SRCP's ➤ e-senze

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Editorial ....✍

Dear Readers,
Through ages we human have learnt, each human learns by his age.

Through learning we season our minds. The very essence of learning is knowledge. True wealth for a human is knowledge. True wealth is one which never depletes.

The only wealth in the world which never deplets even if we share is knowledge.

The very purpose of learning is to acquire knowledge and the very purpose of acquiring knowledge is to share.

Through our e-pages we wish to share what we have. The very essence of "e-senze" is to share. The journey begins today...

A new beginning has been made in our 20 years history. On this new year day our quest has begun with a happy note. ***"Wishing all of you a happy new Year"***

L. Muralidharan
& Editorial Team of e-senze

Do you have articles for sharing?
Do send to
joinsreeram@gmail.com
Best articles will be published.

Interest Rate Futures

It is the endeavor of every finance manager to make a sort of certainty in what he deals against totally an uncertain future, let that be a case of purchase of raw material, sale of finished goods, realization of foreign currency denominated receivables, payables, interest rate on deposits, borrowings etc.,

Let us take up a situation that an enterprise is expected to deposit cash for a reasonable period say 3 months term after 2 months from now. At the moment (1st May) the company is not blessed with liquidity to keep deposits. The scenario expected at the time when cash is gathered for deposit (1st July) is rather a period of falling interest. It will be a disadvantageous period for the enterprise by then. The present situation (1st May) is rather advantageous for deposits. What the finance manager is expected to do?

Hedging calls for usage of similar market to cover the loss. When money market is volatile, a similar market behaving similarly shall be tied as a combination to hedge the interest rate risk. Bond market would be an ideal market responding in the same way as money market. Let us know the behaviour pattern of bond market for given changes in interest rates.

Let us illustrate the nexus of bond price and interest rates:

Situations	Interest Rate in %	Bond price Rs
1	6.25	93.75
2	7	93
3	8	92
4	8.15	91.85
5	9	91
6	10.25	89.75

When the interest rate is rising, bond price recedes in value; when the interest rate is falling, bond price surges. Some more insight on bond will help us understand the action of hedging in a broader perspective. A bond having face value of Rs.100 at a price at Rs.93.75 shall be understood as a seller of bond taking Rs.93.75 agreeing to pay buyer Rs.100 on maturity. The difference is reflecting the cost of taking money, so it can be termed as sell bond at 93.75 or pay interest of 6.25. Usually enterprise-requiring money takes Rs.93.75 for a bond issued having a face value of Rs.100. On maturity the bondholder submits the bond and takes Rs.100. The effective cost of bond is not 6.25% but greater than 6.25%. The cost in % shall be arrived at by dividing 6.25 by 93.75. In this discussion we do not attempt to find the cost in % rather we attempt to find the nexus between the interest rate and the price of the bond. As the interest rates dip say from 6.25% to 6%, the price of the bond increases from 93.75 to 94.

In bond market, an investor can take the role of a buyer as well as a seller. If he buys a bond, he gives money on the spot and takes bond certificate, agreeing to take the money on maturity at a higher price. The difference is income for him. His action can be referred to as buy bond/purchase interest. In case he sells bond, he takes money at spot and issues certificate, agreeing to pay higher amount of money on maturity. The difference between the money taken and given is interest cost. His action can be referred to as selling bond/sell interest.

L. Muralidharan,
FCA, Grad. CWA.
To be continued Next issue

SALE OF GOODS ACT, 1930 *by Mani V G S*

What is a Contract of Sale?

A contract of sale is contract whereby the seller transfers or agrees to transfer the ownership to the buyer for a price.

How Contract of Sale is made?

- A contract of sale is made by an offer to buy or sell goods for a price and the acceptance of such offer
- The contract may provide for
  a. Immediate delivery of the goods or
  b. Immediate payment of the price
  c. Immediate delivery and immediate payment of price or
  d. Delivery or payment shall be made in installments or
  e. Delivery, payment, or both shall be postponed [for a future date].

From the above it is very clear, that delivery of goods and payment of price will depends upon the terms of agreement between the parties.

Delivery and Payment of Price are concurrent conditions:

- Unless otherwise agreed, delivery of the goods and payment of the price are concurrent conditions
- To be precise, the seller shall be ready and willing to give possession of the goods and buyer shall be ready and willing to pay the price in exchange for possession of the goods.

What is delivery?
Delivery means "Voluntary transfer of possession by one person to another"

General Rule for Delivery:
Delivery can be made by doing something, which has the effect of putting the goods in the possession of buyer or any person authorized to hold them on his behalf

Still "General Rule" is not clear?

Kinds of Delivery

1. Actual Delivery:

- It is also known as "Physical Delivery"
- When goods are physically delivered, it is called as actual delivery.
- This type of delivery is possible when goods are of small size [i.e. easy to carry]

Example: If you sell mobile, laptop, etc. it can be physically delivered easily.

2. Symbolic Delivery:

- Where goods are ponderous (heavy) or bulky and incapable of actual delivery, symbolic delivery will facilitate

Example: It is impossible to deliver a car by physical delivery. Instead handling over the key of a car will suffice the delivery "symbolic in character"

3. Constructive Delivery:

- It is also known as "Beneficial Delivery" or "Delivery by Attornment"
- Where a third person (e.g. a bailee) who is in possession of the goods of the seller, at the time of sale acknowledges to the buyer that he holds the goods on his behalf, there takes place a delivery by attornment or constructive delivery.

These may take in three forms

a. Where the seller in possession of the goods agrees to hold them on behalf of the buyer

Example: X deals in rice. He stocks 100 bags of rice in the shop. Y purchases 30 bags of rice from X. Y is not having sufficient place to store the purchased quantity. Y requests X to keep the goods on his behalf for some consideration, say rental charges. X agrees for the same. Therefore, once sale is complete, Y becomes the owner for 30 bags. X never delivered 30 bags either by physical or symbolic delivery. He agrees to hold the goods on behalf of Y.

b. Where the buyer is in possession of the goods and the seller agrees to the buyer's holding the goods as owner

Example: X deals in rice. He stores all the 100 bags in Y's godown, as he is not having sufficient place to store his stock. Y purchases 30 bags of rice from X. X will not deliver the goods by physical or symbolic delivery. X agrees that Y will be the owner for 30 bags. Thereafter Y is a bailee only for 70 bags.

c. Where a third person in possession of the goods acknowledges to buyer that he holds them on his behalf

Example: X deals in rice. He stores all the 100 bags of rice in Z's godown. Y purchases 30 bags of rice from X. Y agrees to take delivery only after some time. X informs Z, for 30 bags Y will be the owner. Z acknowledges Y that he is holding 30 bags of rice on behalf of him. Here too X neither delivered physically nor symbolically.

Related Party Transactions and Disclosures *by Mr. P. Subbaraman*

Investment is one of the major decisions in finance. Analysis of Financial information provided by the entity is one of the significant task to take right decisions. To protect the interest of the investors, transparency in the books of account is essential. Indian companies have been viewed by the outside world as family controlled and not professionally managed.

Family controlled businesses represent almost 80% of the listed companies. These companies carry on their business through subsidiaries, associates and acquire interest in other enterprises. The transactions between these entities play very important role in analyzing the investment feasibility of an entity. If these transactions are unchecked, companies will use this opportunity for tax evasion and undermine the investor. One more instance where we can find these types of transactions are directors entering into transactions with the company and gain personal benefit. To avoid these types of transactions and to bring transparency, stringent provisions are introduced in various laws.

An attempt has been made to make a analysis of provisions under different laws relating to Related Party Transactions. An awareness of various provisions is very much required to take adequate care while entering into related party transaction and disclosing the same in the Financial Statements.

In a corporate world, the real owners are different from the management. So there is possibility that, management by using their powers may overlook the investors' interest.

Companies Act

To have control on all these activities the Companies Act imposes certain conditions through various sections, when a company entering into any transaction in which directors are interested.

Section 297 of the Companies Act 1956 requires board approval for entering into any contract or arrangement with the related parties. However this section will cover only transactions relating to sale, purchase or supply of any goods, materials and services or for underwriting the subscription of any shares in, or debentures of, the company.

At the same time section 297 (2) provides exemption to get approvals if (a) purchase/sale is for cash and at prevailing market prices or (b) Contract relates to goods, materials and services regularly traded or done business provided the contract is less than Rs. 5000/- (c) in the case of a banking or insurance company any transaction in the ordinary course of business of such company

Section 299 imposes duty on directors to disclose their interest in other concerns to the Board of Directors before entering into any contract with the related parties. Sec 299 is much wider than sec 297 since it covers any contract or arrangement with entities in which director is concerned or interested. Only exception is where directors of one company taken together have less than 2 % of paid up capital of another company.

Sec 299 (1) requires that notice of such interest be disclosed by the directors. Section 299 (3) allows for a general notice of interest, which shall be valid for a year and can be renewed for a further period of one year in the last month of the Financial year. Such general notice & renewal should also be given in the Board Meeting.

Section 300 disallows the director to participate in voting when the board resolution is passed relating to any business in which he is interested. The main intentions behind these sections are to avoid personal gain by the interested director. But mere taking approval from the board to enter into transaction is not serve the purpose as outside world can't know about this transactions.

Accounting Standard

To make investor aware about these transactions the Institute of Chartered Accountants of India Introduced Accounting Standard 18- 'Related Party Disclosures' and made it mandatory for companies to disclose related party transactions in the financial statements.

Indian investors may find that details of relevant related party transactions are available in a few places other than the section on related party disclosures. The section on managerial remuneration, loans/advances due from directors and subsidiaries and the auditor's report (which may certify/qualify certain transactions) may provide important supplementary information.

In their present form, the related party disclosures (as detailed by Accounting Standard 18) may leave investors in public companies more enlightened about how the company is managed. However, there still appears to be considerable room for improving the present disclosures.

To be Continued ... Next Issue

Go Bananas!

L.N.Venkataraman

Just as children go bananas when they see the cute little puppy, you would too by knowing me! The Chinese, Japanese, and Koreans, settled down in the U.S are sometimes referred to as "bananas". Wonder why? Though they are yellow on the outside they are white on the inside! In other words, although these individuals have a yellow complexion, they behave like the typical white American.

My name is banana meaning "finger" in Arabic and am the most exciting fruit on this planet! I am literally the best seller on the earth outranking apples and oranges. The livelihoods of half a billion people depend on me being the world's fourth largest staple crop. So much from a little finger! In fact I am the most nourishing of all fruits, plentiful and the cheapest. Botanically classified as a berry, I have my own family with distant cousins such as the ginger, turmeric and cardamom. Money does not grow on trees and neither do I as most might think of. I grow on compacted, water-filled leaf stalks that grow up to 30 feet high. And I do not grow up alone. I grow with almost 20 siblings (all named banana:) and they are all so close and identical to me! Variety is the spice of life and you can find 300 varieties of me in the world! However mankind cultivates only 20 of these commercially.

It is not without reasons that I am so famous and popular. I have a lot of potassium - a vital mineral, which helps normalize your heartbeat, sends oxygen to the brain and regulates your body's water-balance. When you are stressed your metabolic rate rises, reducing your potassium levels. These can be rebalanced with the help of a high-potassium snack such as me! You can eat me every hour of the day due to my digestive properties and I have no qualms about it. I along with my siblings am there to serve you forever if you really love me. I can give an instant, sustained and substantial boost of energy and hence am the best snack for flagging energy levels. Containing three natural sugars - sucrose, fructose and glucose - combined with fiber; Research has proved that just two bananas provide enough energy for a strenuous 90-minute workout. No wonder I am the number one fruit with the world's leading athletes. But energy isn't the only way I can help you keep fit. I can also help overcome or prevent a substantial number of illnesses and conditions making it a must to add me to your daily diet. About 24 bananas each weighing around 100 g would provide the energy requirement (2400 cal/day) of a sedentary man.

My vital statistics are 70% moisture, 16% of fiber, 15% of vitamin C, and 11% of potassium. When you compare me to an apple, I have four times the protein, twice the carbohydrate, three times the phosphorus, five times the vitamin A and iron, and twice the other vitamins and minerals. You see, a banana a day can keep two doctors away! I do not have fat and that is good news. When I am young and harvested, I am green with 20% starch and 1% sugar. However when I turn yellow with some brown spots like a leopard, I am ripe, and these figures are completely reversed. The sugar content breaks down to 66% sucrose, 14% fructose, and 20% glucose.

In so many ways I can be the best you can get for your health. High in iron, I can stimulate the production of hemoglobin in the blood and so help in cases of anemia. Being extremely high in potassium yet low in salt, I am the perfect food for helping beat blood pressure.

High in fiber, I can help restore normal bowel action, helping to overcome the problem without resorting to laxatives.

I contain tryptophan, a type of protein that the body converts into serotonin known to make you relax, improve your mood and generally make you feel happier. You may never feel so depressed again. Don't worry, be happy! I can even calm your stomach and, with the help of the honey, build up depleted blood sugar levels, and re-hydrate your system. If you suffer from heart-burn, try eating me for soothing relief. I am a natural antacid.

To be continued ... Next Issue.

Inflation and Capital Budgeting *by Mr. L. Muralidharan*

- An enterprise earns income at the same point of time in different currencies say in INR, $, GBP etc. Such earnings denominated in different currencies cannot be summed up to know the total earnings of the enterprise. The reason as why they cannot be summed up is, those earnings reflect different purchasing powers of the respective currencies. Exchange rate factor is required to bring those foreign currencies to a common unit of currency to have meaningful analysis of income of the enterprise. In the same way, cash flows resulting at various points of time though denominated in same currency will reflect different purchasing powers. Like exchange factor being used for foreign currencies, present value factor is to be used in bring the future cash flows to present value for easier comparison and decision making. For bring time value of money certain rates are taken up.

- It is a popular disbelief that time value of money is influenced by inflation. The fact is that time value of money is only on account of cost of capital/opportunity cost of capital.

- Estimating the cash flow would involve considering the revenue and costs at present day levels for all the years under study. Such cash flows are referred to as real cash flows. Unless otherwise conveyed the cash flows are always understood as real cash flows.

- In case the cash flows are prepared after reckoning the inflationary conditions through the years of study, then such cash flows are referred to as nominal cash flows.

- Real cash flows are to be discounted by real cost of capital.

- Nominal cash flows are to be discounted by nominal cash flows.

- The relationship of real cash flows and money cash flows are illustrated as follows:

$$1+m = (1+r)(1+i)$$
$$m = (1+r)(1+i)-1$$
$$r = (1+m)/(1+i) - 1$$
$$i = (1+m)/(1+r) - 1$$

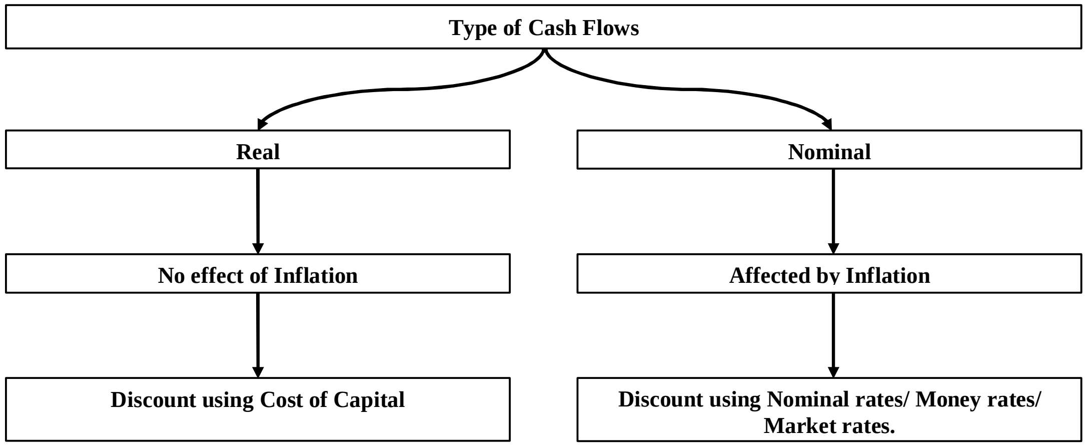
Where

m- Stands for money or nominal discount rate,

r - Stands for real discount rate and

i- Stands for inflation rate.

- The cost of finance, which we observe in the market, e.g., bank lending rate includes an allowance for the rate of inflation which lenders expect. Interest rates are usually quoted in nominal (money) rather than real terms. Nominal rate is certain but real rate is only expected. Actual real rate can't be calculated until period of investment is over and the inflation rate is known.

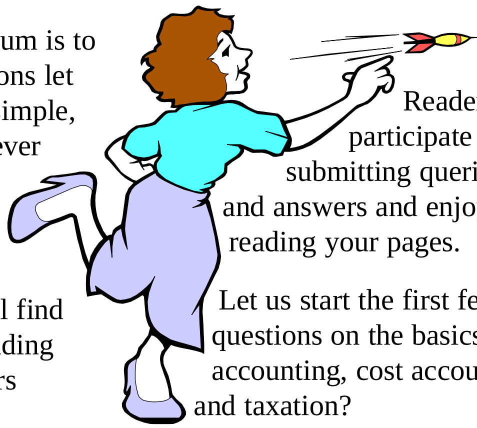


Hi Friends…

The intention of this forum is to raise some lively questions let them be confined very simple, advanced level or whatever may be but should be related to our CA studies.

Best question raised will find a place at the top for finding possibly the best answers from the readers side in the next few issues.

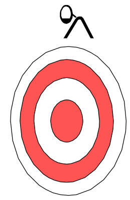
Multiple answers if any would also get the space for attention.



Readers... participate by submitting queries and answers and enjoy reading your pages.

Let us start the first few questions on the basics of accounting, cost accounting and taxation?

1. Is bank account, a personal account or real account?

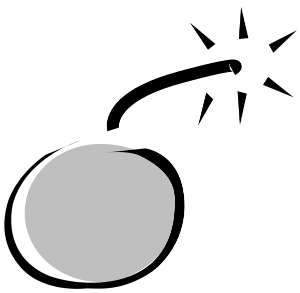


2. Are purchases and sales represent nominal account or real account?

3. Is depreciation to be claimed compulsorily by assessee? Is it not an option available to the assessee? Meaning.. can assessee opt out of claiming depreciation?

4. Is BEP in % to be computed on actual capacity of operations or total capacity of operations? Similarly, is MOS in % to be computed on total capacity or actual capacity?

Send your queries and suggestions to: joinsreeram@gmail.com



J o k e s

A biology teacher wanted to teach his class a lesson about the evils of alcohol, so he produced an experiment that involved a glass of water, a glass of whiskey, and two worms. "Now, observe closely the worms," said the professor putting a worm first into the water. The worm in the water writhed about, happy as a worm in water could be. The second worm, he put into the whiskey. It writhed painfully, and quickly sank to the bottom, dead as a doornail. "Now, what lesson can we derive from this experiment?" the teacher asked. One bright boy raised his hand and wisely, responded, "Drink whisky and you won't get worms."

==ooOOoo==

Teacher: Paul, what is the chemical formula of Water?
Paul: H,I,J,K,L,M,N,O
Teacher: What is this?
Paul: Well!! you said it is H2O.

==ooOOoo==

Teacher: Teacher (asks student)-What is your father name ?
Student (replies teacher): His name is "BUTTER RED"
Teacher: Teacher (with a surprised face) - What ?
Student (replies) -Yes MAM! His name is MAKHAN LAL!!!!!

==ooOOoo==

Teacher: Who was Raja Ram Mohan Roy?
Student: They all four were great friends

==ooOOoo==

Teacher: "What is your name?".
Student: "Mera naam Suraj Prakash hai."
Teacher: "When I ask a question in English, answer it in English."
Student: "My name is Sunlight."

==ooOOoo==

Teacher: Ritu spell "Blind Bird"
RITU: B,l,n,d B,r,d
Teacher: Where are the two i's??
RITU: Teacher a blind bird doesn't have eyes!
Teacher: ?????????

==ooOOoo==

Rahul: Madam my paper is the neatest.
Teacher: You haven't written anything.
Rahul: That's why it is the neatest.

==ooOOoo==

Teacher: What is the capital of china?
Student: You Know?
Teacher: Yes!!!
Student: Then why are you asking?

==ooOOoo==

Teacher: STUDENTS! DRAW A PICTURE OF BACTERIA!
Student: HERE IT IS MAM.
Teacher: WHERE? IT IS BLANK!!!
Student: YOU TOLD THAT BACTERIA CANNOT BE SEEN WITH NAKED EYE !

==ooOOoo==

Teacher: Now children , if I saw a man beating a donkey and stopped him then what virtue would I be showing ?
Student: BROTHERLY LOVE

==ooOOoo==

MEMORIZATION TECHNIQUES - A MUST FOR CA'S

INTRODUCTION

Memory is one of the most important aspects of brain function because it defines whom we are, what we know and how we utilize what we know.

MEMORY - A SIMPLE DEFINITION

It is a living beings' ability to store, retain and recall information

STAGES IN MEMORY:

There are three stages in memory

a. Registration: In this stage information is received, processed and combined

b. Storage: In this stage, a permanent record of the registered information is created

c. Retrieval: In this stage, the stored information is called back in response to some signal for use in a process or activity

HOW TO MEMORISE THINGS EASILY

The following are some of the techniques to improve the memory in day to day life.

1. Memorization By Mnemonics:

This technique is the most popular technique. But many people don't use it.

How to use this technique?

You make up a phrase which will represent a certain list, in order.

Example: 1

The most popular example is the colours of rainbow. Look at the following phrase "Vivekananda In Bombay Gave Youngsters Old Radio". The first letter of each word represents the colours of the rainbow in order.

V - Violet

I - Indigo

B - Blue

G - Green

Y - Yellow

O - Orange

R - Red

Example: 2

Look at the following term "HP NAMES". Each and every letter will convey the various types of partners.

H - Holding Out [Partner in Holding Out]

P - Profits only [Partner in profits only]

N - Nominal Partner

A - Active Partner

M - Minor Partner

E - Estoppel [Partner by Estoppel]

S - Sleeping Partner

2. Memorization By Picturing

Remembering important provisions or contexts can easily be done by remembering certain stories or pictures

Example: 1

In Hire-Purchase, generally payment will be made by installment. In credit purchase also, payment can be made in installments. Just because payment is made in installment, hire purchase and credit purchase are not same.

The above information can be understood through the following story:

Once a foreigner met Swami Vivekananda

Foreigner: Indians are fools

Swamiji: Why?

Foreigner: They worship the stone inside the temple and they are walking in the same stone on road. Is it not a shame?

Swamiji: In your house, both mother and sister are women. Are they same just because they are women?

The moral of the story is that even though form is same, substance is different. Similarly eventhough both credit purchase and hire purchase involves the payment through installments, both are not same.

3. Memorization By Representing Items With Numbers

You can improve your memory by representing items with numbers.

If you are not able to remember section name and section numbers properly, try to remember through your daily bus route numbers, door numbers, date of birth etc.

Example:

Charging section for "Capital Gains" in Income Tax Act, 1961 is Section 45. If you are going through a bus and the bus number is 45". Whenever you are going through that bus, you should think that this bus is "charging section for capital gains"