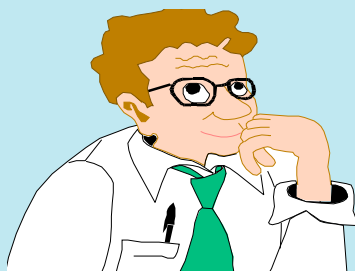


Editorial

Dear Readers,



Patience!

Patience is a must during crisis.

Patience makes us to think positively. Patience gives hope for winning

Patience stops pre-judice and helps in making rational judgement.

So be patient and press for victory. Let be the victory be yours. *Jai Ho...*

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

Designed by: Mr. G. Natarajan



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**WORKSHOP ON
Direct Taxation,
Advanced Accounts
&
Auditing
Details in
page No. 6 and 7**

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published.

Using the CAPM to calculate a project's hurdle rate

The process of using the CAPM in investment appraisal is very similar to its use in the share valuation process. In common with share valuation it is assumed that only the systematic risk of a project is relevant. The unsystematic risk is considered irrelevant on the grounds that shareholders of the company will be holding diversified portfolios.

In order to use the CAPM in the investment appraisal process, we again require estimates of the risk-free rate, the market risk premium and, in addition, the beta of the project. It is the last of these three pieces of data which often proves the most difficult to find. We will now address this problem by considering the steps involved in using the CAPM to derive a hurdle rate for appraising a project.

1. Identify quoted companies engaged mainly or entirely in the same type of operation as the project under appraisal. These companies should have similar systematic risk characteristics to the project and so their betas



can be used as suitable surrogates or proxies.

2. Once the surrogate companies and their equity betas have been identified, these betas must be adjusted to allow for gearing effects (i.e. financial risk). This is because the surrogate companies' financing will be different from the financing of the company appraising the project and is therefore irrelevant. The formula to 'ungear' a company's equity beta was given earlier.

3. The next step is either to take an average of the ungeared proxy betas, or to select the proxy beta considered most appropriate, and then to regear to reflect the

financial risk of the company undertaking the project, using the formula utilized in step 2.

4. The regear beta will now reflect the business risk of the project under consideration, plus the appraising company's financial risk. This beta can now be inserted into the CAPM in order to yield a required rate of return which accurately reflects the systematic risk of the project.

The required rate of return calculated by this method represents the appropriate hurdle rate of appraising the new project if it is being wholly financed by retained earnings or by newly raised equity finance. If the project is being financed by a mixture of debt and equity finance, however, the required rate of return of equity may need to be used in conjunction with a weighted average cost of capital formula.



VALUATION OF INVENTORY - *By. T. Venkataramanujam*



Inventory (Stock)

Tangible property held for sale in the ordinary course of business, or in the process of production for such sale, or for consumption in the production of goods or services for sale, including

maintenance supplies and consumables other than machinery spares (the type of inventory depends up on nature of business).

Closing stock is to be ascertained every year which comprises of raw material, work-in progress, finished goods and miscellaneous items.

Value of closing stock is shown in the credit side of trading account and asset side of the Balance sheet. AS-2 prescribes the method of valuing the inventories and according to which closing stock is valued at the lower of historical cost and net realizable value (NRV).

FIFO (First In First Out) Method:

The actual issue of goods is usually the earliest lot in hand. The stock of goods on hand consists of latest lot.

LIFO (Last In First Out) Method:

In this method, issues are made out of latest lot and closing stock consists of Earliest lot. Practically this method is outdated and it is not prescribed in AS-2.

Average Price Method:

This method is very simple .All the different prices are added together and then divided by the number of prices.

Weighted Average Price method:

Under this method, using quantity purchased on lots as weights weighted average price is calculated and then closing stock is valued.

Adjusted selling price method:

This method is used widely in retail business or in business where the inventory consists of items, the individual costs of which are not readily ascertainable. The cost of the inventory is determined by reducing from the sales value of the inventory the appropriate % of gross margin.

Let us take an example and see how results vary under the different methods mentioned above:

Purchases

Date	Quantity (units)	Price per unit
Dec 4	900	5.00
Dec10	400	5.50
Dec11	300	5.50
Dec 19	200	6.00
Dec 28	800	4.75
	2600	

Issues

Dec. 5	600
Dec. 12	400
Dec. 29	600
Total	1,600

FIFO:

Closing Stock = 2600-1600 = 1000

It consists of:

800 units received on 28th Dec @ 4.75 = Rs.3800

200 units received on 19th Dec @ 6.00 = Rs.1200

Total value = Rs.5000

LIFO:

Closing Stock = 2600-1600=1000

It consists of:

900 units received on Dec4 @ 5.00 = Rs.4500

100 units received on Dec10@ 5.50 = Rs.550

Total Value = Rs.5050

Average Price:

Average price = $\{(5.00 + 5.50 + 5.50 + 6.00 + 4.75) / 5\}$ = Rs.5.35

Closing stock value = 5.35 x 1000 = Rs.5350

Weighted Average Price method:

Quantity(units)	Rate	Price Paid(Rs.)
900	5.00	4,500
400	5.50	2,200
300	5.50	1,650
200	6.00	1,200
800	4.75	3,800
2,600		13,350

Weighted average price = Rs.13,350/2,600 = Rs.5.135

Closing Stock value under Weighted average method = 5.135 X 1000 = Rs.5135



**LW 170.12.2008
UNION OF
INDIA v.
HARAMENDRA
TEXTILE
PROCESSORS
[(2008) 174**

**TAXMAN 571 (SC); JT 2008 (11) SC
255] Dr. Arijit Pasayat, Sathasivam
& Aftab Alam, JJ. [Decided on
29.09.2008]**

Central Excise Act, 1944 - Section 11AC - Penalty - Whether presence of 'mens rea' is required to justify penalty-Held, No. Issue : The questions which arise for determination in the instant case are: Whether section 11AC inserted by the Finance Act, 1966 with the intention of imposing mandatory penalty on persons who evade payment of tax should be read to contain 'mens rea' as an essential ingredient; and whether there is a scope for levying penalty below the

prescribed minimum limits.

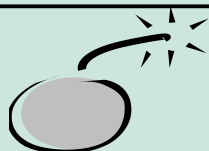
Decision & Reasons: It is a well-settled principle, in law, that the Court cannot read anything into a statutory provision or a stipulated condition which is plain and unambiguous. A statute is an edict of the Legislature. The language employed in a statute is the determinative factor of the legislative intent. In the Union Budget of 1996-97 section 11AC was introduced. It has made the position clear that there is no scope for any discretion. In Para 136 of the Union Budget, reference has been made to the provision stating that the levy of penalty is mandatory. In the notes on clauses also, the similar indication has been given.

Above being the position, the plea that the rules 96ZQ and 96ZO have a concept of discretion inbuilt could not be sustained. Dilip N. Shroff v.

Jt. Commissioner of Income Tax (2007 (8) SCALE 304) was not correctly decided but Chairman, EBI v. Shriram Mutual Fund & Anr JT 2006 (11) SC 164 has analyzed the legal position in the correct perspectives. The matter shall now be placed before the Division Bench to deal with the matter in the light of what has been stated above, only so far as the cases where challenge to validity of rule 96ZQ(5) are concerned. In all other cases, the orders of the High Court or the Tribunal, as the case may be, are to be quashed and the matter was to be remitted back to it for disposal in the light of the instant judgments.

*The author can be reached at
cakamalgarg@gmail.com*

Concluded



Jokes

Cricketer in Earth :

Will there be any cricket in the heaven.

Cricketer in Heaven:

I have two answers one good and other bad, which one first?

Cricketer in Earth:

First the Good one.

Cricketer in Heaven :

Yeah, here we have cricket.

Cricketer in Earth :

The bad one?

Cricketer in Heaven :

Tomorrow, you are the opening batsman.

= oo00oo =

Why did your sister cut a hole in her new umbrella?

Because she wanted to be able to tell when it stopped raining.

= oo00oo =

After a careful examination the doctor said, "I'm sorry to tell you that you've only got four hours to live.

Is there anyone you want to

see before you go?"

"Yes," answered the patient.
"Another doctor."

= oo00oo =

"Joey, can you come out and play?"

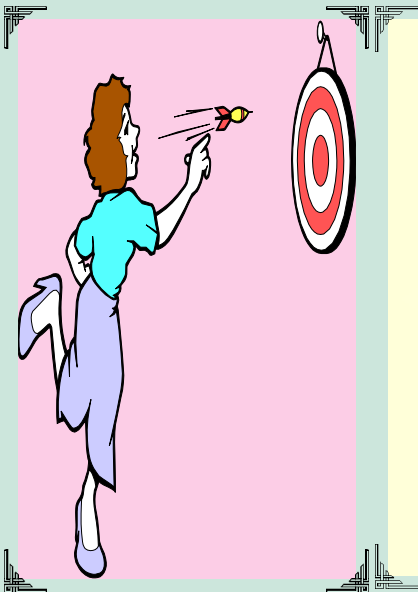
"No. I have to help my dad do my homework."

= oo00oo =



SMILE

Dart-Board



Last Week's Question:

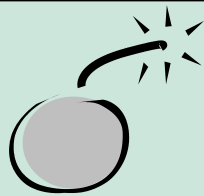
What do you mean by emotional quotient?

Our emotional actions and reactions affect who we are and control whether or not we are able to achieve our goals. For those who argue that IQ is a genetic gift that cannot be changed by life experience, the difference quite often lies in the abilities called emotional intelligence, which

include self control, zeal and persistence, and the ability to motivate oneself. Emotional Quotient Inventory is designed to measure a number of constructs related to emotional intelligence. A large part of our success in life is based on our EQ, our emotional quotient.

This Week's Question: What is the difference between present obligation and possible obligation?

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



J o k e s

At the airport they asked me if anybody I didn't know gave me anything.

Even the people I know don't give me anything.

= oo00oo =

GOPU:

My gold watch fell in this river.....

POGO:

.....Don't worry, I will take it my dear. (Immediately his friend jumped in to the river)

GOPU:

Not now my dear, I was about to that "My gold watch fell in this river once and I had taken it.

= oo00oo =

Irritated tenant to the land lord, "Look, the rain is simply pouring through the roof of my bed room."

Landlord: "Just as our contract says, running water in every room!"

= oo00oo =

Post Master in a post office told to a woman, "You have to put another stamp on this letter as it is too heavy.

The woman replied, "How would an extra stamp make it lighter."

= oo00oo =

Once a Sardar was walking

and had a glove on one hand and not on other so the man asked him why did he do so.

He replied that the weather forecast announced that on one hand it would be cold and on the other hand it would be hot.

= oo00oo =

Student:

I want to become a scientist like my father.

Teacher:

Is your father a scientist?

Student:

No, he also wanted to become a scientist like his father.



Continued from Previous Edition ...

SEITON

Seiton or orderliness, is all about efficiency. This step consists of putting everything in an assigned place so that it can be accessed or retrieved quickly, as well as returned in that same place quickly. If everyone has quick access to an item or materials, work flow becomes efficient, and the worker becomes productive. The correct place, position, or holder for every tool, item, or material must be chosen carefully in relation to how the work will be performed and who will use them. Every single item must be allocated its own place for safekeeping and each location must be labeled for easy identification of what it's for.

SEISO

Seiso, the third step, in 5S, says that everyone is a janitor. Seiso consists of cleaning up the workplace and giving it a shine. Cleaning must be done by everyone in the organization from operators to managers. It would be a good idea to have every area of the workplace assigned to a person or group of persons for cleaning. No area should be left uncleaned. Everyone should see the workplace through

the eyes of a visitor :: always thinking if it is clean enough to make a good impression and that too a lasting one.

SEIKETSU

The fourth step of 5S or seiketsu, more or less translates to standardized clean up, it consists of defining the standards by which personnel must measure and maintain cleanliness; seiketsu encompasses both personal and environmental cleanliness. Personnel must therefore practice seiketsu starting with their personal tidiness. Visual management is an important ingredient of seiketsu. Color coding and standardized coloration of surroundings are used for easier visual identification of anomalies in the surroundings. Personnel are trained to detect abnormalities using their five senses and to correct such abnormalities immediately.

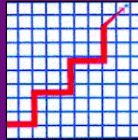
SHITSUKE

The last and final step of 5S, means Total Discipline. It denotes commitment to maintain orderliness and to practice the first 4 S as a way of life. The emphasis of shitsuke is elimination of bad habits and constant practice of good ones. Once true shitsuke is achieved, personnel voluntarily observe cleanliness and orderliness at all times without having to be reminded by the management.

5S BENEFITS

Many successful organizations have found that by developing a high quality work environment and instilling discipline in the form of procedures and work instructions, employees devoted more energy and time to achieve the desired results. The 5S practices not only help to impress the customers but also to establish more effective quality processes for good services and products.

(5 S PRACTICES :: taken from various sources/websites/colleagues)



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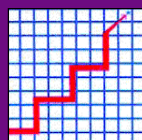
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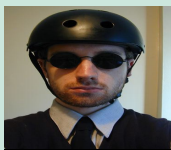
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The Helmet Farce

by Mr. L.N. Venkataraman

Some people feel with their heads and think with their hearts.

G.C. Lichtenberg

Lichtenberg made the statement in the 18th century when helmets were in use only for military purpose. Today it sums up the attitude towards helmet by the typical Indian two-wheeler rider on Indian roads. While the two-wheeler is on the road to a desired destination, the rider without a helmet is on the road to death. Everyone knows that a helmet is the safeguard for the head to avoid severe injury and to have a safe ride on the road. Yet people do not give consideration to the head, leave alone the helmet. Although some riders wear the helmet, it is a common sight on the bumpy Indian roads to see many not wearing it. Some adorn the flimsy cricket or a miner's helmet to avoid paying fine to the police.

Why such disregard towards the helmet? Is it uncomfortable to wear on the head? Does it hide the beauty of the face? Does it stop one from focusing on the road traffic? Does it bring bad luck? Is it cheaper to pay fines to police than buying a helmet? Is it indifference to life and death? Is it fashionable to remove this saviour of the head? Is it simply laziness? Is it too silly to discuss? Is it because the popular film star



in a movie shows acrobatics on a speeding bike without a helmet? These questions might appear ridiculous. The only way to convince on the merits of a helmet is to reason and logically persuade. Let us address the helmet issue on a more serious note.

The conventional helmet is externally made of polycarbonate plastic, fibreglass, or Kevlar with an inner liner usually made of expanded polystyrene or polypropylene foam. The outer shell is thin and hard while inner liner is thick and soft. The hard outer shell prevents pointed objects from puncturing the skull, and provides structure to the inner liner so it does not shatter on abrasive contact with static objects.

Accidents without the use of a helmet can result in grave injuries to the head including traumatic brain injury. Such an injury is much worse than a skull fracture. While fractures heal soon, neurological damage has a

rare chance to heal. The injury can result in permanent disability, personality change and even death. During an impact, the fierce acceleration causes the brain to move inside the head. The movement squeezes and stretches the brain tissues that can result in damage of blood vessels between the brain and skull. To expand the inertia of impact outward, helmets are made to break open to protect the skull.

The liner in the helmet helps to decelerate the head gently. However there is a limit to the thickness and softness of the liner. Too little liner would make the skull take most of the impact and too much would damage the skull within the helmet itself. The ideal thickness of the liner is 1-2 inches. The stiffness of the liner would depend on the speed of the impact. Obviously the manufacturer of the helmet cannot be sure of the speed of impact. As a result helmets are suitable only for certain speeds. Therefore it is advisable not to drive at high speeds.

As it is clear now, the helmet is not a mere headgear to wear just because the law demands it. It is a priceless possession as dear as your life. Make the helmet your life partner. It not only keeps you safe but also ensures security and peace for your loved ones. Think with your head and feel with your heart!