



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

August 2011 Vol SJ2 Issue 8

Pages 36



***The Foreign Contribution (Regulation) Act, 2010  
Oil & Gas Sector Industry: Review & Provisions  
Case Study: Strategic Management***



## President's Communication

### Dear Students,

I convey my warm greetings on the auspicious occasion of the 65<sup>th</sup> Independence Day of India. On this historic day, we all should refresh our memories of freedom struggle and offer

our tributes to the great martyrs, who sacrificed their lives with extreme courage and noble spirits to make our motherland free from the colonial rule. We should take a pledge to join the government in fighting the menace of terrorism, which has claimed several lives and maimed a number of others. I extend my deepest condolences and sympathies to those who have suffered in this terrible tragedy. I sincerely hope and believe that with the unity and strength of the people, we will be able to defeat the sectarian elements who try to divide our people and destroy our civilized way of life.

I am very happy to convey my hearty congratulations to those who have come out with flying colours in the May 2011 CA examinations. I wish you all the best in your future endeavours. No success is possible without putting in hard work and there is no joy in achieving success without effort. Your grand success reflects your qualities of determination and resolution. I know that this success is just a beginning of your professional career and not your final destination.

It gives me immense pleasure to note that there has been a remarkable increase in the passing percentage of the finals this time. While 20.51% cleared both the groups, 36.34 % cleared group I and 26.67 % cleared group II. The comparative figures for November 2010 examinations were 9.33 %, 30.37 % and 11.31 % respectively. I know this has been possible due to your hard work and perseverance. I am sure that the Council's decision to allow 15 minutes reading time to the students would have benefitted the students and resulted in the increasing the passing percentage this time. It is even more heartening to note that a higher percentage of female candidates (21.91%) have qualified the examination as compared to their male counterparts (19.81%). Moreover, it is first time in the history of the Institute that women have bagged the top three positions. I am happy to observe that more and more females are joining the profession and outpacing their male counterparts.

My advice to those who could not make it this time, not to get discouraged or give up hope. Rejuvenate your hope through conscious efforts, make an honest introspection and become aware of your

limitations. You have to reorient your strategy of preparation with a positive mind, prepare well by making optimum use of educational inputs such as study material, practice manuals and RTPs provided to you by the Board of Studies. It is a common tendency on the part of majority of students to appear for the examinations without adequate preparation, to give answers to the questions without proper reading and clearly understanding the issues involved. Chart out your strategy and plan early to tackle your next attempt with more dedication and sincerity. Never aim at just passing in the examinations. Always aim for the top position. Your dedication and sincerity will definitely yield better results. To enhance the quality of the study material further, the Board of Studies has decided that the present set of materials for CPT/IPCC/Final Courses may be got reviewed from independent reviewers, for which a panel of reviewers is being drawn up.

I am happy to inform you that the Board of Studies has recently decided to permit Regional Councils and their branches to organize activities other than educational, like Students' Cultural Festival and Sports Competitions. I hope many of you possess skills such as participating in debates skits plays, dancing/music competition. To enable students to demonstrate their ability in indoor/outdoor sports, we are encouraging the branches to organize sports events, so that some of you may graduate to higher-level competitions like State/National level.

I am very happy to note that students in large numbers attended the National Conference in Nagpur with great enthusiasm. The Conference was also attended by students from Bangladesh, Nepal and Sri Lanka. The delegates from Bangladesh also made presentation at the Seminar on SAFA Presentations. The quality of the papers presented in all the technical sessions was excellent. Preparations are also in full swing for organizing the National Conventions at Indore, Kolkata and Ludhiana in the coming months. Students are advised to register their participation in case they have not done so yet. Participating in such students' Conventions and making presentations there at, will definitely help you to strengthen your self- confidence to achieve success. It will also help you to sharpen your professional skills so that you can meet the challenges ahead in the professional field.

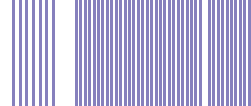
Wishing you all the best for a wonderful time ahead.

Yours sincerely

**CA. G. Ramaswamy,**

President, ICAI, New Delhi

***"God gave us two ends. One to sit on and one to think with. Success depends on which one you use; head you win -- tails, you lose."***



## Vice-President's Communication

**Dear Students,**

I extend my greetings and good wishes on the occasion of 65<sup>th</sup> Independence Day of our great Nation. On this

auspicious day, 64 years ago, India attained freedom from colonial rule and the people of our country became the masters of their own destiny.

Over six decades have gone by, while it would be useful to look back and assess how far we have traveled on the path to building a strong, united and prosperous India, it would also be profitable to look ahead and determine new goals. It is my humble belief that the past 64 years have been momentous. Despite serious challenges on varied fronts, including several attacks on the territorial integrity of India, we have been able to keep the flame of democracy burning bright. Moreover, today, India is looked upon as the largest and most vibrant democracy in the world. Thanks to the firm foundations laid by the first generation of our visionary leaders, and thanks to the strong resolve and sustained hard work of our people, our country has been able to secure significant achievements in different spheres of growth and development.

I take this opportunity to convey my heartiest congratulations to the students who have achieved success in the May 2011 CA examinations. I am also very happy to note that the pass percentage is also considerably improved compared to previous years. My special appreciation goes to the girl students who have swept the top three all India positions. All of you have every reason to rejoice and look forward for the challenges and opportunities awaiting you.

I would like to advise the unsuccessful students not to give up your hope or get disheartened or discouraged. It is a truth that our loss in faith weakens our inner person and it also weakens our energy to respond to a given situation. But hope gives strength to us. I would advise you all to revitalize your hope through self-introspection and by a rational analysis of your strengths,

weaknesses, opportunities and threats. Prepare well for the next examinations.

The Institute believes in a proactive approach for the overall development of our students. In order to enable the students to participate in various activities organized by the Branches of the Regional Councils in large numbers, the Board of Studies has recently decided that Seminars of One-day duration on topics of relevance to the students be organized by the branches – one every month so that you can derive benefit and update your knowledge.

Similarly, Regional Councils can organize one Regional Conference in each region whereat students from different cities in the region can attend and interact with one another to share and exchange views/ideas on subjects under the course curriculum, as well as on topics of current relevance in general.

I would urge upon the students to take active part in National Conventions that are scheduled to be held this year, more particularly to come forward to present papers at these conventions, which will help you to whet your communicative skills.

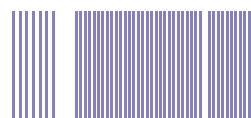
In order to enable students to develop overall personality and be a well-groomed professional in fields other than accounting, auditing, taxation etc, we are encouraging the Regional Councils and Branches to organize CA Students' Cultural Festivals of 2-3 days duration where the students can display their skills by way of debates, skits, plays, fancy dress competition, mehndi competition, Indian dances, singing (solo/duet) and instrumental and vocal music. Besides, the Branches will also organize indoor and outdoor sports competitions. I am confident that our students can demonstrate their abilities in the above mentioned areas also and actively take part and prove that they are not only academically inclined but also possess versatile skills.

Wish you all the best.

Yours sincerely

**CA Jaydeep Narendra Shah,**

Vice President, ICAI, New Delhi





## Chairman's Communication

**My Dear Students,**

Six months have passed at the speed of lightning and we are in the patriotic month of August – the month wherein we celebrate our country's Independence Day. It is a day when we rejoice in our Indian-ness. It is very important for each one of us to

take a solemn oath to be a good law abiding citizen who fulfills his duties and obligations to the country.

### POINT TO PONDER – THREE THINGS

**Three things in life once gone, never come back**

– Time, Spoken word and Opportunity;

**Three things in life that should never be lost**

– Peace, Hope and Honesty;

**Three things in life that are most valuable**

– Health, Love and Family;

**Three things in life that are steps for success**

– Dreams, goals and efforts;

**Three things in life that make a person**

– Hard work, Sincerity and commitment;

**Three things in life that can ruin a person**

– Ego, Pride and Anger;

**Three things in life once lost, hard to build**

– Respect, Trust and Friendship.

Empathy is important. People management should be the cornerstone to success. Always remember, people are to be loved, things are to be used. Problems arise when people are used and things are loved. Instead learn to praise. Sri Sri Ravishankar says *"Praise enlivens the spirit"*. Relationship building is an art which thrives on spontaneous affection, love, compassion and empathy devoid of self interest. Every relationship is like glass. A scratch on any side will reflect on the other side. So always handle every one's feelings with care. We should try to keep our personal problems within ourselves and spread happiness to all.

### KUDOS AND CONGRATULATIONS

Heartiest Congratulations to all those who have cleared the C.A. exams. The excellent and buoyant results are worth applauding. We are enthused by the quality of the performance of the students and I would like to use the words of Eddie Robinson who said *"The will to win, the desire to succeed, the urge to reach your full potential, these are the keys that will unlock the door of personal excellence"*. Have proper 'work-life' balance. Balancing career and family is of utmost importance. Family is like gold whereas career is like a diamond. When you get a diamond, don't forget the gold. Because to hold a diamond, you always need a base of gold. The world is yours for the taking. You must make every effort to truly achieve all that you can in the best way possible.

### FOR STUDENTS WHO HAVE NOT BEEN FORTUNATE TO CLEAR THE EXAMINATIONS

*"When God solves your problems, you have faith in His abilities; When God does not solve your problems, He has faith in your abilities."* So, please don't give up. To succeed, it is necessary to accept the world as it is and rise above it. Everything in this world has got a utility value – *"Even a stopped clock is right twice a day"*. The best way to predict your future is to create it. Optimism is the faith that leads to Achievement. As Swami Sukhabodhananda said *"You cannot climb a mountain by just looking at it. So put your best foot forward and the best will come back to you."* Please remember, nothing is

'IMPOSSIBLE'. Even the word conveys 'I M POSSIBLE'. Worrying does not take away tomorrow's troubles, it only takes away today's peace. Robert Allen has rightly said *"There is no failure, only feedback."* Every morning stand before the mirror and say to yourself these five lines **1. I am the best. 2. I can do it. 3. God is always with me. 4. I am a sure winner. 5. Today is my day.**

### CHARTERED ACCOUNTANCY COURSE – FOCUS ON CHARACTER BUILDING

Our Institute is focusing on imparting ethical and value based education and training to the students of the Chartered Accountancy course. Education should be both intellectual based and value based. Intellectual based education influences the head whereas value based education influences the heart. When the head and heart go together, we need not worry about the feet which will go in the right direction. Ethical and value based education results in character building. **To open your "EYE" close your "I".** The thought provoking quote of Samuel Smiles comes to my mind and I quote: *"Sow a thought and you reap an act; Sow an act and you reap a habit; Sow a habit and you reap a character; Sow a character and you reap a destiny."*

### BUILDING A PLEASANT PERSONALITY IS A PRE-REQUISITE FOR SUCCESS IN LIFE

To succeed in life, you must excel in interpersonal skills and in this regard, the need to build a pleasant personality need not be overemphasized. Success can be measured not only in achievements, but in lessons learned, lives touched and moments shared along the way. Dale Carnegie in his famous book on "How to win Friends and Influence People" mentions six rules for a winning and well liked personality. **1. Become genuinely interested in other people 2. Smile. 3. Remember that a man's name is to him the sweetest and most important sound in the English language. 4. Be a good listener. Encourage others to talk about themselves. 5. Talk in terms of other man's interests. 6. Make the other person feel important and do it sincerely.** Dear students, if you follow the above rules, I am sure that you will be able to enlarge your circle of friends which in itself is a great strength. Friendship is like a book: it takes few seconds to burn, but it takes years to write.

### WRAP UP POINT

**Service the interest of others and life will service your interest; Pull others up and life will push you up; Be there for the world and the world will be there for you.** I recall His Holiness Sri Sri Ravi Shankar's golden words regarding the Art of Living – we must enjoy the essence of life with the spice, the pitfalls, the dark moments and good times. To be effective in whatever we do, we must first develop a passion for what we are doing and enjoy the same. At the same time, if others say that our level of competency is not upto the standard, it does not mean that we sit back diffidently, letting the world pass on by. As Henry Van Dyke said *"Use what talent you possess, the woods would be very silent, if no birds sang except those that sang best."* Every problem contains within itself the seeds of its own solution.

**Always carry a heart that never hates; Carry a smile that never fades; Carry a touch that never hurts; Carry a relationship that never breaks. 'Life' and 'time' are two great teachers. 'Life' teaches us the use of 'time'. 'Time' teaches us the value of 'life.'**

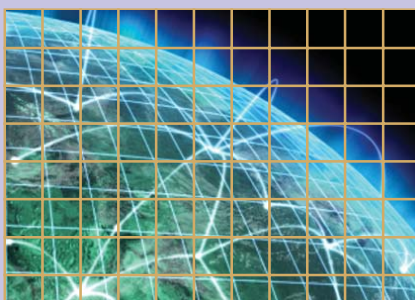
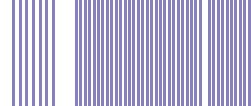
Wishing each and every one of you a life filled with academic fulfillment, prosperity, a wonderful career and bliss at home.

With Warm Professional Regards,

Forever, yours in service,

(CA. V. MURALI)

CHAIRMAN, BOARD OF STUDIES, ICAI, NEW DELHI



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Office  
**Board of Studies**  
 The Institute of Chartered Accountants of India,  
 ICAI Bhawan, A-29, Sector-62,  
 Noida-201 309.  
**Phone : 0120-3045938**  
 Correspondence with regard to subscription,  
 advertising and writing articles  
**Email : writesj@icai.org**  
 Non-receipt of Students' Journal  
**Email : nosj@icai.org**

**Head Office**  
 The Institute of Chartered Accountants of  
 India, ICAI Bhawan, Indraprastha Marg,  
 New Delhi - 110 104.  
**http://www.icai.org**

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## Annual Subscription Rates:

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

## Total Circulation:

1,72,206

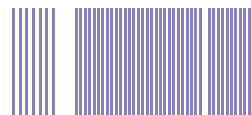
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**Editor: CA. V. Murali**

**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.**

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# The Foreign Contribution (Regulation) Act, 2010 - An Overview

CA.Nidhi Singh

The Foreign Contribution (Regulation) Act, 2010 [FCRA, 2010] and the Foreign Contribution (Regulation) Rules, 2011 were notified w.e.f. 1st May, 2011 and thereupon the earlier FCRA Act and Rules, 1976 have been repealed. The new FCRA, 2010 contains some stringent provisions to prevent misutilization of foreign contributions received by certain individuals, associations or companies.

The new Act consolidates the law to regulate the acceptance and utilisation of foreign contribution or foreign hospitality by certain individuals or associations or companies and to prohibit acceptance and utilisation of foreign contribution or foreign hospitality for any activities detrimental to the national interest and for matters connected therewith or incidental thereto.

The focus of this Act is to ensure that the **foreign contribution** and **foreign hospitality** is not utilized to affect or influence electoral candidates, political parties, judges and other people working in the important areas of national life like journalists, printers, columnist, cartoonist, editor and publishers of newspapers, etc. Foreign contribution [FC] means the donation, delivery or transfer of any article, any Indian or foreign currency or any security as defined under the Securities Contracts and (Regulation) Act, 1956 and also under the Foreign Exchange Management Act, 1999. Foreign hospitality includes an offer made by a foreign source in cash or kind for providing a person with the cost of travel to any foreign country or with free boarding, lodging, transport or medical treatment.

The Act also intends to regulate flow of foreign funds to voluntary organizations with the objective to prevent any possible diversion of these funds towards activities that are detrimental to the national interest and to ensure that such

organizations may function in a manner consistent with the values of sovereign democratic republic.

An association having a definite cultural, economic, educational, religious or social programme can receive foreign contribution after it obtains prior permission of the Central Government or gets itself registered with the Central Government. An association in this regard means an association of individuals, whether incorporated or not, having an office in India and includes a society, whether registered under the Societies Registration Act, 1860 or not.

## Prohibition to accept FC:

The following persons have been prohibited from accepting FC under section 3 of FCRA, 2010:

- (i) Association or company engaged in the production or broadcast of audio news or audio visual news or current affairs programmes through any electronic mode or form or any other mode of mass communication
- (ii) Correspondent or columnist, cartoonist, editor, owner of the association or company referred in (i) above.
- (iii) Correspondent or columnist, cartoonist, editor, owner, printer or publisher of a registered newspaper
- (iv) Political party
- (v) Organization of political nature & candidate for election.
- (vi) Member of any Legislature.
- (vii) Judge, government servant or employee of any corporation or any other body owned or controlled by the Government.

*The author is Executive Officer, ICAI*



However, the above prohibition will not apply to the acceptance of any FC by any person mentioned above where such FC is accepted by him:

- from a relative. However any person receiving FC in excess of Rs. 1,00,000 or its equivalent thereto in a financial year from any of his relatives shall have to inform the Central Government within thirty days of receipt of such FC.
- by way of a gift or presentation made to him as a member of any Indian delegation in accordance with the rules made by the Central Government in this behalf.
- by way of payment, in the course of International trade or commerce or in ordinary course of business transacted by him outside India.
- by way of salary, wages or other remuneration due to him or to any group of persons working under him, from any foreign source or by way of payment in the ordinary course of business transacted in India by such foreign source.
- as an agent of a foreign source in relation to any transaction made by such foreign source with the Central or the State Government
- by way of remittance received in the ordinary course of business through any official channel, post office or any authorized person in foreign exchange under the FEMA, 1999.
- by way of any scholarship, stipend or any payment of like nature

#### **Prohibition on receiving Foreign Hospitality:**

A member of a legislature, office bearer of a political party or Judge or Government servant or employee of any corporation or any other body owned or controlled by the Government is required to obtain prior permission of the Central Government to accept foreign hospitality while visiting any country outside India. The application for acceptance of foreign hospitality must be made in **Form FC-2** which must reach the appropriate authority two weeks before the date of onward journey.

The condition of prior permission to accept foreign hospitality may be dispensed with in case of emergent medical aid needed on account of sudden illness contracted during a visit abroad. However, the acceptance of foreign hospitality in such a case

shall be required to be intimated to the Central Government within one month from the date of receipt of such hospitality. It may be noted that as per Rule 7, the said intimation has to be made to the Central Government within sixty days of such receipt, if the value of such hospitality is more than one lakh rupees or equivalent thereto. The Rule has in effect relaxed the provisions of the Act. However, since the rules are formulated to carry out the provisions of the Act, they cannot override the Act.

#### **Prohibition to transfer FC to other Person**

A person who is registered and granted a certificate of registration or has obtained prior permission under FCRA 2010 and receives any FC, may transfer such FC to any other person who is also registered under the Act and has been granted a certificate of registration or who has obtained prior permission under the Act. However, in case the transfer of such FC has to be made to a person who has not been granted a certificate of registration or obtained prior permission under FCRA 2010 then only a part of such FC as prescribed in the rules may be transferred with the prior approval of the Central Government.

#### **Application for registration and prior permission**

The organizations seeking foreign contributions for definite cultural, social, economic, educational or religious programmes may obtain registration by making an application electronically on-line in **Form FC-3** and thereafter forwarding the hard copy of the on-line application duly signed by the Chief functionary of the association to the Central Government within thirty days of the on-line submission of the application. If the organization referred to above is not registered with the Central Government, it may accept foreign contribution only after obtaining the prior permission of the Central Government.

The Central Government shall within 90 days of receiving application, grant the certificate of registration / prior permission or communicate reasons for not granting such registration / prior permission.

If any person knowingly seeks prior permission or registration by means of fraud, false representation or concealment of material facts, he shall, on conviction by a court, be liable to imprisonment for upto six months or with fine or with both.



Only such organization which have proven track record of functioning in the chosen field of work during last three years may be granted registration and after registration, such organization is free to receive FC from any foreign source for stated objectives. Registration is granted only after thorough security vetting of the activities and antecedents of the organization and office bearers thereof. However, the newly established organizations which do not have proven track record of functioning may also receive foreign contribution for specific activities, for a specific purpose and from a specific source after seeking project based prior permission from the Ministry of Home Affairs.

### **Renewal of certificate of registration**

A certificate of registration granted to a person under the Act is valid for a period of five years from the date of its issue and has to be renewed six months before the date of its expiry. An application for renewal of the certificate has to be made in **Form FC- 5** and shall be accompanied by a fee of Rs. 500 failing which the validity of the certificate of registration shall be deemed to have ceased on the completion of five years from the date of grant of registration. Therefore, all the existing associations have to file their FC-5 for renewal before 1st November 2015.

Illustration: Mr. A is granted a certificate of registration on 01.01.2012. The certificate shall be valid till 31.12.2016. The certificate of registration shall be deemed to have been lapsed w.e.f. 31.12.2016 if the certificate of renewal in Form FC-5 is not:

- (i) Accompanied by the requisite fee of Rs. 500 or
- (ii) received by the Central Government by 30.06.2016.

However, the department may condone the delay if satisfactory reasons for not submitting the renewal application are provided. Such delay should not be for more than four months after the expiry of the original certificate of registration. Further, a person implementing multi-year projects shall be eligible to apply for renewal twelve months before the date of expiry of the certificate of registration.

### **Suspension of certificate of registration**

The new Act empowers the Central Government to suspend the registration pending cancellation of certificate, for a period upto 180 days. During suspension the organisation cannot receive any foreign funds except with the prior approval of the Central Government and subject to such terms and conditions as it may specify. However, such organisation can utilise the existing foreign funds to the extent of 25%, for the declared aims and objects for which the foreign contribution was received but with the prior approval of the Central Government. The remaining 75% of the unutilized foreign contribution can be used only after revocation of the suspended certificate. Before suspending any organisation, the Central Government shall record the reasons in writing.

### **Cancellation of certificate of registration**

The Central Government may cancel the registration certificate for various reasons mentioned hereunder:

- i. If the holder of the certificate has furnished false or incorrect information
- ii. If the holder has violated the terms and conditions of the certificate or renewal thereof
- iii. If the Central Government considers it necessary to do so in the public interest
- iv. If the holder has violated any provisions of the Act or the Rules made thereunder
- v. If the holder has not been engaged in any reasonable activity for 2 consecutive years.

However, no certificate shall be cancelled unless reasonable opportunity of being heard is provided. Once a registration certificate is cancelled, such person shall not be eligible for registration or prior permission for the next 3 years from the date of cancellation. In the event of cancellation of registration, the respective banking authority shall become the custodian of the amount of foreign contribution lying unutilized in the exclusive foreign contribution bank account till the Central Government issues further order. If the person whose certificate of registration has been cancelled transfers/ has transferred the foreign contribution to any other person then the funds in the bank



account of such person will also go to the custody of the banking authority.

### **Maintenance of accounts**

A separate set of accounts and records have to be maintained by every person who has been registered or granted prior permission under the Act for the purpose of recording the amount of foreign contribution received and utilized by him. A report in **Form FC-6** accompanied by an income and expenditure account, a receipt and payment account and a Balance sheet has to be submitted by every person receiving foreign contribution under the Act within nine months of the closure of the financial year to the Secretary to the Government of India, Ministry of Home Affairs, New Delhi. This report should also reflect the foreign contribution received in the exclusive bank account and the details of funds transferred to other bank accounts for the utilization of foreign funds. This report shall be duly certified by a Chartered Accountant.

### **Restriction on utilization of FC**

FCRA 2010 restricts utilization of –

- FC and any income arising from FC for speculative businesses
- FC for payment towards administrative expenses specified in the Rules to a maximum of 50% in one financial year. However, administrative expenses exceeding 50% may be defrayed with prior approval of Central Government.

### **Bank Accounts**

Foreign contribution shall be received by the association registered under the Act in a single bank account only through one of the branches of such bank as is specified by it in its application for grant of certificate. However, an association receiving the funds may open one or more accounts in one or more banks for utilising the foreign contribution received by it.

### **FC in excess of Rs. 1 crore in a Financial Year**

If a person who has been granted a certificate of registration or prior permission under FCRA, 2010 receives FC in excess of Rs. 1 crore or equivalent thereto in a financial year he is required to place

the summary of receipt and utilization of the FC pertaining to the year of receipt and for one year thereafter in the public domain. The Central Government will also have to display or upload such summary data on its website for the information of the general public. This provision would lead to more transparency. However, there is still some uncertainty as to what constitutes public domain. For example, it is not clear as to whether creation of a website and hosting of the summary therein would satisfy this requirement.

### **Penalties and offences:**

Section 35 of the Act provides that if any person accepts, or assists any person, political party or organization in accepting any FC or any currency or security from a foreign source, in contravention of any provision of the Act or any rules made thereunder he shall be punished with imprisonment for a term that may extend to five years or with fine or with both.

Section 37 of the Act provides that if any person fails to comply with any provision of this Act for which no separate penalty has been provided in this Act he shall be punished with imprisonment for a term that may extend to one year or with fine or with both.

Further, if any person who has been convicted of any offence under the aforesaid provisions of the Act in so far as such offence relates to the acceptance or utilization of foreign contribution, is again convicted of such offence then he cannot accept any FC for a period of five years from the date of the subsequent conviction.

### **Conclusion:**

As the FCRA, 2010 is national security legislation, associations are required to exercise extreme care and caution while receiving and utilizing the foreign contribution from the time of its receipt to its final utilization. This Act has introduced some rigorous provisions like renewal of certificate of registration every five years, suspension of certificate of registration, disclosure of information relating to receipt of FC in excess of Rs. 1 crore etc. Therefore, the associations will have to study the various provisions carefully and ensure strict adherence to the same to avoid the penal consequences thereof.



# Oil and Gas Sector Industry Overview and Taxation Provisions

Hemali Deepak Thakkar



A lot is talked about the oil and gas sector, but most of us are either ignorant, or novices with the subject. Oil and gas comprises 45 per cent of India's primary energy source. India is emerging as the global hub for oil refining with capital costs lower by 25 to 50 per cent over other Asian countries. India is the fifth largest country in the world in terms of refining capacity with a share of 3 per cent of the global capacity and is likely to boost its refining capacity by 45 per cent over the next five years.

## 1. Industry Classification

Traditionally, oil and gas operations have been classified as:

**Upstream :** Include Exploration & Production of Crude Oil & Natural Gas. Thus, generally include all activities involved in finding and producing oil and gas up to the initial point when oil or gas is capable of being sold or used. These are often referred to as exploration and production activities (E&P).

**Downstream :** Generally comprise Refining, Marketing & Distribution of Crude Oil & Natural Gas

Variations to these two conventional classifications could be:

**Integrated Oil and Gas Company :** One involved in E&P activities and atleast one downstream activity.

**Independant Oil and Gas Company :** A company involved primarily in only E&P activities.

## 2. Processes Involved

### 2.1 Exploration

Exploration Activities involve acquiring, analyzing & interpreting seismic data and

drilling of Exploration wells & Appraisal Wells over the Contract Area to locate discovery of Potential Commercial Interest.

The Exploration Stage comprises of 2-3 phases generally covering a period of 7-8 years

**Stage I-** Acquisition, processing & interpretation of seismic data

**Stage II-** Exploration

**Stage III-** Appraisal along with Technical Assessment

For each phase, a Production Sharing Contract (PSC) defines a Minimum Work Program (MWP) to be completed by the Operator of the Block. Failure to meet the MWP by the end of the relevant exploration phase would require the Operator to pay to the government an amount that would be required to complete the MWP.

### 2.2 Development

This includes drilling of wells, setting up platforms, installation facilities to produce, process & transport petroleum including pipelines up to the delivery point.

### 2.3 Production

The Production Stage comprises of activities undertaken and related cost incurred for producing petroleum after the commencement of production including operations & maintenance of facilities. The production is followed by actual sale of crude oil or natural gas.

*The author is a student of ICAI. Reg.No. WRO 0274391*

### 3. Major Costs Involved

The four basic types of costs as incurred by companies involved in Oil and Gas E&P activities are as follows:

**3.1 Acquisition Costs :** Costs incurred in **acquiring** the respective **rights** to explore, drill, and produce oil and natural gas.

**3.2 Exploration Costs :** These costs involve **identifying reserve areas** that may warrant examination and examining specific areas, including drilling exploratory wells.

**3.3 Development Costs :** Costs incurred in **preparing proved reserves for production**, i.e. costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas.

**3.4 Production Costs :** Costs incurred in **bringing the oil and gas to the surface** and in gathering, treating, and storing it.

### 4. A Few Important Components of an E&P Operation

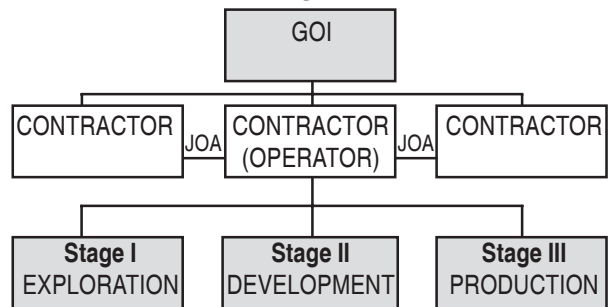
#### 4.1 Production Sharing Contract

Exploration & Production Operations are controlled by the Ministry of Petroleum & Natural Gas (MoPNG) through the Production Sharing Contract (PSC) entered into with the Contractor(s) of the Block. The PSC is a **contractual document** between the contractor and the GOI for exploitation of oil and gas (i.e. E&P). It lays down the procedures, rules, obligations & liabilities, terms and conditions governing petroleum operations, period of licence, work commitments of the contractor, cost recovery and sharing of profit, including accounting framework for the control & reporting for each stage of Petroleum Operations, Management Committee comprising of members representing the DGH/ Government.

#### 4.2 Joint Operating Agreement

In case of **more than one contractor**, the PSC requires the contractor to enter into a Joint Operating Agreement (JOA)

between/ amongst themselves.



The JOA **appoints an Operator** to the blocks & **defines its Rights, Duties & Liabilities**. The Operator carries out the Petroleum Operations and the other Contractors are required to regularly fund the operator in proportion to its Participating Interest in the Contract.

#### 4.3 Engineering, Procurement and Construction Contracts (EPC)

EPC contracts are a common form of contract used to undertake construction works by the private sector on large scale and complex oil and gas projects. Under an EPC Contract a contractor is obliged to deliver a complete facility to the developer who only needs to 'turn a key' to start operating the facility. Hence EPC Contracts are sometimes called **turnkey construction contracts**. In addition to delivering a complete facility, the contractor must deliver that facility for a guaranteed price by a guaranteed date and it must perform to the specified level.

### 5. An Understanding of the Current Direct Tax Regime

The Indian tax structure is governed by the provisions of the Income Tax Act, 1961. A brief synopsis of Indian taxation system for this sector is outlined below:

1. **Taxable profits** of a tax payer, who has entered into a PSC with the Government for participation in the business of prospecting and E&P of mineral oil, to be **determined in accordance with the special provisions contained in the PSC**. **Specific allowances** in addition or in lieu of allowances under normal provisions, as specified in the PSC are permitted.

2. Special deduction of 100 per cent of exploration and drilling expenses. **Allowable expenditure is aggregated till the commencement of commercial production.** Accumulated expenditures are then allowed in the year of commencement of commercial production or permitted to be **amortized over a period of 10 years.**
3. All **unsuccessful exploration costs** in other contract areas can be **set off against income in such contract area** in which commercial production has successfully commenced.
4. **One hundred percent tax holiday available** in respect of profits earned from production of mineral oils under section 80IB(9). Such tax holiday is available for seven consecutive years from the year of commencement of commercial production. However, companies availing deduction under these provisions would still be liable to pay MAT on 'book profits'.
5. Though the period of carry forward of Minimum Alternative Tax credit remains the same at 10 years, the rate of MAT has been increased from a 18 per cent to 18.5 per cent on book profits, increasing the burden of companies claiming tax holidays and exemptions. This would further discourage establishments operating in India, especially Oil E&P and refining sectors, which receive due benefit of generous tax holidays. It is pertinent to note that the proposed DTC has provided for levy of MAT @ 20per cent.
6. Special deduction is available for **site restoration expenses.** Such deduction is an amount being lower of the sum deposited either in a special account or in a "Site Restoration Account" or 20 percent of the profits calculated in the prescribed manner.
7. Deduction is allowed for capital expenditure incurred by a taxpayer for the business of laying and operating a cross country natural gas, crude or petroleum oil pipeline, for distribution, including storage facilities being an integral part of such network, if at the least one third of a natural gas pipeline or one fourth of petroleum product pipeline capacity is made available for use on common carried basis, as prescribed by the Petroleum and

Natural Gas Regulatory Board (PNGRB). This is as per section 35AD of the Act.

## 6. Key Issues Facing the Industry

Uncertain product demand, decreased refinery margins and surplus refining capacity are having a combined negative effect on the profitability of refining operations. This continues to cast a shadow of uncertainty over the future of oil and gas company margins, often thereby compelling integrated companies to divest their non-profitable assets to fund other businesses.

Some of the key issues and challenges faced by the Industry are:

1. Addressing **environmental sustainability** and adhering to social responsibility norms, yet ensuring good profitability
2. Managing **Financial risk** and ensuring least exposure against price fluctuations
3. Facing **Geopolitical risk** and challenges effectively
4. Ensuring constant and regular supply of raw materials and power required, without causing harm to the environment
5. Upgrading recruitment and selection procedures to ensure retention and influx of well equipped, experienced and **skilled human resources**
6. Managing operations around the globe well, and remove barriers as far as possible
7. Constantly complying with the highly indecisive and multifarious internal controls and external reporting

## 7. Tax Issues Being Faced

1. A major portion of the price build-up is because of the **high incidence of taxes.** The petroleum sector touches every household, be it the kerosene that touches the lives of the poor and the middle class, or the rich depending upon aviation turbine fuel. Taxes levied on oil affects all classes to an extent.
2. An important issue for the taxpayer is the treatment of **tax credits.** Many companies

functioning/operating in two or more countries expect to be subject to an income tax in the producing country, as this tax will be creditable against the income tax levied in the home country. Absence of a sound income tax regime and structure in the producing country may cause the company to be subject to higher tax payment in the home country. Some specialized mineral taxes may be deemed to differ in nature from a standard corporate tax and, therefore, could face difficulties in qualifying for a tax credit.

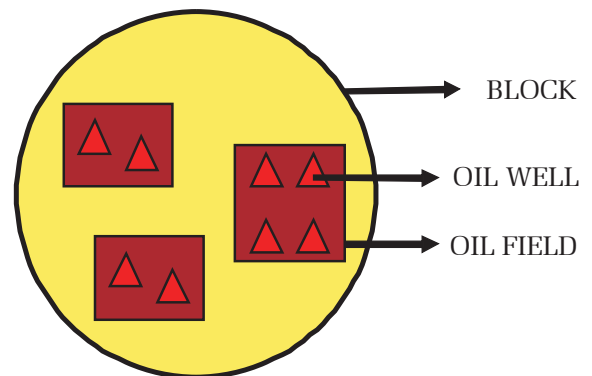
3. The **scope of service activities, where the presumptive tax regime would apply**, needs to be more explicitly and specifically defined. Also, whether the income of a sub-contractor who is a party of the JOA, could fall under this special tax regime is also a matter of uncertainty.
4. As per the Petroleum Tax Guide, for any or all accumulated expenditures incurred prior to the date of commercial production, PSC participants shall have an option to amortise such expenses over a period of ten years from the date of the **“first commercial production”**.

**Ring fencing** means a limitation on consolidation of income and deductions for tax purposes across different activities, or different projects, undertaken by the same taxpayer. **Some countries ring-fence oil and gas activities, others ring-fence individual contract areas or projects.** This can become complex if a project incorporates extraction, processing and transportation activities. If the oil and gas tax regime is more onerous than the standard tax regime, the taxpayer could seek to have certain project-related activities treated as down-stream activities outside the ring fence. If they are treated as a separate activity, the taxpayer may attempt to shift profits to the lightly taxed downstream activities.

It is important to determine the extent of “ring-fencing” of tax accounts, due to two major issues springing up:

- Whether it results in a **new undertaking**?

- What would be the **year of commencement** of commercial production?



**Ring-fencing rules matter for two main reasons:**

- Absence of ring fencing can **postpone government tax revenue** because a company that undertakes a series of projects will be able to deduct exploration or development expenditures from each new project against the income of projects that are already generating taxable income
  - As an oil and gas area matures, absence of ring fencing *may discriminate against new entrants that have no income against which to deduct exploration or development expenditures.*
5. **The treatment of various items is left to interpretation of the PSC.** The PSCs lay down the tax treatment for certain items. This treatment has to be read with the provisions of the Income Tax Act, however, there are situations where one would interpret varying treatments or insufficiency of references in the Income Tax Act giving rise to a controversy. Also, it might include design and administrative complexities causing a PSC to be as complex to administer as profit-based taxes. Difficulties relate particularly to the determination of allowable costs.

6. There is ***no specific income tax regime for taxation of EPC contracts***. This indicates that it is essential to undertake adequate planning to face tax risks effectively.
7. '***Farm-in***' is a ***transaction*** under which an incoming/ farm-in party earns an interest in a contract from an exiting/ farm-out party to the contract in return for a consideration which may be payment of a part or the farm-out party's entire share of costs relating to the contract. Farm-in transactions are unique to the exploration and production (E&P) sector since mineral oils embedded in a particular territory in their natural habitat are the property of the State/Central Government in whose territory/ jurisdiction they rest. Thus 'farm-in' is a transaction wherein the farm-in company gets a ***share in licenses and rights*** thereon which are originally granted to the company farming out of a block.

The industry has put in several attempts to seek clarification on the tax ***treatment of farm-in costs***. However, there is ***not much guidance available***, leading to a dispute between the industry and the tax department. The revenue authorities do not allow the claim of the farm-in costs either as revenue expenditure or as depreciation. The revenue authorities reject the claim of farm-in costs as revenue expenditure under Section 37 on the ground that the said section of the Income Tax Act is not applicable to E&P companies to claim the deduction of expenditure. Also, the revenue authorities do not accept the claim under Section 42 by contending that the exploration expenses are actually to be incurred by the farm-out party. While disallowing the claim of depreciation, the revenue authorities do not take into account that the exploration rights granted by the Government are in the nature of licence, and that the same should be recognized as

an intangible asset eligible for depreciation under section 32 of the Act. Taxability of farm in/farm out transactions require appropriate attention to ensure avoidance of further tax issues of any sort.

8. Section 42 of the Act allows a deduction in respect of capital and revenue expenditure actually incurred by the assessee in respect of drilling and exploration activities. The fact that ***capital expenditure is also allowed as a deduction beginning with the year of commercial production*** only amounts to an accelerated deduction of the expenditure incurred and does not amount to any additional deduction or incentive being granted to the assessee. Since the drilling and exploration expenditure incurred by the assessee (including capital expenditure) is a genuine business expenditure incurred by the assessee, it would have in any case, be allowable as a deduction under the normal provisions of the Act, either directly or by way of depreciation. It is also important to note that as per the provisions of the Production Sharing Contracts (PSCs) signed by the Government with the various oil exploration companies, ***the entire expenditure incurred on drilling and exploration activities is to be borne by the oil exploration company. In the event the efforts of the oil exploration company are unsuccessful, the entire expenditure would be a loss incurred by the said company. However, if the oil exploration company strikes oil in the exploration block, a certain portion of the profits earned by the oil exploration company from the production and sale of the oil from the block has to be shared with the Government.*** This would be a win-win situation for the Government since it will not only lead to a better exploitation of the vast unexplored potential of our exploratory basins; but

will also provide additional revenues to the Government in the form of share of profits from the oil reserves discovered in these blocks. In such a case, the provision should make the enterprise eligible to claim a higher weighted deduction of the actual expenses incurred in respect of drilling and exploration activities.

9. The **depletion allowance** is similar to the depreciation allowance afforded to other firms for their investments. However, it is difficult to estimate what proportion of a mineral deposit has been exhausted. Also the value of the deposit is often substantially larger than the amount invested.

10. **Sub-section (9) of Section 80-IB** provides deduction to an undertaking, which begins commercial production or refining of mineral oil equal to 100 per cent of the profits for the period of 7 consecutive years including the initial assessment year. One will appreciate that in the initial few years there is hardly any profit to take advantage of the tax holiday provisions under this section. The said sub-section does not provide any flexibility to choose the period in which to claim the benefit. Also, during the initial seven years period of tax holiday, companies have large expenditure to set off and hence actual benefit of tax holiday does not flow to them. **Undertakings should be given the option** of claiming tax holiday at any time during the first 12 to 15 years after the commencement of commercial production, to make the incentive really meaningful.

The one clarification provided in the Finance Act is in form of a sunset clause for undertakings engaged in commercial production of mineral oils. A proviso has been inserted stating that the aforesaid deduction will not be available for blocks licensed under a contract awarded after March 31, 2011. This amendment will

take effect from 1 April 2012 and will, accordingly, apply in relation to the assessment year 2012-13 and subsequent year.

11. Once a tax provision states that profits of companies engaged in commercial production or refining of mineral oil should be fully exempted from income-tax for a period of 7 years, a sound policy is to ensure that this incentive is not diluted by any other provision. MAT under section 115JB @ 18.5 per cent (plus surcharge and education cess) is payable on the book profits earned by a company, if the tax payable on its taxable income under the normal provisions of the Act is lower than 18.5 per cent of its book profits. No exemption has been granted to profits earned from commercial production or refining of mineral oil which are otherwise fully exempt from income-tax for a period of 7 years, from the levy of MAT. This means that the objective of granting the 7-year tax holiday would be completely nullified if MAT @ 18.5 per cent on book profit is levied on such profits.

## 8. Conclusion

During the past 30 years, numerous prospective reserves for oil and natural gas have been discovered in India. A growing economy with its inherent increase in energy demand is likely to welcome huge investment opportunities in the oil and gas industry. It is expected that India's energy sector will provide investment avenues worth US\$ 110 billion-US\$ 160 billion over the next few years. With large areas of India's sedimentary basins remaining unexplored, the Indian oil scenario is believed to comfortably cross expectations. It is high time since heed be paid towards solving various issues faced by the industry and also substantially simplify tax laws in this regard.

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

# Understanding Options

Nidhi Singh

*I have but one lamp by which my feet are guided, and that is the lamp of experience.*

*I know no way of judging of the future but by the past.*

—Patrick Henry, March 23, 1775

## Tracing the Origins

In recent years options have become essential to the functioning of the world's capital markets but their origins can be traced back to Greeks and Romans. The first ever historical account of options dates back to 332 B.C. when Thales of Miletus bought rights to olive harvest before the harvesting season and made a fortune. The Romans and Phoenicians wrote options on cargoes transported by their ships to different countries. During the seventeenth century, in Holland there was an active options market for the buying and selling of tulip bulbs, also known as the Tulip mania. It is considered to be the first recorded speculative bubble when the writers of put options refused to honour contracts when the tulip bubble burst during the year 1637. In London, option contracts in the form of time bargains were used in 1730 for speculation as well as to defer settlement. However, due to the Barnard's Act of 1733, the options were declared illegal. This decision was only revoked in 1860. Again, in the year 1930, after the World War II and in 1958 options had to face the heat by being banned. The use of options was prohibited not only in England but in the United States of America too till the end of nineteenth century. It was not until the 1970's that options transformed to what it is today i.e. fundamental element of every stock market around the globe. The credit of making options a worldwide phenomenon goes to Fischer Black and Myron Scholes. In 1973, they wrote an article "*The Pricing of Options and Corporate Liabilities*" explaining the basic principles of option pricing and hedging of risk in detail. This led to a boom in the trading of options and the same year also saw the creation of Chicago Board of Options Exchange. It was the first registered exchange to list standardised and exchange-traded stock options. Only in the year 1978, exchange traded options were introduced in

London with call options on only ten stocks. Now the number of call and put contracts offered by London International Financial Futures Exchange (LIFFE) has increased manifold. The worldwide scenario too has taken a leap forward. The picture would be clearer if you take a look at the figures relating to the volume of options contracts traded globally (Table A). There has been a double figure percentage change from year 2009 to 2010.

**Table A: Global Listed Options Volume**

| Jan-Dec 2009  | Jan-Dec 2010   | % Change |
|---------------|----------------|----------|
| 9,556,587,701 | 11,112,719,271 | 16.3%    |

**Note:** Based on the number of contracts traded and/or cleared at 78 exchanges worldwide

Table B gives you an overview of the volume of options and futures traded across the globe region-wise.

**Table B: Global Listed Derivatives (Options & Futures) Volume by Region**

| Region        | Jan-Dec 2009          | Jan-Dec 2010          | % Change     |
|---------------|-----------------------|-----------------------|--------------|
| Asia Pacific  | 6,206,896,074         | 8,865,036,759         | 42.8%        |
| North America | 6,353,460,256         | 7,169,690,209         | 12.8%        |
| Europe        | 3,838,022,268         | 4,418,537,986         | 15.1%        |
| Latin America | 1,020,820,724         | 1,526,946,057         | 49.6%        |
| Other         | 325,404,696           | 315,036,438           | -3.2%        |
| <b>Total</b>  | <b>17,744,604,018</b> | <b>22,295,247,449</b> | <b>25.6%</b> |

**Note:** Based on the number of contracts traded and/or cleared at 78 exchanges worldwide.

Other consists of exchanges in Dubai, Israel, South Africa and Turkey.

Now the options are traded across different exchanges around the globe on many underlying assets. These underlying assets include shares, foreign currencies, indices like Nifty, commodities to name some.

This article introduces you to the basics of options and the principles of option pricing.

*The author is Assistant Secretary, ICAI*

### Some Definitions and Illustrations

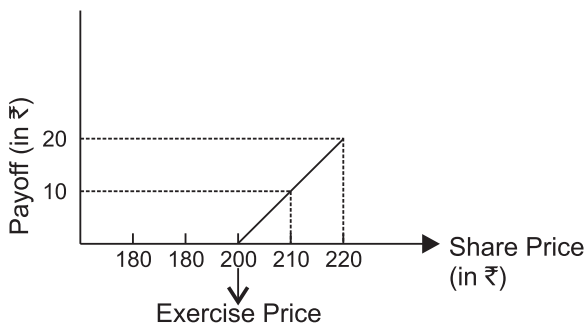
Basically, there are two types of options: Call option and Put option.

A Call option is a contract that gives its owner the right but not the obligation to buy an asset at a fixed price also called strike price or exercise price on a specified date also known as expiration date or time from the issuer of that option. If the option is exercised, then the seller must deliver the asset and receive the exercise price as per the option contract. At times, physical delivery of the asset does not take place instead the holder of the call receives the difference between the value of the underlying asset and the strike price.

Take for example; you have purchased a call option on one share of Unitech Limited. The exercise price is ₹ 200. You hold the option till the expiry. Suppose Unitech's share trades at ₹ 220 at the time of maturity, then it means your call option is *in the money* and you should go ahead with the option. If you exercise the option then the payoff is ₹ 20 excluding the premium you paid upfront. Say on the other hand, if the share traded at ₹ 180 at the time of maturity, then the option is *out of the money* and is a waste. Your payoff in this case is zero.

Take a look at Exhibit I for a better understanding between the payoff and the share prices of Unitech Limited. It can be seen that all call options which are held to maturity have the same general payoff diagrams. It is very important to note that regardless of the share price, high or low, the payoff to the call option cannot go below zero.

#### Exhibit I: Payoff Diagram for Buying of Call Options



For the holder of the call option, it is worthwhile to exercise his option only when the current price of the share is more than the strike price.

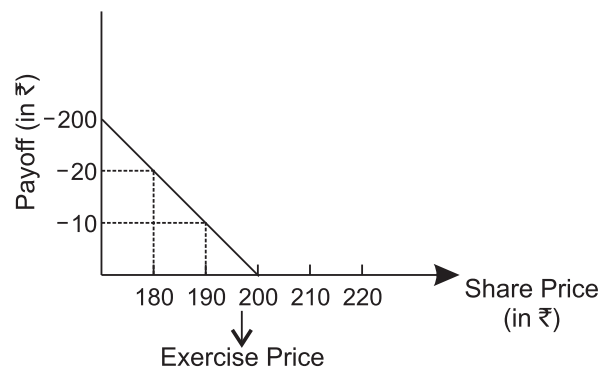
A Put option is a contract that gives its owner the right but not the obligation to sell an asset at the strike price on a specified date. When a put option is exercised, the holder sells the underlying asset

to the writer at the pre-agreed price.

Take the same example but with a put option. This means that you have purchased a put option on one share of Unitech Limited. The exercise price is ₹ 200. You hold the option till the expiry. Suppose Unitech's share trades at ₹ 220 at the time of maturity, then it means your call option is *out of the money* and is worthless. It will be better to sell the share in the market. Say on the other hand, if the share traded at ₹ 180 at the time of maturity, then the option is *in the money* and you should exercise the option. If you exercise the option then the payoff is ₹ 20 excluding the premium you paid upfront.

Exhibit II depicts the relationship between the payoff and the share prices of Unitech Limited when a put option is purchased. Just like call options, all put options which are held to maturity have the same general payoff diagrams.

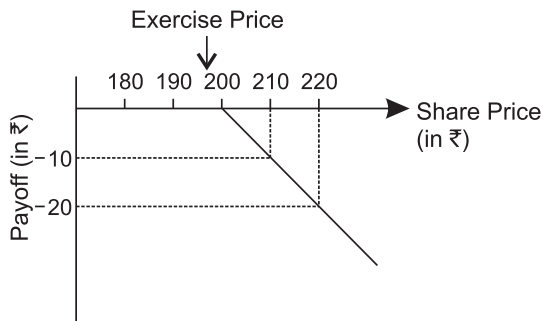
#### Exhibit II: Payoff Diagram for Buying of Put Options



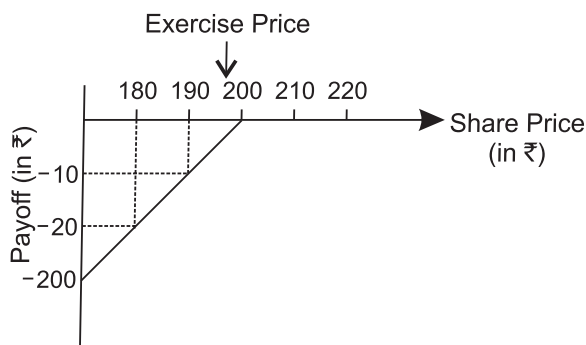
Remember the value of both call and put options cannot be less than zero. If the value of the underlying asset increases then the option holder (buyer of the option) makes profit. If the value of the underlying asset decreases then the option writer (seller of the option) makes profit. For the holder of the put option, it is worthwhile to exercise his option only when the current price of the share is less than the strike price.

As far as selling of call options and put options are concerned the payoff diagrams (See Exhibits III and IV) are just the mirror images of the payoff figures of purchasing of call options and put options.

#### Exhibit III: Payoff Diagram for Selling of Call Options



**Exhibit IV: Payoff Diagram for Selling of Put Options**



In order to acquire the right of option, the buyer of the option has to pay an option premium to the seller of the option. The buyer of the option can only lose the option premium paid but his gain can be lot more. However, the maximum gain to the writer of the option is only limited to the option premium received by him from the option holder but his possible losses know no bounds. The most important aspect in options contracts is the option pricing.

Options can either be American or European. American options can be exercised any time before the expiration date whereas European options can only be exercised at the expiration date.

### Principles/Factors Underlying Option Pricing

**Put-call parity** is one of the principles underlying option pricing. A change in the price of the underlying share affects the price of both call and put options that are written on the share. In 1969, Hans Stoll in his paper, *The Relation between Put and Call Prices*, identified that there is a relationship between the fair values of call and put prices. However, it is valid for options having the same strike price and expiration date. This concept is related to European call and put options only. If

there is a divergence between the values of calls and puts then arbitrage opportunities would be possible and arbitrageurs would make merry until the put-call parity is restored.

The original put-call parity relation was based on the premise that the underlying share does not pay dividends till the expiration date. Let's try to understand this concept through an example. Suppose we consider a European call and put option on a non-dividend paying share of Unitech Limited with the same strike price and same expiration date, then this would satisfy the following equation:

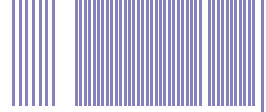
$$\text{Call Value} - \text{Put Value} = \text{Stock Price} - \text{Present Value of Strike Price}$$

Say both the options are for a one year period and the present share price of Unitech is ₹ 210. The rate of interest for one year is 10 percent per annum. Applying the put-call parity equation we find that difference between the call and put value is:

$$\text{Call Value} - \text{Put Value} = ₹ 210 - ₹ 200/1.1 = ₹ 210 - ₹ 181.82 = ₹ 28.18$$

This means that the call is worth about ₹ 28 more than the put. Suppose, in the actual market, call was trading at ₹ 20 more than the put, then we could have bought the call and sold the put and made a neat profit of ₹ 8.

To understand this you'll have to first visit the concept of arbitrage underlying the parity. Consider you purchased one call and sold one put, then the payoff figure for this portfolio can be graphed by combining Exhibits I and IV. On careful observation you'll find that this portfolio is completely exposed to risk movements in Unitech's share price. This means that every rupee gained or lost in the share price would result in an equal gain or loss in your portfolio. As a result, a perfect hedge can be created by shorting the share. This is just a complex way of borrowing the present value of the exercise price. If you purchase a call, sell a put and short one share then you are hedging the risk. If arbitrage is to be avoided then the initial cashflow from this procedure must be equal to the initial cashflow from borrowing in the normal way.



Suppose you borrow the present value of the exercise price for a year and buy one share of Unitech Limited. After a year, you are liable to pay back ₹ 200 but you are also in possession of one share of Unitech whose value maybe more or less than ₹ 200. We try to look at both the scenarios. If the share price in one year is worth ₹ 220 then even after paying the borrowed amount, you are left with ₹ 20. On the other hand, if the share price in one year goes down to ₹ 180 then your portfolio is negative ₹ 20. For this portfolio the pay off diagram will again be the combination of Exhibits I and IV. So it can be stated that purchasing a call and selling a put has the same payoff as buying one share and borrowing the present value of the exercise price.

Going back to our earlier example, where we made a profit of ₹ 8, we find that the parity has been violated. If we want to make this ₹ 8 a risk-free arbitrage, then we can follow either of the given strategies:

- Buy the call and sell the put. This will cost you ₹ 20.
- Short one share at the present price of ₹ 210 and lend for one year ₹ 200, you'll get a cashflow of ₹ 28.18

This means that in one year from now, the cashflows from both the above strategies will cancel each other out, leaving you with a profit of ₹ 8.

Another very important principle determining the fair values of call and put options is the concept of volatility. **Volatility** is the measure of the uncertainty about the future share price movements. If the volatility increases then values would more likely be extreme making the options more valuable.

Another factor affecting the option price is **share price and exercise price**. If share price increases then the call options become more valuable and if the exercise price increases then the value of the call option decreases. For put options the situation is just the opposite. Increase in the share price, less valuable and increase in the strike price then more valuable.

**Expiration date** also affects the prices of the

options but the effect it has on American and European options is not the same. As the time to expiration increases, American options whether put or call become more valuable. However this may not be the case with European options.

Considering the factor of **risk-free interest rate**, the effecting result is totally opposite for call and put options. If the risk-free interest rate increases then the prices of call options also increase but the prices of put options go down.

If the underlying asset is shares then the **dividend** also affects the prices of the options. Since dividends tend to lower the prices of the shares therefore the value of call options is negatively affected while put options have a positive effect on the value.

## Conclusion

Options are a very important tool for hedging risk. The usage of options as a risk management technique is quite widespread. The users can be importers, exporters, individual investors, financial institutions to name a few. Options allow investors to enjoy boundless favourable movements while cutting down the losses. But caution must be exercised before using them due to some limiting factors like lower liquidity of certain share options, complexity in understanding the mechanics of option pricing, losing out on time value of options and higher commissions.

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# Internal Audit of Industrial & Service Operations – Application of Standards on Internal Audit

CA. Arijit Chakraborty



**I**nternal auditing today addresses major issues in governance, risk and compliance. It has emerged as a frontline business partner of corporate management, be it in-house, outsourced or co-sourced. In case of both manufacturing and service entities, one of the major contributing areas of internal auditing is to advise management on how to increase operational efficiency through reducing 'throughput time', 'cycle time' and 'leverage on faster service delivery rate'. In this process, internal auditors use several techniques of Operations Research – *LP, Queuing Theory, Game Theory, Kaizen Costing, TQM, Time & Motion Study, Sensitivity Analysis, Fish-bone analysis* etc.,. Thereby bring about significant development in the overall operational efficiency and effectiveness of the business entity under review. The **Standards on Internal Audit (SIA)** pronounced by the Institute of Chartered Accountants of India, addresses major issues in this regard and offers specific guidelines for the review of operations, internal controls inherent therein and the risk management structure of an entity.

Efficiency refers to the relationship between the output of products, goods or services or other results and the resources used to produce them. Effectiveness is the relationship between the intended results and actual results of a system, process, procedure, project or such other activity. The internal audit of operational efficiency and effectiveness involves the appraisal of controls, management objectives and plans and evaluation of performance. The overall objective and scope of an internal audit does not change in case of a review of the efficiency and effectiveness of operations. However, the boundaries between efficiency, effectiveness and economy are found, more often than not, to be overlapping. The quantitative interpretation of the significant

financial and operational parameters of an entity is known as Key Performance Indicators (KPI).

The internal auditor while conducting review of operational efficiency, should examine and appraise:

- ✓ the extent of maximum output achieved for a given input, or minimum input used for a given output.
- ✓ the extent to which outputs in the form of products, goods or services or other results achieve policy objectives, financial and operational benchmarks and other intended criteria.

The internal auditor should have sufficient knowledge of the business processes, environment, systems and operations together with the interface of information technology systems to plan, direct, supervise, control and review the work performed. The internal auditor should consider whether any specialised technical skills are needed in the conduct of the audit, for example, to:

- a) obtain sufficient understanding of the operational environment of systems, KPI, processes performance yardsticks, internal control and risk management like, the operating knowledge of a specialised machine assembly line or specialised skills and certification required for conducting energy audit etc.;
- b) design and perform appropriate tests of control and substantive procedures; and
- c) determine the effect of the mechanised or automated environment on assessment of overall audit risk.

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*The author is a member of ICAI (Mem.No. 061606)*

If specialized skills are needed, the internal auditor should seek the assistance of a technical expert possessing such skills, who may either be the internal auditor's staff or an outside professional. If the use of such a professional is planned, the internal auditor should, in accordance with **SIA 16, *Using the Work of an Expert***, obtain sufficient appropriate evidence that the work performed by the expert is adequate for the purposes of the internal audit.

**Planning the audit** - understanding of operating environment, systems, processes, control environment, risk-response activities and internal control systems sufficient to plan the internal audit and to determine the nature, timing and extent of the audit procedures, in accordance with **SIA 1, *Planning an Internal Audit***. In line with **SIA 15, *Knowledge of the Entity and Its Environment***, the internal auditor should obtain reasonable understanding of the entity, industrial parameters and best practices to review the performance of the entity's operations. In specialised industries / service sectors like Oil& Gas, Aviation, Telecom, Banking, IT, Insurance etc., there are additional legal/ regulatory guidelines and mandates from apex regulatory bodies like DGH, DGCA, TRAI, RBI, IRDA, SEBI and others needs to be seek his adhered. While doing the same Internal auditor has to apply guidance enshrined in **SIA 17, *Consideration of Laws and Regulations in an Internal Audit*** to perform his review. The Internal auditor should apply the principles set out by **SIA 5, *Sampling*** in designing appropriate sample to evaluate and review performance measurements *vis a vis* entity / industry standard. In case of a system interface / IT environment, the internal auditor should apply the guidelines provided in **SIA 14, *Internal Audit in an IT Environment***.

**Efficiency and Effectiveness parameters** - The internal auditor should review the overall performance, economy and achieved results of a system, process, procedure and such other activity using quantitative and ratio analysis of the appropriate efficiency and effectiveness parameters while comparing the same with the targeted, intended or expected financial or operational benchmarks. The efficiency, effectiveness parameters and KPIs will vary from industry to industry and across enterprises. These parameters and KPIs are designed to appraise the efficiency of

functions and processes which are, *inter alia*, as under

- (a) Purchase / Procurement
- (b) Materials / inventory management
- (c) Manufacturing / Production
- (d) Logistics
- (e) Quality assurance
- (f) Sales / Revenue including Marketing
- (g) Information Technology
- (h) Human Resource / payroll / labour

The internal auditor should consider the following indicative parameters highlighting operational efficiency and effectiveness :

- (a) productivity factor,
- (b) asset turnover,
- (c) capacity utilisation,
- (d) scrap / yield factor,
- (e) idle labour hours,
- (f) material input-output ratio,
- (g) power or energy consumption,
- (h) degree of safety of a hazardous industrial process,
- (i) processing line utilisation, equipment efficiency, machine down-time, break-down and maintenance
- (j) market share of business, analysis of retained customers / clients
- (k) extent of wastage or scrap produced by a manufacturing operation,

### Key Audit Procedures and application of SIAs

The internal auditor's review of the operational efficiency and effectiveness in an entity should involve, *inter alia* :

- a) the procedures followed by the internal auditor in obtaining a sufficient understanding and review of the business processes, systems and internal controls delineating the degree of automation, mechanised operations and usage of information technology, including Enterprise Resources Planning (ERP) systems;
- b) the internal auditor's review of the enterprise risk management and business continuity systems;

- c) the internal auditor's understanding and review of the KPI s usually followed in the enterprise and the associated industry; and
- d) the exercise of professional judgment and objectivity in evaluating evidence in connection with relevant situations, conditions and issues.

The internal auditor should review the efficiency and effectiveness of an operation from the standpoint of speed, accuracy, timeliness and orderly flow of input materials, data and documentation, its systematic processing and its output with the desired quality attributes. The internal auditor should examine the extent of bottlenecks, delays, stoppages and such other impediments to the seamless flow of a process or schedule and analyse its underlying causes with recommendations for improvement of process effectiveness, wherever feasible. The internal auditor should review the actual operations with the planned or targets as may be documented in the process/ activity manual or Standard Operating Procedure (SOP) of an enterprise. The internal auditor should review and appropriately highlight all deviations from expected norms in his report. The internal auditor should consider using analytical reviews in accordance with **SIA 6, Analytical Procedures**, including relevant software and information technology tools for the purpose of reviewing the operational efficiency and effectiveness of a system, process, procedure or related activity.

**Documentation and Evidence** - The internal auditor should document the significant KPIs, operational parameters, internal audit plan, nature, timing and extent of audit procedures performed, deviations and variance observed from the benchmarks and the conclusions drawn from the evidence obtained. In an internal audit of the operational efficiency and effectiveness, some of the audit evidence may be in physical or/ and electronic form and soft copy. The internal auditor should satisfy himself that such evidence is adequately and safely stored and is retrievable in its entirety as and when required. **SIA 3, Documentation** pronounced by ICAI provides vital step-by-step guidance on this aspect of the audit exercise. The internal auditor should evaluate the evidence based on his review, in accordance with **SIA 10, Audit Evidence**.

**Reporting** – The internal auditor needs to structure the report and communicate in accordance with **SIA 4, Reporting** pronounced by ICAI and **SIA-9, Communication with Management**.

Streamlining of systems, improving operational efficiency and optimizing service delivery models are the critical success factors of a modern global entity, be it in the Supply Chain, Production, Safety or any other factor of sustainability. The Internal auditor has a tremendous value-additive review and consultative role to play in this emerging area and the application of SIAs together with cutting edge audit technology will pave the way for a system driven, process-centric organization.

## CROSSWORD

July-2011

Solution

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| P | R | I | V | A | T | E |   |   |   |   |   | W |
| A |   |   | A |   | E |   |   |   |   | H |   | E |
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| R |   |   | I |   |   |   |   | R |   | G |   | T |
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# Accounting

## Filing of Balance Sheet and Profit and Loss Account in eXtensible Business Reporting Language (XBRL) mode

In supersession of the Ministry's Circular no. 9/2011 dated 31.03.2011 and 25/2011 dated 12.05.2011, Ministry of Corporate Affairs vide Circular no. 37/2011 dated 07.06.2011 mandated certain class of companies to file Balance Sheets and Profit and Loss Account alongwith Director's and Auditor's Report for the year 2010-11 onwards by using XBRL taxonomy. The Taxonomy Business Rules, Validity tools etc required for preparation of the above documents in XBRL format as per the existing Schedule VI and Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 have been prepared and hosted on the website of the Ministry at [www.mca.gov.in](http://www.mca.gov.in). The Frequently Asked Questions (FAQs) about XBRL have been framed by the Ministry and annexed with the circular for the information and easy understanding of the stakeholders. To enable filing on XBRL by stakeholders, MCA-21 portal will have XBRL filing module by July, 2011. Actual date will be informed separately.

### Coverage in Phase I

The following class of companies have to file the Financial Statements in XBRL Form only from the year 2010-2011:

- (i) All companies listed in India and their Indian subsidiaries;
- (ii) All companies having a paid up capital of Rs. 5 crores and above
- (iii) All companies having a turnover of Rs. 100 crores and above.

However banking companies, insurance companies, power companies and Non Banking Financial Companies (NBFCs) are exempted for XBRL filing, till further orders.

### Additional Fee Exemption

All companies falling in Phase – I whose Balance Sheets are adopted in the Annual General Meeting held before 30.09.2011 are permitted to file upto 30.09.2011 without any additional filing fee. However, where companies hold the Annual General Meeting in the month of September 2011, they will file the Balance Sheet within 30 days from the date of adoption in the General Meeting as per section 220 of the Companies Act, 1956.

Further, MCA vide Circular no. 43/2011 dated 07.07.2011 has added following information in continuation to the circular no. 37/2011:

- (i) Besides signing by signatories as specified u/s 215 of the Companies Act, 1956, the

Statutory Auditor has to certify the financial statements prepared in XBRL mode for filing on MCA-21 portal.

- (ii) Phase-1 class of companies as per Circular 9/2011 dated 31.03.2011 and later exempted from XBRL filing (under Power sector, Insurance sector, NBFC and Banking sector) who are unable to file their financial statements would be exempted from additional fee due to delay in filing up to 30.09.2011.

### Investment by banks in liquid/short term debt schemes of mutual funds

RBI vides its notification no. DBOD.No.BP.BC.23/21.04.141/2011-12 dated July 5, 2011 has decided that the total investment by banks in liquid/short term debt schemes (by whatever name called) of mutual funds/Debt Oriented Mutual Funds with weighted average maturity of portfolio of not more than 1 year, will be subject to a prudential cap of 10 per cent of their net worth as on March 31 of the previous year. The weighted average maturity would be calculated as average of the remaining period of maturity of securities weighted by the sums invested.

With a view to ensuring a smooth transition, banks which are already having investments in these schemes (by whatever name called) of mutual funds/Debt Oriented Mutual Funds in excess of the 10 per cent limit, are allowed to comply with this requirement in six months time.

### Prudential Guidelines on Restructuring of Advances by Banks

In August, 2008 RBI advised banks that if due to lack of expertise/appropriate infrastructure, they find it difficult to ensure computation of diminution in the fair value of advances extended by their small/rural branches, they will have the option of notionally computing the amount of diminution in the fair value and providing therefor at five percent of the total exposure in respect of all restructured accounts where the total dues are less than rupees one crore till the financial year ending March 2011. However, RBI vides its notification no. DBOD.BP.BC.No.99/21.04.132/2010-11 dated June 10, 2011 has decided that the above alternative option of computing diminution in the fair value of advances extended by small and rural branches on restructuring will remain applicable for another two years, i.e. till the financial year ending March 31, 2013. The position would be reviewed thereafter.

*(Compiled by CA. Shilpa Agrawal, BoS)*

## Income Tax

### Significant Notifications issued by CBDT

#### 1. Notification No. 32/2011 dated 3.06. 2011 Limits for exemption of interest on Post Office Savings Bank Account

Under section 10(15)(i), income by way of, *inter alia*, interest on such securities, bonds, annuity certificates, savings certificates, other certificates issued by the Central Government and deposits as the Central Government may, by notification in the Official Gazette, specify in this behalf, would be exempt subject to such conditions and limits specified in the said notification.

In exercise of powers given in section 10(15)(i), the Central Government has, through this notification, amended the Notification No. GSR 607(E) dated 9th June, 1989 which specified the bonds, annuity certificates, savings certificates and other certificates issued by the Central Government for the purpose of exemption under this clause as well as the maximum limit up to which the income by way of, *inter alia*, interest on such securities, bonds, savings certificates etc. issued by the Central Government shall be exempt from tax for any assessment year. The said notification dated 9th June, 1989 provided for exemption of the whole of the amount of interest on Post Office Savings Bank Account.

However, as per the amendment by this notification, the interest on Post Office Savings Bank Account which was so far fully exempt would henceforth be exempt from tax for any assessment year only to the extent of:

- (i) Rs. 3,500 in case of an individual account.
- (ii) Rs. 7,000 in case of a joint account.

#### 2. Notification No.33/2011 dated 3.06.2011 Income received by any person on behalf of a fund established for the purpose of providing cash benefits to its employee-members to meet the cost of annual medical tests or medical checkups to qualify for benefit of exemption under section 10(23AAA)

Section 10(23AAA) provides that any income received by any person on behalf of a fund established for notified purposes for the welfare of employees or their dependents, and of which fund such employees are members, would be exempt subject to fulfillment of certain conditions. Accordingly, in exercise of the powers conferred by section 10(23AAA), the CBDT had, vide Notification No. S.O. 672(E) dated 27th July, 1995, notified the following purposes –

- (1) cash benefits to a member of the fund -
  - (a) on superannuation, or
  - (b) in the event of his illness or illness of his spouse or dependent children, or
  - (c) to meet the cost of education of his dependent children or
- (2) cash benefits to the dependents of a member of the fund in the event of the death of such member.

The CBDT has, through this notification, amended the Notification No. S.O. 672(E) dated 27th July, 1995 to include cash benefits to a member of the fund to meet the cost of annual medical tests or medical checkups of a member, his spouse and dependent children as one of the purposes of the fund.

#### 3. Notification No. 35/2011 dated 23.6.2011 Notification of Cost Inflation Index for FY.2011-12

Clause (v) of Explanation to section 48 defines “Cost Inflation Index”, in relation to a previous year, to mean such Index as the Central Government may, by notification in the Official Gazette, specify in this behalf, having regard to 75% of average rise in the Consumer Price Index for urban non-manual employees.

Accordingly, the Central Government has, in exercise of the powers conferred by clause (v) of Explanation to section 48, specified the Cost Inflation Index for the financial year 2011-12 as 785.

#### 4. Notification No.36/2011 dated 23.06.2011 Salaried individuals with total income of upto Rs.5 lakh (comprising of Salaries and savings bank interest not exceeding Rs.10,000) exempted from furnishing of return for A.Y.2011-12

Under section 139(1C), the Central Government may, by notification in the Official Gazette, exempt any class or classes of persons from the requirement of furnishing a return of income having regard to such conditions as may be specified in that notification.

Accordingly, the Central Government has, vide this notification, exempted an individual whose total income does not exceed Rs.5 lakh from the requirement of furnishing a return of income under section 139(1) for A.Y.2011-12, if his total income consists of only income chargeable to income-tax under the head “Salaries” and interest, not exceeding Rs.10,000, from savings bank account in a bank chargeable under the head “Income from other sources”.



The other conditions to be satisfied by such individual to avail the benefit of this exemption are that he should have –

- (1) reported his PAN to his employer;
- (2) reported his interest income from savings bank account to his employer and his employer should have deducted tax thereon;
- (3) received Form 16 from his employer, wherein his PAN and details of income and tax deducted at source and deposited to the credit of the Central Government should be mentioned;
- (4) discharged his total tax liability for the assessment year through TDS and its deposit by the employer to the Central Government;
- (5) no claim for refund of taxes due to him for the income of the assessment year; and
- (6) received salary from only one employer for the assessment year.

Further, the exemption from the requirement of furnishing a return of income-tax shall not be available where a notice under section 142(1) or section 148 or section 153A or section 153C has been issued for filing a return of income for the relevant assessment year.

**5. Notification No.37/2011 dated 1.7.2011**  
**Firms and individuals and HUF subject to tax audit to mandatorily file return of income for**

**A.Y.2011-12 and thereafter electronically under digital signature**

Prior to this notification, furnishing of return electronically under digital signature was mandatory only in case of a company required to furnish the return in Form ITR-6 for A.Y.2010-11 and subsequent years. It may be noted that for A.Y.2010-11, a firm required to furnish return of income in Form ITR-5 and an individual or HUF required to furnish return of income in Form ITR-4 and to whom the provisions of section 44AB were applicable had an option to furnish their return of income electronically under digital signature or to transmit the data in the return electronically and thereafter submit the verification of the return in Form ITR-V.

However, this option would not be available to them for furnishing their return for A.Y.2011-12 and subsequent assessment years. They have to mandatorily furnish their return of income electronically under digital signature.

**The complete details of the text of the notifications can be downloaded from the following link <http://law.incometaxindia.gov.in/DIT/Notifications.aspx>**

**(Compiled by CA. Priya Subramanian, BoS )**



## Information Technology

### 4G Technology

4G technology, the Fourth Generation Technology, is the very latest and ultra-fast technology and it is getting more attention day by day even though this technology is still at its initial stages. This technology can provide very speedy wireless Internet access of 1 Gbps data transfer rate to stationary users and 100 Mbps to mobile users. 4G can be best described in one word “MAGIC”, which stands for Mobile multimedia, Anytime anywhere, Global mobility support, Integrated wireless solution, Customized personalized service.

In the late 1970s and early 1980s, consumer wireless communications began to take off. The earlier telephone systems, which were based on analog technology, are now called 1G. In the year 1991, 2G started to replace the old 1G and was first launched in Finland. The network system of 2G had better radio communication and the networks were digital. 2G systems mainly used for voice communications, are today's mainstream systems, although they provide limited data rate for the users. After 2G, the more efficient technology known as 3G came, and established its roots in late 2000. 3G provides higher quality voice channels as well as broadband data capabilities of up to 2 Mbps data transfer rate to stationary users and minimum 384 Kbps to mobile users.

However, the demand for higher access speed multimedia communication in today's society seems unlimited. Accessing information anywhere, anytime, with a seamless connection to a wide range of information and services, and receiving a large volume of information, data, pictures, video, and so on, are the keys of the 4G infrastructure. 4G will have broader bandwidth (around 100 MHz), higher data transfer rate, and smoother and quicker handoff. The key concept is integrating the 4G capabilities with all of the existing mobile technologies through advanced technologies. Application adaptability and being highly dynamic are the main features of 4G services. 4G systems will be fully IPv6 (Internet Protocol version 6)-based wireless Internet. 4G technology will be able to support interactive services like Video Conferencing (with more than 2 sites simultaneously), Wireless Internet, etc. 4G makes use of improved access technologies like OFDM (Orthogonal Frequency Division Multiplexing) and MC-CDMA (Multi Carrier CDMA). The reason why 4G makes use of OFDM lies in its ability to minimize the intervention among symbols and channels associated with data streaming. 4G is also capable of using multiple input/ multiple output technology (MIMO), which is used to optimize the data speed and reduce the errors in the networks. 3G utilized WiMax (Worldwide Interoperability for Microwave Access) and WiFi (Wireless Fidelity) as separate wireless technologies, whereas 4G is

expected to merge these two technologies, so that human beings remain intact with the wireless technology intentionally and unintentionally. WiMAX and LTE (Long Term Evolution) are two 4G cellular broadband networks. The WiMAX provides speed up to 128 Mbps for downloading and 56 Mbps for uploading, whereas LTE provides speed up to 100 Mbps downloading and 50 Mbps uploading.

Advantages of 4G technology can be summarized as: faster downloading and uploading; more reliability in data transfer; more affordable communication devices; one device can communicate with all vs. many devices communicating with some devices; TV, Internet, phone, radio, home environment sensors all reachable through the cellphone; and increase in social networking. A 4G system is expected to provide facilities such as IP telephony, ultra-broadband Internet access, 3D gaming services and HDTV streamed multimedia, to its users. 4G has no such disadvantages, but some can be: more expensive; invasion of privacy; and breach of security.

The 4G mobile network technology has been commercially available in 2009 and offers 28 Mbit/s downstream and 22 Mbit/s upstream without MIMO in countries such as the United States, Canada, Singapore, and China.

Although 4G has become available commercially it is still considered to be in the formative stages. In India, the service operators are directly working towards 4G which is still 3-4 years away, even when 3G is not been implemented fully. The reason is that they do not want to upgrade their infrastructure twice in next 5 years. Due to better technology, the cost of data transfer using 4G is lower as compared to 3G, which is advantageous for both the service provider and the consumer. Interestingly, few of the Indian mobile service providers have already endorsed the idea of embracing 4G directly.

As the history of mobile communications shows, attempts have been made to reduce a number of technologies to a single global standard. Projected 4G systems offer this promise of a standard that can be embraced worldwide through its key concept of integration. 4G promises to fulfill the goal of PCC (personal computing and communication)—a vision that affordably provides high data rates everywhere over a wireless network. It is a more convenient way to do what we're already doing, and while not many of us truly need it, almost anybody will benefit from it.

#### Sources:

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3. <http://www.wifinotes.com/4g-4th-generation.html>
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5. <http://courses.engr.illinois.edu/ece317/presentations/4Gpresentation.pdf>

(Compiled by Nidhi Agrawal, BoS)

# Rank holders of CA Examinations

## CA Final Examination May 2011



**Maitreyee Narayansing Rajaput**  
Pune  
First Rank

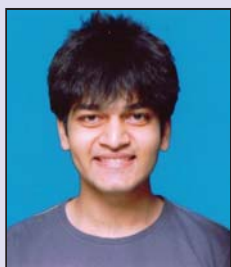


**Arti Jain**  
Bikaner  
Second Rank



**Charmy Suresh Sheth**  
Mumbai  
Third Rank

## Common Proficiency Test-June 2011



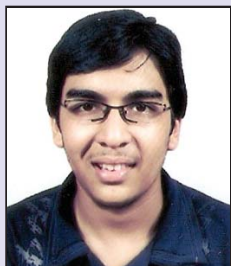
**Kshitij Rajkamal Verma**  
Pune  
First Rank



**Chetlur Ravi Sudarshan**  
Tirupati  
First Rank



**Rahul Aggarwal**  
Hyderabad  
First Rank



**Abhinav Sandeep Gadia**  
Mumbai  
Second Rank



**Pavankumar. G. N**  
Guntur  
Third Rank



**Sama Sai Sarath**  
Guntur  
Third Rank



**Manoj Reddy M**  
Hyderabad  
Third Rank



**Siddharth Mittal**  
Amritsar  
Third Rank

# Mahindra & Mahindra - Redefining its Core Purpose

## Introduction

On 14th January 2011, Anand Mahindra, Vice Chairman and Managing Director of M&M declared that the company has changed its core purpose. The New Tagline is 'Rise' - Mahindra Rise. Anand Mahindra said, " 'Rise' is not a new tagline for an ad campaign. Rise is a motto." The new focus for the company would be based on three pillars: accept no limits, think alternatively and drive positive change. Anand Mahindra justified the change in the core purpose with the changing status and profile of the company. He heads \$12.5 billion Mahindra Group, a conglomerate that specializes in a wide spectrum of industries from manufacturing tractors to information technology, from automobiles and two wheelers to aero-planes, from financial services and holidays to defence and infrastructure. Mahindras has now acquired a unique distinction of being present across product segments, from two-wheelers to commercial vehicles to aircraft, taking diversification to new levels

## Vision and Core Purpose

Anand Mahindra joined M&M in late 1990's after completing his MBA from Harvard. He was interested in understanding the company, its purpose and the business environment. He discovered the purpose of the company by looking at the founder's vision and objective in setting up M&M. Every enterprise starts with some vision, mission and objectives. Defining vision and mission helps managers to identify the business of an enterprise and what it would like to be. A well defined vision in an enterprise becomes a powerful force. This force guides enterprises in a particular direction which in most cases leads to organization success. Hamel and Prahalad (1989) used the term 'strategic intent' to explain the purpose and strategy to achieve this. They define it as an obsession to win. The "strategic intent" is not only to envision a desired leadership position but also to establish the criterion the company will use to chart its progress. Strategic intent also includes an active management process to focus the entire organization on the essence of winning. Collins and Porras (1996) have shown the importance of vision by highlighting difference between truly exceptional companies from other companies. They defined that a vision consists of two components: Core ideology and Envisioned future. Core ideology is the glue that holds the enterprise together even when everything else is up for grabs. A core ideology has two parts: Core Values and Core Purpose. Core values are the

## Professor Vijay Kumar Kaul

handful of guiding principles by which a company navigates. They require no external justification. Core purpose is an organization's most fundamental reason for being. It reflects people's idealistic motivations for doing the company's work. An envisioned future, the second component of an effective vision, has two elements: Big, Hairy, Audacious Goals (BHAGs) and Vivid descriptions. BHAGs are ambitious plans that rev up the entire organization. They typically require 10 to 30 years' work to complete. Vivid descriptions paint a picture as to how the company would like to achieve the BHAGs. It consists of the goals vibrant, engaging and tangible.

## Core Purpose and Brand Building

The purpose of the M&M and its founder was linked with the business environment of the country at the time of independence of India. Anand Mahindra has explained, "At the time of independence, it was to demonstrate that Indians were second to none which worked very well. It energized everyone and the results were for everybody to see". "As time went by two things happened. Firstly, we grew, India grew in stature and Indian companies grew. All of a sudden, we were second to none which was rather defensive. Secondly, as a corporation, we were becoming increasingly global", he added.

It is realized that as an organization evolves into a multinational corporation, it desires a change. "The reason why people come to work is going to change, and why people are going to buy a Mahindra product." The strategy management team at M&M has a number of foreign nationals who also felt the lack of connect. They were asked what would be a contemporary core purpose and an appropriate one. "If I am Mr Chi, running our Chinese operations, why would I get up everyday and work to prove that the Indians were second to none? So, there was a need to change." Mr Mahindra added.

A team under the leadership of Ruzbeh Irani, Executive Vice-President, visited seven countries where M&M is present and talked to its employees and customers across the world. All of them expressed a common desire to rise and to succeed. This led to choosing the term 'Rise' to explain the motto of the company. After the global economic slowdown of 2008-2010, everybody wants to rise. Rise inspires ingenuity. It is about accepting no limits and inspiring a spirit for positive change among customers, partners, employees and stockholders. Known for its business, technological and cultural leadership, Mahindra



has also been recognized for the tenants of rise, such as accepting no limits.

Mahindra approached Strawberry Frog, a New York based advertising agency, to create a holistic marketing strategy for the entire group of companies which fly the Mahindra flag. Looking at the opportunity and needs for Mahindra's to be a new global brand, the Agency along with the management team decided to create a "Cultural Movement" strategy. They began by asking the simple-and rather liberating-question of, "How does a large diversified corporation build a master brand today?" In other words, how can it leapfrog the competition? How can it articulate the vision and goals of the top management in a way that empowers and inspires? How does it defy convention and drive innovation? How can it define and clarify its position in the market while connecting with people in a way that maximizes the changes that are happening around us? This 'cultural movement' strategy is defined as: an organized community of passionate advocates who rally around an idea on the rise in culture to bring about change.

In association with Mahindra's management team, StrawberryFrog chose to first explore insights in culture and universal human factors, which are shaping our world, society and culture rather than starting with the products or business sectors. Once this initial research was done, the team analyzed the different products and sectors within the federation of companies. Working closely together, the team was able to architect a cultural movement strategy which linked the cultural insights with the brand purpose. "The word rise cuts across cultures and countries. We found that it resonated with people everywhere. Everyone has the aspiration to rise," says Ruzbeh Irani. Rise is universal, both inside and outside the organization, and emotionally relevant to millions of people.

Rise has become a cultural movement program within the organization. Rise is a culture of doing and living. The company has also started detailed human resources exercises which include incorporating Rise in performance management systems. It has, for example, launched a new metric called Employee Promoter Score. Under this, people will be judged "how enthusiastic an employee is to recommend Mahindra products".

#### **Evolution and Growth Strategy**

Mahindra & Mahindra was established in 1945 to manufacture general-purpose utility vehicles. Overtime, the company has adopted growth strategy of expansion, diversification and internationalization. It has also entered into strategic alliances and invested in new product development. After joining M&M, Anand

Mahindra decided to restructure the company to cope with the changing market conditions. The group was reorganized into six strategic business units (SBUs) and a corporate centre in 1994. In 2002, once again, Anand Mahindra felt the need to transform the company and undertook the process of re-alignment and restructuring. The objective was to grow to leadership positions in the utility vehicle and tractor markets and develop successful businesses in relatively new business areas such as information technology, financial services, realty and infrastructure development as well as service industries such as time share. Realizing the importance of Information Technology, from April 2005 M&M entered into a new phase in technology initiatives through implementing SAP and centralized architecture.

The group has extended itself globally and has a presence in 79 countries. It has also developed global ambitions in areas such as automobiles and tractors. It has grown through a range of acquisitions in India and abroad, such as: Punjab Tractors, Kinetic Engineering, Satyam computers, and Reva Car; two tractors company in China; three forging units and two-wheeler design outfit in Europe; Australia's Gippsland Aeronautics and Aerostaff; and, SsangYong of Korea.

The company entered into strategic alliance with Renault to manufacture 'Logan' car. The alliance could not continue for long as Renault exited early from the venture. Now Logan is owned by M&M. This alliance with Renault has helped Mahindra & Mahindra learn high-quality manufacturing processes, component development, supplier assessment and use of information technology. There was joint buying for Logan and Xylo, the company bundled the orders for better rates.

The company has also invested in new product development and R&D. In the year 2010-11, The Company has spent Rs.739.25 crores (including Rs.349.68 crores on Capital Expenditure) for Research and Development work, which was approximately 2.85% of the total turnover. In the year 2002, company launched its new product 'Scoripo'. However, the pace of new launches has not been too inspiring so far. It took almost seven years after the Scorpio to launch the Xylo in 2009. But it is expected that the pace of new product development could gather steam in the days to come. M&M Chief Executive(technology, product development and sourcing) Rajan Wadhwa says that seven new platforms are in the works, which will all be rolled out by 2016. Mahindra's products stand for value for money. All their products are competitively priced. It has found that now buyers want utility vehicles not only at low prices but



with high fuel-efficiency also. There is the growing demand for environment-friendly vehicles (Hybrid and electrical). To improve its brand equity in the clean technology space, the company is working on diesel hybrid. The acquisition of Bangalore-based Reva Electric Car Company has given it capabilities in the field of electric engines.

### Performance

The performance of M&M has been outstanding

over the last decade. In the first half of 2001-2005, M&M achieved a compounded annual growth of 25% in revenues and 118% in profits. In the second half of the decade, the company has maintained its brisk growth on a high base, growing at 26%, with profits growing at 29%. Table 1 exhibits performance of the company in terms of revenue, production, sales, profits, assets growth etc.

**Table 1 Performance of the M&M -2002 to 2011**

(Rupees in Crores)

|                                         | 2011   | 2010   | 2009   | 2008   | 2007   | 2006   | 2005   | 2004   | 2003  | 2002  |
|-----------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|
| Income                                  | 25896  | 20595  | 14983  | 13238  | 11558  | 9451   | 7804   | 6001   | 4597  | 3997  |
| PBT                                     | 3520   | 2847   | 1036   | 1407   | 1439   | 1099   | 714    | 438    | 197   | 81    |
| Net Profit                              | 2662   | 2088   | 868    | 1103   | 1069   | 857    | 513    | 349    | 146   | 97    |
| Vehicles produced/<br>Purchased (Units) | 355500 | 284516 | 201993 | 196956 | 169557 | 148213 | 148025 | 117670 | 87088 | 66256 |
| Vehicles sold (units)                   | 354073 | 282119 | 206688 | 195077 | 169679 | 147591 | 145024 | 117399 | 86890 | 65338 |
| Tractors Produced (Units)               | 216388 | 173276 | 119098 | 98917  | 103847 | 87075  | 67115  | 50102  | 45183 | 54524 |
| Tractors Sold (Units)                   | 214325 | 175196 | 120202 | 99042  | 102531 | 85029  | 65390  | 49576  | 47028 | 58006 |
| Gross Fixed Assets                      | 7214   | 6240   | 5541   | 4203   | 3510   | 3065   | 2810   | 2559   | 2489  | 2417  |
| Net Worth                               | 10313  | 7827   | 5262   | 4350   | 3553   | 2909   | 1987   | 1775   | 1570  | 1504  |

**Source: Annual Report 2010-2011**

### Conclusion

Company has overtime built its capabilities through investment in R&D and through mergers and acquisition. Its' acquisition of Aircraft manufacturing firm and SasangYoung motor along with its own R&D has helped it improve its technological prowess. However, it is yet to show its strength in terms of integrating its capabilities and produce more and more new products. All this require a vision-A vision of leader. Anand Mahindra has proved to be true to his vision so far. Will he continue to outperform himself? It is yet to be seen. Can one justify the change in the core purpose of the company? Is it consistent with the changing status and profile of the company? Does the growth strategy followed by the company reflect the core purpose change? These are the few questions which need answer.

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**Students may E-mail their Solutions to [prem@icai.org](mailto:prem@icai.org) by August 15, 2011.**

**(The contributor is Professor, Department of Business Economics, University of Delhi)**

## National Convention for CA students - Indore

Thursday, August 11<sup>th</sup> & Friday, August 12<sup>th</sup>, 2011

Venue: Indore Branch of CIRC of ICAI, ICAI Bhawan, Plot no 19-B, Scheme No 78

Near Madhya Pradesh Pollution Board, Indore-452010

Organised by: BOARD OF STUDIES, ICAI

Hosted by : Indore Branch of CIRC of ICAI and Indore Branch of CICASA

The theme "Enriching Knowledge-Aiming for New Horizons"

### Programme Details

| Time                                                      | Particulars                                                                                                                                                                                                                                                              |
|-----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>DAY 1-11/08/2011</b>                                   |                                                                                                                                                                                                                                                                          |
| 8.30 - 9.30 am                                            | Registration                                                                                                                                                                                                                                                             |
| 9.30 - 11.30am.                                           | Inaugural Session -Chief Guest: CA. G Ramaswamy, Hon. President, ICAI<br>Guest of Honour: CA. Jaydeep Shah, Hon. Vice President, ICAI Special<br>Guest: CA. V. Murali, Hon. Chairman Board of Studies, ICAI                                                              |
| 11.30 am - 1.30 pm<br>(Enriching Knowledge Session-I)     | Schedule VI- Recent Changes<br>Indian AS - Overview of Important changes in Financial Reporting<br><b>New Horizon - 1</b><br>Expectation of Corporate World From newly qualified CAs - CA. V. Murali,                                                                    |
| 1.30 pm - 2.30 pm                                         | <b>Lunch Break</b>                                                                                                                                                                                                                                                       |
| 2.30pm - 6.00pm<br>(Enriching Knowledge Session-II)       | -XBRL - Concept & Recent developments<br>-Code of ethics<br>- Green Initiative in Corporate Governance<br>- LLP - A Preferable business model<br><b>New Horizon - 2</b><br>-Global Opportunity for Indian CAs - CA Naveen Khandelwal                                     |
| 7pm onwards                                               | Mega Cultural Evening<br>Dance and Other Programs                                                                                                                                                                                                                        |
| <b>DAY 2-12/08/2011</b>                                   |                                                                                                                                                                                                                                                                          |
| 9.00am - 10.00am                                          | Tea & Breakfast                                                                                                                                                                                                                                                          |
| 10.00 am - 1.00 pm (Enriching<br>Knowledge Session - III) | -DTC v/s Income Tax Act - Significant differences<br>-Cenvat Credit - Recent Amendments<br>-Corporate Governance - Role of auditor<br>-Tax audit u/s 44 AB - Important Documentations<br><b>New Horizon - 3</b><br>Effective Preparation for CA Exams - CA Avinash Gupta |
| 1.00pm - 2.00pm                                           | Lunch Break                                                                                                                                                                                                                                                              |
| 2.00 - 4.30 pm (Enriching<br>Knowledge Session - IV)      | -Digital Preservation - Issues and Challenges.<br>-Tax Deducted at Source - Compliance requirements<br><b>New Horizon - 4</b><br>Decision Making process-Use of Marginal Costing- CA. S.B. Zaware, (Pune)                                                                |
| 4.30 pm - 6.00 pm                                         | Valedictory Session<br>Chief Guest CA. V. Murali (Hon.Chairman, Board of Studies)<br>Special Guest - Alka Lamba (Chairperson - Go India Foundation)<br><b>New Horizon - 5</b><br>Unleashing power within - CA. Swapnil Kothari                                           |

**Venue: Indore Branch of CIRC of ICAI**

**ICAI Bhawan**

Plot no 19-B,Scheme no 78, Near Madhya Pradesh Pollution Board, Indore-452010

Telephone Board +91 731 3254900,4298198, Fax No:+91 731 4298198

Email:indore@icai.org

For Registration, sending papers and further queries, please contact

**Indore Branch of CIRC of ICAI**

Telephone Board +91 731 3254900, 4298198, 4239061, Mob. : 09303813511

Fax No:+91 731 4298198, Email:indore@icai.org

## National Convention for CA Students - Kolkata

Saturday, August 27th & Sunday, August, 28th, 2011

Venue : Calcutta University - Centenary Hall, College Street, Kolkata

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

Hosted by : EIRC OF THE ICAI & EICASA OF THE ICAI

THEME : **CHARTERED ACCOUNTANCY- PRESENT GLOWING, FUTURE PERFECT**

**DAY 1 : 27/08/2011**

Registration : 9 AM - 10 AM, Inaugural Session : 10 AM - 11 AM

### INAUGURAL SESSION

Welcome Address by : CA Prasun Kumar Bhattacharyya, Vice Chairman, EIRC & Chairman, EICASA  
Lighting of the Lamp: By Dignitaries Present  
Address By: CA Sushil Kumar Goyal, Chairman, EIRC  
Address By: Sri Vijay Kapur, Director, Board Of Studies  
Address By: CA Abhijit Bandyopadhyay, Member, Board of Studies Committee & Convention Director.  
Address By: CA V. Murali, Chairman, Board of Studies, ICAI  
Address By Distinguished Guest of Honour: CA Jaydeep N Shah, Vice President, ICAI  
Address By Chief Guest: CA G. Ramaswamy, President, ICAI

|                                                                                                                                                                                                                                                                                               |                                                                                                                                                            |                                                                                                                                                                                                                                                                                     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Technical Session I : 11 AM - 1 PM</b><br><b>Accounting &amp; Reporting</b><br><b>Topics</b><br><b>1. Major Departures in Indian Accounting Standards from the corresponding IFRS</b><br><b>2. Concept of Revised Schedule VI</b><br><b>3. Application of SA 315 &amp; SA 330 on SMEs.</b> | <b>Special Session 1 : 2 PM - 3 PM</b><br><b>Articleship Training -</b><br><b>The Stepping Stone to own SWOT</b><br><b>Analysis : A Continuous Process</b> | <b>Technical Session II : 3 PM - 5 PM</b><br><b>Strategic Finance</b><br><b>Topics</b><br><b>1. Corporate Restructuring : A necessary Evil ??</b><br><b>2. Deficit Financing.</b><br><b>3. Impact of mutual funds and derivatives on Indian Economy and its auditing techniques</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Cultural Programme - 5.30 PM - 8 PM.

**DAY 2 : 28/08/2011**

|                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                               |                                                                                                                                                                                                                                                                           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Technical Session III: 10 AM - 12 NOON</b><br><b>Taxation - Direct And Indirect</b><br><b>Topics</b><br><b>1. Impact of Introduction of Point of Taxation Rules 2011 and significance of these changes in Cenvat Credit Rules 2004 wef 1st April 2011.</b><br><b>2. Taxation of Non Residents.</b><br><b>3. Expenses incurred in respect of Exempted Income : Section 14A read with Rule 8D</b> | <b>Special Session II 12 Noon - 1 PM</b><br><b>Motivation and Inspiration</b> | <b>Technical Session IV : 2 PM - 4 PM</b><br><b>Legal Arena</b><br><b>Topics</b><br><b>1. Right to Information Act 2005</b><br><b>2. Life Post MCA - 21 : An Innovative Initiative</b><br><b>3. Impact of Mirco, Small &amp; Medium Enterprise Development Act, 2006.</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Valedictory Session 4 PM - 5.30 PM. Distribution of Certificates - 5.30 PM - 6.30 PM

Registration fee : Rs. 600 per student.

Fees for outstation delegates ( Delegate fee plus Rs. 200 per day for accommodation)

Accommodation Charges for outstation delegates : Rs. 200 per day over & above delegate fees of Rs. 600.

(For Outstation students, if required)

|                |             |             |             |
|----------------|-------------|-------------|-------------|
| Staying for    | 2 days      | 3 days      | 4 days      |
| Amount payable | Rs. 1000.00 | Rs. 1200.00 | Rs. 1400.00 |

Outstation Delegates are requested to confirm their participation latest by 5th August, 2011 for accommodation arrangement. Demand Draft to be drawn in favour of "The Institute of Chartered Accountants of India, EIRC", payable at "Kolkata". Delegate fee can be paid in cash only in case of submission in Person (not through Post/ Courier) at EIRC office w.e.f. 15th June, 2011 during office hours on working days (Monday to Friday excepting holidays).

Students joining the programme would get their delegate certificate at the end of the convention.

## National CA Student's Convention - Ludhiana

Sunday, August 21<sup>st</sup> and Monday, August 22<sup>nd</sup>, 2011

**VENUE: AUDITORIUM, KUNDAN VIDYA MANDIR SCHOOL, CIVIL LINES, NEAR DANDI SWAMI MANDIR, LUDHIANA**

**Organised by: Board of Studies, ICAI**

**Hosted by : LUDHIANA BRANCH of NIRC of ICAI**

**Theme: "Insight, Initiate, Perform"**

### DAY 1

**Inaugural Session: 09:00 AM - 12:00 noon**  
**Chief Guest:** Sh. Sukhbir Singh Badal  
 (Deputy C.M. Punjab)

#### Guest of Honour

CA. G. Ramaswamy ( President, ICAI )  
 CA. Jaydeep N. Shah (Vice President, ICAI)  
 CA. V. Murali (Chairman Board of Studies, ICAI)

**Technical Session I: 12.00 noon-01.45 PM**

#### Session-

**Chairman:** CA. Vinod Jain,  
 Central Council Member, ICAI

**Banking & Finance: Sailing through the Turbulent Times**

**Topics:** 1. Role of CA in Indian Economy  
 2. Financing in 21<sup>st</sup> Century  
 3. General Awareness about FEMA

**Technical Session II: 02.30PM-03.30 PM**

#### Session-

**Chairman:** CA. Pankaj Tyagee  
 Central Council Member, ICAI

#### India 2030 : The Vision

**Chartered Accountants – Strengthening India**

**Technical Session III: 03.30PM.-05.00PM.**

#### Session-

**Chairman:** CA. Charanjot Singh Nanda  
 Central Council Member, ICAI

#### Information Technology: Bits, Bytes & CA

**Topics :** 1. Relevance of Information Technology  
 2. Audit under EDP Environment

**Cultural Evening: 05.00PM onwards**

### DAY 2

**Technical Session IV: 09.30AM.-11.00 AM.**

#### Session-

**Chairman:** CA. Sanjay Kumar Agarwal  
 Central Council Member, ICAI

#### Direct Taxes: Decoding the Code

**Topics :** 1. Direct Tax Code  
 2. TDS under Income Tax Act  
 3. Double Taxation Avoidance Agreement

**Technical Session V: 11.00AM-12.30 PM**

#### Session-

**Chairman:** CA. Rajendra Kumar P.  
 Central Council Member, ICAI

#### Indirect Taxes: Collecting –The Honey Bee Way

**Topics :** 1. Road Map to GST  
 2. Service Tax – Point of Taxation  
 3. Excise on SSI

#### Emerging Opportunities For CA Students :

CA. Raj Kumar S. Adukia, Central Council Member, ICAI

**Session Timings: 12.30PM-01.30 PM**

**Technical Session VI: 02.15PM-04.00 PM.**

#### Session-

**Chairman:** CA. Raj Kumar S. Adukia,  
 Central Council Member, ICAI

#### Accounting & Auditing: Seeing the Invisible

**Topics :** 1. Convergence with International Accounting Standards  
 2. Interpreting Financial Statement  
 3. Professional Ethics

**Technical Session VII: 04.00PM-05.00 PM.**

#### CA Exams: The Goal

#### Session-

**Chairman:** Vijay Kapur, Director,  
 BoS, ICAI  
 1<sup>st</sup> & 2<sup>nd</sup> Rank Holder of  
 CA Final Exam

**Valedictory Session: 05.00PM-05.30 PM**

Students are invited to contribute Paper Presentations (1500 to 2000 words) for various Technical Sessions. Please submit for approval a soft copy of the Paper for Presentation at [ludhiana@icai.org](mailto:ludhiana@icai.org) and Hard Copy of the same along with your Photograph (with your name on the back of the Photograph), Registration Number, Course of Study, Complete Postal Address, Mobile Number, Landline Number and Email ID, so as to reach by **5<sup>th</sup> August, 2011** at **Ludhiana Branch of NIRC OF ICAI, ICAI Bhawan, Near Silver Oak Palace and Garden, Basant City Road, Pakhowal Road, Ludhiana. Phone: 0161-5091043.**

The Students whose Papers are selected for the Convention shall be reimbursed Actual Travelling Expenses Equivalent to 3-tier AC, Lodging and Conveyance Expenses subject to a maximum of Rs. 7/- per KM.

In addition to the reimbursement as above all the Participants whose papers are selected for Presentation in Convention shall be awarded DA @ Rs. 1500/- per day.

#### Cultural Programme

Interested Students are requested to register at Branch before 31<sup>st</sup> July @ 99140-96994

#### Registration

**Registration Fee:** Rs. 300 up to 5<sup>th</sup> August, 2011 and Rs. 400 there after.

**Lodging Charges:** Rs.500/- for Outstation Students.

(Optional)

Outstation Students desirous of Accommodation should register before 5<sup>th</sup> of August, 2011. Registration Fee and Lodging Charges may be paid in Cash or by Demand Draft in favor of "Ludhiana Branch of NIRC of ICAI".

Participation Certificates will be given to the Participants.



## Director's Communication

**Dear Student Friends,**

At the outset, I congratulate those of you who have qualified the CPT examination held in June, 2011 and welcome you to be a part of the CA student

fraternity. Having taken a conscious decision to join the CA course, you should be well aware of the need to put in your best efforts, both in academics and articleship training, to emerge as a successful chartered accountant.

You must keep in mind that whereas the CPT examination was wholly objective in nature, the IPCC Examination is descriptive and tests your conceptual understanding and problem solving ability. Moreover, you would be exposed to subjects like Cost Accounting, Financial Management and Taxation for the first time in Group I of IPCC. A lot of effort is required on your part to comprehend the new concepts and principles embedded therein and develop an understanding of the tax laws. You have to hone your writing/presentation skills as well. Therefore, the level of preparation required at IPCC level would be much more than what was required for CPT Examination. Accordingly, you should start your preparation at an early stage in order to gear up for the IPCC Examinations next year. During this period, you can also complete the 100 hours Information Technology Training and Orientation Course of one week spanning 35 hours, which are mandatory before commencement of articleship training.

I also extend my hearty congratulations to all those who have passed the CA Final examination held in May 2011, for which the results were declared recently. You can now feel proud to form part of the esteemed profession of chartered accountancy. My special compliments to the rank holders and best wishes to all of you for a bright and successful career ahead.

While I congratulate the achievers, at the same time, my heart goes out to those of you who were not able to get through this time. I advise you not to lose hope and strive to achieve success through hard work and commitment. Try to take defeat with grace and learn from your mistakes. Do not

forget that no great achievement is possible without hard work, which should also be disciplined and systematic. If you study with commitment, success would come knocking at your doorsteps very soon!

It is indeed very heartening to note that the top three positions in the CA Final Examination held in May 2011 have been bagged by women and a higher percentage of female candidates (21.91%) have qualified the examination as compared to their male counterparts (19.81%). I am sure that they would excel in their professional career as well and reach great heights. Even now, women do occupy key positions in organizations, but the number of women ultimately reaching the top is lower as compared to men. This scenario is gradually undergoing a transformation, and in the years to come, women will break through all gender barriers and occupy the top slots of CEOs and CFOs of leading corporates.

It is noteworthy to mention that one of the considerations for reducing the entry level requirement for the CA course from graduation to senior secondary, in the early nineties, was perhaps to encourage more number of girls to enroll for the course, since they would be able to qualify as chartered accountants by the time they were 21-22 years. The reduction of the entry level requirement did help to serve this purpose and the last decade witnessed a spurt in the number of female candidates enrolling for the CA course. The percentage of women qualifying as chartered accountants has also been steadily increasing over the years.

I hope the success of female candidates in the CA examinations would encourage more and more women to take up the CA course. I am sure that they will continue to do well in their onward professional journey and achieve "empowerment" in its true sense.

Before I sign off, I would like to wish you all happiness, peace and prosperity on the occasion of Independence Day.

*Happy Independence Day!*

*Yours sincerely*

**(Vijay Kapur)**

Director, Board of Studies, ICAI



CA.G. Ramaswamy, President, ICAI inaugurates the Convocation at New Delhi.



CA.G. Ramaswamy, President, ICAI honouring rank holder at the Convocation at New Delhi. CA. Jaydeep Narendra Shah, Vice President, ICAI and CA.V.Murali, Chairman, Board of Studies, ICAI also seen in picture.



CA.G. Ramaswamy, President, ICAI, CA. Jaydeep Narendra Shah, Vice President, ICAI and CA.V.Murali, Chairman, Board of Studies, ICAI with the newly qualified chartered accountants at the Convocation at New Delhi.



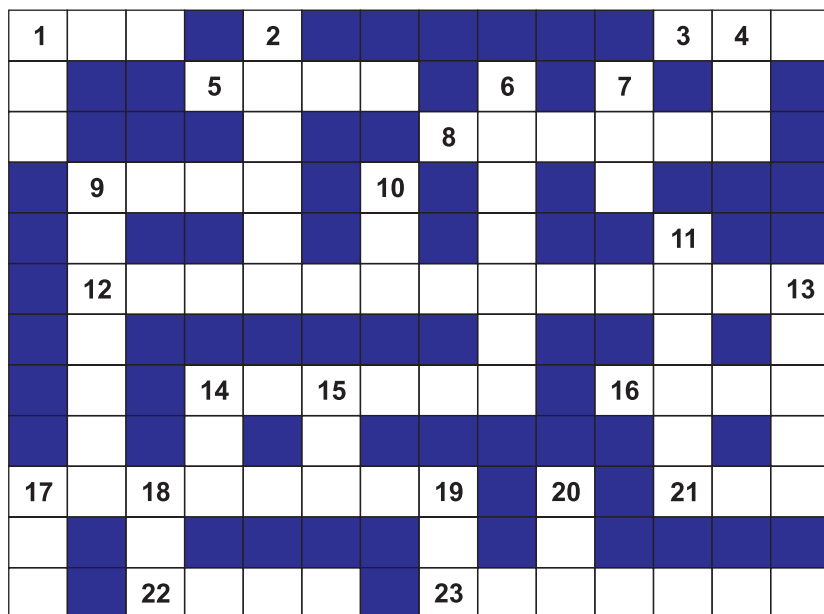
CA. Jaydeep Narendra Shah, Vice President, ICAI and CA.V.Murali, Chairman, Board of Studies, ICAI jointly inaugurating the National Convention for CA Students at Baroda.



CA. Jaydeep Narendra Shah, Vice President, ICAI inaugurating the Sub-Regional CA Students conference organized by Vasai Branch of WIRC of ICAI.



CA.V.Murali, Chairman, Board of Studies, ICAI addressing the Annual CA Student's Seminar at Siliguri Branch of EIRC of ICAI.

**Across**

1. \_\_\_\_\_ developers & units are badly hit by the latest amendment in MAT provisions.
3. A procedure to resolve disputes related to double taxation between various nations in the course of international transactions.
5. Ind AS 20 requires measurement of Government Grants only at their \_\_\_\_\_ value.
8. The final fact finding authority for excise, customs and service tax laws.
9. A financial institution that acts as financial intermediary.
12. Divestment is usually a part of \_\_\_\_\_.
14. \_\_\_\_\_ Stock Exchange of India LTD., is recently notified as a recognized stock exchange for the purpose of Section 43(5)(d) of the Income Tax Act, 1961.
16. Staple food for a large population of India.
17. \_\_\_\_\_ audit is not statutorily required for companies in India.
21. A computer protocol that typically allows a user's computer to access the internet using the mobile phone network.
22. By which authority Company Law Board has been replaced?
23. A series of operating systems produced by Microsoft.

**Down**

1. A tax levied on all the transactions done on Stock exchange.
2. According to Ind AS 19 the rate to be used to discount post-employment benefit obligation shall be determined by reference to the \_\_\_\_\_ yields on government bonds.
4. LLPs are now subject to \_\_\_\_\_.
6. Concentric diversification amounts to \_\_\_\_\_ diversification.
7. The protocol which allows sending and receiving of files over network is known as \_\_\_\_\_.
9. IFRS 3 requires \_\_\_\_\_ purchase gain arising on business combination to be recognised in profit or loss.
10. Trade facilitative measure of the CBEC serving taxpayers paying significant amount of excise duty, corporate tax/income-tax and service tax under a single window
11. Which metal is CPU chip made of?
13. The \_\_\_\_\_ audit involves examining the effects of the activities of an enterprise on environment.
14. Top most destination of India's exports in 2009-10.
15. CNN \_\_\_\_\_ is an English-language Indian television news channel.
17. A rate of return used in capital budgeting to measure and compare the profitability of investments.
18. The maximum exemption limit for allowance granted to employees working in the transport system to meet their personal expenditure doing the course of duty has been increased to Rupees \_\_\_\_\_ thousand per month.
19. The scope of work of statutory audit for a company is decided by the \_\_\_\_\_.
20. A computer network that covers a broad area.


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