SRCP's ➤ e-senze

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Editorial ....

Dear Readers,

Time is precious. Time waits for none. Time moves on and it is the real hero. Time changes the fate ofr coal and rocks. Coal turns diamond by time. By turn of time History is made.

Time is impartial and every creature has got 86,400 seconds everyday. A winner finds time for everything. A loser blames time for his defeat.

Victory comes through how we manage time.

L. Muralidharan
& Editorial Team of e-senze

Designed by: Mr. G. Natarajan

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WORKSHOP ON Advanced Auditing Final in Chennai by CA. Kamal Garg

For more Details refer page No. 5 and 6

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Disposal of Forward

Forward contract is binding on end user as well as the authorized dealer and must be executed. Theoretically there shall be no variation but seldom this principle holds good. In practice, the delivery under a forward may take place before or after the due date or may not take place at all. The dealer generally agrees to these changes provided the exporter/importer agrees to a new set of transactions to balance the earlier forward contract.

Forward contract executed on due date evokes no fresh set of transaction and hence ignored in our analysis. Forward contract settled in (a) advance or (b) later or (c) cancelled are the three dispositions of forward are taken up for analysis. Exporters/importers are often faced typical scenarios of earlier/later settlement or cancellation because of variety of factors influencing them. The knowledge of earlier settlement or otherwise would be known to them in advance or only on maturity.

If it is known in advance, then two sets of forward contracts shall be entered to remain balanced. Eg.. An importer had entered a forward on 1st January for a forward buy transaction maturing 1st April. On 1st February the supplier insisted payment on 1st March instead of 1st April. The importer approached dealer for an earlier payment on 1st March. A new 1 month forward buy will be booked by 1st February maturing 1st March. But the earlier forward maturing 1st April shall be cancelled by entering a counter transaction. What is a counter transaction? The earlier contract was a forward buy and a new contract giving a counter effect shall always be a sell transaction. Entering such counter transaction is also to be done through a forward contract. On 1st February there will be another forward contract maturing the same 1st April is to be entered. This time it will be forward sell to counter the effect of the earlier forward. Therefore there will two forwards entered on 1st February. They are one maturing 1st March, a forward buy and another maturing 1st April, a forward sell. A set of two transactions with one buy and another sell will be referred to as swap. If both the contracts are forward, then the set will be referred to as forward-forward swap

If the variations in the original contract are to be made only on maturity, then also two sets of contracts are to be entered. One to counter the original forward a spot transaction should be booked. For the new settlement, another forward shall be entered for a new maturity. If one contract is for buy then the other is for sell. If one is spot and the other is forward, then it is simply a swap. Let the following example explain the point raised above:

On 1st January an exporter entered into forward sell transaction for a maturity on 1st April. On 1st April, the customer of exporter expressed inability to honor the commitment and requested for a new date to settle the dues. Suppose the new maturity is agreed at 1st May, then the exporter should provide answer for the forward sell maturing 1st April. He can cancel the original forward sell by booking spot buy. At the same time, he shall enter into a forward sell maturing 1st May. On 1st April, there were two transactions entered. One is spot buy and another is forward sell maturing 1st May. These two transactions are referred to as swap.

Detailed analysis of swap is as follows:

SWAP

- ✔ Swap is a set of two contracts.
- ✔ If one involves purchases, the other would involve sales.
- ✔ If the first one is spot, the second one would be forward.
- ✔ If both the contracts are forward, then it would be referred to as forward forward swap.

WHEN SWAPS ARE USED?

- ✔ Supposing an importer has entered into a forward buy to settle payables, is forced to pay the supplier earlier than before, would face two problems.
- ✔ They are: (i) settle the bill now and (ii) answer for the original forward entered.
- ✔ For the immediate settlement he has to enter into spot buy.
- ✔ For the original forward buy, he should cancel as the settlement is advanced.
- ✔ Cancellation of a forward contract comes in the form of countering the original transaction.
- ✔ If the original forward is buy, then the counter is sell.
- ✔ If the original forward is sell, then the counter is buy.
- ✔ Because of the new rates in the swap contracts, the importer/exporter would face a newer situation.
- ✔ The rates are for the two contracts in the swap. One for buy and the other one for sell.
- ✔ The difference in the rates entered in the swap would end up with paying more or receiving less or paying less or receiving more. These newer situation shall be referred to as profit/loss.
- ✔ Swaps are entered only when there is an intention of honouring the commitment either earlier or later.
- ✔ In case the forward is not honoured then swap has no role to play.

PROFIT/LOSS ON SWAPS

- ✔ The difference between the rates entered in the swap is the net effect of comparing those two contracts with the original forward contracts.
- ✔ Therefore the rate entered in the original forward is irrelevant and to be ignored as sunk.

EFFECT IS ILLUSTRATED AS FOLLOWS:

- ✔ Rate of original contract of forward buy entered on 1/1 with a maturity on 1/4, Rs.44.12
- ✔ The supplier insisted immediate settlement and spot buy was effected at Rs.44.24 on 1/3.
- ✔ To counter the original forward the company entered 1 month forward sell @ Rs.44.47.

Legal World - Corporate Laws - LW 18-02-2009 - by Mr. Kamal Garg

Continued from previous edition...

LW 19.02.2009 SHIV-ARPAN ENGINEERING PVT. LTD. v. OFFICIAL LIQUIDATOR, HIGH COURT OF CALCUTTA [(2009) 147 COMP CAS 199 (CAL.)] Patherya J. [Decided on 05.11.2008]

Companies Act, 1956 - Company in liquidation-Auction sale of land admeasuring 4.68 acres - Execution of conveyance - Dispute between OL and the auction purchaser as to the area of land - Whether OL is required to execute conveyance deed for the undisputed area of the land - Held, Yes.

Brief Facts: By an order dated March 20, 1999, 4.680 acres of land belonging to a company in liquidation was sold and possession was handed over to the applicant. The official liquidator did not execute the conveyance deed in favour of the applicant. The applicant moved an application before the court for issuing direction to the official liquidator to register and convey the land in its favour. The official liquidator contended that the applicant was entitled only to an area of 3.16 acres as evident from the sale notice, that the company in liquidation and another company, which was also in liquidation had a common boundary wall and the areas occupied by the other company had been sold after confirmation of sale by the court and conveyance had been executed in favour of the purchaser, that he was ready and willing to execute 3.16 acres of land in favour of the appellant and not 4.680 acres as sought by the applicant.

Decision: Application allowed.

Reasons : By orders dated May 17, 2000 and March 22, 2002, 4.680 acres of land of the company in liquidation had been directed to be conveyed in favour of the applicant. No application for variation or modification of the earlier orders or the order of the appeal court had been filed by the official liquidator. The area set out in the sale notice had been considered when the order dated May 17,2000 was passed and no person had come for to claim title to any part of the land comprised in 4.680 acres in spite of publication of notice as directed by the court. The official liquidator was bound to give effect to the earlier orders by conveying 4.680 acres of land in favour of the applicant. In the event the official liquidator was unable to deliver 4.680 acres, he was at liberty to execute conveyance for the area that he could convey and was to refund the sum accordingly to the applicant.

LW 20.02.2009

FAROUK IRANI v. REGISTRAR OF COMPANIES [(2009) 1 COMP LJ 112 (MAD)] M. Chockalingam & R. Subbiah, JJ. [Decided on 01.07.08] Companies Act, 1956 - Section 633 - Violation of the mandatory provisions of the Act – Bona fide not proved-Whether court is bound to grant relief to the directors - Held, No.

Brief Facts: During the inspection of the books of account and registers of the company certain violations of mandatory provisions of the Act and the rules were found. On receipt of the show-cause notice an explanation was offered by the petitioners / appellants. Pending consideration of the said explanation, the show-cause notice referred to above was served upon the petitioners. Apprehending the criminal action pursuant to the show-cause notice, the company petition was brought before the court. On enquiry, the court below on the view that it was not a fit case and dismissed the petition. The appellants appealed to the Division Bench.

Decision: Appeal dismissed.

Reasons: The powers vested upon the court under section 633 of the Companies Act, 1956, to grant the relief is, firstly, discretionary.

Secondly, the petitioners have to satisfy the following conditions stipulated under section 633(1) of the said Act :

(1) the lapse or offence alleged must be one of the kinds mentioned in section 633(1)

(2) the applicant must be shown to have acted honestly and reasonably; and Legal World

(3) The court is in a position to conclude or render the finding with regard to all the circumstances of the case that the officer ought to be excused fairly.

In order to exercise the discretionary power all the above conditions of that Act must be satisfied. But in the instant case, without adducing evidence, the court cannot come to a conclusion that whether the petitioners have acted honestly and reasonably and, further, in the instant case, there is nothing available to conclude or record a finding as to the circumstances which attended in making such violations. In the instant case, as could be noticed, there were violations of mandatory provisions and they could not be termed as mistakes. Apart from this, when this is not a fit case, as rightly found by the court below, the courtcould not exercise discretionary power in favour of the petitioners. In the said circumstances, the appeal does not carry merit and it is liable to be dismissed.

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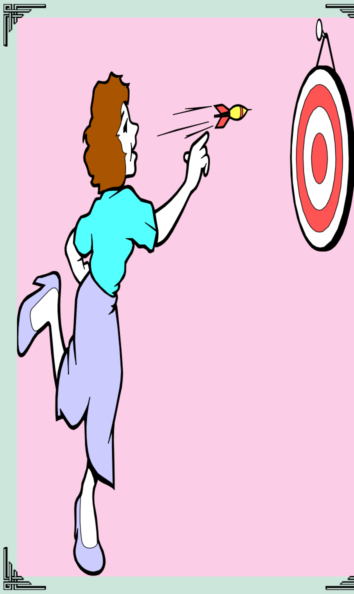
Continued in next edition

Dart-Board



Last *Week's* Question: What do you mean by Double Precision?

Real data values are commonly called single precision data because each real constant is stored in a single memory location. This usually gives seven significant digits for each real value. In many calculations, particularly those involving iteration or long sequences of calculations, single precision is not adequate to express the precision required. To overcome this limitation, many programming languages provide the double precision data type. Each double precision is stored in two memory locations, thus providing twice as many significant digits.

This Week's Question: What do you mean by Packet Switching?

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

Jokes

The man gets out of his car, walks all the way out to the farmer and asks him "Ah excuse me mister, but what are you doing?"

The farmer replies "I'am trying to win a Nobel Prize,"

"How?" asks the man, puzzled.

"Well I heard they give the Nobel Prize to people who are out standing in their field."

==oo0oo==

Lara: "Have you ever read Shakespeare?"

Sara: "No, who wrote it?"

==oo0oo==

Nanda went to give his english exam. Then he came back.

Banda: How was your exam?

Nanda: It was good except that I did not know the past tense of think. I thought and I thought and I wrote thunk.

==oo0oo==

Balu : I tried your number so many times, it always said 'Switched Off'!"

Neelu : No, it's my HELLO TUNE!

==oo0oo==

A teacher told all students in a class to write an essay on a cricket match.

All were busy writing except one Student. He wrote "DUE TO RAIN, NO MATCH!"

==oo0oo==

Dad, "You usually talk a lot on the phone. Why did you only talk half an hour?"
Daughter, "It was a wrong number!"

==oo0oo==

Doctor: I slept in the afternoon
Patient: What's wrong in it?
Doctor: I slept in the Operation Theatre.

Class Timings & Venue

SUBJECT	DATE	TIMINGS	VENUE
Advanced Auditing	11th April to 15th April, 2009	9.00 am to 5.00 pm	P.S. High School, Behind Sanskrit College, Mylapore, Chennai-600 004

Registration in full swing

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& queries
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