

## Editorial .....

Dear Readers,



### Complacency

Complacency is good for personal life, but in work it is dangerous. Complacency in one's work reduces enthusiasm and develops over-confidence. There is a thin line of difference between calmness (cool) and complacency. In the recently concluded T20 world Cup, India failed due to its complacency. One should avoid being contempt or being self-

satisfied at their work, and instead should aim for improvement.

Happy Reading!

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

*Designed by: Mr. G. Natarajan*



## Index

CA - Final Page..... 2

CA - PCC Page ..... 3 & 4

Dart Board & Jokes ..... 5

CA - FINAL/CA-IPCC/PCC

CLASSES

IN FULL SWING

FOR REGISTRATION AND

MORE DETAILS

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published.



## Dealers' desk viewpoint

*Continued from previous edition*

The following are the list of cases wherein the banker would buy and sell whenever he enters transactions with the end users:

| Transaction (from the viewpoint of the banker)                           | Bankers commitment to its customer                                                                                                                                                 | Logic of bankers action and its impact in Nostro account                                                                                                                                      | How the action of a banker is called? | Will there be any time delay? |
|--------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|-------------------------------|
| Issue of DD.<br>Customer will deposit INR to take a DD denominated in \$ | Will issue \$ denominated DD with BOA cheque leaf. Just like businessman-having cheque leaves of his banker, in the same way our Indian bank will have cheque leaves of BOA issued | Since it had issued \$ and the end user would buy \$ from us, which will result in lowering of \$ reserve in our account with Bank of America Nostro. This will result in a debit in the cash | Banker sells \$                       | Yes                           |
| Forward purchases.<br>Customer would sell \$ and it is a bankers buy     | Banker has to take delivery the dollars upon maturity                                                                                                                              | The previous column itself is self-explanatory. Will have no impact immediately in the cash account. Will definitely have impact on maturity. The account will be credited on maturity        | Banker buys \$                        | Yes                           |
| Purchase of bills<br>Collection of bills in \$ and remittance in INR     | It will take delivery of bills and have to pay the customer in INR                                                                                                                 | The previous column itself is self-explanatory. Nostro account will be credited as our \$ position is up on purchases on maturity                                                             | Banker buys \$                        | Yes in case of usance bills.  |
| Forward sell                                                             | Banker will sell \$ upon maturity                                                                                                                                                  | The previous column itself is self-explanatory. Nostro account will be debited as our \$ reserve is depleting                                                                                 | Banker sells \$                       | Yes                           |
| Payment for DD.<br>Customer will deposit a \$ DD to encash in INR        | It is simply an action of purchases of \$ by the bank                                                                                                                              | The previous column itself is self-explanatory. Our Nostro account will be credited.                                                                                                          | Banker buys \$                        | No                            |



*Continued from previous edition...*

**LW 28.02.2009**

**LUDHIANA  
IMPROVEMENT TRUST v.  
TODAY HOMES AND  
INFRASTRUCTURE (P)  
LTD. [(2009) 1 COMP LJ 14  
(SC)] Altamas Kabir &  
Markandey Katju, JJ.  
[Decided on 14.10.08]**

Arbitration and Conciliation Act, 1996 - Section 11 - Appointment of arbitrator by court - High court appointed arbitrator and decided that the validity of the contract will be decided by the arbitrator- Whether correct - Held, No.

**Brief Facts:** The appellant awarded the bid to the respondent for the construction of the City Centers in Ludhiana. The respondent deposited certain security deposit with the appellant pursuant to the letter of intent. The appellant had also entered into a parttime agreement with the respondent and HDFC Bank under

which the entire proceeds of the booking for the areas sold received by the respondent was to be deposited in the escrow account with the bank. Out of this account 30% will be credited to the appellant's account and the

remaining 70% to the respondent's account. Respondent resorted to receive 70% of the bookings in cash and 30% in cheques so that only 30% of the bookings were deposited in the escrow account. On the basis of this under hand dealing on the part of the respondent disputes arose between the appellant and respondent. Respondent filed an arbitration petition before the court for the appointment of arbitrator and the appellant contested that since the contract was awarded on the basis of the fraud practiced by the respondent there was no valid contract and no arbitrator could be appointed. However, the court appointed the arbitrator stating that the question as to the validity of the contract will be decided by the arbitrator.

Appellant appealed to the Supreme Court. Decision : Appeal allowed and the matter remanded back to the High Court.

**Reasons:** We have considered the submissions of both the parties and have also considered the submissions that the issues which had been left undecided by the High Court could be decided in these proceedings itself. However, in our view, such a course of action would have been justified if after considering the submissions of the respective parties the High Court had arrived at a finding regarding the dispute between the parties.

Unfortunately, relying on the earlier Constitution Bench decision of the court in the Konkan Railway case (2002) 1 Comp LJ 393 (SC), supra, the High Court left it to the learned arbitrator appointed by it to decide the said issues under section 16 of the 1996 Act, which was contrary to the directions given by the seven judge Bench of this court in S.B.P. & Company v. Patel Engineering Ltd. and another (2006) 2 Comp LJ 7 (SC) : (2005) 8 SCC 618, which categorically overruled the decision of the Constitution Bench in the Konkan Railway case. In fact, in sub-paragraphs (10) and (12) of paragraph 47 of the said judgment, the seven Judge Bench specifically indicated that the orders which had already been passed in applications under section 11(6) of the 1996 Act, prior to the decision in the Patel Engineering (supra), would be treated as valid, leaving all objections to be decided under section 16 of the Act. It was also indicated that from the date of the judgment, however, the decision rendered in the Patel Engineering case (supra), would govern all applications and even pending applications under section 11(6) of the 1996 Act. We have, therefore, no option but to set aside the order of the Chief Justice and remit the matter for a fresh decision.

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**Continued from previous edition**

This income of an enterprise is the increase in its net assets (assets less liabilities) measured by the excess of revenue over expenses. The income of a corporation is not affected by the issuance, acquisition, or retirement of the corporation's own capital shares, adjustments of stockholders' interests or dividend distributions by the corporation.

**5. Accrual Basis of Accounting: [May 2001]**

1. Prepaid/Outstanding Expenses/Accrued/& unaccrued Income in Balance sheet: Under this basis, there may be prepaid/outstanding expenses and accrued / unaccrued incomes in the Balance-Sheet.
2. Higher / Lower income in case of prepaid expenses and accrued income: Income Statement will show relatively higher income.
3. Higher/Lower income in case of outstanding expenses and unaccrued income: Income Statement will show relatively lower income.
4. Recognition: This basis is recognised under the Companies Act, 1956.
5. Availability of options to an accountant to manipulate the accounts by way of choosing the most suitable method out of several alternative methods of accounting e.g., FIFO/LIFO/SLM/WDV: Under this basis, an accountant has option.

**Distinguish Between:**

Accrual basis of accounting and cash basis of accounting

Accrual Basis of Accounting - It is a method of recording transaction by which revenues, cash, assets and liabilities are reflected in the accounts in

- (i) Going Concern
- (ii) Consistency
- (iii) Accrual

**CHAPTER - 2****Write short notes on:**

1. Classification of accounts. [1993 - Dec]

Accounts are broadly classified into assets, liabilities and capital. The basic accounting equation specifies those broad categories, which are as follows:

- (a) Assets: These are resources controlled by the enterprise as a result of Past events and from which future economic benefits are expected to flow to the enterprise, namely cash, stock of goods, land, buildings, machinery etc.
- (b) Liabilities: These are financial obligations of an enterprise other than owners namely long term loans, creditors, outstanding expenses etc.
- (c) Capital: It generally refers to the amounts invested in an enterprise by its

owner(s), the accretion to it or a reduction in it.

Since capital is affected by expenses and incomes of revenue nature, there are two more categories of accounts namely, expense and incomes. The difference between incomes and expenses are taken into capital account.

- (i) Expenses: These represent those accounts which show the amount spent or even lost in carrying on operations.
- (ii) Incomes: These represent those accounts which show the amounts earned by the enterprise.

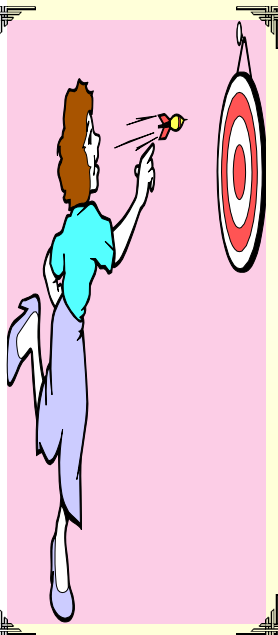
However, traditionally accounts are classified as follows

- (i) Personal accounts: These accounts relate to persons, institutions, debtors or creditors.
- (ii) Impersonal accounts: These represent accounts which are not personal. These can be further subdivided as follows:
  - (a) Real accounts: These accounts relate to assets of the firm but not debt e.g. accounts relating to land, buildings, cash in hand etc;

**To be continued in 32nd edition**

## Dart Board

**Answer to the previous edition's Question: Distinguish between Accrual basis of accounting and cash basis of accounting**



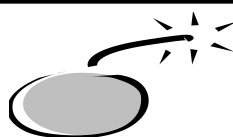
'Accrual system of Accounting' and 'Cash System of Accounting' are the two kinds of recording and maintaining the financial transactions.

| ACCRUAL BASIS<br>(OR MERCANTILE BASIS)<br>ACCOUNTING: | CASH<br>BASIS ACCOUNTING:                                    |
|-------------------------------------------------------|--------------------------------------------------------------|
| ➤ Revenues are recorded when they are earned          | ➤ Revenues are recorded when cash has been actually received |
| ➤ Expenses are recorded at the time they are incurred | ➤ Expenses are recorded when cash has been actually paid     |
| ➤ Actual payment or receipt of cash is not important  | ➤ Actual payment or receipt of cash is important             |

**Note:**

When compared with accrual, cash system is a much simpler form of accounting. Preferably small level organizations who cannot afford an accounting staff will adopt to use cash system. However, "Accrual" is one of the fundamental accounting assumptions. Therefore, if accrual system is not followed, then disclosure should be made compulsorily in the financial statements.

Send your queries and suggestions to : [joinsreeram@gmail.com](mailto:joinsreeram@gmail.com)



## J o k e s

A party of economists was climbing in the Alps . After several hours they became hopelessly lost. One of them studied the map for some time, turning it up and down, sighting on distant landmarks, consulting his compass, and finally the sun.

Finally he said, ' OK see that big mountain over there?'

'Yes', answered the others eagerly.

'Well, according to the map, we're standing on top of it.'

==oo00oo==

An economist was about to give a presentation in Washington, DC on the problems with Black-Scholes model of option pricing and was expecting no more than a dozen of government officials attending.

To his amazement, when he arrived, the room was packed with edgy, tough-looking guys in shades. Still, after five or so minutes into the presentation all of them stood up and left without a word.

The economist found out only later that his secretary ran the presentation through

a spell-checker and what was "The Problem with Black-Scholes" became "The Problem with Black Schools".

==oo00oo==

"Two policemen are considering the problem of catching the bandit. One of them starts to calculate the optimal mixed strategy for the chase. The other policeman protests.

'While we're doodling,' he points out, 'he is making his getaway.'

'Relax,' says the game-theorist policeman. 'He's got to figure it out too, don't he?'"

==oo00oo==

An econometrician and an astrologer are arguing about their subjects.

The astrologer says, "Astrology is more scientific. My predictions come out right half the time. Yours can't even reach that proportion".

The econometrician replies, "That's because of external shocks. Stars don't have those".

==oo00oo==

A man being interviewed for a job was

asked his name.

My name is Morris M. Morris he replied.

What does the M stand for?

Nothing he replied they just stuck it in to break the monotony.

Teacher: Can you tell me something about Raja Ram Mohan Roy?

Saradji: They were 4 best friends..!

==oo00oo==

Sardar Son: O God! Please make New York the capital of Punjab .

Sardar: Why are you praying for that?

Sardar Son: That is what I have written in my exam.

==oo00oo==

Sardar with a new mobile called everyone from his Phone Book & said "My MobileNo. has changed Earlier it was Nokia 3310 Now it is 6610"

==oo00oo==

How do you recognize a Sardar in School? He is the one who erases the notes from the book when the teacher erases the board.