

Editorial👍

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Dreams of billions came true when A. R. Rahman was awarded the "OSCARS", we at e-senze wish to congratulate A. R. Rahman for this feat.

In his success he has shown humbleness. We should learn to be humble when we succeed. Being humble makes a person great. Success brings greatness.

**L. Muralidharan
& Editorial Team of e-senze**
Designed by: Mr. G. Natarajan



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Interest Rate Swap - By CA. L. Mualidharan

Interest rate swap is intended to hedge against the interest rate fluctuations to some extent through careful planning with the help of swap dealer.

An interest rate swap is an arrangement whereby one party exchange one set of interest rate payments for another. Most common arrangement is an exchange of fixed interest rate payment for another rate of over a time period. The interest rates are calculated on a notional value of principals. Provisions of a swap are:

1. The notional principal value upon which the interest rate is to be applied.
2. The fixed interest rate to be exchanged for another rate.
3. Formula type of index used to determine the floating rate.
4. Frequency of payments, such as quarterly or every six months is also agreed.
5. Life time of the swap.

Preconditions of Interest Rate Swap:



1. Term of the Loan shall be same for the parties to Interest Rate Swap.
2. Amount of loan shall be matching amongst the parties to Interest Rate Swap.
3. Rating system shall be present i.e., borrowers are discriminated by the bankers based on performance, risk associated with lending.
4. Borrowers have varied liking to the taking of loan such as fixed rate method and floating rate.
5. Swap dealer should be present to arrange a swap deal amongst the borrowers and financial institution.

Rationale behind choice of different methods of lending by the parties to interest rate swap:

1. Highly rated enterprises are risk seeking enterprises would be willing to choose riskier method of lending of floating rate.
2. NBFCs also prefer for the borrowings on floating basis as costs of others funds are predetermined and fixed.
3. Some of the manufacturing enterprises make their profits by working at great volumes. Great volumes can be achieved only when the setup is big. Huge capital is required to build big setup which in turn demand high borrowings level. When interest rates are hiked, much treasured profits of these enterprises will be wiped off in a stroke for companies preferring floating rate base. Manufacturing companies would normally be unwilling to take up on floating rate base. Obvious choice for such enterprises would be fixed rate basis.
4. Enterprises not highly rated cannot afford to take up riskier method of lending i.e floating.

The Indian Contract Act, 1972 - by Mr. S. Ramasubramanian



A contract is an exchange of promises between two or more parties to do, or refrain from doing, an act which is enforceable in a court of law. It is a binding legal agreement. That is to say, a contract is an exchange of promises and for the breach of which the law will provide a remedy.

AGREEMENT

Agreement is said to be reached when an offer capable of immediate acceptance is met with a "mirror image" acceptance (ie, an unqualified acceptance). The parties must have the necessary capacity to contract and the contract must not be trifling, indeterminate, impossible or illegal.

UNILATERAL MISTAKES

A unilateral mistake is where only one party to a contract is mistaken as to the terms or subject-matter contained in a contract. This kind of mistake is more common than other types of mistake. One must first distinguish between mechanical calculations and business error when looking at unilateral mistake.

For mechanical calculations, a party may be able to set aside the contract on these grounds provided that the other party does not try to take advantage of the mistake, or 'snatch up' the offer (involving a bargain that one did not intend to make, betrayed by an error in arithmetic, or something like that). This will be seen by an objective standard, or if a reasonable person would be able to know that the mistake would not make sense to one of the parties. Unless one of the parties 'snatched up' the one-sided offer, courts will otherwise uphold the contract.

Conversely, when a party is guilty of an error in business judgment, there is no relief.

MUTUAL MISTAKES

A mutual mistake occurs when the parties to a contract are both mistaken but about the same material fact within their contract. They are at cross-purposes. As such, there is no consensus ad idem, and this overlaps with the objective theory of contract, and there is no offer and acceptance. Hence the contract is void.

Collateral mistakes will not afford the right of rescission. A collateral mistake is one that 'does not go to the heart' of the contract, so to speak. For a mutual mistake to be void, then the item the parties are mistaken about must be material (emphasis added).

Mutual mistakes are rare, but they do occur. If there is a true mutual mistake, there is no contract, even though it may be said there was a meeting of the minds.

COMMON MISTAKE

A common mistake is where both parties hold the same mistaken belief of the facts. It is established from several cases that common mistake can void a contract only if the mistake of the subject-matter was sufficiently fundamental to render its identity different from what was contracted, making the performance of the contract impossible.

An invitation to treat is not an offer, but an indication of a

INVITATIONS TO TREAT

person's willingness to negotiate a contract. The display of goods for sale, whether in a shop window or on the shelves of a self-service store, is ordinarily treated as an invitation to treat and not an offer. The holding of a public auction will also usually be regarded as an invitation to treat.

REVOCATION

An offeror may revoke an offer before it has been accepted, but the revocation must be communicated to the offeree, although not necessarily by the offeror. If the offer was made to the general public, the revocation must take a form that is similar to the offer. However, an offer may not be revoked if it has been encapsulated in an option (see also option contract).

If the offer is one that leads to a unilateral contract, then unless there was an ancillary contract entered into that guaranteed that the main contract would not be withdrawn, the contract may be revoked at any time:

UNILATERAL & BILATERAL CONTRACTS

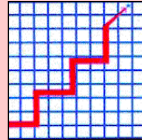
In a unilateral contract, only one party to the contract makes a promise and the requirement that acceptance be communicated to the offeror is waived. The offeree accepts by performing the condition, and the offeree's performance is also treated as the price, or consideration, for the offeror's promise.

If the offer specifically requests performance rather than a promise, a unilateral contract will exist.

A typical example is the reward contract: Amrita promises to pay a reward to Barista if Barista finds Amrita's dog. Barista is not obliged to find Amrita's dog, but Amrita is obliged to pay the reward to Barista if Barista finds the dog.

In this example, the finding of the dog is a condition precedent to Amrita's obligation to pay. An offer of a unilateral contract may often be made to many people (or 'to the world') by means of an advertisement. In that situation, acceptance will only occur on satisfaction of the condition (such as the finding of the offeror's dog).

A bilateral contract, is an agreement in which each of the parties to the contract makes a promise or promises to the other party.



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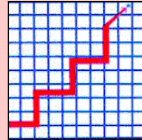
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The Divine Number

by Mr. L.N. Venkataraman

The world is so full of a number of things, I'm sure we should all be as happy as kings.

– Robert Louis Stevenson

Numbers make the world go round. The world may perish without love, but without numbers the world would be meaningless. Numbers help control our life beyond imagination. Computers process instructions in numbers. We communicate with phone numbers. Satellites are placed into orbit based on number calculations. Numbers decide Olympic medals. Exam marks are in numbers. Statistics help analyze society through numbers. We travel by bus route numbers. We identify our house or hotel room by door numbers. We do transactions by credit card numbers. We negotiate deals based on numbers. Currency is denoted using numbers. Numerology predictions are through numbers. Numbers give proportions in recipes. Medicines without dosage prove disastrous. Radio frequencies are in numbers. The more we think of it, the more are the uses of numbers. In short, numbers define our world.

Archaeologists have found bones with notches in Africa dated 37,000 years ago. This is the earliest known evidence of the idea of numbers. The Egyptians and Babylonians have followed the earliest recorded numerals in 3000 BC. They used symbols to represent numbers. Symbols were repeated for higher numbers. They



had special symbols for certain numbers. For Egyptians, a vertical finger was 10,000, a tadpole was 100,000 and a man with upraised arms was 1 million! Babylonian number system was a mix of base 10 and base 60. The Babylonians made an important advance in the history of numbers by developing a way of representing zero. They also made the occasional use of a minus sign.

The ancient man observed nature through the concept of numbers. The Sumerian, the Chinese, the Mayan and Aztec, the Hebrew, the Greek, the Roman and the Arabic developed their own number systems. The Sumerian number system was on base 60. The Chinese still have various numerical systems. Their systems have several symbols for zero. The Mayan and Aztec number systems were base 20. In Hebrew, the letters of the Jewish alphabet represented numbers. Earlier Greek system used the first letters of the number words to represent the numbers. The later Greek system used the letters of the Greek alphabet for numerals as in Hebrew. Roman

numerals are still in use today for purposes such as numbering appendixes in books and on watches and clocks. With Roman numerals, the advantage was that one had to memorize only a few symbols and their values. The Arabic numerals, 0, 1, ..., 9, now in wide use, are derived from Indian numerals. Since the Western Europeans learned about them from Arabic writers, they named it the Arabic system. This system started in 600 AD. Numbers have a unique history right from the introduction of irrationals, the unreal numbers, the logarithm, to Gödel's Incompleteness Theorem in 20th century.

In our everyday life we decide based on numbers, from deals with the servant to our visits to cinema halls based on distance, money and time. Would we be able to survive without the means to measure what we see and interpret? The answer is a definite 'No'! Numbers have remained so long that we take them for granted. They have been the backbone for the advance of man and civilization into science and technology. Man has been able to control his own acts of creation on this earth through numbers. The lesson to learn here is: what we cannot measure, we cannot control.

**The author can be reached at his
ID: lnvraman@gmail.com**

LW 168.12.2008

**INDUS VALLEY
PROMOTERS LTD. v.
COMMISSIONER OF
INCOME-TAX [(2008) 174
TAXMAN 516 (DEL)] Madan
B. Lokur & V.B.Gupta, JJ.
[Decided on 01.04.2008]**

Income Tax Act, 1961 – Section 68 – Cash credit – Share application money received from ‘S’ – Retained as such for years – No shares allotted – AO treated this as taxable income as unexplained cash credit – Whether correct – Held, Yes.

Brief Facts: During assessment proceedings of the assessee company, the Assessing Officer noticed an increase in its share application money account as compared to the preceding assessment year, and vis-à-vis the account as ‘S’, director of the assessee-company, it was noticed that a sum of Rs.11.82 lakhs had been received during the previous year, and that, in fact, no shares were allotted to ‘S’ during the previous year and the share application money retained the same form and character even in two subsequent years. Thus, the Assessing Officer treated that amount as unsecured loan and not as share application money and proceeded to test the credit on the touchstone of section 68. The assessee’s case was that all the amounts credited in the account of ‘S’ in firm ‘I’ in which ‘S’ in which ‘S’ was a partner, and that it had explained the source of amounts deposited in cash with ‘I’. As per enquiries conducted by the Assessing Officer, the address furnished by the assessee to be the



office of ‘I’ was not found to be correct. As no other evidence was produced by the assessee, the Assessing Officer held that source of the deposit had not been explained within meaning of section 68. He, therefore, added the said amount to the income of the assessee. On appeal, the Commissioner (Appeals) confirmed the order of the Assessing Officer. On second appeal, the Tribunal also held the same.

Decision: Appeal dismissed.

Reasons: No shares were allotted to ‘S’, director of the assessee company, during the year in question and for the subsequent two assessment years. Since the shares were allotted after enquiry done by the Assessing Officer, the amount of Rs.11,82,000 would be treated as unsecured loan. The perusal of the assessment order showed that the return of ‘S’ for the assessment year 1996-97 was filed as late as 31-3-1998 and same did not prove his financial capacity to deposit the huge amount of Rs.11,82,000. While no return was available up to the assessment year 1997-98, the return for the assessment year 1998-99 had been filed only when the enquiry started with regard to the deposit in the assessee. Therefore, ‘S’ was not an assessee on record at the relevant time.

The firm ‘I’ was not located at the given address, as was evident from the inspector’s report dated 13-7-2001. Only copy of account of ‘I’ was not sufficient to explain

the source and creditworthiness of ‘S’.

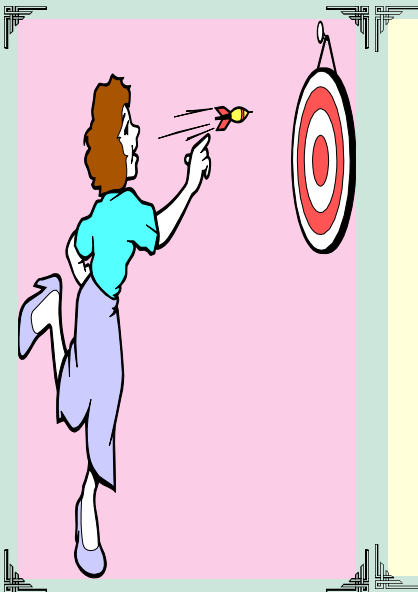
The main plank of the assessee’s argument was that the source of the source could not be examined. In the instant case, the revenue had seen through the ploy of the assessee where by substantial amount had been deposited in cash purportedly in the books of ‘I’, stated to be a partnership firm and from there the amounts had been withdrawn and credited to the account of ‘S’ in the books of the assessee. It was the case of the revenue that the same cash deposits could have been made in the books of the assessee and method of choosing the circuitous path was only an attempt to circumvent provisions of section 68.

The amount was deposited in cash and in spite of enquiry; its source was not explained. The creditworthiness of the said payment was not clear from the income shown by them. Therefore, the addition was to be confirmed. Since ‘S’ was a director in the assessee-company having a regular account, there was no reason to first deposit the cash in ‘I’ and thereafter transfer the funds to the assessee-company, when the initial deposit could have been made in the books of the assessee-company itself.

Thus, there was no infirmity in the reasoning given by the Tribunal by upholding the action of tax authorities in bringing to tax the sum of Rs.11,82,000.

**The author can be reached at
his gmail
ID: cakamalgarg@gmail.com
Continued in next edition**

Dart-Board



Last Week's Question:

What is the difference between merger and acquisition? Answer:

Merger

1. Merger happens when two firms agree to go forward as a single new company, rather than remain separately owned and operated.
2. Identity of Individual entity will be lost

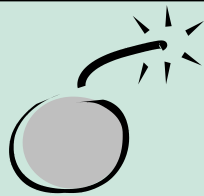
Acquisition

1. When one company takes over another and thereby established itself as the new owner it is called acquisition.
2. The buyer's stock continues to be traded.

This Week's Question:

What is the difference between BIN Card and Stores Ledger?

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J o k e s

Man 1: What is a adult joke?

Man 2: Any joke which is eighteen years old

= =oo00oo= =

Man 1: What's the time please ?

Man 2: It's 3:15 P.M

Man 1: I just wondering I have been asking this question to everyone and always getting a different answer!!

= =oo00oo= =

Man 1: Today I ran behind the bus and saved Rs 3.

Man 2: You fool, if you would have ran behind an auto, you could have saved Rs 30!!!

= =oo00oo= =

Once 200 sardars are killed in a train accident at the station. Only "Mr. X" left alive.

Station Master: How did this happen?

Mr. X: All the 200 people were waiting for the train. They were

standing on the platform. Then there was this announcement that the train is arriving on platform number 2. They got scared to know that the train is arriving on the platform and hence they jumped onto the tracks to save themselves. The announcement was misleading and the train arrived on the track and you can see the result.

Station Master: Well. I guess, you must be the intelligent. Why did you not jump onto the tracks?

Mr. X: I was actually trying to commit suicide. I was waiting for the train on the tracks. When I heard that the train is arriving on the platform, I climbed up.

= =oo00oo= =

Man 1: I got a new mobile

Man 2: What is your mobile number?

Man 1: Earlier it was Nokia 3310 Now it is 6610"

= =oo00oo= =

Interviewer: Imagine that you are in a closed room and all doors and Windows are closed, now how can u escape if the room caught FIRE?

Man: Very simple I stop imagining!!

= =oo00oo= =

Man 1: Why you are writing the exam near the door

Man 2: Because it is an entrance exam.

= =oo00oo= =

Man 1: For the past one week a girl is disturbing me.

Man 2: How?

Man 1: I don't know how she got my number. She interrupts me whenever I call someone and says "please recharge your card"

= =oo00oo= =



The theory of Capital Structure

The theory of capital structure is closely related to the firm's cost of capital. Capital structure is the mix of the long-term sources of funds used by the firm. The primary objective of capital structure decisions is to maximize the market value of the firm through an appropriate mix of long-term sources of funds. This mix, called the optimal capital structure, will minimize the firm's overall cost of capital. However, there are arguments about whether an optimal capital structure actually exists. The arguments center on whether a firm can, in reality, affect its valuation and its cost of capital by varying the mixture of the funds used. There are four different approaches to the theory of capital structure:

1. Net operating income (NOI) approach

2. Net income (NI) approach

3. Traditional approach

4. Modigliani-Miller (MM) approach

All four use the following simplifying assumptions:

1. No income taxes are included; they will be removed later.
2. The company makes a 100 percent dividend payout.
3. No transaction costs are incurred.
4. The company has constant earnings before interest and taxes (EBIT).
5. The company has a constant operating risk.

Given these assumptions, the company is concerned with the following three rates:

1.

$$k_1 = I/B$$

where k_1 = yield on the firm's debt (assuming a perpetuity)

I = annual interest charges

B = market value of debt outstanding

$$k_e = EAC/S$$

2.

where k_e = the firm's required rate of return on equity or cost of common equity (assuming no earnings growth and a 100 percent dividend Payout ratio)

EAC = earnings available to common stockholders

S = market value of stock outstanding

$$k = EBIT/V$$

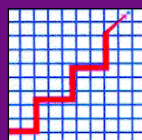
3.

where k_0 = the firm's overall cost of capital (or capitalization rate)

$EBIT$ = earnings before interest and taxes (or operating earnings)

V = $B + S$ and is the market value of the firm

In each of the four approaches to determining capital structure, the concern is with what happens to k_1 , k_e , and k_0 when the degree of leverage, as denoted by the debt/equity (B/S) ratio, increases.



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