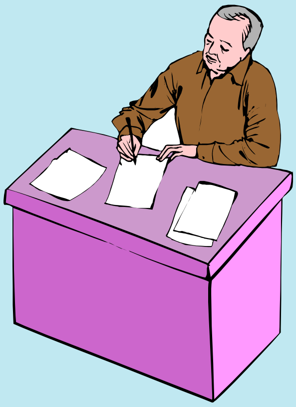
SRCP'S ➤ e-senze

Issue No. 2 | Weekly e-Magazine | 8th January 2009

Editorial ....✍



Dear Readers,

The word "Recession" was the hallmark of 2008 like a avalanche it swept the economies of the world the strongest and the weakest had been a victim to it.

The word "Regression" left its imprint in 2008 in the world economy, let it give way to "progression" in 2009.

As this issue rolls out, we find the economies round the world rolling out "stimulus packages" towards "progression".

Readers our E-senze also carries "Stimulus" - the stimulus for a "progression" in your learning graph.

Happy learning

L. Muralidharan
& Editorial Team of e-senze

Index

Interest Rate Futures *By Mr. L. Muralidharan*

Continued from 1-1-2009 edition. **Link of bond with interest rates**

In case an investor fears interest rate will hike in the near future, he will be at loss if he borrows. In order to hedge the loss he should take opposite position in a related market. What do you mean by opposite position in a related market? His position in Money market is buyer. So he should take up seller's position in Bond market.

Money market happenings and the position of investors on maturity

Position	Technical role in Money Market	Changes in Money Market	
		Increase	**Decrease**
Depositor	Seller	Gain	Loss
Borrower	Buyer	Loss	Gain

Money market happenings and consequent impact on investor's position in Bond Market on Maturity

Position	Technical role in Money Market	Change in Interest Rate	
		Increase	**Decrease**
		Change in Bond Valaue	
		Decrease	**Increase**
Seller	Seller of bond, Seller of Interest	Gain	Loss
Borrower	Buyer of bond, buyer of interest	Loss	Gain

Had he sold the bond at a higher price when the interest rates were lower, he could have experienced lower bond value when the interest rates were surging. Squaring the futures position at this juncture will result in profit (sold at higher price and squared by buying at lower price). The loss position in money market and gain position in futures market would stabilize his overall position to a much safer position than feared. This is illustrated in the following table:

Scenario: Borrower in MM and Seller in Bond market.

Position	Role	Change in money market Rates	
		Increase	**Decrease**
Money market	Borrower - Buyer on maturity	Loss	Gain
Bond Market	Seller initially and buying on maturity	Gain	Loss
	Portfolio	Marginal + /- will not affect the overall cost	

When interest rate increases on deposits on a future date, it is advantageous to the depositor. The down side risk of falling rates should be covered. He should seek a favourable position in some other market when interest rate falls. Since he is the seller of money (depositor) in Money Market he should take up opposite position in another market. That is he should take up buyer's position in futures market. As the interest rate rises in money market, the bond price in the futures market will come down. He will gain in money market and lose in futures market.

Had he bought the bond at a lower price when the interest rates were higher, he could have experienced higher bond value when the interest rates were falling. Squaring the futures position at this juncture will result in profit (bought at lower price and squared by selling at higher price). The loss position in money market and gain position in futures market would stabilize his overall position to a much safer position than feared. This is illustrated in the following table:

Market	Role	Change in money market rate	
		Increase	**Decrease**
Money Market	Depositors - Seller on Maturity	Gain	Loss
Bond Market	Buyer Initially and selling on maturity	Loss	Gain
	Portfolio	Martinal+/- will not affect the overall cost.	

So his portfolio is remaining unaffected to a major extent on account of volatility in interest rates. This being the objective of the interest rate futures hedging. The ratio between the portfolio of deposits/borrowings and the futures market is referred to as hedge ratio. For a size of Rs.10L of deposits, futures market will provide no of bonds, BSE/NSE future index positions.

Fundamentals of Accounting *by Mr. Mani V G S*

Inventory Valuation

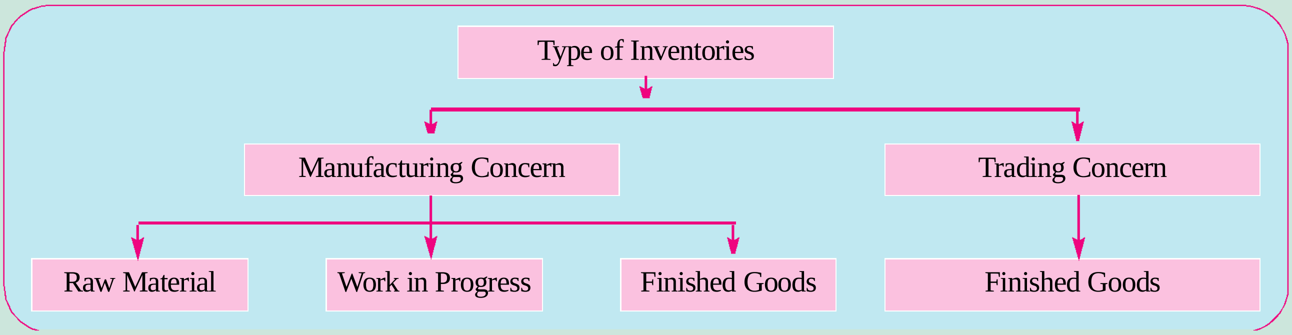
1) Meaning:

Inventories are assets

- Held for sale in the ordinary course of business
- Materials or supplies consumed in the production of goods or rendering of services
- In the process of production for sale.

Note: Inventories should not include machinery spares which are used only in connection with fixed assets

2)



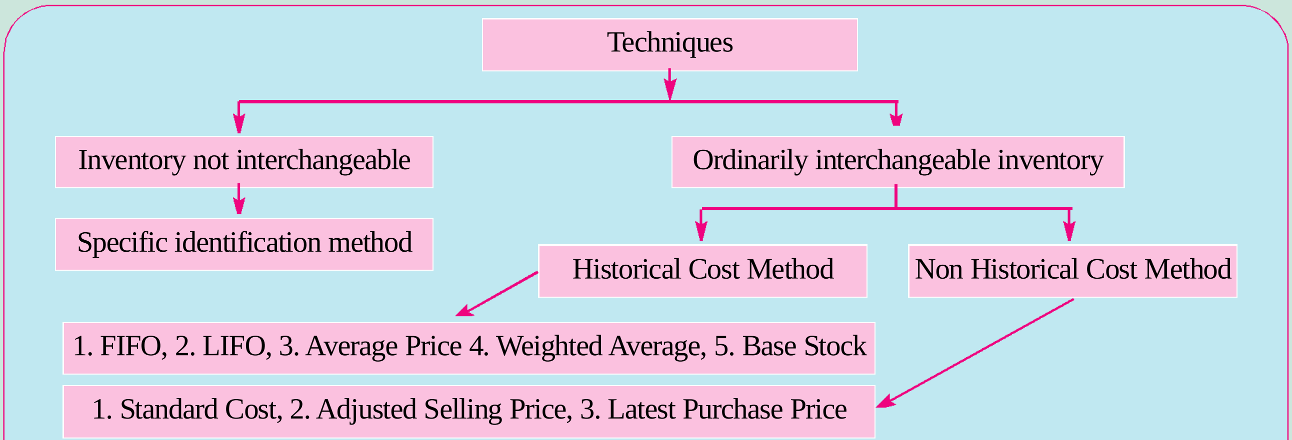
3) Importance of Inventory Valuation

Closing Stock	Over Valuation	Over Statement of Income
	Under Valuation	Under Statement of Income
Opening Stock	Over Valuation	Under Statement of Income
	Under Valuation	Over Statement of Income

4) Measurement Scale for Inventory Valuation

Closing Stock should be valued at lower of **Cost** or **NRV**

5) Inventory Valuation Techniques



Note: At CPT level, discussion onto Base stock method, Standard cost method and Latest purchase price method are deferred. It will be dealt in detail at PCC and/or at Final level-

To be continued ... Next Issue

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

Continued from previous edition

In general, the related party disclosures presented by companies to meet with the requirements of the US GAAP have been far more detailed than those presented to meet the requirements of AS-18. There are several gaps that need to be bridged.

Income Tax

A disclosure that a related party transaction was made during the year serves little purpose, unless one is apprised of the terms of the transaction and tax implication. Section 40 A (2) of the Income tax Act disallows the expenditure incurred in respect of specified persons (Related Parties) if it is the opinion of the Assessing officer that the expenditure is excessive and unreasonable. These expenditures are (a) the fair market value of goods, services or facilities for which the payment is made or persons (Related Parties) or (b) legitimate needs of business or profession of the assessee or (c) the benefit derived by or accruing to the assessee from the payment.

Companies Act

Section 297 of the Companies Act 1956, describes the transaction with the following persons as related party transaction.

- ✈ A director of the company
- ✈ Relative of the director
- ✈ A firm in which such a director or relative is a partner
- ✈ Any other partner in such a firm
- ✈ A private company of which the director is a member or director

Accounting Standard

As per Accounting Standard 18- 'Related Party Disclosures' issued by the ICAI, Related party means "Parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions" and Related Party transaction means "a transfer of resources or obligations between related parties, regardless of whether or not a price is charged. The following are the related parties as per AS-18

Holding companies, subsidiaries and fellow subsidiaries

Associates and joint ventures

- ✈ Individuals (incl. their relatives) - having voting power giving them control or significant influence
- ✈ Key management personnel including their relatives
- ✈ Enterprises where controlling individual or key managerial personnel has significant influence

However, disclosure is mandatory Level I enterprises

If any company does not fall in any of these categories, after having been applicable earlier, then it shall continue to apply unless it is not covered in any category for 2 consecutive years.

Further, Auditing and Assurance Standard 23- Related Parties impose duty on auditor to identify and disclose the related party transaction in the financial statements.

If we make comparison between these two definitions, we will come to know that AS-18 is wider than Companies Act. The Companies Act requires approval only when a director and his/her relatives involve in the transaction. However it if the key management personnel, who is not a director involved in any transaction, the approvals are not required, even though interest is involved. However, AS 18 makes it mandatory to disclose the transaction with the key management personnel also.

Income Tax

The scope of word related party under The Income Tax Act is included the following.

(i) Where the assessee is an any relative of the assessee; individual

(ii) Where the assessee is a any director of the company, company, firm, association partner of the firm, or member of persons or Hindu undivided the association or family, or any family relative of such director, partner or member;

(iii) Any individual who has a substantial interest in the business or profession of the assessee, or any relative of such individual;

(iv) A company, firm, association of persons or Hindu undivided family having substantial interest in the business or profession of the assessee or any director, partner or member of such company, firm, association or family, or any relative of such director, partner or member;

(v) A company, firm, association of persons or Hindu undivided family of which a director, partner or member, as the case may be, has a substantial interest in the business or profession of the assessee; or any director, partner or member of such company, firm, association or family or any relative of such director, partner or member;

(vi) Any person who carries on a business or profession, - (A) Where the assessee being an individual, or any relative of such assessee, has a substantial interest in the business or profession of that person; or

The word relative in relation to individuals includes different persons under various laws. Schedule 1A of the companies Act 1956 gives list of 22 persons as relatives. As per the AS-18, relative means spouse, son, daughter, brother, sister, father and mother. If we compare these two acts Companies Act is wider term. The Income tax Act defines the word relative as spouse, son, daughter, brother, sister or any lineal ascendant or descendent.

Clearly, there are more reasons than one to go through the section in the company's annual report which details related party disclosures. It will provide a better understanding of the company's operations.

Concluded

SREERAM COACHING POINT

[An exclusive Place for CA Coaching]

visit: www.sreeramcoachingpoint.com

Since 1989

The Best of All and The Best for All

We proudly announce the Next Success(ive) Batch for

☞ CA - CPT ☞ CA - PCC ☞ CA - FINAL

REGISTRATION COMMENCING ON 11-1-2009

IT IS A REGULAR BATCH AND NOT A CRASH COURSE

CA Final - May 2009 Examination

S. No.	Subject	Faculty	Commencing on	Days	Time
1	Advaanced Accounting/Financial Reporting ~	Mr. L. Muralidharan	6-2-2009	Tue, Thur, Sat Sat, Sun	6.00 am to 8.30 am 2.30 pm to 5.30 pm
2	MAFA/Strategic Financial Management	Mr. L. Muralidharan	1-2-2009	Mon, Tue, Wed, Thur	5.30 pm to 8.30 pm
3	Cost Management /Advanced Management Accounting	Mr. L. Muralidharan	3-2-2009	Mon, Wed, Fri Sun	6.00 am to 8.30 am 6.00 am to 10.30 am
4	Advanced Auditing	Mr. Kamal Garg	24-1-2009	24-1-2009 to 28-1-2009 all days	9.00 am to 5.00 pm
5	Direct Taxation	Mr. P. Subbaraman	3-2-2009	#	9.00 am to 5.00 pm

Details of the classes about MICS and Indirect Taxation will be announced soon

CA PCC - May 2009 Examination

S. No.	Subject	Faculty	Commencing on	Days	Time
1	Advanced Accounts	Mr. V. G. S. Mani	1-2-2009 #	Tues, Thur, Sat	6.00 am to 8.30 am
2	Taxation (PE - II & PCC)	Mr. P. Subbaraman	Feb. 2nd week	Mon, Wed, Fri	5.30 pm to 8.30 pm
3	Cost Accounting & FM	Mr. K. Hariharan	1-2-2009	Mon, Wed, Fri, Sun.	6.00 am to 8.30am

 # Detailed schedule of classes can be collected at the time of registration

~ AS workshop will be handled separately for 6 days session scaling around 42 hours in the month of March 2009 during week days.

CA CPT

June 2009 Examination Classes Commencing on 23rd March 2009
Timing 9.00 am to 4.00 pm Monday to Friday only

FEES STRUCTURE*

CA - FINAL

One Subject	Rs. 5,000
Two Subjects	Rs. 7,500
Three Subjects	Rs. 9,000

The above fees structure for CA Final is for the subjects - Advanced Accounting/Financial Reporting, MAFA/Strategic Financial Management & Cost Management/Advanced Management Accounting

CA - FINAL - PACKAGE

SUBJECTS	FEES
Cost Management Plus Direct Taxation (Workshop)	Rs. 6,000

CA - FINAL - WORKSHOP

SUBJECTS	FEES
Advanced Auditing [40 hours]	Rs. 3,000
Direct Taxation [60 hours]	Rs. 3,000

CA - PCC

One Subject	Rs. 4,000
Two Subjects	Rs. 6,000
Three Subjects	Rs. 7,500

CA - CPT

Rs. 5,000 only for all four subjects

Class Venue

Course	Venue
CA Final and CA PCC (All subjects except workshops)	**P.S. High School (North), Mundakanni Amman Koil Street, Behind Sanskrit College, Mylapore, Chennai - 600 004.**
CA- Final Workshop and CA CPT	**No. 7, Sree Flats, 4/3, North Usman Road, Krishnaswamy Street, T. Nagar, Chennai - 600 017.**

*** Note: Registration fees of Rs. 500/- to be paid separately irrespective of number of subjects joined. (For CA - CPT, CA - PCC & CA Final)**

For Registration and Further Details:

Contact: **Mr. C.K. Bhalaji, Cell: 98409 54207**

Address: No. 7, Sree Flats, 4/3, Krishnaswamy Street, North Usman Road,
T. Nagar, Chennai - 600 017. Landmark: Opp to Joy Alukkas, Next to Jain Car Shoppe

Phone: 044 24893830//044-28142616/32964602

www.sreeramcoachingpoint.com

Subscribe for weekly e-magazine "e-senze" free at your desktop

Go Bananas! by Mr. L.N. Venkataraman

Continued .... from previous edition

Vitamins and minerals are abundant within me. I am high in B vitamins that help calm your nervous system. I offer 123 I.U. of vitamin A for the large size. Well, that is not much in comparison to the mango or tomato but that's OK. I am not jealous. Putting all of the nutritional figures together clearly shows that I am among the healthiest of fruits. The plantain, when cooked, rates slightly higher on the nutritional scale in vitamins and minerals but similar to the banana in protein and fiber content.

Many cultures see me as a 'cooling' fruit that can lower both the physical and emotional temperature of expectant mothers. In Thailand, for example, pregnant women eat bananas to ensure their baby is born with a cool temperature. Isn't that cool!

Some horticulturists suspect that I was the earth's first fruit. God, I am so proud to hear that! I have been in cultivation since the time of recorded history. My ancestral history is worth looking into. I originated from seed bearing relatives in the Malaysian jungles of south-east Asia and the Pacific. The wild relatives were inedible, however a cross between two produced a sterile plant that has developed or been shaped into the varieties of edible banana and plantain growing today. Once this new edible fruit was discovered, I spread using "suckers" or offshoots from the base of the plant, perhaps being the first fruit farmed by man.

While much of my early history is uncertain, the earliest known cultivation occurred in India about 2500 years ago (I will reveal more on my Indian personality later). Alexander the Great is credited with bringing me from India to the West in 327 B.C. China's historians mention my cultivation as early as 200 A.D. My travel to Africa was quite important. In 650 AD, Islamic conquerors brought me to Palestine. The Arabic merchants finally took me all over Africa. They probably arrived in Madagascar, and then made their way to the mainland. This influx into Africa led to further spread by vegetative propagation. In Africa, as well as in India, several mutations occurred, producing different varieties of myself. From Africa, I made my way to the Canary Islands. One Chinese variety was sent to England, where it eventually took the name of the Duke of Devonshire's family, Cavendish. This variety and its sub-groups account for much of the commercial banana cultivation. When Spanish explorers came to the New World, so did I. According to Spanish history, Friar Tomas de Berlanga brought the first banana root stocks to the Western Hemisphere. In 1516, Friar Tomas sailed to the Caribbean bringing my roots with him; and planted them in the rich, fertile soil of the tropics, thus beginning my future in American life.

Mainstream consumption did not take hold until the 20th Century. One of the reasons for the my popularity early in the 20th century was that I was the only fruit, along with oranges, which could be found in the smaller markets during the winter months. By the 1920s I could be found in almost every worker's dinner pail or school child's lunch box. Since that time I have sustained my popularity indeed!

My historical ancestors were not the sweet yellow ones we know today, but the red and green cooking variety, now usually referred to as plantains to distinguish them from the sweet type. 80% of the bananas grown throughout the world are of the plantain or cooking variety.

I have my special affection towards India and you will be amazed by the facts. India leads the world in banana production with an annual output of about 16,820 thousand M.T. Within India, Tamil Nadu leads in total area and production with 2514729 T from 71088 ha. I am put into varied uses in India, especially in South India. Although hundreds of my varieties (personalities!) exist, only eight to ten are of commercial importance. Almost every part of my plant is used someway or other. I am tempted to say so much in detail; however I shall mention only a few.

Continued ... Next Edition

Reporting Under Clause 4 (III) and (V) of CARO, 2003 *by Mr. Kamal Garg*

Background

Under the provisions of Section 299 of the Companies Act, 1956, every director of a company, whether directly or indirectly, who is concerned or interested in a contract or arrangement entered or to be entered, is required to disclose the nature of his concern or interest at the meeting of Board of Directors. A general notice given to the board under section 299(3) to the effect that he is a director or member of a specified body corporate or is a member of a specified firm and is to be regarded as concerned or interested in any contract or arrangement which after the date of notice, be entered into with the body corporate or firm, shall be deemed to be a sufficient disclosure.

Further in terms of Section 299(6), the Section is not applicable to any contracts or arrangements, if any of the directors of one company or two or more of them together holds or hold not more than 2% of the paid up share capital in another company. Now because of the provisions of Section 299(6), the question arises, if combined shareholding of directors in contracting companies does not exceed 2%, then, whether a director is to be considered as concerned or interested merely because he is a director in the other company? Provisions of Section 299(3) imply to define interest or concern of the director either by way of directorship or by way of membership. However, Section 299(6) implies that if the directorship is not backed by more than 2% combined holding, then the whole section is inapplicable. Directorships of directors in other companies are irrelevant. What is relevant is the membership or shareholding of directors in the other company. However, disclosure in the form of general notice of directorships is given only to comply with Section 299(3).

A declaration of the percentage of share-holding is a must in order to conclude whether Section 299 is applicable or not. Under section 299(6) one can come to a conclusion that none of the provisions of section applies if the combined shareholding of the directors is less than 2% only from the assessment of disclosure given in form of general notice of extent of his shareholding.

Thus, all contracts and arrangements between companies with common directorships are out of the ambit of Section 299, if directors together of one company do not hold more than 2% of the paid-up share capital in the other company.

Under Section 301(3) all parties disclosed in general notice under section 299(3) should be listed in the register under section 301 of Companies Act, 1956. In case Section 299 becomes inapplicable on account of Section 299(6), as explained above, then the contracts or arrangements are not to be noted in the register under section 301. Section 301 applies only to transactions, contracts and arrangements to which Section 297 and Section 299 are applicable.

Reporting requirements under CARO, clause 4(iii) and 4(v):

Under clause 4(iii), an auditor is required to report - "has the company either granted or taken any loan, secured or unsecured to/from companies, firms or other parties covered in the register maintained under Section 301 of the Act. If so, give the number of parties and amount involved in the transaction."

Thus, any loan given or granted to the parties listed in the register under section 301(3) on the basis of general notice given under section 299(3) will have to be reported, even though the loan transaction is not entered in the register under section 301. A loan transaction will not be entered in the register under section 301 if by virtue of Section 299(6), the transaction is out of the scope of Section 299. The loan transaction being not specifically covered under section 297 will not be consequently covered under section 301 through Section 297. Section 297 relates to contracts for sale, purchase, service or underwriting of subscription of any shares or debentures of the company.

Under clause 4(v) the auditor is required to report "Whether transactions that need to be entered into a register in pursuance of Section 301 of the act have been so entered."

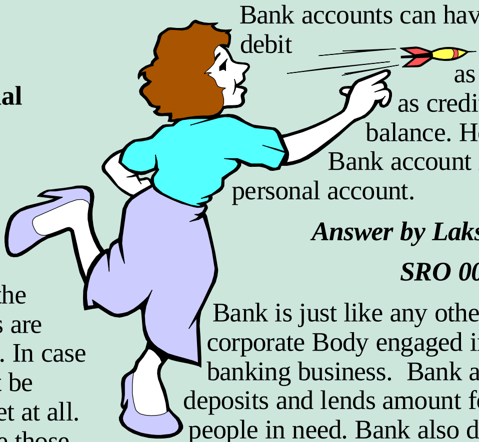
Continued ... Next Issue

Answer to previous edition question:

Question No. 1.

Is bank account, a personal account or real account?

Answer to Question No. 1

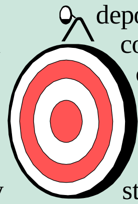


Bank Account is certainly a personal account. Normally all real account items would find place on the asset side when those items are possessed by the enterprise. In case they don't posses it will not be reported in the balance sheet at all. In simple put, real items are those items which can be SEEN as coming in or going out. Real accounts will always have debit balance. No real account can have credit balance. Bank accounts can have both debit as well as credit balance. Hence Bank account is only personal account.

Answer by Lakshmi P

SRO 0018491

Bank is just like any other corporate Body engaged in banking business. Bank accepts deposits and lends amount for people in need. Bank also does agency functions such as collecting money and paying money on ones behalf. It also performs custodian functions for various clients. Amount



deposited with the Bank is to be considered as Banker holding cash on behalf of the enterprise. Whenever a direction is made to effect payment either by cheques or standing instructions banker pays on behalf of the enterprise. Thus Banker is a person having corporate entity. Hence Bank is to be classified as personal account

Answer by M.K.S. Hariharan

SRO 0201785

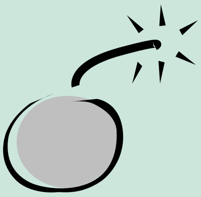
This week Question.

1. What is the difference between Ideal Time and Idle Capacity?

T. Venkataramanujam

SRO 0248089

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



J o k e s

Mr.X: Doctor! please hurry. My son swallowed a razor blade
Doctor: 'Dont panic, i'm coming immediately. Have you done anything yet?'
Mr.X: Yes Doctor! I shaved with the electric razor.
Doctor: ????

==ooOOoo==

Doctor: Dear Mr.Y ! I have some bad news and some very bad news for you.
Patient: Well! Tell me the bad news first.
Doctor: The lab results has come. It shows that you have only 24 hours to live
Patient: Hurrah! 24 HOURS! What could be worse than that? Whats the very bad news doctor?
Doctor: I've been trying to reach you since yesterday.

==ooOOoo==

Patient: 'Doctor! Are you sure i'm suffering from pnuemonia? Because, I've heard that once a doctor treating someone with pneumonia. Finally that person died of typhoid.
Doctor: "Dont worry, it wont happen with me. If i treat someone with pneumonia, he will die with pneumonia only."

==ooOOoo==

A pipe bursts in a doctor's house. He called the plumber. The plumber arrived, unpacked the tools, did some plumber-type things and handed the doctor the bill for Rs.10,000. The doctor exclaimed 'This is ridiculous! I don't even make that much as a doctor!' The plumber answered quietly, 'Neither did i when i was a doctor.'

==ooOOoo==

Patient: I always see spots before my eyes.
Doctor: Didnt the new glasses help?
Patient: Sure, now i see the spots much clearer.

==ooOOoo==

Patient: Thanks a lot Doctor! You saved my life.
Doctor: Don't praise me too much. GOD only saved your life.
Patient: Oh!!! That's Great.
Doctor: Ok! What about my fees ?
Patient: I will send it to GOD through courier !!!
Doctor: ???

==ooOOoo==

Patient: Doctor, I have a serious memory problem. I can't remember anything!
Doctor: So, since when did you have this problem?
Patient: What problem?
Doctor: ???
Doctor: What seems to be your trouble?
Patient: When I get up I feel dizzy for one hour.
Doctor: Try getting up one hour later.

==ooOOoo==

Doctors [Son]: Well, dad, now that I am setting up my own practice, give me
some guidelines of success.
Doctor [Father]: Always, write your prescriptions illegibly and your bills legibly.

==ooOOoo==

Doctor: "Your fee is several times more per hour then we get paid for medical care."
Car Mechanic: "Yeah, but you see, you have always the same model, it hasn't changed since Adam; but we have to keep up to date with new models coming every month."

==ooOOoo==

Love Please *by Mani V G S*

When people succeeds in any work/activity, they usually say that "Secret of their Success" is "Hard work"

When people does not succeed in the work/activity, they simply say that "Luck doesn't favours them"

The original reason for their failure would be, they may not have shown sufficient interest in their work or whatever may be the activity they do.

Still not understood?

Look at the following situations!

- A student, who doesn't like "Economics", will always say that economics is a boring subject
- A student, who doesn't like mathematics, will always say that mathematics is a difficult subject
- Some students say that they find practical papers comfortable rather than theory papers and some of them say vice versa.

A student, who conveys that the subject is difficult/boring, will always be curious about, how the successful person in that subject studies/prepares for the examination?

Most of the people will be have some common doubts.

Let's see some of them!!!

Event	**General People murmurings:-**
A student gets "All India First Rank"	How it is possible for him to get "All India First Rank". Is it possible for me? I am also doing the same course. I am also having the same reference material. I am also having same 24 hours etc…
A cricket player rated first in the "Cricket Ratings"	How it is possible for him to become a top class player? I am also playing cricket well. I can bat and bowl well when compared with him. He is only a Batsman. I am a all rounder. I am not at all being selected even in my school team etc…
A singer who has been awarded recently with medals and awards	How it is possible for him to become a successful singer? Is it possible for me to sing like him? Can I become a great singer?
A person who has become the world No.1 richest person	How it is possible for him to become such a richest person? I am not at all able to save even a very small amount. My monthly expense exceeds every month income. I am not at all able to earn little money. Whether that person robs from others? Etc…

Out of the above situations, let us analyze one illustration :

Let's take the case "A student gets All India First Rank"

Generally people will wonder how that particular student got All India First Rank. They ask the following questions expressly to that student (who got rank)

1. **Regarding Time:**

   What is the duration taken by you to complete the particular course? Whether you will study the whole day? When will you take rest in a day? How many hours/minutes you will take to read/complete a particular topic?

2. **Regarding Food:**

   When will you intake food. What food you intake? If you intake food, don't you feel sleepy? How much you will intake in morning/afternoon/night?

3. **Regarding Sleep:**

   By what time you will go for sleep? By what time you will wake up? How many hours you will sleep in a day of 24 hours?

4. **Regarding Diversions:**

   Whether you will watch TV? Whether you go to movies? Whether you use mobile phones frequently? Whether any diversions for you in/nearby your home?

Why the general people ask such kind of silly questions to the student who got All India First Rank?

To be continued…. Next Issue