

The Articed....

Because u'r Altitude is determined by u'r Attitude

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All the darkness is far away.....

As the light is on its way!!!!

*Dunes of vapors from crackers rise,
Engulf, as odorous airs resound
Effusing joys to all abound
Pearls of gleams in these autumn nights
Adorn our lives else trite
With sparklers that motley skies
As soaring spirits of powder wander
Let us thank the heavenly might,*



The Hindu festival of lights explodes into life with a riot of color and noise. This festival of fun, frolic and fireworks brings excitement and joy to the hearts of people even before it arrives on the new moon day (**Amavasya**) of the **Kartik month** of the Hindu calendar. Diwali is also the festival of Lakshmi, the Hindu goddess of wealth and prosperity. Everything is lit up very brightly as young and old, rich and poor alike dress up in new clothes and indulge in sweetmeats. It's truly a festival of lights

as oil lamps and diya are left burning all night to guide the Goddess Lakshmi when she visits homes. The celebrations of this joyous festival signify the removal of all darkness, jealousy, greed, envy and other negative emotions from the face of this earth. In its place shines the light of wisdom and knowledge. This is also the reason why so many lamps and diya are left burning on the Diwali night.

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Investigation --- A Step Ahead Of Audit

Auditing has generally been associated with only accounting and financial records. The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with financial reporting framework. Audit lends credibility to information and thereby improves its reliability for decision makers. In this process, an auditor collects and evaluates evidence to establish facts and to draw conclusions and inferences. Auditor seeks to obtain persuasive rather than conclusive evidence and relies on selective verification. If nothing arouses auditor's suspicion, auditor concludes the examination satisfied that the accounts and the statements present a true and fair view of the affairs of the enterprise. In matters that arouse suspicions further requiring substantive and conclusive evidences, "**investigation**" surfaces.



The term investigation connotes a systematic and an in-depth examination or inquiry to establish a fact or to evaluate a specific situation. In matters that arouse suspicion, professional accountants are often called upon to investigate the accounts or related records of an enterprise. The scope and objectives of an investigation are normally narrow and specific while those of an audit are broad and general. Due to the very nature and purpose of investigations, an investigator is not bound, unlike auditors, by accounting conventions, policies and disclosure requirements.



- ✚ Audit aims at collection of sufficient evidence to enable the auditor to form and express an opinion on financial statements or other data under examination.
- ✚ Auditor normally relies on persuasive evidence.
- ✚ The objective of audit is to express an opinion on the financial statements. The financial statement is the prime responsibility of the management.
- ✚ Audit is bound by accounting conventions, policies and disclosure requirements and has to be conducted at frequent intervals.

- ✚ Investigation requires a special in-depth examination of the particular records or transactions with the objective of establishing a fact or happening or assessing a particular situation.
- ✚ Investigator looks for substantive and in some cases even conclusive evidence.
- ✚ The objective of investigation is to discover something, which is not apparently visible to the naked eye.

Types of investigation

- ▶ Statutory investigations under section 235 to 251 of the Companies Act, 1956.
- ▶ Detailed review of an enterprise or its units or assets to assess its true worth.
- ▶ Investigations to detect frauds, mis-appropriations, defalcations and thefts of cash, intellectual rights or information and other property of an enterprise.
- ▶ Investigations on behalf of banks & financial institutions to determine the credit-worthiness of an applicant for granting loans or for altering the terms and conditions of the same.
- ▶ Investigation for settlement of tax liability or for detection of undisclosed income.

A] Statutory investigations

- ▶ Investigation of affairs of a company means investigation of all its business affairs, profit and loss account, assets including good will, contracts and transactions, investments and other property interests and control of subsidiary companies too.

- Investigation into affairs of the company
- Investigation of the ownership of the company

- The investigation of the affairs of a company is ordered by the Central Government. Central Government has discretionary power to order the investigation, however in certain other cases it is obligatory on the part of the Central Government to order the investigation and thus it is a duty of the Central Government to order an investigation.

Discretionary powers of the Central Government to order investigation

• **Investigation on receiving a report from the registrar.**

Where u/s 234(6), the registrar reports to the Central Government, in the following cases:

- (a) where the information or explanation required by the registrar has not been furnished to him within the specified time;
- (b) where after perusal of such information or explanation or of the books and papers produced before him, the registrar is of the opinion that the state of affairs of the company is unsatisfactory;
- (c) where the registrar is of the opinion that the required documents do not disclose a full and fair statement of any matter.

• **Investigation on opinion of the Company Law Board**

Where u/s 237(b), the CLB is of the opinion that:

- (a) the business of the company is conducted with the intent to defraud its creditors, members or any other person or for a fraudulent or unlawful purpose or in a manner oppressive of any of its members;
- (b) the company was formed for any fraudulent or unlawful purpose;
- (c) the person concerned in the formation or management of the company have been guilty of fraud, misfeasance or other misconduct;
- (d) the members of the company have not been given all the information with respect to its affairs.

Duty of the Central Government to order investigation

• **Investigation on declaration by the Company Law Board**

Where u/s 235(2),

- (a) in the case of a company having a share capital, an application has been received from not less than two hundred members or from members holding not less than one-tenth of the total voting power therein, and
- (b) in the case of a company having no share capital, an application has been received from not less than one-fifth of the persons on the company's register of members.

• **Investigation on order of the Court**

U/s 237(a), the Central Government shall order investigation of affairs of a company if the Court, by order declares that the affairs of the company ought to be investigated.

• **Investigation on passing of special resolution**

U/s 237(a), the Central Government shall order investigation of affairs of a company if the company, by a special resolution, declares that the affairs of the company ought to be investigated.

- Under Section 247, the Central Government **may** appoint inspectors to investigate and report on the membership of any company and other matters relating to the company. The investigation may be ordered by the Central Government suo motu or on receipt of a complaint. The purpose of the investigation is to determine the true persons-who are financially interested in the success or failure of the company or who are able to control or materially influence the policy of the company. The Central Government **shall** appoint inspectors if the Company Law Board declares that investigation of membership of the company and other matters relating to the company is necessary.

B] Assessing a business

A professional accountant is often called upon to assess the worth of business or certain units or assets, especially when changes in the ownership are to take place. Thus, if a person intends to purchase a business, he would like that an expert assessment is made of its assets and liabilities to determine the purchase consideration. Similarly in case of amalgamation, a need for assessing their fair value arises so that the rights of the owners can be properly adjusted. To assess the true worth of a business or assets, two steps are required. The first is "Due Diligence Review" and the second is valuation.

C] Investigations to Detect Frauds and Misappropriations

While misappropriations, defalcations and the like have been in existence ever since Adam and Eve chose to misappropriate the forbidden fruit, the incidence of losses due to wrongful use of employers' property has assumed alarming proportions today. No wonder the professional accountants are often called upon either to investigate the cases of frauds, misappropriations and defalcations, etc... or to design systems to prevent the same.

Enron, which was one of the leading energy trading companies in the world, is an example of how a company, which had a meteoric rise, fell so sharply that it brought financial ruin to most of the employees as well as tens of thousands of investors and brought about the closure of one of the world's biggest accounting firms, Arthur Andersen.

D] Appraisals by Banks and Financial Institutions

Financial institutions and banks examine financial statements of their applicants for loans in order to appraise their performance and financial viability. In addition, financial institutions conduct a special review of the technical, commercial and managerial aspects of the projects for which loans are to be granted. The basic objective of all such appraisals is to judge the creditworthiness of the applicant, i.e., whether he will be able to generate enough funds to pay interest on the loans and repay the principal amount as per the stipulated schedule.

E] Investigations for Tax purposes

Revenue authorities carry out investigations to determine whether the assessee has reported his taxable income or not. The objective of such investigations is to check the internal consistency of the data recorded in the books or statements of the assessee. Often a small inconsistency in the records discovered by the revenue authorities is sufficient to detect an unscrupulous assessee. An intelligent use of analytical procedures like input-output and other ratios enables one to find out whether accounting records and statements are basically consistent and correct. Such procedures also help in identifying areas which call for further investigation.

The investigator should analyze the data and other evidence collected by him and formulate the conclusions to be present in his report. The investigator should do so with an open and unprejudiced mind so that he draws conclusions from the actual data and other evidence instead of arranging evidence in support of certain preconceived notions.

-Komal, Deepti, Naresh, Deepak, Nikhil

Chukles

Two accountants are in a bank, when armed robbers burst in. While several of the robbers take the money from the tellers, others line the customers, including the accountants, up against a wall, and proceed to take their wallets, watches, etc. While this is going on accountant number one jams something in accountant number two's hand. Without looking down, accountant number two whispers, "What is this?" to which accountant number one replies, "it's that \$50 I owe you."



REAL ESTATE . . . A VALUABLE PROPOSITION

In recent past, the speed with which the nation is prospering, the Real Estate sector has made tremendous progress. India has been very successful to grab the attention of investors and more importantly India has given them back excellent returns. Real Estate has been of huge importance to take India to new heights....

Generally no person resident outside India can make investment in a company or a partnership firm or a proprietary concern or any entity, whether incorporated or not, which is engaged or proposed to engage in real estate business or construction of farm houses.

The Real Estate Sector is one of the fastest growing sectors in India and has occupied a very important role in itself. India's population growth as well as rapid economic progress fostered by the government policy, resulted in exceptional demand for high quality residential and commercial Real Estate development. Thus to balance the demand, government has opened its doors for various sources in real estate sector; FDI being the lead of the stream.

Era prior FDI liberalization in India

Indian real Estate sector was primarily a seller's market, subjugated by a few prominent players who were against foreign investment & their interference in this sector. It was believed that these MNCs would wipe the market clean riding high on deep pockets and higher technical know-how. One argued that 'our' attempts to match 'them' would be of no competition against strong capital support providing them the ability to absorb unlimited losses. Some players also felt that foreign players with aggressive marketing strategies would aim at squeezing out competition through high decibel advertising and promotional campaigns.

Notification

Foreign Investment in India are governed by sub section (3) of section 6 of the FEMA Act, 1999 read with Notification no. FEMA 20/2000-RB, dated May 3, 2000, as amended from time to time.

Guidelines & Press Note to Real Estate Sector in India:

The Government of India has set up certain guidelines for investors willing to apply for FDI in

real estate sector, which has conditions like area, investment options and target for completion of a project. Following are some important guidelines to be followed:-

+ Minimum area

- ✓ In case of development of serviced housing plots, 10 hectares (25 acres)
- ✓ In case of construction-development projects, built-up area of 50,000 sq m.
- ✓ In case of a combination project, any of the above two conditions

+ Investment

- ✓ Minimum capitalization
 - o for wholly owned subsidiaries - US\$ 10 million
 - o for Joint Venture (JV) with Indian partners - US\$ 5 million-, to be brought in within 6 months of commencement of business.
- ✓ Original investment cannot be repatriated before a period of three years from completion of capitalization.
- ✓ The investor may exit earlier with prior approval from Foreign Investment Promotion Board (FIPB).

+ Time frame & rules

- ✓ At least 50 per cent of the project to be developed within five years from the date of obtaining all statutory clearances. The investor would not be allowed to sell undeveloped plots.
- ✓ The project shall conform to the norms and standards, including land use requirements and provision of community amenities and common facilities as laid down by the concern Authority.
- ✓ The Investor shall be responsible for obtaining all necessary approvals, payment of development, external development and other charges and complying with all other requirements as prescribed under bye-laws of the State Government/Municipal/Local Body concerned.
- ✓ The State Government/Municipal/Local Body concerned would monitor compliance of the above conditions by the developer.

FDI in Indian Real Estate and Economic Growth Present Scenario of the Sector

With this change in the government policy on FDI, all real estate sectors, residential, commercial and retail are currently witnessing huge growth in demand. India, during the first half of 2005-06 fiscal has attracted more than three times foreign investment at US\$ 7.96 billion during making it amongst the "dominant host countries" for FDI in Asia and the Pacific (APAC).

India in the next five-year period is estimated to require investments worth US \$ 25 billion with the urban housing sector. This again has opened up opportunities for foreign investments in the realty sector. The Central government allowed up to 100% FDI for setting up townships in 2002. However, the flow of FDI investments has been dissatisfied by the 100 acre criterion; since acquiring such a large portion of land was impossible in metropolitan cities and even satellite cities and state capitals.

But a landmark decision taken by the Union government in 2005, where the minimum land area for development by foreign investors was lowered from the earlier floor of 100 acres to 25 acres has thrown open the lucrative parts of the Indian realty market to global investors. Another perceptible spin-off of the easing of FDI policies will be the impact on quality and inevitable acceleration in construction activities.

Foreign Direct Investments in the real estate sector in India would also contribute towards making the sector more organized. Besides increasing professionalism in the sector, it would bring in advanced technology and help in the creation of healthy and competitive market environment for both domestic and foreign investors.

Union Finance Minister, Shri P. Chidambaram has approved 32 Foreign Direct Investment proposals recommended by Foreign Investment Promotion Board (FIPB) in its meeting held on 20th October, 2006. The approvals amount to Rs. 249.81 crore. The proposals relate to multiple



Ministries/Departments, with the major investment proposals pertaining to the departments of Commerce, Economic affairs, Heavy Industry and Information & Broadcasting.

A report indicates that the real estate market in India is on a high growth curve. Property development has surged in India driven by an annual doubling in demand for office space driven by the IT sector in Mumbai, Delhi, Bangalore, Hyderabad and Chennai. Recent policy measures have also opened up foreign investment in the real estate sector, which for a long time lacked institutional funding support.

The liberalization of FDI norms has brought healthy competition into the market which forced domestic players to stand up and take notice of the quality of service and products on offer in the global market. Further, these foreign investors ventured into newer segments thereby opening up newer opportunities for Indian players as well. This has gone a long way in 'cleaning' up Indian realty practices & procedures and 'CORPORATISING' Indian real estate. Though FDI have given raise to several opportunities to Indian real-estate sector economically, it also has a impact in itself as a dread of domination of foreign market in India.

-Abhishek, Tanuja, Puneeth, Sneha

Editorial

*As echelons of zillion lights adorn
& echoes of triumph and thunder swarm,
watching even a tiny gleam perform,
devouring darkness and
sparkling joy,
Let this Diwali bring into all our lives oceans of happiness and wagons of prosperity.*

The festive stage could not have come at a better time. The hectic audit month had taken its toll on the entire team. But the triumph of meeting the deadline [with little help, from the tax authorities for extending the dead line] has put the team on a new high and renewed vigour to celebrate the mother of all festivals "Diwali"!!!!

Here \$ wishing all the readers once again a 'Very Happy & Safe Diwali '

Accounting For A Cause.....

The field of Environmental accounting has made great strides in the past two decades moving from a rather arcane endeavour to one tested in dozens of countries and well established in a few. Environmental accounting can be considered either a subset or superset of accounting proper, because it aims to incorporate both economic and environmental information. The functioning of an enterprise has some favorable and some adverse effects on the Environment. Environmental Accounting is a growing field that identifies resource use, measures and communicates costs of a company's or national economy actual or potential impact on the environment. Costs can include costs to clean up or remediate contaminated sites, environmental fines, penalties and taxes, purchase of pollution prevention technologies and waste management costs. Hence, there is a need for maintaining accounts of the effects of the activities of a business entity on the Environment and on natural resources.

Why environmental accounting?

There are several reasons why businesses may consider adopting environmental accounting as part of their accounting system.



- 1) Possible significant reduction or elimination of environmental costs
- 2) Environmental costs and benefits may be overlooked or hidden in overhead accounts
- 3) Possible revenue generation may offset environmental costs (e.g. transfer of pollution allowances)
- 4) Improved environmental performance which may have a positive impact on human health and business success processes
- 5) Possible competitive advantages as customers may prefer environmentally friendly products and services
- 6) Can support the development and running of an overall environmental management system, which may be required by regulation for some types of businesses

Significance

Ever since the early 1980s there has been a growing concern to improve the level of social responsibility and environmental accounting in both public sector and private sectors. History shows that actions of companies can have a significant and negative implicit on the Environment. Examples of these are Exxon Valdez oil Spill in Alaska (1989) and the Union Carbide gas leak in India (1984). In both these cases the World witnessed the enormous costs associated with clean up activities, fines, compensation and bad publicity. These costs, together with the resultant reductions in share price, can significantly alter the stability of a company.

There are mounting pressures on the companies to accept responsibility for adverse impacts on society from their business actions. Companies are therefore, being increasingly urged to be more accountable to both shareholders and wider society.

- Discloses Utilization of Natural Resources: Environmental accounting is helpful in presenting in a transparent manner, the utilization of natural resources of the country, the costs incurred to use them and the income earned there from.
- Social Contribution by Corporates: Environmental accounting helps in measuring the contribution made by various corporations or companies in fulfilling their social responsibilities.
- Environmental Protection: Environmental accounting helps in measuring the extent to which a corporate enterprise has utilized the environmental resources.

Areas covered by environmental accounting

Environmental Accounting can be understood from the following 3 broad perspectives:

- Global Environmental Accounting Global environmental accounting is an accounting methodology that deals with energetics, ecology and economics at a global scale.
- National Level Environmental Accounting National environmental accounting is an accounting approach that deals with economics on a national level. National environmental accounting is a macroeconomic measure that looks at the use of natural resources and the impacts of national policies on the environment. In other words, it includes a set of aggregate national data which will have a long – term impact on the economic and environmental policy – making. This common framework of preparation of accounts helps individual countries to compare its performance with that of other countries.
- Corporate Environmental Accounting Corporate Environmental Accounting focuses on the cost structure and environmental performance of a company. It can be said that it is a contrast to National Environmental Accounting. The cause behind growing importance of Corporate Environmental Accounting could be traced back to the increased public concern about the adverse impact of the business activities on environment. The International Accounting Standards Committee is now, therefore, working to form the global environmental accounting standard to bring uniformity in the environmental accounting protection throughout the world.

Major Accounting Issues

✍ **Distinction between environmental expenditure and normal business expenditure** – Many new machines may incorporate state-of-the-art environmental technology and accordingly, a portion of such capital cost and also the running and maintenance expenditure maybe treated as environment related expenditure. It is necessary to frame guidelines indicating whether the reporting entity should properly allocate the capital and revenue expenditure between environmental expenditure and normal business expenditure.

✍ **Capitalization of environmental expenditures vis-à-vis expensing them during the current accounting period** – Since environmental protection costs relating to prior periods and current period are generally very high, it is preferable to capitalize environmental cost instead of immediate expensing and adopt an amortization policy extending up to 10 years.

✍ **Recognition of environmental related contingent liabilities** – Environmental contingent liabilities are a matter of increasing concern throughout the world. Recognising a liability for hazardous waste remediation frequently depends on the ability to estimate remediation cost reasonably.

In view of the public concern about environment and the ambiguity in the accounting treatment of environmental cost and liabilities, the corporate undertakings world over, in their own way, have started disclosing both qualitative and financial information about the role played by them in the improvement and maintenance of environment. In India, the corporate sector is making environmental disclosure both on account of statutory requirements and also on their own as discussed below:

✍ **Statutory Disclosure:** The legal provisions as to environmental disclosure in annual accounts are minimal. Section 217 (1) (e) of the Companies Act, 1956 provides that the directors report shall include the particulars as to “Conservation of energy, technology absorption, foreign exchange earnings and outgo in such a manner as maybe prescribed”. Consequently, the Government of India has prescribed the following information to be given by 21 industrial groups.

“Every company shall, in the report of its Board of Directors, disclose particulars with respect to the following matters, namely:

Conservation of Energy

- Energy conservation measures taken
- Additional investments and proposals, if any, being implemented for reduction of consumption of energy.
- Impact of the measures of a & b above for reduction of energy consumption and consequent impact on the cost of production of goods and;

Conclusion:

Accounting and disclosure of environmental matters have been rapidly emerging as an important dimension of corporate reporting. Of course, environmental accounting is still at an early stage of evolution and it is being groomed under the voluntary leadership of a variety of enterprises around the World. Environmental Accounting can be potentially crucial in the development of more democratic civil society if used with an explicit recognition that its function must be environment centered, not implicitly and unconsciously business centered. -Udaya, Shilpa, Pavithra, Vinay

- Total energy consumption and energy consumption per unit of production as per Form A in respect of industries specified”

✍ **Voluntary Disclosure:** Many corporate enterprises in India, on their own are giving information in their annual reports on the role played by them in environmental protection. Such information shows their concern about their social responsibility and their inclination to protect the interest of both the present and future generation.

Survey of the Indian Position

In India, level of environmental disclosure in the corporate annual reports, both financial and non financials is not at an encouraging level. Added to this, neither the company nor the ICAI have issued any guidelines for the disclosure of the environmental related aspects.

Following are the few instances of environmental disclosures as contained in the Director’s Report of Indian Companies.

✍ Asian Paints (India) Ltd

- “Samples of treated effluents are periodically checked for Compliance with Standards”

✍ Maruti Udyog Ltd

- “Modification of the existing effluent treatment plant was undertaken to take care of additional effluents generated due to capacity expansion. Data on non-methane hydrocarbons in Paint shop and Engine Testing shop, ambient air quality, stack emissions and effluents are being regularly monitored and the parameters are maintained well within prescribed limits. Development of green belt around gas turbine and R & D areas was further augmented by plantations of 3000 additional saplings”

A Critical Review

Coca-cola, one of the largest manufacturers, distributors and marketers of non-alcoholic beverage concentrates and syrups in the world has been involved in a number of controversies and law suits related to its perceived relationship with human rights violations and other perceived unethical practices.

The Company is particularly ruthless in expanding its market and allegations include causing droughts and poisoning water supplies in India.

In order to free itself from such allegations and win back the confidence of its stakeholders it is diversifying. The company being aware of being one of the reasons of increased obesity among its consumers has now made a foray into healthier/ diet drinks.

The Company needs to regularly monitor measures in force in accordance with the Pollution Control Act for the protection of the environment and for ensuring Industrial safety.



GAINFUL LOSSES

Srimad Bhagvatam narrates a story of brahmin named Ajamil. The brahmin, an exponent of the shastras, had accumulated good deeds through his communion with saints, spiritual and good people. With the passage of time, the brahmin started befriending people with bad habits. Ajamil character underwent colossal change within a short period of time. The brahmin started indulging himself in bad habits. He resorted to telling lies, gambling, stealing, and eating meat and not to mention, he became alcoholic too. A staunch believer and doer of sanctified actions amassed all bad deeds. As the time of his earthly presence neared to an end, Ajamil realized the enormity of the bad deeds. Is Ajamil entitled to set-off his bad deeds against the good deeds? Deeds, what we are speaking all through supra, are nothing but actions. Some deeds reap benefits and some cause losses. Benefits & losses are the reflex actions of the deeds. Whether the deeds of Ajamil can be set-off has to be inferred through the religious scriptures?

Deferring our study into the scriptures for a little while to assess the deeds of Ajamil and his entitlement for set-off, let us sneak a look into our enactment "Indian Income Tax Act, 1961" that has a separate Chapter "Chapter VI" on "Aggregation of income and set off or carry forward of loss" that deals with deeds – "**commercial / business deeds**" and the effects of reflex action of the same.

The provisions related to set-off of losses are contained in Section 70 and 71 of the Indian Income Tax Act, 1961.

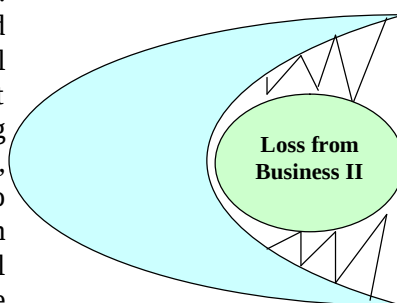
SECTION 70

This section provides for intra-head adjustment of loss (within same source of income)

(1) Save as otherwise provided in this Act, where the net result for any assessment year in respect of any source falling under any head of income, other than Capital gains, is a loss, the assessee shall be entitled to have the amount of such loss set off against his income from any other source under the same head.

This sub-section provides for adjusting losses intra-head except for the head capital gain meaning income from one head can be set off only against that particular head of income. Losses under capital gain are dealt in sub-section 2 & 3.

The provisions of this sub-section can be better understood by comparing it to "CANIBALS" meaning "HUMAN EATING HUMAN FLESH"



LOSSES OF BUSINESS II BEING ABSORBED BY BUSINESS I

(2) Where the result of the computation made for any assessment year under sections 48 to 55 in respect of any short-term capital asset is a loss, the assessee shall be entitled to have the amount of such loss set off against the income, if any, as arrived at under a similar computation made for the assessment year in respect of any other capital asset.

This sub section provides for adjusting loss under the head capital gains, which is short term in nature. Here the short term loss can be set-off against both short term gain and long term gain. For setting-off short term loss with short term gain, the example of cannibals in sub-section 1 above applies.

When it comes to setting-off short-term loss with long-term gain, the relation between the two can be illustrated considering the example of snake and rat.



Snake (denotes long term) and **Rat** (denotes short term). Snake swallows Rat, i.e., to say long-term gains absorbs short-term loss.

(3) *Where the result of the computation made for any assessment year under sections 48 to 55 in respect of any capital asset (other than a short-term capital asset) is a loss, the assessee shall be entitled to have the amount of such loss set off against the income, if any, as arrived at under a similar computation made for the assessment year in respect of any other capital asset not being a short-term capital asset.*

✚ This sub-section provides for adjusting losses intra-head except for short-term capital losses, meaning RAT cannot swallow SNAKE.

✚ **SECTION 71**

This section provides for inter-head adjustment of loss (within same source of income)

(1) *Where in respect of any assessment year the net result of the computation under any head of income, other than Capital gains, is a loss and the assessee has no income under the head Capital gains, he shall, subject to the provisions of this Chapter, be entitled to have the amount of such loss set off against his income, if any, assessable for that assessment year under any other head.*

✚ This sub-section provides for setting of loss from one head of income (other than capital loss) with another head of income (other than capital gain) but subject to any other provision of this chapter, which means if any other provision of this chapter contradicts with this sub-section then that section will override this sub-section. (Head capital gain is excluded because it is dealt within sub-section 2 & 3)

(2) *Where in respect of any assessment year, the net result of the computation under any head of income, other than Capital gains, is a loss and the assessee has income assessable under the head Capital gains, such loss may, subject to the provisions of this Chapter, be set off against his income, if any, assessable for that assessment year under any head of income including the head Capital gains (whether relating to short-term capital assets or any other capital assets).*

✚ Sub-section (2) repeats the provision of Sub-section (1) except that this sub-section provides for set-off losses with capital gains.

(2A) *Notwithstanding anything contained in sub-section (1) or sub-section (2), where in respect of any assessment year, the net result of the computation under the head Profits and gains of business or profession is a loss and the assessee has income assessable under the head Salaries,*

the assessee shall not be entitled to have such loss set off against such income.

✚ This sub-section contradicts with above sub-section 1 & 2. The statement “subject to provision of this chapter” in above two sub-sections has reference to this sub-section. This sub-section starts with words “notwithstanding” which means on contradiction with sub-section 1 and 2 it has overriding power and provisions of this sub-section will apply. This sub-section specifically provides that if there is loss under the head Profit and gains of business or profession then it cannot be set-off against salary income.

✚ For the purpose of better understanding this sub-section, salary can be compared to “**Domestic Cow (Herbivorous)**” and “**Business Loss (Any Other Animal)**”. Cow does not eat any other animal since it is herbivorous, similarly salary (cow) cannot absorb business loss (any other animal).

(3) *Where in respect of any assessment year, the net result of the computation under the head Capital gains is a loss and the assessee has income assessable under any other head of income, the assessee shall not be entitled to have such loss set off against income under the other head.*

✚ Loss under the head capital gain cannot be set-off against income under any other head.

✚ It is like thorny substance, which cannot be eaten up by creatures.

Through an insight into the provisions of Section 70 and Section 71, we have understood the various ways of set-off of losses under the Income Tax Act, 1961. Similarly, our brahmin friend Ajamil got his deeds set-off through adherence to religious deeds in the following manner.

✚ Ajamil had a little son. His name was Narayan. He was the apple of Ajamil’s eyes. Ajamil had become an old man. He became so weak that he was unable to get up from his bed. He was awaiting his death desperately. During this phase of his life, his son Narayan did not fade from his memory. He kept on saying “Narayan Narayan” repeatedly. Thus he would utter ‘Narayan, The name of Lord Vishnu, very frequently throughout the day. Ajamil, as a result of frequently calling out Narayan, gradually underwent a change. He started recollecting his devotion and prayers to Lord Vishnu during his prime. He repented for all his wrong deeds and vices. Ajamil, who had come so close to death, now started recovering from his illness. He spent the rest of his life in the service of God. When he was on his deathbed, God himself came to take him and Ajamil was purified of all the sins that he had once committed.

-Berulal, Amarnath, Monica, Chetan, Mitesh

If you win you neednot explain, but if you lose you should not be there to explain.

- Adolph Hitler

Statutory Audit, Tax Audit and now its VAT audit

The hectic audit season that a Chartered Accountant faces has been extended by the introduction of KVAT audit. After meeting the deadline date of tax audit in their calendar the business fraternity this time has to revise the calendar and go for the VAT audit.

Since the commercial tax department is not able keep a track of each and every dealer in the state due to insufficient infrastructure and required number of the man power, they have come out with VAT audit, similar in the lines of Tax audit. Statutory audit requires a dealer to get his complete sets of books audited by a qualified Chartered Accountant, whereas in VAT audit a dealer requires to get only those books which are related to his Purchases and sales audited.

Meaning of VAT Audit:

Generally Audit means a systematic and independent examination of data, statement, records, operations and performances of an enterprises for a stated purpose and Audit under Value added tax is the inspection of books of account with respect to the provisions of the Karnataka Value added tax Act, 2003 like computation of turnover, input tax credit taken, rate of tax applicable for different products, etc.

Who is Liable for KVAT audit?

Every registered dealer whose taxable turnover exceeds twenty five lakhs for the financial year 2006-2007 and forty lakhs for the financial year 2007-2008 is liable to get his books of account audited under the section 31(4) of the KVAT Act, 2003.

Every dealer other than a dealer registered under Companies Act, 1956 shall have his books of account audited by any tax practitioner enrolled under Rule 168 of KVAT Act (which gives the conditions for being a tax practitioner) or under section 36 of the KST Act, 1957 for not less than a period of three years or by a Chartered Accountant or Cost Accountant. The companies incorporated under the Companies Act, 1956 is required to have his accounts audited only by a Chartered Accountant.

Due date for submission of Audited statement:

The report or the audited statement of accounts shall be submitted to the Jurisdictional Local VAT Officer every year within Nine months after the end of the relevant financial year i.e., for the financial year ending on 31st march the due date to submit the audited statement under KVAT law is 31st of December.

Advantage of the VAT audit to the Department.

The KVAT Audit has various advantages to the Government and as well as the dealers like it is advantageous to the government by increasing the

revenue, lesser cost of administration and collection, check on misclassification of goods to ensure the correct rate of tax and a ailment of input tax credit is as per law or not. With the proper tax planning the dealer will be law abiding, rather than law evader. The financial statement will be more accurate if the Audit is implemented under KVAT Act. The Audit is beneficial for better tax compliance, lowering cost and increasing the purchasing power of the consumer.

The correctness of self-assessment will be checked through a system of audit. A certain percentage of the dealers should be taken for audit every year on a scientific basis. If however evasion is detected on audit, the concerned dealer may be taken up for audit for previous periods. A cross checking, computerized system is being worked out on the basis of co-ordination between the tax authorities of the state government and authorities of central excise and Income tax to compare constantly the tax returns and set off documents of VAT system of states and those of central excise and income tax. This comprehensive cross checking system will help reduce tax evasion and also lead to significant growth of tax revenue and ultimately the benefit shall be channelized to the ultimate consumer and the society.

Model VAT Audit Report

The Council of the Institute of Chartered Accountants of India (ICAI) in its meeting held recently in New Delhi has decided to finalize the Form of Model VAT Audit Report and particulars to be furnished therewith for assisting the State Governments in the recovery of proper VAT revenue. The main advantage of Model VAT Audit Report and the relevant particulars mentioned therein is that they will be uniformly applicable in respect of books of account maintained by VAT payers in different States in terms of the relevant State VAT legislations. This uniform report will gradually help in the evolution of standard accounting principles and uniform accounting practices in respect of the various issues arising under VAT. The said Model Report would be forwarded very shortly to the various State Governments who would be requested to incorporate the Form of VAT Audit Report and the particulars to be furnished therein while formulating the respective VAT Rules. Such incorporations by the State Governments will help in the development of uniform and standard accounting practices. This would help in the harmonization of accounting parameters relating to VAT throughout the country. Once the Model VAT Audit Report is accepted or incorporated by the State Governments in their Rules the Institute proposes to come out with appropriate guidance notes.

Correctness and Completeness- Is it possible?

The Form 240 of the KVAT Act prescribe the format of the Audited statement of accounts and the certificate, this speak about **correctness and completeness** of the return filed during the year and also other information given in the return. The question that arises here whether is it possible to give 100% assurance of all the facts or is it reasonable assurance that the audit professional can provide? Another question that arises is “**other information given in the return is complete and correct**” it speaks of all ‘other information’ but does not speak of material information. Audit professionals form their opinion based on the verification of books of account and other related documents, due to the inherent limitation of auditing such as sampling, auditing on the test basis, stratified random sampling, is it possible to give definite opinion?

Procedural Aspects

While conducting the audit, the auditor should keep in mind the scope of his engagement, type of audit being conducted as well as the restrictions placed by the management. The auditor should exercise his professional judgment to entity and understand the events, transaction, practices that have significant impact on audit. The knowledge of the business will be used by the auditor in assessing inherent and control risks and in determining the nature, timing and extent of audit procedures. The internal control is a plan of the organization, which lays down all the methods and procedures to be followed within the entity to meet its goals while safeguarding assets, ensuring efficient use of resources over the entire period. While doing the VAT audit study and evaluation of the internal control system would be an important step for assessing the risks of the audit as well as planning the audit. The audit risk has three components like Inherent Risk (risk that material errors will occur), Control Risk (risk that

clients system of internal control will not prevent or correct such errors) and Detection Risk (risk that auditor will not detect any remaining materials errors). Audit program is the written document setting forth the procedures that are needed to implement the overall audit plan along with the procedures. It also contains the audit objective for each area and should have sufficient details to serve as a set of instructions to the assistants involved in the audit and as a means of control in the proper execution of work. The procedural aspects of KVAT audit includes verification of Books of Account and other related records, ensure that rate of tax on sales are as per the provisions of the law, sales are properly classified and goods sent on approval basis, stock transfer to branches within the state or outside the state, goods sent on consigner are not recorded as sales, reconcile VAT collections with payments, Check adjustment of input tax by setting off against output tax by relevant journal entries, Check the different classification of sales at different of taxes as per schedule, Check the credit notes issued, Check the tax invoices, bill of sale prepared as per the Provisions of the act, tally the monthly figures with the figures shown in the monthly return, Check the purchase invoices and proper classification of purchase is made at different rate of taxes, Purchase returns are accounted correctly, Check whether capital goods are purchased, ensure that input tax credit taken on capital goods is as per the provisions of the law, Ensure rebates and discounts have been adjusted properly etc

Conclusion

Although the implementation of the VAT audit poses certain teething problems, it also gives ample professional opportunities to the auditing professional in India in helping both trade and industries and tax administrator to resolve many problems with their immaculate services.

-Priya, Harish, Vinay AG, Sourabh

Important Deadlines to be met!!

❖ Income Tax

November 15th: Extended due date for filing of returns for Corporates (ITR – 5 & 6)
December 15th: - Last date for payment of Advance tax. Non – corporates are expected to pay 60% of estimated tax & corporates 75% of estimated tax.

❖ Indirect Taxes

5th November* & Last date for filing of monthly
5th December* Service Tax (excluding
Individuals & Firms).
20th November& Last date for filing of monthly
20th December* returns for Professional Tax, Entry
Tax & VAT
31st December Last date for Submission of
KVAT Audit Report

*It is 6th November if the payment is made through internal banking.

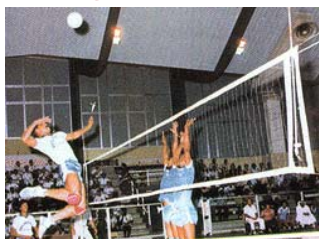
*In a day, when you don't come across any problems, - you can be sure
that you are traveling in a wrong path*

- Swami Vivekananda ⁽¹²⁾

The Forgotten Legend

Jimmy George

Sad, but true, people's memory in a country like ours is very short lived where sporting achievements are very hard to come by, where we struggle to win a single Olympic medal, achievements of Jimmy George are long forgotten.



On the 20th death anniversary of the legendary volleyball player, we would like to dedicate an article to the unsung hero of past. The wizard of Indian volleyball was born on 8th march 1955, in a small village of Peravoor in Kerala. In 1971 at the age of 16 he secured a place in Kerala state team, in 1973 he became the captain of the Kerala University team. He represented Calicut University thrice and Kerala University four times. The Kerala University won the All India Inter-University Championship in all these four years.

Jimmy had great regard for his coach Kalavoor Gopinath and his maternal uncle Prof. M.T. Emmanuel. He represented the country in Tehran (1974), Bangkok (1978), and 1986 Seoul Asian Games. He was the inspiration behind winning bronze medal at seoul asian games.

Jimmy became the first Indian volleyball player to become a professional in Italy. He was regarded as one among the top ten players to play the sport. He won all the major awards including the prestigious Arjuna Award at the age of 21.

Jimmy had a great vision about the future of Indian Volleyball. He had an ambitious project for catching budding talents and training them. But his sad demise at the age of 33 on November 30th 1987 in a car accident in Italy brought shocking waves to the volleyball fraternity.

Today few of his close ones have started a "Jimmy George Foundation" to carry on his dream of budding young talents with help from Kerala government, who have built an indoor stadium in the name of legend.

State of Emergency

This word almost sounds synonymous with the political state of our neighbor 'Pakistan'. After days of chaos & confusion, Pakistan will lift its state of emergency within one month which was confirmed by a senior government official, amid sharp U.S. criticism of President Gen. Pervez Musharraf's step back from democracy.

The Pakistan police meanwhile, said former Prime Minister Benazir Bhutto was free to move about after a day under house arrest which prohibited her from addressing a rally.

The order prevented her from going to Rawalpindi on Friday to lead an anti-emergency rally. Officials said the order was imposed to avoid any suicide strikes at the rally. However, all public gatherings are banned under the emergency imposed on November 3 by President Musharraf. Thousands of police and paramilitary were out on the streets in Rawalpindi to prevent Bhutto's party workers from gathering for the rally.

Under growing international pressure, Musharraf has announced that parliamentary elections initially slated for January 2008 will be held no more than a month later.

Pay For the Jam

How would it be if someone asks you to pay for riding/driving your own vehicle.... How would you feel, if you were stuck in traffic jam or waiting for the signal to turn green you got to pay tax.. Sounds weird but this is the situation of some parts of our country where number of vehicles have increased to such an extent that it's getting tougher & tougher for our government to handle it with ease. Thus, it has left the law with no other option but to levy charges on the vehicle owners for using it.

A project is been initiated by the state government of Maharashtra to charge the vehicle owners & levy tax in the form of "**congestion tax**". Soon the Mumbai motorists could be paying a premium to drive into areas with the busiest traffic-like certain flyovers or South Mumbai's business district.

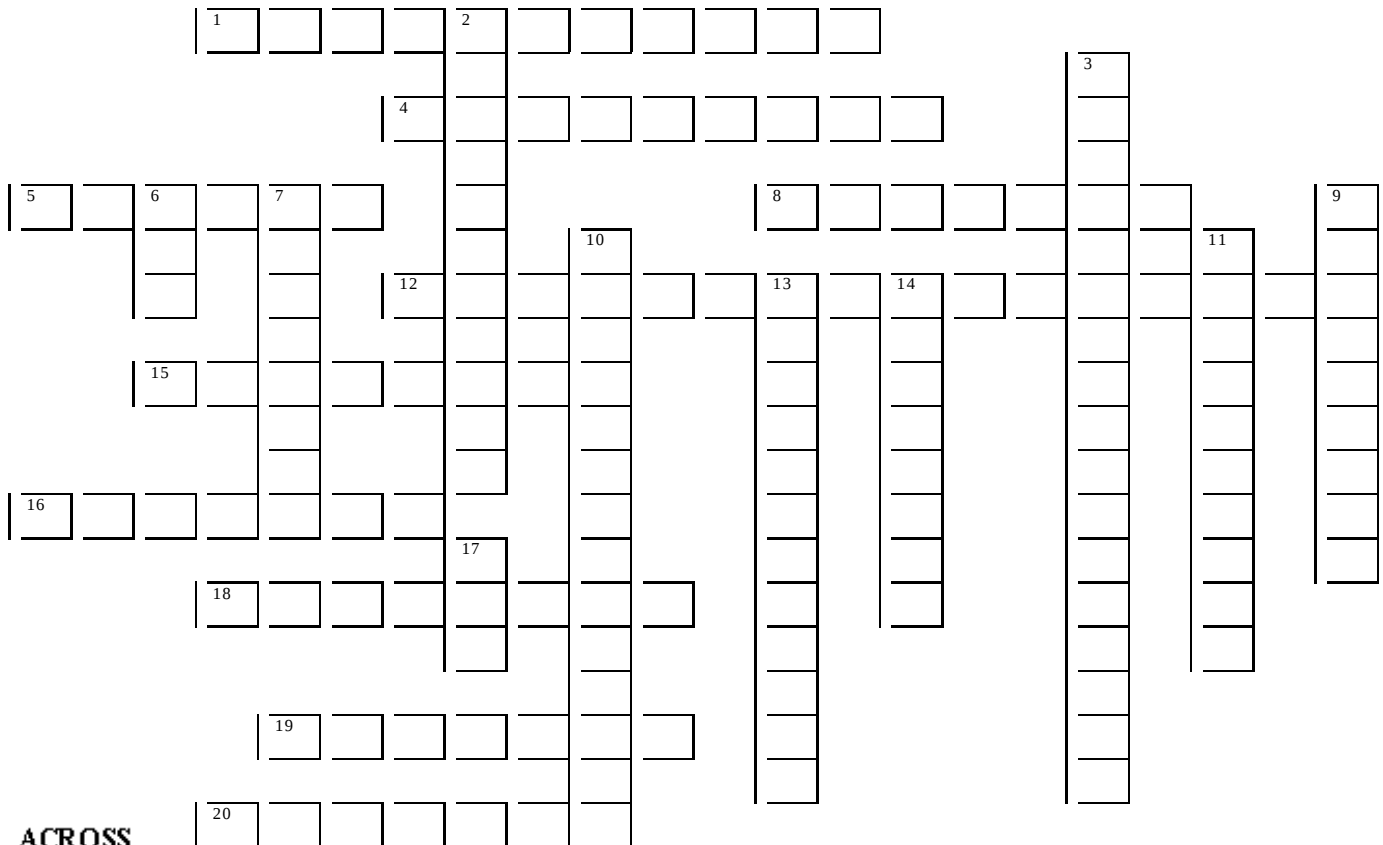
Mastek, an international software solutions company has been handed over the project. The feasibility study of electronic toll collection is started by the company to analyze for the encouragement of the use of public transport. Congestion charging is already been levied since February 2003 in the London city which was designed by Mastek.

Car owners who pay up have their registration numbers entered into a database while an extensive network of fixed and mobile cameras observes number plates of vehicles within the congestion charging zone. Number plates collected by the cameras are simply checked against the database.

If this project gets a green signal to work on Mumbai traffic, sooner many other cities will also be following down the lane towards "**Congestion Tax**".

-Harish, Komal & Puneeth ¹³

CROSSWORD - 6



ACROSS

- 1 The total of interest and principal payments required to be paid on loans payable. (4,7)
- 4 The permanent secretariat of the SAARC is located at? (9)
- 5 Policy relating to public revenue & public expenditure. (6)
- 8 The written law approved by legislatures, parliaments or houses of assembly. (7)
- 12 The make up of a firm's capitalisation. (7,9)
- 15 The income elasticity of demand for an inferior good. (8)
- 16 A term used to increase the carrying amount in the financial statements. (5,2)
- 18 Stipulation collateral to the main purpose of the contract and if proves false, gives the buyer only a right to claim damages. (8)
- 19 The term used when the balance in retained earnings is negative. (7)
- 20 Seeking appropriate information from knowledgeable person inside or outside the entity. (7)

DOWN

- 2 Combined phenomenon of demand pull & cost push inflation. (11)
- 3 Office workers, managers, professionals, and executives are often referred to with this term. (5,6,6)
- 6 Specialized programming language for sending queries to databases. (1,1,1)
- 7 The lender (particularly Banks) that receives an asset as collateral security for a loan. (8)
- 9 Principal revenue producing activities. (9)
- 10 Number of additions & deletions to the file in a given period of time. (4,10)
- 11 A target rate. (6,4)
- 13 Commitment by a bank to lend a certain amount of funds on demand specifying the maximum amount. (4,2,6)
- 14 A visual help to illustrate a journal entry's effect on the general ledger accounts. (1,7)
- 17 Terms that indicate title to goods passes to the buyer when the seller places the goods alongside a ship. (1,1,1)

Shilpa & Pavithra

Answers: Crossword - 5

Across: 5- Oligopoly, 7- Bug, 11- Labour Intensive, 12- Floatation, 14- yeild, 15- Unilever, 16- Strength, 18- Stores, 19- ADR, 20- Allocation.

Down: 1- Motorola, 2- Coupon rate, 3- Dumping, 4- Tax Burden, 6- Diversification, 8- Exemplary, 9- Ultravires, 10- exemplary, 13- Annuity, 17- Node.

If we cannot love the person we can see, How can we love God whom we cannot see

- Mother Teresa **(14)**

DNS Family (The Lighter Side)

Diwali 'The Festival of Lights'

Continued.....

Diwali signifies the triumph of virtue over vice, of good over evil, of light over darkness and of knowledge over ignorance. Lighting lamps, candles or diyas and the bursting of crackers during Diwali is also geared towards this destruction of all-evil. The festival marks the victory of good over evil. The Sanskrit word Deepavali means array of lights that stands for victory of brightness over darkness. As the knowledge of Sanskrit diminished, the name was popularly modified to Diwali, especially in northern India.

In Bengal, Goddess Kali or Durga, the goddess of strength, is worshipped. This reverence is called "Kali Chaturdashi". Strength is a positive attribute for one to have but it must be used to protect others from harm and used only in good and pure deeds. Also during Diwali, the goddess of wealth, Lord Lakshmi is worshipped. This practice is called "Dhanteras". It is believed that he or she who worships Lord Lakshmi during Diwali is bestowed wealth and prosperity.

The day of Diwali has special significance for the business community as they consider this day to be the perfect time to begin their new financial year. Some people also indulge in gambling on the day of Diwali because it is believed that wife of Lord Shiva, Goddess Parvati played dice with Him on this day and therefore those, who gamble on this auspicious day, are blessed with prosperity.

Historically, the origin of Diwali can be traced back to ancient India, when it was probably an important harvest festival. However, there are various legends pointing to the origin of Diwali. Some believe it to be the celebration of the marriage of Lakshmi with Lord Vishnu. Diwali also commemorates the return of Lord Rama along with Sita and Lakshman from his fourteen yearlong exile and vanquishing the

demon-king Ravana. In joyous celebration of the return of their king, the people of Ayodhya, the Capital of Rama, illuminated the kingdom with earthen diyas (oil lamps) and burst crackers. In fact so diverse are the rituals and traditions of Diwali in different parts of the country that it is impossible to pin down just one way of celebrating this wonderful festival.

Diwali is by far the most enthusiastically enjoyed festival in India. People of different nationalities, races, religions and backgrounds come together to share their joys generating a feeling of universal brotherhood and inter-religious harmony.

DNS Outing

After days of toil in a hectic Audit season, a much needed Stress Buster came our way in the form of an Adventurous trip to a location which though didn't work out as per plans, still ended up as an unforgettable outing. The drive although very tiring was nevertheless a roller coaster ride, which was marked with games like Cards, DC, enacting, mimicry and dancing away to the tunes of our newly joined article 'Bharath'.

Not to forget the splendid scenic beauty of 'Triveni Sangam', which made us forget our very own valued Gopal Sir, who was left alone



with a penny, oblivious of his surroundings and engrossed in his talks with the village folks. The return journey gave a classic finishing touch to the entire day filled with fun, frolic, excitement and an experience which shall never be forgotten and will be cherished for the rest of our lives.

Write to the Editor

R Nanda Kumar

Senior Credit Officer,
CRMD, CO Bangalore

Dear Editor,

I am happy to come across the newsletter "The Articled" and express my most sincere appreciation and congratulate you and your editorial team in bringing out this informative and educative newsletter.

I am sure that this news letter would immensely benefit cross section of the student community as well as professionals, as it throws light on varied information and brings out the essence in a nutshell - the articles on "Shares Under Mats", "Vodafone Essar and Taxman Tussle", and "Fraud - Changing perspective of Audit" stand as testimony to my appreciation. Besides furnishing information, I believe that the articles carried by your news letter provide ample opportunity for the student community to ponder over and develop interests on varied subjects.

I would also be happy to suggest inclusion of certain information/events such as: Important events in one's career / personal life of members - such as achievements, success stories, talents etc.,

Once again I wish you and The Editorial team all success.

'FINE LINES BETWEEN TIMES'

Words/phrase in any language are not scientific symbols having any precise or definite meaning, and language is but an imperfect medium to convey one's thought much less of a large assembly, consisting of various shades of opinion. It is impossible for even the legislature to foretell exhaustively situations that could arise after enacting such a statute. In a common man's day to day life, there are number of instances where certain phrases are often used in various deeds/agreements that are in connection with a time period or a dead line but they seldom ponder over the implications that they exhibit.

For Eg. X is required to pay lease rentals within 7th of every month or X is required to pay lease rentals on or before 7th of every month or X is required to pay lease rentals by the 7th of every month. Various interpretations of terms like "within" "on or before" "not later than" "By" etc... are produced below:

(a) "Within"

The word "within" in relation to a period of time does not usually mean 'during' or throughout the whole of; it is more frequently used to delimit a period 'inside' which a certain events may or must happen. The term "within" is more restrictive in nature, used to limit the various parameters, under a given circumstance. A ball hit by the batsman may hit within the boundary or on the boundary or outside the boundary. On the boundary is not within the boundary. Therefore, a tenant who is suppose to pay rent within a time frame, say within 7th will have to pay by 6th of the month to fulfill the obligation in terms of the agreement entered. The stretched meaning of the word 'within' would indicate without any ambiguity that the payment can be made **on or before** the date fixed since 6 ½th day would also constitute within 7th. It is not necessarily shorter than time itself.

(b) "On or Before"

The term "On or before" precisely connotes the limits/parameters that are available to complete a given task. "On or Before" with relation to a

specified time or event, immediately at or at any time in advance of, the instant of such time, or event, or event that is to say to the exclusion of any time after that to which the proportion has relation, not after. It states that the event can occur before or on the specified date but before the expiry of such specified date. "On or before" , as used in a contract entitling a party to a conveyance a piece of land on the payment of a certain sum, on or before a certain date, is to be construed as authorizing a payment on any date before the specified date. "On or before " as used in a policy declaring that it shall determine if the premium is not paid on or before the day fixed, means at any time in advance of the instant of the expiration of the policy. 'On or before' is a phrase which is little more than 'within' and would specifically include the end date.

(c) "Not Later Than"

The expression "not later than" means within a period of, not beyond the specified date. Not later than 7 days, must be held to mean the same as "within" 7 days. This phrase will mean to restrict the parties to contract, not to cross the said date.

(d) "By"

Where time is given to remit a sum of money "by" a certain date, the word "by" indicates the utmost limit of time, being the end or the expiry of the date or period indicated. The expression "by" a certain date makes available to the party a whole of that day. Notice to vacate 'by' a specified date does not exclude that date.

The most fair & rational method for interpreting/understanding a statute is, to explore the intentions/objective of the statute. It is imperative to note that, words of any language are capable of referring to different referents in different context and times. However, there are always border line cases falling within or outside the connotation of a word. Hence one can construe the meaning of a particular word, based on the intentions or the objectives of the statute.

-To be Continued in The 7 Issue

-CA Sunil D Surana & Abhishek Kothari **16**

LENDING BY BANKS TO BUSINESS SECTOR

-By Mrs. D Sailaja BSc(Agri),CAIIB & CA Rajani Shinde

Indian banking is undergoing a series of changes ever since the “financial sector reforms” were introduced by the Government of India in the year 1991. In sequel, a metamorphosis was brought about by Reserve Bank of India through appointment of various committees with a view to streamline credit delivery system of commercial banks so as to fall in line with international practices. As part of the economic reforms, banking industry has been deregulated, made competitive and turned into a one-stop financial solution provider. Market focus is shifting from mass banking products to class banking with introduction of value added and customized products.

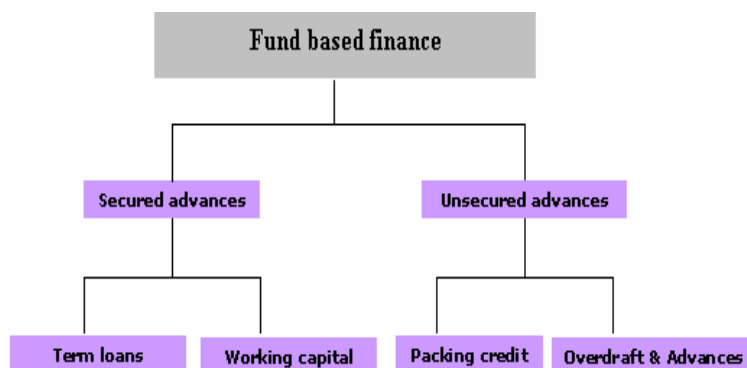
Banks lend money in various forms and practically for every activity. Loans are given against or in exchange of the ownership (physical or constructive) of various types of tangible items. Some of the securities against which the banks lend are:

- ✚ Commodities [In the form of finished industrial produce or agricultural produce]
- ✚ Debts [Books debts]
- ✚ Financial instruments [Shares, bonds, debentures, commercial papers etc.]
- ✚ Real estate [Realty property]
- ✚ Automobiles [Cars and the like]
- ✚ Consumer durable goods;
- ✚ Documents of title [Bill of lading, Airway bill etc.]

Banks business finance facilities include the following:

- ✚ Fund based credit facilities;
- ✚ Non-fund based credit facilities;
- ✚ Equipment leasing, hire purchase finance and factoring services;
- ✚ Advances against shares, debentures, bonds, units of mutual funds and similar instruments;
- ✚ Financing promoters' contributions;
- ✚ Bridge loans against equity flows / issues;
- ✚ Financing of Initial Public Offerings (IPOs);
- ✚ Forward rate agreements (FRAs) and Interest Rate Swaps (IRSs).
- ✚ Forward contracts in foreign exchange and other derivatives produces like currency swaps, options etc at their replacement cost value .
- ✚ Direct investments in securities including share and debentures.
- ✚ Export finance both for pre-shipment and post-shipment.

Fund based bank finances



Term Loans

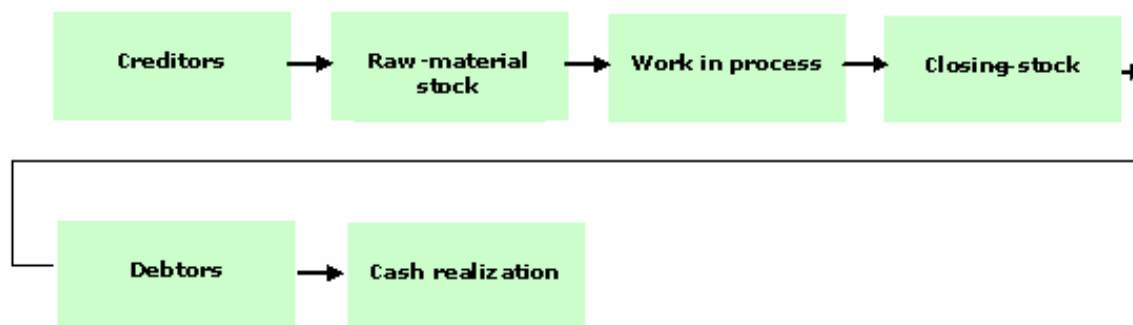
Term loans are of two types:

1. **Short-term loans:** Short-term loans cater to daily, seasonal and temporary working capital needs. These are also called cash cycle needs. Tenure of the loan is normally up to one year and the purpose is basically to meet the requirements up to one year. Crop loans, working capital finance etc. are few examples.
2. **Long-term loans:** This type of loan is given for a fixed period (exceeding one year and not more than 7 years) to the borrowers for acquiring long-term assets i.e. assets that will benefit the borrower over a long period. The repayment is by way of installments according to agreed terms and conditions. However in the case of infrastructure projects, the repayment period may be for more than 7 years. A term loan is extended to finance the following purposes:

- ✚ Specific asset;
- ✚ Modernization programme;
- ✚ Expansion programme;
- ✚ Diversification programme;
- ✚ New Project;
- ✚ Rehabilitation project.

Working capital

Working capital finance is the finance made available to the business unit to supplement its resources for holding a reasonable level of current assets. Current assets will be funded partly through current liabilities, partly through the contribution of the borrower in the form of long-term sources, which is called Margin or Net working capital. Current assets comprise of raw material, semi finished goods, finished goods, receivables, cash etc. These assets go through the operating cycle of the business unit. (17)



capital is already eroded. Application of second method is not adopted, as the borrower has to contribute significant

Types of working capital finance

- ✚ Cash Credit and packing credits (including trust receipts and working capital term loan) against pledge / hypothecation of stocks in trade and / or standing crops (plantation).
- ✚ Discount / purchase of inland / foreign demand documentary D.P. [D.P. - document against payment] bills and usance documentary D.A. [D.A. - document against acceptance] bills under letter of credit. Under this type of lending, bank takes the bill drawn by borrower on his customer and pays him immediately deducting some amount as discount/commission. The bank then presents the bill to the borrower's customer on the due date of the bill and collects the total amount. If the bill is delayed, the borrower or his customer pays the bank a pre-determined interest depending upon the terms of transaction
- ✚ Overdraft against approved securities with prescribed margin.
- ✚ Import Loans against imported consignments received under letter of credits opened by Bank.
- ✚ Overdrafts against book debts / Government supply bills.
- ✚ Advance against Demand Documentary Bills for collection.

Assessment of working capital

There are three methods of assessment of working capital requirement of the business unit:

- ✚ Traditional method;
- ✚ Turnover method;
- ✚ Cash budget method.

✚ Traditional method

As per Tandon (1975)/Chore committee (1978) recommendations, under the traditional method the following are the types of lending:

First method of lending: The first method is used only in case of sick units where margin on working

margin money that is not possible in the case of sick units.

Second method of lending: The commonly used method is second method of lending as per Tandon/Chore Committee recommendations that is illustrated in the following table

Method I	METHOD -II	Remarks
Accepted level of Current Assets LESS : Current Liabilities (other than Bank borrowings)	Accepted level of Current Assets LESS : Current Liabilities (other than Bank borrowings)	
= WORKING CAPITAL GAP	=WORKING CAPITAL GAP	
LESS =Margin (Minimum of 25 % of working capital gap or Net working capital(NWC) whichever is higher)	LESS = Margin (Equal to 25% of Current assets or Net working capital (NWC) whichever is higher.	Difference between first and second method of lending.
=MAXIMUM PERMISSIBLE BANK FINANCE (MPBF)	=MAXIMUM PERMISSIBLE BANK FINANCE (MPBF)	

✚ Turnover method

As per the recommendation of Nayak committee (1993), the working capital limit of the unit is computed on the basis of minimum of 20 % of its projected turnover and the unit /borrower is required to bring in margin equivalent to 5% of projected turnover.

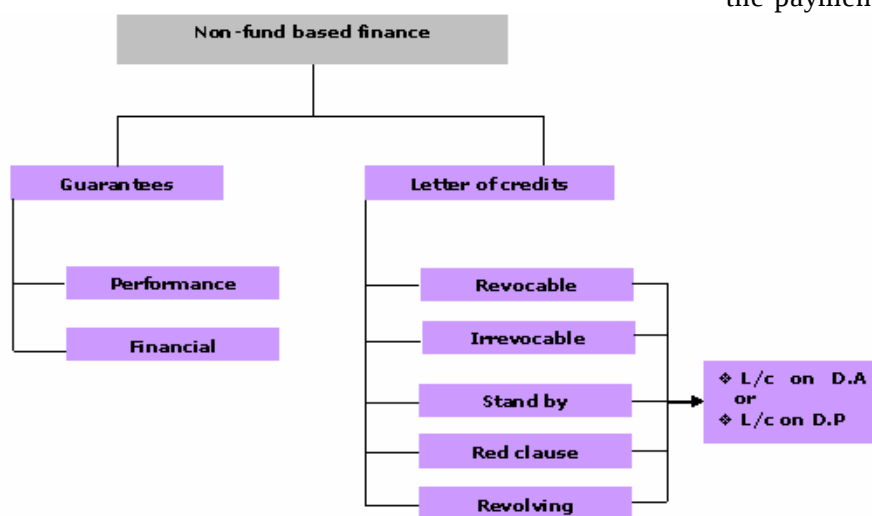
✚ Cash budget method

As per the recommendation of Kannan committee (1997), for seasonal and cyclical industries, the computation of working capital limit is done by the cash budget method. Under this method, annual projections are prepared in the form of a Budget i.e. forecast of cash inflows and cash outflow. After splitting budget into months/quarters, the period in which the deficit is the maximum will be the limit to be sanctioned, but operative limit will be restricted to the extent of deficit in the particular period.

Credit Monitoring Arrangement (CMA): The working capital limits are to be sought through the CMA format. It is a standard format that contains funds flow statement, which is required by bankers to assess working capital limits. However, most of the Banks now have their own tools of assessing the working capital limits.

Non-fund based bank finances

These facilities are extended to the borrowers so that the funds are not blocked in the advances to be given to the suppliers or beneficiaries. This keeps his liquidity position comfortable, production smooth and costs low. The borrowers have to pay commission and service charges for the service obtained.



Types of non-fund based bank finances include

- ✚ Guarantees &
- ✚ Letter of credit.

✚ **Guarantees:** Banks issue guarantees to the borrowers for participation in tenders, offering security deposits, providing guarantees for borrowers capacity to perform contracts, avail concessions in duty on imports when tagged to some export obligations etc. There are basically two types of guarantees:

✚ **Performance guarantee:** Banks guarantee the performance of the borrower and in the

event of default make payment as agreed in the guarantee.

✚ **Financial guarantee:** When borrowers are required to give cash deposit or earnest deposit for business purposes, banks furnish the guarantee for the amount and the period as specified in the guarantee.

✚ **Deferred payment Guarantee (DPG):** Banks issue deferred payment guarantee on behalf of customers, guaranteeing payment spread over a period of time in connection with purchase of machinery, capital assets etc.

Letter of credit: Letters of Credit is issued by the Bank on behalf of a buyer or importer in favour of the seller or exporter guaranteeing the payment of the purchase price. When the

letter of credit is opened for an inland transaction it is called inland letter of credit and when the letter of credit is opened for an import transaction, it is called foreign letter of credit. This mechanism avoids the payment of advances, as a reputed bank assures the payment as per the payment terms of the purchase order. All the types of L/c like the revocable, irrevocable etc.,

can be issued either on D.P or D.A basis.

✚ **L/C on D.P. :** Referred to as sight L/C, the sight L/C is an undertaking to pay for the documents once sighted by the bank, which conform to the terms and conditions of the letter of credit.

✚ **L/C on D.A. :** In case of usance letter of credit, the supplier allows a credit period to the buyer to make payment for goods supplied. In the mean time, the bank shall pay the supplier and on the due date of the usance letter of credit, the buyer/bank customer shall settle the account with the bank.

Congratulations:

The award for Crossword-5 is jointly shared by Miss Priyaranjani M.P & Mr Vinay A Jain.

The Lateral Thinking-5 Award is bagged by Miss Monica & Miss Pavitra
Whereas the Logo Quest-2 Award is won jointly by Mr Gopal PL & Mr. Mukesh Jain

We congratulate all the winners.

Answers to Lateral Thinking - 5

1. The contractor built the house at the South Pole...
2. Romeo is the household cat, and Juliet is a goldfish. Romeo has knocked Juliet's bowl off its stand...
3. Jason is a mouse, in a mouse trap
4. Both the engineer and lawyer were women. The priest was a man, so the policeman was fairly sure that he was the one referred to as "John"...
5. The bar was an iron bar...
6. The two men in question were both widowers with a daughter from a previous marriage. They both married the other's daughter...

Statistical Details

e-Filing for AY 07-08: Quick Statistics (as on 31st Oct 2007)

Milestone	Achievements
E-returns upto due date	10.84 Lakh (up by 273 % from 06-07)
Corporate E-returns	2.96 Lakh (up by 2.6% from 06-07)
Voluntary E-returns	5.07 Lakh (46 % of total E-returns)
E-returns received on the due date*	1.62 Lakh (up by 238 % from 06-07)
E-returns received on the last 5 days before due date	4.60 Lakh (up by 235% from 06-07)
Number of registered users	13.84 Lakh (up by 336% from 06-07)
Peak rate of return received/hour	21,729/hr (up by 279% from 06-07)
Peak bandwidth utilized	45 Mbps (up by 78% from 06-07)
No. of TDS Records	1,19,03,254
No. of Challans Records	20,96,100

*Due date for 2007-08 now extended

Answers to Logo Quest -2

- | | |
|---------------------|----------------|
| 1) Aeromexico | 8) The Halifax |
| 2) Thai Air | 9) Dreamcast |
| 3) Daihatsu | 10) Natwest |
| 4) AM Motorcycle co | 11) Head |
| 5) British Gas | 12) Quick Time |
| 6) British Telecom | 13) Symantec |
| 7) Vauxhall | 14) Red bull |

Tid Bits

1. India has the largest number of Post Offices in the world.
2. **Albert Einstein** said: We owe a lot to the Indians, who taught us how to count, without which no worthwhile scientific discovery could have been made.
3. North Dakota has never had an earthquake.
4. If you keep a goldfish in the dark room, it will eventually turn white.
5. One person in two billion will live to be 116 or older.
6. If you yelled for 8 years, 7 months and 6 days, you would have produced enough sound energy to heat one cup of coffee.
7. More people are killed by donkeys annually than are killed in plane crashes.
8. A woman was chewing what was left of her chocolate bar when she entered a Metro station in Washington DC. She was arrested and handcuffed; eating is prohibited in Metro stations.
9. Seven percent of Americans claim they never bathe at all.
10. In her later years, Florence Nightingale kept a pet owl in her pocket.

Logo Quest - 3

- Rayan Sequeira

1.



2.



3.



4.



5.



6.



7.



8.



9.



10.



11.



12.



13.



14.



15.



Figure out the above "Logos" and Mail it across to us at newsletter@dnsconsulting.net
 The Last date for the submission of your Answers is 25th November.
 Answers will be published in the next edition of "The Articled"

Article Appraisal for the October issue of "The Articled"

<i>Shares under MAT</i>	<i>Company Law</i>	★	★	★	★	☆	3.60
<i>Fraud: Changing Perspective of Audit</i>	<i>Accounts</i>	★	★	★	★	☆	3.70
<i>Its' Tax Audit Time</i>	<i>Audit</i>	★	★	★	★	☆	3.45
<i>Compromise under the VAT Law</i>	<i>Indirect Taxes</i>	★	★	★	★	☆	3.45
<i>Vodafone Essar & Tax Man Tussle</i>	<i>Direct Taxes</i>	★	★	★	★	☆	3.90

****This Appraisal is for the internal review and improvement of the teams related to the newsletter and has been performed by distinctively independent personnel. This is in no way a comparison between the articles and is not based on any of our existing opinion polls.**

Lateral Thinking - 6

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. In the middle of a green field lie two pieces of coal, a carrot, and a scarf. When they are discovered by the local boys they are not at all surprised at finding such unusual items in such a place. Nobody specifically placed them there, so how did they get there?

2. The husband and wife raced through the streets of Melbourne. Then the husband got out of the car and asked his wife to wait a couple minutes for him. When he returned she was dead. Not only that, a stranger was in the car. How did she die?
Clues: The doors and windows of the car were locked the whole time while the husband was away. The death was caused by the stranger, but not intentionally...

3. A hunter aimed his gun carefully, and pulled the trigger. Seconds later he realised his mistake.

Minutes later he was dead. What happened?
Clues: No living creature killed him. It was a cold winter's day. He had a VERY loud gun...

4. A woman throws an object out of the window and dies. How does she die?

Clues: She dies of a broken neck. The nature of the object is VERY important...

5. Why do Chinese men eat more rice than Japanese men?

6. A windowless room has 3 light bulbs. Three switches are outside the room, and each switch operates one of the bulbs inside. If you only enter the room once, how can you determine which bulb is connected to which switch? Clues: Think about what happens to a light bulb when you turn it on...

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

Hurry, Last date for the submission of your Answers is 25th November.

Answers will be published in the newsletters November edition.

General Insights IN A NUTSHELL

Closings on 10th November 2007

MARKET CAP

Figures Courtesy The Economic Times

Company	Market Cap (Rs. Crores)	(%) of Total BSE MCap
Reliance Inds	397675.03	6.37
MMTC	271102.50	4.34
ONGC	264956.24	4.24
NTPC	199005.14	3.19
National Min	187916.32	3.01
Bharti	165225.95	2.65
DLF	155806.24	2.49
Reliance Comm	145944.50	2.34
BHEL	135817.32	2.17
ICICI Bank	127131.32	2.04
L&T	117153.28	1.88
SBI	113812.38	1.82
Reliance Pet	100710.00	1.61
SAIL	98592.65	1.58
Infosys Tech	97431.62	1.56
Tata Consultancy	96441.03	1.54

Markets:

Sensex	18907.60
Nifty	5663.25
Dow	13165.41
FTSE	6297.00
Nasdaq	2651.31
Nikkei	15583.42

Rates:

Rs/Dollar	39.15
Rs/Pound	82.29
Rs/Euro	57.47

Crude:

Brent	\$92.61
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Bullion:

99.9 Purity Gold:	Rs. 10621
Silver (Kg):	Rs. 20300

Write to The Editor

"Continuous learning process" is the essence of our profession. To keep ourselves in pace with the emerging concepts is what we have endeavor through this "The Articled". We also intend to build this into a common knowledge-sharing platform and welcome any contributions to strengthen this common pool. Your views will help us fortify the forthcoming issues. You can mail us at newsletter@dnsconsulting.net or write to: The Editor, #10, South Park Road, Nehru Nagar, Sheshadripuram, Bangalore - 20.

Business Cartoon



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