Price ₹ 50

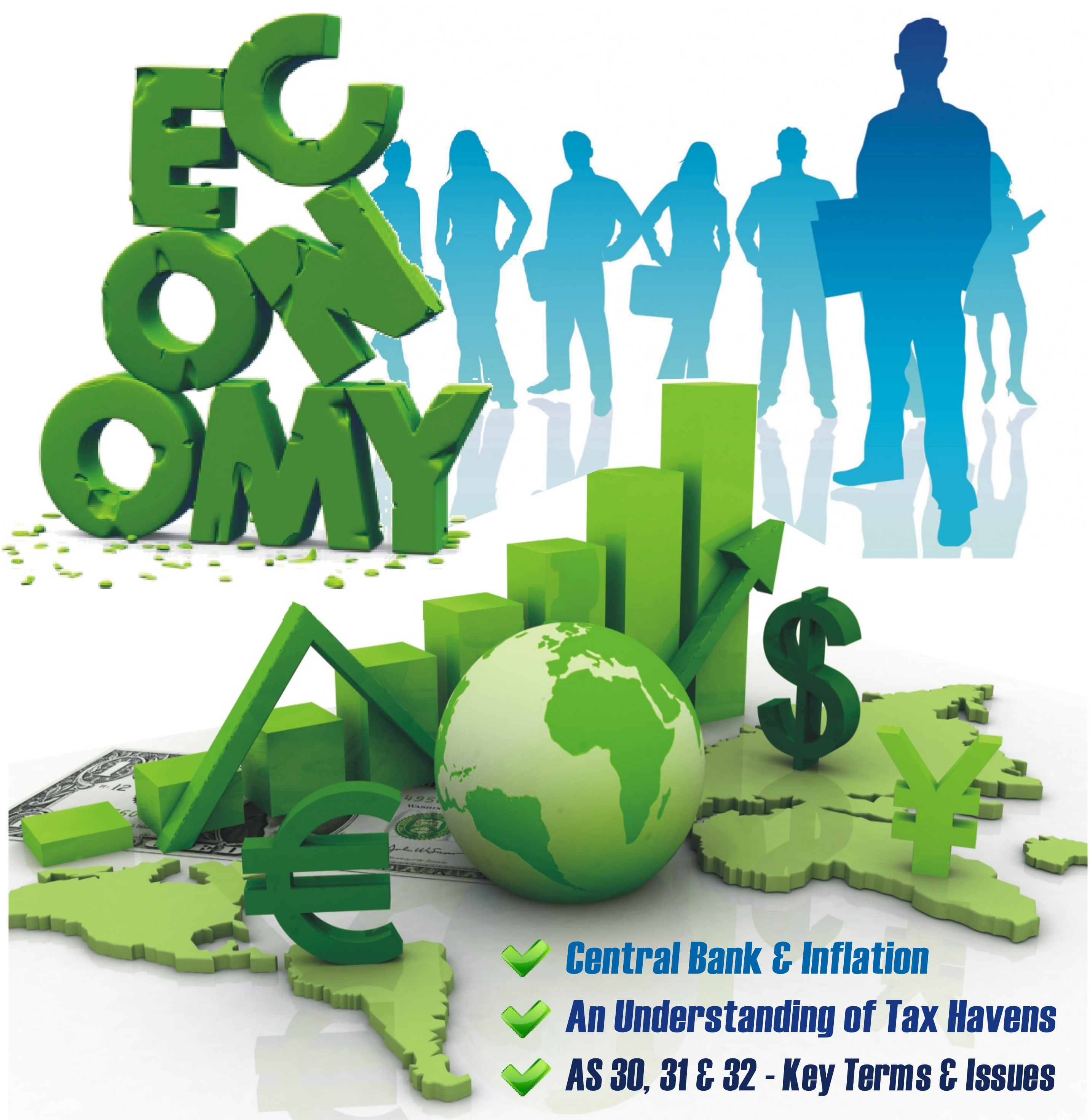
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

The Chartered Accountant Student

Your Monthly Guide to the CA News, Information & Events

STUDENTS' JOURNAL

December 2011 Vol SJ2 Issue 12 Pages 36



- Central Bank & Inflation
- An Understanding of Tax Havens
- AS 30, 31 & 32 - Key Terms & Issues

President's Communication

Dear Students,

Yet another year is coming to an end. It always amazes me how quickly time flies. It is really pleasant to communicate with you as you are all pumped up with renewed energy to celebrate Christmas, the festival of peace and jollity. I extend my best wishes to you for a wonderful Christmas.

As we approach the New Year, many of you must have started to consider one or more New Year's resolutions. You've done it before—probably many, many times—and the results have not been spectacular in terms of success. In fact, most of your past resolutions must have lasted maybe a week or two. Exactly the same thing happens to most of us, and for the same reason: the habit of deficit thinking. Deficit thinking is an ingrained habit of focusing on gaps and weaknesses instead of what's working (and can be made to work still better). It's focusing on what you can't do, not what you can. Instead of your dreams and ambitions propelling you forward, you let the gap between your current state and your desires become a source of disappointment and dissatisfaction. If you truly want to achieve success in life, you must give up the habit of deficit thinking and must have a positive approach and outlook towards life. You should channelise your resources in the productive direction and have firm faith in yourself. Similarly, you should focus on your strengths and work hard to pool up the synergies so derived to outshine in the Chartered Accountancy course.

The popularity of the accounting profession is growing along with the paradigm shift in our economy. The Chartered Accountancy Profession is very dynamic, demanding and rewarding. It is growing on stupendous scale and it has stretched its value added services in the wide spectrum. The students, the future torch bearers, are the key concern of the ICAI and it is our endeavor to provide them the best infrastructure, educational opportunities and exposure that would sharpen their skills and mould them into excellent professionals.

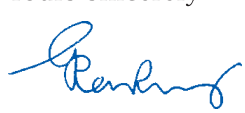
The professionalism instilled in our students has been due to the dual factors of theory and practical education. Our students have always been good at theory and academics. However, intelligent and efficient application of knowledge acquired is the demand of the day. What separates CAs from others is the practical training which enhances the skills of the CA students and gives them experience of real life application of theoretical knowledge. The ICAI in all its endeavours, ensures that the students develop into well-rounded professionals known for their all round ability.

I am happy to inform you that the Board of Studies of ICAI is organizing a two day National Convention for CA Students on the theme " Inspiring Excellence" on 12th and 13th December 2011. I can undoubtedly say that the theme of the forthcoming convention is very relevant in the context of today's national and global scenario. We have to keep the momentum of continuous exploration of different areas of knowledge and meeting the challenges ahead on a triumphant note. I believe that the conduct of this convention will be intellectually stimulating and worth participating for you. It will also be an excellent opportunity for all of you to interact with the keynote speakers, subject experts, eminent accounting professionals and other students participating from different areas of the country. I sincerely advise each one of you to actively participate in this knowledge-sharing event and the other conventions to be held at Bhubaneswar, Delhi and Faridabad in December.

Before winding up the message, I would like to welcome the new National Manufacturing Policy recently approved by the Union Cabinet. The policy has come at the right time when the global economy is slowing down and casting a black shadow on the Indian manufacturing sector also. The setting up of the National Manufacturing Investment Zones is surely an initiative with foresightedness. It will herald a new era of competitive growth in the country. The government will have to ensure appropriate financial support or adequate incentives to the private developers for the infrastructure development in the Zones for its successful take off.

Wishing you all the best for a wonderful time ahead

Yours sincerely



CA. G. Ramaswamy,
President, ICAI, New Delhi

Vice-President's Communication

My Dear Students,

The November 2011 examinations are just over and I sincerely believe that you all must have put in your best to crack your respective examinations. I am quite hopeful that you all will shimmer with resounding success. It is my firm belief that if all of you had put in your arduous efforts, it is going to be rewarded in a befitting manner. Now, after rejuvenating a bit, you must start thinking and act accordingly on achieving your professional endeavours. I am hopeful that you all will keep the spirits of positive attitude alive towards learning and uphold the rich values of the accounting profession.

As you know that Chartered Accountants are highly demanded professionals in any industry because of the fact that they can handle diverse specialized areas such as corporate accounting, taxation, finance, corporate laws and auditing. Thus, the present time is beckoning you to become all round professionals to face the global challenges very successfully. Moreover, the accounting profession demands ignited minds like yours that can spark brilliance and excellence. Prefixing 'CA.' with your name is an open admission that you have industry specific skills and experience, not just theoretical knowledge. The chartered accountants are respected everywhere for their understanding of complex financial information, and trusted for their strategic business advice.

I would like to tell you that the financial challenges that the corporate and other businesses entities facing today can only be resolved with the help of Chartered Accountants. In the present era of rapid globalization, the role of a chartered accountant has thus become more and more important. Now-a-days businesses cannot run without the consultation and guidance of chartered accountants and the impact of having financial guidance can be felt in almost all the corners of the world. So, it is very important for all of you to take the Institute's academic program blended with the practical training very seriously.

The society has increasingly recognized the services of chartered accountants in the entire gamut of management consultancy services. Apart from having business acumen and numerical ability, you should have good communication skills, objectivity, independence of thought and integrity to become a successful Chartered Accountant.

The Institute has always been proactive in its approach to upgrade the syllabus and training requirements of our students to keep them on par with the best of international practices. We always give thrust to provide a scheme of education and training that prepares the budding chartered accountants to face a vibrant and dynamic economy and its growing needs.

You are all aware that the Board of Studies organizes students' conventions, seminars, quiz and elocution contests in various regions from time to time in order to help you enriching your knowledge and sharpen your skills. I would like to urge you all to attend the upcoming conventions at Chennai, Delhi, Faridabad and Bhubaneswar in great numbers and derive benefit from the experiences.

I am also happy to share with you that for the benefit of CPT students, the Board of Studies has come out with the booklet "How to face Common Proficiency Test". This booklet will surely aid the students of CPT in cracking the test. I am also like to extend my heartiest greetings to all of you on the happy occasion of Christmas.

Wish you all the best

Yours sincerely

CA. Jaydeep Narendra Shah,
Vice President, ICAI, New Delhi

Chairman's Communication

My Dear Students,

Merry Christmas & A Happy and Prosperous New Year in advance. As the old year paves way for a new one, it brings with it the promises of a bright future, a fruitful career, professional fulfillment and a wonderful life. Communication is the lifeline of any relationship and when we stop communicating, we start losing our valuable relationships. So dear students, keep in touch. It is said two places are most valuable in the world. The nicest place is to be in some one's THOUGHTS and the safest place is to be in some one's PRAYERS. Dear Students, You are always in my thoughts and prayers.

POINT TO PONDER - TEN WORDS TO FOLLOW

The most selfish One Letter Word is "I" - Avoid it.

The most satisfying Two Letter Word is "WE" – Use it.

The most poisonous Three Letter Word is "EGO" – Kill it.

The most used Four Letter Word is "LOVE" – Value it.

The most pleasing Five Letter Word is "SMILE" – Keep it.

The Fastest spreading Six Letter Word is "RUMOUR" – Ignore it.

The most hardworking Seven Letter Word is "SUCCESS" – Achieve it.

The most enviable Eight Letter Word is "JEALOUSY" – Distance it.

The most powerful Nine Letter Word is "KNOWLEDGE" – Acquire it.

The most Divine Ten Letter Word is "FRIENDSHIP" – Maintain it.

SEIZE THE OPPORTUNITY

There is no security on this earth only opportunity. In life, three things never come back – a spoken word, a spent arrow and a missed opportunity.

When the mind is weak, the situation becomes a problem;

When the mind is balanced, the situation becomes a challenge;

When the mind is strong, the same situation becomes opportunity.

Always be strong and convert every situation into opportunity.

A Lucky Person is one who gets the Opportunity; A Brilliant Person is one who creates the Opportunity; A Winning Person is one who uses the Opportunity. Hence, stop thinking in terms of limitations and start thinking in terms of possibilities. Luck is the meeting point of preparation and opportunity.

PASSION & HAPPINESS LEAD TO SUCCESS

The words of motivator Mr.T.T.Rangarajan are wonderful to read. "***Extraordinary people are ordinary people who did everything with extraordinary passion".*** In the words of Winston Churchill, "***Success is the ability to go from one failure to another without loss of enthusiasm***". Happiness is a perfume; if you spray it on others you will get a few drops on yourself. If you make others happy then happiness will cling to you. If you can be the pain balm to the battered souls, rather than being the cause of headache, the world will come in search of you. It's never too late to richly live the moment you are in. Don't let regrets about the past destroy the unique opportunity you have right now. Happiness is something that comes into our lives through doors that we don't remember having left opened. Open your book of life only to some people. Because in this world, very few care about the chapter in the book, others are just curious to know the story. Keep the mind happy. We don't know if success gives happiness, but a happy mind can surely lead to success. ***"Never Regret - If it's good, it's wonderful. If it's bad, It's experience. No one can go back and change a bad beginning but you can start now and create a successful ending."***

POSITIVE COMMUNICATION & RELATIONSHIP LEAD TO A HAPPY LIFE

A good communicator not only knows what to speak, when to speak, where to speak, but most importantly knows when to be silent. Never judge a person by his previous or present status, because time has the great power to change inexpensive coal into a precious diamond. Never raise your voice. Just improve the quality of your argument and feel the difference. "***Nothing in nature is for itself. Rivers don't drink water, trees don't eat fruit, sun doesn't give heat for itself. Making ourselves useful to others is the way to live."*** Relationships and medicines play the same role in our life. Both care for us in pain. The only difference is, relationships do not have an expiry date. A happy relationship is made up of two good forgivers. Forgive what you cannot forget or forget what you cannot forgive. It is strange that 'Sword' & 'Words' are made up of the same letters, but even more strange is the fact that they have the same capacity to pierce & hurt. Be big enough to admit mistakes, smart enough to profit from them and strong enough to correct them. "***Care should be in heart and not in words. Anger should be in words and not in heart."*** This will pave the way for healthy relationship building and networking.

BREAK THE WORRY HABIT

"***Cold water and warm Iron take away the wrinkles from clothes; similarly a cool mind and a warm heart take away wrinkles of life."*** Being worried is like walking on a treadmill. It keeps us busy but it does not take us anywhere. Worrying does not take away tomorrow's troubles but it takes away today's peace. At the CA Institute I heard some students speaking worriedly about their performance at the recent exams gone past. They were ruminating about the outcome, their future and the possibility of having to re-write the exam at the next attempt. My school teacher once told me "***Do your Best and leave the rest to God!"*** Pondering over the past and being anxious about the "could have beens" is the quickest way to depression and unhappiness. The old oft repeated proverb ***don't cry over spilt milk*** is apt in this regard. A well- known legal maxim says ***"De minimis non curat lex"*** – The law does not concern itself with trifles, so too it should be with each and every one of us. We should not worry about trifles, but live life with all enthusiasm at our command. We always feel that God never comes on time when we call Him. The truth is, He is always on time, but we are always in a hurry.

WRAP UP POINT

A philosopher has described life as "Present continuous". It is an apt description of the journey we call life. We must enjoy the journey despite the pit falls, diversions, stops, earthshaking changes and events that come our way. As there is no night without day and no sunrise without sunset similarly there is no success without failure. I don't know what the future holds but I know who holds the future. The future belongs to Chartered Accountants. The future belongs to those who believe in the beauty of their dreams. Chartered Accountants are big dreamers not day dreamers.

When there is nothing to hide, there is nothing to avoid;

When there is nothing to avoid, there is nothing to hide;

When there is nothing to hide or avoid, then there is nothing to fear.

Wishing each and every one of you a life filled with Academic fulfillment, prosperity, a wonderful career and bliss at home.

With Warm Professional Regards,

Forever, yours in service,

(CA.V.MURALI)
CHAIRMAN, BOARD OF STUDIES, ICAI, NEW DELHI

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http://www.icai.org

Inside December

Annual Subscription Rates:

CA Students	:	₹	200
Members & Others	:	₹	500
Overseas	:	US $	100

Total Circulation: 1,88,446

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Editor: CA. V. Murali
Printed and published by Shri Vijay Kapur, on behalf of The Institute of Chartered Accountants of India, New Delhi. Published at the Institute's Office at Indraprastha Marg, New Delhi and printed at International Print-O-Pac Ltd., B-204, 205, Okhla Industrial Area, Phase-1, New Delhi. Cover Design : Sterling Preferred Printing, Dehradun.

An Understanding of Tax Havens

Hemali Deepak Thakkar

What Is Tax Haven?

A tax haven is any jurisdiction, being a state, a country or any territory, where any/ all taxes are levied either at a low rate or a nil rate. Also these jurisdictions offer secrecy in terms of amounts invested. This makes it impossible for any other jurisdiction to be aware of the amount invested, repatriated or received in such 'tax haven'. Thus, these jurisdictions are commonly referred to as "tax havens".

Most of the investors get attracted easily, though, to those established tax havens which have existed now for years and enjoy extreme protection through their inherent binding secrecy laws. Reduced or nil taxes make these very striking, causing a simulated tax war among nations. In such a case, varied jurisdictions attempt to create a tax haven for a few categories of taxes, or for certain types of transactions or entities. Another added beneficial feature that a tax haven offers is that even those individuals and businesses can take advantage of the same that do not reside within a tax haven, or operate also outside the jurisdiction to be doubly benefitted by its tax policies.

Characteristics of a Tax Haven

In absence of a method to find a comprehensive and inclusive definition of a tax haven, the U.S. Government Accountability Office, in 2008, pronounced the same by referring to the former's characteristics and features. The features mentioned are as follows:

- nil or nominal taxes
- lack of effective exchange of tax information with foreign tax authorities
- lack of transparency in the operation of legislative, legal or administrative provisions
- no requirement for a substantive local presence and self-promotion as an offshore financial centre.

Similarity among Tax Havens

Considering the fact that that it is barely possible to clearly and distinctly define a tax haven, it may be defined on basis of the benefits it offers. Following are some of the common features that all tax havens have to offer, and which seem to remain constant across such diverse jurisdictions:

- Stringent privacy laws
- Non-disclosure policies
- Non- release of account information to other governments and law enforcement agencies

- Absence of financial information exchange policies except where drug trafficking and terrorism are suspected with other jurisdictions.
- Legal system based on the British common law (generally)

Advantages of a Tax Haven

The reason that tax havens are so popular amongst investors is primarily due to the advantages that it offers. Among the numerous benefits, four must be specifically mentioned:

- **Negligibly low/ no taxes**

These jurisdictions are popular among investors essentially because they have negligibly low or no taxes. Majority of tax havens today offer 100% tax incentives on capital gains and inheritance gains. This makes them very luring and appealing to investors.

- **Holding Assets in other jurisdictions**

A portfolio of assets and/ or investments may be held in a tax haven, by a sham trust or company. This is a strategy often used by investors. The primary intention is to simply change the ownership structure, and bring the asset under such a jurisdiction with less or no tax on its holding, or transfer. For example, say 'A' owns an asset, which he transfers to a trust in a tax haven. Here 'A' would be the trustee, with beneficial ownership to him for life and nominee being his wife 'B', if she survives him. In this case, if 'B' survives 'A', the property would directly vest in 'B' without any liability of any sort of inheritance tax, which is generally leviable in most countries. This is an over simplified case study, but an example way too prevalent among investors, generally in case of intangibles.

- **Loan advancing and debt lending intermediaries**

One tax saving mechanism is that an entity 'A' may advance a loan to an entity 'B' in a tax haven, which is further advanced by 'B' to third entity 'C' at a very

The author is a member of the Institute (Mem. No. 141126) high rate of interest. This serves 'A's' purpose of advancing a loan to entity 'C', and pay tax on the low amount of interest that it receives from 'B'. The amount of interest 'C' pays to 'B' over the earlier said amount, gets away as tax free income.

- **Trading and other business activity**

When a particular business field or industry is indifferent to the location that it functions from, it may as well be set up in a tax haven to minimize not only the tax exposure, but also stay away from extensive and detailed registration and compliance procedures, which often have to be adhered to in most jurisdictions. An illustration could be taken wherein a company 'A' is set up in a tax haven that performs the re-invoicing function. This means that the said company merely charges a markup on the invoice, without any value addition to the concerned product or service. In such a case, since the profit markup is created in a tax haven, it reduces the margin of profitability that may arise in a non tax haven jurisdiction, in turn reducing tax chargeability in the high tax jurisdiction.

OECD & Tax Havens

The Organisation for Economic Co operation and Development (OECD) essentially follows a procedure of identifying a tax haven, on basis of the following three criteria:

- **Nil/ nominal taxes**

Tax havens offer nil/ nominal taxes, which are generally very low as compared to rates in non - tax haven jurisdictions, enabling them to escape taxes effortlessly.

- **Protection of information**

Tax havens offer strict financial secrecy laws and fortification against scrutiny by foreign tax authorities. This makes investing in a tax haven a very luring option.

- **Absence of transparency**

The OECD believes that there should be adequate transparency available such that laws should be applied openly, and information should be made available to other jurisdictions, in order to enable them to ascertain a taxpayer's condition. This feature is absent in a tax haven, thanks to its highly secretive laws and policies.

Countering Anti Avoidance

Legislations and laws have been enforced by various jurisdictions to counter the tax secrecy norms that are in vogue in various tax havens. Several legislations have been enforced by various governments to counter tax avoidance, some examples as below:

- **Income attribution to high tax jurisdiction**

Say entity 'B' has a controlled/ controlling entity 'A' in a tax haven, wherein it may be observed that entity 'A' makes huge profits, with no leviable tax thereon, and 'B' makes little/ no profit in a high tax jurisdiction. In such a case, the government, in the jurisdiction where 'B' operates, may attribute the entire profitability in its jurisdiction, declaring the entity in the tax haven (entity 'A' here) as a sham. The concept of Controlled Foreign Company (CFC) revolves around this, and is soon expected to be enforced in India, vide the proposed Direct Tax Code (DTC).

- **Strict Transfer Pricing Regulations**

Many jurisdictions are working on the path of countering anti avoidance better by enforcing strictly transfer pricing regulations, and tracking relevant OECD guidelines.

- **Withholding Tax Regulations**

Jurisdictions are ensuring strict enforceability of withholding tax regulations, whenever offshore payments are made.

- **Emigration charges**

Certain jurisdictions have also brought up a concept of emigration charges, which may also be understood as exit charges, payable when an individual or entity emigrates. This is to ensure taxability of unrealized capital gains.

- **Taxation of receipts**

Certain jurisdictions, like the EU, tax receipts plus an enhanced amount, to be taken as notional interest. This is to mirror the element of a deferred or late payment.

- **Blanket regulations**

Many jurisdictions however, simply levy tax on broad based rules, which are applicable in all cases, whether an avoidance of tax occurs or not. For example, in case of French security regulations, it is simply not possible to issue public bonds through an entity incorporated in a tax haven, irrespective of the fact that a tax avoidance has not occurred, and the revenue too is sure of the same. A blanket rejection is followed in such a case.

Conclusion

It may be appreciated that the idea of investing in/ through a tax haven may easily entice any taxpayer. However, various jurisdictions are working on nullifying the benefits they have to offer. The conclusion will depend on how convincible an assessee is to the concerned revenue that the idea of an investment in a tax jurisdiction is not to evade taxes.

***Disclaimer :** The views expressed in this article is that of the author and it has no bearing or influence on the Institute.*

The Central Bank and Inflation

Karan Saraf

It is yet another day for Sonali, at a small village near Bangalore. I enter her small clayed hut and notice a magnanimous change in consumption pattern. The amount of vegetables and pulses she uses to feed a family of 6 is so meager, that the same shall not be enough to feed a family of 2 at an urban household. A simple attributable reason, i.e. rising prices, a devoid and vast gap in income trends. The rich are becoming richer and richer and the incomes of the middle class and lower strata almost remain stagnant.

Inflation has been a persistent problem for the Indian economy for nearly six years and the Wholesale Price Index (WPI) inflation has been above nine percent for close to a year. A variety of factors which can be attributed to the same such as; supply bottlenecks, rising incomes, greater demand, and changing consumption habits. On a macro economic perspective a lot of factors and institutions play a vital role in control and supply of money and inflation control, however this article shall limit itself to the role of Central Bank i.e. RBI.

"*RBI on a rate hike spree*", a common headline during the recent months, RBI increased its lending rates for the 13th time in a row during its review of monetary policy. With almost no control on external factors such as oil price, falling rupee, demand and supply of food, the RBI has no other option but to pull up the domestic interest rate in its fight against inflation. However before looking at the nuances let's look upon the technical aspect behind the same.

Inflation is a sustained increase in the average price of all goods and services produced in an economy. Money loses purchasing power during inflationary periods. ***Inflation is a percentage change in the overall price levels between two periods measured by a price index***. *Long term inflation* occurs when the money supply grows at a faster rate than the output of goods and services. This is often described as "too much money chasing too few goods." Over a shorter term, inflation can result from various shocks to the economy, Food pricing, currency pricing etc shocks are common examples. ***India uses the Whole Sale Price Index method to calculate Inflation. However most developed countries use the Consumer Price Index method.***

WPI

WPI is the index that is used to measure the change in the average price level of goods traded in wholesale market. In India, a total of 435 commodities constitute the basket. This price index is available on a weekly basis. The Indian government has taken WPI as an indicator of the rate of inflation in the economy. As the name suggests it does not take into account the price at which consumers buy goods, but on the wholesale basis. ***Food Inflation is an element of WPI, i.e. a basket constituent of WPI.*** There has been a continuous debate as to the usage of WPI or CPI in the Indian economy.

Calculation of WPI

WPI is calculated on a base year and WPI for that base year is assumed to be 100. To show the calculation, let's assume the base year to be 1970.

Let's calculate WPI for the year 1980 for a particular commodity, say wheat. Assume that the price of a kilogram of wheat in 1970 = Rs 5.75 and in 1980 = Rs 6.10

The WPI of wheat for the year 1980 is,

(Price of Wheat in 1980 - Price of Wheat in 1970)/ Price of Wheat in 1970 x 100

i.e. (6.10 - 5.75)/5.75 x 100 = 6.09

Since WPI for the base year is assumed as 100, WPI for 1980 will become 100 + 6.09 = 106.09.

In this way individual WPI values for the remaining 434 commodities are calculated and then the weighted average of individual WPI figures are found out to arrive at the overall Wholesale Price Index.

Calculation of Inflation

If we have the WPI values of two time zones, say, beginning and end of year, the inflation rate for the year will be,

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(WPI of end of year - WPI of beginning of year)/WPI of beginning of year x 100

Since WPI figures are available every week, inflation for a particular week is calculated based on the above method. This is how we get weekly inflation rates in India.

CPI

It is a price index that tracks the prices of a specified basket of consumer goods and services, providing a measure of inflation. It also considers cost of living index. It is more individualistic than on a wholesome basis. Countries such as United Kingdom, United States adopt this approach towards inflation calculation.

What is BPS? (Basis Points)

It is an acronym for Basis Points and is used to indicate changes in rate of interest by the RBI. 1 basis point is equal to 0.01%. So when we say that repo rate has been increased by 25 bps, it means that the rate has been increased by 0.25%. (0.01*25)

Repo Rate

Repo rate or repurchase rate is the rate at which banks borrow money from the central bank for short period by selling their securities (financial assets) to the central bank with an agreement to repurchase it at a future date at a predetermined price. It is similar to borrowing money from a money-lender by selling him something, and later buying it back at a pre-fixed price.

Bank Rate

Bank rate is the rate at which banks borrow money from the central bank without any sale of securities. It is generally for a longer period of time. This is similar to borrowing money from someone and paying interest on that amount.

Reflections of Indian economy

The RBI being a singled caretaker from a policy oriented perspective has the task to control inflation, prominent amongst them being targeting the basics i.e. Rates at which it lends to other banks (REPO). Increases or decreases in the repo and reverse repo rate have an effect on the interest rate on banking products such as loans, mortgages and savings.

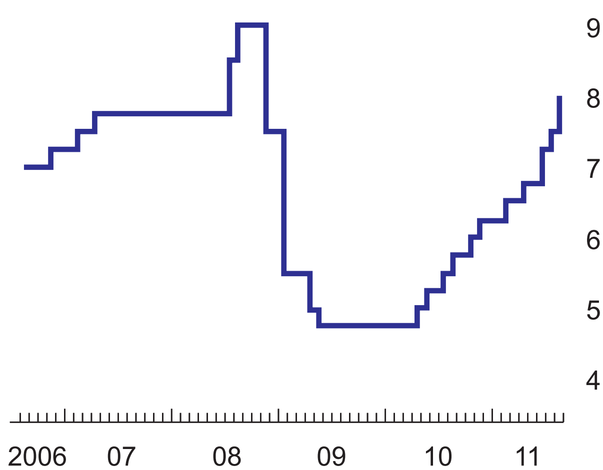
Inflation and Interest Rates

The concept Demand and supply prevail here. An increase in the REPO rates means increase in the cost of borrowing funds from the RBI. The resultant effect being lessened supply of money, as banks borrow less from RBI. Availability of money to the end consumer decreases because of high borrowing costs thereby reducing his demands. The resultant decrease in demand for goods and services results in fall of prices. This mechanism has to be looked upon from a macro economic perspective.

Indian economy is on an inflation surge phase now. The resultant graphical depiction shows the REPO rate movements over a period of time, thereby complementing RBI's stance to control Inflation. High inflation for a long period also risks damaging India's growth story.

Step Change

Reserve Bank of India repo rate, %



Source: Thomson Reuters

Global Inflationary Trends

Country	Inflation- Yearly Basis
Brazil	7.313 %
Canada	3.165 %
Great Britain	5.185 %
Greece	3.054 %
India	8.989 %
Japan	0.000 %
Russia	7.197 %
South Africa	5.699 %
United States	3.868 %
Europe	2.984 %
Great Britain	4.526 %

However a reverse trend is noticed in the developed economies and the western world. Bank rates there range from 1%-4%. Reason being, ensuring economic growth and avoidance of stagflation. There economic cycles resemble to have reached a stage of stagnation, example USA where annual growth forecasts remain close to 2-3% as compared to that of India and China (7-9%). One can say that inflation and economic growth are interlinked.

Summary of Other Central Banks' Interest rates

Region	Percentage
United States	1.000 %
Australia	4.750 %
Brazil	11.500 %
Great Britain	0.500 %
Canada	1.000 %
China	6.750 %
Europe	1.500 %
Japan	0.100 %
Russia	8.250 %
South Africa	5.500 %

The Reserve Bank of India, in its second quarter review of monetary policy, has extended its policy of monetary tightening by raising the repo rate by another 0.25 percentage point to 8.50 per cent. This is the 13th hike in policy rate since March 2010, which means the lending rates offered by banks will go up further. Already all kinds of loans, including housing loan, are costlier. Money has become more expensive now. The RBI has also freed rates on savings bank deposits, thereby giving banks self discretion in deciding the rate of returns to customers in raising funds from its cheapest sources of finances. However, each bank would have to offer a uniform interest rate on savings bank deposits up to ₹ 1 lakh, irrespective of the amount in the account within this limit. For savings bank deposits over ₹ 1 lakh, the banks can provide differential rates of interest. This stance may prove to be a costly venture for large scaled banks such as HDFC, State Bank etc which have a major proportion of deposits as compared to other banks such as YES bank, Kotak Mahindra Bank etc which have already increased rates offered on saving bank deposits to attract more customers.

The resultant impact shall have a fine balance between the costly sources of funds from the central bank as compared to encouraging customers pooling in more funds in the form of savings in the banks. This is evident from the fact that the Indian consumer is shifting its focus from low return generating traditional saving bank accounts to diversified nuances such as infrastructure, stock markets, inflationary hedges etc.

However RBI shall not be the sole runner in the race to control inflation. Increase in interest rates shall not be the only answer to this ever surging problem. One should also notice a changing trend; demand especially of food is exceeding the supply. Indian agricultural output is very volatile, partly because of poor infrastructure, bad supply chains, poor storage facilities, and the like. This means that changes in weather conditions or other factors affecting output can lead to really large price fluctuations Supply bottlenecks and changing patterns of consumption and habits go complementary. The increased gap between the rural and urban trend is forcing enhanced concentration towards the rural poor by introduction of various Public Distribution Schemes (PDS), thereby increasing the burden on urban consumers. RBI is aware of the fact that continuous rate hikes, thereby making finances costly may slowdown infrastructural development and impediment economic growth. However, it has adopted a tightened stand of not easing things until inflation is under control. Current forecasts for Inflation to ease down remain negative per se. The effect of rate hikes shall be a matter of time and one has to be observant. However, the government has committed itself to okay the supply bottlenecks and ease distribution to effectively target food inflation.

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AS 30 , 31 & 32 : Key Terms & Issues

Kangan Kapoor

In the continuously changing global industrial scenario, the global handshaking of Indian Economy with foreign entities/investors and rapid increase in cross border transactions has pave the way for many opportunities to knock Indian doors. Keeping above in mind, ICAI has emphasized that the Indian financial statements should have an international language. So, universally accepted reporting norms are perceived to ensure transparency in the presentation. A step towards this precision is AS 30, 31 & 32.

Introduction

Accounting is the art of recording transactions in the best manner possible, so as to enable the reader to arrive at judgments/come to conclusions, and in this regard it is utmost necessary that there are set guidelines. These guidelines are generally called accounting policies. The intricacies of accounting policies permitted Companies to alter their accounting principles for their benefit. This made it impossible to make comparisons. In order to avoid the above and to have a harmonized accounting principle, Standards needed to be set by recognized accounting bodies. This paved the way for Accounting Standards to come into existence. Accounting Standards in India are issued by the Institute of Chartered Accountants of India (ICAI). Objective of Accounting Standards is to standardize the diverse accounting policies and practices with a view to eliminate to the extent possible the non-comparability of financial statements and to establish the reliability to the financial statements.

Accounting Standards 30, 31 & 32 on Financial Instruments on recognition, measurement, presentation and disclosure issued by the Accounting Standard Board of the Institute of Chartered Accountants of India, comes into effect in respect of Accounting periods commencing on or after 1-4-2009 and is recommendatory in nature (or encouraged to follow) for all commercial, industrial and business entities. These standards are based on **International Accounting Standard 32, International Accounting Standard 39 & International Financial Reporting Standard 7** which are already issued by IASB (International Accounting Standard Board).

Objective

The objectives of these Standards are to establish principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items and offsetting financial assets and financial liabilities. These standards apply to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments.

AS 30, 31 & 32 deals with

- Financial Instruments
- Financial Assets
- Financial Liability
- Equity Instrument

Financial Assets: A financial asset is any asset that is:

1. cash;
2. an equity instrument of another entity;
3. a contractual right:
   - to receive cash or another financial asset from another entity; or
   - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
4. a contract that will or may be settled in the entity's own equity instruments and is:
   - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
   - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

- **It is categorized as Follows :**

At Fair Value through P/L : (a) These financial assets shall continue to reflect its value through P/L account. These are also known as held for trading.

(b) It is acquired /incurred principally for the purpose of selling or repurchasing in the near term.

(c) Part of portfolio of identified financial instrument that are managed together and for which there is evidence of recent actual pattern of short term profit making.

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(d) derivative

Held for Maturity (a) These are the investments held for long time period where the entity has intention & ability to hold to maturity. The Following are covered in it :-

(i) Non Derivative

(ii) Fixed or determinable payment

(iii) Fixed Maturity

(iv) Positive intention & ability to hold to maturity

Example : Government Bond, Debenture

Loans & Receivables : These are non derivative financial assets with fixed determinable payments that are not quoted in active market. These are originated by the enterprise.

Available for Sale : These are non derivative financial asset that are designated as available for sale ie not covered by any of the above heads. This category covers all the residuary financial assets.

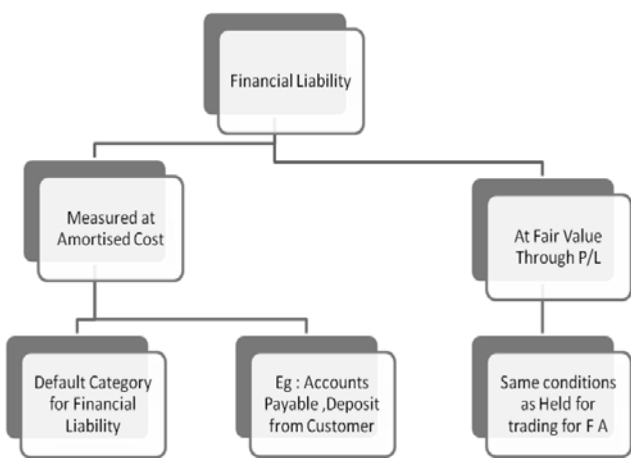
Financial Liability

Any liability that is a contractual obligation to

(a) Deliver cash or financial asset to another entity.

(b) Exchange financial assets or financial liabilities with another entity under

conditions that are potentially unfavourable to the entity



Equity Instruments : Any contracts that evidences a residual interest in the assets of an entity after deducting all its liabilities.

Offsetting of Financial Asset & Liability

A financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet when the entity

- Has a current legally enforceable right to set off the recognized amount and
- Intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Hedge Accounting : It means accounting for hedge instruments. Hedge means protection from losses arising from cash flow or fair value changes in hedged items. Hedge effectiveness is considered for disclosure purpose. Hedging for foreign currency items are called forward currency items.

Securitization : It is the process of converting financial assets such as debtors, loans receivables, hire purchase debtors, lease receivables, mortgage back receivables into securities

➢ Financial Assets are transferred fully or partly by the originator to Special Purpose Entity (SPE) in return for an immediate cash payment and for other consideration.

➢ SPE finances the transferred assets to it by issue of securities known as Pass Through Certificates (PTC) to investors.

➢ It is a tool of credit enhancement

➢ The originator may continue to service the securitized asset ie to collect the amount for borrower with or without service fees.

➢ The originator may agree to securities future receivable that is receivables that are not existing at the time of agreement but which would be arising in future.

➢ It can also be in form of revolving period securitization where future receivables are transferred as and when they arise or at specified intervals, the transfers being on prearranged terms.

Principal Strip : The right to the remainder of the financial asset net of all rights that have been stripped from by one or more contractual arrangement such or by an Interest Strip.

Interest Strip : A contractual arrangement to separate the right to all or part of interest due on debenture, bond, mortgage loan, interest bearing financial asset from the financial asset itself.

Servicing Asset : A contract to service financial asset under which the estimated future revenue from contractually specified servicing fees, late charges & other related revenues are expected to more than adequately compensate the services(who may be the originator) for performing the service.

A service contract can be either

(a) Undertaken together with selling or securitizing the financial asset being serviced

(b) Purchased or assumed separately

Example : Company A holds Rs 1000 of Loans yielding interest @ 18% p.a. for their estimated lives of 9 years. Considering the interest rate the FV of these loans ie estimated as Rs.1100. The company securitizes the principal component of loan & right to receive the interest of loan @ 14% to an SPE. The fair value of interest strip is Rs 60 & servicing the asset is Rs.40.

Solution: Calculation of Fair Value of securitized component of loan

Fair Value of loan	=	1100
(-)Fair Value of Interest Strip	=	60
(-)Fair Value of Servicing the asset	=	40
Fair value of securitized component of loan		1000

Apportionment of carrying amount on the basis of Fair Value

Particulars	Fair Value	Apportionment
Securtized Amount	1000	1000*1000/1100 = 909
Interest Strip	60	1000*60/1100 = 55
Service Amount	40	1000*40/1100 = 36
		1000

Profit on Securtization = 1000-909 = 91 to originator

Embedded Derivatives : It is a component of a hybrid (combined) instruments that also includes a non – derivative host contract with the effect that some of the cash flows of the combined instruments vary in a way similar to standalone derivative.

Derivatives : A financial instrument or other contract with all three of the following features :-

(i) Its value change with the change in the underlying variable. Eg Change in interest rates, commodity prices, foreign exchange rates etc.

(ii) It requires no or less or little initial net investment

And

(iii) It is settled at a future date

Example : A company X ltd in India sells product to a Japanese company payment to be received after 2 months. X ltd enters in another contract to convert Yen to Indian rupees at a fixed rate. It is a derivative as no initial investment is made, underlying variable is the rate & to be settled on future date.

Few Key Issues

- A preference share with fixed or determinable payment can be classified with loans and receivables by the holder instead of equity instrument if it is a non –derivative equity instrument not quoted in active market.
- If a company sell its held to maturity investment following a down grade of the issuers credit rating agency will not put to entity's intention to hold other investment of portfolio HTM. As Accounting Standard 30 specify a sale due to a significant deterioration in the issuer creditness could satisfy the condition in AS 30.
- Warranty obligation is not a financial liability as it is not to be paid or settled in cash or other financial asset. Hence to be paid in non- cash item.
- A guarantee to pay in cash is a financial liability.
- An illustration to identify/classify financial asset, liability & equity Instrument

Particulars	Class
(1) Redeemable Preference Shares	Financial Liability
(2) Redeemable Debentures	Financial Liability
(3) Convertible Preference Shares	Equity Instrument
(4) Callable Preference Shares #	Financial Liability
(5) Convertible Debentures*	Partly Financial Liability, Partly Equity Instruments
(6) Intangible Assets	Fixed Assets
(7) Land & Building/ Plant & Machinery	Fixed Assets
(8) Financial Lease Payments	Financial Liability
(9) Operating Lease Payments	Financial Liability

- Future Operating Lease Payments , Store & Stock are not a Liability.
- Gold & Bullion is a commodity. Although bullion is highly liquid, there is no contractual right to receive cash or another financial asset inherent in bullion. Hence not a financial instrument.

\# Date of payment is not fixed but such payment is fixed.

***Example** : A Ltd issued 10% convertible debentures of Rs 1000000 on 01.04.2005.Interest is payable annually. Debentures are to be converted on 31.03.2008. Similar debentures without conversion carry 15 % p.a. interest. Calculation of Equity instrument & Financial Liability

Solution : Splitting of financial Liability & Equity Instruments

Year	Cash Flows (₹)	PV Factor (@15 %)	Amount (₹)
1 (2005-06)	100000	0.869	86900.00
2 (2006-07)	100000	0.756	75600.00
3 (2007-08)	100000	0.658	65800.00
			228300.00

This value of ₹ 228300 is present value of ₹ 300000 which is fixed payment ie financial liability.

Equity Component = Over & above fixed Payment(Financial Liability)

1000000-228300 = ₹ 771700

- Whenever any financial instrument is to be recorded, it should be recorded at expected realization value.
- If any financial instrument is packed with any advantage, such instrument should be shown after splitting value of instrument and advantage.
- If any financial instrument is packed with cost of issue & redemption premium then effective rate of interest should be calculated.

Example (1) A ltd issued 10% debenture at par, redemption at par after 3 years

- Here neither any cost is involved nor any advantage. Hence neither splitting will be done nor effective rate will be calculated.

Example : 10% debentures issued at discount, redemption at par.

- Effective rate will be calculated as cost is involved.

Example : 10% debentures convertible at par.

- Splitted into financial liability & advantage by using ROI of similar debenture without advantage.

Example : 10% debenture puttable at par any time.

- Same as example 3

Example : 10% debenture callable & convertible issued at discount.

- Splitting will be done along with calculation of effective rate

Conclusion : AS 30, 31 & 32 put the financial Statements more comparable at International Level. These standards lay down the principle for presenting financial instruments and this Standard is to require entities to provide disclosures in their financial statements that enable users to evaluate:

- the significance of financial instruments for the entity's financial position and performance; and
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks.

Are you ready to send your e-mails?

Dr. N.K.Ranjan

Whenever there is a need to communicate and there is something ready to be communicated, we as senders of message must exercise our decision-making skill over selection of one among many channels available to us. In an increasingly developing and competitive scenario, information technology has also grown a lot, while markets have gradually experimented and adopted new media and channels for communicating with their customers and other stakeholders. There has been a plenty of changes and growth in communication technology and methodology. Normally, we are bound by the constraints of our context in making a choice of medium and channel of communication. We may have choices like face-to-face communication (in form of meetings, video-conferences, presentations, etc.), telephone calls, faxes, e-mails, letters, memos, etc. We may simply call our recipients over the phone or decide to e-mail the message to them. But this decision is important as far as the effectiveness of our communication is concerned.

Communicating Effectively

It is important to assess the situation and list the options available, and evaluate them and decide which medium and channel to use, as the format of communication has a strong role to play in inspiring our receivers to act the way we desire them to? While considering the available options in media and channels, we must consider if an oral presentation of our message would be a better and more effective choice.

Factors like senders' purpose (what we want to achieve or accomplish), receivers' characteristics (their

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preferences, needs, attitudes, etc.), content of our message, etc., must be considered in deciding the choice of medium and channel. While it is no surprise that there has not been any decline in the value of face-to-face communication as far as critical decisions and operations in industry are concerned, we must be pretty careful about our selection, which is a part of our communication strategy. Other factors that we could consider to make our message effective and achieve our purpose are *authorship* and *timing* of our communication. Once we are ready with the message, we must think on its authorship issue, i.e. who should be the author (sender) of this message, as position and stature of the senders sincerely affects the impact of the communication on the receiver. Imagine, the impact of a memo received from a boss, boss's boss, or, the CEO of a company—impact will be different in each of the above cases. Timing is another factor that adds to the effectiveness of a message. We have to be on time while communicating our message—neither early nor late—to create the desired impact on our recipients.

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Let me inform that all mediums, whether written or spoken, and channels of communication are important. But, the selection of one among the available ones must be based on our careful consideration of situation and available options, as appropriate channel essentially contributes to the success of our message's intention. Here in this paper, we would evaluation e-mails as a channel of communication and try to discuss its merits and demerits:

Case of E-mails

E-mails are quite a fast channel of communication, actually faster than we can imagine. It is quite cost-effective too, saving both time and money of the senders. It is quite easy to send an e-mail. It has become the most dominant method of communication of our time. We send push the send button and our message reaches our receivers in within seconds. But wait. The merits (its cost-effectiveness and speed in delivery) of an e-mail themselves pose threat to the effectiveness of this communication system.

Consider the following

I. *I was very angry with Asim, my subordinate. How could he do this? I wrote and sent my response immediately. Later when I received his apology, I realised it was not such a badly-managed job. I should have evaluated the situation properly. I was too emotional at the moment to analyse and think objectively about anything.*

Our messages are likely to be misunderstood. When we write our e-mails in an emotional state, messages appear emotional and justified to us, but the moment we read the same after a gap of, say, a couple of hours, the same e-mail appear either very dry and matter-of-fact or soppy and sentimental to us. Remember, there is no tone in any written channel including e-mail that helps in expressing emotions of the senders. Use of emoticons, nowadays available in e-mail, helps in expressing the same, but, at times, these are confusing too. Therefore, it is better to check out our e-mails for its effectiveness by reading it after some gap. In most cases, we will be surprised for sure to discover a meaning we never meant, or, never intended. A message as simple as *I will not come for the meeting* can have multiple interpretations, ranging from a simple denial, an inability, etc., to a hint at worthlessness of the meeting in question. It may simply express your disinterest in attending the meeting or our disapproval of the meeting itself. A simple denial to a query over an e-mail like *I do not know* can appear rude to our recipient. An appreciation like *you are great* can appear quite sarcastic too to our recipients, if they are not sure of the senders' standpoint. Even if the senders try to add further details, the whole message may appear ambiguous again; there is still a certain possibility of misunderstanding.

The bottom line is that e-mails must be read before sending to our recipients. We must read our e-mails getting into the shoes of our prospective recipients before pushing the send button.

II. *I am still waiting for Ratan's response. It has been more than three hours since I have sent him my query. My boss is waiting for my report, but it will be incomplete if I do not include the information I had asked Ratan in my e-mail.*

In an e-mail, there is an option to receive an acknowledgement from the receiver. But mind it, this is always optional, not mandatory, for a receiver and, based on his/her choice, we may or may not get the acknowledgement, i.e. we may never be sure that our e-mail has reached the supposed recipient, or, that our e-mail has been opened/read by him/her. The recipient, by choice, may or may not open the e-mail as per our requirement, or, to make the matter even worse, may or may not send us the acknowledgement of the receipt of the e-mail at all. Reason for not opening the e-mail may be a weak subject line, or, an unknown or less-known sender. Additionally, there are chances that our e-mails may land in the spam folders of our recipients. It will entirely be up to our receivers to accept that they have received our message. If we need an immediate feedback or confirmation, an e-mail is not a good idea at all. If something can not be conveyed over the phone like some finer or minute description about some place, person, or event, the same could be sent through an e-mail followed by a telephone call or personal visit/meeting as an additional but confirming action.

III. *I had written everything in my attachment named DOC 1. It is strange why Reshma did not even bother to open my attachment. Of course, I am angry because it is my loss eventually, as there has not been any action on my assignment, which should have been over by now. I am just disappointed. Anybody could see the attachment in an e-mail; it is not such a grave mistake if I did not refer to the attachment in my message.*

Remember, attachments are seldom opened. Description and reference to the attachment in the body of message is a must despite the fact the screen of the e-mail shows if it carries an attachment. Another important advice in this regard will be to name the attachment properly so that it indicates precisely the content that the attachment carries. Keep your main message always short and crisp. Depending on the presence of attachment, a reference to that must go in the body of message. Information that is additional but essential should be put in attachment, i.e. presence of attachment matter in the message itself will obstruct the flow of our message. If important and big, attachments can also be sent in hard copy, say, through courier to our recipients if they are not within comfortable distance. We can not expect our recipients to read large attachments on computer screen, which run in multiple pages. There could be a situation: we are calling our recipients for a meeting and we want them to read the attachment before they come for the meeting. Sending a hard copy of the attached soft copy will facilitate them in getting ready for the meeting.

IV. *This e-mail is not so important. I can certainly read it some other time, i.e. when I am relatively free.* I can assume this even without opening the body of the e-mail. It is quite simple.

As most communications are made through e-mail, as a result, we receive hundreds of e-mails daily. Normally we do not ready all our e-mails on daily basis while prioritising our preferences. We read some on the same day and leave some for some other days. How do we decide this? Everybody can answer this: we all decide this on the basis of either the sender or the subject line of the e-mails. Remember we had discussed in the beginning about the authorship issues that it is important to decide the better and appropriate sender of our communication. It is not important who has actually written the message. Our purpose is important eventually. As our CV (curriculum vitae) gets us an interview opportunity from the prospective employers, the subject line of our e-mail helps us similarly in getting us our recipients interested in reading the same. A strong and suggestive subject line helps in selling the message to its recipients. It must contain the key message of our communication what we want our recipients to do.

Consider the following two sets of subject lines:

A.

Confirmation required.
Confirmation required urgently.
Confirmation required today.
Confirmation required by 3 pm today.

B.

Regarding holiday
Office closed
Office closed tomorrow
Office closed tomorrow—sad demise of our CEO

Let us consider the above subject line options and we will agree for sure that all options under each of the two sets will affect the readability of the message differently. We ourselves could decide after going through the optional subject lines what an effective subject line can do to the e-mail's readability. Not only readability, these options will evoke responses with varying degrees of urgency. Decide your subject line first and do review that after writing your message if the same is appropriate and suggestive.

V. *Though I have read Mr. Saarswat's e-mail, I am not sure what he wants. Actually he is saying a lot of things in his e-mail. I am a little confused if he wants me to improve his matter or suggest him another project altogether. Mr. Saarswat should have been a little brief and direct.*

Normally it happens when we receive an e-mail that has more than one message (agenda) in its body. Recipients find it difficult to comprehend the e-mail and, therefore, to respond to such an e-mail in form of action that has multiple messages. It is always advisable to create a separate e-mail for a separate message, and this will make our e-mails simpler and effective helping our recipients ultimately what they are required to do and what we expect them to undertake. Imagine an e-mail that praises our action plan for its effectiveness and lists demerits too in the same e-mail. Recipients will get confused what they are supposed to do—to continue with or to change the plan. Imagine a message that appreciates our work and asks us to maintain the pace, and, at the same time, contains an additional and personal information that the next day is a holiday and that we should enjoy this break by watching a film. The irony in this situation will not allow us to forward this appreciation to our other colleagues, as reading the complete e-mail will dilute the message from our perspective.

VI. *I shouldn't have sent the e-mail. I was not ready and I did not realise that. Actually the message was not complete and it needed at least some editing. I realised this the moment I pushed the send button. I could not do anything after that than sending a following improved e-mail with the edited message and an apology for sending the last unedited e-mail.*

It happens with all of us. Solution is: instead of writing the address of our recipient first, we should write this in the last. We must start with a luring but honest and capable subject line which would, in fact, give us a right start. Moreover, since we will be writing the address only after we will finish with the writing of our message and subject line, we can avoid sending incomplete and unedited e-mails from our side.

VII. *I can not but appreciate Divakaran's writing skills. It is quite impressive the way he builds up his message and discloses the purpose of his e-mail towards the end. I wanted to take down certain points from his last e-mail, but I was running short of time. I could not read that. Reading his e-mails require a lot of patient time. I allowed myself to miss his perspective on the agenda relating to my assignment that I had to submit in time. I wished I could include his points too. I wish I could get to understand his points without actually reading the complete message.*

Although it appears to be the readers' loss if they are not able to read the required messages and get to understand the purpose behind that, it ultimately is the senders' loss because their purpose behind their communications which they desire to be undertaken by their receivers gets lost. It happens when we do not indicate clearly what we are writing about and why we are writing that. We as senders assume our recipients would be with our message till they finish reading the same. In face-to-face situations, we may ensure as exception that our message is completely heard by our recipients despite our delay in bringing the real agenda during the meeting. In all situations as a rule, key message has to be spelt out in the beginning itself without creating any suspense that may go against the senders' interests.

VIII. *I got a message from my boss. "Complete the job, NK, and bring that tomorrow." He wants me to complete some project, wait, wait… which one? Now, it is already 6.30 in the evening. He would not pick up his phone and he rarely checks his messages after 7. The situation is already bad for me. I am ready to work and I can not begin. I do not know what has to be done. It is really frustrating.*

It is actually a bad idea to assume the knowledge of our recipients that our recipients will know the context of our e-mail. How can we be sure if they are tuned in to our attitudes? Our assumptions in e-mails make our communication incomplete and inadequate. It is a straight violation of content principle of communication. Required content must be communicated—neither less nor more. Ultimately, an incomplete message would result in our loss if our recipients do not respond according to what we want them to do.

NB: It is necessary to understand how, when and who to mark a copy, i.e. Cc, of the e-mail. Unless another person really needs to know and the actual receiver of our e-mail is comfortable sharing the information with that person, it will never be a good idea to mark a copy of the e-mail to some other receiver. In fact, we do mark a copy strategically if, for example, we have an agenda to put pressure on our receiver that somebody else also knows about my request. However, it is completely unethical to mark a blind copy of the e-mail to somebody. If at all needed, a sent copy of the e-mail could be forwarded later or the person could be called up and informed about the matter separately. Imagine if our actual receiver comes to know of our Bcc work later, it will prove to be fatal for the relationship of trust between us and our recipients, and we naturally would never ever want this to happen.

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Price–to-Earnings Ratio and its Variables

CA. Praveen Sharda

Part I

Stock market analysts employ several valuation tools to compare the present and future values of equities and markets. The single most familiar tool used by stock analysts is the Price-Earnings ratio or PE multiple. Its inverse, the Earnings Yield, is an equally important ratio. Both ratios can be calculated on a historical or a prospective basis.

PE ratio relates stock price to earnings, i.e. market price per share divided by earnings per share. It is an important valuation ratio used by analysts to measure how cheap or expensive a stock is. PE ratio is a good tool to value the stock of a company which has a fairly steady stream of earnings.

The denominator, the EPS, is usually for trailing four quarters. Since market price changes everyday, the PE ratio will change regularly.

What PE ratio signify

PE ratio tells us as to how many times a stock quotes as a multiple of its earnings per shares (EPS). A PE multiple of 20 indicates that at current EPS, it would take almost 20 years for the sum of earnings to equal share price. In other words, an investor would be able to recover its cost of investment in 20 years if dividend payouts equaled earnings. This assumes that investors value dividends only leaving out appreciation in share value. In short, PE multiple indicates the pay-back period (time required to recover initial purchase cost) to the investor. It reflects the future earnings potential of the company.

In other words, PE multiple of 20 means that an investor is willing to pay ₹ 20 for a rupee earned per share. A decline in PE multiple, say from 20 to 15 because of market meltdown or for other reasons, indicate that an investor is now willing to pay only Rs.15 for the same stock for a rupee earned per share. This de-rating may be because of change in fundamentals of the company.

Investors value companies based on potential growth. A higher PE multiple imply that investors are expecting significant growth in earnings rate which would enable him to recover his investment in less number of years.

The Denominator: Basic and Diluted EPS

Listed companies are required to disclose on the face of the income statement the basic and diluted earnings per share. Diluted earnings per share factor in potential equity shares arising from exercise of options or on conversion of warrants, debentures, preference shares, etc. PE multiple being a forward looking statement, it is advisable that one considers diluted earnings per share in its calculations.

Listed companies are also required to annex consolidated financial statements. It would be prudent to use consolidated earnings in calculating EPS as that would capture the overall performance of the company along with its subsidiaries and associates.

Projected Market Price Per Share

PE ratio is commonly referred to as a PE multiple because when the current PE is multiplied with the future EPS, one gets the projected price of the share. This is often the route adopted by analysts to arrive at the expected price. Investors rely on PE ratio to base their investment decisions in the equities. Thus,

Projected Market Price = Current PE Multiple x Projected EPS

Determinants of the PE Ratio

Statistically, there exists a strong correlation between stock price and the EPS. The company which is able to grow headline earnings per share in a sustainable way attracts market fancy, i.e. higher PE multiple. Headline EPS excludes non-trading, capital and certain extra-ordinary items from its calculations.

There are two major drivers of growth in EPS. These are:

(a) Plough-back Ratio, and

(b) Return on Equity (ROE or RONW).

A. PE Multiple and Plough-back Ratio

The Gordon Growth Model assumes that the dividend per share grows at a constant rate (g). This is possible when there is growth in EPS and the company follows a consistent dividend pay-out ratio.

The author is a member of the Institute (Mem.No.070128)

Retained earnings are one of the important sources of finance. It imparts stability and flexibility to the company. However, a company would be adding value only when it is able to earn a rate of return greater than the opportunist cost of withholding profits. This is illustrated in TABLE – 1 below. For the sake of simplicity, ROE (at 30 %), plough-back ratio (at 67 %) and dividend payout ratio (at 33 %) is held constant.

TABLE - I

Particulars		**Year-I**	**Year-II**	**Year-III**
No. of shares outstanding	(Nos.)	10	10	10
Face value per share	(₹)	10	10	10
Equity Share Capital	(₹)	100	100	100
Retained Earnings	(₹)	-	20	44
Net Worth	(₹)	100	120	144
Return on Equity	(ROE or RONW)	30%	30%	30%
Earnings attributable to Equity Shareholders	(₹)	30	36	43.20
Earnings per Share	(₹)	3	3.60	4.32
Dividend Pay-out	ratio	33%	33%	33%
Dividend payout	(₹)	10	12	14.26
Plough-back Ratio		67%	67%	67%
Retained Earnings	(₹)	20	24	28.94

From Table – I it is clear that retained earnings if deployed profitably shall lead to increase in EPS which will eventually get reflected in the higher market price of the share.

B. PE Multiple and ROE

A person would invest if the investment provides him the required rate of return ®. He would shun an investment which does not yield the desired rate of return. The required rate of return is dependent upon the riskiness of the investment. Equity shares are the most risky form of investment. Obviously, an investor would require a rate of return higher than that offered on risk-free investment so as to compensate him for assuming risk while investing in equity shares. This is the cost of equity share to the Company (Ke).

The cost of equity (Ke) under the Gordon Growth Model (it assumes that the dividend per share grows at a constant rate) is equal to sum of the current dividend yield and long-term dividend growth rate. Thus,

$$Ke \; \frac{D}{PO} + g \qquad \text{.....Eq\^{}.1}$$

Where, Ke - equity capitalization rate (or, required rate of return, ®)

D - dividend one year hence

Po - current market price of share

g - growth rate in earnings and dividend

We can find price of the share if the value of other three variables are given. Thus,

$$P = \frac{D}{Ke - g} \qquad \text{.....Eq\^{}.2}$$

If the company distributes all its earnings by way of dividend (100 per cent pay-out), there are no retained earnings. It implies no growth in earnings and dividend. However, if a part of the profits are ploughed-back and the company is able to earn a rate of return (r) equal to its ROE, there is growth in earnings per share and dividend even if dividend pay-out ratio remains constant. Refer Table –I. Therefore, growth is the multiple of plough-back ratio (b) and return on equity (ROE). Thus, g = ROE x b

We know,

Dividend (D) = EPS - EPS x Plough-back ratio

= EPS (1 – Plough-back ratio)

Or simply, D = E (1 – b)

Substituting the value of g and D in equation 2, we get

$$P = \frac{E\,(1 - b)}{Ke - (ROE \times b)}$$

Or

$$\frac{P}{E} = \frac{(1 - b)}{Ke - (ROE \times b)} \qquad \text{.... Eq\^{} 3}$$

The above equation gives the determinants of P/E ratio. These are plough-back ratio and ROE.

Influence of ROE on PE Ratio

PE ratio is greatly influenced by ROE. If ROE is greater than ® - (required rate of return), then an increase in plough-back ratio (b) will lead to an increase in PE ratio. If ROE is equal to r, then an increase in b has no affect on PE ratio. If ROE is less then r, an increase in b will lead to decrease in PE ratio.

Suppose the investors required rate of return (r) for investment in equity shares of the risk class is 25 per cent. The company visualises three scenarios wherein it anticipates its ROE at 30 %, 25 % and 20 % and the plough back ratio is expected to increase from 67 % to 83 %.

On substituting the said values in equation 3 given above, PE multiple for the three scenarios is given in Table – II.

TABLE – II

Scenarios	Plough-back Ratio	
	Equal to 67%	Equal to 83%
The price-earnings multiple :		
A. When ROE is greater than r (i.e. ROE >r)	6.73 times	17 times
B. When ROE is equal to r (i.e. ROE=r)	4 times	4 times
C. When ROE is less than r (i.e. ROE<r)	2.84 times	2.02 times

Thus if ROE is greater than r, an increase in plough-back ratio has positive impact on PE ratio. If ROE is equal to r, an increase in plough-back ratio has no affect on PE ratio. If ROE is less than r, an increase in plough-back ratio shall adversely impact PE ratio.

PART II

Factors influencing PE multiple: cause, effect and correlation

Growth expectations are definitely the most important factor that derives valuation. However, other factors also influence PE multiple. These are summarised below:

A. PE Multiple and Risk

Investors are basically risk averse. They expect a higher rate of return ® for riskier stock. It results in risky stocks being quoted at low PE multiple. This is clearly exemplified by Gordon Growth Model formula. Refer equation 3 above. Thus, higher ® would result in lower PE multiple.

B. PE Multiple and Liquidity

Money supply (liquidity), or lack of it also influences PE multiple. Liquidity encourages excessive risk-taking and fuels demand for stocks. It is a case of too much money chasing too few goods. The imbalance in demand-supply equation put pressure on equity valuation.

C. PE Multiple and Interest Rate

When the system is flushed with liquidity short-term interest rates fall. And, if the situation persists, long-term interest rates also start softening.

The expected rate of return on equity shares is dependent on interest rates. When interest rate rises, the expected rate of return on all securities including equity shares shall rise, pushing securities price downwards. When interest rate falls security price rises. High bond yields and high PE ratio cannot co-exist. Hence, there is inverse relationship between PE ratio and interest rates.

D. PE Multiple and Large Cap v. Small Cap

Traditionally, large-cap stocks (being highly liquid) are associated with a comparatively lower-risk of erosion in valuation and hence, are considered safe. These are highly respected companies and occupy a unique position in the industry. Therefore, they command high PE multiple. Mid and small cap stocks carry higher earnings risk and are illiquid. They are considered riskier than large-caps and, therefore, command a low PE multiple.

When small-cap stocks quote at a high PE multiple as compared to large-cap stocks it is often a case of aberration. A high PE multiple is justified when companies report better earnings visibility, earn a superior return on equity (ROE), and there is increasing depth and liquidity in the market.

E. PE Multiple and State of Economy

Stock markets follow secular bull and bear cycles. When the economy is in a virtuous circle people are euphoric and are willing to pay more for a stock even if valuations are high. Irrationality creeps in and company's command a record high PE multiple. Alan Greenspan called it "Irrational Exuberance". In period of correction such stocks take a severe beating even if earnings estimates have not changed.

When there is downturn in economy, it creates a crisis of confidence on the industry's ability to sustain growth and profitability. Market hammers down stock prices whenever there is a slowdown in earnings growth.

F. PE Multiple and Inflation

A mild inflation (like normal blood pressure) is good for economy. In periods of stability everybody prospers. However, after a point, it becomes a menace. It threatens to disrupt the growth momentum. It is no denying the fact that the phenomenal rise in inflation slows down the growth rate of the economy. Being economic barometer, the stock markets reflect the stress faced by the economy. Valuations are under pressure.

Re-rating of Companies

A company may emerge from the shadow of sectoral leader and stake claim at No.1 position. This happens when there is change in business fortunes, consolidation and re-organisation of business and acquisitions. A change in market leadership often results in ' value migration'. The market leader gets the highest valuation and PE multiple.

Growth Stocks vs. Value Stocks

Growth stock normally command high price-to-earnings ratio. A growth company would invest a part of the profits in financing its expanding business operations. High return on net worth / equity (RONW or ROE) will result into higher EPS which in-turn will automatically translate into higher stock price. Investors are willing to pay a high price because they strongly believe in the company's growth potential. As long-term investors they are not unduly perturbed of the temporary disruption in the growth cycle. High PE means the market is pricing in a lot of growth for the next two or three years.

A stock which is available at a deep discount to its intrinsic value is a value stock. A value stock is typically quoted at low price-to-earnings ratio. A value stock is created because of aberrations caused in the short term.

Just because a stock which was commanding a PE multiple of 30 and is now available at PE of 15, that does not mean that it is a value proposition. One must look for reasons leading to de-rating of stock.

PE Multiple and Dividend Yield

High price-earnings ratio mean low dividend yield.

Part III

Limitations of PE Ratio

PE ratio by itself cannot be a good valuation tool. It is useful tool of valuation for steadily growing company and which enjoys steady profits. This tool has its own defects.

1. The price-earnings ratio cannot be computed of a company which has not earned any profits. It bypasses investment opportunities in companies that are making losses and are on verge of a turnaround.

2. Companies that are just out of the red would initially command high PE multiple. Investors would shun those stocks perceiving them to be very risky.

Because of its serious limitations, stock analysts employ several other valuation ratios. Prominent among them are :

(a) Price-to-Earnings Growth (PEG) Ratio;

(b) EV/EBITDA Ratio;

(c) Earnings Yield Ratio;

(d) Price–to-Book Value Ratio;

(e) Dividend Yield Ratio;

(f) Economic value Added (EVA);

Interpretation of PE Multiple

A company with low PE ratio or a high PE ratio does not mean that the company is undervalued or overvalued. In this information age, a company's valuation is more dependent on its holding intellectual property. Still PE is important to predict the position of a share with regard to its valuation. This ratio shows the kind of price that investors are willing to pay for each rupee of earnings. A high PE does not disqualify a company from being a good investment, rather it warrants an exercise of caution.

PE ratio is industry specific. It would be different for different sectors of the economy depending upon which sector is performing better. It keeps on changing over a period of time. Thus one must exercise caution when comparing PE of two companies which belong to two different sectors.

Even different companies within a sector may have different PE ratio as compared to the average of the sector. Therefore, it is important to keep an eye out for the leader in the sector for all other stocks will get a PE based on the leader. In case of re-rating of the leader there is possibility that all the stocks down the line too will be affected leading to price volatility.

It has been observed that market gives higher valuation to companies which have low capital intensity, high flow to equity and intellectual –property- related entry barriers. Examples of businesses getting a high PE multiple are bio-technology, information technology, FMCG and retailing. Business that are capital intensive, subject to cyclicality and have low entry barriers as far as intellectual property is concerned command low PE multiple. Examples could be agri-businesses, oil and gas and petro-chemicals.

Most of the time equity shares are subject to irrational and excessive price fluctuations in both directions as the consequence of greed and fear. However, PE multiple has a tendency to revert to a norm.

Illustrations from Published Accounts- Auditing

Power Finance Corporation Ltd. ....(31.03.2010)

Addendum to Director's Report 2009-10Replies of Management to Auditors Report with regard to significant qualifications for the year 2009-10

Under Section 217 (3) of the Companies Act, 1956 the information to the Auditor's observations are submitted as under:-

1 (a) On the Report of Statutory Auditors

Observations	Replies
(a) Power Finance Corporation Limited (The Company)pursuant to the opinion of the Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) provided "Deferred Tax Liability" (DTL) on special reserve created under section 36(1) (viii) of the Income Tax Act, 1961 in the year 2004-05, by charging Profit & Loss Account with ₹ 142.87 crores and debiting the Free Reserves by ₹ 745.14 crores (for creating DTL for the years 1997-98 to 2003-04). Since, then the Company continued to provide DTL till the end of March, 2008 by charging Profit & Loss Account. The total amount towards DTL upto 31st March, 2008 comes to ₹ 1228.38 crores. The Company during the year 2008-09 reversed the DTL provided in earlier years amounting to ₹ 1228.38 crores and also did not provide DTL amounting to ₹ 291.21 crores (including ₹ 133.28 crores for the year 2008-09)in the current year, contrary to, opinions expressed by the EAC of the ICAI on two occasions dated 23.11.2004 and 18.05.2006, clarification furnished in July, 2009 by the ICAI on the request of the Comptroller and Auditor General of India and mandatory provisions of Accounting Standard-22. In view of the facts and circumstances placed before us, the profits and Free Reserves of the company are overstated by ₹ 774.45 crores and ₹ 745.14 crores (previous year ₹ 616.52 crores and ₹ 745.14 crores), respectively and DTL has been understated by ₹ 1519.59 crores (previous year ₹ 1361.66 crores). (Refer Note No. 19 of Schedule 18). Further, the amount of capital considered in the calculation of Capital Risk Adjusted Ratio (CRAR) is overstated to the above extent. (Refer Note No. 27 of Schedule 18)	On a representation made by the Company (after receipt of Opinions of the EAC of ICAI) regarding the creation of DTL on Special Reserve created and maintained under section 36(1) (viii) of the Income Tax Act, 1961, the Company received a clarification from Accounting Standard Board of Institute of Chartered Accountants of India vide letter dtd. 02.06.2009. In accordance to the above, from the financial year 2008-09, the Company stopped creating DTL on special Reserve created and also reserved the DTL on special Reserve created in earlier years. This has also been suitably explained in the Accounting policy No. 13.2 of Accounting policy (Schedule-17) and Note No.19 of Notes to Accounts (Schedule-18) which are self explanatory. Now, the Comptroller and Auditor General of India vide letter No. CA-IV/80/2010 dated 09.08.2010 has stated the following:" *In order to ensure consistency in the accounting treatment of provision of DTL on special reserve created u/s 36(1) (viii) of the Income Tax Act, 1961, this department is of the view that non provision of DTL on special reserve is acceptable in case the company demonstrate their intension of not withdrawal of the reserve by passing a resolution that it has no intention to withdraw this special reserve. In other cases where no such resolution is passed by the management, the provision of DTL on special reserve should be made in the annual accounts*." As discussed in the Accounting policy No. 13.2 of Accounting policies supra, the Company has passed a Board resolution that it has no intension to make withdrawal from the Special Reserve created and maintained under section 36(1)(viii) of the Income Tax act, 1961. Hence, there is no violation of Accounting Standard 22 or overstatement of Profits and Free Reserves and understatement of Deferred Tax Liability.

Observations	Replies
received under Accelerated Generation and Supply Program (AG&SP) Scheme from the Ministry of Power, Government of India, the Company has estimated the net excess amount of ₹ 66.25 crores (previous year ₹ 283.14 crores) and ₹ 209.97 crores (previous year ₹ 44.27 crores) as at 31st March 2010, for IX and X plan respectively. This net excess amount is worked out on overall basis and not on individual basis and may vary due to change in assumptions, if any, during the projected period such as changes in moratorium period, repayment period, loan restructuring, pre payment, interest rate reset, etc. Hence, the impact of this excess, if any could not be determined. As such we are not in a position to express our opinion thereon (Note No.15 of Schedule 18).	Note No. 15 of Schedule No. 18 of Notes on Accounts is self explanatory and explains the method of claiming Interest Subsidy Fund, utilization, and excess worked out on overall basis based on projections made for loans sanctioned during IX & X plans, etc. The actual/exact excess due to difference between the indicative rate, period and assumptions considered at the time of drawl and at the time of actual disbursement can be ascertained only after the end of the respective schemes. The Company will however return the net excess amount to Ministry of Power, if any, at the end of the respective schemes.
1 (b) On the annexure to Auditors Report	
➢ As explained to us, the management is carrying out the physical verification of fixed assets at the yearend in a phased manner, except certain EDP equipments and Furniture & Fixtures for which no physical verification was conducted. In our opinion, the frequency of physical verification is reasonable having regard to the size of the Company and nature of its assets. No material discrepancies were noticed by the management on such physical verification.	Certain EDP equipments and Furniture & Fixtures are provided to the officers for official use which are normally returned to the company or otherwise written off upon expiry of useful life of the assets. Hence, physical verification of such items has not been considered necessary. Further, amount involved in the said items is also not material.
➢ In our opinion and according to the information and explanations given to us, the Company has an internal audit system, which is commensurate with the size and nature of business of the Company. However, the IT Audit needs to be further streamlined and strengthened.	The information system audit is being conducted periodically and also the company is implementing the oracle ERP financials. *(Compiled by CA.Karuna Bhansali, BoS.)*

National Manufacturing Policy

Recently, the Government of India announced a National Manufacturing Policy. Here are some excerpts from the Policy.

- Growth in India has largely been enabled by a dynamic growth in the services sector.
- The contribution of the manufacturing sector in India at 16% of GDP is much below its potential.
- We have not been able to fully leverage the opportunities provided by the dynamics of globalization.
- There are socio- economic problems in terms of over dependence on agriculture, disguised unemployment and urban unemployment.
- India has a favourable demographic profile with over 60% of population in the working age group of 15-59 years. Over the next decade, India has to create gainful employment opportunities for a large section of its population, with varying degrees of skills and qualifications. This will entail creation of 220 million jobs by 2025 in order to reap the demographic dividend. The manufacturing sector would have to be the bulwark of this employment creation initiative.
- Every job created in manufacturing has a multiplier effect of creating two to three additional jobs in related activities. Therefore, a thrust on manufacturing is integral to the inclusive growth agenda of the government.
- Besides the employment imperative, the development of the manufacturing sector is critical from the point of view of ensuring that the growth model of India is sustainable.

- Developments of Indian manufacturing sector calls for deepening and recalibrating of economic reforms that would strengthen the sector and make it grow faster and become an engine of inclusive growth.
- Objectives of National Manufacturing Policy:
  - ✓ Increase manufacturing sector growth to 12-14% over the medium term to make it the engine of growth for the economy. The 2 to 4 % differential over the medium term growth rate of the overall economy will enable manufacturing to contribute at least 25% of the National GDP by 2022.
  - ✓ Increase the rate of job creation in manufacturing to create 100 million additional jobs by 2022.
  - ✓ Creation of appropriate skill sets among the rural migrant and urban poor to make growth inclusive.
  - ✓ Increase domestic value addition and technological depth in manufacturing.
  - ✓ Enhance global competitiveness of Indian manufacturing through appropriate policy support.
  - ✓ Ensure sustainability of growth, particularly with regard to the environment including energy efficiency, optimal utilization of natural resources and restoration of damaged/ degraded eco-systems.
- In order to achieve these goals:
  - ✓ Foreign investments and technologies will be welcomed.
  - ✓ Competitiveness of enterprises in the country will be the guiding principle in the design and implementation of policies and programmes.
  - ✓ Compliance burden on industry arising out of procedural and regulatory formalities will be reduced through rationalization of business regulations.
  - ✓ Innovation will be encouraged for augmenting productivity, quality, and growth of enterprises.
  - ✓ Effective consultative mechanism with all stake holders will be instituted to ensure mid-course corrections.
- The following industry verticals will be given special attention:
  - ✓ *Employment intensive industries*: Textiles and garments, leather and footwear, gems and jewellery and food processing industries.
  - ✓ *Capital Goods*: Machine tools, heavy electrical equipments, heavy transport, earth moving and mining equipments.
  - ✓ *Industries with strategic significance*: Aerospace, shipping, IT hardware and electronics, telecommunication equipment, defence equipment and solar energy.
  - ✓ *Industries where India enjoys a competitive advantage*: Automobiles, pharmaceuticals and medical equipment.
  - ✓ *Small and Medium Enterprises*
  - ✓ *Public Sector Enterprises*
- Specific policy instruments have been conceptualized to achieve the objectives stated above.
  - ✓ Rationalization and simplification of business regulations;
  - ✓ Simple and expeditious exit mechanism for closure of sick units while protecting labour interests;
  - ✓ Financial and institutional mechanisms for technology development, including green technologies;
  - ✓ Industrial training and skill up gradation measures;
  - ✓ Incentives for SMEs;
  - ✓ Special Focus Sectors;
  - ✓ Leveraging infrastructure deficit and government procurement - including defence;
  - ✓ Clustering and aggregation : National Investment and Manufacturing Zones (NIMZs);
  - ✓ Trade Policy.

National Investment and Manufacturing Zones: Among the key policy instruments, which have been conceptualized to achieve the Policy objectives, is the setting up of National Manufacturing Investment Zones (NIMZs). The NIMZs will be developed as integrated industrial townships with an area of at least 5000 hectares with the state of the art infrastructure. These will be managed by Special Purpose Vehicle (SPV) developed on the basis of public private partnership. These will be self-governing and autonomous and enjoy certain relaxations in labour and environmental regulations and various fiscal incentives. The Policy makes it very clear that for the purpose of NIMZ only waste, infertile and dry land will be used and use of agricultural land will be minimal. The states would identify such land and only surplus land would be used for the purpose. Unlike SEZs which proliferated in hundreds there would be at the most 12 NIMZs for the whole country with initial seven coming up in smart cities under the Delhi Mumbai Industrial Corridor.

(For full Policy Statement, please visit Ministry of Commerce and Industry's website http://dipp.nic.in)

(Compiled by Prem J Bhutani, BoS)

Corporate Laws

(A) The Companies Act, 1956

(i) The Ministry of Corporate Affairs (MCA) have been reported by the Official Liquidators (OL) that they are facing problem in e-filing of Income Tax Returns in compliance as they are required to mention PAN No. of the person who files the return, representing the company in liquidation. For this MCA has proposed some steps to be taken by OL vide General Circular No. 41/2011 dated 6th July, 2011.

(ii) The MCA has noticed that certain courts have not allowed fees to be paid to the Chartered Accountants from Common Pool Fund in cases where petitions are filed in respect of companies under liquidation having no assets. Accordingly, the MCA has decided to take some steps vide General Circular No. 42/2011 dated 7th July, 2011. The payment of fees to CAs in this respect will be made out of the Budget Head "Office Expenses".

(iii) The MCA has been issuing two separate identification numbers as DIN to an individual for becoming a director of a company under Companies Act, 1956 and DPIN for a designated partner in a Limited Liability Partnership under Limited Liability Partnership (LLP) Act, 2008. To avoid this duplicity and to give ease to the stakeholders, the Ministry has decided to issue only one identification number to an individual for both the purpose. Therefore, the Ministry, vide notification dated 5th July, 2011, has integrated the Director's Identification Number (DIN) issued under Companies Act, 1956 with Designated Partnership Identification Number (DPIN) issued under Limited Liability Partnership (LLP) Act, 2008 with effect from 9th July 2011.

(iv) The MCA vide General Circular No. 46/2011 dated 14th July, 2011 has amended Schedule XIII to the Companies Act, 1956. Pursuant to this amendment, no approval of Central Government will be required by the listed companies and their subsidiary companies, which are not having profits or having inadequate profits for payment of remunerations exceeding ₹ 4 lakh p.m., if the managerial person:-

(a) is not having any direct or indirect interest in the capital of the company or its holding company or through any other statutory structures at any time during last two years before or on the date of appointment and

(b) is having a graduate level qualification with expert and specialized knowledge in the field of his profession.

(v) The MCA vide General Circular No. 49/2011 dated 23rd July, 2011 has simplified the procedures for online approval of applications forms for incorporation of companies. In case the e-forms 1, 18, 32 and e-form for Memorandum of Association (MOA) and Articles of Association (AOA) have been certified by the practicing professional regarding the correctness of the information and declarations given by the subscribers, the application shall be processed electronically and the digital certificate of incorporation shall be issued immediately online by the Registrar of Companies.

(vi) The MCA vide General Circular No. 50/2011 dated 25th July, 2011 has decided to reduce the cost and the time to get confirmation of shifting of registered office from one state to another state under section 17 of the said Act and alteration to Memorandum of Association. The petitions filed with the Company Law Board and pending as on the effective date of notification shall be transferred to respective Registrar of Companies. The revised e-forms and business re-engineering process under MCA-21 system is being developed and the simplified procedures to be followed by the companies and Registrar of Companies shall be given in the modified e-forms and instruction kit thereto shortly.

(vii) The MCA vide General Circular No. 51/2011 dated 25th July, 2011 has decided to reduce the cost and the time to get condonation under section 141 of the said Act. The petitions filed with the Company Law Board and pending as on the effective date of notification shall be transferred to respective Registrar of Companies. The revised e-forms and business re-engineering process under MCA-21 system is being developed and the simplified procedures to be followed by the companies and Registrar of Companies shall be given in the modified e-forms and instruction kit thereto shortly.

(viii) The MCA vide General Circular No. 52/2011 dated 25th July, 2011 has decided to simplify the procedures and to give online approval of Central Government under section 297 of the Act, if the proposed contract has been approved by the shareholders by way of special resolutions in a general meeting. According to new procedure, application will be made in a new e-form with the prescribed fee. The relevant information like terms of contract and details of Board resolutions and special resolutions shall be captured in the e-form. The e-form shall also be certified by the practicing professional who shall specifically certify the correctness of the information and declarations given by the company in the e-form.

(ix) The MCA vide General Circular No. 53/2011 dated 26th July, 2011 has issued guidelines for the Regional Director / Registrar of Companies in order to streamline the procedure in the matter of scheme of arrangement / amalgamation under section 391-394 of the Companies Act, 1956. These guidelines supersede all previous guidelines on the matter.

(x) The MCA has noticed that winding up petitions are filed by creditors, stake holders and management before Hon'ble High Courts without providing full information. This leads to waste of valuable time of Hon'ble Court and also delays completion of winding up process as well. In order to speed up the winding up process and to introduce best international practices the winding up process, the Ministry vide General Circular No. 54/2011 dated 26th July, 2011 has prescribed some actions to be taken by concerned Official Liquidator (OL).

(xi) The MCA has noticed that winding up petitions are being filed by management after having committed major violations under the Act as well as misappropriation of funds of the company. Winding up of such companies are also being filed by creditors. In order to curb such malpractices, Ministry vide General Circular No. 55/2011 dated 26th July, 2011 has prescribed a procedure that may be followed in all such cases.

(xii) The MCA has observed that companies are not filing Statement of Affairs (SOA) in time in terms of section 454 of the said Act. This delays the process of liquidation considerably. It has, therefore, been decided vide General Circular No. 56/2011 dated 28th July, 2011 to give the companies and the directors of such companies where winding up orders have been passed by the Hon'ble Court, one months notice to file SOA before action for blocking their DIN is initiated by the Ministry.

(xiii) In order to give an opportunity to the defaulting companies to enable them to make their default good by filing their belated documents i.e. Balance Sheet and Annual Returns and to become a regular compliant in future, the Ministry vide General Circular No. 59/2011 dated 5th August, 2011, in exercise of the powers under Section 611(2) and 637B (b) of the said Act has decided to introduce a scheme namely, "Company Law Settlement Scheme, 2011," condoning the delay in filing documents with the Registrar, granting immunity from prosecution and charging additional fee of 25 percent of actual additional fee payable for filing belated documents under the said Act and the rules made thereunder. This scheme shall remain in force up to 15th December, 2011.

(xiv) In exercise of the powers conferred by clause (a) and (b) of sub-section (1) of section 642 read with sections 266A, 266B and 266E of the said Act, the Central Government vide Notification No. G.S.R. (E) dated 5th July, 2011 makes the Companies Director Identification Number (third Amendment) Rules, 2011 further to amend the Companies (Director Identification Number) Rules, 2006.
For further details, refer www.mca.gov.in

(B) The SEBI Act, 1992

(i) In exercise of the powers conferred by Section 30 of the Securities and Exchange Board of India Act, 1992, the board vide Notification No. No. LAD-NRO/GN/2011-12/25/30309 dated 23rd September, 2011 has amended SEBI (Issue of Capital and Disclosure Requirement) Regulations, 2009 and these regulations may be called the SEBI (Issue of Capital and Disclosure Requirements) (Second Amendment) Regulations, 2011.
For further details, refer www.sebi.gov.in

(Compiled by CS. Megha Goel, BoS)

Committee on Public Finance and Government Accounting

Invitation to contribute Articles for E-Newsletter-'Prudence'

The Committee on Public Finance & Government Accounting of The Institute of Chartered Accountants of India is regularly coming up with its E-Newsletter -'Prudence' featuring various articles on economic issues and measures on bi-monthly basis. The August-September 2011 issue of the E-Newsletter is available at the URL http://www.icai.org/new_post.html? post_id=3825&c_id=241.

The Committee invites members, academicians, students, experts, researchers and writers to contribute articles in different areas of Public Finance and Government Accounting preferably on *Public Debt, Public Expenditure, Fiscal Policy, Monetary Policy, Accounting Reforms, Accrual Accounting, Accounting for Intangible Assets and Restructuring of Chart of Accounts in Accrual System in Public Sector* for publication in the December-January 2011 issue of its E-newsletter. If the article is published, a token honorarium of ' 3000/- per article shall be paid. Discretion of the Committee regarding publication/non-publication of the article shall be final and abiding therewith under copyright of the Committee. Material of this E-Newsletter may not be reproduced, whether in part or in whole, without the consent of Editorial Board of Committee. Authors may only submit original work that has not been appeared elsewhere in any publication. A formal signed undertaking in the form of a letter stating that "the article is original and does not infringe any copyright and has not been published elsewhere or has not been sent for publication" should be sent along with the article.

The articles (500 to 700 words) may be sent to us latest by 20th December 2011 in the form of soft copy through mail/CD or in printed format through post giving details of the subject matter.

Those desirous may please contact at the following address:

The Secretary
Committee on Public Finance and Government Accounting
The Institute of Chartered Accountants of India
'ICAI Bhawan', A-29, Sector-62,
Noida- 201 309
Phone: 0120-3045950(O)
Email: cpf_ga@icai.org

Indirect Taxes

SERVICE TAX

1. Last date for filing of service tax returns extended and return form aligned with POT Rules, 2011

Central Board of Excise and Customs vide *Order No. 1 /2011 - ST F. No. 137/99/2011 - ST dated 20.10.2011* has extended the last date of submission of half yearly return for the period April 2011 to September 2011 from 25th October, 2011 to 26th December, 2011.

The time limit has been relaxed to give time to the assessees to adjust to the requirement of e-filing made mandatory for the first time vide *Notification No. 43/2011- ST dated 25.8.11.*

CBEC has been empowered vide *Notification No. 48/ 2011 -ST dated 21.10.2011* to issue order for extension of due date for filing of returns by such period as deemed necessary under circumstances of special nature to be specified in such order. Sub-rule (4) has been inserted after sub-rule (3) in rule 7 of Service Tax Rules, 1994 for this purpose. The above order has been issued in exercise of this new power.

A new instruction has been inserted in the heading General Instructions in Form ST-3 to provide that the words "received /paid" used in the return should be construed as "received or receivable /paid or payable', as the case may be, in terms of the Point of Taxation Rules, 2011".

Further, rule 4 of the said rules has been amended to empower the Board to specify, by an order, the documents which are to be submitted by the assessee alongwith the application of registration within such period, as may be specified in the said order.
Source: www.cbec.gov.in

2. Sub-contractors providing WCS to the main contractor rendering WCS for infrastructure projects are exempt from service tax - Clarification by CBEC

The services provided by Work Contract Service Providers in respect of projects involving construction of roads, airports, railways, transport terminals, bridges, tunnels, dams etc. are specifically excluded from the definition of taxable works contract service and are thus, not liable to service tax under section 65(zzzza) of the Finance Act, 1994.

Circular No. 138/07/2011 - ST dated 06.05.2011 had clarified that while the main contractor providing works contract services in respect of such infrastructure projects is exempt from service tax, the services provided by its subcontractors would be distinctly classifiable under the respective sub-clauses of section 65(105) of the Finance Act, as per their description and taxed accordingly. It was explained that the sub-contractors providing services to the main contractor would not be automatically exempt from service tax by virtue of providing services to the main contractor who is providing WCS service in respect of projects involving construction of roads, airports, railways, transport terminals, bridges, tunnels, dams etc.

CBEC has now further clarified that though the services provided by the sub-contractors to the main contractor are independently classifiable under WCS, they too will get the benefit of exemption if they are in relation to the infrastructure projects mentioned above.
[Circular No. 147/16/2011 ST dated 21.10.2011]

3. Supreme Court grants stay on service tax on commercial rentals

A 10% service tax on commercial rentals was originally introduced in the year 2007 which was stayed by the Delhi High Court in the case of Home Solution Retail India Ltd. v. UOI 2009 20 STT 129 (Del.). The High Court in the instant case held that the renting of immovable property could not be regarded as a service exigible to service tax. However, the Finance Act, 2010 amended the definition of taxable renting of immovable property service to provide explicitly that the activity of 'renting' itself is a taxable service. The amendment was given retrospective effect from the year 2007.

Since then, the Punjab and Haryana High Court, the Karnataka High Court, the Orissa High Court, the Bombay High Court and recently the Delhi High Court have upheld the decision of the Government.

However, in an appeal filed by the Retailers Association of India against the decision of Bombay High Court with the Apex Court, the Apex Court has granted stay over the High Court's decision that upheld the Government proposal to bring the commercial renting of properties under services tax net.
Source: http://www.financialexpress.com/news/service-tax-on-commercial-rentals-stayed/853177/

CENTRAL EXCISE

1. Power of Adjudication Revised for Additional Commissioners

CBEC has revised the monetary limit for adjudication for Additional Commissioners under section 11A and section 33 of the Central Excise Act, 1944. They can now adjudicate the cases with a monetary limit from above ₹ 5 Lac and upto ₹ 50 Lac. Earlier the limit was above ₹20 Lac and upto ₹50 Lac. As a result of this amendment a uniform monetary limit i.e., above ₹ 5 Lac & upto ₹ 50 Lac has been fixed for both Additional Commissioners and the Joint Commissioners.
[Circular No. 957/18/2011-CX-3 dated 25.10.2011]

Compiled by CA. Smita Mishra / CA. Swati Aggarwal, BoS

CUSTOMS

1. Advance Ruling facility available to resident public limited companies

By virtue of *Notification No. 67/2011 dated 22.09.2011*, the Resident Public Limited Companies have been brought under the ambit of Section 28E of Customs Act. Such companies can now avail the facility of advance ruling on the issues like classification, applicability of any exemption notification, principles of valuation, applicability of notifications issued in respect of duties under the Customs Act, 1962, Customs Tariff Act, 1975, and any duty chargeable under any other law for the time being in force in the same manner as duty of Customs under the Customs Act, 1962 etc.

Public limited company shall have the same meaning as is assigned to a "public company" in clause (iv) of sub-section (1) of section 3 of the Companies Act, 1956 and shall include a private company that becomes a public company by virtue of section 43A of the said Act. A 'resident' shall have the same meaning as is assigned to it in clause (42) of section 2 of the Income tax Act, 1961 in so far as it applies to a company. The facility provides an option to wholly Indian-owned companies to seek binding rulings so as to avoid risk litigation at a later stage.

Hitherto, the advance ruling facility was restricted to any person who is a non-resident setting up a joint venture in India in collaboration with a non-resident or a resident, any person who is a resident setting up a joint venture in India in collaboration with a non-resident, a wholly-owned subsidiary Indian company of which the holding company is a foreign company, a joint venture in India or a resident who proposes to import any goods under specified preferential or free trade agreements. In 2009, public sector companies were also allowed to seek advance ruling and now the facility has been extended to resident public limited companies.

[Notification No. 67/2011 Cus. (NT) dated 22.09.2011]

The above-mentioned notifications and circulars are available on www.cbec.gov.in

Accounting

Payment of Cheques/Drafts/Pay Orders/Banker's Cheques

In India, it has been the usual practice among bankers to make payment of only such cheques and drafts as are presented for payment within a period of six months from the date of the instrument. However, Reserve Bank is satisfied that in public interest and in the interest of banking policy it is necessary to reduce the period within which cheques/drafts/pay orders/banker's cheques are presented for payment from six months to three months from the date of such instrument.

Accordingly, in exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949, Reserve Bank vide notification no. RBI/2011-12/251, DBOD.AML BC.No.47/14.01.001/2011-12 dated November 4, 2011 directs that with effect from April 1, 2012, banks should not make payment of cheques/drafts/pay orders/banker's cheques bearing that date or any subsequent date, if they are presented beyond the period of three months from the date of such instrument.

RBI instructed that the banks should ensure strict compliance of these directions and notify the holders of such instruments of the change in practice by printing or stamping on the cheque leaves, drafts, pay orders and banker's cheques issued on or after April 1, 2012, by issuing suitable instruction for presentment within the period of three months from the date of the instrument.

Deregulation of Savings Bank Deposit Interest Rate

In exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949 and in partial modification of its directive DBOD.Dir.BC.No.89/13.03.00/2010-11 dated May 3, 2011, the Reserve Bank of India, being satisfied that it is necessary and expedient in the public interest so to do, hereby vide Notification no. DBOD.Dir.BC.41/13.03.00/2011-12 dated October 25, 2011 directs that banks are free to determine their savings bank deposit interest rate for resident Indians only with immediate effect subject to two conditions. First, each bank will have to offer a uniform interest rate on savings bank deposits up to ₹1 lakh, irrespective of the amount in the account within this limit. Second, for savings bank deposits over ₹1 lakh, a bank may provide differential rates of interest, if it so chooses, subject to the condition that banks will not discriminate in the matter of interest paid on such deposits, between one deposit and another of similar amount, accepted on the same date, at any of its offices.

(Compiled by CA. Shilpa Agrawal, BoS)

Sub: Common Proficiency Test (CPT) Self Assessment Test

The Board of Studies' Knowledge Portal will host Online Self Assessment Test for CPT (subject wise) from the second week of December, 2011 with 50 questions to be answered within One Hour. The system would generate a new Question Paper on random basis.

(Vijay Kapur)
Director, Board of Studies

Articles Invited for Students' Journal

The Board of Studies invites articles from members, academicians, students and others on the following topics for inclusion in the Chartered Accountant Students' Journal.

- Direct Tax Laws
- Indirect Tax Laws
- Corporate Laws including SEBI Guidelines and Regulations
- International and Indian Capital Market
- Finance including Resource Raising
- International Finance
- Labour and Economic laws.

The article should comprise 1600 to 2200 words only. The authors are advised to enclose the following along with the articles:–

1. A formal and signed undertaking in the form of a letter stating that the article is original in all respects and does not infringe any copyright and has not been published elsewhere or has been sent for publication.
2. A latest passport size colour photograph (with full name and registration number written on the back of the photograph).
3. A soft copy of the article with complete communication and E- mail address. Articles received without the details/ enclosures specified above will not be considered.

All correspondence in this regard should be made to The Director, Board of Studies, ICAI Bhawan, A-29, Sector-62, Noida – 201 309 with the full name, complete address and the membership/ registration number if applicable.

CROSSWORD

November, 2011

Solution

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National Convention for CA Students- Chennai
12th and 13th December, 2011 (Monday & Tuesday)
Venue: Kamaraj Arangam, 492, Anna Salai, Teynampet, Chennai - 600006
Theme: INSPIRING EXCELLENCE
Organised by: Board of Studies, ICAI, New Delhi
Hosted by: SIRC of ICAI

Programme Details

TIME	PARTICULARS
	DAY 1: MONDAY, 12-12-2011
8.00 AM – 9.00 AM	**REGISTRATION**
9.15 AM – 10.45 AM	**INAUGURAL SESSION** **CA. G. RAMASWAMY, FCA, PRESIDENT, ICAI** **CA. JAYDEEP NARENDRA SHAH,FCA, VICE-PRESIDENT, ICAI** **CA. V. MURALI,FCA, CHAIRMAN, BOARD OF STUDIES, ICAI**
10.45 AM – 1.00 PM	**TECHNICAL SESSION-I: TAXATION** **CHAIRMAN : DR. GIRISH AHUJA, FCA** CHARTERED ACCOUNTANT, NEW DELHI • TAXATION OF CAPITAL GAINS • TAX AUDIT U/S 44 AB INCLUDING PRESUMPTIVE TAX AUDITS • SURVEY, SEARCH AND SEIZURE UNDER THE INCOME-TAX ACT, 1961
2.00 PM – 3.00 PM	**SPECIAL SESSION I: "WINNING COMMUNICATION & PRESENTATION SKILLS"** **BY** **CA. CHARANJOT SINGH NANDA, FCA** CENTRAL COUNCIL MEMBER, ICAI
3.00 PM – 4.45 PM	**TECHNICAL SESSION-II - CORPORATE LAWS CHAIRMAN: DR. B. RAVI, FCS** CHAIRMAN, SIRC OF ICSI • COMPANIES BILL, 2009 • ROLE OF CA'S IN CORPORATE GOVERNANCE • MERGERS & ACQUISITIONS
4.45 PM - 5.45 PM	**SPECIAL SESSION II : "SMALL STORIES, LARGE LESSONS"** **BY** **CA. V. PATTABHI RAM, FCA, AICWA, ACS** CHARTERED ACCOUNTANT, CHENNAI
6.30 PM – 9.30 PM	CULTURAL PROGRAMME
	DAY 2: TUESDAY, 13-12-2011
9.00 AM – 9.45 AM	**SPECIAL SESSION III : "SURE SUCCESS IN CA EXAMINATION – PRACTICAL TIPS"** **BY** **CA. V. MURALI, FCA, AICWA CHAIRMAN, BOARD OF STUDIES, ICAI, NEW DELHI**
9.45 AM – 11.15 AM	**TECHNICAL SESSION-III: EMERGING AREAS** **CHAIRMAN : CA. P.B. SAMPATH, ACA, AICWA, ACS** DIRECTOR & SECRETARY, TAFE • LLP'S – AN ELUCIDATION • XBRL – CONCEPT & RECENT DEVELOPMENTS • DERIVATIVE INSTRUMENTS – A THREADBARE ANALYSIS
11.15 AM – 12.00 NOON	**SPECIAL SESSION IV : "PERSONALITY DEVELOPMENT"** **BY** **MR. P S VASUDEVAN** PSYCHOLOGIST & INTERNATIONAL CORPORATE TRAINER
12.00 NOON – 1.00 PM	**SPECIAL ADDRESS V: "TRANSCENDING CHALLENGES"** **BY** **CA. T.N. MANOHARAN, FCA PADMASHRI AWARDEE - PAST PRESIDENT, ICAI**
1.00 PM – 2.00 PM	**LUNCH BREAK**
2.00 PM – 4.00 PM	**TECHNICAL SESSION-IV: ACCOUNTING & AUDITING** **CHAIRMAN : CA. M.P. VIJAY KUMAR, FCA, AICWA, FCS** **CFO, SIFY TECHNOLOGIES LTD., CHENNAI** • REVISED SCHEDULE VI • CONVERGENCE OF IFRS VIS-À-VIS IND-AS • FORENSIC AUDIT – RECENT DEVELOPMENTS
4.00 PM – 4.30 PM	**OPEN HOUSE SESSION : "PROACTIVE INITIATIVES OF BOARD OF STUDIES"** • **CA. V. MURALI, FCA, AICWA CHAIRMAN, BOARD OF STUDIES , ICAI, NEW DELHI** • **MR. VIJAY KAPUR DIRECTOR, BOARD OF STUDIES, ICAI, NEW DELHI**
4.30 PM – 4.45 PM	**VALEDICTORY SESSION** DISTRIBUTION OF CERTIFICATES VOTES OF THANKS
4.45 PM	**NATIONAL ANTHEM**

REGISTRATION FEE: RS 300 PER STUDENT BY DEMAND DRAFT IN FAVOUR OF "THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA" PAYABLE AT CHENNAI AND TO BE SENT BEFORE 5TH DECEMBER, 2011 AT BOARD OF STUDIES SECTION, THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA, ICAI BHAWAN, 122, MAHATMA GANDHI ROAD, POST BOX NO.3314, NUNGAMBAKKAM, CHENNAI-600 034.

CONTACT DETAILS: PH NOS: 044-30210310, 311, 312 AND 325 EMAIL IDS: SROBOS@ICAI.IN ; VIJAYARAGAVAN@ICAI.IN. FOR FURTHER DETAILS PLEASE ICAI WEBSITE: ICAI.ORG

CA. V. MURALI, FCA, AICWA
CHAIRMAN, BOARD OF STUDIES, ICAI, NEW DELHI & CONVENTION CHAIRMAN

National Convention for CA Students - Faridabad
17TH and 18th December, 2011
Venue: ICAI Bhawan, 43, Sector-20A, Faridabad
Organized by: BOARD OF STUDIES, ICAI
Hosted by : Faridabad Branch of NIRC of ICAI
Theme: "CA Profession: Enduring the Passion"

Programme Details

TIME	PARTICULARS
	DAY 1: 17-12- 2011
8:00 AM - 9:00 AM	**REGISTRATION**
9.30 AM -11. AM	**INAUGURAL SESSION**
11:00AM - 1:00 PM	**TECHNICAL SESSION-I : ACCOUNTING & AUDITING: CHALLENGES AND OPPORTUNITIES** • **AUDITING IN IT ENVIRONMENT , CONVERGENCE WITH ACCOUNTING STANDARDS, AUDITING STANDARDS**
2:00 PM -3:45 PM	• **TECHNICAL SESSION-II : EXPECTATION OF CORPORATE WORLD FROM NEWLY QUALIFIED CAS** • **CSR, AUDITOR RESPONSIBILITY IN ERA OF CORPORATE FRAUD**
3:45 PM -5:30 PM	**TECHNICAL SESSION III : INDIRECT TAX** • **POINT OF TAXATION, CENVAT CREDIT**
5.30 PM - 09.30 PM	CULTURAL EVENING
	DAY 2: 18-12-2011
9:00 AM- 11:00 AM	**TECHNICAL SESSION-IV : DIRECT TAX** • TDS, DIRECT TAX CODE
11:00AM - 1:00 PM	**TECHNICAL SESSION V : MOTIVATIONAL SPEECH** • ESSAY WRITING AND QUIZ CONTEST
2:00 PM -4:00 PM	• **TECHNICAL SESSION-VI:** • **COMMUNICATION AND PRESENTATION SKILLS**
4 PM	**VALEDICTORY/INTERACTION SESSION**

- The last date for Registration with late fee ₹ 300/- (inclusive all) for the said convention is December 17th, 2011.
- Accomodation facility shall be arranged by accomodation committee of Faridabad Branch. The charges for the accomodation have to be borne by the student on actual basis. Accommodation: Two nights Accommodation on sharing basis would be available for outstation Students attending both days of Conference ranging from ₹1500/- to ₹2500/- Per Night including taxes.
- DD and cheque will be submitted in the favor of " Faridabad Branch of NIRC of ICAI", payable at Faridabad.

For any queries please feel free to contact: +91 129 222 3343/ 4018 598/ +91 97115 88123/ +91 98108 31089; website: ***www.fbdicai.org;*** e-mail id: ***info@fbdicai.org***

National Convention for CA Students – Bhubaneswar
Thursday, 15th and Friday, 16th December, 2011
Venue: Branch Auditorium, ICAI Bhawan, A/122/1 – Nayapalli, Near Unit-8 DAV Public School, Bhubaneswar, Odisha
Organised by: BOARD OF STUDIES, ICAI
Hosted by: Bhubaneswar Branch of EIRC of ICAI
Theme: Today's Reader – Tomorrow's Leader

Programme Details

Time	Particulars
	DAY 1: Thursday, 15th December, 2011
9.00 AM – 10.00 AM	**Registration**
10.00 AM – 11.00 AM **Chief Guest:** **Guest of Honour:** **Presidential Address:** **Special Guest:**	**INAUGURAL SESSION** ***His Excellency, Shri Murlidhar Chandrakant Bhandare, The Governor of Odisha** ***Hon'ble Shri Prafulla Samal, Minister of Cooperation, Tourism and Culture, Govt of Odisha** **CA. G. Ramaswamy, President, ICAI** **CA. Jaydeep Narendra Shah, Vice President, ICAI** **CA. V. Murali, Chairman, Board of Studies, ICAI**
11.00 AM – 11.15 AM	Media Meet
11.15 AM – 1.15 PM	Technical Session-I : Session by **CA. V. Pattabhi Ram, Chennai – "YES WE CAN"** Session by **CA. Madhukar N. Hiregange, Central Council Member, ICAI – "How to Excel in CA Examination**
2.00 PM – 4.00 PM	Technical Session-II: **Taxation** Session by **CA. R. Bhupathy, Past President, ICAI** - Assessment Procedures under Existing Income Tax Act Vis-a-Vis- Direct Tax Code - Taxation of NGOs - Tax Audit u/s 44 AB - Service Tax - Point of Taxation Rules & Cenvat Credit - Goods & Service Tax - A way Forward
4.00 PM – 5.30 PM	Technical Session - III: **Interaction with Board of Studies** **CA. V. Murali, Chairman, Board of Studies, ICAI** **Shri Vijay Kapur, Director, Board of Studies, ICAI**
6.00 PM – 8.30 PM	Cultural Programmes
	DAY 2: Friday, 16th December, 2011
10.00 AM – 11.30 AM	Technical Session-IV : Session on **Accounts & Auditing** by an ***CA. Pooja Gupta** - Revised Schedule – VI Concept, Recent Changes & Critical Issues - Framework & Roadmap to IFRS in India - Corporate Accounting Disclosures : Recent Trends - Auditors' Responsibility in the Era of Corporate Frauds
11.30 AM – 2.00 PM	Technical Session - V : Session on **Emerging Opportunities for CAs in Financial Sector by *CA. Charanjot Singh Nanda, Central Council Member, ICAI** - Corporate Restructuring for Value Creation - Derivative Instruments (Future, Derivatives & Options) - A threadbare analysis - Role of CFO- Integrating strategy and finance - Globalisation of Capital Markets - Emerging Trends - LLP – a Preferable business model
2.30 PM – 4.30 PM	Technical Session-VI : Session on **Information Technology & Future Prospects for a CA** by **an Eminent Personality** - eXtensible Business Reporting Language (XBRL)- a new Business Language - CA as a Complete Business Solution Provider - Green Initiative in corporate Governance & Environment Audit - Basic Audit Tools and Technique in a EDP Environment
4.30 PM – 5.30 PM	**Valedictory Session:** Interaction with **CA. V. Murali, Chairman, Board of Studies**

Students are requested to register for the convention at the earliest by paying ₹ 300 per participant and also invited to contribute Paper of about 5-7 pages for various technical sessions and submit for approval a **soft copy** of the paper at ***bhubaneswar@icai.org*** by **5th December 2011** and hard copy of the same along with student's photograph (with his/her name on the back of the photograph). Registration Number, Course of Study, Complete Postal Address, Mobile Number, Landline Number and Email ID also be sent at Bhubaneswar Branch of EIRC of ICAI. The students whose papers are selected for the convention shall be exempted from paying registration fee. Outstation Students shall be reimbursed actual travelling expenses equivalent to 2 tier AC and DA @ 1500 per day for lodging etc.

Student who are interested to participate in the cultural programme are requested to register before **5th December 2011** at Bhubaneswar Branch of EIRC of ICAI.

For further details contact: Tel: 0674-2392391, 9861154954 (Shri Sadhu Charan Tripathy, Branch-in-charge), 9938014630 (Shri Naresh Kumar Biswal, Conference-in-charge), Email: ***bhubaneswar@icai.org***

National Convention for CA Students - Delhi

29th & 30th December, 2011

Venue: **Auditorium, Shri Ram College of Commerce, University of Delhi (North Campus), Delhi**

Organized by : **BOARD OF STUDIES, ICAI**

Hosted by : NIRC of ICAI

Theme: **"Custodian of Country's Wealth: The Future Chartered Accountants"**

Programme Details	Subject
Technical Session I	**Accounting & Auditing**
	· **Accounting Standards Vs. Ind AS Vs. IFRS** · Forensic Accounting · Auditing Standards Compliance in the Present - Scenario
Technical Session II	**Business Advisory** · Planning: Continuity of Business & Disaster Recovery · Globalization of Capital Market · Future of XBRL as Reporting Language
Technical Session III	**Taxation – Direct & International** · Contemporary issues in Business Taxation · Changing Perspective of International Taxation under Direct Tax Code · Goods & Services Tax in India – Way Forward
Technical Session IV	**Corporate** · Due Diligence · Code of Ethics · Corporate Social Responsibility

Students from all over India are invited to **register for the Convention**. The registration form has been hosted on the website of the NIRC of the ICAI ***(www.nirc-icai.org).*** Interested Students are also invited to submit their **paper(s) of about 5-7 pages** and/or a proposal to **organize a Technical Session**. **The last Date for submission of Paper is** 10th December, 2011.No Participation fee will be charged from the Paper Presenters selected for the Convention. It has been decided to **reimburse to and fro travel expenses** (AC 2 tier) to students **Paper Presenters** from outside Delhi/New Delhi and **DA @ Rs.1500/- per day** for **maximum of 5 days** including the journey time. Two Nights accommodation would be available for outstation students attending both days of the Convention ranging from ₹ 500/- to ₹ 2000/- per night including/excluding taxes.

Registration Fee:

Upto 15th December, 2011 : **₹ 300/-**After 15th December, 2011 : **₹ 500/-**

Cheque/DD for registration fee may be drawn in favour of **'NIRC of the ICAI'** payable at New Delhi.

Registration form and Paper(s) may be sent to "Shri D.S. Rawat, Northern India Regional Council of the ICAI, ICAI Bhawan, Annexe Building, 5th Floor, Indraprastha Marg, New Delhi-110 002" Contact Nos. : 011-30100510/ 500, Mobile: 9540999197, 9540999194, 9540999190; Email : ***nirc@icai.in***. **For further details, visit: *www.icai.org.***

CA.G.Ramaswamy, President, ICAI and CA.Jaydeep N.Shah, Vice President, ICAI with CA.K. Shanmukha Sundaram, Chairman SIRC of ICAI and Chairman, Board of Studies of ICAI at the felicitation function organized by SICASA of SIRC.

CA.G. Ramaswamy, President, ICAI being felicitated by, CA. V.Murali, Chairman, Board of Studies of ICAI and CA.P.Devaraja Reddy, Central Council Member.

Chief Guest Hon'ble Dr.Justice AR.Lakshmanan and Guest of Honour Hon'ble Mr.Justice V. Ramasubramanian inaugurating the Orientation Programme for Students appearing for Campus

CA. V. Murali, Chairman, Board of Studies, ICAI, addressing the GMCS inaugural function organized by the Southern India Regional Council of ICAI. CA.K.Shanmuga Sundaram, Chairman, SIRC also seen in picture.

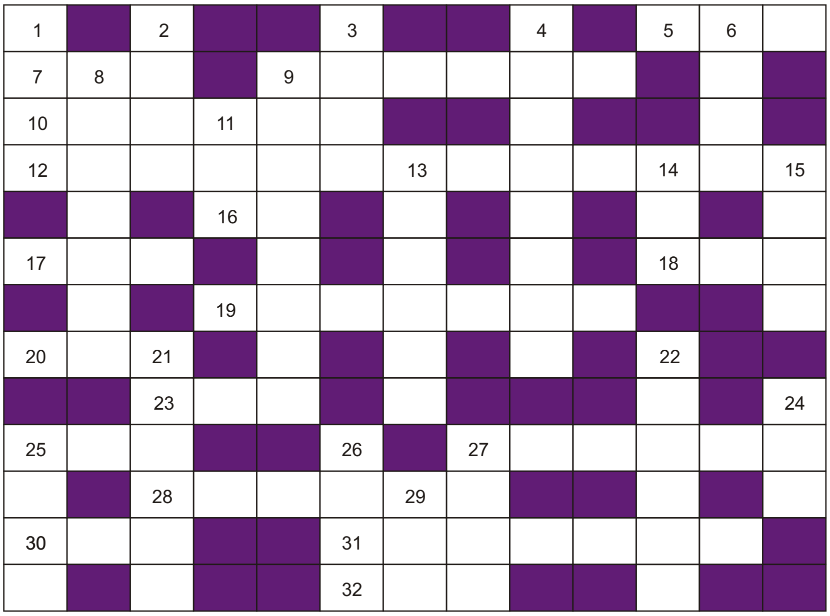
CA. V.Murali, Chairman, Board of Studies of ICAI addressing students at a GMCS Function in the presence of Guests and CA.P.Aruloli, Regional Council Member, SIRC of ICAI

Photograph taken at the CA Student Awareness Programme conducted jointly by the Board of Studies and Erode Branch of SIRC of ICAI

RNI No. 66180/97

REGISTERED: DL- (C)-01/1280/09-11
LICENSED TO POST WITHOUT PREPAYMENT U(C)-208/2009-2011
POSTED AT N.D.P.S.O. ON 26th, 27th and 28th NOVEMBER, 2011

CROSSWORD



Across

5. Which part of CPU is responsible for all the arithmetic operations?
7. A Popular Statistical Hypothesis Test________Squared Test.
9. ____________trading - Bond swap strategy designed to profit from unusual yield curve differentials between bonds of different ratings or classes.
10. Many countries passed_______ to curb carbon emission.
12. The meaning of _______ transaction is given under section 92B.
16. File extension.
17. Any person aggrieved by the order of transfer pricing officer under section 92CA(3) can apply to the __________under section 144C.
18. Also known as Transformation curve in Economics.
19. Important component to communication system.
20. __________ is recovery of tax at the point of origin.
23. __________ is a specific character string that constitutes a reference to an Internet resource.
25. __________ drawer means of the best quality.
27. Turquand Rule is related to Doctrine of___________management.
28. A Qualifying asset is an asset that necessarily takes a substantial___________ of time to get ready for its intended use or sale.
30. A service based on CDMA technology.
31. The notice offering right shares must allow the members at least _______days to exercise their option to accept, reject or renounce it.
32. Internet slang for care.

Down

1. _________ is a think tank and focal point for initiating and implementing studies and programs on issues of strategic importance to India.
2. A woman's glove that extends over the hand but does not cover the fingers.
3. Something given as security for a loan.
4. Tax rate on _______ distributed by a domestic company is 15% plus cesses.
6. Former currency of Italy.
8. As per revised Schedule VI companies having turnover above hundred crore are not allowed rounding off for the figures appearing in the financial statement to the nearest _____________.
9. ______________ revenue is the change in total revenue as a result of sale of an additional unit of the commodity.
11. To be "on your last _________" means to be near the end.
13. Under pooling of interest method, the _______, liabilities & reserves of the transferor company will be taken over by transferee company at existing carrying amounts.
14. _________at factor cost gives us the value of National Income.
15. Long term assets that __________ physical form and whose benefits are uncertain are called intangible assets.
21. The price of a product depends on its demand and _________.
22. Short term used for SEBI Complaints Redress Systems.
24. _________ is the amount of funds that the banks have to keep with RBI.
25. A matrix developed by Heinz Weihrich.
26. An autonomous organization to help professionalise the country's foreign trade management.
27. A leading finance player in India providing infrastructure financing and project implementation services.
29. India is a big importer of Petroleum, ____ and Lubricants.

If undelivered, please return to:
The Institute of Chartered Accountants of India
ICAI Bhawan, Indraprastha Marg
New Delhi - 110 104