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The Articled....

U'r Altitude is determined by u'r Attitude

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The Republic of India

"We must re-dedicate ourselves on this day to the peaceful but sure realization of the dream that had inspired the Father of our Nation and the other captains and soldiers of our freedom struggle, the dream of establishing a classless, co-operative, free and happy society in 'his country'. We must remember that this is more a day of dedications than of rejoicing - dedication to the glorious task of making the peasants and workers the toilers and the thinkers fully free, happy and cultured."

-- Dr. Rajendra Prasad, Former President, India

Even though the constitution of India was written way back in 1950, it still holds a very special meaning for most Indians. It's one of those days when one can't help but feel exceptionally proud of our country. The patriotic fervor of the people on this day brings the whole country together even in her essential diversity.

From the submissive British-ruled colony to a slowly but surely developing super power nation, India has come a really long way.

But has India really progressed? That's an uncertain question which tricks even the best of us.

Some feel that India has come a long way in the path of development and the progress that it has made is tremendous. To the contrary, some feel that development can be witnessed only in few sectors while the others like education, health are being neglected and thus lagging behind. The GDP gives a rosy picture about the country but when one gets into the depth it can be seen that these fascinating numbers are contributed by a minority group of the nation while the majority are still far from that virtual world.

But the fact still remains that brand India is all about a mixture of intellectual opinions. It is this difference in opinions that has brought India to the stature that it has acquired today. History repeats itself, and it is bound to do the same with every passing generation.

When we look into the significance of republic day in today's world, does the youth really appreciate the importance of this day or is it just another holiday to chill out?? If we ponder over this we can find 3 categories of people around us: Firstly those who don't even know the reason behind the holiday. Secondly those who are aware of the fact, but act indifferent. Lastly, the only few who really care to bring in the change that they dream of about this great nation and celebrate this auspicious occasion.

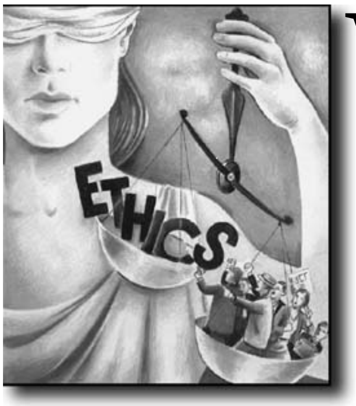
Where do we belong???

Editorial

58 years back, a salute of 21 guns & the unfurling of the Indian National flag by Dr.Rajendra Prasad heralded the historic birth of the Indian Republic on January 26, 1950. This was the first milestone on our march towards realizing our dreams in the aftermath of Independence. The constitution has given an expression to the goals, ideas & values that guided our freedom struggle. It has laid down the foundations of the structure of governance. Since its republic, India has come a long way; it's become one of the fastest growing economies in the world, paving way for prosperity in the years to come.

Contents

Ethics "the study of morality" Professional Ethics "the study of what we do in our professional lives".



What comes to our mind when said about ***Ethics*** related to Profession? Call it as ***Professional Code of Conduct*** or ***Professional Ethics*** are set of standards which every Member of ICAI whether in practice or service, has an obligation to follow while dealing with their clients, employers, employees, fellow members of the group and the public in general. Public trust and confidence can be gained only if certain norms of behavior, responsibility, attitude of a professional accountant are laid down and observed strictly. Therefore, professional ethics refer to the basic principles of right action for the members of the profession.

The Chartered Accountant Act, 1949 has been enacted by the Government of India for the Regulation of the Profession of Chartered Accountants. The Regulation is exercised by the ICAI of India as body corporate.

Section 22 of the Act read with the Two Schedules to the Act defines the expression ***Professional Misconduct.*** The First Schedule is divided into three parts. Part I and Part II of the First Schedule deals with the Professional misconduct in relation to Chartered Accountants in practice and those in employment respectively. Part III applies to all Chartered Accountants. Part I of the First Schedule contains thirteen clauses which specify certain circumstances in which a CA is found to be guilty of Professional misconduct.

In this article we would be focusing on Clause 6 which says:

Soliciting clients or professional work either directly or indirectly, by circular, advertisement, personal communication or interview or by any other means is prohibited. This rule bans all forms of canvassing for professional work. Canvassing in any form compromises the independence of the profession and demeans it in the eyes of the public. A question may arise in the mind as to how they would be able seek professional work if they do not solicit.

"A man must stand erect, and not to be kept erect by others". He must seek work not through agency but by his skills and professional talents. The satisfaction of clients would be the best advertisement, which would lead to other clients.

Consequent to the Amendment made by The Chartered Accountant (Amendment) Act, 2006 in clause 6, solicitation is relaxed in the following situation:

(i) Any Chartered Accountant can secure professional work from another chartered accountant in practice.

(ii) A member can secure professional service by responding to tenders or enquires from users of services as a consequence.

(iii) If professional work occurs within the alliance.

The council of ICAI has considered various modes of publicity and has framed certain rules in this regard. The various modes and framed rules are as under:

Website

A Chartered Accountant or firm of Chartered Accountants in practice can create his/its own website using any format. Even Individual members are allowed to create their own web pages in their name or trade name. However the website should not request for any kind of work or clients. It should not have the face of advertisement. Only information which is suitable for the profession should embody the contents of the website. There is no restriction on the colors which may be used in the Website.

The following should be taken with regards to the restrictions:

- The address of the website can be different from the name of the firm. The website address should be as near as possible to the individual name/trade name, firm name of the Chartered Accountant in practice or firm

- The firm should guarantee that the websites run on a "pull-model" & not a "push-model" of technology so that any person who wishes to set up CA firms would only have right of entry to the information provided only on the basis of specific pull request. None of the information guarded in the website be circulated on their own or through e-mail or any other mode or technique except on a specific pull request.
- The Chartered Accountants would also not issue any circular or any other advertisement or any other material of any kind whatsoever by virtue of which they solicit people to visit their website. The CA's are however permitted to mention their website address on the professional stationery.

The following information may be allowed to be displayed on the firm/members website;

i. Year of establishment.
ii. Member or firm's address (both head office & branches) Contact no.(s), fax no. (s), E-mail id (s).
iii. Nature of service rendered (to be displayed only on specific "pull" request).
iv. Partners.
v. Details of employees.
vi. Job vacancies for the CA or firm of CA's (including articleship).
vii. No. of articles clerks (to be displayed only on specific "pull" request).
viii. Nature of assignment handled (to be displayed only on specific "pull" request). Names of clients and fee charged cannot be given.

The information on the website should not be materially different from that provided to ICAI for its record.

- A Chartered Accountant in practice or firms of Chartered Accountant's cannot use logo on the website also. Display of passport size photographs matters of professional interest, bulletin boards & chat rooms for members of ICAI & clients are permitted. However confidentiality should be observed especially in the matters of the client, which are handled through the website.
- The chat-rooms can be provided which permit chatting amongst member of the ICAI & between firms & its clients; the confidentiality protocol would have to be observed. The members or firms can provide online advice to their clients who specifically request for the advice whether free of charge or on payment.
- The website also cannot contain information about any other website & links to any website, except websites of (i) ICAI, its regional councils & branches, (ii) Government and (iii) other regulatory & professional bodies.
- The websites can be listed on a suitable search engine, provided the field of search is restricted only to the 'CA' or 'Indian CA', 'Indian CPA', 'Indian CA', or any permutation or combination related thereto.
- A member in practice may provide consultation through websites created by banks, finance companies, newspapers, etc., provided the website does not provide the contact address of the member or advertise his professional status or achievements except to state that he is a CA. the name of the member's firm with the suffix 'CA' is not permitted.

ICAI has the power to vet any website & to direct deletion of certain portion and/or issue other specific direction. Incase any content or technical feature of the website is against the code of ethics or the restrictions contained in the schedules of the Chartered Accountants Act, 1949, or against the guidelines or directions issued by ICAI from time to time, appropriate disciplinary action can be initiated by ICAI. The ICAI will regularly inform the aforesaid guidelines to the members & the CA firms to ensure strict compliance of the guidelines.

Advertisement and Notes in the Public Press – (Newspapers, Magazines, Other Journals, Letters etc.)

A Chartered Accountant in practice who wishes to intimate changes in the address/telephone number /partnership or dissolution of his firm can make such announcements limited to a bare statement of fact, and consideration is given to the appropriateness of the area of distribution of the newspaper or magazines and number of insertions. A CA in practice cannot advertise in box numbers for soliciting clients or professional work.

Publication of Name/Firm Name in Directories - Telephone/Trade.

A Chartered Accountant in practice cannot have his name or the name of his firm printed in the telephone directory. However, it can be included in the separate section of a telephone directory provided the group heading is restricted to 'Chartered Accountant'.

Empanelment

A Chartered Accountant in practice cannot make roving entries by applying to various institutions for allotment of work. But he can write to an organization for being enrolled on a specific and known panel maintained by it for allotment of audit work, provided such empanelment does not require payment of any registration or other fee or deposit.

Public Interview

While giving an interview to the press a Chartered Accountant should ensure that the interview/speech does not result in publicity of the member or his firm.

Indirect Publicity – Issue of Hand Bills, Greeting Cards/Invitations, Publication of Books/Articles etc.

The Distribution of hand bills containing any Chartered member's name is prohibited. The reason being may be for the guidance of persons other than his regular clients in matters such as changes in Legal Provisions or Tax Laws, which brings about in a sort, publicity to the profession.

A Chartered Accountant is prohibited from indicating his association with any firm of the Chartered Accountants, in case a book or an article is being published by him. The Council does not approve of the issue of greeting cards or personal invitations by members indicating their professional designation, status and qualifications etc

Nevertheless, holding good the view of the Council, it is permissible that the designation "Chartered Accountant" along with the Name of the firm can be contained in Greeting Cards/Invitations for Marriages and religious ceremonies, also any invitations for opening or inauguration of office of the members, change in office premises and change in telephone numbers, provided that such greeting cards or invitations etc. are sent only to clients, relatives and close friends of the members concerned.

Illustrative Cases:

(1) A Chartered accountant wrote several letters to the Assistant Registrar of Co-operative Societies, Government of West Bengal stating that though his firm was on the panel of auditors, no audit work was allotted to the firm and requested them to look into the matter. Held the CA was guilty of Professional misconduct under the clause.

(D.C.Pal in Re : Page 1001 of Vol. IV of the Disciplinary Cases – decided on 12th, 13th and 14th September, 1966)

(2) Where a CA had addressed an undated but signed letter to a Bank requesting for empanelment of his firm as auditor alongwith the particulars of his firm showing the past experience and other details of the firm: and a member of Parliament had also sent a letter to the Bank recommending the name of the said CA's firm for immediate empanelling for Internal Audit/Management Audit, Expenditure Audit. Held that the member was guilty under Clause(6) of Part I of the First Schedule.

(Naresh C.Aggarwal in Rew: VII(2) of Disciplinary Cases to be published-Council's decision dated 16th to 18th July.1992)

The council of ICAI has the power to reprimand the guilty Chartered Accountant or remove his name from the Register of members for a period not exceeding five years. However the aggrieved CA can prefer an appeal to the High Court. Also, the High Court can, on its motion or otherwise, revise the order of the council. In case the Council is of the opinion that the name of the member should be removed for a period exceeding five years, it has to refer the case to the High Court with its recommendations.

-- Mithila, Deepthi, Berulal, Sneha, Mikita & Deepak

2012 Interesting Facts

2012 is expected to be the year of great positive change. It is not the end of the world! Back in 1899 something was identified called Schumann Cavity Resonance. It is the heart beat or frequency of the Earth. Since its discovery till 1986 this heart beat frequency was constant 7.8 Hertz per second. From 1986 it started to raise dramatically and in 1998 it was reported to be 10 hertz per second. On other hand magnetics of the earth are dropping dramatically and it is expected they will reach zero point in 2012. Maya calendar and other calendars end in 2012, but it is not the end of the world just beginning of the new one since every 26000 years Earth goes through a grand cycle of evolution.

Advent of Goods and Service Tax

Introduction:

It is universally accepted that Law is flexible in nature & it has to change according to the needs of the society either by necessity or by compulsion. One of the reasons for change in the existing law is to overcome the defects of the earlier Laws. It is a part of the process of reforms in Indirect taxes

Article 246 grant the power to Central and States for existing laws in the matter listed under the VII Schedule: -

List I-Union List containing 97 items,

List-II State List containing 66 Items and

List-III Concurrent list having 97 items.

Under the Union List, the form of levy of indirect taxes includes Central Excise, Customs, Central Sales tax and Service Tax. Under the State list, the tax levied is in the form of Sales Tax, Value Added Tax, Entry Tax, Luxury Tax, Entertainment tax, Octroi, etc

The Budget Speech of Finance Minister (2006—07) contained a proposal to introduce harmonized GST from the year 2010. The first step taken in this direction was to cut the CST rate by 1% (2007-08). This article intends to provide a brief advent of GST.

The need for introduction of GST is:

- The multiple levies of tax under different laws on the same subject matter have increased the burden of tax. For instance, the broad casting sector has to bear the burden of both entertainment tax and service tax. This acts as an impediment to the growth and development of this sector.
- The difficulty in administration of various taxes levied by States and Centre.
- Multiple rate of tax under the different statues eg: VAT, Octroi.
- Difficulty faced by dealer in complying with procedures under various laws.
- To reduce/ remove the cascading effect between various indirect tax laws. Eg Set off of VAT input against Service Tax payable.
- To bring uniformity in taxes and prices with global market.

All of the Indian states except UP have switched from Sales Tax to VAT. Now the hurdle which requires to be addressed is how would the various state legislatures having autonomy in taxation give consensus for transition from the present form of taxation to GST?

The statistics of tax collection of various states along with their share in central taxes for the year 2006-07 will help us analyze where the problem could arise.

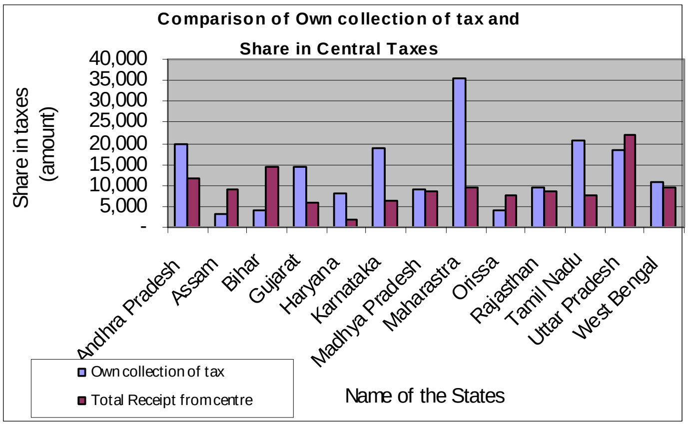
State	Own collection (A)	Share in Central (B)	Total Tax (C) = (A+B)	D*		E*
Andhra Pradesh	2,366,792	803,883	3,170,675	75	>	25
Assam	382,688	367,480	750,168	51	>	49
Bihar	452,267	1,215,645	1,667,912	27	<	73
Gujarat	1,624,410	376,365	2,000,775	81	>	19
Haryana	958,230	110,355	1,068,585	90	>	10
Karnataka	2,253,379	460,889	2,714,268	83	>	17
Madhya Pradesh	1,002,945	701,517	1,704,462	59	>	41
Maharastra	4,145,419	567,576	4,712,995	88	>	12
Orissa	508,348	531,801	1,040,149	49	<	51
Rajasthan	1,093,212	637,093	1,730,305	63	>	37
Tamil Nadu	2,701,071	602,553	3,303,624	82	>	18
Uttar Pradesh	2,348,378	2,105,190	4,453,568	53	>	47
West Bengal	1,272,679	801,562	2,074,241	61	>	39

Source: Kerala Govt website

D* = % of States collection of own tax to the total tax revenue

E* =% of Share in Central Tax to the total tax revenue

A=States own collection of tax includes the Sales tax, Value Added tax, Entry tax, Entertainment tax etc.



The above graph depicts that certain states have more tax revenue in form of their own collection while other states have more share in central taxes than their own tax revenue. The above pattern could change if GST is introduced.

Let us move further by discussing what is GST? How it is going to be implemented in India? What are the complicated issues to be resolved before the implementation of GST in India?

Goods and Service Tax (GST)

GST is a tax on goods and services which is leviable at each point of sale or provision of service, wherein at the time of sale of goods or provision of service, the seller or service provider can claim the input tax credit which he has paid while purchasing the goods or procuring the input service. Ultimately the final consumer shall bear the burden of taxation with no cascading effect. Hence there would be no tax on tax effect which is prevalent in the current structure, for example VAT is still levied on Excise Duty.

Introduction of GST is a serious process today as the Centre (Parliament) and States (State Legislatures) have autonomy in the indirect taxation system. The consensus of states can be obtained only if their fear of loosing the revenue is mitigated. The Empowered Committee of state finance ministers has been constituted so as to draw up a road map towards introduction of GST.

Implementation of GST in India

As per the latest press releases the model of dual structure of GST has been proposed by the Empowered Committee consisting of

(a) Central GST and
(b) State GST.

The central GST shall subsume central levies like central excise duties and allied levies and service tax (few services).

The state GST shall subsume sales tax, VAT, Entry Tax, Octroi, Luxury tax, Entertainment tax, Electricity tax, tax on lottery, betting, gambling, professional tax and service tax (residual services).

Under this structure of GST, there shall be a revenue neutral rate for Central GST and State GST which is still to be decided. There will be no cross credit of central GST and state GST and thus cascading effect will still continue. However the authors believe that the Dual Structure has to be implemented with Cross credit of Central GST and State GST.

The introduction of GST is expected to simplify certain procedural aspects like

1) Common Registration for GST
2) Dematerialization of all Statutory Forms.
3) Single return for CGST and SGST
4) Uniform procedures.

The complicated issues to be resolved before the implementation of GST in India (irrespective of models decided on)

- The CST is to be phased out.
- GST principle should be based on destination theory unlike CST which is levied on Origin Theory.
- Levy of GST, whether on manufacture, provision of service or sale of goods.
- Requirement of proper training to relevant officials
- Automation of procedures.
- Opportunity of representation to trade bodies, professionals and associations.
- Dealers' awareness of the New Law to ensure greater compliance.

Thus under the proposed model, where CST is phased out the issue to be addressed is whether GST is leviable on Interstate movement of goods and Services or not. The Author believes that the inter state movement of goods including stock transfers will attract GST.

GST will be payable in the destination state and the GST paid will be available as credit on resale in the destination state.

In the background of the above discussion the issues to be addressed are:

(a) How will the destination state get tax from interstate buyers who are ultimate consumer and not reseller registered under GST?
(b) How will the origin state recoup GST revenue?
(c) How will the imbalance in tax revenue that arises out of such destination based taxation be addressed?
(d) How would the State which provides the infrastructure from which the goods are produced react when the tax revenues be collected in the destination state?

The authors of this article believe that a more suitable GST model could be developed as the current Model which has been proposed could lead to numerous implementation problems and litigation. Where the objective of GST is to rationalize the Tax structure prevalent today the proposed tax structure would lead to further confusion. Again the proposed system may not bring the value of prices of our goods at par with the international standards and may not improve their competitiveness in the international markets as the cascading effect will not be eliminated under the proposed structure.

By- Abhishek, Monica, Sashank, Supriya, Sumana and Vinay.

Elections are won by men and women chiefly because most people vote against somebody rather than for somebody.

Franklin P Adams

ACCOUNTING STANDARD 7 – CONSTRUCTION CONTRACTS

From the beginning of the civilization construction industry has been an indicator of development of the economy. Since construction plays a vital role in contributing to the GDP (12.1% in 2005-06) of the nation, it is important to ascertain the financial positions of the enterprises of this industry. But as it is an ongoing continuous activity, it is not possible to immediately ascertain at one point of time, the financial position (profit or loss) of the contract – complexity increases in cases of multiple contracts with different start/end dates. The date on which the contract is entered into and the day of completion of contract fall in different accounting periods. Thus the allocation of contract revenue and contract costs to the accounting periods in which construction work is performed tends to be subjective to the projects and the stage of construction. This affects the financial reporting and also affects the decision taken by the share holders and management.

To overcome this hurdle the Institute of Chartered Accountants of India has issued Accounting Standard 7 prescribing the accounting treatment of the construction contracts, and also lays down the criteria for recognition of the revenues and costs relating to the contracts.
The standard was initially issued in December 1983, and had the title 'Accounting for construction contracts'. The standard was revised on April 1st 2003.

Definitions:

Construction Contract: *- is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use".*

Hence, a construction contract is an agreement entered into for rendering of services which are directly related to the construction of an asset, destruction or restoration of an asset, and the restoration of the environment following the destruction of an asset.

Types of contracts:

AS 7 has categorized the contracts into two types namely,
- Fixed price contract
- Cost plus contract

Fixed price contract: *- A fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.*

Escalation clause- This clause is incorporated to modify the contract price in the event of change in various circumstances, such as change in exchange rate in case of foreign contract, economical changes like inflation etc.

Example: Suppose a manufacturer of widgets enters into a long-term sales contract with a customer. The buyer and the seller agree to include an escalation clause which will adjust the selling price once a year to account for changes in labour and materials costs.

Cost plus contract: *- A cost plus contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus percentage of these costs or a fixed fee.*

Therefore, a contract based on the total cost incurred in making it plus a stated percentage or a fixed fee is called a *cost-plus-fixed-fee contract. These* contracts are common when there is no historical basis for estimating costs and the contractor would run a risk of loss. For example, defence contracts involving sophisticated technology.

Contract Revenue: Contract revenue must comprise of the following,

- The initial amount of revenue agreed in the contract i.e., either a fixed or a cost plus contract price,
- Variations in the contract work such as change in specifications or design of the asset, etc,
- Claims such as the reimbursements for costs not included in the contract price,
- Incentive payments for early completion of the contract or if the performance exceeds the targets agreed upon,

Contract Cost: Contract cost should comprise of the following

- The cost that relates directly to the specific contract which includes Labour costs, cost of material, depreciation of plant & machinery used on the contract, transportation costs of equipment, cost of technical assistance, etc.
- Costs that are attributable to contract activity in general and can be allocated to the contract such as insurance, construction overheads etc, and
- Such other costs which can be specifically chargeable to the customers as per the agreement may include general administration costs & development costs.

Recognition of contract revenue and contract costs

When it is possible to reliably estimate the outcome of the contract, the contract cost and contract revenue should be recognized as expense and income respectively by the help of the **percentage completion method**.

Percentage Completion Method

Percentage completion method is a method of reporting income from long-term contracts based on the percentage of a contract completed and this provides useful information on the extent of the contract activity and performance during an accounting period. It is possible to recognize revenue annually in proportion of progress of work to match with corresponding construction cost incurred in that year with the help of this method.

Example:
ABC Ltd Commenced a construction contract on 01.04.2007. The fixed contract price is Rs.6,00,000. Cost incurred till date is Rs.3,90,000. The estimated cost to complete the project is Rs.2,60,000.
Find the total estimated cost, Percentage of completion and the Profit or loss to be recognized for the year

Accounting Treatment:

Total cost= Costs incurred till date +Estimate of cost till Completion
= 3, 90,000+2, 60,000 = Rs.6,50,000

Percentage of completion = Costs incurred till date / Total costs
= 3, 90,000 / 6, 50,000 *100 = 60%

Revenue to be recognized till date
= (Estimated total revenue) x (Percentage of completion)
= 6,00,000*60%
= Rs.3,60,000

Current period revenue = Total revenue to be recognized till date (less) Revenue recognized in *prior* periods
=Rs.3,60,000-0
= Rs.3,60,000

Gross profit =Current Period Revenue less current costs =
= 3, 60,000 – 3,90,000 = Rs. (30,000)

Total foreseeable loss = Total cost–Total contract price
= (6, 50,000-6,00,000)
= Rs. (50,000)

(Less): Loss for current year = Rs. (30,000)
Provision to be made to the extent of = (50,000) – (30000)
= Rs. (20,000)

Profit and Loss A/c

Particulars	Amount	Particulars	Amount
To Construction Cost	3,90,000	By Contract Price	3,60,000
To Provision for Loss	20,000	By Net Loss	50,000
	4,10,000		4,10,000

Journal Entries:

- Cost of construction:
  Debit: Construction in process (CIP)
  Credit: Materials, cash, payables, etc
- Progress billings:
  Debit: Accounts receivable
  Credit: Billings on CIP
- Collections:
  Debit: Cash
  Credit Accounts receivable
- To recognize revenue and gross profit:
  Debit: Construction in process (gross profit)
  Debit: Construction expenses
  Credit: Revenue
- To record completion of project:
  Debit: Billings on CIP
  Credit: Construction in Process

The percentage completion method is applied on a cumulative basis in each accounting period to the current estimates of contract revenue and contract costs.
The standard also provides that whenever total cost is expected to exceed the total contract revenue the loss should be recognized as an expense immediately based on the conservatism principle.

Co-relation with other Accounting Standards

The effect of a change in the estimate of the outcome of a contract is accounted as a change in the accounting estimate in accordance with AS 5 (Net profit or Loss for the period, prior period items and changes in Accounting Policies). The changed estimates are used in determination of amount of expense and revenue recognized in that period in which the change is made.

The percentage completion method suffers from a serious drawback i.e. anticipation of profits. As the method recognizes revenue pending the final outcome of the contract, it is possible that an enterprise may distribute dividends based on reported profit of the year while the result of the contract is a loss. Thus this method should be used with caution and should not be used unless it is possible to make a reasonable estimate of the final outcome of the contract.

As per the ***AS 7*** (Construction Contracts) **-** when the outcome of a construction contract can be estimated reliably, the Revenue from construction contracts should be recognized based on percentage completion method allocating cost and revenue each year, but Under the Income-tax Act, 1961 one may follow mercantile accounting (accrual basis) or cash accounting. If the assessee follows cash system of accounting for tax purposes then there is a potential conflict of a timing difference ***(AS-22)***. The tax costs could be higher in the initial years if advances are offered to tax. The tax costs could be lower in the initial years if no advances are received. Book profits will be different from tax profits if different methods adopted.

Disclosure

The following items are to be disclosed by an enterprise under AS 7

- The amount of contract revenue recognized in the period.
- Methods used to determine the contract revenue recognized in the period.
- Methods used to determine the stage of completion of contracts in progress.
- Aggregate amount of costs incurred less amount charged to Profit and Loss A/c up to the reporting date.
- The amount of advances received.
- The amount of retentions.
- The gross amount due from the customers for contract work as an asset.
- The gross amount due to the customers for contract work as a liability.

By- Tanuja, Priya, Chetan, Vinay Jain

The Meadow of Royalty & the Taxation Mumbo Jumbo

Fast food giant Mc Donald's hits $5,503 million from it's franchisees the world over as royalty for the Financial year 2006-07, renowned author Dan Brown pockets ?45 million as royalty for the year 2005 from his bestseller "The Da Vinci Code". Indian based pharmaceutical top-notch Ranbaxy Laboratories Ltd rakes up $2,70,000 as royalty from it's various patents in the Financial Year 2006-07. In the above financial hoopla, apart from the dazzling numbers the one thing which repeats itself is the word 'Royalty'. Wondering at the numbers mentioned above??? Well, another stunning source of income that has fetched billions in a very short span, for just holding a name. This is how the global market has emerged today. Sources of earning today are as plenty as winning combinations on gambler's table & Royalty has sprung up as a convenient money making machine. A logical question would be, what is the essence of this money making machine?

The term Royalty is not a modern day phenomenon. It has marked it's presence since the existence of the Monarchy rule. During the ancient times there existed a right of the crown to receive a percentage of the proceeds from the mines which found themselves in the royal domain. There even existed earnings by a monarch attributable to granting of a right in respect of exploitation of natural resources. This is how the concept of royalty emerged & over the centuries has flourished as a healthy source of income. The sources from which royalty income can be generated have undergone a change by leaps & bounds. From the 'cliché' sources like mines & natural resources, royalty has spread it's wings to even include patents, know-how, trademarks, copyrights, & even performances!! A Patent gives the owner an exclusive right to prevent others from practicing the patented technology in the country issuing the patent, Know-how relates to the manufacture process or a trade secret & may or may not include data, techniques & intellectual expertise. Trademarks consist of words, logos, sounds or brand names that distinguish an entity from others, whereas copyrights are normally to prevent others from copying the work of literary or musical nature. Copyrights even cover the songs & compositions of musicians. The granting of rights in relation to these aspects generate royalty for the holder of the right.

Apart from the myriad definitions associated with the term royalty, the Income Tax Act has expressly defined the term for smoothening its chargeability.

The term 'Royalty' defined in the Income Tax Act

The term Royalty has found it's presence even in the corridors of the Income Tax Act in the form of Section 9 (i) (vi). Section 9 of the Act deals with income Deemed to accrue or arise in India & sub-section (vi) enumerates the various royalty incomes which are deemed to accrue or arise in India. Apart from deeming the incomes to accrue or arise in India, sub section (vi) stretches it's arms to define the term Royalty. The explanation 2 to Section 9 (i) (vi) provides the definition to the term Royalty. It's been defined as a consideration for:

- Transfer of all or any rights (including the granting of a licence) in respect of a patent, invention, model, design, secret formula or process or trademark of similar property.
- The imparting of any information concerning the working of a patent, invention, model, design, secret formula or process or trademark of similar property.
- The use of a patent, invention, model, design, secret formula or process or trademark of similar property.
- The imparting of any information concerning technical, industrial, commercial or scientific knowledge, experience or skill.
- The use or right to use, any industrial, commercial or scientific equipment
- The transfer of all or any rights (including granting of a licence) in respect of any copyright, literary, artistic or scientific work including films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting, but not including consideration for the sale, distribution or exhibition of cinematographic films
- The rendering of any services in connection with the aforesaid activities.

The following incomes will be deemed to accrue or arise in India, implying that they will be taxable for the assesses irrespective of their residential status:

- Royalty received from Central or State government
- Royalty received from a Resident (except where the payment is relatable to a business or profession carried on by him outside India or to any other source of his income outside India) and
- Royalty received from a non resident (if the payment is relatable to a business or profession carried on by the payer in India or any other source of his income in India)

However the above sub section has two exceptions. The following two royalty incomes will not be deemed to accrue or arise in India:-

- The lump sum royalties under the agreements by foreign suppliers of technical know-how, approved by central government entered into before April 1, 1976.
- The amount paid as lump sum royalty by a resident for the transfer of all or any rights (including granting of a license) in respect of computer software supplied by a non-resident manufacturer under any scheme approved under the policy on Computer Software export , software development & trading,1986 of the Government of India.

Owing to the complexities contained in the definition of the word royalty, very often than not the assessee gets into a tussle with the revenue on whether a particular income takes the colour of royalty or not. There are an umpteen number of cases where the various courts have thrown light on this aspect. For instance in CIT v Klayman Porcelains Ltd 229 ITR 735 the Andhra Pradesh High Court concluded that a lump sum consideration which is in the nature of income chargeable under the head capital gains shall be excluded from the definition of the word royalty. Also where a Non-resident company deputed an expert to supervise the construction & installation of a kiln & not for imparting information the payment to it was held not be income by way of royalty. The crucial element is there should be act of imparting information in relation to working of the know-how or the manufacturing process as the case may be for it to be called as royalty income. Whereas in Leohardt v CIT 249 ITR418, the Calcutta High Court held that payments received for the supply of drawings & designs for the construction of bridge is royalty income. In addition to this it was even upheld by the Calcutta High Court that payments received for providing specialized knowledge & for supply of know-how & information necessary for setting up a plant (NV Philips v CIT 172 ITR 521), a license to manufacture & sell certain products & use of patents is royalty income. An important ramification is the taxability for a non-resident.. The issue as to whether certain income can be construed as royalty is not fully settled. Time & again there have been litigations on this matter but meanwhile the revenue confronted itself with another issue, that is with respect to the withholding of tax. A genuine problem arose as to whether tax should be deducted as contract as per section 194C or as professional services as per section 194J.

Royalty paid to Residents is subject to tax Deduction as fees for Professional or Technical Services

The Taxation Laws (Amendment) Act, 2006 made it clear that royalty payment is subject to tax deduction as professional services under section 194J. Clause (c) was inserted in Sub Section (1) of section 194J to expressly cover royalty payments. Section 194J casts the onus of withholding tax on any person other than an Individual or a HUF who is responsible for making a payment in the form of royalty to any resident. Further, an individual & a HUF is required to withhold tax only if he is required to undergo Tax Audit under the provisions of Section 44AB. The tax deduction shall be made at the rates in force for the relevant assessment year.

Tax Deduction on Royalty paid to Non-Residents

Any person responsible for paying any sum as royalty to a non-resident, not being a company, or to a foreign company is required to make tax deduction by virtue of Section 195 at the rates in force for the relevant assessment year or at the rates as contained in the Double Taxation Avoidance treaty if any between the Country in which the non-resident resides & India. Due to the existence of such a treaty, the non-resident may be benefited by a lower rate of tax deduction since the treaty will supersede the provisions of this section. The effect of Sections 194J & Section 195 is that, the royalty payments to both, the residents & the non-residents have been brought into the ambit of tax deduction.

After addressing the issues on taxability & withholding, the Act flips the coin & moves to an opposite ball game. The benefits conferred by the Act in relation to royalty income are not many but nevertheless they are a boon to certain assesses who are entitled to the benefit.

Tax Benefits under the Act

Sections 80QQB & Section 80RRB deal with the deductions on royalty income

- Section 80QQB: This section allows a deduction only in respect of royalty income earned on books of literary, artistic or a scientific nature. The authors of such books can claim a deduction upto Rs.3 Lakhs No deduction can be claimed in respect of text books. However the deduction claimed under **this** section can not exceed 15% of the value of books sold during the previous year. Where the eligible income is earned outside India the deduction is allowed on so much of the income earned in foreign exchange, which is brought to India within six months from the end of the previous year. That is, the income should be repatriated to India within the prescribed time limit to avail the deduction under this section. Additionally certain other relevant conditions must be satisfied in order to claim the deduction

- Section 80RRB: To avail a deduction under this section certain primary conditions to be satisfied by the assessee
  - He must be a resident of India
  - He must be a patentee i.e, a person or a group who have registered their invention under the Patents Act, 1970. Such patents must be registered on or after 1st April, 2003

The quantum of deduction is Rs.3 Lakhs or the amount of royalty income whichever is lower. Where such eligible is income is earned from a source outside India, the deduction is allowed on so much of the income which is repatriated to India within six months from the end of the previous year. In addition certain other relevant conditions need to be satisfied.

Royalty over the years has proved to be a convenient source of income for most, churning out the big bucks for holding patents relating to inventions, designs, secret processes or sheer brand names. It has sored up the revenues of organizations & has generated magical numbers in their revenue statement. The Income Tax Act has widened its net to deem certain royalty incomes to accrue or arise in India, hence bringing even the non-residents under its hood. The benefits given under the Act are assessee specific & hence don't have a generality involved in them. The basic issue on what can be termed as royalty has not been given a full stop yet, keeping this area still exposed to litigation. The complexities involved with the definition itself have made it a ground for disputes. Though royalty proves to be good source of revenue, on the tax front it receives a lop sided treatment, with the taxability part outweighing the benefits.

By- Soumitra, Udaya, Harish, Pavithra, Puneeth, Mitesh

Demerger: The Process of Value Unlocking

Introduction

The concept of the demerger though not new to the Indian corporate world, caught the attention of the world at the time of the most talked about demerger of the Ambani Brothers managed Reliance industries Ltd. We have made an humble effort to understand the Complexities as also the necessity of the process of Demerger.

Meaning & Definition

The term "Demerger" has not been defined in the Companies Act, 1956. However, it has been defined in Sub-section (19AA) of Section 2 of the Income-tax Act, 1961. According to the said Sub-section, "demerger" in relation to companies, means transfer, pursuant to a scheme of arrangement under Sections 391 to 394 of the Companies Act, 1956, by a demerged company of its one or more undertakings to any resulting company.

According to Sub-section (19AAA) of Section 2 of the Income-tax Act, 1961, "demerged company" means the company whose undertaking is transferred, pursuant to a demerger, to a resulting company.

Resulting company, according to Sub-section (41A) of Section 2 of the Income-tax Act, 1961 "resulting company" means one or more companies (including a wholly owned subsidiary thereof) to which the undertaking of the demerged company is transferred in a demerger and, the resulting company in consideration of such transfer of undertaking, issues shares to the shareholders of the demerged company and includes any authority or body or local authority or public sector company or a company established, constituted or formed as a result of demerger.

The definition of 'resulting company' has clearly brought out three important requirements while establishing its relationship with demerging company. They are –

1. Consideration for transfer of undertaking would be by issue of shares only by resulting company.
2. Such consideration would be paid only to the shareholders of demerged company.
3. Resulting company can also be a subsidiary company of a demerged company.

How does it unlock Value for the shareholder:-

The de-merger brings about greater liquidity in the market and unlocks value for the shareholders, these companies tend to get rated by the capital markets on the basis of the larger business segment.

To understand the above we can take the help of the Reliance Industries Case, where, under the name of the Reliance industries Ltd, the Demerged Company was operating into different segment such as communication, Energy venture, Natural minerals and also in the business of capital investment. The Resulting Companies had very little or no recognition other than just participating in the over all revenue of the Reliance Industries Ltd prior to Demerger. Now after demerger the investors are in the better position to value individual companies according to their performance and future prospects that investor expected out of them.

Let us assume that a Company- XYZ IT Ltd which is engaged mainly in the Business of Information Technology. The Company is rated by the Investors on the basis of its performance, goodwill etc of the larger segment- the Information Technology Segment. The remaining business such as BPO, KPO, Consulting, Catering, real estate is assigned little or no value despite possible surplus assets like real estate or investments in associate companies. Where there is a fall in the Larger Business Segment of Information Technology there would be a fall in the prices of the Shares of the Company despite the fact that it has other prominent business segments where it is reporting healthy profits as also a strong financial position. Hence, this is a matter of concern when different business segments are under separate price earning regimes or growth potentialities which are not recognized.

Therefore in the above Scenario if the Company opts to go in for a Demerger of its undertakings the sum total market capitalization of these resulting and demerged companies would increase significantly once all the companies get listed on the recognized stock exchanges.

Steps involved in Demerger

1. Prepare a scheme of demerger in consultation with all interested parties (As per section 391 interested parties are creditor and members) and have the same approved in principle by the Board of Directors of the company at a meeting.
   a) Appoint an expert for valuing the shares to determine the share exchange ratio.
   b) Engage an advocate for the preparation of scheme and for appearing subsequently before the High Court.
   c) In case of listed companies, the stock exchanges where the shares are Listed should be intimated.
2. Application to court for direction to hold meetings of members/creditors
3. Obtaining court's order for holding meetings of members/creditors
4. Notice of the meetings of members/creditors
5. Holding meeting(s) of members/creditors
6. Reporting the result of the meeting by the Chairman to the court
7. Petition to the court for sanctioning the scheme of demerger
8. Obtaining order of the court sanctioning the scheme
9. Court's order on petition sanctioning the scheme of demerger

Conclusion

The process of demerger has always reaped huge rewards as it is a value unlocking process to the shareholders investment and thus maximises the ultimate wealth of the investor. Companies which may be undervalued due to non recognition of its true potential can through the process of demerger earn recognition in the market by the process of demerger and thereby increase their Market value of the group as a whole.

By- Shilpa, Amarnath, Sourabh, Bharath, Nikhil

CELEBRATING THE SWEETNESS OF SUCCESS

Dreams do not become reality through magic; it takes sweat, determination and hard work.

Many dream to reach the stars, success comes to those who wake up and work towards it. DNS family is very proud of its vibrant and dynamic Articles who turned out to be successful in the CA exams held in November 2007. Ms. Supriya Vaz, Ms. Sumana K and Mrs. Madhu Agarwal reaped the fruits of their enduring hard work by clearing the CA final exam, while Mr. Soumitra Jathar is just one step behind in fulfilling his dream. Also, Ms. Deepti Jain has entered into this challenging world by overcoming the PE II hurdle. Mr. Bharath Bhushan has also secured the 5th Rank in his graduation from the Kuvempu University making DNS proud.

Hearty Congratulations to all !!!!!!

Follow your bliss and the universe will open doors for you where there were only walls.

-- Joseph Campbell

Forensic Accounting

Introduction and Background:

The term, Forensic Accounting was coined by Maurice Paulobet in 1946. Worldwide, Sherlock Holmes is considered to be the first forensic accountant. However, in India, Kautilya was the first person to mention the famous forty ways of embezzlement in his book Arthashastra during the ancient times. He was the first economist, who openly recognized the need of the forensic accountants. Similarly, Birbal was the Scholar in the time of King Akbar. He used various tricks to investigate various crimes. Some of his stories give the fraud examiner a brief idea about the Litmus test of investigation.

What is Forensic Accounting?

Forensic Accounting is a simply analysis of evidences. Forensic accounting is the specialty practice area of accounting that describes engagements, which result from real or anticipated litigation. The word forensic accounting can be divided into two parts –

- Forensic means relating to, or used in courts of law or public debate or argument.
- Accounting means language that provides information about the financial position of an organization.

"Auditor should be watchdog and not be the bloodhound"

It's a good quote that every auditor should know. This quote makes the definition of Forensic accountants even more simple. The forensic Accountant is a bloodhound of Bookkeeping. These bloodhounds sniff out fraud and criminal transactions in bank, corporate entity or from any other organization's financial records. They hound for the conclusive evidences.

What is a typical approach to Forensic Accounting assignment?

Each forensic accounting assignment is unique. Accordingly, the actual approach adopted and the procedures performed will be specific to it. However, in general, many Forensic Accounting assignments will include the steps detailed below.

(iii) **Meet the client:** To understand the important facts and issues.

(iv) **Perform a conflict check:** This should be carried out as soon as relevant parties are established.

(v) **Perform an initial investigation:** prior to detailed plan of action for better planning of the investigation.

(vi) **Develop an action plan:** based on the meeting and investigation and set the objectives to be achieved.

(vii) **Obtain the relevant evidence:** depending on the nature of the case-documents, assets, persons, proof of the occurrence of the event.

(viii) **Perform the analysis:** includes regression and sensitivity analysis, calculating economic dangers, perform tracing of assets, use computerized applications etc.

(ix) **Prepare the report:** giving out clear exceptions, scope of assignment, approach, limitations to scope, findings and/or opinions

Who retains a Forensic accountant?

The following groups often retain forensic Accountants:

- Lawyers;
- Police Forces;
- Insurance Companies;
- Government Regulatory Bodies and Agencies;
- Banks;
- Courts; and
- Business Community.

What is the presence of Forensic Accounting in India?

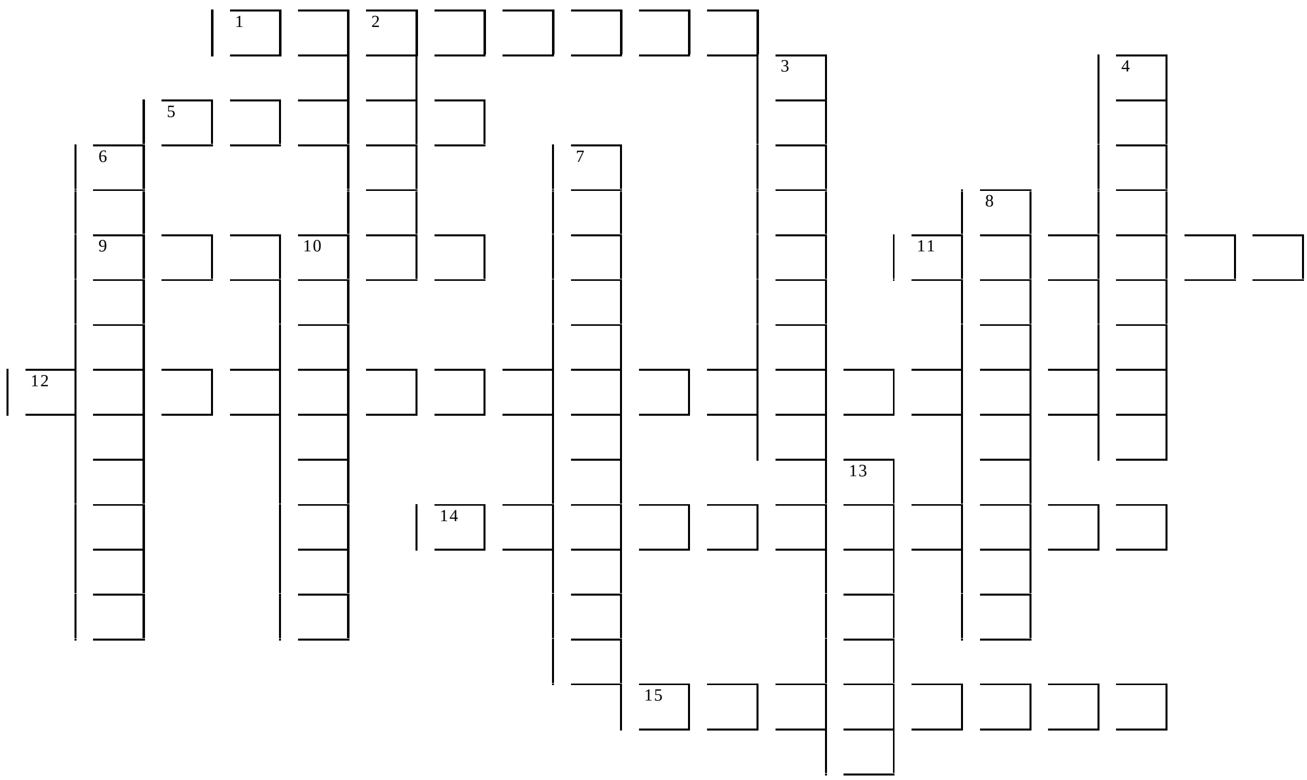
As mentioned above Indian chapter of Association of Certified Fraud Examiners (ACFE) offers courses in India but they are based on laws prevalent in US. Other than this Indiaforensic is the only formal body that provides formal education about forensic accounting in India. Indiaforensic is however not affiliated to any of the Universities. Indiaforensic offers three types of programs:

• Certified Forensic Accounting Program – CFAP
• Certified Bank Forensic Accounting – CBFA
• Certified Anti-Money Laundering Expert – CAME

In India Serious Fraud Investigation Office (SFIO) is the landmark in creation of Forensic Accountants. SFIO is the dedicated division of the Department of Company affairs, which looks into the frauds that involves the violations of multiple laws such as

By - Sourabh

CROSSWORD - 9



ACROSS

1 Any surplus money paid to acquire a company that exceeds its net tangible asset value.(8)
5 The ability of a security to absorb buy and sell orders without the stock price dramatically moving in either direction.(5)
9 Mode of authenticating the fact that a bill or note has been dishonoured.(6)
11 During the Vietnam war, US Congress levied an additional tax on income to finance the war. What is the additional tax termed?(6)
12 Assertion of something by a person which is not true, but he believes it to be true.(17)
14 The relationship between two variables.(11)
15 The delivery of goods by one person to another for some specific purpose.(8)

DOWN

2 A financial derivative which offers the buyer the right to buy or sell a security but does not impose any obligation.(6)
3 Audit in which various actions & decisions are examined to find out if they are in public interest & meet prudent standards of conduct.(9)
4 Acceptance by the company of offer made by the public to take its shares.(9)
6 A person or entity named in the will as the inheritor of property when its owner dies.(11)
7 A redressal forum.(12)
8 An asset which takes a substantial period of time to get ready for its intended use or sale.(10)
10 Goods Purchased held for resale.(9)
13 A list of employees & their wages.(7)

-Shilpa & Pavithra

Answers: <u>Crossword-8</u>

Across: 3-Junk Bond, 5-Perpetutity, 9-ADR, 13- Concentrated Marketing, 14- Gross, 15- Opportunity.

Down: 1- Boot ,2- Capital Formation,4- Balloon Payment,6- Incremental Cost,7- Outsourcing, 8- Fiscal Year, 10- Cash flow, 11- Defectives, 12- Coding.

Winners: Crossword- 8: Jointly shared by Miss Mithila Bai & Sumana

Without moral and intellectual independence, there is no anchor for national independence.

David Ben-Gurion

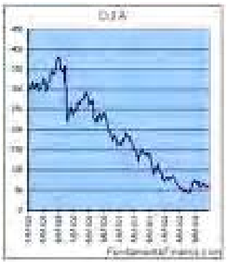
The Information Helpan

Djokovic claims the title

Third seeded Novak Djokovic came down from a set down to beat the unseeded Frenchman Jo Wilfred Tsonga 4-6 6-4 6-3 7-6 in a grueling final here at the Rod Laver Arena in Melbourne.
Djokovic, who upset heavily favored Roger Federer in the semifinals, withstood an expected barrage from upstart Muhammed Ali look alike Jo-Wilfred Tsonga of France in the first set.
Djokovic rebounded in the second and third sets, and after saving a crucial breakpoint in the fourth, dominated the tiebreaker and clinched his first major tournament title in his 13th attempt.
It was the first Grand Slam title for Djokovic, who became the first man from Serbia to win a major.

Djokovic's win ended a string of 11 straight majors won by either Federer or Rafael Nadal since Marat Safin's Australian Open victory in 2005.
Djokovic, 20, is the youngest player to win the Australian title since Stefan Edberg defeated Mats Wilander in 1985.

Market Crash: - Panic or an opportunity to invest.



Most learned people believe "every thing that goes up has to come down and every thing that comes down has to go up". The same thing can be logically applied to the current situation of the global stock market.

The situation may be that of high panic for the investor who has already invested a huge amount in the market, but for the fresh investor it is like a life time opportunity to park their money with long term prospective, where in they are getting 20-40% lower value than the stock usually traded at. Most of the stock that went down by its 200 days moving average provided a great support at the lower level.

The stock that saw free fall in their price were mostly from the reliance camp and other stocks were from small cap. Prior to the market crash these stocks were traded at a very high premium.

With this market crash the number game has lost its significance, the free flow that took place prior to the crash which broke all the resistance level has left the market guru and pundit to reassess their own prediction and made them to revise the target level of the sensex.

The most read joke that went across many investor, who lost significant amount of their capital came up with this spoof on the Ambanis, whose group companies usually drive the market: "Latest blockbuster movie '*Saare Zameen Par*' (stars bite dust; a spoof on the Bollywood hit film, *Taare Zameen Par*) -- premiere on BSE and NSE directed, produced and acted by Ambani brothers. Power on, market gone."

<u>Here are the 5 biggest falls in the Indian stock market history:</u>

Jan 21, 2008: The Sensex saw its highest ever loss of 1,408 points at the end of the session on Monday. The Sensex recovered to close at 17,605.40 after it tumbled to the day's low of 16,963.96, on high volatility as investors panicked following weak global cues amid fears of the US recession.

Jan 22, 2008: The Sensex saw its biggest intra-day fall on Tuesday when it hit a low of 15,332, down 2,273 points. However, it recovered losses and closed at a loss of 875 points at 16,730. The Nifty closed at 4,899 at a loss of 310 points. Trading was suspended for one hour at the Bombay Stock Exchange after the benchmark Sensex crashed to a low of 15,576.30 within minutes of opening, crossing the circuit limit of 10 per cent.

May 18, 2006: The Sensex registered a fall of 826 points (6.76 per cent) to close at 11,391, following heavy selling by FIIs, retail investors and a weakness in global markets.
The Nifty crashed by 496.50 points (8.70%) to close at 5,208.80 points.

December 17, 2007: A heavy bout of selling in the late noon deals, saw the index plunge to a low of 19,177 - down 856 points from the day's open. The Sensex finally ended with a huge loss of 769 points (3.8%) at 19,261. The NSE Nifty ended at 5,777, down 271 points.

October 18, 2007: Profit-taking in noon trades saw the index pare gains and slip into negative zone. The intensity of selling increased towards the closing bell, and the index tumbled all the way to a low of 17,771 - down 1,428 points from the day's high. The Sensex finally ended with a hefty loss of 717 points (3.8%) at 17,998. The Nifty lost 208 points to close at 5,351.

When is trading halted?

Trading will be halted if index drops 15 per cent eitherway. According to data on the BSE website, "In case of a 10 per cent movement of either index, there would be a 1-hour market halt if the movement takes place before 1:00 p.m.

In case the movement takes place at or after 1 p.m. but before 2:30 p.m. there will be a trading halt for half an hour. In case the movement takes place at or after 2:30 p.m. there will be no trading halt at the 10 per cent level and the market will continue trading.

"In case of a 15 per cent movement of either index, there will be a 2-hour market halt if the movement takes place before 1:00 p.m. If the 15 per cent trigger is reached on or after 1:00 p.m. but before 2 p.m., there will be 1-hour halt. If the 15 per cent trigger is reached on or after 2:00 p.m. the trading will halt for the remainder of the day. "In case of a 20 per cent movement of the either index, the trading will be halted for the rest of the day."

This was third time in the history of the Indian stock market that the trading was halted for more that an hour.

By- Harish and Puneeth

Primary market scenario

In spite of good valuation and fundaments, the initial public offering (IPO) of Cords Cable Industries, a specialised cable manufacturer for variety of industries, has closed for subscription, and was over subscribed merely, by five times.

Public issue subscribed 4.99 times, as per NSE website. QIBs reserved portion subscribed 6.83 times, HNIs 5.11 times and retail 2.58 times. This is against the usual trend of the Primary market were in the past experience reflect that even a average valued stock would enjoy an over-subcription of nearly 15 times.

There was a significant drop in the premium of the IPO's that have concluded last week. The grey market has also adjusted its price in tune with the secondary market. At one moment of time the reliance power offer from Anil Ambani camp was traded at just par, whereas the premium of the future holding group saw great fluctuation in it's price. Merely looking at the face of the market and going through the various reports it can be literally said that this market is backed by solid economic growth, which is neither affected by US slow down nor liquidity crunch.

Spellathon

Y	A	T	R
P	H	N	E
X	C	L	Y
S	V	E	T

The objective is simple, run your mind for miles to find the best of words.

(min. of 4 Letter words.)
Following the English Oxford dictionary.

Text Twister

Start -- Heat

End -- Cold

Play by **replacing one** letter at a time, in the starting word to form a new word. Repeat the process until you spell the ending word. This game is hard, but all puzzles can be solved in 10 moves or less.

Answer the above questions and Mail it across to newsletter@dnsconsulting.net
Hurry, Last date for the submission of your Answers is 15th February
Answers will be published in the newsletters March edition.

Answers to Lateral Thinking - 6

1. The old lady of course! After helping the old lady into the car, you can give your keys to your friend, and wait with your perfect partner for the bus
2. The baby fell out of a ground floor window.
3. The truck driver was walking.
4. The man is struck by lightning.
5. The man is a beekeeper, and the bees attack en masse because they don't recognize his fragrance.
6. Kids are getting their pictures taken with Santa.
7. He's a priest -- he's marrying them to other people, not to himself.
8. A baseball game is going on. The base-runner sees the catcher waiting at home plate with the ball, so decides to stay at third base to avoid being tagged out.

Congratulations:

The Lateral Thinking-7 Award is bagged by Mr. Mukesh Jain
Whereas the Logo Quest Award is won jointly by Mr Gopal PL & Mr Mukesh Jain
We congratulate all the winners.

Youths Role & Development of the Nation.

The Twelfth of January is observed as National Youth Day in India as a tribute to Swami Vivekananda and his Ideals. The Government of India felt that the philosophy of Swamiji and the ideals for which he lived and worked could be a great source of inspiration for the Indian Youth. He advocated the development of a strong body and mind, clear conscience and spiritual consciousness.

Swamiji would, in his address to the youth call upon them to awaken and realise the significance of their age as also their duty towards themselves, elders and the nation. He called upon us, the youth to recognize our duty and to treat this wondrous gift called life as an adventure. He implored us to look up to the divine spirit – God to help us and guide us through this adventure of life. He advocated **Atma Vikasa and Atma Nirvana which is the creation of one self as a noble personality.** The duty of Youth, according to this great Enlightened soul means to place your firm confidence in yourself and exercise your hopeful determination and resolution and willing good intentions in this beautiful task of self-culture which can bring supreme satisfaction and fulfillment to all. The shaping of our life is indeed in our own hands like the clay in the hands of the potter we shape our lives and give it a direction.

He explained the correct implication of the term successful life which does not merely mean succeeding in everything that you undertake or do; or achieving all you desire; or acquiring a name or position. The essence of true success is what you make of yourself. It is the conduct of life that you develop, it is the character that you cultivate and it is the type of person you become, and it is how well you have delivered towards your duty to the society and the nation and ultimately this world. Youth is the stage of preliminary preparations for right and successful living. Our culture refers to this stage as the Brahmacharya Ashram or Vidyarthi Jivan. Here, you acquire knowledge of not only subjects like History, Geography, Mathematics, etc., but also about human nature, correct Vyavahara, science of Self- control, art of developing pure mind,

Dharma, the duties of man and the proper relationship between you, your family, your society and the world.

Hence, the youth of today have a great role to play in the development of our country as they are India's today, as also India's future. They represent India as politicians, teachers, lawyers, doctors, chartered accountants and other professionals.We the youth of India can be a part of a revolution, a revolution to Bring about the much needed accountability from the Government which we elect. Revolution is a hallmark of development - economical, political and social. However this requires us to be more aware of our surrounding circumstances, our rights, duties and State policies. For this, we must develop Personal Accountability and discharge our duty towards ourselves and the society at large. How much better our nation would be where each citizen takes responsibility for his actions and contributes towards common good as also is in a position to judge state accountability.

The draftsmen of the Indian Constitution envisaged the establishment of a welfare state, Welfare – social, economic. Part III of the Indian Constitution guarantees certain rights to each citizen. One such right is the right to Freedom of expression and speech which embodies within itself the Right to know. Due to this right each citizen has the right to know the activities of the state i.e. the Government, its departments, its instrumentalities, policies, etc. The state can no longer lay a claim to secrecy unless it is warranted by factors such as national security, integrity etc. Hence every citizen has a right to seek from the state such information relating to its functioning which affect social issues such as health, sanitation etc.

The fundamental rights guaranteed to a citizen are supplemented by the provisions of the constitution pertaining to Directive principles and state policy. As per these provisions the state i.e. the Central and State Governments and the local bodies and other Authorities are directed to:

- Secure a social order for the promotion of welfare of the people
- Ensure that all citizens have a adequate eans of livelihood with guaranteed minimum wages
- Optimum allocation of the resources of the nation among all citizens and to avoid unjust enrichment and concentration of wealth.
- Ensure basic education and equal opportunities of growth- mental and physical of every child
- Protection of youth from exploitation and moral and material abandonment.

These directive principles cannot however be enforced against the state, but the citizens do have the right to know about the policies of the state. In the background of this we can ask that despite our nation being so rich in natural and manpower resources why hasn't our country achieved the status of a welfare state.

May be the answer to this is the lack of accountability from those whom we have voted as our government or may be the citizens themselves have been lax in enforcing their rights and ensuring that they get adequate returns, in return for the taxes that they pay. As per a recent report by CBGA (Centre for Public Budget Governance and Accountability- A NGO) on FRBM Act (Fiscal Responsibility and Budget Management Act), the Central Governments total expenditure as a proportion of GDP has declined from 17% in 2003 to 14% (approx) in 2006-07. They have analysed that there has been an overall decline in social sector expenditure of the State Governments from 4.5% of GDP to 4.1% of GDP during the FRBM era. Again as per the report even where the Central Government has been able to reduce the deficits it has failed to contain Inflation.

FRBM Act was enacted by Parliament in 2003 to bring in fiscal discipline by imposing a limit on the fiscal and revenue deficit. This was necessary so as to correct fiscal imbalance and to limit unnecessary spending of Governments. As per the target, revenue deficit which is the excess of expenditure over revenue is required to be reduced to Nil within five years beginning from the year 2004-05. Again the fiscal deficit (i.e. the total expenditure less the sum of revenue receipts, recoveries of loans and other receipts such as proceeds from disinvestment and Bonds issued, RBI, Financial and Foreign investment funding, etc.) is required to be reduced to 3% of GDP by 2008-09. The report of CBGA which calls for scrapping of the FRBM Act in the light of fall in expenditure of social sector may indeed point to a time bomb slowly ticking away. This may need immediate action, if not, it could hamper the growth of our economy as injections of funds for social reforms and infrastructure etc are indeed an requirement if India wants to play on a level ground in the international market. This is a great challenge, taking into consideration the federal character of Borrowing and investment in India where both the State and the Centre are empowered to Contract loans and invest for the welfare of the nation. Therefore the pertinent question is whether the Government will deliver on the requirements of FRBM Act as well as the Directive Principles which is the basis of Creation of India as a welfare state. Therefore the Government is required to keep a check on unnecessary spending and ensure that the state policy optimizes the wealth of the nation by creating partnerships with various industries so as to jointly build up infrastructure that could attract more investments. Public Companies and entities must be allowed to fend for themselves and aid to them must be limited.

We as the youth of the nation must take a proactive role in the development of the nation. This requires:

- The youth should develop Self awareness- Understanding their weaknesses and strengths so as to further develop their strengths and overcome their weaknesses.
- They should persevere towards perfection in their work as also in the fulfillment of their duties, so as to inculcate personal accountability
- Social awareness and education, which can enable us to enforce accountability among those whom we have charged with Governance.
- We must be more aware of our rights and duties as also the channels through which we can gather information on State policies.
- This can be partially achieved through the agencies of the Press, the Right to information Act, Lokayukta etc.
- Where we do get information we must take steps to judge for ourselves the reality of the situation by actually inspecting whether the funds have actually been employed on projects where it was supposed to be employed
- We ourselves can work for the society through small projects on social causes such as education not just in terms of literacy, but also in terms of social awareness by conducting workshops
- Conducting workshops and other programs so as to foster national integrity, brotherhood.
- We can work towards keeping our environment clean by not littering public places.
- We can work towards building unity among our people belonging to different religions, as also work against terrorism.

A small step from all of us now will take the nation to the summit of Success! It is the need of the hour for all the youth of the nation to come together and do their part to the towards themselves as also the nation so that we can together witness a tomorrow where our nation is free from corruption and such other social evils only then will our nation be able to realise her true potential!

To conclude, its not necessary that to achieve in success in life every person should have fought for the independence of the country, or created a revolution. What is expected in a already democratic environment is a revolution of a different kind.

A revolution, that entails not the triggering of protests and bandhs, but a revolution which generates positive action.

By- Vasanth, Supriya and Harish

Creme of DNS

The quote "where there is a will, there is a way" has been rightly proven by Mr.Bhaskar. Apart from being one of the oldest employees, he is one of the most hardworking people. His transformation in DNS has been phenomenal and with his exceptional dedication he has proved to be a pillar of strength for the DNS family.

Soumitra: What problems do you face in your work or in the office generally?

Bhaskar: In general I would like to say that the communication can still improve & it can make the work go on smoothly. The filing system should be taken more seriously.

Sometimes the files & other documents including the books are not found in their respective places which delays the work

Soumitra: What according to you are the problems with present working system in the office & what changes do you recommend to overcome them?

Bhaskar: Well, every office has it's own problems. Personally I think sometimes the files getting misplaced causes disruption of work. Printouts when not taken carefully cause wastage of resources of the organization. I would like to suggest a few changes in this respect:-

1) The office stationery, files and especially the books must be kept in their respective places after reference.
2) When a colleague finds a file not relating to his department and/or his work, then he should take initiative to put the file in the respective place instead of waiting for the concerned person to pick it up from there.
3) There should be a changes relating to the office policies & decorum. If files & other documents are kept in proper places then the work will be a lot easier & it can minimize the problems. Hence I recommend a quick change in this aspect.

Shilpa: You arrive in the office very early in the morning & leave late in the night. So how do you manage to take time out for entertainment or enjoyment?

Bhaskar: yes, its true that I come quite early in the morning & leave pretty late. But inspite of this I do manage time for enjoyment like I go out for movies with colleagues whenever I feel like.

Shilpa: Do you have any plans of taking up any professional courses in future?

Bhaskar: I have not yet taken a firm decision, but I have thought about taking up a professional course. I am considering my options like Company Secretary or L.L.B & will select the one which suits me the best.

Udaya: What was your reaction when you were voted as Mr.Humorous by the DNS family in the fun poll conducted as a part of new year celebrations? Do you think you are funny by nature?

Bhaskar: I was very happy when my name was announced. I think that is my true nature and its in me.

Chetan: How has DNS family contributed to your growth?

Bhaskar: Everyone in office is supportive and if I have any problem they help me out. When I want clarifications I am free to ask anyone and assured to get the help. Whole of the office staff including the partners, articles are always there to guide me for problems relating to technical & departmental matters & even my career prospects

Deepak: What is your binding factor in DNS? Or what is it that holds you back here?

Bhaskar: Frankly speaking, It is the encouragement & support that I get from the DNS family that is the binding factor & really holds me back here. I am from a poor background and I came here with nothing. I had not even cleared my SSLC when I came here. I was also not very interested in studies, but Sanjay Sir advised me to continue with my studies. The DNS family has even supported me not only with my work but also with my family problems. I sincerely thank DNS family for extending their support & help on both, official & personal fronts.

THREE R'S FOR SURVIVING ENVIRONMENTAL CHANGE

(Article re-published with the permission of the Author.)

About the Author - - **Ms. Cleo Paskal.**

⇒ Associate Fellow, Energy, Environment and Development Programme

Expertise

⇒ Identification of regions across the globe, where environmental change is most likely to trigger conflict.

⇒ Economic, political and social issues in the world's smallest countries and dependencies (including Monaco, San Marino, Iceland, Kiribati, Cook Islands, French Polynesia and others).

Projects

⇒ Studies with Chatham House on how environmental change could have major boundary, economic and security implications for Asia, and places across the world.

⇒ Working with Manipal University (India), to incorporate environmental change-related awareness, within departments including Management, Engineering, Bio-Tech, Architecture, Medical and Communications.

Awards

Having bagged over fifteen awards for journalism including being the only person to have won the Grand Prize from the North American Travel Journalists Association twice.

No country is ready for natural disasters. In fact, some of the world's richest nations are the worst prepared. Cleo Paskal presents a guide to mitigating the huge human and security cost of our changing climate.

"In a world of environmental change, limiting loss will be just as important as promoting growth."

Environmental change is a sustained and pervasive attack on the status quo. Nothing can be taken for granted, and that includes global transportation, international law, borders, agriculture, infrastructure, access to resources, military power and economic stability. As it stands, *no* country is prepared. However, it does not have to be that way.

The human, economic, political, and security cost of environmental change can be mitigated at three stages. These, the three R's, are:

• **Reinforcing** mitigation and adaptation before the event through good planning, communication and regulations;

• Executing an effective **Rescue** during the crisis;

• Supporting a long-term regional **Recovery** to lessen the disruptive social and economic impacts.

Each of these three categories operates at two levels: government and society (including business). These make six areas that can be worked on to create better defenses against environmental change – or, looked at another way, six areas of vulnerability.

A breakdown of these six elements gives an idea of how ready a place is to survive a blow.

Here is a small sample of things to aim for:

	Reinforce	Rescue	Recovery
Government	- Climate proofing infrastructure - Adequate training and equipping of emergency services - Disaster plans in place and regularly updated	- Clear, viable command and control structure - Good communications between rescuers and those affected - Operationally flexible and easily implementable plans and measures.	- Social services call-up to mitigate trauma of resettlement - Economic incentives to help rebuild economies in environmentally stable areas - Clear communication about progress of recovery

Society	- Public awareness of disaster plan and citizen participation - Large, aware social networks - Adequate inter-citizen communications	- Strong social cohesion in crises situations - Adaptability to swift changes in conditions and needs - Ability to not rely exclusively on government or other external assistance	- Extensive non-governmental support networks to help rebuild socially and economically - Corporate response that focuses on long-term stable growth rather than short-term profit

By looking at this graph of vulnerabilities, it becomes clear that some of the richest countries are also among the most wanting of counter-measures. In the US, Hurricane Katrina exposed failures on all six fronts. This wasn't necessary. It's worth comparing the adaptive capacity of New Orleans to what's happened in similar situations in other locations.

Around the same time that Katrina hit New Orleans, Mumbai received the most rain ever in a single day and flooded. Mumbai officials were largely unprepared, but locals stepped up to the plate, providing shelter and food for the stranded, actively policing their own neigbourhoods, spreading information about evacuation routes and even arranging drinking water for those trekking scores of kilometres out of the city. Around 1,000 people died during the Mumbai flood, and there was an estimated US$1 billion in damages, but crime dropped dramatically and the society did not fragment. Mumbai failed on reinforcing (government), rescue (government) and recovery (government), but the strength of local social networks helped with rescuing (Social) and recovery (social).

It is also telling what happened to coastal southeast China in the summer of 2006. By August 11, it had been hit by eight typhoons, including the most powerful one in half-a-century. Over 1,700 people died in total, more than 5 million homes and 323,750 square kilometres of farmland were destroyed, and there was at least US$20 billion in damages. At the height of the biggest typhoon, the government used all means possible, including TV, the internet and text messages to get the word out about escape routes. In all, more than 1.5 million people were evacuated, 40,000 ships were recalled to ports and all business “not related to fighting the typhoon” was suspended. Society did not break down and all levels of government, including the military, came together to effectively limit additional cost and suffering. Here, China failed in reinforcing (government), in part through replicating the US in allowing development in flood prone-areas, but it came through in rescue (government).

It is worth noting, however, that countries with a strong government response need to be careful to include the population in the resilience, rescue and recovery process, otherwise it will end up with a population that is incapable of self-reliance. What is needed is to suffuse information and adequate response patterns throughout populations, so that the capping and rolling back of environmental change vulnerabilities becomes both politically and organisationally feasible. Adaptation can only come about if entire populations get involved, and not just governments and corporates. Involvement of the latter two is necessary but not sufficient for success.

There exists a wide band of adaptive capabilities, and some of the richest countries can learn from a few of the poorest. For example, rescue (social) in Mumbai was comparatively successful. Law and order remained stable, and the citizenry neither resorted to an unusual display of aggression, nor were subjected to unusual force by a panicked administration, as happened in New Orleans. One explanation could be the “inoculation” of the population with what may be termed “climatic behavioural antibodies” to weather disasters because of the frequent flooding that affects India's leading metropolis. Constant adjustment has led to a tolerance for sudden extremes in weather, combined with self-reliant resilience in facing them, mainly because of the sclerotic response of civic authorities in the past.

Just as there are “terror drills”, “weather drills” may be one way of creating similar antibodies that can check the dissolution of civil structures as took place after Katrina. At the government level as well, climate crises must be mainstreamed into disaster management planning. For example, while emergency call centres may now be terror-proofed, they must also be climate-proofed. The ones in New Orleans flooded almost immediately, compounding the problems with the rescue effort.

There are also varied measures that can be taken during the recovery phase to help long-term stability. For example, there must be an appreciation that such traumatic events can result in normally law-abiding citizens cracking under the strain and resorting to anti-social behaviour, in effect suffering what we term a “transient criminal episode”. It is important that these first offenders be sent to dedicated facilities that isolate them from the corrupting influence of the main prison system, and then be reintegrated into society as soon as feasible. If this is not done, it can create whole new long-term clusters of criminal behaviour.

In the same way that looming problems in the energy sector are forcing innovation, there now needs to be a complete tip-to-tail rethink about the response to the looming security problems of environmental change. All countries, even – and sometimes especially -- the strongest, are at risk. But all countries also have the potential to defend themselves better than they are doing at present. And in a world of environmental change, limiting loss will be just as important as promoting growth.

Deadlines to be met!!

- **Income Tax**

29th February : Last date for filing of Income Tax returns for those who have filed IT returns in Saral for the AY 2007-08.

15th March : Last date for payment of Advance Tax and FBT for the quarter (January to March).

31st March : Last date for filing of Income Tax Returns for the Assessment Year 2007 -08 without attracting penalty.

- **Indirect Tax**

15th February & 15th March : Last date for payment & filing of monthly sales tax returns under Composition scheme.

20th February & 20th March : Last date for filing of monthly returns for VAT.

29th February :Extended time limit for submission of VAT audit report.

- Pavithra

General Insights

Top Listed Companies in which Public Share Holding is Less than 25%

Name of the Company	Promoter Holding Percentage
DLF	88%
TCS	78%
Reliance Petroleum	75%
Unitech	75%
Wipro	80%
Mundra Port	81%
Adani Enterprise	75%
VSNL	76%
Sun TV Network	77%
Lanco Infratech	75%
NTPC	90%
Power Grid Corp	86%
SAIL	86%
Neyveli Lignite	94%
IOC	80%
Hindustan Copper	100%

Write to The Editor

"Continuous learning process" is the essence of our profession. To keep ourselves in pace with the emerging concepts is what we have endeavor through this "The Articled". We also intend to build this into a common knowledge-sharing platform and welcome any contributions to strengthen this common pool. Your views will help us fortify the forthcoming issues. You can mail us at newsletter@dnsconsulting.net/ soumithra@dnsconsulting.net or write to: The Editor, #10, South Park Road, Nehru Nagar, Sheshadripuram, Bangalore – 20.

Business Cartoon

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