growing at 9% in value terms and second only to Indonesia's retail value growth, 2006 was a watershed year for retailing in India. Major domestic conglomerate such as Reliance Group, Aditya Birla Group and Bharti Group have all signaled their intentions to succeed in what is seen as the next big business in India.

Statutory Provisions:

The provisions of Section 6 of the FEMA (Foreign Exchange Management Act) 1999, govern foreign Investment in India. The genesis of foreign investments in India can be traced to the Government of India's Industrial and Investment Policy, liberalization and economic reforms programme initiated in the year 1991. The regulations have been notified vide Notification No. FEMA 20/2000-RB, dated 3rd May 2000, which have been amended from time to time.

FDI:

FDI has become a major source of finance in the context of changing global scenario. Trading is permitted under Automatic Route with FDI up to 51 % providing it is primarily export activities, and the undertaking is an export house/trading house/super trading house/star trading house. However, under the FIPB (Foreign Investment Promotion Board) route:-

(i) 100% FDI is permitted in case of trading companies for the following activities:

- ? Exports;
- ? Bulk imports with export/exbonded warehouse sales;
- ? Cash And Carry wholesale trading ;
- ? Other import of goods and services provided at least 75% is for procurement and sale of goods and services among the companies of the same group transfer/distribution/sales.

(ii) FDI up to 100% permitted for E-Commerce activities subject to the condition that such companies would divest 26% of their equity in favor of the Indian public in five years, if these companies are listed in

other parts of the world. Such companies would engage only in Business to Business (B2B) e-commerce and not in retail trading.

Wal-mart In India:

In November 2006, Wal-Mart Stores Inc. (Wal-Mart), the biggest retail chain and the second largest company in the world in terms of revenues (behind Exxon Mobil Corp.), announced that it had tied up with Bharti Enterprises Ltd. (Bharti) to make its long expected foray into the Indian retail sector. Bharti was a diversified company, and one of the biggest mobile telephony service providers in India. Wal-Mart and Bharti announced that they would operate stores under two formats - a

Joint Venture wholesale cash and carry operation and a franchised retail operation.



Wal-Mart's sheer size gives it unrestrained economic power, which allows it to drive down costs in the retail and manufacturing sectors and to enact its own standards. Wal-Mart clearly defines anti-union policy to aim at preventing its work force from gaining any collective bargaining power, which can result in increased wages, cover health benefits and job security.

Impact:

Small retailers feared from the deal as it would create monopoly in the sector. This has been the classic argument. Wal-Mart put forward to the criticism about its negative impact on wages and suppliers and on employment. The owners of Wal-Mart would gain huge profits from this move while India's economy would rather suffer and workers will face unfair work practices of this Multinational giant.

The major concern is that FDI in the retail sector shall only harm and not help the economic interests of the country. There cannot be any justification of allowing FDI in the retail business in our country. It is a matter of serious concern that the government of India finds advantage in it & gives priority to the giant to enter India over everything else that concerns of interest of country & the people. Retail markets in our country are dominated by small businesses & the entry of Wal-Mart will perish the vast number of retail shops & ruin the life & livelihood of crores of people connected with retail business. Will Wal-Mart help India climb up the ladder of success in this global competition or would it thrash the lives of our citizens is the question of the fact.

- Abhishek, Swapna, Sneha,
Tanuja, Puneet

Receiving "GIFT" a costly affair????

Our ex-Miss Duniya, Mrs. Cashwarya Bachpan got a GIFT of Rs.25 crores from Mr. Amitaap Bachpan on the occasion of her wedding bells with the Dollywood heartthrob Kabhishake Bachpan. Bachpan family had already been in news due to the various notices issued to them by the Income Tax Department. Now what do you think, will Cashwarya also get notices from the Department or will she pay the tax on the GIFT received from her father-in-law????? Lets look into the matter closely n analyze its repercussions from income tax angle.

The above-mentioned transaction will be governed by sec 56(2)(vi) of the Income Tax Act dealing with Income From Other Sources.

Any Sum/money received without consideration commonly known as "GIFT", is now brought within tax brackets. History talks about the taxability of gifts however, it did not succeed as expected and hence it was not made into law. Later, in 2004, Finance Minister Mr. P Chidambaram brought back "tax on gifts" through the backdoor by treating certain gifts as income of the recipient/ doner and recovering the income tax on such amounts of gift received. Thus, we now have income tax on the sum of money received with effect from 1st September 2004 as gifts from non-relatives.

Accordingly, gifts received from a non-relative are included as income under section 56(2)(v) of the Income Tax Act with effect from 1st September 2004. However, the basic exemption of Rs.25,000/- is raised to Rs.50,000/- from the 1st of April 2006 u/s 56(2)(vi).The provision of section 56(2)(vi) is as follows:

"Where any sum of money exceeding Rs. 50,000/- is received without consideration by an Individual or a HUF from any person on or after 1st April 2006, the whole of such sum is taxable under the head "Income from other sources" provided that this sum is not received from

1. A relative; or
2. On the occasion of the marriage of the individual ;or
3. Under a will or by way of inheritance or;
4. In contemplation of death of the payer; or
5. Any Local Authority referred to in sec 10(10); or
6. Fund/Foundation/University/Educational Institution or Hospital or other Medical Institution or Trust referred to in sec 10(23C); or
7. Trust/Institution registered u/s 12AA; or
8. Any sum of money received by way of consideration.

The word "relative" is of great importance and has to be understood in the right sense.

Lets consider Mr. X as an individual assessee for better understanding of term Relative under this section. Relative means

- 1) Spouse of an Individual (Mrs. X)
- 2) Brother or Sister of Individual & their Spouse (Brother or Sister of Mr. X)
- 3) Brother or Sister of the spouse of Individual & their Spouse (Brother or Sister of Mrs. X)
- 4) Brother or Sister of either of the parents of the Individual & their Spouse
- 5) Any lineal ascendant or descendant of the Individual & their Spouse
- 6) Any lineal ascendant or descendant of the spouse of the Individual & their Spouse.

The meaning of relative above may confuse some and some may not understand. For benefit of those who didn't understood or those who are confused below is the chart explaining the mean of relative as contemplated by this section, have look and you'll appreciate how simple it is.

The purpose of the provision is to tax primarily gifts from non-relatives including friends from abroad. This basic exemption of Rs.50,000/- on gifts received is raised with effect from 1st April 2006.

Following are few examples, which would make the above provision clear, for the A.Y 2008-2009

1. Mr. X with salary of Rs.5,00,000/- receives gifts during the financial year ending 2008 as under:
 - a) Rs.75000/- from his friend
 - b) Rs. 2 lakhs from his father
 - c) Rs. 5 lakhs from his father in law

Tax Liability:

Out of the above gifts, only the gift of Rs.75,000/- from his friend is taxable as income u/s 56(2) (vi) while other two gifts are exempt as gifts from close relatives within the meaning of the section. However, the whole of the sum of Rs.75,000/- will be chargeable as income and the entire amount of Rs.75,000/- would be included in Mr X 's income and taxed. In other words, there is nothing like basic exemption of Rs.50,000/-.

Thus, the entire amount of Rs.75,000/- and, not just the Rs.25000 i.e (excess of Rs.50000/- limit) would attract income tax.

Thus the income tax on Rs.5,75,000 for accounting year ending March 2008 is Rs. 1,25,145/- while on Rs. 5,00,000/- i.e the amount of income tax prior to gift is Rs.1,01,970/- thereby income tax on gift of Rs.75,000/- in Mr. X's case is Rs.23,175/-.

Though the Act provides for basic exemption on gifts received to be Rs 50,000/- but actually it is not. The tax liability is calculated on the whole amount on gifts received but not on the amount exceeding Rs 50,000/-

2. Say an Individual Mr. Y (having income of Rs.100,000/-) received total Rs.49,000/- as gift from a friend during the financial year, the amount is not taxable as it is below exemption limit of Rs.50,000/-. Now suppose Mr. Y receives gift worth Rs.2,000/- from another friend the impact will be that Mr. Y has to shell out Rs.4,326/- by way of taxes. If he hadn't received Rs.2,000/- nothing would be taxable as Rs.49,000/- would not be added to 100,000/- but if he receives Rs.2,000/- the total of Rs.51,000/- will be added to Rs.100,000/- increasing his taxable income to Rs.1,51,000/- and tax payable would be Rs.4,326/- i.e. (4,200+126).

Other points, which have to be given attention with respect to "GIFT", are pointed out briefly:-

- 1) Gifts in kind are not covered by the aforesaid provision.
- 2) The above provision does not apply if money, without consideration is received by a firm, a company, AOP, BOI as it covers only Individual/HUF.
- 3) The provisions are applicable whether the recipient or donor are "Resident or Non-Resident" of India.

Relative	Specific Relation	Hindi Terminology
Spouse	Husband/Wife	Pati/Patni
Brother	————	Bhaiya
Brother's wife	————	Bhabhi
Sister	————	Behan
Sister's husband	————	Jija
Brother in law	Husband/Wife's brother	Devor/Sala
Brother in law's wife		Devrani
Sister in law	Husband/Wife's Sister	Nanand/Sali
Sister in law's husband	Co-brother	Nandoi
Paternal Uncle	Father's brother	Chacha
Aunt	Paternal Uncle's wife	Chachi
Maternal uncle	Mother's brother	Mama
Aunt	Maternal uncle's wife	Mami
Aunt	Father's sister	Ehela
Uncle	Aunt's husband	Phupha
Aunt	Mother's sister	Mausi

It is to be noted that "on the occasion of marriage", does not only indicate on the day of the marriage but either at the time of or about the time of marriage, marriage being the reason for the gift.

Though gifts are not liable to tax in law, but where there are amounts received, they are required to be proved under section 68 (Cash Credits in the books of accounts) as bona fide gifts. If they are not so established, they will be treated as income." Gifts in kind" could also be similarly treated as unexplained investment under section 69. The burden of proof, even otherwise would ordinarily lie on the taxpayer, since he alone is in possession of all the relevant facts.

NO!!!! GIFTS received need not really be a costly affair.....

Hence we can conclude that Cashwarya might have not got any notices from the Department

Nor she might have paid any taxes on it.....

But considering the above example of Mr. Y we can also conclude that it might sometimes prove costly when received from non-relatives.

For clarifications on Relatives please refer to the table below.

Uncle	Aunt's husband	Mausa
Grandfather	Father's father	Dada
Grandmother	Father's mother	Dadi
Grandfather	Mother's father	Nana
Grandmother	Mother's mother	Nani
Father in law	Husband/Wife's father	Sasur
Mother in law	Husband/Wife's mother	Saas
Son		Beta
Daughter in law	Son's wife	Bahu
Daughter		Beti
Son in law	Daughter's husband	Jamai
Grand son	Son's son	Potha
Grand daughter in law	Grand son's wife	Potha bahu
Grand daughter	Son's daughter	Pothi
Grand son in law	Grand daughter's husband	Potha jamai
Grand son	Daughter's son	Natha
Grand daughter in law	Grand son's wife	Nathi Bahu
Grand daughter	Daughter's daughter	Doithi
Grand son in law	Grand daughter's husband	Doithi Bahu

- Mithila, Bherulal, Chetan, Amarnath, Mitesh.

Answers to Lateral Thinking

1. He uses the nuts from each of the other three wheels.
2. The man had jumped from a plane but his parachute had failed to open. It is the unopened package.
3. Neither hit the ground - I was off the coast of France, over the sea
4. The man's horse was called Friday.
5. The man is too short to reach the number 10 button. Hence every time he has to go back to his floor he presses the number "7" and then walks up the remainder
6. The poison in the punch came from the ice cubes. When the man drank the punch the ice was fully frozen. Gradually it melted, poisoning the punch. .
7. The dish that the two men ordered was albatross. They had been stranded many years earlier on a desert island. When the man tasted albatross he realised that he had never tasted it before. This meant that the meat he had been given on the island was not albatross as he had been told. He correctly deduced that he had eaten the flesh of human who had died before they first reached the island.

"Win or Lose, the Option is yours!!"

The turnaround in the Indian economy has paved way for new & sophisticated Financial instruments to mark their arrival on the scene, thereby broadening the "Investors' Basket". In the year 2000, the Indian capital markets welcomed one of such instruments called the 'Derivatives'. The Derivatives are powerful weapons which the investors can use to kill the risk arising from the volatility of the Capital Markets. There is a plethora of derivatives available in the market, some of the 'Top-Notch' derivatives are: Forwards, Futures, Options, Swaps, Leaps, baskets.

Lets now wipe our lenses & shift our focus to Option contracts & understand the various terms associated with them & the accounting treatment arising thereon. Before actually tickling the various technicalities involved, a small example to throw light on the subject would be Prudent & for that the Indian mythology comes in handy.

"King Dashratha's wife, queen Kai Kai saves his life & his honour on the battlefield. He grants her a boon-'ask for anything & it shall be yours'. An unconditional option! She refuses to exercise it then but does so years later, when she thinks its 'In-the-Money'. Rama is banished into exile & the rest is mythical history".

Consider a situation wherein an investor wants to invest in a particular stock, now, every upward rise in the stock price will make his purse heavier & every drop will render his purse lighter. But as investor he will want to keep off the loss, which is just like saying 'Heads I win, Tails you lose'. The question is, is it possible & the answer is in the affirmative. Enter into an options contract & flip the coin.

"An Option Contract gives the buyer of the option a right & not an obligation to buy/sell the underlying asset at a specified price on or before a specified date". From the definition it is clear that the buyer of the option is under no obligation to buy/sell the underlying asset, meanwhile the seller of the option is under an obligation to buy/sell the underlying asset in case the buyer decides to exercise the option. The various terms forming an option contract have been enumerated below:

- ✍ **Underlying Asset:-** The specific security or asset on which an option contract is based.
- ✍ **Option Writer/Seller:-** The person who is obligated to buy/sell the underlying asset at the strike price in case the buyer decides to exercise the option.
- ✍ **Option Buyer:-** The person who has the right to buy/sell the underlying asset at the strike price on or before a specified day.
- ✍ **Strike Price/Exercise Price:-** It is the specified or pre-determined price at which the underlying asset can

be bought or sold in case the buyer decides to exercise the option.

- ✍ **Option Premium:-** It is the price paid by the buyer to the seller of the option for acquiring the option.
 - ✍ **In-the-money:-** An option is said to be In-the-money if it would lead to a positive cash flow to the holder if it were exercised immediately.
 - ✍ **Out-of-money:-** An option is said to be Out-of-Money if it would lead to a negative cash flow to the holder if it were exercised immediately.
- Option contracts are of two types

- ✍ **Call Option:-** A call option gives the buyer the right to buy the underlying asset at the strike price on or before certain specified period. The investor can go ahead & exercise the option when the market price (MP) of the underlying asset is above the strike price (SP). A direct result of this is, he makes a gross pack which is the difference between market price & the strike price, & a net pack which is the surplus of MP over SP+Option premium. That is he will break even when $MP = SP + \text{Option Premium}$ & reap profits when $MP > SP + \text{Option Premium}$.

- ✍ **Put Option:-** A put option gives the buyer a right to sell the underlying asset at the strike price on or before certain specified period. The investor can go ahead & exercise the option when the market price of the underlying asset is less than the strike price. The break-even situation will be same as that of call option but the investor will reap profits when the MP is lower than SP-Option premium.

Accounting treatment is an indispensable component of any financial transaction & the option contracts are no exceptions. Since there is an absence of an accounting standard prescribing a specific accounting treatment we have to take recourse to the Guidance Note issued by ICAI

The ICAI has developed accounting guidelines for derivatives to ensure appropriate disclosure recognition and measurement of company's financial statements and this move is also aimed at adoption of best international accounting practice. In order to achieve this objective, the following is required to be looked upon:

- ✍ If the Margin is paid in cash it will be treated as deposits in the Balance sheet under the head 'Current assets, Loans & Advances'. The same if in the form of Bank guarantee will be treated as a 'Contingent Liability'.

Sl No	Nature of Transaction	Holder	Writer
1	Payment of Initial margin	Dr. Equity index/stock Option Margin A/c Cr. Bank A/c	Dr. Equity index/stock Option margin A/c Cr. Bank A/c
2	Receipt of Initial Margin	Dr. Bank a/c Cr. Equity index/stock Option margin A/c	Dr. Bank a/c Cr. Equity index/stock Option margin A/c
3	Lump sum deposit of margin	Dr. Deposit for margin A/c Cr. Bank A/c	Dr. Deposit for margin A/c Cr. Bank A/c
4	Payment of Margin adjusted against deposit	Dr. Equity index/stock Option margin A/c Cr. Deposit for margin A/c	Dr. Equity index/stock Option margin A/c Cr. Deposit for margin A/c
5	Receipt of Margin adjusted against deposit	Dr. Deposit for margin A/c Cr. Equity index/stock Option margin A/c	Dr. Deposit for margin A/c Cr. Equity index/stock Option margin A/c
6	Payment/Receipt of Premium	Dr. Equity index/stock Option Premium A/c Cr. Bank A/c	Dr. Bank a/c Cr. Equity index/stock Option Premium A/c

✍ In case the premium paid by the holder exceeds the premium as on balance sheet date, a provision has to be created which will be credited to say 'Provision for loss on Equity index/Stock option a/c. By doing so he can reduce his loss to the extent of premium prevailing in the market by squaring up the transaction. Whereas if the premium prevailing in the market as on the Balance sheet date exceeds the premium paid, it will not be recognized keeping in mind the concept of prudence.

From the Taxman's point of view:

The Income Tax Act does not have any specific provision regarding taxability of derivatives. The only provision, which had an indirect bearing on derivative transactions, was section 43(5). The Finance Act, 2005 has, accordingly, amended section 43(5) to provide that a transaction in respect of trading in derivatives of securities carried out on a recognized stock exchange shall not be deemed as a speculative transaction. Consequently any profits or losses in the derivative transactions will be treated as normal business income and provisions relating to set off of business income (section 72 of the Income Tax Act 1961) will ipso facto apply to the derivative transactions.

✍ On the contrary in the writer's books the excess provision received will not be recognized whereas the loss will be credited to 'Provision for loss on Equity index/Stock option a/c with a corresponding debit to P/L a/c.

✍ Options can be exercised either through Cash or Delivery Basis. The buyer is required to recognize Premium as an expense and hence Credits the 'Equity Index/Stock Option premium a/c by giving a corresponding debit to P/L a/c.

Visa-versa treatment is done in the books of the seller.

- 1) When the settlement is on Cash basis, any favourable difference between the final settlement price and the Strike price is acknowledged as an Income to the holder and the adverse difference will be acknowledged as a loss to the seller
- 2) When the settlement is on delivery basis, the following is recommended :

Parties to the Contract	Call Option	Put Option
Holder	Debit the security a/c and credit Cash/Bank a/c	Credit the security a/c and debit Cash/Bank a/c
Writer	Credit the security a/c and debit Cash/Bank a/c	Debit the security a/c and credit Cash/Bank a/c

If an Option expires unexercised the accounting entries will be the same as those in the case of settlement on Cash basis

A reverse contract is entered into between the parties when the Option Contract is squared up and any difference between the premium paid and received (after adjusting the brokerage charged) must be transferred to the P/L a/c.

Disclosure:-

- 1) The enterprise should disclose the accounting policies and methods followed detailing the basis of measurement and criteria for recognition applied.
- 2) The enterprise should clearly state the objectives of dealing in Options and must also include comments on the effectiveness of the internal control system and procedures setup as a part of financial risk management efforts to manage the trading.

The Derivatives pitch in as a boon for the investors as they prove to be a useful fork by the aid of which the investors can eat away the risk created by the equity markets. Derivatives as a whole & Option contracts in particular restrict the losses of the investors & with a proper combination of call & put options the investors can very well take the price rise/fall of the underlying asset to their advantage hence helping themselves to a cushion against the much feared risk factor. The Income Tax Act takes the show a step ahead by showering a carry forward benefit as explained in the foregoing Para. In more ways than one, derivatives form an important component of the investors' kitty & can make the investors 'laugh their way to the bank'.

- Udaya, Shilpa, Pavitra, Soumitra, Monica 6

MAT Credit – An overview of its rationale and impact

“There was an era when the corporate entities mocked at the income tax department, since they had sizeable profits as per the accounting books but ended up contributing nothing to the coffers of the department. Taking the tax provisions to their advantage they always suffered a loss for tax purposes. To bring such companies into the tax ambit the tax department devised a tool in the form of “Minimum Alternate Tax”.

What is MAT – Minimum Alternate Tax

MAT is a tax that has to be paid by the companies that are enjoying tax benefits or tax exemption under various schemes. Under this they have to pay a particular amount of tax termed as MAT (Minimum Alternate Tax), so they come under the tax net.

Applicability of MAT

Section 115JA was applicable for the assessment years 1997-98 to 2000-01. It provided that in the case of a company if the total income as computed under the Income Tax Act, was less than 30 percent of the “book profit”, the total income of such assessee, shall be deemed to be 30 percent of the book profit.



Section 115JB has been inserted from the A.Y 2001-02. It provides that in case the tax liability of a company is less than 7.5% (10% from A.Y 2007-08 [SC+EC]) of the book profit, such book profit shall be deemed to be the ‘total income’ chargeable to tax at the rate of 7.5 percent (10 percent from the A.Y 07-08) [SC+EC]

The provisions of Sec 115JB are however not applicable to the income from any business carried on, or services rendered, by an entrepreneur or a Developer, or a unit in Special economic Zone.

Reason for introducing MAT

There were large number of companies who had book profits as per their profit and loss account but were not paying any tax because income computed as per provisions of the Income Tax Act, 1961 was either nil or negative or insignificant. In such case, although the companies were showing book profits and declaring dividends to the shareholders, they were not paying any income tax. These companies are popularly known as Zero Tax companies. In order to bring such companies under the Income Tax Act net, section 115JA was introduced w.e.f assessment year 1997-98.

MAT Credit

A new tax credit scheme is introduced by which MAT paid can be carried forward for set-off against regular tax payable during the subsequent seven year period subject to certain conditions, as under:-

- ? When a company pays tax under MAT, the tax credit earned by it shall be an amount which is the difference between the amount payable under MAT and the regular tax. Regular tax in this case means the tax payable on the basis of normal computation of total income of the company.
- ? MAT credit will be allowed carry forward facility for a period of seven assessment years immediately succeeding the assessment year in which MAT is paid. Unabsorbed MAT credit will be allowed to be accumulated subject to the seven year carry forward limit.
- ? In the assessment year when regular tax becomes payable, the difference between the regular tax and the tax computed under MAT for that year will be set off against the MAT credit available.
- ? The credit allowed will not bear any interest.

MAT credit can be better explained with the help of an illustration. So let's try to understand it with the help of an example:

Particulars	06-07	07-08	08-09	09-10	10-11	11-12	12-13
Book Profit	225.00	215.00	200.00	185.00	170.00	145.00	115.00
Taxable income (ignoring Sec 115 JB)	52	65	72	-40	54	55	45
Tax on (1) @ 10% (7.5% for AY 06-07) (+SC+EC)	18.93	24.12	22.44	20.76	19.07	16.27	12.90
Tax on (2) @ 30% (+SC+EC)	17.50	21.88	24.24	Nil	18.18	18.51	15.15
Whether tax credit is available	Yes	Yes	No	Yes	Yes	No	No
Amount of credit available	1.43	2.24	Nil	20.76	0.90	NA	NA
Cumulative credit for being set-off	1.43	3.67	3.67	22.64	23.53	23.53	21.29
Whether brought forward tax credit can be set-off during the current year	NA	NA	Yes	NA	NA	Yes	Yes
Maximum amount which can be set-off during the current year	-	-	1.80	-	-	2.24	2.24
Credit which is lapsed	NA	NA	Nil	NA	NA	Nil	Nil
How much can be carried forward	1.43	3.67	1.88	22.64	23.53	21.29	19.05

Accounting treatment:**(1) Whether MAT credit is a deferred tax asset:**

It has been proved that payment of MAT, does not result in any timing difference since it does not give rise to any difference between the accounting income and taxable income. According to AS 22 Deferred Tax Asset arise on account of differences in the items of income and expenses credited in the P&L a/c. In view of this, it is not appropriate to consider MAT Credit as Deferred tax asset for the purposes of AS 22

(2) Whether MAT credit can be considered as an 'Asset'?

Under Accounting Standard (AS) 22 discussed above, though MAT credit is not a deferred tax asset, an expectation regarding future economic benefit arises in the form of the adjustment of the future Income-Tax Liability (that arises within a specified time period). Whether or not, MAT credit can be considered as an 'Asset' is the basic question that arises; and also just in case it is considered to be an 'asset', henceforth how should it be recognized in the 'Financial Statements'?

The tax paid in a year in respect of which the credit is allowed during a specific period of time under the Act is a resource controlled by Company itself as a result of a past event i.e., the payment of MAT. Such a credit has an expected future economic benefit in the form of its adjustment against the discharge of the normal Tax liability, provided it arises within a specified time period. In accordance with the above, MAT Credit is an 'Asset'. Therefore, MAT credit can be recognized as an asset, only when and to the extent there is convincing evidence that the company will pay normal Income-Tax during the specified period. Such evidence may exist for example, where a company has, in the current year deferred tax liability because its depreciation for Income-Tax purposes is higher than the depreciation for accounting purposes; but from the next year onwards the scenario is the reverse, thereby resulting in the reversal of the deferred tax

liability to an extent that the company becomes liable to pay Normal Income-Tax.

(3) Presentation of MAT credit in the financial statements:**Balance Sheet**

Where a company recognizes MAT credit as an asset the same should be presented under the head 'Loans & Advances' since, there being a convincing evidence of realization of the asset, it is of the nature of a pre-paid tax which would be adjusted against the normal income tax during the specified period. The asset may be reflected as 'MAT credit entitlement'.

In the year of set-off of credit, the amount of credit availed should be shown as deduction from the 'provision of Taxation' on the liabilities side of the balance sheet. The unavailed amount of MAT credit entitlement, if any, should continue to be presented under the head 'Loans & Advances'.

Profit & Loss Account:

According to paragraph 6 of Accounting Standards Interpretation (ASI) 6, 'Accounting for Taxes on Income in the context of Section 115JB of the Income Tax Act, 1961', issued by the Institute of Chartered Accountants of India, MAT is the current tax. Accordingly, the tax expense arising on account of payment of MAT should be charged at the gross amount, in the normal way, to the profit & loss account in the year of payment of MAT. In the year in which MAT credit becomes eligible to be recognized as an asset in accordance with recommendations contained in this Guidance Note, the said asset should be created by way of a credit to the profit & loss account & presented as a separate line item therein

- Komal, Deepti, Naresh, Deepak, Nikhil

Tid Bits

- Research indicates that mosquitoes are attracted to people who have recently eaten bananas.
- Penguins can jump as high as 6 feet in the air.
- The average person is about a quarter of an inch taller at night.
- A sneeze zooms out of your mouth at over 600 m.p.h.
- In 1980, there was only one country in the world with no telephones – Bhutan
- Women's hearts beat faster than men's.
- Bubble gum contains rubber
- You can only smell 1/20th as well as a dog.
- Only 55 percent of all Americans know that the sun is a star.
- The world population of chickens is about equal to the number of people
- Most cows give more milk when they listen to music
- Donald Duck comics were banned from Finland because he doesn't wear pants

- Vinod **8**

Taxing Job Work

The Indian Taxation system is spreading its wings so wide that it is hard to find a trading or service activity not falling under the ambit of indirect taxation. However the Government has encouraged small enterprises like job workers, to operate on behalf of manufacturers. Job workers operating on a small scale who support big manufacturers are benefited lot by the encouragement given by the Indian Government.

We intend to bring out the impact of indirect tax in the process of job work in the context of Service Tax Law and the Karnataka Value Added Tax Act, 2003.

Levy of Service Tax

Job work in simple words, means processing of raw materials, semi-finished goods supplied by a manufacturer to complete a part or whole of the process of manufacture.

The process of job work is liable for service tax under the head “business auxiliary services”

If the service provider is undertaking any activity in relation to production and the following tests are satisfied, then it will qualify to be taxed under the head “Business Auxiliary Services”:

1. The activity should not amount to manufacture.
2. The Job worker shall be engaged in any process of the production.
3. The job worker should have taken the activity on behalf of the manufacturer.

The job worker will be exempted from payment of Service tax if the conditions below are fulfilled:

1. The raw-materials or semi finished goods is received from the manufacturer
2. The goods produced are returned back after processing to the manufacturer. If job worker clears the product from his premises to the buyer and not to manufacturer, then exemption is not available.
3. The manufacturer uses the goods so processed by the job worker for manufacturing the final goods, which is excisable.
4. Excise duty is payable by the manufacturer on the final product.

Thus exemption will be available only if the manufacturer pays the duty.

The conditions discussed above will decide the taxability or non-taxability of service tax to the assessee.

Example: A manufacturer of cars sends cars to the job worker for fixing certain accessories/parts as supplied by the manufacturer. The job worker fixes the wiper, mirrors etc to the car. Here the product after such process does not amount to manufacture. Hence there will be levy of Service tax on job charges.

In addition, if the gross service charges received by the job worker does not exceed rupees eight Lakhs during the previous financial year then he is exempt from payment of Service Tax

Levy of Karnataka Value Added Tax Act (KVAT), 2003

Under the KVAT Act, the charging section contemplate levy of tax on every ‘sale of goods’ within the state. The sale of goods include ‘deemed sale’ which means transfer of property in goods in the execution of contract.

So if a job worker is employing only labour in the contract and there is no transfer of material, then there is no levy of KVAT for such labour contract.

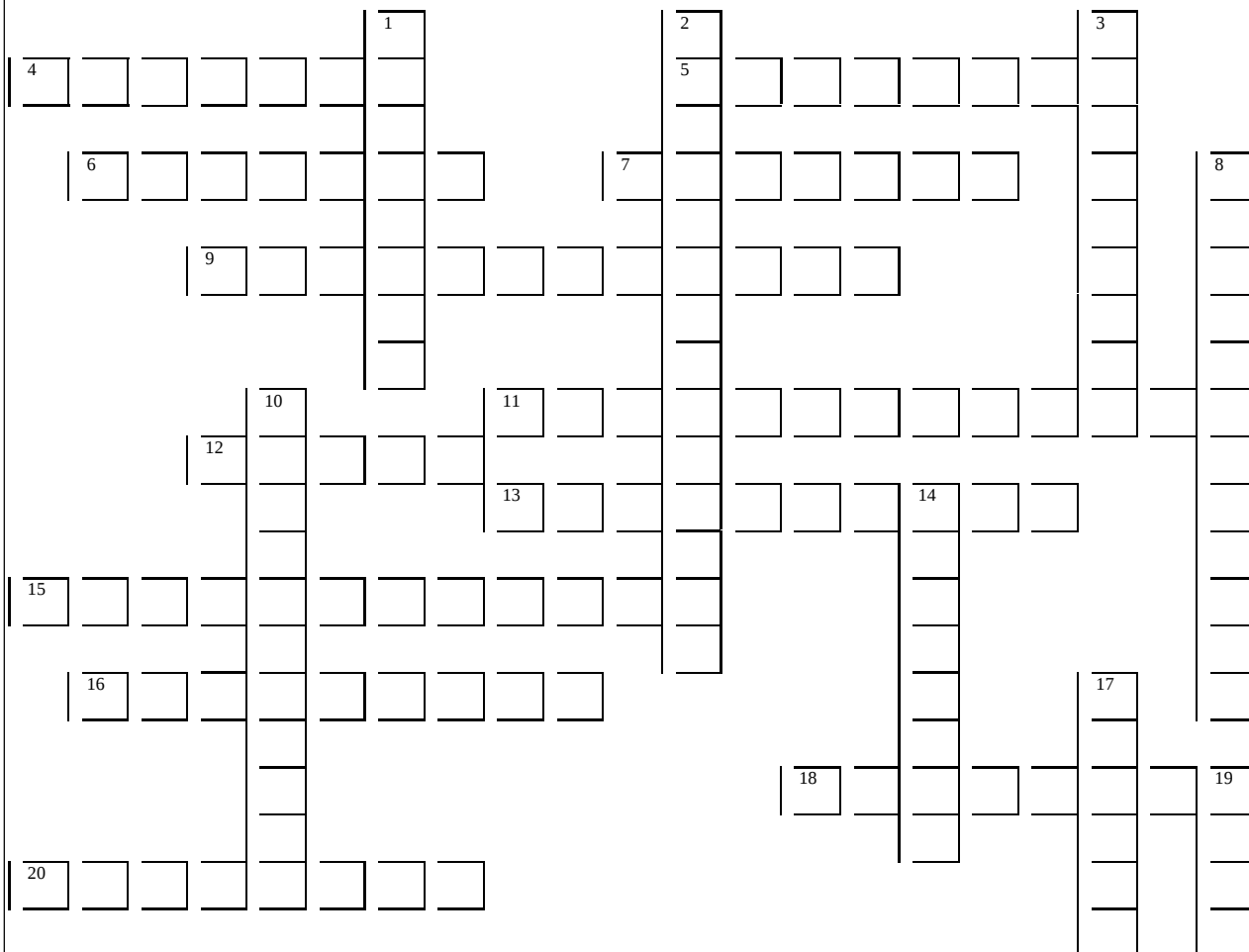
In case if the material is entirely supplied by the manufacturer, there is no levy of KVAT as the job worker has not used any material of his own.

On the contrary if the job worker uses his own goods in addition to the inputs supplied by the manufacturer, the job worker will be liable to KVAT on the cost of material used and margin of gross profit.

The tax impact is minimal in the process of job worker, which unquestionably reduce the working capital requirement and cost of manufacturer. In this backdrop, a job worker should be able to appreciate the provisions of various enactments and laws affecting him directly or indirectly.

- Sumana, Priya, Harish, Vinay

CROSSWORD - 3

**ACROSS**

- 4 The property moving into the hands of the government in the absence of legal heirs or claimants.(7)
 5 This brand is a sub division of Sharp.(8)
 6 Dedicated terminal attached to France's teletext system, Teletel, which was launched in 1981.(7)
 7 A placard placed on buses, subways, etc.(3,4)
 9 A mixture of slower pace of investing and the increased potential gains of day trading.(5,7)
 11 This brand created the super premium segment for the men's readymade garment category in India.(5,8)
 12 World's largest semiconductor company.(5)
 13 Assaulting the goodwill of a person, by slander or libel.(10)
 15 Acting at one's own discretion due to unrestricted power.(5,7)
 16 An agreement between lender and borrower which details specific terms of the bond issuance.(9)
 18 Getting maximum result from minimum resources is a technique of marketing.(8)
 20 Ordering the broker to make an outright purchase or sale of stock if it reaches a designated price.(4,4)

DOWN

- 1 A type of local area network, originally developed at Xerox, in which computers communicate through radio frequency signals sent over coaxial cable.(8)
 2 Creativity without borders is the tag line of this company.(8,6)
 3 Use of excess cash by borrowers to prepay debt instead of paying it to investors.(4,5)
 8 Not liable to being annulled or voided or undone, usually in reference to an interest in real property.(12)
 10 An increase due to regular additions.(11)
 14 Losing money.(2,3,3)
 17 The term used to define the empty space in a shipping container.(6)
 19 A model describing the process that advertising or promotion is intended to initiate in the mind of a prospective customer.(4)

Shilpa & Pavitra**Answers: Crossword – 2**

Across: 1-Tax Code, 10-NDTV, 11-Lemming, 12-Subprime, 14-Horizontal Equity, 15- Zoning, 16- Lambda, 17-Abatement, 18- Collusion, 19- Caveat, 20- New York

Down: 2- Overdrawn, 3- Indigo, 4- Deficit, 5- Quorum, 6- Encumbrance, 7- Probate, 8- Nullification, 9- Kappa, 13- Hash total

The Information Hotpan

Qatar Firm tables £10.3billion Bid for Sainsbury

The Qatar firm bid is largely a Debt-Financed bid

Qatar state investment authority, which invests the country's surplus financial resources, is considering making a £10.3bn bid for the UK's third largest grocer through investment vehicle Delta Two. Delta Two investment funds already owns 25% share of the supermarket chain and as proposed to pay 600 pence per share, excluding a 7.35 pence dividend. As the news broke out about the Qatar firm interest, the Sainsbury stock went up by 0.3 percent at 592 pence although it has a debt of 1.5bn pounds. Delta Two's approach comes just three months after the Sainsbury family blocked a £10.1 billion or 582p a share approach from a private equity consortium led by CVC Capital Partners Ltd. However, industry sources said the family members who hold around 18 per cent of the business would be concerned about what Delta Two intends for Sainsbury, especially given their support for Chief Executive Justin King's growth strategy. King has led the retailer in a turnaround in the three years since taking the top job. In May Sainsbury reported a 42 per cent jump in annual profits and unveiled plans to create £3.5 billion of new sales by 2010 as it expands into clothing.



"Saying HELLO- A Costly Affair?"

Imagine yourself hooked on to the phone engrossed in a conversation unaware of the fact that you are being tapped! Sounds unreal...? Not really. Its neither the police nor the CBI, its our very own income tax department. The investigation wing of the income tax department was reportedly tapping corporate conversations over the past nine months. The department was tapping phone conversations to track down the cases of evasion of banking cash transaction tax & where large banking transactions were carried out to facilitate terrorist organizations. The Finance Ministry shot back saying it does tap phones in exceptional cases but denied eavesdropping on routine corporate calls. It also said that phone interception was done only in very exceptional & rarest of the cases after obtaining due authorization from the appropriate authority adding further that, it was not being used for routinely tapping corporate conversations or keeping a tab on top bracket tax payers. Though the statement of the finance ministry was a relief for most of the tax payers, one may think twice before saying hello over the phone.



King Federer One-One

The best tennis rivalry in years blossomed a little more in the Wimbledon final, and even Roger Federer was happy about it. He answered the latest challenge from nemesis Rafael Nadal beautifully. Federer matched Bjorn Borg's modern record of five consecutive Wimbledon men's titles, beating Nadal in the final for the second year in a row, 7-6 (7), 4-6, 7-6 (3), 2-6, 6-2. It was an epic reminiscent of Borg vs. John McEnroe or Jimmy Connors, fueling the kind of rivalry missing from the men's game since the heydays of Pete Sampras and Andre Agassi. For 3 hours 45 minutes the match had been contested so closely that two consecutive points by either player constituted a major shift of momentum. And Federer acknowledged as much when he met Nadal at the net in triumph, telling the Spaniard that he deserved the title, as well. Only luck, Federer said, had made the difference. Humbled by the stage, the achievement, the tenacity of his opponent and an audience that included Borg, Jimmy Connors, John McEnroe and Boris Becker (with 12 Wimbledon titles among them), Federer donned his custom-tailored white blazer and trousers to receive the congratulatory handshake from the Duke of Kent and, with it, the champion's trophy his 11th Grand Slam.



Car Car Car Car – El Nodi Car

A dream car, a dream project and a challenge by world's renowned car companies was enough for the chairman of India's largest conglomerate corporation Ratan Tata to manufacture a "people's car" called Tata ELEGANTE for Rs. 1 lakh which he revealed it to be a "world car" from India. Its launch expected to be in mid 2008 is going to revolutionize the Indian automobile industry like Maruti 800 did it more than two decades ago. With its launch Indian car market is expected to double to 2 million by 2010. Now more than a dozen car makers are circling the global auto industry's new battleground - to make cheap, small cars for the world's big emerging economies Targeted at first-time buyers, who have so far been riding two-wheelers, these vehicles are expected to come fitted with engines with a capacity ranging between Hero's 500cc and Tata's 600 cc. While Bajaj is likely to unveil its offering at the 2008 Auto Expo in Delhi, Maruti's launch is expected by the end of 2008 and Nissan Renault will take about three years to roll out its \$3000 car. Toyota Motor Corp., Honda Motor Co., Fiat and Volkswagen AG are also looking to build low-cost cars to compete in fast-growth emerging markets from India and China to Russia.



Komal, Harish, Soumitra 11

DNS Family (The Lighter Side)

Monsoon Wedding

The D day finally arrived in the abode of Lord Venkateshwara when our very dear **Swapna** and **Venkatesh** entered into marital bliss on the 5th of July in **Tirupathi** with the blessings of all the near and dear ones. We wish them a very happy and successful married life and a bright future ahead. **All the best!!!!!!**

Learning Saturdays

The month of July was very Informative and Innovative for all the articles.

The partners came up with the concept of learning Saturdays to train the articles in the field of accounts, audit, tax, etc. The articles were educated on various Accounting Standards and Audit procedures by **Mr. Sunil D Surana** and **Mr. Kantha**.

Soumitra and **Shilpa** gave ideas on improving writing skills and its presentation to catch the attention of the readers, while **Rayan** conducted a seminar on "Communication Skills & Body Language". He briefed on the importance of verbal and non verbal communication. He also conveyed various body postures and techniques that increase effective communication.

We hope the articles make best use of this opportunity and improve their knowledge.

Congratulations!!!

A very hearty congratulation to **Rayan** for bagging the first place in elocution organized by SICASA held at ICAI on 8 July. He spoke on the topic AS-28 and was adjudged the best Speaker. He has been given an opportunity to participate in the forth coming Regional Competitions to be held at Chennai.



DNS Family "Post Split"

Post split in the DNS family, one prominent question that was asked, 'would DNS rock the ca scene post'? Opinion poll was conducted, the result with cent percent said, **YES**. DNS too with the eagerness to make its mark, with fury in silence headed towards its set

goals. As not only did many new clients turn in, the strength of DNS family members also increased as new articles & staff members joined, with full of energy & great enthusiasm & determination, to serve the purpose of making DNS a 'single window service'.

With its hunger to get through its objectives, DNS had a purpose of its own growth & expansion. Increase in the number of family members also demanded for larger working area. Thus to suit to the arising situations & to maintain efficiency in the work, new systems were acquired & alterations were made to set them up. Driving smoothly on the ladder of success, DNS have built its new foundation firmly after the split, but yet has a long journey ahead to cover it. With the three partners as the leaders & the support of senior staff members to take DNS on ride, surely shows that DNS is going to rock the ca scene post.

Important Deadlines to be met!!

✍ Company Law

September 30th:

Last day for conveying Annual General Meeting.

✍ Income Tax

September 15th:

Last day for payment of Advance Tax.
[For individuals it is 30% of estimated tax & for Companies it is 45% of estimated tax]

August 7th :

Last date for remittance of TDS for the month of July

✍ Service Tax

August 5th :

Last day for filing the returns for the month of July

✍ KVAT

August 20th :

Last day for filing the returns for the month of July

✍ Professional Tax

August 20th :

Last day for filing the returns for the month of July

- Pavitra

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A session with Sreenivas Babu

Rayan: *What are the two most important principles you wish to live by?*

Babu Sir: One is the basic ethics & the other is professional approach.



Rayan: *What was the reason behind shifting from industry to practice?*

Babu Sir: Well, over a few years of experience, I felt that potential to grow was better in Profession than in the Industry. That time the Industry was not really doing well due to the closed economy. However, during the same time Sanjay was an auditor, where I was in employment. We shared similar opinion and good rapport, so we thought we should join hands.

Shilpa: *Chartered Accountants should be business advisors, legal advisors or both?*

Babu Sir: Both. The traditional CA's look only from legal prospective. But why we outstand today in the market is because we give them business advise as well, which helps them to improve their business. Business advice starts with Due-diligence, right from the stage of incorporation, setting the business & for outsourcing their accounts and statutory compliances, which is exactly what we have been doing today. And there are numerous examples at our office, which are success stories. And another example is, in other cases where the company in existence, comes to us for advice, our advices have really made them grow to a very large extent.

Shilpa: *Chartered Accountants have been tagged as "Work Horses" whereas MBA's "Race Horses"— what would be your take on this statement?*

Babu Sir: Previously even I was of the same opinion. But then I had a discussion with Venkatesh, an ex-article from our office and a Chartered Accountant now. It made me think from the other perspective. MBA's are today able to change the industrial scenario. And the best example is the ICICI bank.

People think that MBA's can present themselves in a much better way than the CA's, which is true. But in my opinion CA's too are working hard to improve in these areas.

Udaya: *What is your view on the new scheme of training and is the articleship training adequate to take on the corporate world?*

Babu Sir: As I told you, even today CA's lack in presentation. But I recently read in an article that CA is likely to have a kind of small course on curriculum tied up with the IIM. Once you become a CA, I think you can do that six months course so that our presentation skills can be improved.

Udaya: *What is your vision for DNS 5 years down the line?*

Babu Sir: My vision is that, our efficiency should be as good as the BIG 4 and we would like to surpass the BIG 4's in our professionalism and approach.

Congratulations:

The award for Crossword-2 is jointly shared by Mr. Mukesh Jain & Mr. Chetan Dhoka

**Whereas the Lateral Thinking-2 Award is bagged by Mr. Mukesh Jain
We congratulate all the winners.**

Lateral Thinking

Are you open minded, flexible and creative in your questioning and able to put lots of different clues and pieces of information together. This is lateral thinking.

So lets see if you can find solutions to the following puzzles.

1. A man is hanging from a rope in a locked room. Below him is a puddle of water. How did he hang himself?
2. A man is dead in a desert with a rock lying beside him. There are no footprints leading to or away from him, nor have any been covered over. How did he die? Clues: The man is not an *ordinary* man, and neither is the rock. The rock has particular significance for this particular man...
3. A man pushes his car up to a hotel and immediately knows that he will have to pay hundreds of dollars. How does he know?
4. Two Americans are standing at the entrance to a British Museum, and are about to enter. One of them is the father of the other's son. How is this possible?
5. A bomber is flying a bombing strike against an enemy position in World War II. When they reach the target, the bombardier orders the bomb doors open. They are opened. The bombardier then gives the order for the bombs to be released. They are released. However, the bombs do not hit the Target. How is this possible?
6. Whilst hiking in the mountains, a woman discovers a locked cabin with three people dead inside. How did they die? Clues: It snowed the night before. The cabin is NOT an ordinary "cabin" - for a start, it is constructed of metal...
7. A blind beggar had a brother who died. What relation was the blind beggar to the brother who died? (Brother is not the answer).

Rayan Sequeira

Answer the above questions and Mail it across to newsletter@dnsconsulting.net

Hurry, Last date for the submission of your Answers is 15th August.

Answers will be published in the newsletters August edition.

General Insights (In a Nutshe II) : -Closings on 2nd August 2007

MARKET CAP

Company	Country	Market Cap
ExxonMobil	United States	410.65
General Electric	United States	358.98
Microsoft	United States	275.85
Citigroup	United States	247.42
AT&T	United States	229.78
Bank of America	United States	226.61
Toyota Motor	Japan	217.69
Gazprom	Russia	216.14
PetroChina	China	208.76
Royal Dutch Shell	Netherlands	208.25
HSBC Holdings	United Kingdom	202.29
Wal-Mart Stores	United States	201.36
Procter & Gamble	United States	200.34
BP	United Kingdom	198.14
China Mobile	Hong Kong/China	185.31

Markets:

Sensex	14935.77
Nifty	4345.85
Dow	13232.47
FTSE	6288.40
Nasdaq	2537.36
Nikkei	16870.98

Rates:

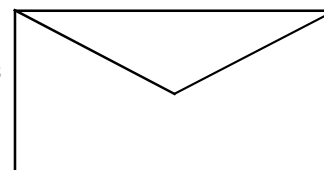
Rs/Dollar	40.46
Rs/Pound	81.93
Rs/Euro	55.26

Crude:

Brent	77.3
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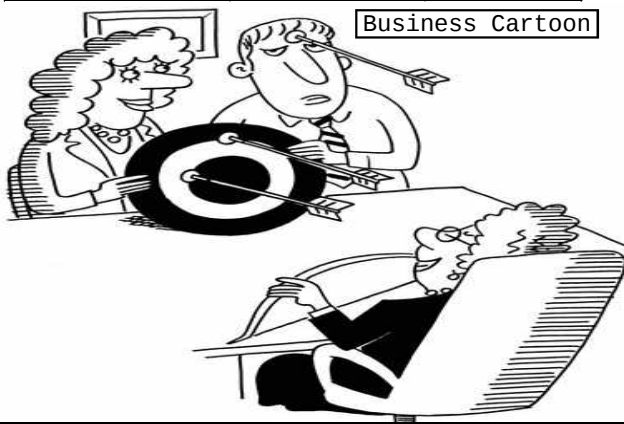
Bullion:

99.9 Purity Gold:	Rs. 8700
Silver (Kg):	Rs. 17700



Send in your comments and suggestions at newsletter@dnsconsulting.net

Business Cartoon



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