

DNS Consulting Pvt. Ltd

The Articled....

u'r Altitude is determined by u'r Attitude

Vol 2

July 2008

Issue 2

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Internal Audit – An Insight

By - Mithila, Rajesh, Deepthi & Mikita.

Every day we witness enterprises expanding their line of business. Globalization, Expansion, Diversification are the goals which every business man would look to achieve for in his organization. The owners will have more control over the operation when an enterprise is in its nascent stage. But as the business expands, the focus will be to maximize wealth, strengthen the enterprise's stand in the economy. At this point, can a businessman have a watch over the day to day activities?

An Internal Control team in an enterprise will relieve the burden from the shoulders of the business man in monitoring the routine operations. The reliance on such control in place can be established by employing Internal Audit team which as an independent entity examines and evaluate the level of compliance, procedures and provides assurance to the management on the adequacy of the internal control.

The Internal audit is an ongoing evaluation of the financial health of a company's operations in a systematic and disciplined manner. Unlike a statutory audit which is a post mortem activity, an internal audit is a review to make suggestions to plug the loopholes existing in the internal controls of the organization. An overview of the role of internal audit can be summarized as below:

Review of accounting information system and internal control system adopted by the entity and suggest for improvements. Review the system followed to ensure compliance with statutory requirements of laws and regulations, legal and regulatory requirements applicable to the enterprise. Verification of existing assets, the means adopted for safeguarding the assets from loss of theft, fire, etc.

Examine the operational activities and identify productive and unproductive hours, labour turnover rate, under or over-utilization of the resources and suggest for further improvements in these areas.

Since the objective of the enterprise is profit maximization and wealth maximization, the internal auditor can to a large extent help the owners of the enterprise to make effective decisions with regards

to the financial management of the enterprise.

The internal auditor should assure that there is effective coordination and communication flow throughout the organization with regards to the internal control system. In the process of performance of his duties, the internal auditor gains much of knowledge about the functioning of the enterprise. He also gets enlightened about the flaws and the drawbacks in the functioning of the internal control system and the accounting information system in the enterprise. In addition to noting the points of drawback in his report, the internal auditor can also provide some useful suggestions and recommendations to the management.

Having an internal audit in place will be no good unless the audit meets the objective of reporting on compliance with laid down policies and procedures, efficient uses of resources of the organization and suggesting changes to improve the operations the stages involved in the performance of internal audit is set forth in the below flow chart:

The process of internal audit remains alike but the approach to internal audit varies from enterprise to enterprise and within an enterprise from process to process. The internal auditor has to modify the audit techniques and methods of reporting in the said process timely.

The effectiveness of the IA can be seen from the audit report which should be formatted in a manner which gives a clear picture to the management the manner in which the operations are carried on, the deficiencies in the controls with supporting facts and figures and provide in-depth cost-benefit analysis of all recommendations so that it adds value to the organization.

Many companies and business have lost in the rat race owing to lack of business controls. The absence of effective internal control was also one of the reasons for pitfall of the telecom giant Worldcom. It is high time to position an internal control and audit to circumvent the possible risk of business failure and move towards stabilization of the business.



Green Shoe Option

By - Tanuja, Udaya & Amarnath



Imagine TCS Ltd coming out with a public issue. Owing to the fact that it is one of the biggest software companies in India, as an investor you would be all geared up to get your hands on the stock. The excellent track record of the company has boosted your expectations with respect to gains from the company in the form of Dividends & Capital Appreciation & making the stock a must buy. However the issue size may play a spoil sport to your intentions. A case of over-subscription, which is quite likely in case of blue chip companies, may break your heart because you will be allotted lesser number of shares than your applied figure meaning you have to buy the rest from the market.

As a result of this the stock will be subject to high price volatility post listing with the stock prices shooting up immediately after listing and having a steep fall thereafter. To tackle this situation the company has an option of putting on green shoes and stepping in the stock market.

The term "Green Shoe" came into existence from Green Shoe Manufacturing Company, which was the first company to permit this practice to be used in an offering. A greenshoe option can provide additional price stability to a security issue because the underwriter has the ability to increase supply and smooth out price fluctuations. A Green Shoe option (legally referred to as over-allotment option) gives underwriters the right to sell investors more shares than originally planned by the issuer. This would normally be done if the demand for a security issue proves higher than expected.

SEBI introduced this option with the objective to boost investor's confidence by arresting the speculative force, which work immediately after listing which thus results in short term instability in post listing price. It also had the intention to break the vicious circle of "dull market, lack of trading interest, depressed prices, etc thereby ensuring stability in prices. SEBI has introduced this concept by inserting a new chapter VIIIA to SEBI (Disclosure & Investor Protection) Guidelines 2000. The provisions of chapter VIIIA are:

1. A company desirous of availing the GSO, shall pass a resolution in the general meeting authorizing the public issue, and also seek authorization for the possibility of allotment of further shares to the Stabilising agent (SA) at the end of the stabilization period.
2. The company shall then appoint one of the merchant bankers as the "stabilising agent", who will be responsible for the 'price stabilization process'. The SA shall also enter into an agreement with the issuer company, prior to filing of offer document with SEBI, clearly stating all the terms and conditions relating to this option including fees charged to be incurred by SA for this purpose.
3. The SA shall enter into an agreement with the promoter who will lend their shares, specifying the maximum number of shares that may be borrowed from the promoters, which shall not exceed of 15% of the total issue size.
4. The details of the agreements shall be disclosed in the draft prospectus, draft red herring prospectus and it shall also be included as material documents for public issue.
5. The lead merchant banker shall determine the amount of shares to be over-allotted with the public issue, subject to the maximum number specified.
6. The SA shall borrow shares from the promoters of the issuer company or both, to the extent of proposed over allotment, provided that these shares are in dematerialized form.
7. The allocation of these shares shall be pro rata to all the applicants.



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8. This stabilization mechanism shall be available for the period not more than 30 days from the date when the trading permission was given by the exchange.
9. The SA will open a GSO Bank account, wherein only the money received from the applicants against this over allotment will be kept and shall be used for the purpose of buying shares from the market during the stabilization period and these shares will be credited to the GSO Demat Account.
10. These shares has to be returned to the promoters not later than two days from the closure of stabilization period
11. In case the shares are not returned to the promoters, then the issuer company shall allot shares to the extent of shortfall within five days of the closure of stabilization period to the GSO Demat account. Then the shares are returned to the promoters in lieu of shares borrowed and the Demat account is closed.
12. The SA shall remit an amount equal to [further shares allotted by the issuer company to GSO Demat account] * [issue price] to the issuer company from GSO bank account. The amount left in this account, if any will be transferred to the Investor's protection fund of the stock exchange.
13. W.E.F 28th May 2004, this concept has been extended to all public issues and no longer restricted to IPO.

Suppose a company wants to issue 10000 shares and a price discovered in book building process is Rs. 20 per share. The company has also made a provision of 15% Green Shoe Option to the underwriters of the issue. Thus at the discretion of the underwriters the company will further issue 15 shares at the same price of Rs.20 to the specific underwriter , who in turn will act as the stabilization agent for the issue.

This option is valid only for a period of one month post listing of the IPO. The amount raised by selling these 15 shares will be in the escrow account. On the closure of the IPO, the underwriter issues 115 shares. The shares can be a loan from the promoter or any existing shareholder of the company.

Post listing if the price of the stock goes up, the SA is not required to stabilize the price and will exercise the GSO, where the company will issue further 15 shares to the underwriter and collect money for the same at the book build price.

In case the stock price goes down below the issue price post listing, then the underwriter uses the money in the escrow account to the extent of 15 shares to buy shares from the secondary market and the issue size remains at 100 shares. The underwriter, in this case, returns the 15 shares to the lender.

The Green Shoe thus acts as a boon to both the investors and the company as it drives away the inconvenience caused by over subscription and for the company it ensures price stability in addition to meeting the demand of the investors.

The Olympic Oath



Pierre de Coubertin wrote an oath for the athletes to recite at each Olympic Games. During the opening ceremonies, one athlete recites the oath on behalf of all the athletes. The Olympic oath was first taken during the 1920 Olympic Games by Belgian fencer Victor Boin. The Olympic Oath states, "In the name of all competitors, I promise that we shall take part in these Olympic Games, respecting and abiding by the rules that govern them, in the true spirit of sportsmanship, for the glory of sport and the honor of our teams."



Encounter with My Favourite Player in...

By - Berulal

What a match it was indeed? I was watching the final of IPL 20 20 and my favourite side were Rajasthan Royals. They won the finals and I was very excited. The next day I met one of the foreign players of Rajasthan Royals. We were having discussion about the previous night finals, and suddenly he asked me, "Why do we get less amount of prize than what is quoted to us? Is the differential amount donated elsewhere?" I smiled and answered, "No my dear friend it is not Donation but Income Tax which is deducted and net amount is paid."

He asked me to explain exact provisions of the section in the Act. I said "the section which deals with such kind of payment is section 115BBA. This section provides that, where the total income of an assessee, being a sportsman (including an athlete), who is not a citizen of India and is a non-resident, includes any income received or receivable by way of (i) participation in India in any game or sport or (ii) advertisement or (iii) contribution of articles relating to any game or sport in India in newspaper or magazine or journals. The income tax payable by the assessee shall be the aggregate of (i) the amount of income tax calculated on income I mentioned earlier at the rate of 10% and the amount of income tax chargeable on any other income, other than that I mentioned earlier". Oh! Ok he said. Then, suddenly he said to me, "hey friend when tax is only 10% of income then I would like to play another game." "I asked which game?" he said "I am big fan of King Khan and want to participate in game show hosted by him." I said "that's great, but tax chargeable would be 30% and not 10%." He asked "why the difference? 10% for one game and 30% for another" I replied "that's because games of that nature are covered by section 115BB, which are charged at 30%"

He thought for a while and asked "is it valid and lawful to deduct tax in a country, from a person, who is not a citizen or resident of that country?" I said "well, it is valid and lawful" he asked for reference to section in the Act, I said "section 5(2)

provides that, the total income of any previous year of a person who is non-resident includes all income from whatever source derived which – (a) is received or is deemed to be received in India in such year by or on behalf of such person; or (b) accrues or arises or is deemed to accrue or arise to him in India during such year." He was listening very carefully and suddenly asked, "hey friend but, how can you determine that the whole amount is income to me, I have incurred so much expenses to earn this income, I should get benefit of such expenses." I said "No, you cannot claim any expenditure, as proviso to section 115BBA provides that no deduction in respect of any expenditure or allowance shall be allowed under any provision of this Act in computing the income referred in clauses of section 115BBA.



After a while he said "I have never filed my returns in India, even when I won prizes in yesteryears. Is it necessary for me to file returns here?" I said "it is not necessary to file returns in India if you satisfy 2 conditions, they are: (i) that if your total income in respect of which you are assessable under this Act during the previous year consisted only of income referred to in clauses of section 115BBA and (ii) the tax has been deducted by the payer in accordance with the provisions of section 194E.

He said "thanks friend, you relieved me of my tension" we continued our discussion on general topics and that was when I heard my mobile ringing in background. I walked in the direction of ring and turned off the ring, the time in my watch and mobile was 5AM. I realized I had the wonderful encounter with my favorite player in dream.



Input Service - Simplified

By - Pavithra, Haris and Dev.

The CENVAT scheme is principally based on system of granting credit of duty paid on inputs and input services. A manufacturer or service provider has to pay excise duty and service tax as per normal procedure on the basis of 'Assessable Value' (which is mainly based on selling price). However, he gets credit of duty paid on inputs and service tax paid on input services.

CENVAT Credit Rules have the following concepts

- Concept of Inter Sectoral Credit
- Concept of Input Service Distributor

Concept of Inter Sectoral Credit:

Under this concept a manufacturer or service provider can avail credit on

- Input
- Capital goods &
- Input service

And the credit availed on above, can be utilized for payment of Excise duty on final product and Service Tax on output service.

Concept of Input Service Distributor:

Under this concept, an office managing the business of a Manufacturer or Service provider which receives invoice for input service can distribute the credit of service tax paid to any of its Factory or Place from where services are provided. There are controversies with respect to availing of input credit on input services when the place of removal is not the same as the place of manufacturing.

According to rule 2 of CENVAT Rules Input service cover *any service used by a manufacturer or a provider of taxable service which is used directly or indirectly, in or in relation to manufacture of the final products from the place of removal*. For example: Setting up, modernization, Advertisement or sales promotion, market research, storage upto the place of removal and procurement of inputs etc. Regarding this issue there has been a recent judgement in Metro Shoes Pvt Ltd vs CCE, Mumbai (2008-TIOL-417-CESTAT-MUM). Where the CESTAT gave a significant verdict on input and input services to be claimed under service tax to clear the confusion as to what is the place of removal. The gist of the case is produced below:

- The appellant i.e Metro Shoes Pvt. Ltd. (MSPL) manufactured shoes in their factory premises and cleared the same on payment of duty to their own retail outlets. For manufacture of such goods, the said MSPL availed Cenvat credit of the duty paid on the inputs and also on the input services. The scrutiny of the records filed by the appellant revealed that they had availed Cenvat Credit under Rule 3 of the Cenvat Credit Rules, 2004 on input services like retail agents commission, selling agents commission, advertising expenses, clearing and forwarding charges, telephone and internet, courier and postage charges etc. It was found by the lower authorities that the Service tax paid on the services availed by the appellant were in the nature of post manufacture i.e subsequent to the clearance of the goods from the place of removal and hence were found to be ineligible for availment of such input stage service tax credit.
- Show cause notice was issued to the appellant, requiring them to show cause as to why the Cenvat credit was availed and utilized by them. The Appellant strongly contested the allegations in the show cause notice mainly on the ground that the excisable goods which are manufactured by them i.e branded footwear, were cleared from their factory premises to the retail shops which are owned by them. It was their submission that there is no sale at the premises where the shoes are manufactured and the appellant also argued that the sales were affected for the first time from their showrooms and



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the clearance which took place from their manufacturing premises was only inter depot or inter showroom transfer.

- After hearing the appellant, the adjudicating authority came to the conclusion that the appellant were not eligible to avail credit of the input stage services and coming to such conclusion the adjudicating authority passed the order against the Appellant.
- The appellant aggrieved by the order made an appeal to the CESTAT stating that the credit of the service tax availed was correct. The appellant contended that the service tax element pertain to business auxiliary services (commission paid to commission agents), advertisement services, travel agency services (including transportation), storage and warehousing and other overhead like maintenance and repair services, insurance, internet, security, postage and courier etc and the service tax paid for the above said services are directly relatable to the goods which are manufactured by the appellant. He stressed on the definition of input services in the Cenvat Credit Rules as stated above. He strongly relied upon the inclusive part of the definition under rule 2(1) of the Cenvat Credit Rules. Further he argued that since the sale of goods through commission agent is a routinely adopted marketing practice, the question of denial of credit does not arise and so the entire demand as confirmed by the adjudicating authority is liable to be set aside.
- Whereas the respondent emphasized that the services utilized by the appellant from the commission agent do not in any way fit into the definition of the input services as provided under statute. He disputed that the final products i.e shoes are manufactured by the appellant in their factory premises and once the shoes are fully manufactured and cleared from the factory premises, the question of utilization of services of commission agent does not arise. Any commission paid by the appellant to the commission agent, therefore, would not fall into the category of services in relation to the manufacture of the final product and also disagreed the credit availed by the appellant in use of other services relating to the showrooms.

Judgement:

The judgement given by the Tribunal is quoted below:

"It can be seen from the above reproduced portion that the input services definition is having three different parts. Presumably, the first part i.e "used by provider of taxable service for providing an output service" is not an issue in this case. The second part of the definition "used by the manufacturer...from place of removal" is being strongly contested by both sides. On a plain reading of the second part of the definition, we find that any input service used by the manufacturer, whether directly or indirectly or in relation to the manufacture of final product and clearance of final product from the place of removal, stands eligible for availing as credit. It is undisputed, in this case, that the appellant had manufactured shoes in their factory premises and cleared the same to their own showrooms situated at various places. It is also undisputed that the sale of said shoes takes place from the said showrooms only and did not take place from the factory premises. If that be so, it has to be accepted that the showrooms are belonging to the appellant herein, have to be considered as place of removal. The services utilized by the appellant till the place of removal and the service tax paid thereon are to be considered as services utilized by him for the manufacture of the final product and clearance of the same from the place of removal. As such, we find that the credit of the service tax paid by the service providers and charged to appellant till the sale of the goods from the retail showroom, the appellant is eligible to avail said credit as input service credit".

Though it is clearly evident from the definition that input services can be claimed up to the place of removal, but still there exist uncertainty. The decision in the above case has relieved the dealers as it has made the statute clear to everyone.



Shooting Prices – Too Silly to Digest !!!!

By - CA Kantha

The Government of India has raised fuel prices between 10 to 18%. This is the biggest hike ever seen but the Government was helpless. If it had not allowed the public sector oil companies, namely Indian Oil Company, Hindustan Petroleum and Bharat Petroleum to raise the price of petroleum products, these companies would have been sick and run out of money to import crude oil for distribution. Price hike was inevitable as three Oil Companies together lost Rs.70, 000/- crores for the year ending 31.03.2008 this figure would have been more than Rs.2,00,000/- Crores in current fiscal. These Oil Companies incur loss of Rs17/-, Rs23/- & Rs300/- on sale of each litre of petrol, diesel & cylinder of gas respectively.

The above statistics is based on the market price, bench marked to the price of the fuel in the Singapore Exchange as increased by freights, insurance & custom duties. As per some experts, due to these notional calculations, under recoveries are overstated by 15%.

As per law of demand, there is an inverse relation between demand & price. A change in price leads generally to a change in demand. But this relation in case of oil in developing countries is very less. Hike in the prices of oil never represent global price as it is covered by way of subsidy & keep the demand (artificially) high. This keeps the oil price high, where as rich countries do not encourage price control. The demand for oil in the rich countries is falling with rising prices. In U.S, demand for oil has fallen & demand for gas- guzzling cars has collapsed.

As per the economists, developing countries like India & China (account for more shares in the world demand) should abolish direct & indirect subsidies on petroleum products & use the same money to cut indirect taxes & for welfare programmes to benefit the poor. Indian government is now thinking of nationalizing petrol & diesel which it could have done easily when de-control was

suggested by the Kelkar Committee & R (Restructuring) Committee at that time when oil price was at \$20 a barrel but ruling party never bothered.

The study of five emerging economies by IMF showed that the richest 20% of people get 42% of oil subsidies. Higher fuel prices may hurt the corporate & poor, but this will be good for the economy. It encourages mass transportation, use of alternative fuel & energy efficient technologies.

The reason for rise in fuel price is due to increase of demand than expected from industrial countries & emerging economies like China & India, where demand is up by 10% and also increase in the demand in the US for the recovery of economy & processing of gasoline.

Events such as unrest in the Middle East, Iran dispute with the West over "Tehran's" nuclear ambitions, strike in Venezuela wherein largest oil deposits affected the stock, resulting in increase in the price of fuel & also strategy of OPEC (Organization of the Petroleum Exporting Countries) which account for more than 50% of the world crude oil export by creating artificial supply constraints such as announcing cut in the production to prevent any weakening in the prices, where earlier they used to wait for prices to come down before cut in production. However, as per some analysts it is due to error in the forecast of demand by the policy maker.

Until 2007, OPEC has never increased the price as we are seeing now except in 1973 due to energy prices, due to war between Arab-Israel & 1979 due to Iranian Revolution. So what was the reason for OPEC to raise the price beyond anybodies prediction???? Is it high demand for crude from emerging economies like India, China, supply constraint and commodity speculation? Not exactly, but contribution of US & its President George W Bush. If Bush had only alienated Hugo Chavez of Venezuela, the oil consuming countries would have



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The Saudis are irritated with Bush's provoking style & US upsetting their neighborhood & not bothering to consult with them. OPEC rejected the request of US to pump more oil & they think enough oil is available in the market & Saudi Arabia, the top oil exporter is the only member which has a capacity to boost output quickly & significantly. There are rumors that Saudi may increase production to million barrel a day. Since the oil price linked with the dollar currency price may rise on weakness in the dollar. The US has become public enemy no. 1 in the middle east but we all are paying the price.

Unfortunately most of the Governments are unprepared for the unexpected price rise as prices have been estimated at \$70 a barrel. \$200 a barrel is now not out of area of possibility. OPEC President Chakib Khelil, Algeria oil minister indicated the forecast of crude oil at \$200 a barrel. His indication is well supported by the prediction of Gazprom, which supplies natural gas to Europe which predicts at \$250 a barrel by 2009, Goldman Sachs predicts at \$200 a barrel by 2009. Morgan Stanley at \$150 in next few weeks and ONGC says 3 digit remains to be continued.

As per many Economic analysis, due to combination of increase in demand, supply, constraints and commodity speculation, price will remain constant or higher in near future.

OIL VS ECONOMY:

Higher fuel price will no doubt cause worries for the countries importing oil, inflation, restrict the economic growth, and will have a great impact on the Vote Bank of ruling political parties. In India at present it is difficult to answer the question whether index prepared for oil price at \$200 per barrel after achieving 9% growth as India imports most of the crude Oil requirement and higher prices will have considerable impact on investment, production, consumer importantly on inflation which is scary and a nightmare for the current market and immediate future government. As per research analysis of International Monetary Fund (IMF) a \$5 barrel increase in oil prices will reduce the global

GDP by 0.3%, meaning continued rise in the oil prices leads the global economy recession.

CONCLUSION :

We call it as farewell to good economy growth rather than conclusion. Higher prices cause the demand for all other consumer products ranging from FMCG to Hotel Bills. Higher price will have more impact on particularly energy intensive sectors. If above predictions comes true inflation may easily cross double digits, growth may slow down much lower than current growth of 8%. All oil companies turns sick if they have to supply oil at subsidized rate and most of the economy will slip into recession.

It is high for time for India as well as other economies to explore the opportunities and encourage consumption of alternatives to oil namely natural gas which is 50% cheaper than oil, nuclear deal with the U.S., wind energy, solar power, conservation of coal into oil (development of technology is still in process and India has largest reserves of coal), Gas hydrates (development of technology is still in process and the reserves are believe to be huge compare to world gas reserves). Also its time for Industries to think of new strategies to tackle the fuel crisis, like to shift the work on site, go slow on recruitment, cut down on travel, encourage video conferencing, car pooling, mass transit system, etc.

No doubt rise in prices will increase inflation and erode the popularity of government which has already been experienced in recent Assembly elections in Karnataka. Here importantly note that Government can't afford to reduce indirect taxes as it affects funds for Government Programmes like rural development, education, Health, and other welfare programmes.

Price of petrol and diesel would cross Rs.100/- if not subsidized. You could imagine how major junk of taxpayer's money is eaten up by oil which would have otherwise been available for government welfare programmes. It has become a fundamental duty to conserve oil else India will not be burnt by terrorist but by oil.



The Number Game – Hard to Play

By - Sumana, Sashank & Komal.

On the road of excellence there is no speed limit. In today's business world the speedier the information flows, faster the business reaching the summit. The technological advances have enabled to extract information in one click.



A business house to obtain relevant and timely information needs to have an excellent accounting department. Such a department should be updated with all the accounting laws, procedures and practices. An accounting staff with expertise in the field of accountancy is hard to find and it is also difficult to achieve the economies of scale.

In such a scenario, the concept of accounting outsourcing is silver lining to many corporate houses. The benefits of outsourcing accounting function of an enterprise is multifold and includes

1. Enabling companies to concentrate more on their **core competences**
2. Huge cost savings
3. Benefit of trained professional labour.
4. Gain opportunity to **access up-to-date technology** and improving the accounting management process
5. Timely availability of **accounting reports** enabling quick decision making.

To summarize, a businessmen is skilled in doing business i.e., interacting with vendors and customers, improvising the quality of products and services, planning for the growth of the concern, thinking and rethinking strategies. These being his priority, spending time on book-keeping and accounting will add little or no value to the business. In order to fuel company's growth, investing more money, time, and human resources into these core activities and building strategies is the requirement. Therefore outsourced accounting comes handy at this juncture.

With this basic idea of the need to outsourcing accounting, let us now look what are the various services provided by an accounting outsourcing.

Services provided by a outsourcing accounting concern include:

- i. General Ledger
- ii. Financial Accounting
- iii. Accounts receivables and collections
- iv. Accounts payables and vendor management
- v. Bank Reconciliation
- vi. Payroll Accounting
- vii. Travel and Expense Processing
- viii. MIS Reports and Financial Reporting
- ix. Financial Analysis, Budgeting and forecasting.

The trend in accounting outsourcing is also changing rapidly with the change in thinking process. Earlier, accounting was outsourced to a supplier of service to perform the required activity. However, the trend is networking and making accounting concerns as outsourcing partner with common goal to achieve.



But is outsourcing accounting free from drawbacks? Not really, the drawbacks are:

- i. loss of **managerial control**,
- ii. threat to **security and confidentiality**,
- iii. possible **loss of flexibility** in reacting to changing business conditions,
- iv. lack of internal and external **customer focus** and sharing cost savings,
- v. unfavorable **contract lengths**,
- vi. loss of **competitive edge**, problems in contract renewal, and
- vii. Contractual misunderstandings.

Accounting Outsourcing should be well planned before a company decides to outsource its business process.



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Perhaps some of the key factors to consider are as follows:

- i. The need to remember that outsourcing is not all about cost cutting. Otherwise, the results will be disastrous.
- ii. One should not jump into the vendor selection process. The success of outsourcing option depends on the way **requirements are defined**, the way **objectives** are laid, the way **vendor is chosen** and the way **agreement is written**.
- iii. Don't shy away from asking the vendor about similar accounting management projects that they have worked on.
- iv. Do not make a decision blindly. Accounting needs to be done by certified public accountants and in case of offshore outsourcing confirm that the **accountants are qualified** to handle and provide accounting solutions.
- v. **Start with a small project** and take it from there. To begin with provide a small amount of work and allow the outsourcing company to prove its caliber.
- vi. **Creating milestones in the project** will help create a smooth flow of work to its completion. Furthermore it allows the company to make payments in installments as and when the work is completed.
- vii. **Security issues** need to be discussed upfront and one need to be clear on the security measures taken by the outsourcing company to protect crucial accounting data

Accounting information is crucial to the success of every business and any leakage of such information can have drastic consequences.

- viii. Discuss how accounting, auditing and bookkeeping files will be transferred securely to the outsourcing company and also issues such as how accountants will have **access** to these files.
- ix. **Communication with the outsourcing firm** is of utmost importance and one should be able to interact and communicate freely. Thus the service provider ought to have communication facilities that are satisfactory and should be easily contacted.

The business process outsourcing industry is flourishing and India is the hot spot. The new spectrum of outsourcing services termed knowledge process outsourcing is emerging. Unlike the BPO, the KPO is intended to outsource specialized services which require services of experts in the various fields including the field of accounting. Here there is a global opportunity a Chartered Accountant can grab and excel.

The demand for accounting profession has grown multifold as compared to the scenario in the last century. Compliance with laws and regulations of the land as well as the foreign land effecting the business is being looked upon more strictly.

On this note we conclude to say that although the number game in accounting is hard to play, outsourcing will ensure transparent, foolproof and cost effective accounting system in the corporate world.

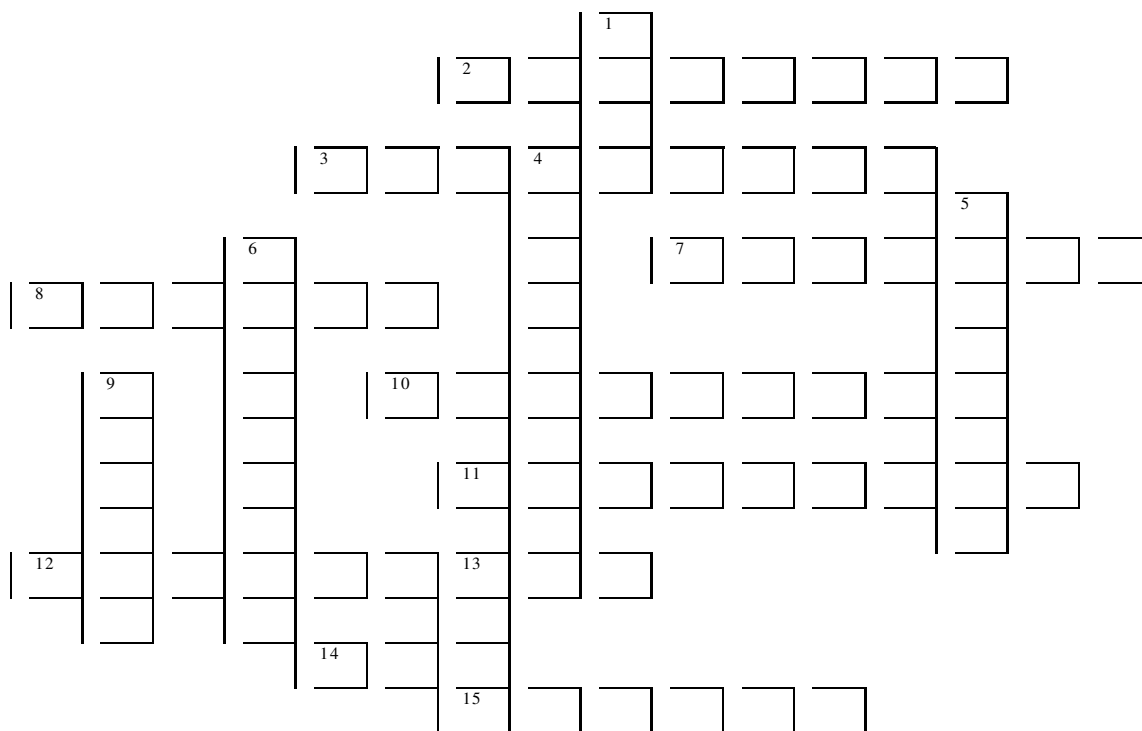
World's First Commercial Solar Plant



In the arid Spanish countryside, PS10, a dazzling array of 624 1,292-square-foot mirrors, directs sunlight to a receiver atop a 35-story tower. There the blast of tight boils water into steam that generates 11 megawatts of electricity, enough to power 6,000 homes. Abengoa, the company that built PS10, has begun a sister project nearby that will produce 20 megawatts of electricity. These, together with other planned solar projects at this site, will soon generate 300 megawatts, enough electricity to power 180,000 homes, equivalent to the neighboring city of Seville.



Cross Word - 14



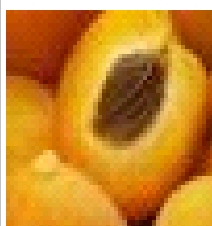
ACROSS

- 2 Retirement benefit payable at the time of cessation of employment.(8)
3 Confrontation between rivals.(9)
7 Host of XXIX Olympiad.(7)
8 Road map of a Company's future.(4)
10 Additional tax payable over and above the income tax.(9)
11 Anything owed to someone else.(9)
12 Outright sale of accounts receivable to a financial agency.(9)
14 Address of a file accessible on the internet.(3)
15 Possible occurrence in decision model.(6)

DOWN

- 1 Unauthorized entry into a computer or a program.
4 Manufacturing cost other than direct material costs.(10)
5 World's biggest shaving Company.(8)
6 Ratio that indicate the capability of business to meet its short-term obligations.(9)
9 Unfavourable condition in the organisation environment.(6)
13 Unproductive time.(4)

Vitamin B17 Can Cure Cancer



Imagine the world without cancer. It has been proven that cancer is a deficiency disease caused by the lack of Vitamin B17 (Laetrile). Today there are more people making money from cancer than dying from it. That is the one of the main reasons why Vitamin B17 is disapproved by FDA and cancer associations. You can do research and find that pharmaceuticals companies pushed FDA to disallow sales of raw apricot seeds in the United States. Raw apricot seeds are known to have abundance of B17 vitamin. There is lots of money to make from patented drugs and if we all start eating raw apricot seeds than there will be no profit.



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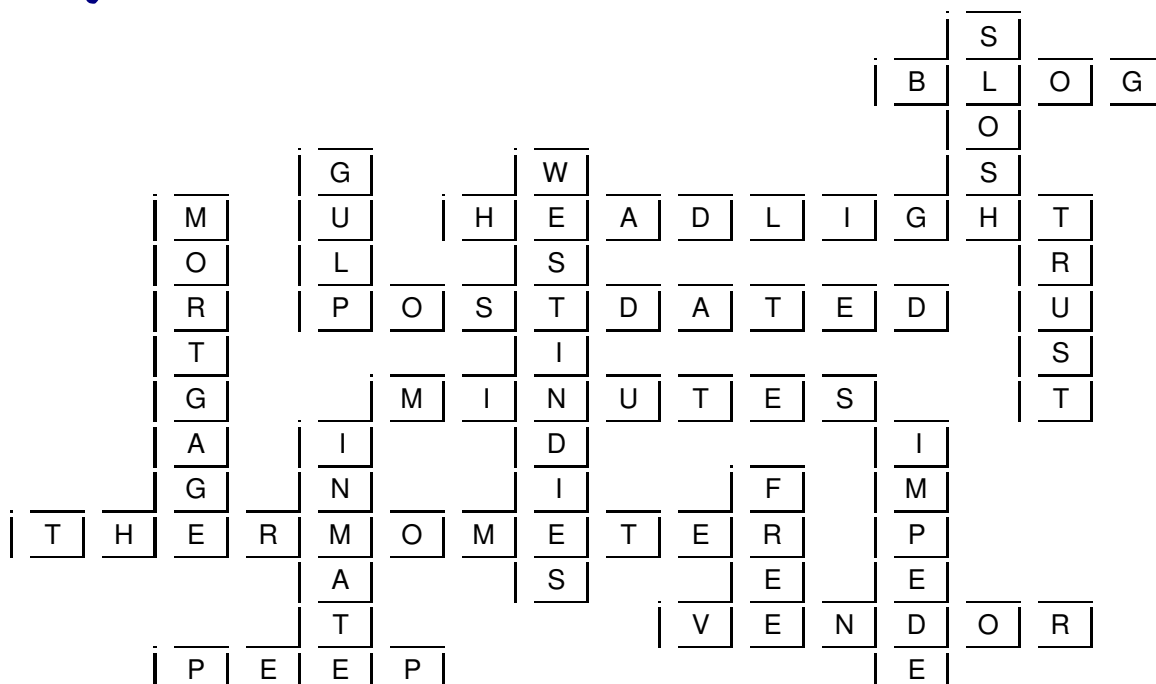
Below are the few aspects which the world's richest man idealizes, Warren Buffet follows such aspects :



1. He bought his first share at age 11 and he now regrets that he started too late!
2. He bought a small farm at age 14 with savings from delivering newspapers.
3. He still lives in the same small 3-bedroom house in mid-town Omaha, that he bought after he got married 50 years ago. He says that he has everything he needs in that house. His house does not have a wall or a fence.
4. He drives his own car everywhere and does not have a driver or security people around him.
5. He never travels by private jet, although he owns the world's largest private jet company.
6. His company, Berkshire Hathaway, owns 63 companies. He writes only one letter each year to the CEOs of these companies, giving them goals for the year. He never holds meetings or calls them on a regular basis. He has given his CEO's only two rules. Rule number 1: do not lose any of your share holder's money. Rule number 2: Do not forget rule number 1.
7. He does not socialize with the high society crowd. His past time after he gets home is to make himself some pop corn and watch Television.
8. Bill Gates, the world's richest man met him for the first time only 5 years ago. Bill Gates did not think he had anything in common with Warren Buffet. So he had scheduled his meeting only for half hour. But when Gates met him, the meeting lasted for ten hours and Bill Gates became a devotee of Warren Buffet.
9. Warren Buffet does not carry a cell phone, nor has a computer on his desk.

It Indeed takes something, for any body in the world to be a Warren Buffet.

Solution to Crossword - 13





Budget 2008 – K VAT Suggestions

By -Sanjay M Dhariwal, FCA, LLB.

It is often said life is full of uncertainties. This fact however cannot be applied to taxation. All consumers, practitioners and traders are eager to know what "goodies" the newly elected state government would award them with, in their budget for the year 2008-2009. The Government must do what it is required to do in the area of VAT Legislation and correct the existing lacunas. VAT had been introduced in the state in the year 2005-2006. But has the state been enjoying the benefit of a true VAT system is a debatable question. A true value added system is where tax is levied at each stage of value addition in the sale of goods, but does the Present VAT legislature really support such a system of levy?

In the opinion of the authors of this article VAT system which is being administered today is against the principles of VAT. Here we have made an effort to bring out the issues which need immediate attention:

1. VAT On Maximum Retail price:

Section 4(4) provides an option for the discharge of output tax on the Maximum retail price of the medical and pharmaceutical preparations mentioned in the entry No. 60 of the Third Schedule. This is against the principle of Value addition as most of the manufacturers and wholesalers of medicines sell the goods at the net selling price or trading price, which are lower than the MRP. Further this payment of tax would be at the first or second stage of the Value addition. And also such payment will bring in disparity between the books of accounts and the returns filed with regard to the value of purchases, sales and the tax discharged.

This option of payment of VAT on the MRP has led to confusion in computation, when different dealers go for different methods for computing the tax liability. Thus a uniform method of computation should be provided ensuring that the value addition principle is followed.

2. Schedule VI for Works contract:

Section 4(1) (c) prescribes the rate of tax applicable for the transfer of property in goods

involved in the execution of works contract, as mentioned in the Sixth Schedule excluding the transfer of property in declared goods. As per this section a dealer shall have to pay tax on the goods involved in the works contract at the rates specified in the Sixth Schedule, but the input tax credit that can be availed is that which has been paid by the assessee on the purchase of such goods.

For example: Sand and grits are taxable at 4% as per Fourth schedule and cement is taxable at 12.5%. VAT on Civil works contract is charged at a flat rate of 12.5% (excluding declared goods). When the above mentioned goods are used in the execution of Civil works contract, the transfer of property in such goods is taxed at a flat rate of 12.5% as per the Sixth Schedule. But the input tax credit available on purchases of these goods is available only at the respective rates as per other Schedules. Here there is a violation of VAT principles as the transfer of property should be at the same rate as that at which the goods have been procured. Thus the sixth Schedule should be removed.

3. Restriction on input tax credit:

Restrictions imposed on availing input tax credit on goods specified in Schedule V read with Section 11 (a) (2) should be removed so as to allow the dealer to take credit of all taxable goods purchased and used in the course of his business. In case the dealer purchases the same goods from an unregistered dealer, then he will have to pay purchase tax under section 3(2) irrespective of whether those goods are purchased for the purposes mentioned in Section 11 (a) Clause (2) (i) and (ii) or otherwise. The imposition of such restriction is not in accordance with natural justice. Thus such restrictions with regard to the input tax credit should be removed.

4. Deduction of discount allowed:

Rule 3(2) (c) provides for the deduction of discount allowed only when such discount is shown in the tax invoice. The dealers who give discount in normal trade practice through issue of debit notes are devoid of taking such deduction inspite of the selling price being lower. This is against the Principles of



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VAT as the VAT should be levied on the final sale price, which is charged to the customer.

5. Filing of revised returns:

Section 35(4) provides for revision of returns and sets a time limit of six months from the end of the relevant tax period for such revision of returns by the dealer. This restriction on time should be removed. Voluntary revision of returns should be allowed beyond the time limit with required imposition of interest and without any levy of penalty. This will increase the compliance of law.

6. Interest On Refund:

Refund claimed should be granted expediently. When there is a delay in the payment of refund amount by the authorities, then interest should also be paid on such amount. It is pertinent to note that there are very few cases where the government has paid interest on delayed payments. This is disrespect to the Act they administer.

7. Deemed Assessment and scope of work of the authorities:

Deemed Assessment has been more or less been rendered a myth as assessment or Audit is taken up for 36 months for dealers though it is supposed to be One Year in a period of five years as per the White Paper. The assesseees are subjected to inspection by the Departmental Inspectors who are given the permission to do so by officers below the rank of Commissioners. This is against the VAT legislation.

The line of authority among the departmental officers is not clearly defined and the scope of their duties is also very

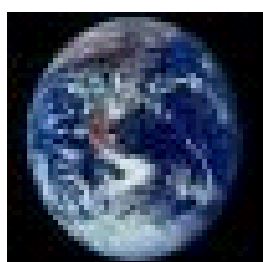
vague. This has led to duplication of work at the cost of the taxpayer. Hence the need of the hour is to redraft the Scope of work of each officer.

8. Other Issues:

- Set off of tax liability against the refund due from other commercial Tax Acts or even of different years should be allowed.
- Entry Tax should be removed as this has led to concentration of industries within the cities. Growth in rural areas therefore has been restricted. This hampers the balanced growth of the state and can have serious repercussions in future.
- The Government must form committee to study the rate of tax drawing on the recommendations made in the white paper, which is recommended, by the empowered committee. A logical interpretation of the findings of the committee should be made for better growth of business within the state. The committee must have the involvement of stakeholders, judiciary & professionals to develop a fair structure of tax, which will lead to more revenue collections facilitating positive attitude of dealers and that of the Government.

Dealers must be given incentives through the machinery of effective tax administration so as to encourage increased tax compliance and should not be made subject to harassment. Thus a high level of expectation is cast upon the newly formed government. The dealers, professionals and the consumers expect the law to be simpler, effective and easier to abide with.

Earth's Record Holders



Highest mountain on Earth, Mt. Everest grows about 4 millimeters a year since two tectonic plates which collided millions of years ago to form the Himalayas, continue to press against each other. Earth's highest waterfall is at Angel Falls in Venezuela which drops 3,212 feet (979 meters). Hottest place on earth is Azizia in Libya 136 degrees Fahrenheit (57.8 Celsius) and coldest was in Vostok, Antarctica -129 Fahrenheit (-89 Celsius). Pacific is the biggest ocean (32.6% of the Earth's surface) and Nile River in Africa is longest 4,160 miles (6,695 kilometers).



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Straight from the ICAI.

Free lectures for PCC Students at Gyandarshan

This is to inform all the PCC students that Board of Studies is organizing a series of lectures through teleconferencing at Gyandarshan Channel of DD-2 of Doordarshan. The students may ask the questions on the scheduled topic during the studio time on toll free number 1800 11 2345 and through e-mail on bosgyandarshan@icai.org. The programme Schedule Of Gyandarshan Lectures at IGNOU for Professional Competence Course (PCC) Students for the month of July, 2008 can be looked into through the following link :

<http://www.icai.org/icairoot/announcements/announ1469.pdf>.

NHPC to impart Industrial Training to CA Students

State-owned hydropower utility firm National Hydroelectric Power Corporation will impart industrial training to Chartered Accountancy students. National Hydroelectric Power Corporation (NHPC) would be enrolling 10 final year CA students from their apex body Institute of Chartered Accountants of India and train them at its corporate office in Faridabad, the company said in a statement today. The training would provide students with a complete hands-on practical experience on various aspects of Chartered Accountancy in a corporate scenario. The trainees would get a monthly stipend of Rs 10,000 during their one year training.

Restoration of Membership Retrospectively

With a view to mitigating the hardships being faced by members whose names stand removed as on date, on account of non-payment of fee, the Council has decided to give them a one time opportunity, by way of a General Amnesty, for restoration of their names retrospectively.

Restoration of Certificate of Practice

As for the Certificate of Practice, it is clarified that the same will be restored / issued afresh from a prospective date, i.e., the date on which the application for the same together with Form '6' and the fee, is received in the Institute.

Law soon to permit LLP's: PM

NEW DELHI: A law will soon be enacted to permit limited liability partnerships for professions like chartered accountancy, Prime Minister Manmohan Singh said Tuesday, even as he emphasised on good corporate governance for India Inc to compete globally. "A law on limited liability partnership is on the anvil," the prime minister told the diamond jubilee celebrations of the Institute of Chartered Accountants of India (ICAI) here.

CA CPT and Final Results to be announced on Saturday, 12th July 2008.

The results of the Chartered Accountants Final and Common Proficiency Test held in May/June, 2008 are likely to be declared on Saturday, the 12th July, 2008 around 2 PM, which will be available on the following website: <http://www.caresults.nic.in>.

Arrangements have also been made for the students desirous of having results on their e-mail addresses to pre-register their requests at the above website, i.e., <http://www.caresults.nic.in> from 7th July, 2008.



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ICAI Glitters

1st July 2008 is the beginning of celebration for stepping into the radiant year as The Institute of Chartered Accountants of India (ICAI) is celebrating its Diamond Jubilee year. This is the day when the Chartered Accountants Act was brought into being by the Parliament of India in 1949. During the six decades of its existence, ICAI has been recognized globally as the premier accounting body. The Institute has served our country with great distinction.



The Institute of Chartered Accountants has been at the forefront in the development of our accounting profession. There is impressive growth in the membership & is evidenced by the growing demand for the profession both at home and abroad. ICAI is recognized as one of the premier accounting bodies in the world today and this is a matter of great pride for all of us. Indian chartered accountants have made a mark for themselves over the years.

Let us have a bird's eye view of the role of ICAI for contributing in the fields of education, professional development, maintenance for high accounting, auditing and ethical standards in the past 59 years.

1. The Technical Directorate carry out research, supports accounting standard board, reviews financial statement and audit report of certain enterprises, and brings out Guidance notes on accounting and auditing.
2. Producing quality professionals is ensured by the Board of Studies, which prepares and continuously revises the study materials, attends the communication of students, members and public relating to education and training, conducts seminars, elocution and quiz contest benefiting students. The Information Technology training, management and communication training nourishes students and makes them competent to face the competitive world.
3. The Peer Review Board and Financial Reporting Review Board aims to maintain and enhance the quality of attestation services.
4. The Committee for Capacity Building is newly constituted as a brand building measure to encourage the concept of merger of firms, corporate form of practice by encouraging collaboration with the professionals in the relevant fields.
5. ICAI has international initiatives focused towards the Institute's mission to render technical cooperation to countries which do not have a full fledged accountancy infrastructure.
6. ICAI partners itself to build the nation and plays a dynamic role by interacting with various regulatory statutory authorities in India on issues touching upon profession and otherwise. It provides various inputs to C&AG of India, MCA, CBDT etc.

The completion of 60 successful years is a joyous occasion and the Institute is celebrating the period from 1st July 2008 to 1st July 2009 as the Diamond Jubilee year. The celebration got kick started in New Delhi & it was inaugurated by our honourable Prime Minister Mr. Manmohan Singh. As rightly said by our Prime Minister that "it would be most appropriate for Indian Chartered Accountants to reaffirm their commitment to the cause of excellence, independence, ethical conduct and highest standards of professional integrity". The contribution of ICAI to the society has been a remarkable one and the students, members are proud to be a part of this glittering institution.

.....
**Many of life's failures are people who did not realize;
how close they were to success when they gave up.**

- - Anonymous



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Current Affairs



Spain made history when it won the 13th European Championship, its first major win in a period of 44 years. Despite not having big names in the team, the Spaniards showed that by playing the free-flowing soccer with subtle techniques of the game, they could lift the prestigious Euro Cup 2008. The teams like Greece (2004 European Champion) which tried not to lose the match by playing the defensive game, were shown the door out of the competition.

The Spanish "passing machine" continued to attack and did not fall back and defend like we see so many teams do on the professional stage these days. Through their artistic possession, passing and movement, they slowly sucked the life out of the Germans, who could not match Spain's level. The Germans were exhausted chasing the ball. The solitary goal scored by Fernando Torres was a nail in the coffin of the German dreams and a spark of celebration in the Spaniard hearts. The teams which played as a unit in the tournament proved to be the real winners. The Spaniards were a bunch of talented players transformed into winners by the coach.



The 13th European Championship is now history, but the celebrations are still on in one country, SPAIN...SPAIN...and...SPAIN...all the way, the TRUE winners, the REAL.

Celebrations 15



The completion of fabulous 15 years of DNS and the inauguration of DNS wing was celebrated with great pomp and grandeur on the 31st of May 2008. This was followed by a party on 2nd of June. It was a time for celebrations, when there was a get together of all the Clients, Members of DNS and their families.



It couldn't have got better with the event coinciding with the success of one year of our newsletter; "The Articled".

Business Cartoon



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/ shilpa@dnsconsulting.net or write to: The Editor, #10, South Park Road, Nehru Nagar, Sheshadripuram, Bangalore - 20.

Disclaimer:-

The information contained herein is subject to change without prior notice. While every effort has been made to ensure the accuracy and Completeness of information contained in this newsletter, the Editorial makes no guarantee & assumes no responsibility for any errors or omissions of information. No one can use the information as a basis for any claim, damage or cause of action