

Editorial

Dear Readers,



- "Attack",
- Attack is the best form of defence :)
- But terrorists are using it unfortunately :(
- Electorate should attack the politicians who are incapable of keeping terrorists out :I
- Electorate Indians vote for the best attackers of terrorism!!
- Let us keep the world haven of peace, tranquility and universal brotherhood !!
- Love all and hurt never !!!

**L. Muralidharan
& Editorial Team of e-senze**

Designed by: Mr. G. Natarajan



Index

CA - Final Page	2
CA - CPT Page	3
CA - PCC Page	4
Dart Board	5
New York, February, 25, 2009	6
Give S - The Japanese Way	7
CA - Final AS, DT &	
MICS Class Details.....	8 & 9
CA - CPT Class Details	10 & 11

**Classes for
CA - Final
for June 2009
exam
commencing from
23-3-2009**

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Currency Swap

The currency swaps are agreements whereby currencies are exchanged at specified exchange rates and at specified intervals. Basic purpose of swaps is to lock in the rates (exchange rate).

Large commercial banks acting as intermediaries some times take positions, i.e. they may agree to swap currencies with a firm rather than simply search for a suitable swap candidates. Currency swaps can be used to hedge the payments which may have to pay as a result of debt or interest rate payment in future. Following example shows the use of currency swap to hedge bond payments:

Suppose a firm 'A' has Deutsche mark earnings due to its operations



in Germany and the parent is in America. The firm is able to mobilize the bonds in dollar. There is a firm 'B' in Germany which has operations in America and has earnings in dollars. It is able to mobilize bonds in Deutsche mark. Various payment of currencies

swapped are shown in the following text and diagram.

Basic Structure of Currency Swap

Currency swap involves exchanging of assets and liabilities. Suppose there is a company 'A' operating in Canada area (C\$) and wants to invest in dollars (\$) and another company 'B' operating in dollar (\$) area and wants to invest in Canadian \$ (C\$). Since company 'A' has revenue in C\$ and company 'B' has revenue in \$ and the two have opposite investments plans, the two companies can arrange a swap to fulfill the objectives.

Structure of currency swap

Part I of the swap
Realization of C\$ -

C\$



A

B needs DM

A needs \$

B

C\$ Investment

\$ Investment

Part II of the swap
Realization of \$ -

\$ - Revenue from the operation



Part III of the Swap
structure join two parts

C\$Revenue from operations

\$Revenue from operations

↓

A

↓

B

\$Investment

C\$Investment

Index Number - By. T. Venkataramanujam

Index number is an economic data figure reflecting price or quantity compared with a standard or base value (Usually 100). The index number is usually expressed as 100 times the ratio to the base value.

For example, if a commodity costs twice as much in 2010 as it did in 2000, its index number would be 200 relative to 2000.

The best-known index numbers are the consumer price index and cost-of-living index.

Simple aggregative price index

We express the total of commodity prices in a given year as a percentage of total commodity prices in the base year. i.e.

$$\frac{\sum P_n}{\sum P_o} \times 100$$

Where $\sum P_n \rightarrow$ sum of all commodity prices in the current year

$\sum P_o \rightarrow$ sum of all commodity prices in the base year.

Weighted Aggregative Index

❖ **Paasche's index**

$$P_p = \frac{\sum P_n Q_o}{\sum P_o Q_o}$$

Where P_n and P_o are commodity prices for the current year and base year respectively

Q_o is the quantity of the commodity for the base year.

❖ **Laspeyres's index**

$$P_L = \frac{\sum P_n Q_n}{\sum P_o Q_n}$$

Q_n is the quantity of the commodity for the current year

❖ **Marshall-Edgeworth's index**

$$\sqrt{(\sum P_n Q_o + \sum P_n Q_n) \div (\sum P_o Q_o + \sum P_o Q_n)}$$

Arithmetic Mean of Paasche and Laspeyres

❖ **Fisher's price index**

$$\sqrt{(\sum P_n Q_o \div \sum P_o Q_o) \times (\sum P_n Q_n \div \sum P_o Q_n)}$$

Or Geometric Mean of Paasche and Laspeyres

$$= \sqrt{\text{Paasche} \times \text{Laspeyres}}$$

Quantity index number

Quantity index number can be expressed by interchanging the position of P and Q in the above formulas and keeping the subscripts as such.

Value Indices

A value index equals the total sum of the values of a given year divided by the sum of the values of the base year

$$\text{(i.e.) } \frac{\sum V_n}{\sum V_o} = \frac{\sum P_n Q_n}{\sum P_o Q_o}$$

The Chain Index number

Sometimes as conditions change rapidly, it may not be suitable to have a fixed base. If, however, it is desired to associate the relatives to a common base, the results may

be chained. The relatives of each year are first related to the preceding year called the link relatives and then they are chained together by successive multiplication to form a chained index

Chain index $\rightarrow$

$$\frac{\text{Link relative of current year} \times \text{chain index of the previous year}}{100}$$

Deflating time series using index number

GNP initially is calculated in current price so that the effect of price changes over a period of time gets reflected in the data collected.

Thereafter, to determine how much the goods and services have grown over time, the effect of changes in price over different values of GNP is excluded. The real economic growth in terms of constant prices of the base year therefore is determined by deflating GNP values using price index

$$\begin{aligned} \text{Deflated value} &= \text{Current value} \div \text{price index of the current year} \\ &\text{(Or)} \\ &= \frac{\text{Current value} \times \text{Base price (Po)}}{\text{Current Price (Pn)}} \end{aligned}$$

Shifting and Splicing of Index Numbers:

❖ How the base period may be shifted

Shifted Price Index $\rightarrow$

$$\frac{\text{Original Price Index}}{\text{Price index of the year on which it has to be shifted}} \times 100$$

❖ How the two indexes of different bases may be combined into single series by Splicing

Splicing two sets of price index numbers covering different periods of time is usually required when there is major change in quantity weights.

TEST FOR ADEQUACY OF INDEX NUMBERS:

➔ **Unit Test:**

This test requires that the formula should be independent of the unit in which or for which prices and quantities are quoted

➔ **Time reversal test:**

The current value on the base and vice versa should multiply to unity.

$$P_{01} \times P_{10} = 1$$

➔ **Factor reversal test:**

This holds good when the product of the price index and the quantity index should be equal to the Corresponding value index

$$P_{01} \times Q_{01} = V_{01}$$

➔ **Circular test :**

If the 2010 index with base 2005 is 200 and 2005 index with base 2000 is 150; the index 2010 on base 2000 will be 300.

The test of ability to shift the base is called the circular test.

Legal World - Corporate Laws - LW 169.12.2008 - by Mr. Kamal Garg



LW 169.12.2008
ASST. COMMISSIONER OF
INCOME-TAX v.
F.P.GAEKWAD
[(2008) 174
TAXMAN 5551(GUJ.)

] K.A.Puj & Bankim N.Mehta, JJ.
[Decided on 02.09.2008]

Wealth Tax Act – Section 18 – Assessee died during the proceedings – Assessing Officer levied penalties on the legal representatives of the deceased assessee – Whether correct – Held, No.

Brief Facts: The assessee had furnished the return of wealth for the relevant assessment years during his life time. The Assessing Officer had also initiated penalty proceedings under sections 18(1) (a), 18(1) (c) and 15 B against the assessee. However, before the penalty proceedings could be completed, the assessee

expired in the year 1988. Thereafter, the Assessing Officer vide his order dated 29-8-2003, levied penalties under Sections 18(1) (a), 18(1) (c) and 15B upon the legal representatives of the deceased assessee. The Commissioner (Appeals) deleted the penalty. On revenue's appeal, the Tribunal confirmed the order of the Commissioner (Appeals). The revenue appealed to the High Court.

Decision: Appeal dismissed.

Legal World Digest of Legal Cases

Reasons: From a reading the various decisions of the various High Courts, where an identical issue was decided, it is evident that:

(i) The legal representatives of the deceased are not liable for penalty for which default was committed by the deceased assessed.

(ii) The liability of the legal representative is only to pay the tax assessed as payable or any other sum which would have been payable by the deceased, had he been alive, out of the estate of the deceased.

(iii) The words 'any sum which would have been payable by him under the Act if he had not died' mentioned in section 19(1) do not authorize the department to levy penalty on the legal representatives for the default committed by the deceased assessee.

(iv) In the absence of any provision similar to section 159(2) (b) of the Income-tax Act, by which the Parliament clearly intended to levy penalty in the hands of the legal representatives also in a case where the default had been committed by the deceased person, it is not possible to attribute to the Legislature the intention to penalize the legal representatives for the default, if any, committed by the deceased person under the Wealth –tax Act.

(v) If an order creating liability to pay under the Act had not been passed till the date of death of the original assessee, sub-section (1) of section 19 does not authorize creation of liability to pay on the legal representative.

(vi) Section 19(1) does not provide for the continuation of penalty proceedings against the legal representative when the assessee dies before the proceedings are concluded.

(vii) The definition of an 'assessee' in section 2(c) does not provide that the legal representative of an assessee would be deemed to

be an assessee for all purposes under the Act, unlike section 159(3) of the Income Tax Act, which says that the legal representative of the deceased shall for the purpose of that Act, be deemed to be an assessee.

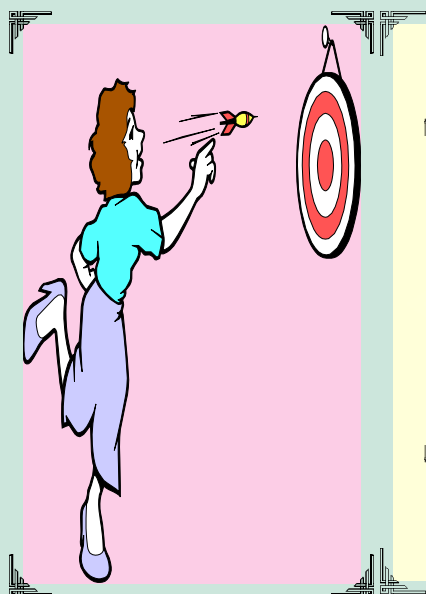
(viii) The omission of section 18 in sub-section(3) of section 19 is quite significant, which clearly shows that intention of the Legislature that in a case where action would be taken under sub-section (2) of section 19, the question of imposing any penalty on the legal representative cannot arise.

(ix) Section 14, 15 and 17 contemplate and authorize initiation as well as continuance of proceedings for determining wealth tax on the basis of the return as well as on the basis of escapement of wealth against a legal representative. The provisions of section 18, therefore, do not come within the ambit of section 19.

In the instant case, the returns were filed by the deceased assessee and there was no obligation on the legal representative to file the return of wealth. Pursuant to the returns of wealth filed by the deceased assessee, assessments had been completed and penalty notice had been issued. However, before the penalty orders were passed, the deceased expired. Thus, the penalty orders passed on the legal representative were contrary to the provisions of law and he could not be made liable to any penalty. Therefore, the appeal filed by the revenue deserves to be dismissed.

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Continued in next edition.....

Dart-Board



Last Week's Question:

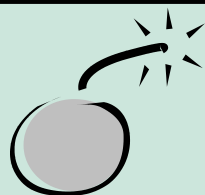
What is the difference between Bin Card and Stores Ledger?

Bin Card	Stores Ledger
- It is a record of quantity maintained by Store-keeper - Posting will happen as transactions happen. - Balance in Bin card represents quantity - Dirt and grease will spoil Bin card	- It is record of quantity and value maintained by Cost Accountant - Summarized posting once in a month - Balance is reconciled with Bin card for quantity verification and general ledger for value verification - It is clean and neat

This Week's Question:

What do you mean by emotional quotient?

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



J o k e s

Lawyer: When I was a boy, my ambition was to be a pirate.

Client: Congratulations! You have been successful.

= =oo00oo= =

Customer asked to the shopkeeper, "What do you have for Shakespeare sir?"

The Shopkeeper replied, "Nothing but the highest respect Sir."

= =oo00oo= =

An accountant is having a hard time sleeping and goes to see his doctor. "Doctor, I just can't get to sleep at night."

"Have you tried counting sheep?"

"That's the problem - I make a mistake and then spend three hours trying to find it."

= =oo00oo= =

A cap seller kept his caps and slept under a tree. When he got up his caps were missing.

He saw that the monkeys had taken

his caps. He took his cap and threw it on the grass as his grandfather told his experience with the monkeys.

A monkey came down took that cap as well as the monkey is well aware of that story.

= =oo00oo= =

Son: "Dad, can you write in the dark?"

Dad: "I think so. What is it you want me to write?"

Son: "Your name on this report card."

= =oo00oo= =

SARDAR: I haven't slept all night in the train since I got upper berth

Friend: Why didn't you exchanged

SARDAR: Oye, there was nobody to exchange in the lower berth.

= =oo00oo= =

Teacher: Did your father help you with your homework?

Student: No, he did it all by himself.

= =oo00oo= =

Teacher: What's the longest word in the English language?

Pupil: Smiles - because there is a mile between the first and last letters!

= =oo00oo= =

Doctor: The check which u gave me has returned back.

Patient: The head-ache for which you gave me medicine has also returned back.

= =oo00oo= =

Candidate: How much would you pay for me if I join your company?

Interviewer: Rs. 6000/- at the start and Rs. 10000 after 6 months.

Candidate: Then, shall I join after 6 months.

= =oo00oo= =



by Mr. V. S. Thiagarajan

Such has been the turmoil in the world's banking industry that, for the first time, Global Finance magazine is publishing a mid-year update of its much respected Safest Banks listing. A full report on the list will appear in the April issue of Global Finance.

The "World's 50 Safest Banks" 2009 were selected through a comparison of the long-term credit ratings and total assets of the 500 largest banks around the world. Ratings from Moody's, Standard & Poor's and Fitch were used.

Global Finance has published its "World's Safest Banks" listing for 17 years and this ranking has become a recognized and trusted standard of creditworthiness for the entire financial world.

"The rating agencies have determined these banks have demonstrated a more prudent and sustainable approach to risk than their peers,"

says Global Finance publisher Joseph D. Giarraputo. "More than ever customers all around the world are viewing long term creditworthiness

as the key feature of the banks with which they do business."

GLOBAL FINANCE WORLD'S 50 SAFEST BANKS

Global Finance magazine February 25, 2009

1. KfW (Germany)
2. Caisse des Depots et Consignations (CDC)(France)
3. Bank Nederlands Gemeenten (BNG) (Netherlands)
4. Landwirtschaftliche Rentenbank (Germany)
5. Rabobank (Netherlands)
6. Landeskreditbank Baden-Wuerttemberg-oerderbank (Germany)
7. NRW. Bank(Germany)
8. BNP Paribas(France)
9. Banco Santander(Spain)
10. Royal Bank of Canada(Canada)
11. National Australia Bank(Australia)
12. Commonwealth Bank of Australia (Australia)
13. Banco Bilbao Vizcaya Argentaria (BBVA)(Spain)
14. Toronto-Dominion Bank(Canada)

15. Australia & New Zealand Banking Group(Australia)
16. Westpac Banking Corporation(Australia)
17. Banco Espanol de Credito S.A. (Banesto)(Spain)
18. ASB Bank Limited(New Zealand)
19. HSBC(United Kingdom)
20. Credit Agricole(France)
21. Wells Fargo(United States)
22. Nordea Bank(Sweden)
23. Scotiabank(Canada)
24. La Caixa(Spain)
25. Svenska Handelsbanken(Sweden)
26. US Bancorp(United States)
27. Banco Popular Espanol(Spain)
28. DBS Bank(Singapore)
29. Pohjola Bank(Finland)
30. Deutsche Bank(Germany)
31. Société Générale(France)
32. Intesa Sanpaolo(Italy)
33. Bank of Montreal(Canada)
34. DnB NOR Bank(Norway)
35. The Bank of New York Mellon(United States)
36. Caixa Geral de Depositos(Portugal)
37. United Overseas Bank(Singapore)
38. OCBC(Singapore)
39. Axa Bank Europe(Belgium)
40. Credit Suisse Group(Switzerland)
41. Landesbank Baden-Wuerttemberg (Germany)
42. Nationwide Building Society(United Kingdom)
43. CIBC(Canada)
44. National Bank Of Kuwait(Kuwait)
45. Barclays(United Kingdom)
46. UBS(Switzerland)
47. JPMorgan Chase(United States)
48. Bank of Tokyo-Mitsubishi UFJ(Japan)
49. Banque Federative du Credit Mutuel (BFCM)(France)
50. Credit Industriel et Commercial (CIC)(France)

Give S : The Japanese Way

by Mr. V. S. Thiagarajan

One knows pretty well that the Japanese are the World's leading manufacturer of various products be it calculators, watches, cell phones, audio and video systems, washing machines, automobiles and other electronic gizmos. Yet we have not understood or attempted to find out the reason How and Why they alone are able to bring about various products with such fine looks and precision designing and functioning? It is because of the single reason that they keep on innovating their products keeping in mind the changing tastes, lifestyles and requirements of their users. Hence they are always a cut above the rest and hence they are able to lead over the Germans who are pioneers in Engineering be it Civil, Electrical & Electronics and Automotive etc. Hence the Japanese have evolved on a technique popularly known as 5 S technique which is being used extensively to establish and maintain quality in each and every organization.



5 S was invented in Japan, and stands for five Japanese words that start with the letter ' S' namely SEIRI, SEITON, SEISO, SEIKETSU AND SHITSUKE. Following table shows what these individual words actually mean

Japanese Term	English Equivalent	Meaning in Japanese
SEIRI	Organisation	Throw away all rubbish and unrelated materials in the work place
SEITON	Orderliness	Set everything in proper place for quick retrieval and storage
SEISO	Cleanliness	Clean the workplace; everyone should be caretaker of the organisation
SEIKETSU	Ustandardization	Standardize the way of maintaining cleanliness
SHITSUKE	Discipline	Practice 5 S daily, make it a way of life, this also means commitment

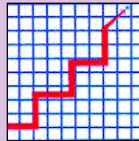
The 5 S process is a well designed program to systematically achieve total organization, cleanliness and standardization in the workspot. It enhances the morale of the employees, promoting a sense of pride in their work and ownership of their responsibilities. The Key targets of 5 S are the Workspot Morale and their Efficiency. The assertion of 5 S is, by assigning everything in a location. Time is not wasted by looking for things. Additionally, it is quickly obvious when something is missing from its designated location. 5 S advocates believe the benefits of this methodology come from deciding what should be kept , where it should be kept, and how it should be stored. This decision making process usually comes from a dialog about standardization which uilds a clear understanding, between employees, of how work should be done. It also instills a sense of ownership of the process in each and every employee.

An equivalent set of 5 S words in English have likewise been adopted by many to pereserve the 5S acronym in English usage; they are Sort, Set, Shine, Standardize, and Sustain.

Seiri

The first step of the 5 S process, seiri, refers to the act of throwing away all unwanted, unnecessary and unrelated materials in the workplace. People involved in Seiri must not feel sorry about having to throw away things. The idea is to ensure that everything left in the workplace is related to work. Even the number of necessary items in the workplace must be kept to its absolute minimum Because of seiri, simplification of tasks, effective use of space and careful purchase of items follow.

To be continued



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Accounting Standards	24rd April to 30th April, 2009	10.00 am to 5.00 pm
Direct Taxation	14th March to 23rd March, 2009	9.30 am to 4.30 pm
Auditing	11th April to 15th April, 2009	9.00 am to 5.00 pm

Venue

P.S. High School,
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Registration in full swing

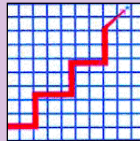
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